# TSI Network Guidance on Full Cost Recovery

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## Purpose

This document aims to provide funders and funding applicants with guidance on what full cost recovery is, why it matters, and what it means in practice.

The guidance draws on a range of sources which are listed at the end of this document.

## 1. Full Cost Recovery: what it is and why it matters

Full Cost Recovery refers to the process of ensuring that *all* direct or indirect costs relating to delivering a funded service are included in budget and funding requests.

**Direct costs** are those that relate immediately and solely to the delivery of a project. This includes staff working directly on the project, direct management, venue costs for delivery, and materials.

**Indirect costs** are those that relate to the organisation more widely, but which are equally as essential for the delivery of the project. They might include office costs, insurance and back-office staffing costs.

A full list of both direct and indirect costs is included at Section 2.

When funders only want to cover direct costs, it becomes difficult or impossible for third sector organisations to run a project or service for any length of time.

Applying full cost recovery approaches to funding helps ensure:

- Financial sustainability of organisations receiving funding
- Better decision-making and transparency because projects are assessed on their true costs
- Quality in delivery as projects are well-supported and organisations can cover the legitimate costs of being well run.
- Good practice in commissioning.

This is in line with existing guidance such as the TSI Local Fair Funding Charter , the Community Planning Improvement Board Guidance for Fair Funding of the Voluntary Sector, SCVO Fair Funding Principles and the No One Left Behind Good Practice Guidance for Commissioning Employability Services

## 2. What Full Cost Recovery approaches include

As mentioned above, full cost recovery approaches include both **direct** and **indirect** project costs.

**Direct** delivery costs will be solely attributable to the project which is being funded. They include things like:

- Recruitment, salary, training, and expenses costs of staff working directly on the project
- Supervision and direct management costs
- Physical resources such as materials, IT hardware, and premises used only for the project
- Costs associated with participants on the programme (e.g. expenses)
- Marketing and communications that support project reach
- Evaluation and impact measurement of the funded project
- Volunteer training or supervision
- Project set up costs

**Indirect** or support costs, will be essential for the running of the whole organisation, including the project. Without some contribution to these costs the organisation would not be viable and therefore these costs need to be apportioned accordingly.

The following list is not exhaustive but gives an indication of the types of costs which can be included proportionally within indirect costs:

- Organisation accommodation costs (rent, utilities, etc.) that are used for organisation management or for multiple services.
- Proportion of the costs of management and administrative staff (e.g., CEO, finance, HR)
- IT systems, phones, and communications
- Legal, audit, and governance costs
- Insurance and compliance costs
- Strategic planning, training, general monitoring and evaluation overheads
- Organisational resilience and sustainability

## 3. Different ways of apportioning indirect costs across projects

Organisations can use a variety of methodologies to apportion their indirect costs, including methodologies based on headcount, pro rata staffing hours, or project size.

- **Headcount** – indirect costs are distributed based on the number of staff employed in each project.
- **Pro rata staffing hours** – indirect costs are distributed similarly to headcount, but taking into account part-time roles.

- **Project Size** – indirect costs are distributed based on a % of the relevant project size (budget)
  *For example, a project with a £10,000 budget for direct delivery could have a figure of 20% (£2,000) indirect costs applied, bringing the full cost recovery total to £12,000.*

Different organisations will take different approaches to allocating indirect costs. This may include using different approaches for different costs within one project budget.

> *For example, an organisation may choose to allocate the costs of back-office staff based on headcount, but the costs of premises based on how much space each project uses.*

Additionally, the % applied for indirect costs can vary depending on the size and scale of an organisation. Organisations may apply a higher % if they have fewer projects to spread core costs across.

> *For example, if an organisation has only two projects then 50% of indirect costs will require to be allocated to this project.*

This is entirely appropriate and ideally commissioning will allow flexibility.

## 4. Different approaches to funding indirect costs

Funders should be enthusiastic about covering indirect costs and encourage applicants to be confident in requesting these costs.

Not paying appropriate indirect costs reduces the sustainability of organisations and puts delivery quality at risk.

Just as with calculating budgets, different funders may apply different methodologies to how they consider and fund indirect project costs.

The following approaches are most used:

- **Setting a fixed %** for eligible indirect costs in fund guidelines. This % is applied to all applicants no matter how individual orgs might calculate need.
- **Requesting a detailed breakdown** of both direct and indirect costs.
- **Asking providers** to include a self-identified % for indirect costs in their budget.

There is no one-size-fits-all level for indirect costs, and costs will vary depending on the type of project, the applicant organisation and other variables,

For this reason, funding approaches which allow providers to present their own assessments of indirect costs in applications is recommended.

For guidance, indirect costs making up 15-25% of a project cost are likely to be reasonable. However as noted above, there will be cases where the % is greater or smaller than that. In these instances transparency and discussion are key.

## Sources


1. Community Planning Improvement Board Guidance for Fair Funding of the Voluntary Sector
2. Evaluation Support Scotland Principles for Positive Partnerships
3. Knowledge Hub Cymru: Full Cost Recovery
4. NCVO: Guidance on Full Cost Recovery
5. SCVO Fair Funding guidelines
6. The National Lottery Community Fund: What is Full Cost Recovery
7. TSI Network Local Fair Funding Charter