



Budgets

It is now quite rare for funders to simply provide 'core' funding for organisations i.e. money to pay for all the main costs of an organisation, to be used as the organisation thinks best. As discussed above, funders generally like to fund projects.

However, it is important to aim for 'full cost recovery'.

Full cost recovery means ensuring that the total costs of your project or activity, including a proportion of all core (or overhead) costs, are covered.

Organisations generally have two types of costs: direct and indirect (or overhead) costs.

- Anything your organisation spends as a direct result of delivering a project or activity would be your 'direct costs'.
- Anything your organisation spends in order to support and administer projects, activities, and the organisation itself would be your 'indirect costs'.

These indirect costs are sometimes called core, overhead, central, or management and administration costs and are shared between various activities within an organisation. Examples of these costs are: senior management salaries, rent, heating and lighting bills, cleaning, bookkeeping, holding AGMs, insurance, fundraising etc.

Usually you can and should include a portion of these costs in applications for project funding.

It is a good idea to work out the budget for a project before starting to filling an application form so that you know how much you will need for the project and whether it is worth applying to particular funders.

How do you know how much to ask for?

General points:

- It is essential that the amount you are requesting from a funder does not go above the maximum grant available from that funder. If the total project costs are more than the amount you are requesting from the funder you are applying to, then it is a good idea to provide both a total budget for the project and a clear budget for the amount you want from this funder.
- Look at funders' guidelines re: costs they will fund. Sometimes they state they support full cost recovery; others will say they only fund up to 15% management costs; and some will say they do not fund capital costs or other specific items.

- If possible, check the funders' list of recent grants – to get an idea of the average grant they award. Although the maximum may be £40,000 per year, they may rarely fund projects for this amount.
- If your organisation currently has an income of £5,000, it is not likely that a funder is going to give you a grant of £70,000.
- A common mistake is to be unrealistic – promising to do a huge amount for very little money. Funders are likely to have a sense of appropriate salary scales and numbers of beneficiaries (for example), so this could be a reason for rejecting your application. If you do promise too much and get a grant, this will only create problems for the project and the organisation. It could also have a negative impact on your relationship with the funder (and any partner organisations).

Note: if you do have problems with running a project, it is best to talk to the funder about this as soon as possible and try to negotiate changes.

Setting the budget:

1. Calculate the direct costs of your project e.g. project worker (s) salary, equipment/materials, volunteer expenses etc. This should be fairly straightforward.
2. Calculate the relevant portion of indirect costs for your project.

First, you need to decide how you are going to do this. There are different ways to do this but the most important thing is to be able to justify your method. Here are some possibilities:

- Split the total indirect costs for your organisation between projects according to the number and hours of staff working on each project e.g. if a new worker will share the office and use resources equally with 3 other workers, allocate a $\frac{1}{4}$ of all overhead costs (rent, bills, post, telephone, stationery etc.) to this project.
Management and supervision costs could be based on dividing the Manager's salary and National Insurance costs by the total number of staff and allocate according to the number of staff working on this specific project.
- Allocate indirect costs according to actual use of the resources: if your project is going to require a greater portion of some of the indirect costs e.g. admin worker's time, telephone, space in your premises, etc. account for this in your budget and explain why.
- Allocate indirect costs by 'top-slicing': add a percentage of the organisation's total indirect costs onto each project budget; this could be 20% for example. [Note: some funders are no longer willing to accept this, so you need to check their guidelines.]

3. Once you've calculated these costs, make sure to explain how you've arrived at these amounts in notes to the budget. By explaining your reasoning, you show that you've thought about the costs in detail and you are able to manage your finances.

4. Check you are happy with the total – is it realistic?

Further points re: full cost recovery

- When you have only a few funders, allocating indirect costs is more difficult – once your organisation has a greater number and range of funders, you can show that the cost of a new project is less because you are a successful organisation with several different sources of funding.
- It is important not to forget costs! e.g. recruitment costs, staff and volunteer training, audit and AGM costs, pension costs, publications you may need, etc.
- If you are applying for a grant over a period of more than one year, don't forget inflation increases and salary increases or costs you no longer need (staff recruitment) etc.
- Be consistent! A common problem is that applications are not consistent – so for example, the items in the budget do not match the activities described in the project description; the annual report shows that the project you are applying for exists already although you say it is new; the annual accounts provide different information to that given in the form; different numbers of service users or volunteers are given in answer to different questions in the form; in one question, the area you are working in is not the same as in another question etc. So – check your application for these issues!