

Advancement: Costing and Pricing workshop

17 June 2019



Full Economic Cost (FEC)

- FEC includes direct costs **and** indirect costs
- Direct costs includes many types of expenditure such as salaries, books, events, travel etc
- For LSE, space costs are a **direct** cost because we rent space
- Indirect costs are calculated on the basis of the new average method, which is currently 16% of direct costs (effective 18/19 and far simpler than the old method)
- Indirect costs are defined as general overhead and administration expenses, for example:
 - the cost of central services such as;
 - Advancement
 - Library
 - DTS
 - HR
 - Finance etc.
- If space cannot be included as a direct cost on a particular budget, we should look to increase the indirect cost rates and percentages accordingly
- We should always start on the basis that FEC is fully funded

Costing vs Pricing

- FEC is important because this enables the School to cover incremental costs, and gives us the flexibility to manage our financial planning prudently and effectively
- There is a funding transfer between teaching and non-teaching activities across the School
 - This is something that is being increasingly scrutinised
 - Office for Students – government-approved regulatory and competition authority for the higher education sector from 1 April 2018
- The department/Centre has to absorb the extra cost not covered by a funder – for departments this increases their indirect costs charged through their departmental profile
 - This is important for Academics to understand since it impacts the overall department financial position
- In general, we should strive towards pricing at the FEC of an activity
- This allows the School to invest in its future and develop academically to maintain its brand and reputation

Staff costs

- Staff costs should be calculated based on FTE and salary band
- The direct cost of staff includes employment taxes i.e. pension contributions, employer's National Insurance Contributions (NICs), Apprenticeships levy since this is the total cost to the School of an individual
- NB. This is not the same as FEC
- FP&A staff on-cost calculator (link on FP&A webpage)
- A costing template has now been prepared, but the calculator below can still be used

Example

Monthly and yearly cost of hiring a 0.4 FTE SB 6 person at spine point 26.5:

Salary & On-Cost Calculator



Financial Year	2017/18	Please enter info in cells:
FTE	0.4	
Salary Band	6	Calculator reflects same
Spine Point	26.5	estimates/forecasts found in
Pension Scheme	USS	CSB.
Salary Sacrifice	Yes	

Basic Salary	£3,069.22	Monthly	£36,830.66	Yearly
Superannuated Salary Supplement	£0.00		£0.00	
Non SA Salary Supplement	£0.00		£0.00	
Apprenticeships Levy	£14.12		£169.42	
Pension	£552.46		£6,629.52	
NI	£330.26		£3,963.16	

Total Salary (Approximate)	£1,572.87	Monthly	£18,874.49	Yearly
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Space costs

- Space costs are calculated using our space norms:
 - 1 FTE Academic: 14sqm
 - 1 FTE PSS staff: 5sqm
 - Internal space rate in 19/20 using Net Internal Area: £668/sqm

Example

Post	FTE	Space (sqm)	Cost (£)
Professor	0.2	$14 \times 0.2 = 2.8$	$2.8 \times 668 = 1,870$
Research Officer	1.0	$14 \times 1.0 = 14$	$14 \times 668 = 9,352$
Administrator	0.5	$5 \times 0.5 = 2.5$	$2.5 \times 668 = 1,670$
Total		19.3	12,892

Indirect costs

- Indirect costs are allocated on an average basis
- This ensures the costs are fairly absorbed across the School
- There is also a proportional effect – i.e. if direct costs increase, so will indirect
- This method is far simpler than the old method
- The old method using TRAC rate is no longer used

General principles

- Assume 4% inflation year-on-year for salaries, 2.5% for non-pay costs
- Exchange rates – always subject to fluctuations but we try to include some contingency so that the risk that the department/Centre has to cover some of the costs of the project is reduced. The standard ones we use are:
 - USD: 1.4
 - EUR: 1.25
- All costings must be presented in GBP. When seeking financial approval it is helpful to state the currency we expect to receive payment in.
- All gifts, even unrestricted ones, require at least an indicative budget
- Scholarships – no indirect costs are to be charged for Scholarship gives, so not to discourage donors from supporting Scholarships.

Costing template

- Costing template (excel document)
- There are some notes on the 'how to use' tab
- The template is a basic one but should cover many scenarios
- If there is something more complex to model please contact Chris McDermott
- The template is designed for an expendable endowment / restricted gift scenario
- The is an *indicative permanent endowment* calculation
 - Please note this is only indicative