



COMMUNITY ACCOUNTANT NATIONAL NETWORK

Full Cost Recovery

This is nothing new, and it's really just common sense. If an organisation doesn't recover all its costs, it will go bust. Every organisation needs to recover all its costs, and ideally generate a surplus, or it cannot pay its employees, offer its services, or plan for the future.

What is new, and now widely accepted, is that those paying for your activities, by grants or fees, ought to pay the full cost.

Most activity will comprise two main types of costs. You can call these 'direct costs' and 'support costs'. Support costs are often called 'overheads' or 'core costs', or 'indirect costs'. The clever bit of FCR is how you share out these support costs to your activities. If you run a garden project for example, how much of your accountant's fees should be 'recovered' from the garden project?

Once you know the full costs, you can then look at how you recover these – maybe from one funder, maybe a combination of grants and fundraising. One way or another, they need to be recovered or it will end in tears.

So how do we implement it? And how do we deal with contracting authorities who don't care how we do it so long as we can deliver the service for less than £10 an hour?

First task – identify your costs

To recover your costs, first you need to know what the costs are. Just consider anything you are doing today and ask yourself – do you know how much it is costing your organisation for you to do it?

If you have no idea, then chances are that your financial management and planning techniques need a little attention. How do you know how much you need to charge your clients? How do you know how far your grant aid will stretch? How do you sleep at night?

Most activity will comprise two main types of costs.

Direct costs These are usually quite easy. A reasonably safe way to look at these is to say that if you were not doing this activity, these costs would be NIL. Typical direct costs will include the salary of staff working in the project and perhaps a training budget for them.

Support costs These are costs which you cannot allocate to a specific activity. You may have a chief executive who goes to meetings all day, or an admin worker. They will include accounting costs, most of your administration costs, redecorating the office every few years etc.

Second task – allocate your costs

This is where the whole thing can get complicated – although you can keep it simple. Having identified your support costs, you need to find a fair and consistent way of allocating these costs to your activity.

The simplest example would be that if you run 2 projects of roughly the same size, staff numbers, direct costs etc, then each should cover 50% of the support costs..

Simpler methods of FCR involve sharing these costs out in proportion to staff time. So if the heating bill is £900. Two people work in project A and only one person works in project B, then A will get £600 and B will get £300. Unfortunately, it is rarely that simple.

Projects and activities come and go, and when doing you FCR budget, you might have to guess how many projects or activities you will have and how big they will be. Remember a budget is only a guess so exact figures are not required.

Another complication, and if you really like complex problems you'll like this, is that different costs can be shared out on different basis. For example, the audit fee could be shared out according to each project's income; while the heating bill could be shared according to the floor space each project occupies.

The Community Accounting website has a number of tools which may be of use. These have been developed over time and are used in training and supporting local groups.

To be honest, without a reasonable grasp of spreadsheets, some of them may seem a bit complicated. As with any templates, there are conflicts between being simple to use but unable to deal with specific complications. On the other hand, if you design something to deal with lots of variations, no one can understand it.

So good luck and contact your local CAS if you need.