

Having ChangeUp THE PRINCIPLE OF FULL COST RECOVERY

Full Cost Recovery enables organisations to:

- Ensure that the budgets include the **real cost** of managing and delivering a service
- Assists in the managing of overheads so that they are proportional to the services and projects of the organisation
- Contributes to financial stability

Direct Costs

These are the costs that are directly associated with a project or service. Example is a Youth Development Officer's Salary for a Young Peoples Project.

Indirect Costs

These are the overheads of the organisation and include rent, management salaries, human resources, legal costs, insurance, utilities, etc.

The Challenge

Deciding how to allocate and apportion indirect costs across projects and services proves to be a challenge for a number of organisations. Accountancy for Community Enterprise (ACE) provides training and support on how to allocate and apportion costs – Contact: Richard Mico on 01708 742881 for further information.

The key principle to follow is:

Step 1

Identify the direct costs of your organisation.

Step 2

Identify the indirect costs of your organisation.

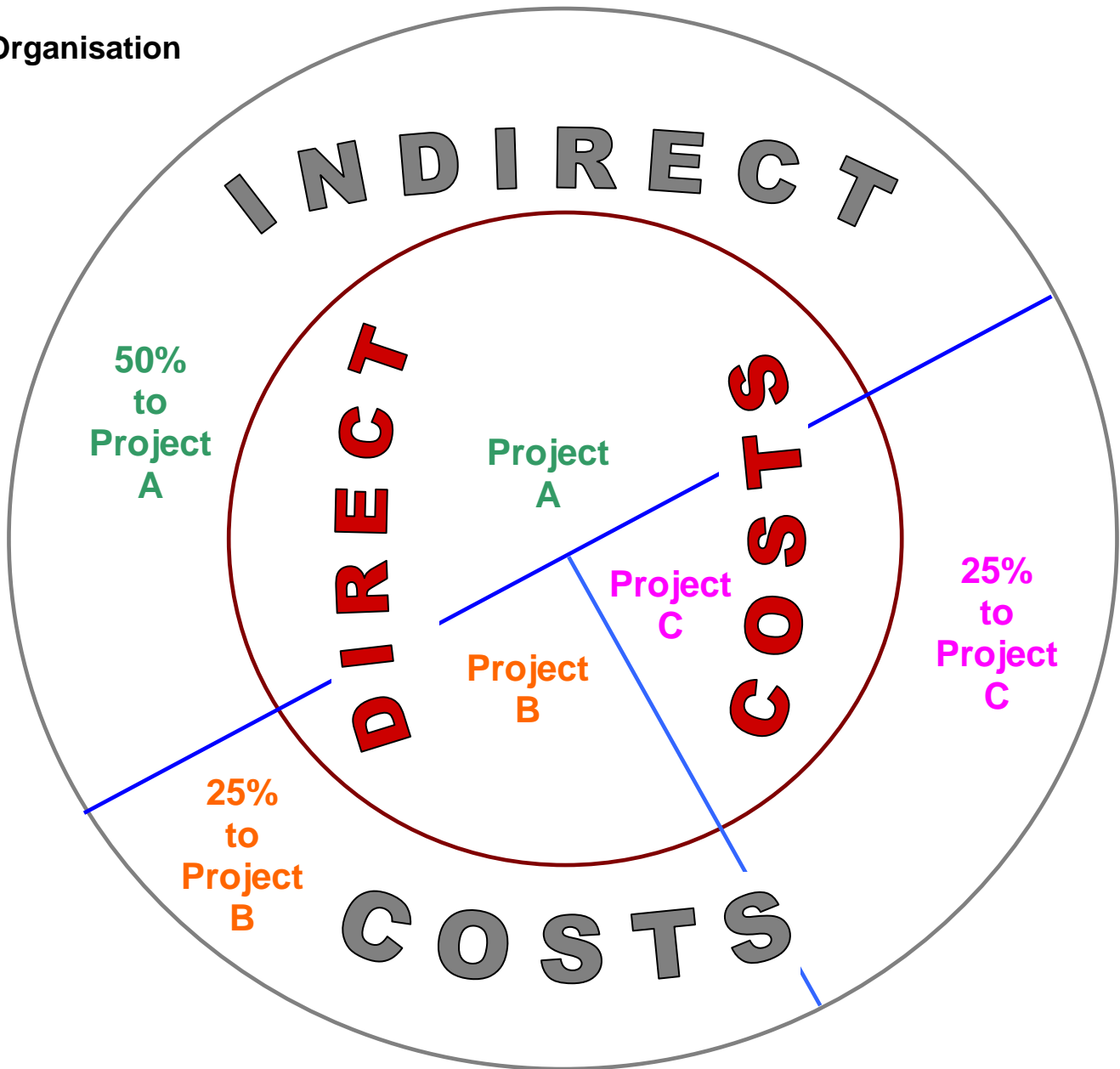
Step 3

Ask yourself - From the indirect costs identified how much of each is used in the delivery of the project/service.

Step 4

Allocate the portion of the indirect costs agreed to each of the projects and services.

AN Organisation



- Step 1 AN organisation has 3 projects – Project A, B and C with direct costs included under each project.
- Step 2 The organisation needs to identify and fund its indirect / overhead costs.
- Step 3 Each Project (A, B and C) uses a percentage of the organisation's indirect costs e.g. management salaries, utilities - these are needed to house and run each project.
- Step 4 A proportion of the overall indirect costs should be included under the funding for each project e.g. 50% is used to house and run project A.