

## Guidance for Applicants on Full Cost Recovery (Voluntary Sector Only)

Read the Appendix **Guide to calculating full cost recovery** for more information and an example of the apportioning methodology.

1. The Harpur Trust accepts applications for projects adopting a full cost recovery approach. Full cost recovery is the system by which organisations secure funding for the full cost of a project or service by including both the direct costs of the project and a relevant portion of overhead costs.
2. The Trust will generally consider applications containing an element of overhead costs (sometimes referred to as indirect, core, central or support costs) if applicants have complied with the conditions outlined below. Requests are dealt with on a case-by-case basis, taking account of an organisation's resources and funding, and not all requests will be successful. Funding decisions are at the Trustees' discretion.
3. The Trustees will not fund overhead costs relating to:
  - straightforward, discrete capital projects, such as an extension to a village hall or the purchase of equipment
  - applications from statutory organisations and schools
4. Trustees do not subsidise shortfalls caused by a statutory funder failing to fund on a full cost recovery basis.
5. To be considered for full cost recovery-based support, applicants must carry out a costing exercise and include a spreadsheet with their application which explains the calculations they have used. There are materials available online applicants can use to help with this exercise.
6. The following items should not be included in full cost recovery calculations:
  - depreciation costs
  - items paid for by other funding sources; for example, a portion of the time of a specific staff member fully funded by another grant
  - in kind contributions such as free premises
7. Useful resources:

NCVO – Project budgeting and full cost recovery: <https://www.ncvo.org.uk/help-and-guidance/running-a-charity/financial-management/planning-and-budgeting/project-budgeting-full-cost-recovery/full-cost-recovery/#>

Charity Digital - Why charities need full cost recovery:

<https://charitydigital.org.uk/topics/topics/why-charities-need-full-cost-recovery-9017>

The National Lottery Community Fund – Overheads and full cost recovery:

<https://www.tnlcommunityfund.org.uk/funding/funding-guidance/full-cost-recovery>

## **Appendix A: Guide to calculating full cost recovery for applicants**

### **What is full cost recovery?**

Full cost recovery is the process of ensuring that you've taken account of all of the costs involved in running a project by calculating the funding you need at a level which includes both direct project costs and a relevant proportion of overhead costs.

Direct project costs are all the additional costs you'll incur because of carrying out a specific project.

Overhead costs are shared organisational costs that support all aspects of an organisation, such as office rent, IT, financial management, human resources etc.

When applying for project funding, it's important you understand the costs and whether you wish to apply for full cost recovery. Otherwise you may be creating a deficit for your organisation, which will need to be generated from other sources. This can impact on the sustainability of your organisation as well as the quality and longevity of your services.

The following is a guide and the Harpur Trust's preferred methodology, but other methods will be considered if the methodology and all calculations (including formulae) are submitted.

### **Generally there are three costs to consider:**

1. Staff costs
2. Other direct costs - annual fixed costs, to cover items like premises, printing, depreciation, heat, light, etc
3. Fixed costs (overheads) - rent, rates, insurance, marketing and PR, accounting, audit, staff training, etc.

### **Calculating full cost recovery in five easy steps:**

- Step 1: Review costs
- Step 2: Identify costs
- Step 3: Apportion
- Step 4: Allocate
- Step 5: Check your work

Staff costs and usually direct costs are readily known and calculable. When allocating overheads, the method used should be logical but not over-complicated and feel right to you and your team. The simplest way is to divide the overheads in the same proportion as the staff cost allocated to that project. So if a project requires 25% of the chargeable staff time, then it should also carry 25% of the overheads. If you have staff on secondment, or use large numbers of volunteers, then you may want to apply a notional cost to their time, otherwise projects with unpaid staff will not

carry their fair share of the overheads. If you do this, then you will need include the same figure in the total income for each project.

### Calculating proportional staff time

For calculating proportional staff time, the standard calculation (used by the European Social Fund) is to work out the total hours worked by direct project staff in the period (usually the year) and the total hours worked by all the staff in the organisation. Normally, only employed staff would be included, not contractors or self-employed people.

The percentage of the total organisation hours worked by project staff gives you the full cost recovery rate. For example:

| Project Staff  | Non-Project Staff                                  | Total Org. Hours | FCR Percentage |
|--|--|------------------|----------------|
| Facilitator= 3hrs per session x 60 sessions =180 hrs | Administrator<br>5hrs per week x 31 weeks = 155hrs | 335              | 180/335 = 53%  |

### An example of allocating fixed (“overhead”) costs to projects

ABC Charity has a staff of nine and runs a peer support group for families with children with additional needs. It has decided that it wants to run a year-long pilot project to test a new approach to running a weekend social club.

One member of staff is wholly administrative and two are managerial (CEO and Head of Finance) with their time split between project work and the ongoing management and administration of the charity. Annual staff salaries, including national insurance and pension contributions are as follows:

#### Staff costs

Direct service staff (6 FTE) £150,000; Administrative staff (1 FTE) £25,000; Managerial staff (2 FTE) £90,000; totalling £275,000.

#### Direct costs

Direct costs for the weekend social club pilot (not including staff costs) £20,000, and other direct costs of running ongoing service: £150,000, totalling £170,000.

#### Fixed (overhead) costs (often referred to as core costs)

ABC has annual fixed costs, to cover items such as premises, printing, depreciation, utilities, etc totalling £80,000 per year.

### Summary of total costs

Staff costs £275,000

- Direct costs £170,000
- Fixed costs £80,000
- Total £525,000

## Allocation method

The fixed cost allocation method will be based on staff cost. The administrative and managerial staff costs are estimated to split £15,000 to the project and £100,000 to the ongoing running of the services. It's been estimated that the equivalent of one full time equivalent member of the service staff team for the full year will be allocated to the pilot project (so 1/6<sup>th</sup> of £150,000 direct service staff = £25,000).

|   | Staff costs (£)                             | % staff costs (also applied to overheads)                 | Overhead allocation (£)          | Direct costs (£)                         | Total (£) |
|---|---|---|----------------------------------|--|-----------|
| <b>Social club pilot (12-month project)</b> | 40,000<br><br>[£15,000 + £25,000, as above] | 14.5<br><br>[£40k is 14.5% of total staff costs of £275K] | 11,600<br><br>[14.5% of £80,000] | 20,000<br><br>[already calculated above] | 71,600    |
| <b>Ongoing service</b>                      | 235,000                                     |   | 68,400                           | 150,000                                  | 453,400   |
| <b>Total</b>                                | 275,000                                     |   | 80,000                           | 170,000                                  | 525,000   |

From these simple calculations, the charity can identify that the total cost of running the social club is £71,600.

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