

# Measuring the cost

To take advantage of full cost recovery, charities must demonstrate that they actually know what that full cost is. Gary Flood discovers that many charities are going to have a hard time of it, as cost-cutting itself often results in outdated accountancy software that just isn't up to scratch, and will ultimately end up costing the organisation more

**T**here you are, working as an organisation in support of some incredibly important cause. Money is there ready to be allocated to do just that – possibly after some immense effort of lobbying, fundraising and marketing. Phew.

In an ideal world you'd be home free, but alas welcome to the real world: the one where you really only have that money minus the amount it cost to get it and for you to operate. And now (see box) you can't basically continue unless you can show the regulator how you plan to spend on both sorts of activity.

"People love to give money to good causes," says John Tate, IT advisor to the Charity Finance Director's Group. "They're not as keen to give you cash to pay for your accounting system or your IT support contract. But core costs have to be covered or you cannot function."

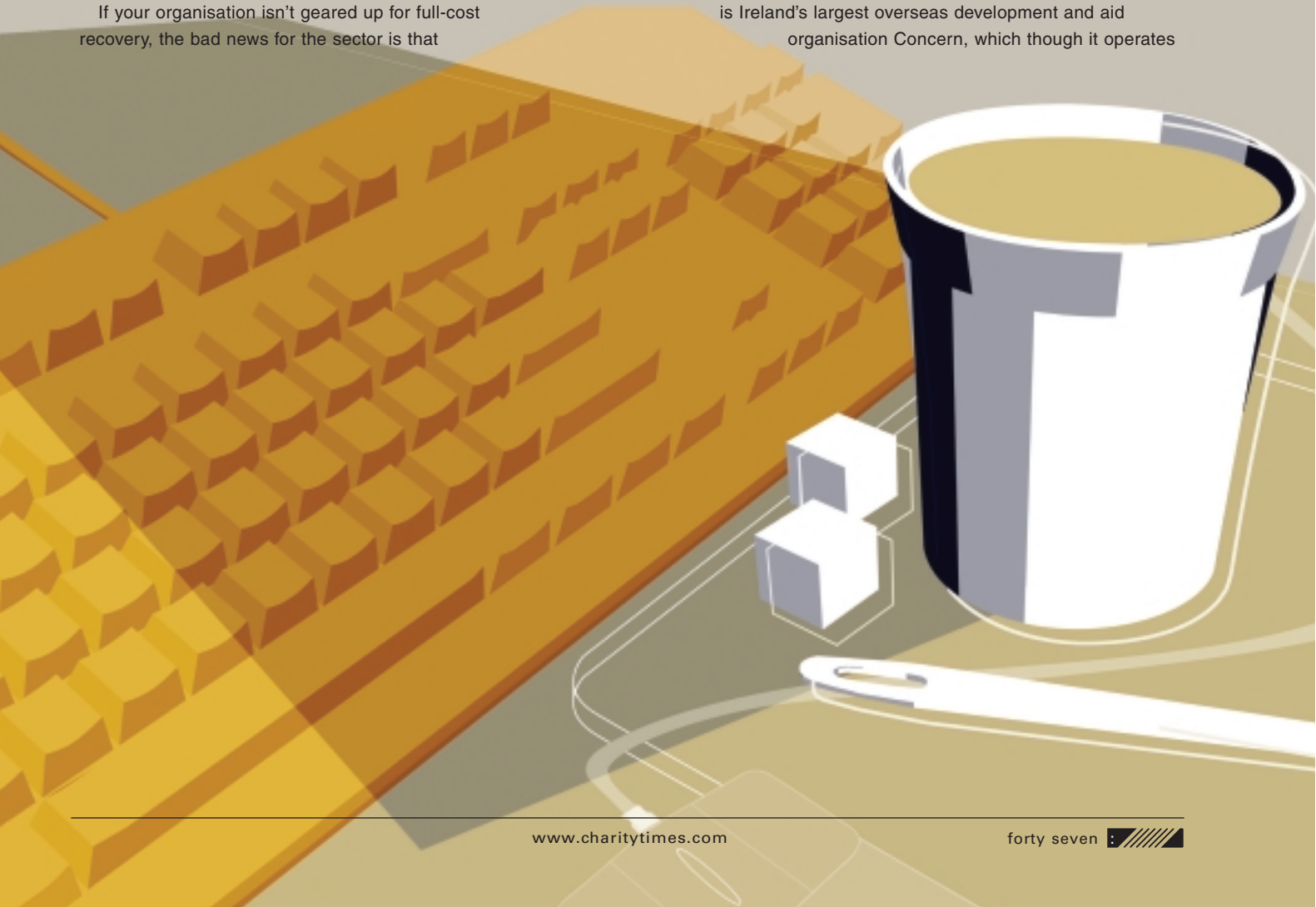
If your organisation isn't geared up for full-cost recovery, the bad news for the sector is that

you may not be alone, thinks Richard Pierce, managing director of accounting software specialist PS Financials, which numbers Save the Children and International HIV/AIDS Alliance among its charity clients.

"I'm worried that full-cost recovery is going to be a real problem," he says. "Charity accounting systems already have to be sophisticated to deal with special needs like partial VAT recovery and restricted and unrestricted funds accounting, but if the system you're using isn't set up for SORP [Statement of Recommended Practice] 2005, then how can you ensure you're covered?"

"Thousands of charities out there just haven't thought through this," adds Peter Stone, a freelance business consultant and expert in the full cost recovery issue working for Futurebuilders.

One charity that says it has licked the full cost recovery issue is Ireland's largest overseas development and aid organisation Concern, which though it operates



## full cost recovery software

mainly out of Eire also has a UK operation that is subject to SORP regulation, according to its finance director Jim Hynes.

"Because of the way we operate we have a lot of shared costs, and I'd argue we've always done full cost recovery level accounting," he says. "But what we have done explicitly is work to extend our [Microsoft] Great Plains system so that we have extra fields that managers can use to build it in to every stage of the accounting process."

The charity is working with IT services group Touchstone Tate-Bramald to implement the changes, he adds. "What I would say is that the best way forward seems to be to work everything out as clearly as possible, allocate your bases and your accounting pools, standardise, and keep everything as simple as possible."

But even if full cost recovery proves to be a tractable problem – as it surely will be – the fact that so many not-for-profits seem to have their heads in the sand troubles accounting and IT system experts. It suggests, it seems, an ongoing blind spot vis-à-vis making IT work for the organisation and providing more value than just paying for its purchase.

"Part of the problem is that charities always feel they have to do everything on the cheap – I call it the 'hairshirt syndrome', where managers feel they

must suffer and never take easy ways out," says PS Financials' Pierce. "Trying to pare down costs by not investing in a good enough accounting system just creates more work, problems and inefficiencies, though. The reality is that if you don't do full cost recovery you won't exist – you have to cover your costs to stay in business."

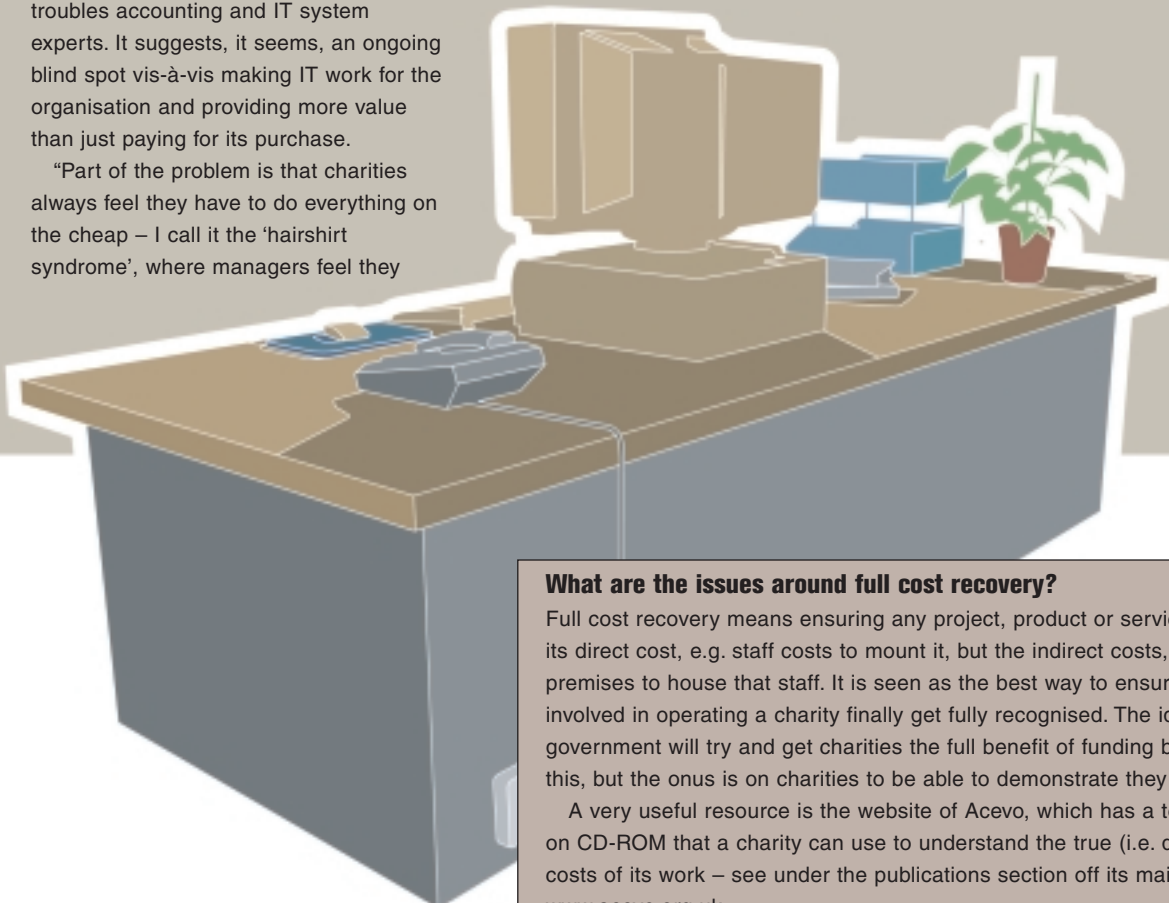
And now may not be the time to be cheap about good accounting software. "This is a lean, mean time for many charities, and the pressure's on," warns Tate. "They need to account for every penny at the same time as they up the quality of their management policies and processes."

"The question is how many have got the kind of effective accounting system in place they need both to deal with full cost recovery, but also supply the high-level management information they need. I worry that too many charities rely on cheap, cheerful and inadequate accounting systems that are either pre-Internet or don't have a flexible

enough coding structure to cope."

"Though many charities do really impressive things with their IT, at least comparable with the efforts of analogous commercial sector organisations, IT isn't appreciated enough at the most senior management level," argues Iain Pritchard, a Partner at Sayer Vincent, a consulting and audit group dedicated to the third sector. "The head of IT isn't on the board in many cases and reports to the head of finance or resources, so the real cost and value structure of IT doesn't get enough visibility. So not enough investment is put in to get the modern, first-class accounting systems that can be easily re-tooled to take account of changes in reporting that do come along. I think charities really need to get to grips with this or things like full cost recovery will continue to come up and surprise them."

The best friend your charity's cause may have, it seems, is the right software to make delivery of that service an achievable – and fully costable – reality.



### What are the issues around full cost recovery?

Full cost recovery means ensuring any project, product or service returns not just its direct cost, e.g. staff costs to mount it, but the indirect costs, say the cost of premises to house that staff. It is seen as the best way to ensure all the costs involved in operating a charity finally get fully recognised. The idea is that the government will try and get charities the full benefit of funding by accounting for this, but the onus is on charities to be able to demonstrate they know real costs.

A very useful resource is the website of Acevo, which has a template available on CD-ROM that a charity can use to understand the true (i.e. direct and indirect) costs of its work – see under the publications section off its main website, [www.acevo.org.uk](http://www.acevo.org.uk).