Full Cost Recovery: what is it, why is it important, and how do we do it?

Richard Sved & Mairead O’Rourke
for South East Museum Development Programme
29 March 2020

@MaireadO
3rd Sector Mission Control
Focus | Strategy | Fundraising

@richardsved
About Richard

• 25+ years in charity sector
• Has led the fundraising function of eight national charities
• Fundraising experience includes grantmakers, NLCF, NLHF, statutory, corporate, events and individual giving
• Serial volunteer and trustee
• Strong heritage sector experience
• Freelance consultant and interim manager
About Mairead

• 15+ years in arts and heritage sector
• Has led on a range of projects supporting organisational resilience within the cultural sector
• Experience includes grant management and reporting on grants such as Arts Council and NLHF
• Volunteers and has been a trustee for two museums
• Director of CultureRunner

@MaireadO

3rd Sector Mission Control
Focus | Strategy | Fundraising

@richardsved
Agenda

• What is Full Cost Recovery?
• Why is it important?
• How do we do it?
• Your questions
What is Full Cost Recovery?
“Full Cost Recovery means securing funding for, or ‘recovering’, all your costs, including the direct costs of projects and all your overheads. Every organisation, whether voluntary, public or private, needs to recover all its costs, and ideally generate a surplus, or it cannot pay its employees, rent office space, offer its products and services, or plan for the future and the continued development and delivery of its services.”

ACEVO/NPC/KPMG
What...

Note that proportions will not always be the same

ACEVO/NPC/KPMG

@MaireadO 3rd Sector Mission Control Focus | Strategy | Fundraising @richardsved
“Full cost recovery means securing funding for all of the costs involved in running a project. This means that you can request funding for direct project costs and for a proportionate share of your organisation's overheads.”

(National Lottery Community Fund definition)

https://www.tnlcommunityfund.org.uk/funding/funding-guidance/full-cost-recovery
Full cost recovery

If you are an organisation in the voluntary sector, we can cover a proportion of your organisation’s overheads, which must be appropriate to the time or resources used for your project.

We can also cover a proportion of the cost of an existing member of staff, as long as they are not working exclusively on the funded project. We expect this contribution to be calculated using Full Cost Recovery.

By voluntary sector we mean organisations that are independent of government and whose governance, finance and resources have a voluntary focus. For example, a voluntary sector organisation might have a board of trustees, be funded by grants and donations, and rely upon volunteers to carry out their aims.
“Full Cost Recovery means securing funding for, or ‘recovering’, all your costs, including the direct costs of projects and additional overheads. ACEVO has produced a practical guide called ‘Full cost recovery: a guide and toolkit on cost allocation’. Organisations can use this to calculate the full cost of a project or activity. Remember, we can only provide funding towards activity which is related to your project, rather than ongoing costs, and which take place after we are able to make a decision on your application.”
What...

**Direct Costs**
AKA: Project Costs, Variable Costs
The costs that relate clearly and directly to a project or activity.
Could include:
- salaries for staff working on the project/activity
- volunteer expenses
- marketing costs
- venue hire for the project / activity
- materials or capital items you might need

**Indirect Costs**
AKA: Core Costs, Fixed Costs, Overheads
The costs that partly support the project, but also support other projects or activities that your organisation provides.
Could include:
- salaries of staff working across projects (administration, management, HR, fundraising)
- office costs such as rent, rate, utilities and IT/telephony
- legal and audit fees
Why is it important?

Charity declares: 100% of your donation goes straight to the cause!

NOW WHAT?

3rd Sector Mission Control
Focus | Strategy | Fundraising

@MaireadO

@richardsved
Why…

… a “woeful lack of understanding of how charities operate” – Small Charities Coalition
Why...

The Funding Landscape

The ‘Graph of Doom’

3rd Sector Mission Control
Focus | Strategy | Fundraising
Why...

The Income Spectrum

Donor  Funder  Purchaser  Consumer

Gift Economy  Grant Funding  Contracts  Open Market

ASKING  EARNING

3rd Sector Mission Control
Focus | Strategy | Fundraising

@MaireadO  @richardsved
Benefits

• Protect reserves
• Improved understanding and management of costs
• Better decision making (more informed)
• Ability to compare costs with funding available
• Promotes funder confidence
• Justify costs to stakeholders
• Long term planning made easier
• Organisation is more sustainable
Why…

Benefits for funders

• Makes for consistency, supports assessment and comparison
• Transparent – reduces risk of double funding
• Reduces risk of fraudulent funding
• Supports a sustainable sector
Why...

Failure to recover costs

Can jeopardise:
• Sustainability
• Management
• Public Support
• Innovation
• Independence

As identified by ACEVO’s Funding Our Future
Benefits

• Provides a basis to calculate costs
• Calculates cost based on averages
• Provides a framework to allocate costs
• Does not prescribe levels of overheads
• Adheres to financial best practice and best value accounting for local authorities
How do we do it?

The full cost of an activity or output or project =

The direct costs of the activity +

The appropriate portion of all other costs in the organisation
How...

ACEVO Full Cost Recovery model

1. Calculate the direct costs of the project
2. Calculate the overhead costs for the organisation as a whole
3. Allocate premises and office costs to the project, to the central functions (HR, finance etc.), and to general fundraising

@MaireadO

3rd Sector Mission Control
Focus | Strategy | Fundraising

@richardsved
How...

ACEVO Full Cost Recovery model

4. Allocate central function costs (now including a portion of premises and office costs) to the project, to governance and strategic development, and to general fundraising

5. Allocate governance and strategic development costs (now including a portion of premises and office costs, and central functions costs) to the project, and to general fundraising

6. Allocate general fundraising costs to the project if it needs to draw on fundraised income.
How...

Show your working!

- How did you calculate your “apportionment”?

“You will need to show us how you have calculated your costs, based on recent published accounts. You will then need to tell us on what basis you have allocated a share of the costs to the project you are asking us to fund, and we will assess whether this is fair and reasonable.”

@MaireadO 3rd Sector Mission Control Focus | Strategy | Fundraising @richardsved
Barriers

- Lack of time/ability/skills
- Perception of what funders will ‘allow’
- Getting clarity within and across the whole organisation (it’s not just the accountant’s job)
Full costs and funders

? 

It depends..
Other things to consider

- FCR is a way to understand the true cost – you can’t always get it from a funder!
- Build in inflation (including pay rises for staff) year on year
- Capital costs – do they make sense in context of the project?
- Ensure your budget really aligns with your project delivery – does it make sense?
- Do you need to budget any contingency? Can you justify this?
Your questions
Thank you

mairead@culturerrunner.com     richard@3rdsectormissioncontrol.co.uk

@MaireadO
3rd Sector Mission Control
Focus | Strategy | Fundraising

@richardsved
References

- https://www.thinknpc.org/resource-hub/full-cost-recovery/
- https://www.tnlcommunityfund.org.uk/funding/funding-guidance/full-cost-recovery