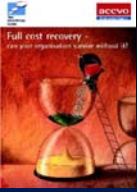


Full Cost Recovery

**South West Funders Forum
17 January 2006**

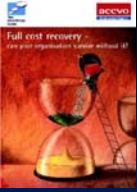
**Seb Elsworth
Head of Projects
acevo**



acevo

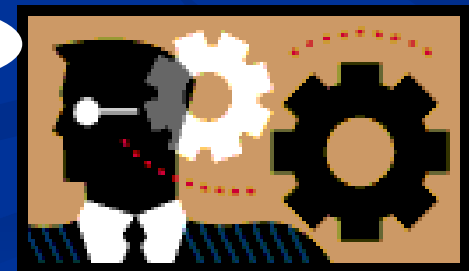
Professional association of 2000 third sector CEOs

- Support, advice, guidance
- Development seminars, conferences
- Campaigning on CEO priority issues



Priorities for CEOs

- Governance and management
- Organisational development
- Leadership
- Funding





Funding: Overheads

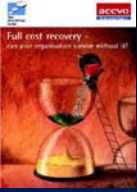
All organisations have overheads:

- Management and leadership
- Infrastructure and accommodation
- Finance, governance and controls
- Strategic development



The Core Costs Crisis

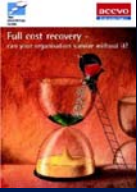
- Restricted/Unrestricted Funding
- Current trends cause organisations to under-invest in their own infrastructure
- Inefficient or even major financial crises
- 2005, one third of acevo members had to close services



Core costs / FCR

Full project funding: the “Business model”

- Core/project distinction is artificial, and damaging
- Overheads essential to all projects
- Each project should include a share
- Standard commercial practice



How has the problem arisen?

Funders

- What's a reasonable level?
- "double funding": is someone else paying?

Funded

- Lack of transparency in analysing and allocating costs
 - Cost conversion: overheads into projects
 - Cost donation: other sources cover overheads
 - Arbitrary percentages

Lack of rigorous, standardised cost allocation method

FCR: the tools

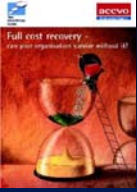
- 2002 template: 2,500 copies sold
- Welcomed by HM Treasury
- Implementation across govt patchy

Full Cost Recovery 04

- Simplified book
- Interactive CD-ROM

HMT commended

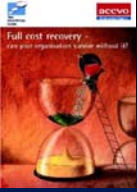




What does FCR rule out?

Does preclude worst examples of funding practice, e.g. rejecting overheads out of hand

Doesn't replace negotiations, or need for efficiency; it informs them



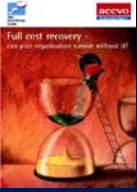
FCR: English policies

Treasury 2002 Review

“All departments should ensure that the price of contracts reflects the full cost of the service, including the legitimate portion of over heads”

Gershon Efficiency Review 2004

Recommended “further progress towards full acceptance of the principle of full cost recovery”

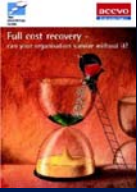


- Charity Commission

“Charities should always aim to recover the full cost of delivering services for public authorities, including administrative and overhead or “core” costs

- LGA

“Councils support moving to full cost recovery as quickly as possible”



General advantages

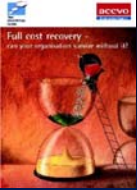
Accurate: funders get true reflection of the cost of projects

Transparent: provides clear, defensible cost allocation method

Efficient: reduces time spent juggling figures

Appropriate: funders pay for all & only the overheads that support *their* project

Sustainable: funded organisations survive; projects continue

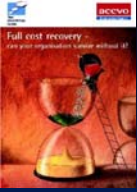


Mind the Gap!



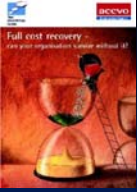
Manual for funders

- Case Studies
- Advice & Guidance
- BLF sponsored

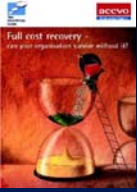


Case Studies

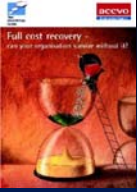
- Big Lottery Fund
 - Formed in June 2004
 - £2.3 billion 2006-09, biggest third sector funder in the UK
 - Fewer projects funded overall
 - A pragmatic and proportionate view, a small part of the application process, lighter touch with smaller organisations
 - No attempt to benchmark, rather used recognised tools
 - Whole organisation has ensure buy-in and grant officers have the knowledge to implement it



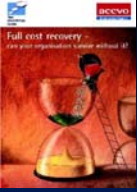
- FCR is “integral to achieving our aims as a funder” Vanessa Potter, BIG



- Hampshire County Council
 - Grant funding of £6m, contracts worth £30m
 - Previously dealt with FCR on an ad hoc basis
 - 2002 Funding Code said that overhead costs should be taken into account
 - Recommendation to support acevo's template in 2004
 - "Overhead costs of voluntary and community organisations should be treated in the same way as those of the private sector, or any internal provider"
 - Flexible, many of the applications are for small amounts of money
 - Hampshire Learning Centre

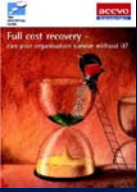


- Futurebuilders England
 - Government backed £125m investment fund
 - Sends the acevo template to all investees as part of the investment offer pack
 - Trains its own staff in FCR
 - Will be supportive of organisations where the local authority has a strong policy commitment to FCR



■ Bridge House Trust

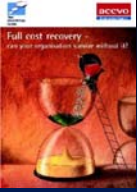
- 80% of the sector's funding coming from organisations like this
- Independent Funder, in excess of £17 million to charitable projects
- Key question is whether the project meets the funding priorities rather than the proportion of overhead costs involved
- Grant officers can easily ask for how core costs have been calculated, if too much or too little
- Stress the need for a mature relationship



Mind the Gap!

8 Principles

1. Define your relationship with the organisations you are funding
2. Commit to the principle of FCR
3. Know the funding rules
4. Understand your role in the funding mix
5. Know your field
6. Be proportionate
7. Manage change accordingly
8. Consider the wider issues involved

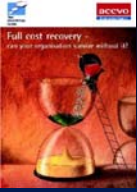


FCR Latest

acevo/NAVCA Training Programme

- 'Train the trainer': CVS and LIOs
- BLF supported
- All 8 regions
- Almost fully booked
- Contact Orli Gorenski
Orli.gorenski@acevo.org.uk





FCR Resources

Check out the website:

www.fullcostrecovery.org.uk

For CVS/LIOs: get trained

www.fullcostrecovery.org.uk

Get the template

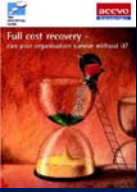
www.acevo.org.uk/publications

0845 345 8481

Course £30

Guide £20, CD-Rom £35.25, Package £44.20

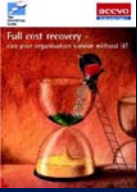
(Members 20% discount)



Funders' Queries

- 1) We have managed fine without FCR – why is it needed?
- 2) Organisations won't know their cost allocation in advance: it depends how many projects they run.
- 3) If we pay overheads, we will end up double funding overhead costs
- 4) Fewer projects will get funded overall: our board won't like it!

Any others?



Funders Queries and Answers

Q1: We have managed fine without FCR – why is it needed?

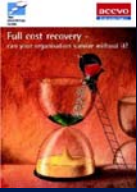
- 1/3 of acevo members have closed down services 2003-5
- Historic underinvestment in capacity, strategy, development
- Huge resource wasted in plugging the funding gap



Funders Queries and Answers

Q2: Organisations won't know their cost allocation in advance: it depends how many projects they run.

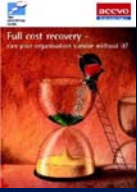
- Entirely reasonable to allocate costs on the basis of forecast budgets
- "This objection does not stand up to any sort of scrutiny. It is opting for paralysis in place of a clear and sensible way of acting." (Martin Brookes, NPC)



Funders Queries and Answers

Q3: If we pay overheads, we will end up double funding overhead costs

- A transparent method for cost allocation will make double funding less likely
- We are not-for-profit: the worst case scenario is that the funder supports other work
- In obvious cases, organisations can simply remove the relevant line items



Funders Queries and Answers

Q4: Fewer projects will get funded overall: our board won't like it!

- Responsible funding means funding sustainably
- There are economies on both sides: prevents costs begin disguised and remerging
- Major funders, e.g. Futurebuilders, BLF, are adopting this