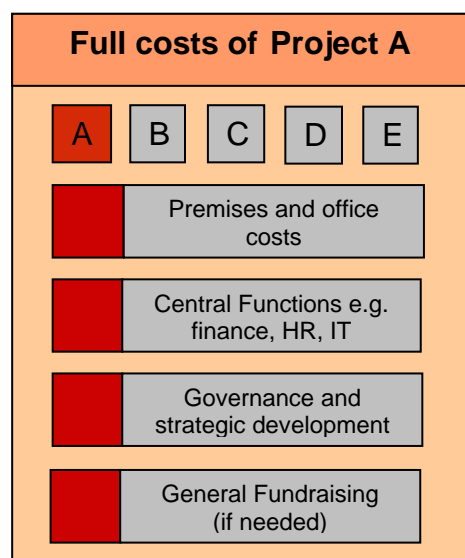


## ***Full Cost Recovery: A guide and toolkit on cost allocation***

This guide contains a template to help organisations calculate the full cost of a particular project or service, including an appropriate share of all relevant support services and other overheads.



*The full cost of an activity or output or project =*

*The direct costs of the activity +*

*The appropriate portion of all other costs in the organisation*

## **Principles behind the template**

The cost allocation template adheres to the principles behind The Chartered Institute of Public Finance and Accounting (CIPFA) guidance on best value accounting for local authorities *Best value accounting: code of practice, CIPFA, 2000*.

### **Average versus marginal cost**

Projects costs can be calculated using either marginal costs or average costs. Average cost is the total cost of all services split by some determinant e.g. number of services delivered. The marginal cost is only the additional cost incurred in starting a new service, and does not include an appropriate share of overheads. For this reason, the template uses average cost.

### **Cost allocation**

To calculate an appropriate portion of overhead costs to allocate to a project or service or output, the template uses a number of cost drivers for the different types of overheads. A cost driver is the factor that affects whether costs increase or decrease. The template uses:

- **Headcount to allocate Premises and Office costs**
- **Time to allocate Central Function costs**
- **Expenditure to allocate Governance and Strategic Development costs**

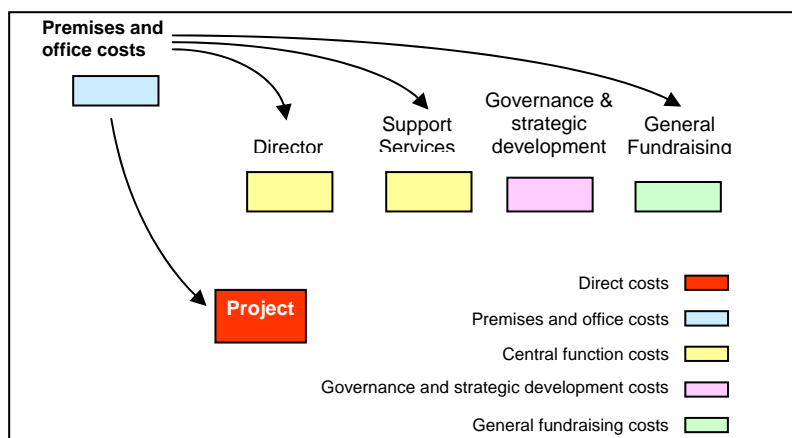
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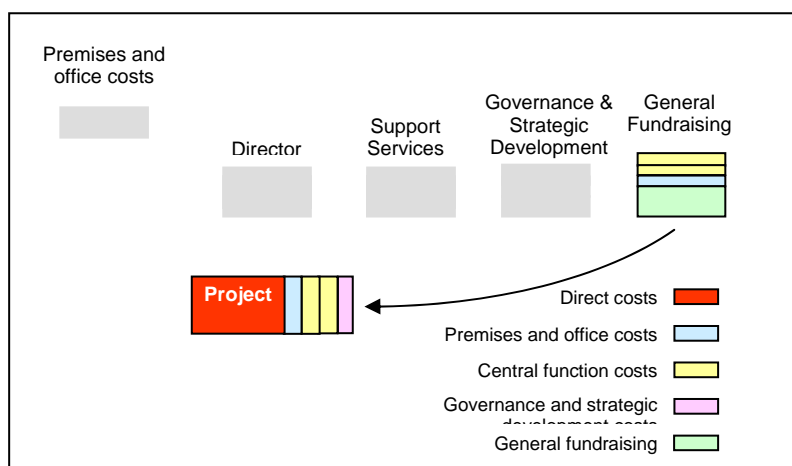
## The six step process of the template

The template calculates the full cost of a project or activity by using the following process:

1. Calculate the direct costs of the selected project or service;
2. Calculate the overhead costs for the organisation as a whole;
3. Allocate premises and office costs to the project, to the central functions (HR, finance etc.), and to general fundraising;



4. Allocate central function costs (now including a portion of premises and office costs) to the project, to governance and strategic development, and to general fundraising;
5. Allocate governance and strategic development costs (now including a portion of premises and office costs, and central functions costs) to the project, and to general fundraising;
6. Allocate general fundraising costs to the project if it needs to draw on fundraised income.



## The output sheet

The output sheet shows the direct costs and the relevant portion of each category of overhead cost to give the full cost of the project.

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