

## get it right on... Full Cost Recovery

In simple terms it means recovering the total costs of a project, service or activity, including a relevant part of overhead costs.

Every project, service or activity has costs directly associated with it, for example staff time, vehicles or equipment (direct costs). It will also require resources from the rest of the organisation. For instance, it might include some of a manager or trustee's time and also impact on support functions such as finance or personnel (overhead costs).

Organisations must seek to secure funding or income to 'recover' a proportion (or part) of overhead costs, as well as the direct costs of a project. Every organisation needs to recover its full costs, or it cannot pay staff, rent office space, offer new activities or plan for future development and delivery of its services.

Full cost recovery is important for funders and those being funded. For voluntary and community organisations, it is about developing a sustainable funding approach that covers the true costs of delivery.

For funders, it is about developing greater transparency about funding decisions and improving relationships with funded organisations. The purpose of full cost recovery is to help organisations have a better understanding of finance and costs. A lack of financial understanding can prove highly damaging. It can bring about financial insecurity and jeopardise the organisation's future. By calculating the full costs of each project or activity, organisations can make more informed decisions about managing costs and secure funding or income to recover them.

It is critical that voluntary and community organisations understand the true costs of managing a project, service or activity. In the past, overheads have been classed as 'hidden extras', distinctly separate from the main project costs. This has led to financial practice that undermines the true value of the project, with guesstimates being simply added as an afterthought.

The consequences of not recovering full costs are that both the sustainability and the delivery of project and services are put at risk.