

FULL COST RECOVERY

The Flowerpot Trust Case Study

This is based on the material used in the ACEVO full cost recovery template. This is supposed to be a simple exercise to build up to a more complex model you can use. We shall see...

Contents of Case Study Exercise

- 1 Information sheets which include details of the projects and overheads of a 'dummy' organisation.
- 2 The Case Study Questions.
- 3 Your answer page
- 4 Our answer pages (we hand this out later on)

FULL COST RECOVERY

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Information

How does full cost recovery work?

The following is a case study designed to demonstrate how full cost recovery might work in a fairly simple example.

The Flowerpot Trust has:

- Three projects A, B and C, each of which involve direct costs
- Two types of indirect costs/overheads:
 - Premises occupied by the group, and
 - A manager (running the group and supporting the 3 projects)

These costs are broken down in the tables below:

Table 1: **Direct Project Costs**

	Projects			Total
	A	B	C	
Wages	£5,000	£10,000	£5,000	£20,000
Other direct costs	£5,000	£5,000	£10,000	£20,000
Total direct costs	£10,000	£15,000	£15,000	£40,000

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Information (continued)

Table 2: **Indirect/Overhead Costs**

	Overheads		
	Premises	Manager	Total
Wages	n/a	£10,000	£10,000
Other indirect costs	£15,000	£2,000	£17,000
Total indirect costs	£15,000	£12,000	£27,000

Table 3: **Total Costs**

Total Direct costs	Total Indirect/Overhead Costs	Full costs
£40,000	£27,000	£67,000

To help our group **allocate** its costs, the following information has been obtained about the space they use, the numbers of staff it employs and how many volunteers are active in each project.

	Project A	Project B	Project C	Premises	Manager	Total
Floor space	300ft ²	150ft ²	300ft ²		150ft ²	900ft ²
Project Staff	1	2	1			4
Volunteers	2	0	4			6

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Question

Q1: What would be the full cost of each project if the group had decided that the most appropriate bases for allocating each of its overhead costs were:

- Premises according to the floor space occupied, and
- The manager's time by reference to the number of staff and volunteers that he or she has to manage

(tip – you must share out the premises costs first, then share out the manager's costs to the 3 projects)

Q2: What would the full cost of each project be if it had been decided to only take project staff into account in allocating the manager's time? So for this calculation we ignore volunteers.

Q3: A simpler method might be to allocate ALL the indirect/overhead costs in proportion to the total number of people involved in each project. (so don't bother about the floor space). What would be the full cost of each project with this simpler method?

Q4: Which allocation method do you think is right and why?

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Your Answer Page

Answer 1: The full cost of each project if the group had decided that the most appropriate bases for allocating each of its overhead costs were:

- Premises according to the floor space occupied, and
- The manager's time by reference to the number of staff and volunteers that he or she has to manage
-

For Project A: £ _____

For Project B: £ _____

For Project C: £ _____

Answer 2: The full cost of each project if it had been decided to only take project staff into account in allocating the manager's time would be:

For Project A: £ _____

For Project B: £ _____

For Project C: £ _____

Answer 3: The full cost of each project if it had been decided to allocate all indirect costs by the total of staff and volunteers would be:

For Project A: £ _____

For Project B: £ _____

For Project C: £ _____

Answer 4: The best method, in my opinion would be:

because

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Answer Page 1

Q1: The full cost of running this group and all of its projects is £67,000. So for however we allocate our costs, we must end up with £67,000 in total if we are to recover our full costs.

First we allocate the premises costs and, in this instance, we have decided that the floor space occupied is a fair basis. So projects A and C each bear 300/900 (one third) of the £15,000 premises cost. Project B and the manager each incur 150/900 (one sixth)

	Project A	Project B	Project C	Premises	Manager	Total
Costs (as above)	£10,000	£15,000	£15,000	£15,000	£12,000	£67,000
Allocate						
Premises cost	£5,000	£2,500	£5,000	£(15,000)	£2,500	nil
New sub-totals	£15,000	£17,500	£20,000	nil	£14,500	£67,000

Then we allocate the manager's time and, in this case the number of staff and volunteers is the basis that we think is the most appropriate. There are a total of 10 staff and volunteers so Project A takes three tenths, Project B two tenths and Project C five tenths of the £14,500 total cost to the group of employing a manager (their salary and share of the rent).

	Project A	Project B	Project C	Premises	Manager	Total
Costs (as above)	£15,000	£17,500	£20,000	nil	£14,500	£67,000
Allocate						
Manager cost	£4,350	£2,900	£7,250	nil	£(14,500)	nil
New sub-totals	£19,350	£20,400	£27,250		nil	£67,000

Thus we have compiled the estimates to be put to potential funders of our projects, showing not only how much we have included for premises and management but also the reasonable and consistent means by which we arrived at those amounts.

It could be particularly important when arguing our grant application for Project C. There are good reasons why that project, which at the outset had the same staffing level as Project A and the same total costs as Project B, should cost more. Put simply, we consider that it would require more support from our indirect activities (i.e. the manager, in this case,) to keep it running.

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Answer Page 2

Q2: If we had decided to ignore the volunteers that our manager has to supervise then the results would have been slightly different.

	Project A	Project B	Project C	Premises	Manager	Total
Costs (as above)	£15,000	£17,500	£20,000	nil	£14,500	£67,000
Allocate Manager cost	£3,625	£7,250	£3,625	nil	£(14,500)	nil
New sub-totals	£18,625	£24,750	£23,625		nil	£67,000

By selecting this alternative basis on which to base the manager's time, Project B would replace Project C as the most costly.

Q3: If we had decided to simplify the whole process and simply allocate all overhead costs in proportion to the number of people involved, then the results would have been slightly different.

	Project A	Project B	Project C	Overheads	Total
Direct Costs	£10,000	£15,000	£15,000		£67,000
Indirect costs				£27,000	£27,000
Allocation	£8100	£5400	£13500	£(27,000)	nil
Full costs	£18,100	£20,400	£28,500		£67,000

The proportions used in this scenario are A = 3/10, B = 2/10, and C = 5/10.

Q4: What is the right method?

- You have lots of choices, especially over deciding cost allocation methods.
- How much time do you have?
- Is more complex always more accurate?

The advice is to be consistent, reasonable and don't simply manipulate the figures to reach a desired outcome. You need to know the real full costs of doing what you do.