



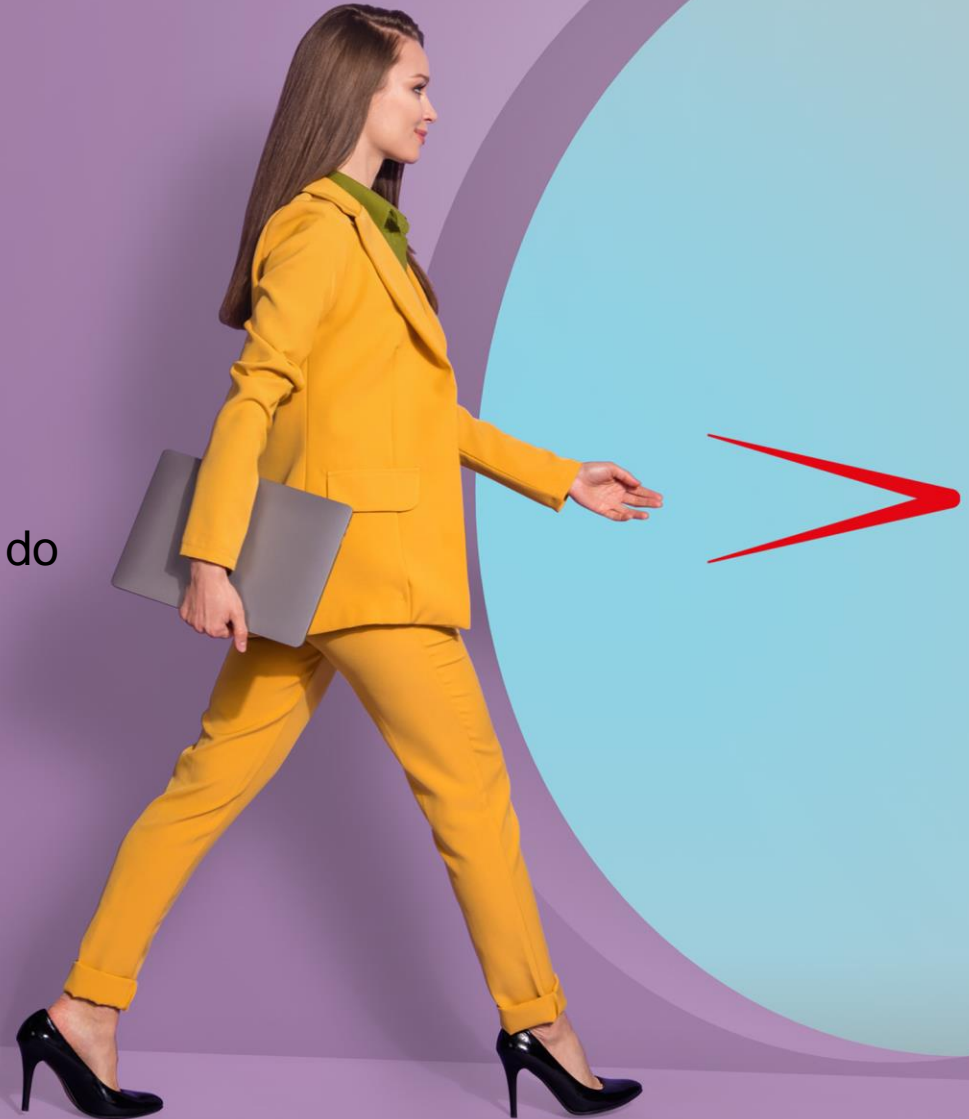
Cost Recovery – how to maximise both direct and indirect cost recovery



Did you know?

ICAEW's Continuing Professional Development (CPD) Regulations have changed. Members are now required to do a minimum number of CPD hours per year.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.





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Cost Recovery

April 2024

Mark Salway for ICAEW



MOORE Kingston Smith
Nonprofit Advisory

Agenda for the hour ...

Agenda

- Why is this important?
- What are your overhead levels?
- Some basics
- Building a cost model
- What does it really cost?
- Costing versus Pricing
- Go be great

Objectives

- Maximise your cost recovery and have more money for your charity
- Understand your indirect and direct cost recovery
- Develop greater transparency in your costing and pricing so you can have better conversations with donors

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Charities propping up government services by more than £2.4bn a year, report finds

The average charity funds 35 per cent of every public service contract, the think tank NPC says

by Emily Harle



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87% of public service charities are subsidising grants and contracts, says survey

04 Mar 2024 News

By tashatuvango, Adobe

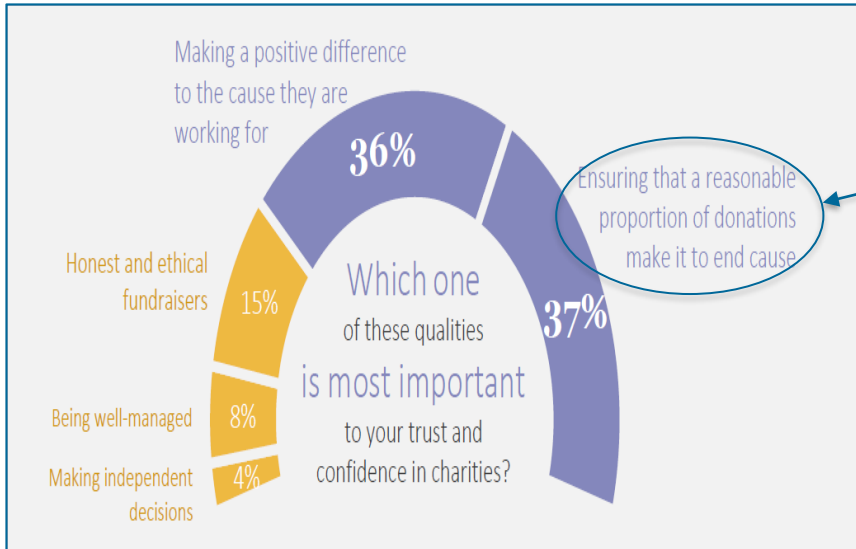


Harriet Whitehead
1268 articles
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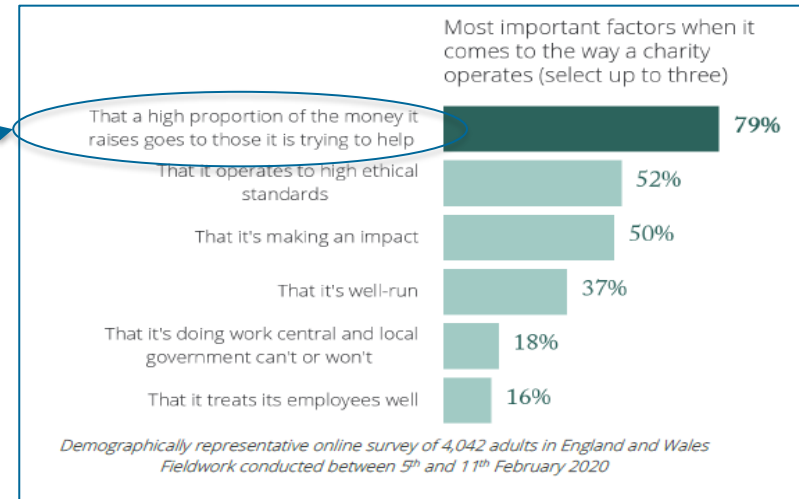
Almost nine in 10 charities that deliver public services are subsidising their grants and contracts, with most considering withdrawing from them, a NCVO survey has found.

Key Driver Of Public Trust = MONEY!



Charity Commission, 2018

It's all about money



Charity Commission, 2020

The greatest area of doubt is still around whether a high proportion of money reaches intended beneficiaries

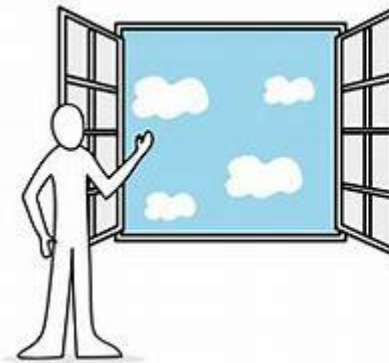
Percentage who doubt that donors' money reaches intended beneficiaries

General public	Top left	Top right	Bottom right	Bottom left
who believe only a little or none at all of money raised helps those intended	who believe only a little or none at all of money raised helps those intended	who believe only a little or none at all of money raised helps those intended	who believe only a little or none at all of money raised helps those intended	who believe only a little or none at all of money raised helps those intended
25%	16%	22%	29%	33%

Charity Commission, 2022

Its great in theory – but funders will never agree to it!

Income versus Expenditure (It's actually about transparency ...)



TRANSPARENCY
IS KEY TO BUILDING
TRUST IN **Nonprofits**

As an aside, Hansmann (1980): Charities -> Trust
versus Commercial -> Efficiency

Time for you in chat ...

What are your overhead levels?
(One size doesn't fit all!)

Some basics

Know your costs

- Charitable organisations lose between 5-10% of all programme costs through poor cost recovery practice.
- This results in having to use unrestricted reserves, a lack of money for innovation, cutting back on budgets, or increased overtime etc. (someone has to pay!)
- Optimism bias
- **Step 1 to improving your cost recovery is to know your costs.** Make sure that you are counting everything and getting good quality financial data.
- **Just as important for large and small charities**

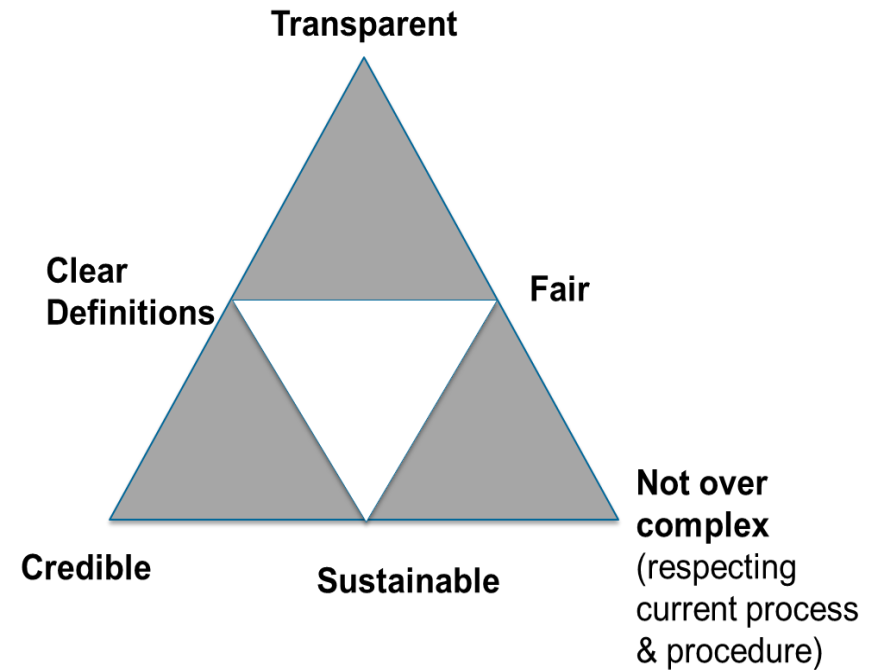
Why is this important?

- **Sustainability** – a fair price is paid for each product or service, reducing the need to use reserves
- **Confidence** – the ability to talk and negotiate with confidence and be able to justify prices to donors and grantees. This will facilitate and promote good conversations with donors
- **Effectiveness** – charities that know their cost base are more effective and can challenge how they work to maximise results for the money they spend
- **Sound Infrastructure** – having effective overhead funding enables a sound infrastructure to be built to take work to scale and to do so with real quality

What are typical issues?

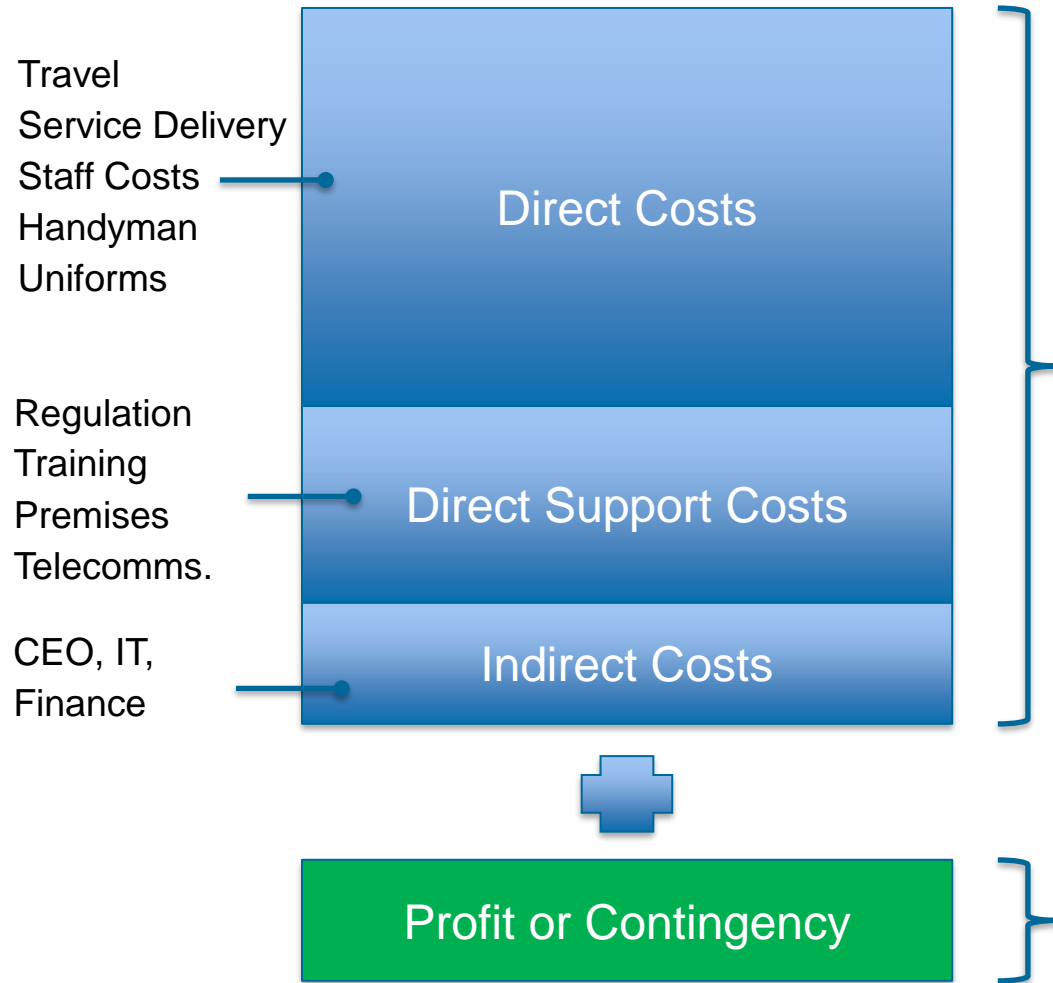
- Technical knowledge
- Management information
- **Culture** – Silos and ‘Not for profit’ thinking
- Information held as cost centres rather than services / activities -> you can’t see the gap
- Business models (are you aiming to cover your costs or make a profit)
- Forward thinking (budgets and growth)

A good policy should be:



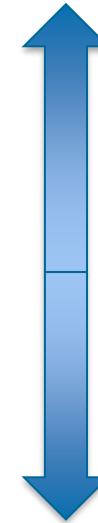
Building a cost model

Costing Model



Aim to move
indirect costs up to
direct costs

Full
Cost
Recovery

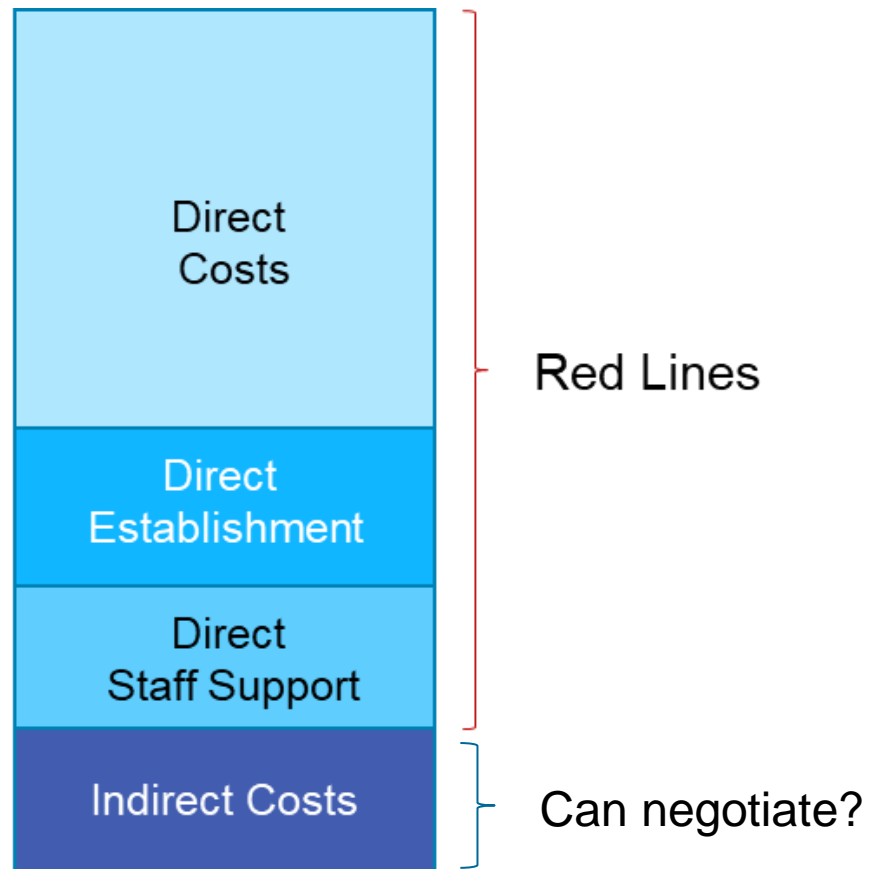


BUT we need to
have balance

Include Profit
element for
pricing

Red Lines ...

What are our red lines – that budgets must include?



How to maximise cost recovery

- Move costs above the line (out of indirect)
- Divide budgets e.g. communications
- Red lines
- Sign off
- Be clear on what 'Unrestricted' is for
 - Creating impact
 - Business as Usual versus Innovation
 - **Strategic subsidy**
- Know your costs (transparently) and decide on level of subsidy

A real example

- Bid submitted as 7% overheads
- Actual overheads c.19%
- £1.2m total expenditure
- Bid submission £300,000

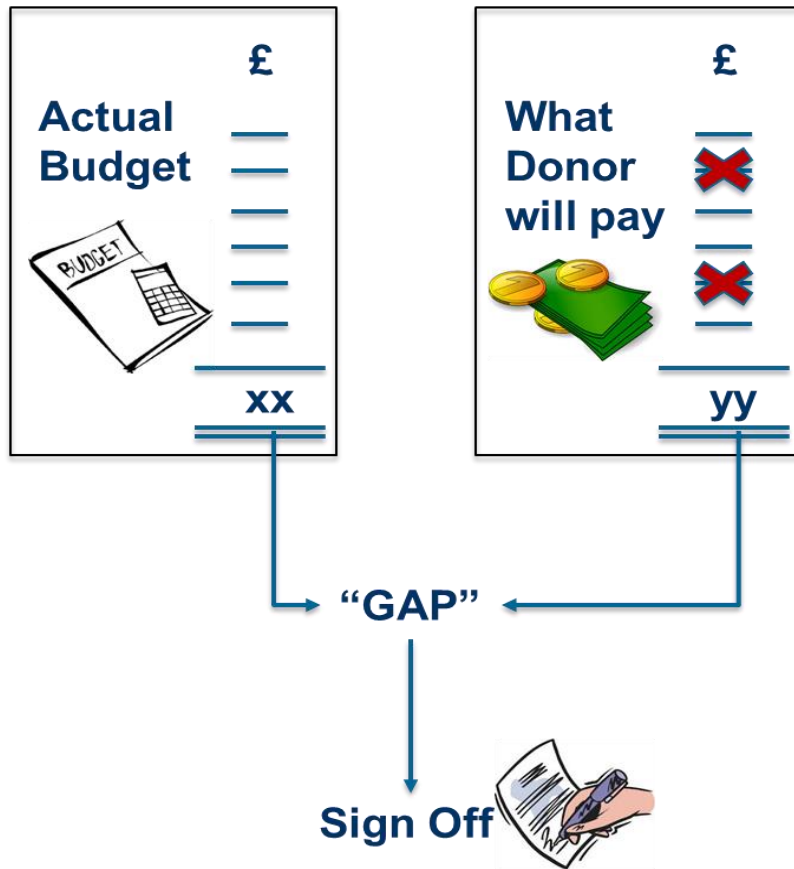
- 12% loss on this bid alone
- Have already locked in £36,000 loss (3% of all expenditure) into this bid which they have to find from unrestricted
- Additional cost for revenue stream to plug gap hidden
- None of this transparent to funder

Issues / Questions



What does it really cost?

Cost Recovery, Transparency and Sign Off



- Using a standard template and having any deficit signed-off is the single easiest way to reduce the gap.

The Absolute Basics

Direct costs

Simple Income and Expenditure Model

	<u>Service 1</u>	<u>Service 2</u>	<u>Service 3</u>	<u>Membership</u>	<u>Workshops Conferences & Training</u>	<u>Other Income / Costs</u>	<u>Total</u>
Income	100,000	97,167	33,333	23,995	75,616	2,136	332,247
Expenditure							
Staff: Direct	42,154	49,095	12,466	0	29,945	0	133,660
Non-Staff: Direct	12,542	1,654	0	0	38,439	1,150	53,785
Staff: Indirect & Direct Support costs	26,080	21,580	5,301	5,474	20,759	43,635	122,829
Non-Staff: Indirect & Direct Support costs	6,286	5,371	1,535	1,659	4,624	8,317	27,793
Contribution	12,938	19,468	14,031	16,862	(18,152)	(50,960)	(5,819)
Net Margin	13%	20%	42%	70%	-24%	NA	-2%

Direct support costs

Indirect costs / overheads

The Absolute Basics

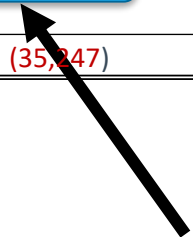
Simple Income and Expenditure Model

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Net Margin	13%	20%	42%	70%	-24%	NA	-2%
Allocation of Overheads	15,872	14,165	3,519	1,300	17,095	(51,952)	0
Surplus / (Deficit)	(2,934)	5,302	10,512	15,561	(35,247)	986	(5,819)

Direct costs

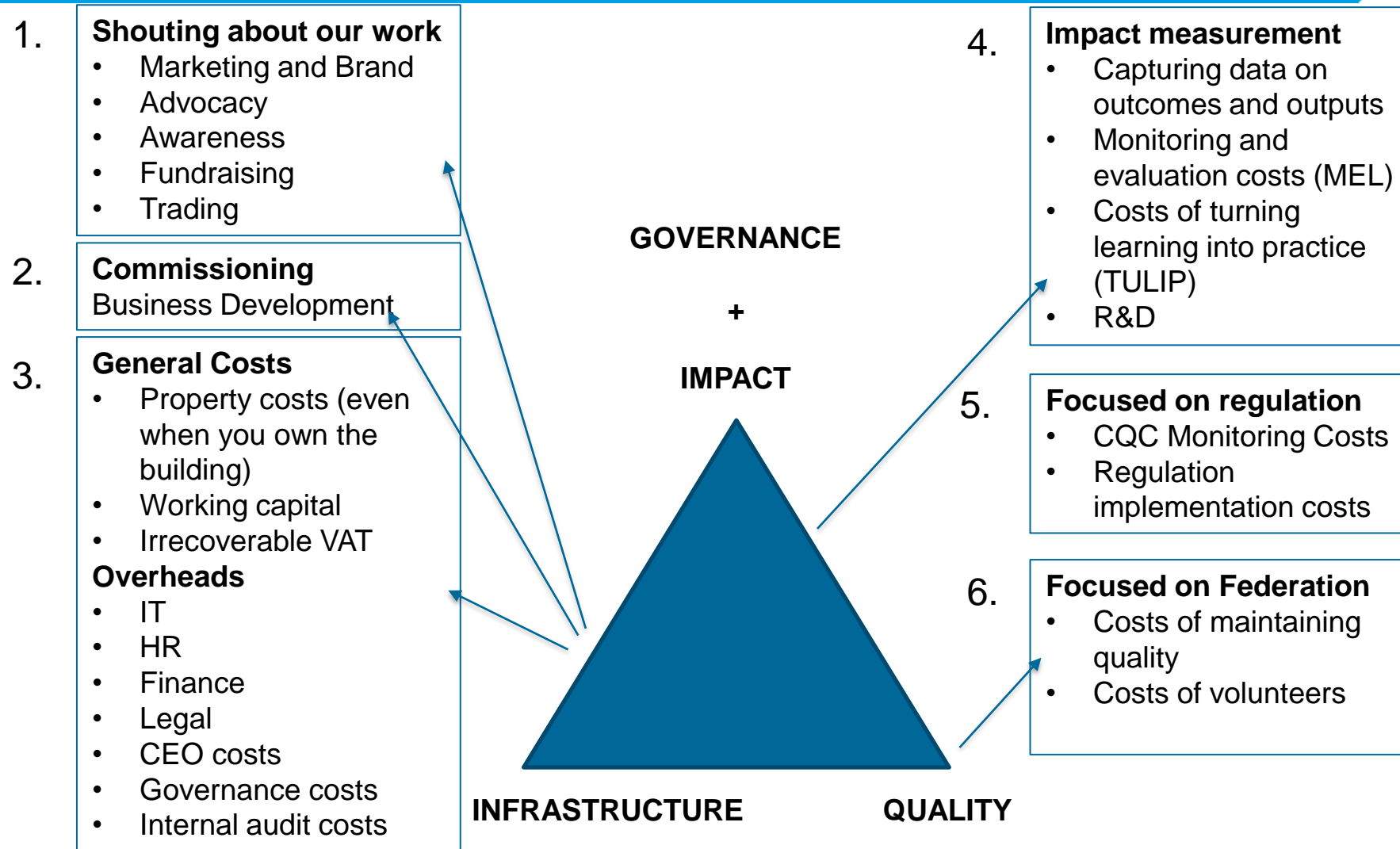


Direct support costs



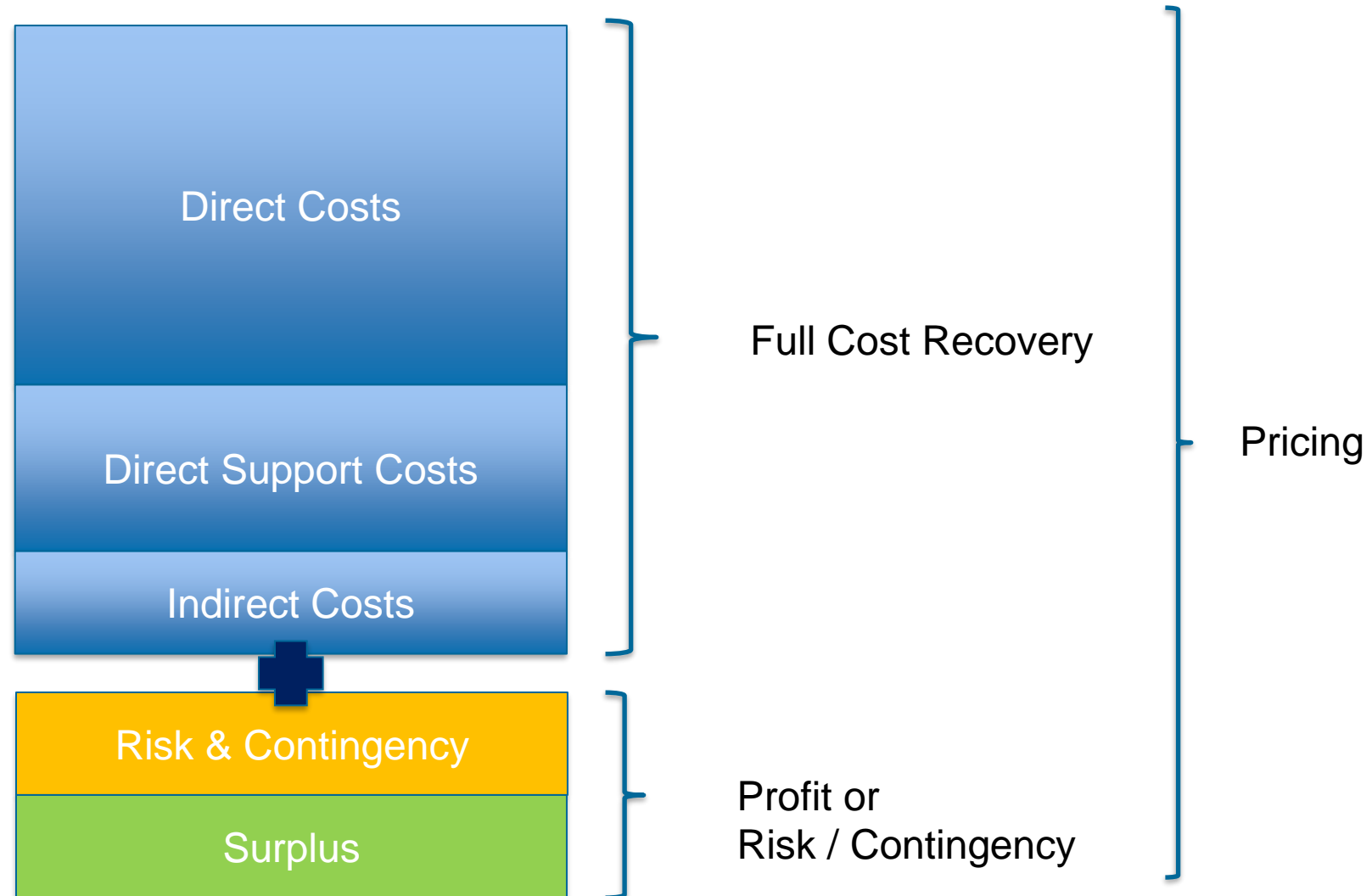
Indirect costs / overheads

What are charities failing to count? This is the 5-10% gap



Costing versus Pricing

Costing versus Pricing



What number of days do you use?

How to effectively calculate day rates

365 Days

104 Weekends

261 Days

8 Bank Holidays

25 Days Holiday (?)

8 Sick days

220 days

20 Training and on Charity business (say 10%)

200 Days total

We propose to calculate day rates based on 200 days.

Alternatively, more commercial is a utilisation basis: **180 days based on 81% utilisation.**

Negotiation

- Transparency is key (and not all donors care about Full Cost Recovery)
- Tell the story of your added value
- What does each party want from this deal? What can you compromise on?
- When will you walk away?
- Relationships are key – really get to know your key donors
- What are your USPs?
- What is your Plan B?

Any final questions?





Cost recovery

Tools for success: doing the right things
and doing them right

[Centre for Charity Effectiveness]

[CCE-Cost-Recovery-Guide-Final-Version.pdf \(city.ac.uk\)](https://city.ac.uk)

Go be great ...



Thank you

Mark Salway

Moore Kingston Smith Associate

msalway@mks.co.uk

0780 350 2391