

Allocating Shared Costs to your HSCVF Project

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1.0 Introduction

This document is designed to help you think about an effective way to allocate those costs which are not directly linked to your HSCVF project to your HSCVF grant. From our experience this aspect of project finance raises the most questions from funded organisations. The rationale behind apportionment aims to **fairly** allocate indirect costs and overheads to your grant.

2.0 How do I classify my expenditure items?

Firstly, you should think about all the expenditure items that you need to deliver your project effectively. Once you have listed all these costs you should classify these costs as direct or indirect.

2.1 Direct Costs

These are those costs that can be traced to your HSCVF project. They include, for example, expenditure on your HSCVF project manager, volunteer co-ordinator, travel and subsistence for staff/volunteers, recruitment of personnel, training etc.

To determine whether the cost item is direct you should ask yourself the following question: would I need this cost item if I did not deliver my HSCVF project?

If you answer no then the cost is direct. The cost item is said to be project-specific and is only incurred because you are delivering this project. You should charge 100% of the expenditure value of these costs to your HSCVF grant.

Once you have classified all the direct costs of your project the remaining ones are indirect.

2.2 Indirect Costs

These are those costs that cannot be traced specifically back to your HSCVF project. However these costs have to be incurred to deliver your organisation's projects effectively. They include, for example, expenditure on rent, rates, utility bills, insurance, management charges, telephone/internet etc.

To determine whether the cost item is direct you should ask yourself: would I still incur this cost if I did not deliver my HSCVF project?

If you answer yes then the cost is indirect. However the issue remains of how much of this expenditure is allocated to your HSCVF grant. For the purpose of this document we will label your indirect costs as **shared costs**.

2.3 Allocating Shared Costs

So now you have a list of all the items needed for your HSCVF project, some project-specific and others shared. All of your project-specific costs are charged to your grant and a **proportion** of your shared costs are allotted too.

The proportion charged to your grant is called a number of things depending on the guide or grant scheme. You have probably come across a few of the following terms whilst completing your various project finance templates and budgets: Apportionment, Overhead Recovery Rate, Overhead Allocation Rate, Allocation Rate, Full-Cost Recovery. They all essentially mean the same thing – the proportion of shared costs to be assigned to your various grant schemes. For our purpose we will call this **Apportionment**.

You must be able to demonstrate that the method used to allocate shared costs is fair. The method used to determine the amount you charge to your HSCVF grant will depend on your organisation, your other grants / projects and the type of services your organisation delivers.

It is important to think about what causes your shared costs to be incurred. Traditionally accountants and finance managers use staff delivery hours to determine the apportionment rate.

However, what if your organisation predominantly uses volunteers and only perhaps 1 or 2 paid deliver staff in your whole organisation? In this context, perhaps the most appropriate basis to charge back your overheads is volunteer hours or volunteer delivery hours plus direct staff delivery hours.

Another method may be to use service user hours or number of service users you engage. If your project aims to target a service user group that requires significantly more resources than your other projects then service user / beneficiary hours will be more appropriate than direct staff or volunteer delivery hours.

Take a moment or two to think about what really causes these costs to be incurred. Perhaps speak to your finance department or other project directors / managers to discuss this issue. Of course you can contact us and talk through your thoughts; however, the person who really understands your organisation and your project is you.

The key thing is to ensure your method of allocation is accurate, effective and fair and to be able to justify your method for audit and claim processes.

3.0 System Requirements

So you have thought about your organisation, where your project fits strategically in relation to your organisation's other projects, the services you deliver and the delivery method you use e.g. volunteers or staff.

You should now think about how you can gather and present the information required to work out your apportionment rate. The system you use should help you plan and budget for your delivery year (e.g. 1 October 2011 to 31 March 2012). In addition, throughout the delivery year the system needs to be able to record and collate the relevant information, as well as, accurately report it to the Managing Body for year-end processes.

3.1 What does your system need to record?

You should now have a good idea of the fairest way to allocate your shared costs to your HSCVF grant. Think about what you need to record to be able to calculate your apportionment rate. The following list of methods can be used to allocate overheads and is known as the **cost driver** (please note this is not an exhaustive list and is for your reference only):

- Staff delivery hours
- Volunteer delivery hours
- Service user (beneficiary) hours

Regardless of the allocation method you choose you should think about the following aspects of your system:

- What is my cost driver for allocation purposes?
- Can I justify that the allocation method I am using is fair?
- What period do I need to plan for?
 - 1 April to 31 March
 - 1 October to 31 March
- What do I need to be able to record on an organisational basis?
 - For example, total direct delivery staff hours for your organisation, total volunteer hours for your organisation etc.
- What do I need to be able to record on a project basis?
 - For example, HSCVF direct delivery staff hours, HSCVF volunteer delivery hours, HSCVF service user hours, number of HSCVF service users.
- Can I effectively record the information above?
- How will I record the information above?

The system you use to record this information can be a simple Excel spreadsheet or you can use more sophisticated project management or personnel software. You can choose a system which is most appropriate for your organisation. Perhaps adapting or adding to the existing systems you have in place is appropriate as they are tried and tested. The key thing is that the system you use is effective, accurate

and you can report to us in a timely manner. The system has to, for example, be able to collate the volunteer hours of your whole organisation, as well as record the volunteer hours of your HSCVF project.

3.2 Walkthrough guide to calculating your apportionment rate?

We will now go through a step-by-step guide to working out how to allocate costs to your HSCVF grant. There are two key stages to this process:

- i. Budgeting and planning stage
- ii. Reporting on actual delivery

Worked Example: Direct Staff Delivery Days

Please be aware that you only use direct staff delivery days when using staffing days as the cost driver and allocation method for your project. That is, members of staff who are required to achieve project objectives / work day-to-day on the project / can attribute their time specifically to certain projects etc. This includes roles such as volunteer co-ordinators, project staff, supervisors who set aside a certain amount of time specifically for the delivery of the project e.g. work 10 hours per week on X project, 10 hours on Y project and 17 hours on Z project.

Budgeting stage

- 1) Work out the allocation **period** for budgetary purposes:
 - For example, 12 months from 1 April 2012 to 31 March 2013.
- 2) **Estimate** the expenditure needed for each shared cost item needed to run your organisation over this period:
 - Rent and rates are estimated at £10,000 for the period 1 April 2012 to 31 March 2013.
- 3) **Estimate** the delivery staff days for your whole organisation over the 12 months:
 - In your organisation, full-time delivery staff work 52 weeks x 5 days per week, minus 8 public holidays and 25 days annual leave = 227 days per member of staff.
 - If you have a total of 6 full-time direct delivery staff, including the HSCVF volunteer co-ordinator, this represents 1,362 days (227 days per year x 6 delivery staff members).
- 4) **Estimate** the delivery staff days for your HSCVF volunteer co-ordinator over the same period:
 - Assuming the co-ordinator works a total of 100 days during this time.
- 5) **Calculate** the ratio of HSCVF Delivery days to total organisational delivery days:
 - In this example, 100 divided by 1,362 = 7.34%.
 - This percentage is the apportionment rate for budgeting purposes.

6) **Apply** your apportionment rate to the various shared costs in your organisation:

- From point 2 above, rent and rates are budgeted to be £10,000 for the 12-month period.
- The amount to allocate to your HSCVF grant is £10,000 times 7.34%.
- You should budget for rent and rates to be £734 for the period 1 April 2012 – 31 March 2013.

Throughout the year you need to record the actual time spent on the project. In this example, you will need to monitor the actual number of staff delivery days for the organisation as a whole and for your HSCVF project.

3.3 Reporting on actual delivery stage

Following year-end you will be able to evidence actual delivery and expenditure incurred for the **allocation period** e.g. April 2012 to March 2013. For your end of year financial process you can only claim for the actual expenditure incurred for this period. At this stage you will have to confirm your actual spend for the cost item in total. For example, you estimated rent and rates to be £10,000 for the year; however, they actually cost your organisation £11,500. In addition, you will need to apply an actual apportionment rate.

From your information system you will need to work out:

1. **Report** the actual number of staff delivery days for your whole organisation over the 12 months:
 - Taken directly from your monitoring system, staff delivery days were 1,350 over the period 1 April to 31 March.
2. **Report** the delivery staff days for your HSCVF volunteer co-ordinator over the same period:
 - The co-ordinator actually worked a total of 90 days over this period.
3. **Calculate** the ratio of HSCVF Delivery days to total organisational delivery days:
 - In this example, 90 divided by 1,350 = 6.67%.
 - This percentage is your organisation's **actual apportionment rate** for reporting purposes.
 - The fair rate to charge all shared costs to your HSCVF grant is 6.67%.
 - The maximum permissible amount to claim against your HSCVF grant for rent and rates is $£11,500 \times 6.67\% = £767$.

Worked Example: Full-time equivalent model (FTE)

There are two types of FTE model you can use to allocate your shared costs to the various projects you deliver. The main criteria is to be consistent in the way your record and measure “a full-time equivalent”.

The FTE model expresses the shared costs, attributable to a project, as an annual rate per employee as opposed to a percentage. For example, instead of “based on a fair apportion rate of 10%” the FTE model will state “costed at £3,000 per FTE”.

The first way is to base the allocation solely on the direct project staff in your organisation. Alternatively, the second option is to base the allocation on all staff in your organisation.

Again, this is a two-stage process for budgeting and then reporting on actual expenditure incurred.

From your information system you will need to:

1. **Decide** the FTE measure you will use e.g. based on all staff in your organisation or direct project staff in your organisation.
2. **Define** your FTE Standard. This is the number of hours per week a full-time member of staff should work. For most organisations this is between 37-40 hours per week.
 - For our example, we'll assume a standard working week is 37 hours.
3. **Calculate** the total number of hours you expect your staff to work over a week.
 - In this example, we calculate this to be 185 hours.
4. **Divide** this number by your FTE Standard.
 - This is your FTE number of staff in your organisation or FTE delivery staff in your organisation (depending on your FTE measure).
 - This is $185 \text{ hours} / 37 \text{ Hours} = 5 \text{ FTE}$.
5. **Calculate** the FTE staff working solely on your HSCVF project.
 - In this example, we calculate this to be 56 hours per week.
6. **Divide** this number by your FTE Standard
 - This is $56 \text{ hours} / 37 \text{ hours} = 1.5 \text{ FTE}$.
 - This is your FTE base working on the HSCVF project.
7. **Estimate** the shared cost needed for your organisation over the period.

- Rent and rates are estimated at £10,000 for the period 1 April 2012 to 31 March 2013.
8. **Divide** this figure by your organisational FTE to work out the fair allocation for the period per FTE.
- £10,000 divided by 5 = £2,000 per FTE.
9. **Multiply** this figure by your HSCVF FTE to work out the fair allocation for the period.
- Budgeted rent and rates allocated to your HSCVF project is £2,000 x 1.5 HSCVF FTE = £3,000.

3.4 Reporting on actual delivery stage

Following year-end you will be able to evidence actual delivery and expenditure incurred for the **allocation period** e.g. April 2012 to March 2013. For your end of year financial process you can only claim for the actual expenditure incurred for this period. At this stage you will have to confirm your actual spend for the cost item in total. For example, you estimated rent and rates to be £10,000 for the year; however, they actually cost your organisation £11,500.

Again, calculate your actual FTE base, for both your organisation and HSCVF project, for the allocation period. Divide the actual shared cost, which is £11,500 by your organisational FTE and multiply this figure by your HSCVF FTE base.

3.5 Other methods of allocating shared costs

You may deem that it is more appropriate to use an alternate cost driver from the above worked examples. This may include using volunteering hours or service user / beneficiary hours. You must be able to justify that the allocation method you propose is fair. The HSCVF team will ask for your methodology for allocating shared costs to your HSCVF project each financial year. Essentially, the method you choose to assign and report on costs follows the same process as the above.

- For budgetary purposes you need to:
 - Estimate the total number of allocation hours for your whole organisation.
 - Estimate the total number of allocation hours for your HSCVF project
 - Calculate a fair apportionment rate.
 - Estimate the value of the shared costs to be apportioned over the period.
 - Multiply this value by your apportionment rate.
- For reporting purposes you need to:
 - Collate the actual total number of allocation hours for your whole organisation.
 - Collate the actual total number of allocation hours for your HSCVF project
 - Calculate your actual fair apportionment rate.
 - State the actual value of the shared costs to be apportioned over the period.
 - Multiply this value by your apportionment rate.
 - This is the actual claim to be allocated against your HSCVF grant.

3.6 Dealing with allocation periods that are not a full year

For delivery periods that are not 12 months in length then you will need to pro-rata your costs. To calculate your pro-rata rate simply divide the length of the reporting period by 12.

As above, if shared costs after applying your apportionment rate were estimated at £10,000 for the whole year (i.e. 1 April – 31 March). However, your project started on the 1 October then you will have to pro-rata these costs by 6/12. Essentially, your allocation period is only 6 months in length and not a standard 12-month reporting year. So a fair allocation, in this example, is to assign £5,000 to your HSCVF project.

