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## PROJECT COSTING PRINCIPLES

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### 1 Purpose of the protocol

- 1.1 Purpose of this note is to set out a framework to support the costing of new initiatives that is consistent with Full Economic Cost principles in general and HEFCE TRAC guidance in particular.
- 1.2 It is intended to cover large scale research and research related developments, research centres, multi component research programmes, teaching activities, activities funded from the Academic Investment Fund, joint ventures and subsidiaries.
- 1.2 This protocol is not intended to provide guidance on the pricing of new initiatives or on the process for reaching a decision to proceed at a price that is lower than full economic cost. Decisions on pricing are governed by:
  - Research contract pricing guidance (submitted to Finance Committee June 2015).
  - Philanthropic pricing guidance (*as at 20/1/2015 framework still to be agreed*)
  - And/or in consultation with the Director of Finance.

Readers' attention is drawn to the important distinction between costing and pricing. Applying TRAC methodology to a subset of funded defined direct costs does not provide a project costing; neither do tools such as pFact. These are pricing tools; they represent the price a sponsor will pay. They can, particularly on smaller scale actually provide useful approximations. This protocol is concede with costing.

### 2. Background

- 2.1 The HEFCE Financial Memorandum requires that

“Institutions should know and understand the full economic costs of the activities<sup>1</sup> that they undertake, and this information should be taken into account within their management decision-making processes”. Institutions should seek to recover the full economic costs of all their activities, whether pricing is determined by reference to those full economic costs or by reference to prevailing market conditions. While there may be cases for individual projects or activities to be priced at below their full economic costs, this should be done as a conscious decision, within the context of strategic objectives. Institutions are expected, taking one year with another, to recover, **in aggregate**, the full economic costs of all their activities across the full range of their activities.

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<sup>1</sup> ‘Activities’ in this context refers to the five categories of activities as defined for reporting under the Transparency Review (publicly funded teaching, non-publicly funded teaching, publicly funded research, non-publicly funded research, and other).

## 2.2 The School's Financial Regulations C6.3 on costing states

“The School has agreed to adopt the principles on costing and pricing recommended by the Joint Costing and Pricing Steering Group (JCPSG). Proposals to undertake new projects/courses and other activities should include consideration of the full economic cost (based on the JCPSG's TRAC methodology) of such activities compared to the likely income receivable.”

This protocol clarifies how this should be for undertaken larger scale academic initiatives where there may be some important strategic considerations for the School.

- 2.2 This guidance is not intended to inhibit investment in innovative activities through a mechanistic application of a financial algorithm; instead it is designed to ensure that an accurate assessment of the School cost<sup>2</sup> of an initiative is available as part of the decision making process.
- 2.3 ~~In the past there is some inconsistency in the costing of different activities undertaken by the School that is not supported by underlying differences in the situations where these approaches are being applied. In part this reflects the difficulty in assessing the indirect or overhead cost of marginal activities and in part the nature of the TRAC derived space and indirect cost rates.~~
- 2.4 ~~The TRAC methodology, Indirect cost and Space rate per research FTE provides a proxy for costs which represent historical averages and for small to medium sized grants this offers a pragmatic approximation. For other initiatives and larger grants however, the risk that the historical average will not hold true is greater. This problem is particularly acute when the activity incorporates significant leverage of 'academic capital' through the use of external relationships or the creation of a support infrastructure. For example, an atypical proportion of support staff time could render the TRAC averages inappropriate. In these circumstances a supplementary set of costs associated with non-academic staff and, for initiatives with a teaching element, a relevant student FTE is required.~~
- 2.5 ~~Furthermore, as we move toward a more transparent approach to the costing activities such as research centres it will be increasingly important that there is congruence between costing at an operational unit level and at an individual initiative level.~~

## 3. Scope

- 3.1 This costing framework can be applied to the assessment of any School activities and projects. It is mandatory for:
- Larger scale research activities (see Pricing Decision Guidance),
  - Activities under consideration through the Major Academic Initiative process,
  - Academic Investment Fund investments such as Institutes.

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<sup>2</sup> School cost is the term used to mean Long run marginal cost

- Where a proposals/project costing required as part of the Fundraising Gift Pricing policy.
- Annual reviews of APCC areas, Academic Investment Fund investments, EMSc's.

#### **4.0 Costing principles**

The tariff rates are summarised in table A.

##### **Accommodation costs**

- 4.1 Accommodation costs are always treated as a direct cost as the School regularly leases additional space to accommodate developments. Costing should be based on the square metres of space that will be devoted to the activity unless specific space is being acquired, in which case the cost of that space should be used. In view of the constrained nature of space at the School a separate accommodation plan and the agreement of Estates will also be required. It should be noted that only the Chief Finance Officer/Pro Director (Planning and Resources), through the aegis of the Space Management Group (SMG) can commit specific allocation of space to any purpose. If that agreement has not been unambiguously minuted by SMG it should be assumed that the accommodation is not confirmed.

##### **Indirect costs**

- 4.2 Other indirect costs. The TRAC methodology and Indirect cost rate per research FTE provides a proxy for indirect costs based on historical averages. For individual small to medium size grants this is a pragmatic approximation. For larger grants and initiatives, it is unlikely that this historical average will hold true. This is particularly acute when the activity incorporates significant leverage of academic capital through external relationships or the creation of a support infrastructure. In these cases the atypical ratio of researcher FTE to support staff will render the averages inappropriate. To address this, the protocol includes indirect costs associated with non-academic staff and, where relevant, taught student FTE. The current rates are set out table A.
- 4.3 Direct and indirect costs. Table B summarises the cost that are and are not covered by these indirect cost assumptions. The costing of an initiative should explicitly incorporate reasonable estimates of the costs (that are not covered by the indirect cost rates) as direct costs.
- 4.4 Risk premium. The appropriate level of risk premium will be determined on a scheme by scheme basis in discussion with the Director of Finance.

#### **5.0 Pricing issues**

- 5.1 Costing and pricing are often confused, particularly in the areas of grant and sponsor "funded" activities. A funders methodology, be it a Research Council paying TRAC derived fEC rates or a charity or foundation funding only direct costs, guide the funder to the price they are prepared to pay. Although these methodologies are often based on costs they do not provide a valid calculation of the cost to the School of providing the service.

- 5.2 This document is concerned with establishing the cost of an activity. The pricing decision is separate and likely to be subject to negotiation. As it would normally be unwise to proceed to the negotiation stage without a clear understanding of the costs and therefore time needs to be included in the planning process to ensure an agreed understanding of costs can be established.

## Table A

### Tariff rates: dated 1 June 2015

Allocated costs	Driver	Rate	Source*	Purpose
The actual sqm space allocated to the proposal	Standard space Per square metre	£480	Estimated market rates including service charges	Cost of space
	Specialist space	£POA		
Charge per additional academic FTE hired on the initiative	Per FTE spent on research	£52,000	Based on TRAC return rates	To reflect the indirect costs of research support
Charge associated with non academic staff	% of staff costs (inc. ers pension and NI)	48%	Finance Division (2009) and approved by APB.	To reflect the indirect costs associated with support services
Charge per additional EMSc student FTE recruited as result of the initiative	Student FTE	£1,700	TRAC return based rates	To reflect the indirect costs of teaching support
Charge per fulltime student	NA – As at 1/12/2104 costing process remains tied to department Profile allocation model methodology			
Cost of capital	Cumulative full cost contribution where <£0	5%	Finance	To reflect a cost of working capital tied up in direct costs less income
Fundraising support	Projected fundraising	£1/£5 raised, costed one year in advance		

\*These rates will be adjusted to exclude an estimate of the costs of non-recurrent service provision provided by service areas of the School and ensure we avoid double counting.

Period data valid from: For all costings prepared from 1 June 2015

Next update due

1 August 2016

Indexation assumptions - Indirect and space cost rates 2.5%. Pay costs 4% pa

## Table B

This table sets out what is included in the tariffs. This is indicative and is not intended to be exhaustive. If in doubt the treatment of a cost should be discussed with the Director of Finance.

### Included in indirect and estates costs

- ~~○ Staff hire costs including basic HR advert and online system etc~~
- ~~○ Basic travel expenses for interviewees in accordance with HR guidelines~~
- Relocation costs in accordance with School policy
- Standard Office space, including heat light, routine cleaning, waste disposal etc as approved by SMG at existing space norms
- Standard IT systems access and support
- Inclusion on the School's Website
- Standard access and use of all School facilities
- Access to normal room bookings for internal meetings
- Standard Access to normal Finance Division, HR, ARD and Research division services and support\*
- Annual accounts preparation and process
- Use of standard banking facilities
- Normal use of LSE brand within constraints determined by the School
- Standard Procurement services
- Ultimate contractual risks borne by the School
- Advancement support based on the costing measure
- Usual level of travel insurance, excluding countries on FCO avoidance lists
- Usual levels of professional indemnity

### NOT included in indirect costs and estates costs

***These costs need to be considered and included separately. If they are not and a cost materialises there will not be a budget available to meet it.***

#### Staff related

- Staff recruitment costs, relocation, adverts, travel expenses etc
- Enhanced recruitment costs, services, sabbatical and severance costs
- Staff training costs
- Visa costs
- Staff pay costs, benefits, external training
- Fees associated with training and other study programmes including those taken at LSE
- Additional costs resulting from non-standard employment arrangements
- Housing costs

#### Hospitality and events

- Costs of hire of rooms for conferences and event
- AV support
- Specific Security
- Event support and catering services
- Setting out and clearing up

#### Equipment and furniture

- Office furniture, equipment and office refurbishment costs
- Office refurbishment
- Support staff costs
- Telecoms and mobile telephony services and equipment
- Any specialist IT support, setup, data storage space and specialist software

- IT and telecoms set up

#### IT and Web presence and services

- Bespoke website work and set up work
- Additional books, periodicals, data sets or other on line materials
- Specialist system development work
- Hosting of podcasts and other digital media

#### Facilities management

- Additional (non-standard) cleaning or waste disposal
- Decoration other than the routine cyclical works
- Space remodelling
- Removal costs
- Special disposals

#### Legal and compliance

- Set up costs for JVs, companies and other legal, taxation or accounting support
- Statutory returns associated with taxation and legal requirements specific to the initiative
- Costs associated with negotiating agreements between LSE and other parties
- All costs associated with operating outside the UK

#### Financial services

- Banking and related transaction costs for any payment or receipt methods other than the School's standard mechanisms.
- Costs associated with foreign currency, provision of cash sums and travellers' cheques
- Non-standard payment terms and mechanisms
- Insurance cover other than the standard School policy cover
- Additional external audit and accounts preparation costs
- Additional costs of integrating software specific to the project to School systems and maintaining it thereafter.
- Tax, legal and other external professional advice and services
- Additional costs resulting from non-standard fee arrangements in Finance or ARD\*

#### Development work

- Sets ups via Moodle or its equivalent
- Course packs
- Specific library materials and datasets

#### Other

- Scholarships for students and WP
- Costs of annual accounts and other reporting that may be required by internal School committees or external bodies
- Step changes in costs associated with additional staff and/or student FTES, software licences or subscriptions
- Recruitment services beyond website and prospectus listings
- Subscriptions and professional memberships

Inevitably this list cannot be comprehensive therefore in case of doubt further direction should be sought from the Director of the Finance Division.

All activities will be required to operate in accordance with the School's Financial Regulations. Any contracts for goods and services made as part of an initiative must use Standard School terms and conditions. These can be found at [xxxxxxxxxxxxxxxxxxxxxx](#) and further guidance can be obtained for the Purchasing Manager ([xxxxxxxxxxxxxxxx](#))

