

# Sustainable Funding Project CASE STUDY

## ■ British Trust for Conservation Volunteers (BTCV)



### Organisation

British Trust for Conservation Volunteers (BTCV)

### Key themes

- Coming to terms with the real costs of projects and activities
- Creating and implementing a full cost recovery (FCR) system
- Recognising the importance of understanding full costs as a strategic decision-making tool
- Working towards measuring and quantifying the social and economic impact of activities

### Summary

In recent years BTCV has relied on the efforts of its trading arm to keep out of deficit. Many of the charity's activities were being conducted with inadequate funding – but project staff did not have a reliable and accurate system allowing them to appreciate and measure this. BTCV has since realised the importance of investing in accessible financial management tools. Recovering full costs is an ongoing process – BTCV is not there yet – but understanding full costs at an operational planning level is a vital first step.

### Date

This case study is based on an interview held on 6 November 2007 with Charles Hartwell ACA, Group Finance Director of BTCV.



### About BTCV

Due to celebrate its 50th birthday in 2009, BTCV is a UK-wide environmental conservation charity with an emphasis on connecting people with place predominantly through volunteering.

BTCV reaches around 250,000 individuals annually and works with over 4,000 community-based groups in rural and urban locations through a variety of programmes and projects.

Key programmes include:

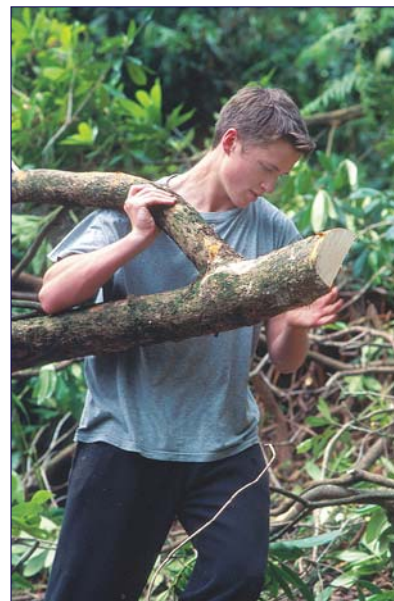
- BTCV Green Gym®: with a focus on environmental and health benefits, the Green Gym allows people to improve their fitness by involvement in practical conservation activities such as planting hedges and creating and maintaining public gardens.
- Conservation holidays: BTCV organises around 250 holidays a year – from dry stone walling in the North Pennines to tree planting in Cameroon.
- Millennium Volunteers: programmes designed to attract young people into volunteering

BTCV employs around 650 staff in 120 locations, with around 200 in managerial/support roles. About 800 individual projects are running at any one time.

### Structure

BTCV is made up of three active entities:

- BTCV the charity — a company limited by guarantee and the parent of the group
- BTCV Enterprises Ltd — a trading company limited by shares. BTCV is the sole shareholder and taxable profits are donated back to BTCV through Gift Aid
- Trust of Urban Ecology — a subsidiary charitable company and company limited by guarantee that manages ecology parks within inner London



BTCV's organisational structure operates in tiers:

- **Frontline Delivery:** Field staff such as Project Officers, Community Workers, Trainers etc.
- **Local Line Management/Support:** Management, Administration, Specialist Posts
- **Regional/Country Levels:** Direction, Management, Finance/Systems, Co-ordination and Administration
- **Group Level:** Central Services, incorporating: Operations Directorate, Development, Central Fundraising, Marketing, Health and Safety, Finance, Payroll, Vehicle Fleet, etc.
- **Strategic Level:** Governance

## Funding

This year the BTCV group will have a turnover of approximately £30 million. Just over 50% of their income comes from Central Government, Jobcentre Plus and European Monies. Statutory and Local Authorities and income from training and specific project funding are other large contributors to the coffers. The majority of income comes in the form of grants and contracts. This is supplemented by donations and trading sales, including income generated through an online shop and environmental awareness courses open to the private sector and the general public. Considerable growth has come in the form of new contracts won by BTCV Enterprises to deliver training and employment programmes for job seekers.

## Financial Issues Faced

Although the turnover of the main BTCV charity is larger than that of the enterprise arm (at a rate of about 2:1), the charity has struggled to meet its full costs through fundraising and has relied on the profitable activities of BTCV Enterprises to subsidise its activities (see chart below).

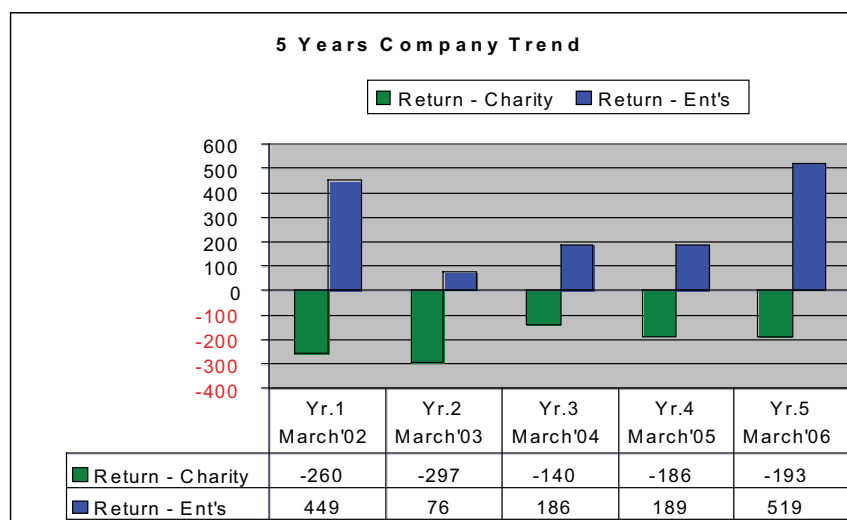


Figure1: BTCV Annual Returns – Charity versus Enterprise (Ent's)  
March 2002 to March 2006.

BTCV's Group Finance Director Charles Hartwell joined the organisation in March 2005. 'I soon realised that without the enterprise arm the charity would be in trouble,' he says.

Coming from a private sector background, with experience at firms such as B&Q and Estee Lauder, he experienced somewhat of a culture shock when he learnt about the way projects were often costed and funded in the voluntary and community sector.

'In the private sector you negotiate a total price for a product or contract, that price incorporates full cost and a profit margin. Settlement is usually via a simple invoicing process – there is a sharing of risk and reward', he says.



'In this sector you have to tell the funder — and prove in great detail — exactly what you will spend the money on, line-by-line, often not getting paid until months after expenditure has been incurred, and quite often going through an independent audit process. Usually the available funding will be less than the cost of delivery and any overspend and a high proportion of risk will be borne by the grant recipient. Voluntary and community organisations often deliver added value which private sector organisations cannot

match. Funding offers are often accepted by the charity to get the project off the ground — even if that's less than is needed to run the project in a sustainable manner'.

In addition to accepting less project funding than required, projects were being costed without taking into account full overhead costs, so we could not accurately incorporate full cost into a bid in the first place. 'There was a general lack of awareness about the real cost of projects and the contribution of central support services and functions: we needed to take things one step further'.

### **Developing a Full Cost Recovery Model**

Hartwell felt that the charity should work towards becoming more financially independent and sustainable in its own right, reducing its dependency on the trading arm.

As a first step BTCV required a system that would allow project managers to accurately cost their projects and activities. The system aimed to enable BTCV to:

- increase financial awareness amongst staff
- facilitate informed and business-focused decision making
- demonstrate and validate overhead costs to funders
- enable financial sustainable development
- recover costs of supporting operational activities.

'Essentially we were looking to streamline processes and provide people with tools and information to work towards receiving funding that would fully cover costs', says Hartwell.



Hartwell decided to build a full cost recovery system tailored to BTCV's profile and operational structure (influenced by the principles set out in ACEVO's publication **Funding Our Future II**). This would allow the model to be adaptable to BTCV's specific circumstances and put cost allocation decisions in the hands of users.

The model was required to be:

- logical/easy to use
- Excel-based
- automatic filter to each region/sub region/local office
- able to interact with budgets
- able to compare to actual data
- a foundation for evidence for funders/auditors
- dynamic.

'We needed dynamic and user-friendly tools for matching overheads with product delivery in a way that is easily explainable to a funder and which is considered fair and reasonable for audit purposes', he says.

BTCV's financial systems needed to be structured to assist the FCR process. This involved:

- Identifying, budgeting and reporting on the distinct support tiers/'overhead cost centres' of: Central Support, Regional Support, Sub-Regional Support, Local Support.
- Defining appropriate drivers for Central Support allocation (e.g. Operations Directorate, Development, Central Fundraising, Marketing, Health and Safety, Finance, Payroll, Vehicle Fleet, etc.) to operational regions. For example: Full Time Equivalent hours to determine HR and Payroll Support and Health and Safety.
- Establishing the 'flow of support'; that is, which particular Local Office, Sub-Region and Region support the frontline delivery project.
- Ensuring actuals can be reported and evidenced.

Each Central Support element has its own cost centre from which to identify and record all costs. Drivers are allocated to each of these cost elements in order to allocate their budget and monthly actual cost to each operational region.

At around the same time BTCV adopted an online accounting package, Agresso. 'Previously all accounts were centralised,' says Hartwell. 'It could take project managers up to two months to get their account summaries and transaction listings. The system



also involved distributing reams of paper, which isn't great for an environmental charity.' Using a web-based system allows all project managers to view real-time project profit and loss accounts and transaction listings from any location. This assists with inputting cost data into the FCR model, and quickly obtaining evidence. The next step is to fully integrate the two systems.

### **BTCV's FCR model**

BTCV's FCR model takes project managers through a suite of eleven worksheets to calculate their full project costs, including the appropriate proportion of overhead costs from each tier of support. In basic summary, the steps are:

1. Answer three simple questions to determine the project's VAT status – this determines whether the project carries any irrecoverable VAT
2. Enter summary project details and unique project number
3. Enter all the direct costs of the project
4. Allocate Local Project Management overheads (this is user driven – the user allocates cost by account header, such as payroll, vehicles etc. and can allocate using a day rate, percentage of cost or fixed £)
5. Allocate Sub Regional Office overheads (user driven as above)
6. Allocate Regional Management overhead (the user allocates using a day rate)
7. Allocate Central Support cost (auto allocation based on project full time equivalent hours)
8. Calculate and add irrecoverable VAT to the costing (auto calculation)
9. Generate costing summary: presented in an accessible way to show funders
10. Enter project income: any shortfall will be clearly highlighted
11. Managerial sign off

Although the model is complex and detailed, it is user-friendly. Each Excel worksheet has plain-language directions, with notes and tips provided for most input cells.

Importantly, allocation is largely in the hands of the user. For example, there is a field for vehicles used from the local office. However if there will not be any vehicles used in the project, then there is no allocation here. The model does not dictate all the allocations, it provides categories.

### **Rolling out the FCR system**

The new FCR model was introduced to users through a series of road shows. A day of training presented why the model was important and how to use the system. Users had the opportunity to try it out and to ask Hartwell questions about the specifics of the system.

The roll out was done in consultation with the operational staff who would be using the system. They had the chance to advise on what they wanted and also on what they believed funders would accept. 'In rolling out the system operational staff suggested tweaks,' says Hartwell. 'The system is adaptable to allow these changes. I think this process of tweaking the system will be ongoing to best serve users. Having an adaptable system also means that it can develop as the organisation grows.'

Although BTCV's finance function is managed centrally at head office, regional assistant finance managers are in place to provide practical support to project managers in using the system and costing projects, such as providing detailed guidance on determining particular allocations.

The FCR system has also received good feedback from funders. 'We are seen as being a bit more professional and business-like', says Hartwell. The adaptability of the system also means that the information produced can be used for inputting into an external template, for example the Big Lottery Fund FCR model.

### **Benefits of using a FCR model**

The system has been well accepted across BTCV and is regularly being used by project managers. Hartwell believes that the main benefit of the FCR system is that operational staff can now make informed decisions about proposed projects or services.

'In the past we did not have a tool that would tell you the real costs of a project. For example, if £48,000 was available that would be accepted, without knowing that the real cost was £50,000. If you add up all those £2,000 shortfalls across the organisation, it's a huge amount and has a big impact across the organisation.'

Now project managers have a tool that enables them to know up front if there is a shortfall. They can then decide if they still want to carry on and fundraise the difference or – if they can not afford to accept less than full costs – to not run the project. Alternatively they may wish to negotiate with the funder on what can be delivered for the available funds and back up this negotiation with detailed financial information. As such, informed, strategic decision can be taken about what is best for the organisation and its beneficiaries: both on the ground and financially.

While BTCV now has a way of knowing the full costs of each piece of work it undertakes, this does not mean that all costs are currently being recouped. It is still working on recovering all costs, to ensure that central functions and strategic governance are adequately financed, without over-dependence on its trading arm. However, the organisation acknowledges that this will not happen instantly. Instead, by imbedding FCR as a principal the aim is to have the charity become self-sustaining over a five to ten year period.

### Next steps

#### Management Information System

In addition to their FCR system, BTCV has also recently implemented an in-house Management Information System (MIS). The system allows the collation and real-time viewing of non-financial data from projects and activities. To date it has largely been used to map volunteering activity to different metrics, such as social deprivation indices, age groups and ethnicity. 'It can quantify our impact on society.' says Hartwell. 'As a large organisation we needed tools to promote and understand the scope of our work. Now we have a clearer knowledge of our reach and some statistics we can shout about.' Hartwell believe that the MIS was a crucial tool in their receiving strategic funding from the Office of the Third Sector.

The next step is to look at integrating the MIS and FCR systems, and as such to determine the social and economical value of BTCV's volunteers. Work to calculate the financial cost of volunteer time and the social return on funded investment has started through a project with not-for-profit think tank nfpSynergy. Further work will be done to integrate both systems with the online accounting package.

#### Earning opportunities

Based on the internal success of the FCR model and MIS, BTCV is considering adapting and marketing these models for use by other voluntary and community organisations, particularly groups smaller than themselves. This would be part of the enterprise arm and would begin with trials and case studies to study how others have used the systems and how they have benefited from them. In addition, BTCV have been asked to join a steering group to look at how the principles and foundations of models such as BTCV's could become a standard component of the Agresso system. As such, although BTCV did not create these systems to directly earn income, they have now seen the potential in developing them as income generators.



### **BTCV's Key FCR Messages:**

- The general principles of FCR are simple: it is about knowing and understanding your full costs to guide your decision making. Project costs are just one part: think about how you can allocate overhead organisational costs on a reasonable basis that can be justified.
- With FCR models, one size doesn't always fit all. Every charity is different and you need a model that suits your needs: what you do and how you work.
- For those just learning about allocating overhead costs, think about starting with an introductory cost accounting course or cost management course.
- If you are creating your own system, users can provide valuable feedback and input to fine-tune the system for practical application.
- FCR is not just about covering costs. It is an internal decision-making tool as well as a way of evidencing costs in funding bids and negotiating funding agreements.
- Implementing a full cost recovery system does not necessarily mean that your organisation will instantly be recovering all its costs. In the first year it may just mean that there is increased financial awareness across the organisation. Self-sustainability of projects and activities may take some time to achieve.
- Incorporating new systems into your organisation is a learning process. Things will be tweaked and developed as the systems are used by different people with different needs. It is important to have systems that can be integrated and adapted to different needs and be modified and improved over time.



## Links

**BTCV** [www.btcv.org.uk](http://www.btcv.org.uk)

**NFP Synergy** [www.nfpsynergy.net](http://www.nfpsynergy.net)

## **Funding our Future II: Understand and allocate costs**

ACEVO publications: [www.acevo.org.uk](http://www.acevo.org.uk)

**Learn more about putting sustainable funding into action at the Sustainable Funding Project website at [www.ncvo-vol.org.uk/sfp/inpractice](http://www.ncvo-vol.org.uk/sfp/inpractice)**



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**The Sustainable Funding Project** is an NCVO initiative working in partnership with the Big Lottery Fund and Charity Bank.

The Sustainable Funding Project encourages and enables voluntary and community organisations to explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

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