

Full Cost Recovery

A model Full Cost recovery was proposed in 2003, following a large number of failed VCS organisations due to insufficiently costing the delivery of services.

At the heart of full cost recovery is the idea that in any organisation there are two types of costs: the direct costs of delivering an activity and the indirect costs of supporting the delivery process and managing the organisation.

What is Full Cost Recovery?

Full cost recovery means recovering or funding the costs of a project or service. In addition to the costs directly associated with the project, such as staff and equipment, projects will also draw on the rest of their organisation and this will have a cost eg HR, IT etc. The project costs therefore include a proportion of these costs.

Costs are divided into four categories:

Direct output costs – direct output costs are the dedicated costs involved in delivering the service. They are the costs involved in employing staff and resources that directly deliver or work with the client.

Direct support costs – Direct support costs are the costs involved in supporting and supervising the service delivery. Time involved in supervising project workers would be included here.

Indirect support costs – Indirect support costs pay for organisational functions that provide a base for services to be delivered. This would usually include central management and administration, finance and facilities. They are not directly involved in the service delivery.

Governance and strategic development work includes the costs of meeting regulatory functions and costs involved in developing future activities for the organisation.

The VCS also needs to consider whether there are costs related to:

VAT – Voluntary organisations also need to consider whether VAT is chargeable to supply the services. This occurs when the contract is to deliver a service. A grant aid arrangement is to support an organisation and therefore no tax is liable. An organisation needs to register for VAT if the turnover is £68,000 for taxable services/supplies.

TUPE – the transfer of undertakings (Protection of Employment) regulations 2006 protect the rights of employees who are transferred from one employer to another, requiring the old employer to inform and consult with staff who are affected and obliging the new employer to maintain certain terms and conditions such as pay, leave and pension entitlements. This can become relevant if an organisation is bidding to take over an existing service.

What are the benefits of full cost recovery?

Promoting full cost recovery has major advantages for **funders** of VCS organisations:

Accuracy: Full cost recovery gives funders a true reflection of the cost of the projects and services they support.

Transparency: Full cost recovery provides the only clear and defensible cost allocation method, promoting trust between funders and the organisations they fund.

Efficiency: Full cost recovery reduces the time spent re-packaging and analysing costs by funders and funded organisations.

Appropriateness: Full cost recovery ensures that funders pay for all and only the overheads that support their project, rather than subsidising other projects.

Sustainability: Only under full cost recovery can funded organisations survive in the long term, so that their projects and services continue.

By implementing full cost recovery the VCS develops an understanding of the true cost of their work. Such an understanding is essential for financial management and strategic planning across an organisation.

What are the views of Wiltshire Council and NHS Wiltshire on full cost recovery?

In the review of the relationship with the voluntary and community sector, May 08, Wiltshire Council and NHS Wiltshire concluded that in principle they adopted the principles and practice of the full cost recovery framework. However the VCS should be free to determine its approach to pricing in an environment of competitive procurement. Where funding to an organisation is via a grant or investment funding then full cost recovery may not be appropriate or viable.

Conclusion

In moving forward the funding framework the sector needs to ensure organisations have opportunities for learning the full cost recovery approach. The Council and NHS Wiltshire need to be clear when they feel it is inappropriate for full cost recovery to be applied to the whole sum and should negotiate the percentage that relates to fixed costs rather than delivery.

For more information or to share your views on full cost recovery model, please email vcs@wiltshire.gov.uk