Costing; An introduction to full cost recovery

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We work with small and medium organisations with big ambitions

How to stop worrying and learn to love finance

Embrace Finance is a non-profit organisation working with charities and social enterprises to build financial sustainability by building financial confidence

Liz Pepler MIAB FRSA

- Founding Director, Embrace Finance
- Treasurer Trustee of the Association of Chairs
- Member of the Institute of Accounting and Bookkeeping
- MSc Charity Finance and Accounting
- 20 plus years VCSE experience
- Small charity finance and governance specialist
- www.embracefinance.org.uk

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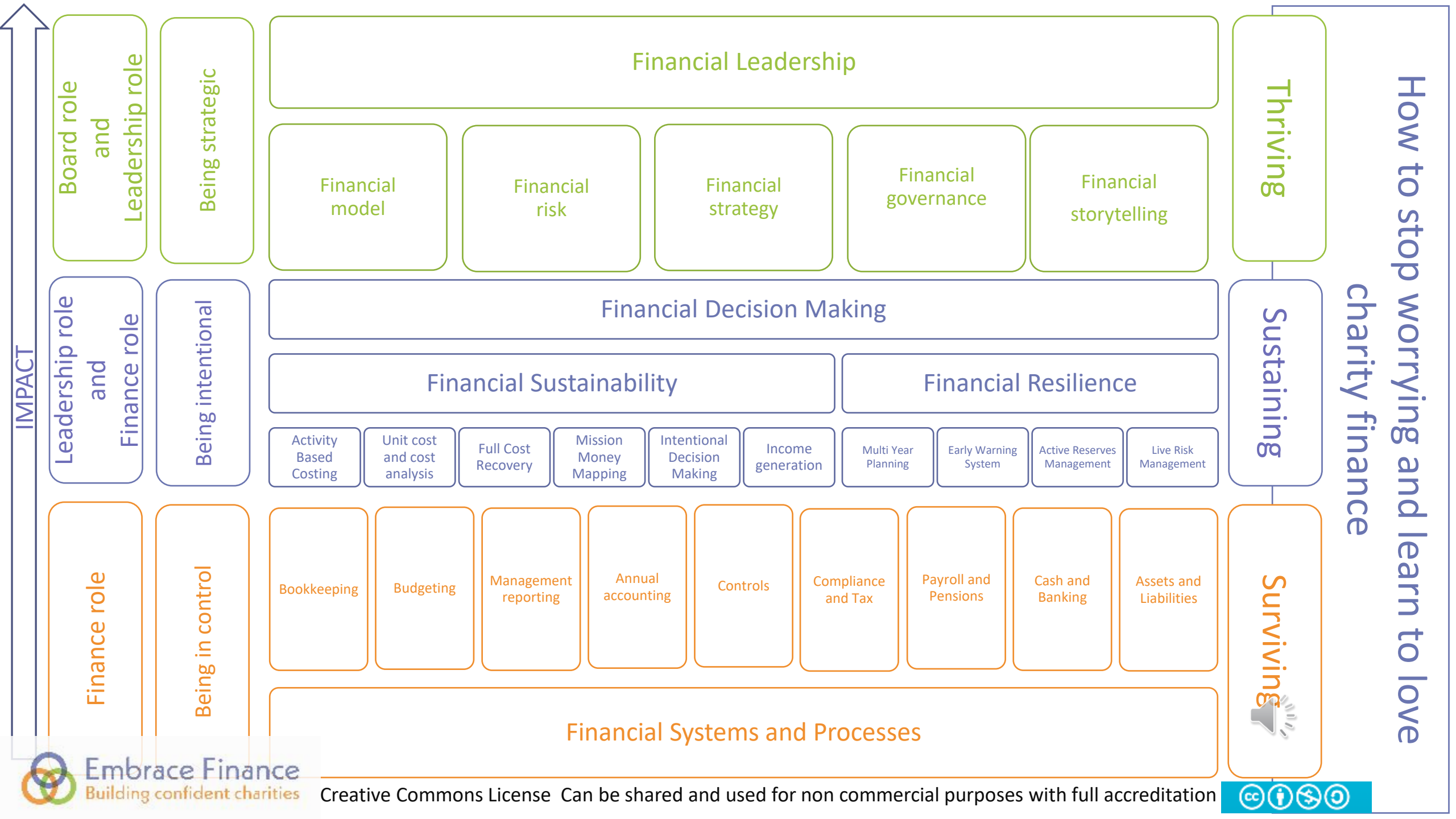

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Today

- What we talk about when we talk about costing
  - Why costing matters
  - Type of costs
  - Calculating full costs
  - Full cost recovery
- The limitations of full cost recovery
- Common icebergs

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What we talk about when we talk about costs and costing

- Why costing matters
- Type of costs
- Calculating full costs
- Full cost recovery

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Why costing matters

- Financial security is built top down – getting the business model right – and bottom up – getting the costing right.
- When we talk about costing we are not simply talking about numbers. We are also talking about how costs behave on their own and with each other.
- Costing in social purpose organisations is particularly tricky because not all costs are considered equal.

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Types of costs

- Variable v Fixed
- Charitable v Overhead
- ‘Good v Bad’
- Direct v Shared v Support

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Definitions

Direct

Solely and wholly attributable to one activity

e.g. project costs

Shared

Incurred by more than one activity

e.g. CEO salary

Support

Not attributable to any particular activity

e.g. accounting fees

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Single project organisations

All costs are direct costs

Simples

Multiple project organisations

Costs are either direct, shared or support costs

Less simple

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When applying for grants | What we tend to do

Direct costs = Direct Costs

Overheads = Shared and Support Costs

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When applying for grants | But, where possible, we should do this

Direct costs = Direct AND Shared Costs

Overheads = Support Costs

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Calculating full costs of one project when we run more than one project

1. Determine the nature of the cost
2. Determine and allocate direct costs
3. Determine and apportion shared costs
4. Determine and apportion support costs
5. Apportionment needs a ‘fair and reasonable’ basis e.g. income, usage, FTE, floor space

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Example | Determine the nature of the costs

The Cob is a community centre which runs three projects; Early Years Activity Club, Weight In Centre and Office Lets

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
Manager	Shared	£20,000				**£0**
Tea	Direct	£1,000				**£0**
Session leader	Direct	£5,000				**£0**
Health visitor	Direct	£5,000				**£0**
Accounting	Support	£10,000				**£0**
Total		**£41,000**	**£0**	**£0**	**£0**	**£0**

Example | Determine and allocate direct costs

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
Manager	Shared	£20,000				**£0**
Tea	Direct	£1,000	£1,000			**£1,000**
Session leader	Direct	£5,000	£5,000			**£5,000**
Health visitor	Direct	£5,000		£5,000		**£5,000**
Accounting	Support	£10,000				**£0**
Total		**£41,000**	**£6,000**	**£5,000**	**£0**	**£11,000**

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Example | Determine and apportion shared and support costs

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
Manager	Shared	£20,000				**£0**
Tea	Direct	£1,000	£1,000			**£1,000**
Session leader	Direct	£5,000	£5,000			**£5,000**
Health visitor	Direct	£5,000		£5,000		**£5,000**
Accounting	Support	£10,000				**£0**
Total		**£41,000**	**£6,000**	**£5,000**	**£0**	**£11,000**

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Example

Determine a basis of apportionment

- capacity used – based on % of total costs
- time spent – based on timesheets or estimation
- head count – based on staffing numbers
- floor area occupied – based on share of office space

Example | Determine and apportion costs

Apportioning salaries

Most common basis of apportionment for salaries is staff time. For simplicity we shall use this for support costs also.

There is one member of staff, the Cob Co-Ordinator, who works 35 hours per week.

They spend 10 hours on early years, 10 hours on weigh ins and 15 hrs on office letting, therefore:

Percentage of time spent on Early Years Play Sessions = 10 / 35 * 100 = 29%
Percentage of time spent on Trust Weigh In Sessions = 10 / 35 * 100 = 29%
Percentage of time spent on Office rental = 15 / 35 * 100 = 43%

Time based apportionment				
	Hrs/wk	Early Years	Weigh In	Office Rental
Manager	35	10	10	15
Apportionment/%		29%	29%	43%

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Example

We can now use these percentages to apportion the shared and support costs across the relevant projects.

Cost of salaries spent on the Early Years Play Sessions is 29% of £20,000 = £5,800
Cost of salaries spent on the on Trust Weigh In Sessions is 29% of £20,000 = £5,800
Cost of salaries spent on the on Office rental is 42% of £20,000 = £8,400

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
% charge			29%	29%	42%	
Manager	Shared	£20,000	£5,800	£5,800	£8,400	£20,000
Accounting	Support	£10,000	£2,900	£2,900	£4,200	£10,000
Total		£30,000	£8,700	£8,700	£12,600	£30,000

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Example | Calculate the full cost

Full cost

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
Manager	Shared	£20,000	£5,800	£5,800	£8,400	**£20,000**
Tea	Direct	£1,000	£1,000			**£1,000**
Session leader	Direct	£5,000	£5,000			**£5,000**
Health visitor	Direct	£5,000		£5,000		**£5,000**
Accounting	Support	£10,000	£2,900	£2,900	£4,200	**£10,000**
Total		**£41,000**	**£14,700**	**£13,700**	**£12,600**	**£41,000**

Direct cost

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
Manager	Shared	£20,000				**£0**
Tea	Direct	£1,000	£1,000			**£1,000**
Session leader	Direct	£5,000	£5,000			**£5,000**
Health visitor	Direct	£5,000		£5,000		**£5,000**
Accounting	Support	£10,000				**£0**
Total		**£41,000**	**£6,000**	**£5,000**	**£0**	**£11,000**

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Example | Present the full cost

Direct costs = £5,800 + £1,000 + £5,000 = £11,800 | **Overheads** = £2,900

Overheads are c25% of the total project cost

What do we think?

The Cob	Nature of costs	Total cost	Early Years	Weigh In	Office Rental	Total
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Questions to ask ourselves

- Do we know the full cost of our activities?
- Do we recover the full cost of our activities?
- Do we subsidise any of our funded activities by unrestricted funds or from reserve?
- Is this intentional?
- Is this sustainable?

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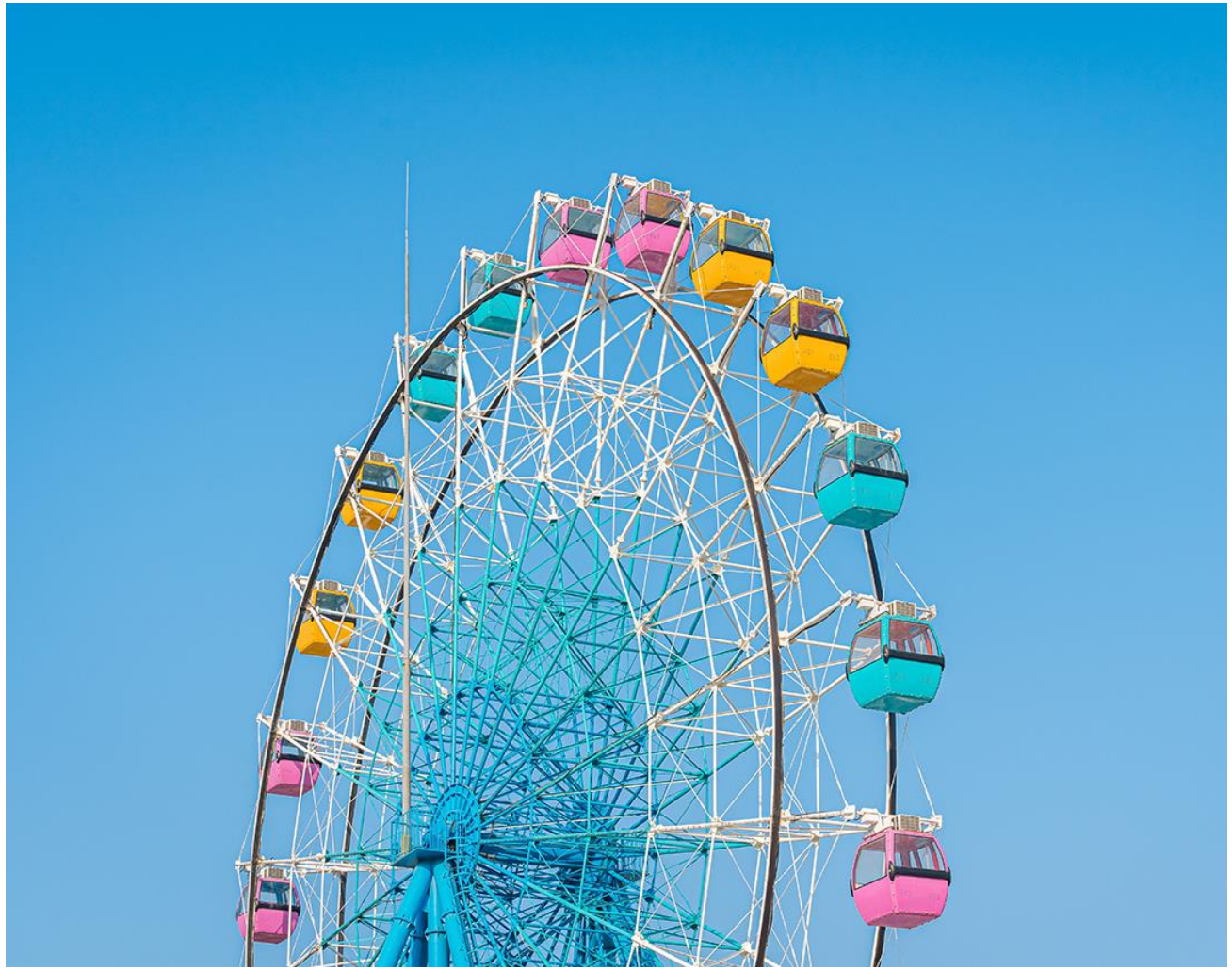
Limitations of full cost recovery

- Full cost recovery is a useful tool for determining – and covering – the actual cost of running a project or organization
- By definition it will only take us to a break even point.
- Because financial years and project years don't neatly align we often have cash balances are comfortable.
- We can mistake these for sustainability.
- To be truly sustainable we need another source of unrestricted income.
- This is not easy.
- We are all on a hamster wheel. How big is yours?
- Beware the starvation cycle.



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Common elephant traps

- Salaries are often under calculated
- Inflation is not applied to future costs
- We misclassify shared costs as support costs
- We use one apportionment basis in our fundraising bids and another in our accounts
- Costing isn’t pricing
- Other?

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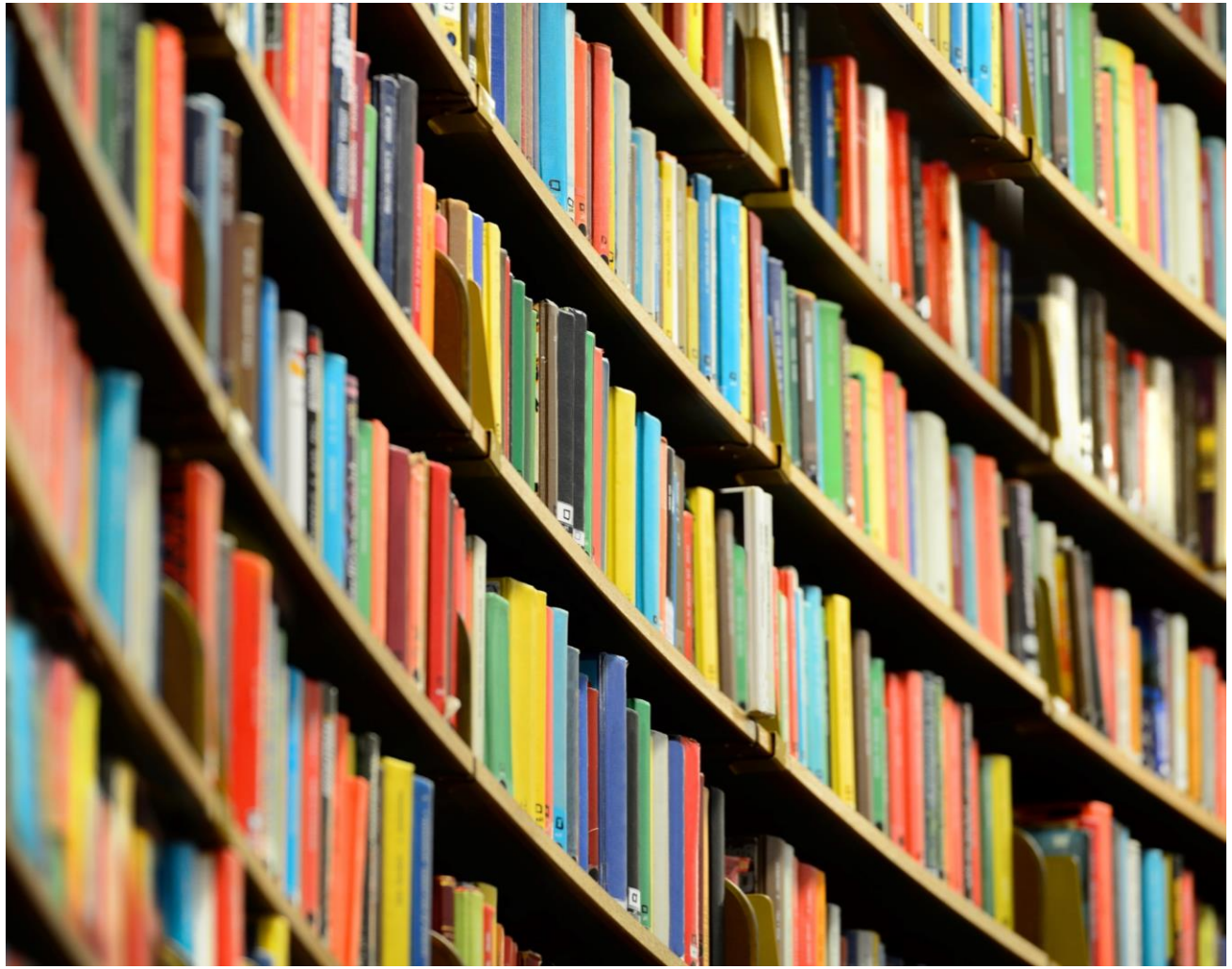
Helpful info

Project budgeting and full cost recovery — NCVO Knowhow

Full cost recovery | The National Lottery Community Fund (tnlcommunityfund.org.uk)

Charities-sorp-frs102-2019a.pdf (publishing.service.gov.uk)

CCE-Cost-Recovery-Guide-Final-Version.pdf (city.ac.uk)



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