



FACT SHEET 18

Full Cost Recovery

Historically, third sector organisations have struggled to secure funding for their overhead costs, leading to underinvestment in management and leadership, internal and external infrastructure, strategic development and governance. This difficulty has been exacerbated by a trend on the part of the sector's funders towards funding the direct costs of projects rather than overheads or "core funding". Failure to secure funding for overhead costs makes important services, including public services, and the organisations that deliver them, unsustainable. Both government and the sector's representatives have agreed on a solution: Full Cost Recovery (FCR). HM Treasury first endorsed the principle of Full Cost Recovery in its 2002 cross cutting review, "The role of the voluntary sector in service delivery". The review stated that "Funders should recognise that it is legitimate for providers to include the relevant element of overheads in their cost estimates for providing a given service under service agreement or contract." The deadline for statutory funders to implement Full Cost Recovery was April 2006.

What is Full Cost Recovery?

- Securing funding for or "recovering" all your costs
 - Not just direct costs
 - But also overheads
- Costs might be funded (or "recovered") through grants, investment income, fundraised income, earned income etc.

Under FCR, organisations and their funders ensure that the price of contracts and grants reflects the full costs of delivery, including the legitimate portion of overhead costs. This commitment poses challenges for both organisations and their funders.

- Third sector organisations must cost their projects and services on an accurate, defensible and sustainable basis.
- Government must ensure that all public bodies fund services in a sustainable manner, by permitting the inclusion in prices of the relevant portion of overheads, and ensure that prices are determined on a realistic basis.

What are the implications of not recovering full costs?

- Running precarious services with negative impact on staff, volunteers and clients
- Subsidising statutory services with voluntary donations
- Can result in extreme fundraising measures to fund the deficit

What are the benefits of understanding the full cost of your services?

- Improved management of your costs – knowing the full costs of a project or service enables accurate management of resources
- Full funding – You are in a evidenced-based position to seek the full costs from funders
- Comparing costs with available funding – when a fixed amount of funding is on offer for a project, you can determine whether the books would balance
- Deciding how and whether to bid – in a competitive bidding situation you are enabled to make an informed decision
- Improved ability to negotiate with funders – this is particularly helpful if the funder has concerns about the management of costs in your organisation.

Training and Resources

ACEVO (Association of Chief Executives of Voluntary Organisations) have launched a new range of services to assist the third sector in fully costing their projects and services. Following on from ACEVO's three-year Full Cost Recovery training programme, which reached 15,000 voluntary organisations, a more specialised range of products and services has been developed. The various training opportunities, website resources, one-to-one support, tools and publications are specific to your needs. Whether you are a beginner and need help in fully costing your projects, or someone who is familiar with the full cost principles, these services will be valuable to you.

Visit: www.fullcostrecovery.org.uk/main

Further Support and Advice is available from Cumbria CVS Locality Offices:

Cumbria CVS - Barrow: 72-74 Scott Street, Barrow-in-Furness, LA14 1QE.

Tel: 01229 823144

e-mail: barrow@cumbriacvs.org.uk

Cumbria CVS - Carlisle: 27 Spencer Street, Carlisle, CA1 1BE.

Tel: 01228 512513

e-mail: carlisle@cumbriacvs.org.uk

Cumbria CVS - Eden: 6 Hobson Court, Gillan Way, Penrith, CA11 0DT.

Tel: 01768 800350

e-mail: eden@cumbriacvs.org.uk

Cumbria CVS - South Lakeland: Stricklandgate House, 92 Stricklandgate, Kendal, LA9 4PU.

Tel: 01539 742627

e-mail: south@cumbriacvs.org.uk

Cumbria CVS - West Cumbria: Community Resource Centre, 12a Selby Terrace, Maryport, CA15 6NF

Tel: 01900 819191

e-mail: west@cumbriacvs.org.uk

Visit:

Cumbria CVS website:

www.thirdsectorcumbria.org.uk/support_CumbriaCVS.html

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