

# Getting the Price Right

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# What is the Price?

- Full cost recovery
- Market /competition/demand
- Value of reputation and quality
- Desire

# What does FCR mean?

The principle that an organisation should be able to recover the full costs associated with providing a service (or other output). This includes:-

- Direct Costs
- Direct Support Costs
- Indirect Support Costs
- Governance and Development Costs

# SORP 2005 Glossary

Support costs are those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity.

Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity.

Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

# SORP 2005

Charitable activities are all the resources expended by the charity in the delivery of goods and services, including its programme and project work that is directed at the achievement of its charitable aims and objectives.

Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken.(para 188)

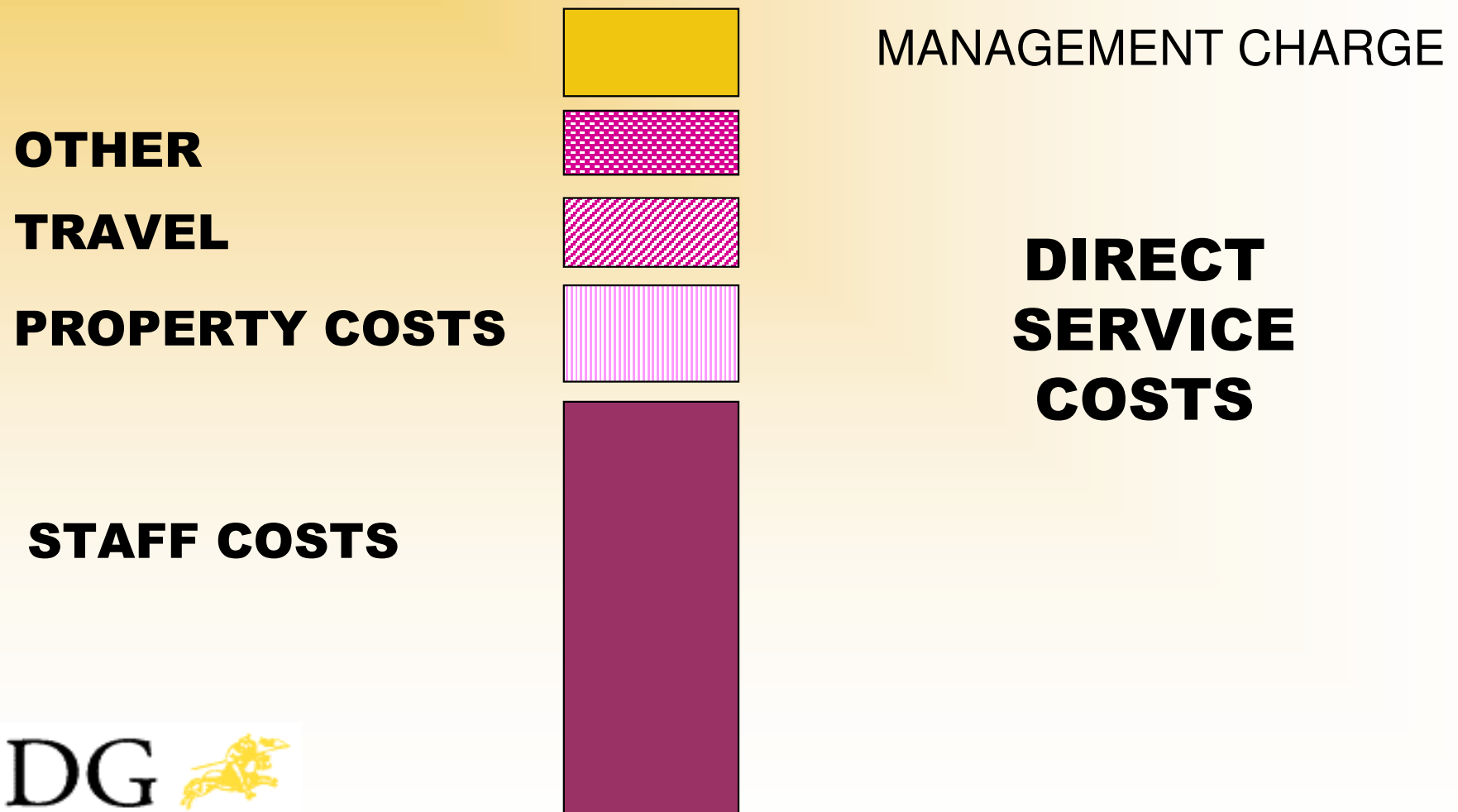
# Current situation

Most services provided by the voluntary sector are charged on the basis of Direct Costs plus a fixed 'management charge'. This is problematic as the management charge:-

- Has no grounding in reality
- Is often capped by funding authorities at an arbitrary level e.g. 8%
- Is almost always below the true cost of support
- Gives no understanding of what drives costs (for both service providers and funders)

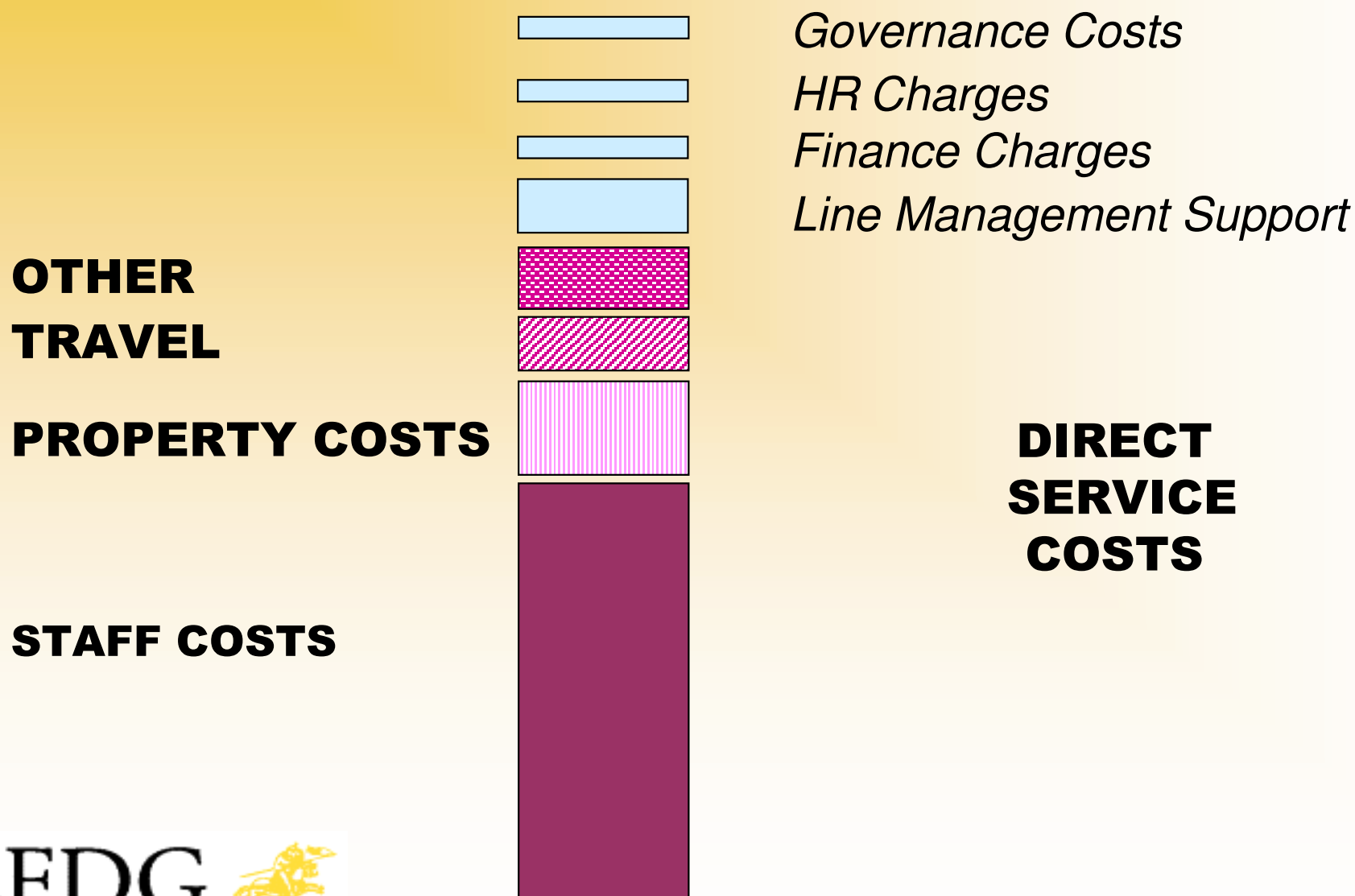
# Budget Construction

## Current Situation



# Budget Construction

## Full Cost Recovery





# Preparation

- Need to understand cost drivers (e.g. HR costs, IT costs)
- Honest internal debate about what costs are appropriate to pass on to funders (e.g. campaigning activities)
- Highlights unconscious subsidy of statutory services
- May raise serious issues about continuing to run some services
- Best way to present overhead costs to funders needs to be considered

# Local Authorities

- Approach to costing local authority social services generally not based on Full Cost Recovery and variable
- CIPFA Code of Practice on Best Value Accounting (2000) excludes governance and strategic development costs.
- CIPFA guidance also excludes 'Unapportionable Central Overheads' such as pension fund charges, unallocated IT costs and fixed asset costs.

# Risk

- Define risk – in a way that suits you
- Balance risk with reward – the private sector does
- You don't have to assume all the risk!  
(unless they make it worth your while)
- Ability to hit objectives sustainably?

# Negotiation

- LAs procurement capacity questionable (i.e. it's not that they're nasty)
- Are you prepared to walk away?
- Push for guaranteed term, minimum throughput, etc – make life fair!
- Start being robust – you're worth it!

# Government view

"Nobody can force organisations to bid for things or get them to do things they don't want to. It's part of the programme of initiatives such as Futurebuilders that the sector builds up its own sustainable structures, so it isn't dependent on grants and is able to have a solid base of its own."

*Paul Goggins*

*Minister for the Voluntary and Community sector*

# Local Government view

- “If our friends in the voluntary sector started to play hardball... services would improve.”
- “We would need to stop seeing them as a soft touch and make longer-term, higher-risk commitments.
- “Maybe that's why so many council chief executives feel able to disparage the efforts of the third sector on their patch — it is a comfortable position, and it avoids financial commitment.
- “But, in the long run, there can only be winners if we help the voluntary and community sector build its confidence.”

*Reported by Warren Hatter, New Local Government Network*

# Charity View

“Commissioners need to meet the full costs of services and be prepared to build in inflationary rises as they would for a public or private sector provider. On the other hand, charities have to take a professional and long-term approach to financial planning.”

*David Chater,*

*Assistant Communications Director, Turning Point*

# TOP TIPS (1)

Be clear why you are pursuing a contract.

Make sure the contract covers all your costs

Work with other organisations to help you find out about tenders and consider joint bids

Can you get out of the contract properly and do both parties have to give reasonable notice?

*(Adapted from Third Sector and Bates Wells Braithwaite)*



# Top Tips (2)

Limit your risk and liability as much as legally possible, perhaps by agreeing a cap on your liabilities.

Ensure it is clear who owns any equipment purchased as part of the contract

Never allow the public authority a unilateral right to vary

Avoid short-term contracts, whenever possible

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