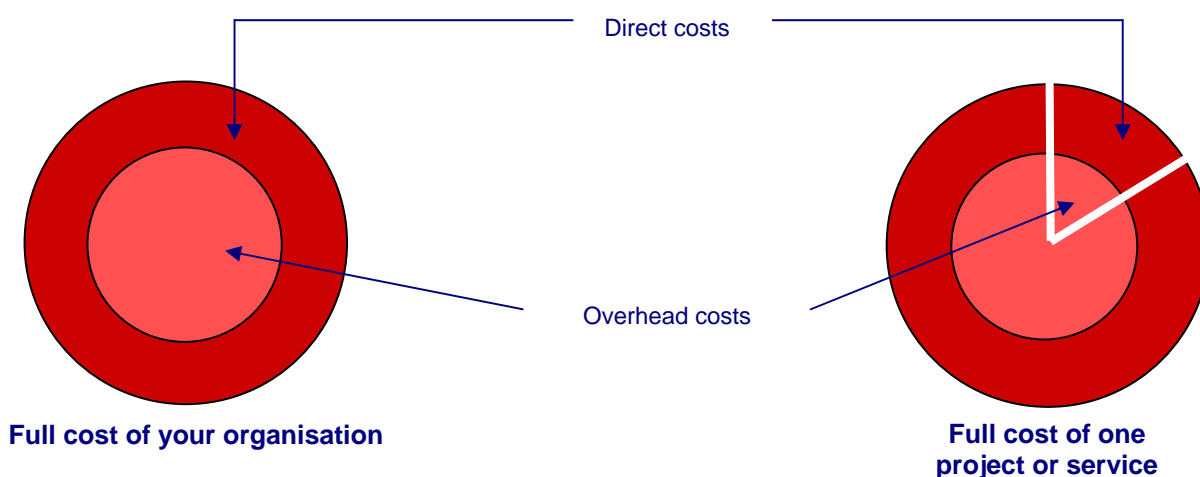


What is full cost recovery?

Full Cost Recovery means securing funding for, or 'recovering', all your costs, including the direct costs of projects and all your overheads. Every organisation, whether voluntary, public or private, needs to recover all its costs, and ideally generate a surplus, or it cannot pay its employees, rent office space, offer its products and services, or plan for the future and the continued development and delivery of its services.

Funding to cover your costs can come from a variety of sources including: fees, charges, grants, contracts, donations, trading activities or payments in exchange for a particular product or service.

In an organisation there are two types of costs. Direct costs that are incurred as a direct result of running a project or service, and overhead costs that are incurred by an organisation in order to support the projects that it runs. The full cost of your organisation includes both the direct costs of *all* your projects and services and *all* your overheads. Therefore, the full cost of *each* of your projects includes both the direct costs and a portion of overheads as shown below.



It is important to note that although the diagram shows the overhead costs as proportional to the direct costs this will not always be the case. Since different projects make different demands on the organisation.

If you are not recovering the full costs of a project you are creating a deficit for your organisation. This deficit has to be met through additional fundraising or through subsidy from your unrestricted funds. Your unrestricted funds are not limitless. If you are not achieving full cost recovery you are jeopardising the longevity of your organisation and hence the services you provide.

Full Cost Recovery: A guide and toolkit on cost allocation was developed with support from:

