



'Building the capacity of the Third Sector to engage in commissioning and tendering'

Full Cost Recovery

What is it?

Full Cost Recovery is the name given to a Government Initiative to help Third Sector Organisations recover the cost of certain and appropriate overheads when bidding for public service contracts. Full Cost Recovery might also be included in the Local Compact agreement.

Is it for my organisation?

If you are thinking of bidding for a local public service contract then you should be aware of, and understand how full cost recovery works and whether it is applicable to your bid.

What does it do?

Full cost recovery allows organisations bidding for contracts to include certain overheads which are expected to be incurred over the life of the contract. It is not about making a surplus or profit, it is about ensuring that all reasonable overhead costs of service delivery are considered for inclusion in the contract bid. Some examples of this might be:

- Head office staff input to contract
- Operating costs indirectly incurred in supporting contract e.g. IT
- If an organisation's finances are used, potential loss of interest might be considered

What are the benefits?

The benefits of full cost recovery are that it provides guidance for Third Sector Organisations to recover all appropriate overhead costs and ensures that they do not underwrite a service from organisational funds. It also allows comparison with other bidders and enables other important aspects of the bid, other than price, to be recognised.

Who does it apply to?

It is important that any organisation considering tendering for contracts fully understands the implications of full cost recovery and how it is applied locally. It is also important to ensure that the bid is as competitive as possible at all times, irrespective of full cost recovery.

How will it affect me?

It will effect your organisation by allowing certain overheads to be considered and accounted for within the bid application that will enable at least break even to be achieved.

It could in some cases provide for a modest or reasonable surplus to be achieved however, it is important to keep in focus the fact that tendering is a competitive process.

Why is it important?

It is important because it helps ensure the sustainability of a service and enables a greater potential representation of Third Sector Organisations in contracting, resulting in a more competitive market place.

When?

Considering the implications of full cost recovery should be undertaken before the decision to prepare for tendering takes place. It is also essential that Trustees and Governors are aware of, and understand the process and implications of the proposed changes. The use of Business Case will help with this. (Please see Business Case document)

What else can I do?

You should ensure that your service costs are accurately understood and accounted for and that the overhead is separated from the service cost so that your overhead element is transparent.

Your local support and development organisation may also be able to assist you. For contact details click on the [Local Support](#) page.

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