



# East Riding Voluntary Action Services (ERVAS) Limited

## Community Accountancy Service

Delivering quality accounting services and training to the voluntary sector

### Good Practice Guide:

## 21 – Full Cost Recovery



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**LOTTERY FUNDED**

## Introduction

If it is to survive, every organisation including charities and voluntary/community groups need to pay all of their costs. Full cost recovery (FCR) simply means recovering all of your costs – both direct and indirect costs.

Funding to cover your costs can come from a variety of sources including:

- ☉ Fees
- ☉ Charges
- ☉ Grants
- ☉ Contracts
- ☉ Donations
- ☉ Trading activities or payments in exchange for a particular product or service

In an organisation there are two types of costs:

- ☉ Direct costs are the ones incurred because you run a particular project or service. If the project ceases so would these costs.
- ☉ Indirect costs, or overheads, are those costs incurred to keep your organisation in existence so that it can support the projects that you run.

The full cost of your organisation includes:

- ☉ The direct costs of all your projects and services
- ☉ All your indirect costs (overheads)

Therefore, the full cost of each project is its direct costs plus its fair share of indirect costs. If you fail to recover the full costs of a project then these costs have to be met in some other way. Usually through drawing on your groups reserves – its unrestricted funds.

Unrestricted funds have to be built up through donations, fundraising, trading etc. They can only be spent once and you could be using them to deliver more of your objectives rather than subsidise an under-funded project.

## Full Cost Recovery and Funder's

Incorporating Full Cost Recovery within funding applications is most likely to be acceptable to Funder's if the method you use:

- ☉ is straightforward and easy to understand
- ☉ represents a fair allocation of indirect costs to projects
- ☉ is sufficiently transparent to see that there is no cross subsidisation
- ☉ is consistently applied to all of your projects.

## How does Full Cost Recovery work

Below is a simple example of how full cost recovery works. It is based on a group with three projects and two types of indirect cost, the premises and the manager who supports the three projects.

	Direct Costs			Indirect Costs		Total
	Project A	Project B	Project C	Premises	Manager	
Wages	£5,000	£10,000	£5,000		£15,000	<b>£35,000</b>
Other Direct	£5,000	£5,000	£10,000			<b>£20,000</b>
Other Indirect				£15,000	£2,000	<b>£17,000</b>
<b>Total</b>	<b>£10,000</b>	<b>£15,000</b>	<b>£15,000</b>	<b>£15,000</b>	<b>£17,000</b>	<b>£72,000</b>

From the example above you can see that the full cost of running the organisation and all of its projects is £72,000. Now it is time to apportion the indirect costs to the projects in a way which is fair. For premises, floor space occupied is a fair basis. This basis would not be fair for the managers time whereas basing it on the number of staff and volunteers would be.

	Project A	Project B	Project C	Manager	Total
<b>Floor Space</b>	300 ft <sup>2</sup>	150 ft <sup>2</sup>	300 ft <sup>2</sup>	150 ft <sup>2</sup>	900ft <sup>2</sup>
<b>Project staff</b>	1	2	1		4
<b>Volunteers</b>	2	0	4		6

Now it is time to divide the indirect costs into the projects based on the information above.

	Project A	Project B	Project C	Premises	Manager	Total
Direct Costs	£10,000	£15,000	£15,000			£30,000
Indirect Costs				£15,000	£17,000	£32,000
Allocate Premises Cost	<u>£ 5,000</u>	<u>£ 2,500</u>	<u>£ 5,000</u>	<u>(£15,000)</u>	<u>£ 2,500</u>	Nil
New cost	£15,000	£17,500	£20,000		£ 19,500	£72,000
Allocate manager cost	<u>£ 5,850</u>	<u>£ 3,900</u>	<u>£ 9,750</u>		<u>(£19,500)</u>	Nil
Full Costs	<u>£20,850</u>	<u>£21,400</u>	<u>£29,750</u>			<u>£72,000</u>

## Further Information

**ACEVO** have developed a Full Cost Recovery toolkit including template which can now be downloaded free from [www.fullcostrecovery.org.uk](http://www.fullcostrecovery.org.uk)



For further information please contact:

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