

Moving Towards Sustainability through Full Cost Recovery



Rural Community Network
SUPPORTING RURAL COMMUNITIES

What is Full Cost Recovery?

Full Cost Recovery means recovering or funding the full costs of a project or service. Full costs include all works that are essential elements of a project or service, for example, staff, equipment, management, IT systems and accommodation. A proportion of the organisation's overhead cost should be considered and factored in when planning a project or service.

Securing funding for overhead costs has long been a problem for the voluntary and community sector. These costs are often considered as additional or extra and are often not financially supported by funding agencies. The reluctance of funders to contribute to these costs negatively affects the long term sustainability of community and voluntary organisations.

Failure to recover full costs can mean that voluntary and community organisations have to divert funding intended for service provision into paying overheads. Ultimately, failure to cover overheads may lead to organisations shrinking or collapsing.

What are the benefits of full cost recovery?

Adopting the full cost recovery approach has many benefits which include:

- **Generating actual costs for an activity, project or service** – Calculating total project costs provides organisations with a realistic view of the full costs of the project.
- **Grant seeking** – By knowing the total costs of a project or service, community organisations can seek full funding so that not only is the project funded but also a proportion of its overheads.
- **Identifying funding opportunities to support project costs** – It is important for community organisations to identify a range of funding opportunities so as to determine if these are suited to their

project type. Community organisations may also need to consider match funding sources or generate money through other methods, for example fundraising activities.

- **Improved negotiating ability with funders** – Community organisations can share with funders the true cost of delivering their project or service allowing them to demonstrate value for money. This can be particularly valuable information for funders who have concerns around management structures and costs for a project or service. It provides a clear and defensible cost allocation, prompting trust between funders and organisations they fund.

Types of costs

To understand the full costs of your organisation's projects or services, it is important to be aware of all costs incurred by the organisation. There are two defined types of costs which may be incurred - these are commonly known as direct costs and indirect costs (overheads). Direct costs are the costs directly associated with delivering the project or service, for example, salaries of staff working on the project and all the associated costs. Indirect costs (overheads) are the costs required to support the organisation's central functions in relation to premises and office costs, governance, strategic development etc.

What is cost allocation?

Cost allocation means dividing the shared costs of the community organisation across the different projects or services. When calculating the total cost of a project or service, an appropriate proportion of the overhead costs should be included in the calculation. This assists in reducing the time spent by funders and funded organisations in unpackaging and analysing costs.

Understanding how to calculate Full Cost Recovery

It is important to remember when calculating the full cost of a project or service that the figures generated can only be approximate as the fine detail of the project is most likely unknown at the outset. Community organisations adopting the full cost recovery approach should, at the end of calculating costs, have well projected full costs of all projects and services.

Covering all of the organisation's costs

No matter how small or insignificant an organisation's costs may appear, it is necessary that all costs are acknowledged as being essential for the long term sustainability of the organisation and therefore are accrued.