# Budget Centre Planning Guidance

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# Overall

## Objectives

In preparing their medium term plans Colleges and Services are reminded that Council requires a substantial increase in contribution in order to fund capital investment and new debt.

The datum point for the increase in contribution is the baseline, i.e. the increase in contribution should be over the baseline not comparing growth in one year to the previous year. Council are expecting the improvement in contribution to be front-end loaded over the planning period.

## Planning Cycle

For further information see: <http://www.exeter.ac.uk/spc/stratplan/planning_process/>

## Baseline Plans

The Planning Review Group will review and scrutinize plan submissions against an adjusted baseline position. Budget centres will be required to itemize and justify any incremental changes to their adjusted baseline.

The original approved baselines will have been amended to reflect central adjustments relating to changes in fee assumptions, pay and cost inflationary parameters, any net nil budget transfers and any required or agreed changes to contribution following previous PRG meetings.

This adjusted baseline will form the target contribution for the PRG3 submission.

As the plans roll forward into a new year (e.g. for PRG3 in 2014 the additional year is 2018/19), for which no baseline exists, PRG will expect the rate of contribution for that year not to be less than the previous year contribution rate.

## Assumptions and Parameters

These have been approved by the CFO, Andrew Connolly

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **INFLATIONARY ASSUMPTIONS** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** |
|  |  |  |  |  |  |
| QR Main | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| QR Charity support | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| QR Business research | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| QR RDP | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| T Grant |   | 0.0% | 0.0% | 0.0% | 0.0% |
| Tuition fees - H/EU UG and PGCE | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Tuition fees - all other |   | 3.0% | 3.0% | 3.0% | 3.0% |
| Pay | 2.0% | 2.5% | 2.5% | 2.5% | 2.5% |
| Utilities | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Business Rates | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% |
| Commercial Activity - Income (non Student Accommodation)  | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Library subscriptions (AS only) | 20.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| General inflation | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Bank Loan Interest | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| Employers' NIC | 13.8% | 14.5% | 15.8% | 15.8% | 15.8% |
| USS employers' contributions | 16.0% | 16.0% | 18.0% | 18.0% | 18.0% |
| ERBS employers' contributions | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% |
| Merit awards % of staff costs | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Pay increments | Built automatically into staffing plans |

## General Principles

**Accounting**

There are certain general principles that should be adhered to when creating budgets:

* Recognition
	+ Accounting rules will be applied to the recognition of both income and cost. When converting development plans into budgets, make sure you take account of how and when things will be recognised in the accounts. Examples include capital items included in business plans and different recognition rules for different grants.
* Previous Years
	+ Previous years’ performance is a good indicator for certain items, especially costs and provisions. Significant departures from previous years must be noted and explained.
	+ Budgets are meant to be an accounting view of where we wish to take the business, and should include known developments and aspirations, but only if approved by PRG. Some step changes should be held outside of the plans until finalised.
* Aspirations
	+ Significant aspirations should be identified, with details of both the known elements and the risk factors
* Pipelines
	+ We have a good indication of what certain types of income (and costs) will be because of things that have already happened. These include not just obvious things such as UG and research grants / applications, but also things such as existing procurement contracts, where the end of a contract period may lead to a market adjustment taking place.
* Prudence
	+ Prudence refers not only to having a sound basis for any development activity, but also being realistic about what can be achieved in the time given. There may be many good ideas, but we can only do a limited number.

**VCEG Guidance**

**Following the VCEG planning residential in September 2013, a revised planning framework was agreed and communicated. Within this were a number of financial planning parameters:**

* Submitted plans will need to show **increased levels of contribution** over the planning period, reflecting the requirement to deliver a level of EBITDA that is higher than the baseline.
* **Colleges should not submit plans that reduce the level of cash contribution** set out in their baseline 5-year plans.
* Colleges **should** plan on the basis that they **retain a maximum of 70% of any additional income above current (2012/13) baseline plans**. This is a guidance figure, and recognises that the costs of any particular project will be spread across the university, and not just in the college.
* **Plans should not result in the staff-cost ratio (staff costs to total College income)** increasing above its baseline level over the planning period.
* **From 2014/15 onwards Colleges should plan to increase their baseline rate of contribution by 0.8 percentage points** in each and every year (e.g. if the baseline contribution rate is 25% in 14/15 and 25.5% in 15/16 then the new plan should result in a minimum of 25.8% and 26.3% respectively before any new income streams above the baseline are added in). This requirement is in addition to the permitted retention of a maximum of 70% of new above baseline income streams. Its purpose is to provide some headroom to accommodate planning in Professional Services and of infrastructure in order to be able to support planned baseline growth in Colleges.
* In submitting new plans **PRG will not expect to see a decline in the** **rate of contribution** (contribution as a % of College income) over the planning period.

Colleges should not reduce any purchase of services from, or reduce any financial contribution to, central Professional Services without obtaining the prior agreement of the COO so that Colleges and Professional Services budget consistently.

The calculation of the above parameters is not meant to be an “exact science” rather the various points were devised to address some specific points as raised by VCEG and Council including the increase of the University’s surplus to a more acceptable level to fund investment and debt servicing in the future.

## Must/Should/May

This document is generally not prescriptive, but advises and suggests suitable approaches. What it does say is that where you choose to depart from a recommended approach, you have to explain why, with justification.

In order to have clarity on what is prescriptive and what is not, certain words within this document have specific meanings when shown in colour.

Must: The plan **must** follow this guidance. This is used where a failure to follow will mean the overall plan will be internally inconsistent, or where accounting rules require it.

Should: This is the recommended approach. Colleges and Services may vary from this, but must provide justification.

May: Colleges may, at their discretion, consider building this into their plan.

There is a specific section (Additional Information) in the PRG3 reporting pack for reporting explanations required under “should”.

# Income

## Teaching income including bad debts

*Teaching grant* rates are based upon the previous HEFCE grant letter. Grant rates will be re-calculated following the receipt of the latest HEFCE grant letter in March, and the impact to the University will be assessed post budget centre submission in March. Amended amounts will be entered into plans following the final submission in June and the new baseline budgets will be calculated accordingly

*Fees* are agreed by VCEG in June and the *Master fee table* is available at the end of July. It is this table that is then used to update the plans for the next calendar years intake i.e. the fees for 2015/16 will be approved by VCEG in June 2014. No provision for increase in fees should be included within the plans unless PRG have approved the inclusion.

*Wastage* %

As from November 2013, Strategic Planning & Change (SP&C) are going to supply the wastage rates for planned numbers, these will be centrally entered into Cognos.

Wastage will be available at level, fee status and discipline, and will separate out ‘wastage’ from ‘non returners’.  A two year average of historic data will be used, which will be calculated from a report run at the start of the year.  These will be entered into Cognos in November at the same time as the census data (i.e. in November 2013 year new rates for 2014/15 onwards will be entered).

*Teaching Load Adjustments*

For the budget, teaching loads are entered as simple FTE in and FTE out in Cognos. These FTE adjustments should be in line with the current year load adjustment (as a %). Any material movement away from this assumption should be highlighted with the narrative to PRG3.

This will be reviewed at an institutional level to understand the overall impact on the University.

Consideration should be given to other Colleges when planning for load i.e. SSIS starting a new law programme around forensics that will attract students from Biosciences then both Colleges should be made aware of and agree the likely load impact.

*Bad debts*

Colleges should allow for bad debt costs as a percentage of income based on an average bad debt cost percentages over the previous three years. Colleges may diverge from this amount if they have good reason to do so, but must explain why they think the historic percentage no longer applies, and provide the basis for the new calculation.

Note that bad debt costs must only be budgeted based on debts arising in the year. Bad debts arising from debtors at the start of the year will already be provided for. There will, in practice, be adjustments to the opening provision, but these should not be significant and must not be allowed for in the budget.

Bad debts must be shown gross (i.e. as a specific charge), and not netted off against income.

## Research income including bad debt provision

Definitions:

Gross Research Income:

This is equivalent to research expenditure on the GR Ledger, with adjustments for depreciation research related endowment income and split grants being taken into consideration. Simply put: it is equivalent to cash received +/- accruals/deferrals.

Research Earnings:

This is the total of Gross Research Income after deducting both Direct Research Staff Costs and Direct Research Other Costs.

In building a plan for research income you need to identify the following four elements:

Awards – Income from known awards (live grants) uploaded from PAC. This is profiled on a straight line basis across the grant period unless agreed differently between the college finance teams and Research Accounting. This will be on a grant by grant basis.

Applications – A weighted income from applications, awaiting decision, uploaded from PAC with a success rate applied

Unidentified – Planned applications with success rate to derive income, not appearing in PAC, such as pipeline business, plus unknown award income from types of contracts that do not necessarily require applications, such as additional funding from industrial partners. Colleges unidentified income **should** derive from a planned approach which identifies target areas for applications, and as such **should** be analysed at the very least by sponsor category.

*Note: the previous “Aspirational” category has been removed – all other income is classified as Unidentified.*

The Research income included must reflect new research targets agreed at PRG2. The process of Research Budgeting and Monitoring is currently under review by a task and finish group, and guidance may change. In particular, there could be an agreed algorithm between the new research award targets and the income shown in each financial year budget.

Budget centres should ensure that the split between staff and other operating costs and different sponsor categories entered into their plan is in line with actual allocations in the current year.

You must not make any allowance for anticipated additional funding arising from the results of REF2014. The financial impact of REF2014 is expected to be published in the March 2015 HEFCE grant letter and will take effect from 2015/16 onwards. Therefore, QR funding remains at the 2013/14 rates.

*Research council funded studentships*

Within the financial accounts this is shown as Research training support grant but this is actually regarding the treatment of the funding of fees, maintenance and other costs that is received from research councils.

The £ included within income and expenditure for this should be in line with the previous guidance and the use of the previous years actual £ may be used as an estimate of the income and spend. Even though this does not impact the planned contribution it is suggested that something is included within the budget to ensure that variances are minimal if possible.

*Bad debts*

Colleges should allow for bad debt costs as a percentage of income based on an average bad debt cost percentages over the previous three years. Colleges may diverge from this amount if they have good reason to do so, but must explain why they think the historic percentage no longer applies, and provide the basis for the new calculation.

Note that bad debt costs must only be budgeted based on debts arising in the year. Bad debts arising from debtors at the start of the year will already be provided for. There will, in practice, be adjustments to the opening provision, but these should not be significant and must not be allowed for in the budget.

## Other income

The majority of the University’s other income comes from the commercial arm of Campus Services. All other significant items are college/service specific, and are budgeted / forecast using general accounting principles.

Smaller items of other income should be budgeted / forecast on the basis of best estimates, and may include aspirational elements. Significant changes from previous years, and in particular new or declining streams, must be explained.

## Endowment & Investment Income

Endowment income within colleges / services must always be shown as an incoming transfer. A new process for this is being drawn up and we will be informing budget centres what will be available for them to spend. The contact for Endowment income is Tanya Hitchen in the Corporate Accounting Team.

## Internal Income

Internal income exists only in Professional Service and Campus Service Commercial.

Income should be budgeted on a normal commercial basis, taking account of any factors that might affect income levels, for example:

* Price
* Major Refurbishment Plans
* Major Events
* Changes of Scale
	+ More students/staff
	+ Additional space
	+ Residences Occupation

Discussions should be held with major customers to ascertain consistency between purchaser and seller budgets.

Any decisions by colleges or services to reduce or otherwise amend levels of internal services **must** be made in conjunction with the providing service.

## Internal Transfers

In line with the principles of the Armstrong review in ensuring that the budget for costs are in the correct place to ensure accountability and ownership, the transferring of internal resource should be removed unless there is a valid (such as audit requirements) for it to remain.

Existing transfers will be reviewed by the Finance Group with adjustments to internal transfers being captured and completed between the March and the June plan submissions.

# Expenditure

##  Staff costs

The prime mechanism for capturing staff costs information, including FTE, is through a post by post schedule in the Cognos staffing module.

Inflation rates for salary costs are defined within the planning parameters shown in section 4

Pension rates used within the plans are also defined within the planning parameters, and are automatically calculated by Cognos.

## Staff Provisions:

 Current guidance is given here, but note that these are under review with HR.

## Vacant post provision

Provisionsfor vacant positions must be included within the individual staff detail lines in Cognos.

## Bonus provision

No provision is included regarding the University bonus scheme; this is paid based on exceeding budgeted targets and therefore it is self-financing and must not be included in the budget.

## Merit pay provision

Merit pay must be budgeted for at 1.138% of total staff costs. Cognos calculates this automatically for inclusion in the budget at college/service level to avoid the creation of artificial variances.

## Professorial/non-spinal pay provision

The guidance for the Remuneration Committee, the body that decides professorial and non-spinal salaries, states that “In proposing salary increases, Deans will be mindful of their College’s budget and what they can afford.”

The historical reality however is that increases have exceeded college budgets, although the current arrangements are being reviewed as part of the new Reward Strategy.

Professorial and non-spinal salary increase should be budgeted at the same inflation rate as normal salary increases. Colleges may make an additional provision if they consider it necessary to do so, but must provide a justification.

## Salary re-grades/promotions provisions

Provision should be made for academic promotions resulting from the PDP HR process.

For other areas, salary re-grades and promotions are indications that business has / will develop / become more efficient. For administrative / support posts, colleges and services should not budget for these – instead managing within the existing budget envelope, utilising the savings released by efficiencies / additional business. If this is not possible, colleges may provide for them, but must detail the external pressures requiring this.

Particular care must be taken in the lead-up to the REF ([www.ref.ac.uk](http://www.ref.ac.uk)) that the provision for recruitment and retention of staff is sufficient. In addition, where an approved long term incentives / retention scheme exists, the costs of the scheme (usually in advance of and related to the REF) must be budgeted for and provided for each year.

Provisions should be based as far as possible on known data and historic trends.

## “Absence” Provisions

The setting of “absence” provisions (Vacancy savings, Maternity, Long Term Sick, and Temporary Staff) is complicated for a number of reasons:

* They all interact with each other
* The way absences are managed can vary according to the type of staff
* We currently have limited historical information available on which to base provisions (accurately capturing the true cost of an absence is a difficult and time-consuming task - especially for vacancy savings)

As with any other variation from plan, it is good practice to attempt to manage absence within the budget envelope. Sometimes, however, it is necessary to incur additional cost.

It is, however, recognised that in other areas (e.g. front line services, teaching) cover may need to be like for like, or even require an overlap. Colleges wishing to make additional provision for these costs may do so, but must provide evidence to support them. This would normally be based on historical trends.

In summary, absence provisions:

* should be viewed as a single budgeting exercise
* should be based on historical data
* must be evidence based

## Vacancy savings

It is essential that staffing budgets reflect the best estimate of staff costs for each year. They must not reflect a full establishment and must take into account normal (or expected) staff turnover, vacancy levels and realistic starting dates for new posts.

Within professional services, a vacancy factor of 2% of staff costs must be applied by entering onto Cognos within the provisions tab.

Colleges are recommended to apply this factor to non-grant funded staff costs.

Colleges choosing to depart from this rate must justify the change, for example by demonstrating a significantly different historic rate.

Note that a significant proportion of vacancy savings are achieved through a delayed start for new posts, particularly where there is a block budgeted to commence on 1st August. If colleges have deliberately taken a staggered approach to new posts, they should consider a lower vacancy provision.

## Maternity provision

The financial costs of maternity are the excess of cost of additional staff / backfill plus net cost of maternity pay over funding envelope.

On average, maternity pay costs equate to 3 months’ salary where someone is off for 6 months, and 4 months’ salary where they are off for 12 months.

While some maternity leave may be known about when setting the budget, not all will, and it may be necessary to make a general provision.

Colleges should:

* Budget for known maternity leave, using assumptions about how cover will be provided
* Consider providing an additional provision for further maternity leave, based on
	+ Staff Demographics
	+ Staff Type Split (admin / academic)
	+ Historical levels of maternity leave
	+ Other factors (e.g. Athena SWAN, Gender Charter Mark)

The elements of the provision must be entered into Cognos as follows:

For known maternity leave:

* Show the post on maternity leave at full cost / FTE
* Show any cover / backfill at full cost / FTE
* Show the maternity pay saving (the difference between full cost of the person on maternity leave and the actual costs that will be incurred for them) as a negative provision on the provisions tab, under the Maternity Pay category (one line per person)

A simple maternity pay saving calculator is available from Abi Mahde in the Management Reporting team.

For any additional maternity pay provision:

* Calculate the provision based on a simple (Expected Number) \* (Average Cost) basis, by staff type
* Show the net anticipated cost as single lump sum provision in Cognos

## Long term sickness provision

The way long term sickness is managed is similar to maternity leave, thus a similar approach is taken to budgeting for it.

An employee on sick leave will cost the full amount for the first six months, and just over 50% of full cost for the second, subject to them being employed by the University for at least 3 years when they become sick. Sick pay limits for staff employed for less than three years are at <http://www.exeter.ac.uk/staff/employment/leave/sickness/>.

Colleges should:

* Budget for known sick pay, using assumptions about how cover will be provided
* May provide an additional provision for further sick pay, based on
	+ Staff Type Split (admin / academic)
	+ Historical levels of sick pay

The elements of the provision must be entered into Cognos as follows:

For known sick pay:

* Show the post on sick leave at full cost / FTE
* Show any cover / backfill at full cost / FTE
* Show the sick pay saving (the difference between full cost of the person on sick leave and the actual costs that will be incurred for them) as a negative provision on the provisions tab, under the Sick Pay category (one line per person)

For any additional sick pay provision:

* Calculate the provision based on a simple (Expected Number) X (Average Cost) basis, by staff type
* Show the net anticipated cost as single lump sum provision in Cognos

## Temporary staff related provisions

Where temporary staff are used to manage seasonal or other irregular workloads (e.g. start of term, property maintenance), costs should be budgeted using historic data as a guide.

Temporary staff costs relating to absences (e.g. maternity, sickness, secondment, vacancies), should be budgeted within the relevant provision above.

Colleges wishing to budget for additional temporary staff costs must provide a justification, including details of how it interacts with other provisions. An example might be using temporary staff to cover vacancies in front line positions where a full 2% vacancy saving has already been predicted.

## Staff FTE

It is important that staff FTE are correctly captured and categorised in the budget. This is done through the Cognos staffing module, by following these rules:

Staff costs representing FTE must be put into the “Staff Details” tab as individual lines

The “Status” column must be completed

Filled Post: someone is employed under a contract of employment at the date of setting the budget – this includes cases where the employee has not yet started, but a contract of employment exists.

Existing post – Vacant: The post is part of the current business plan, but no-one is employed in the post.

New Post – Vacant: The post is part of a proposed business expansion or new income stream that has yet to be approved in the current year budget.

Example 1: Replacing a retiring professor with two lecturers – the new posts are Existing post – Vacant, not New Post – Vacant, as this is just delivering the current business in a different manner.

Example 2: A new program requires 2 additional staff each year for three years (so 6 in total). In year one budget, the two staff members are both “New”. Throughout the budget they will be shown as new and then in the next planning cycle (if filled) e), these two posts become Filled, but the next two are again New. Similarly a year later there will be 4 Filled and 2 New posts.

In the first planning cycle the FTE would be displayed as –



In the planning cycle for the next year (assuming that Year 1 posts have been filled)



In order to ensure that the correct FTE is captured, provisions that represent FTE must not be made, instead create a set of individual posts on Cognos that equate to the expected FTE and the same total cost. In this way the FTE is correctly captured in the plan.

Core Funded Research staff FTE’s are staff belonging to the research only job family who are core funded and not being charged directly to grants.

Currently there is no way of capturing the FTE for these grants unless a College holds the staff for this area within a separate module within Cognos.

As the costs associated with the above FTE are shown within the Research module and separate to the “core” staff costs any average staff costs are unaffected.

## Research Staff Costs

These are staff costs that are charged directly to grants and therefore do not appear in College Core Budgets.

There is currently no mechanism for capturing or reporting the FTE of existing and planned research grant funded staff. Some colleges (but not all) record existing staff in Cognos, but this does not capture FTE relating to the future.

Attention should be paid in ensuring that the split of research staff and other costs is in line with the split for previous years .

## Research Other Costs

These are non-staff costs that are charged directly to grants and therefore do not appear in College Core Budgets.

Attention should be paid in ensuring that the split of research staff and other costs is in line with the split for previous years .

## Student Finance Support – Bursaries and Scholarships

Central bursary contributions (OFFA) are calculated automatically within Cognos and are driven by Home/EU student FTE.

For all other scholarships and bursaries, including internal, colleges should include reasonable amounts (based on historic costs and known events going forward). See also *external student support income and expenditure* guidance.

Research scholarships refers to those relating to research activity that appear in Student Finance Support in College plans and should still be included within the plans

## Operational expenditure/Non Pay

Only include expenditure relating to income targets within the submitted business plans. Any investment type spend must be separately presented as a business case or if capital, a capital template must be completed.

You should, however take into account any significant but infrequent equipment replacement that occurs as part of the normal operation of the college – although this will usually be capital in nature.

## Library Costs

Library costs will be moving to a central, institutional budget. This will happen as part of the rationalisation of transfers process.

## Space including provisions

Space charges are the same for both campuses.

Space charges cover the running costs of the space that is used, primarily cleaning, portering, maintenance, security and grounds. They do not cover utility costs (which are charge separately), nor any costs of the provision of the actual space (capital cost, design, construction, interest, depreciation).

A space database is maintained by EDS, recording the type and owner of each room. This database is sent out to colleges and services during the planning process for checking. Once updated, the database becomes a “census”, and determines the space charge allocation for the following year.

Own space charges must only be included for the current space (i.e. existing buildings and existing space allocations as per space census Jan 2014) and for new space allocations that have been agreed with Campus Services. Speculative space charges based on an assumption that more space will be acquired / provided, must not be included unless they have been agreed with Campus Services or as a part of a specific infrastructure growth plan (ie Living Systems building). Any changes to the assumptions of increasing or the decreasing space will need to be identified within the PRG3 commentary.

Centrally Bookable Space (CBS) is input as a single figure per budget centre, in FTE hours. In general, this is calculated from student / course numbers, using historical data and taking into account any changes in own space. The rate used is programmed into Cognos and is available as part of the planning parameters.

Other space (None Recharged Space -NRS) is calculated on a per student FTE basis. The calculation is performed automatically within Cognos, using the figures from the teaching plan.

Rates used for space charges are contained within Cognos.

## Utilities

### Exeter Campuses:

All colleges and services will be provided with Utility budget figures by Campus Services. These will be based on historic consumption for the space owned by you (as recorded in the space census), and charged at estimated supplier cost. The date that this information will be available is specified in the planning timetable.

This figure must be used for your budget. Any changes for future years must be agreed with Campus Services.

If you believe the assumptions behind the budget figure do not take into account a major change, please contact the EDS energy team.

With the exception of Residences, actual charges will be equal to budget.

Please see the EDS energy team if you would like information on reducing your utility costs.

### Cornwall Campus

Direct Utility Charging is not yet in place for the Cornwall Campus. Instead colleges are charged according to their space ownership. Cornwall Campus utility costs must be budgeted on the figures advised by Corporate Accounting.

## Contingencies

### In Colleges / Services

Contingencies must not be held within budget centre income or expenditure as this is likely to result in overall contingency being materially overstated which in turn will stifle investment in activity and development generally. The University’s central contingency budget operates on the basis of a pooling of risk and opportunities, allowing the amount required for contingency to be minimised, thus maximising the deployment of resource to front-line activity.

### Central Contingency

PRG will propose a level of central contingency, reflecting risk disclosed in PRG plans and the wider operating environment. VCEG will own the central contingency budget, its purpose is to cover the risk of material, unexpected costs or shortfalls on income due to unavoidable external circumstances. Examples include: recruitment shortfalls caused by external events such as a geo-political event in one or more countries or a change in government policy, an unexpected level of pay award or material cost inflation on a big-ticket item (eg pensions, utilities, an unexpected change in VAT rate).

It is anticipated that majority of the central contingency budget will be released/allocated following the completion of the student recruitment cycle in December of each year.

VCEG may decide to allocate contingency, in whole or part, to Colleges/Services where an event has occurred or release the budget , in whole or part, to either the University’s surplus (and by implication the Capital Fund) or to the Central Investment Budget (topping up its purchasing power).

Budget allocations will take the form of approved variances in-year. Contingency can only be allocated / released for the current financial year.

The contingency budget should be fully allocated or released following the publication of the HEFCE grant letter, usually in March, so that it does not constitute a year-end budget variance.

# Other Guidance

## Budget centre investment budget

Colleges may set aside an annual budget for investment in new developments and initiatives, to be known as the ‘College Investment Budget’ to a maximum of £200k per Budget Centre.  The purpose of these budgets is to provide resource to fund new initiatives, pump-prime new activity and facilitate change. The investment budget must be transparent and proportionate and will be subject to PRG scrutiny.

Colleges are expected to give indications of how they intend to apply their investment budgets.

Professional Services as a whole also have an investment budget, of £50k for 14/15. The same guidelines for budgeting apply.

## Central Investment Budget

VCEG hold a central investment budget, replacing the former unbudgeted strategic development fund. Its purpose is to provide non-recurrent funding for strategic investments in new initiatives, for example to pump prime new cross-University business opportunities or developments that have a University wide impact and are in line with the University’s strategic objectives. It is anticipated that funding will normally be for 1 year but could be for up to 3 years.

PRG recommend to VCEG the level of the budget before the start of the year and only VCEG can authorise the release of the budget.

Members of VCEG and Deans may apply submit proposals for funding against the budget through one of two routes: (a) via the planning process in order to request funding for the following year or subsequent years or (b) via the CFO for in-year funding. The CFO will make recommendations to VCEG for in-year funding proposals as well as providing reports to VCEG on the budget status (commitments made and levels of uncommitted funds) during the year.

Budget allocations will take the form of approved variances in-year and baseline adjustments in subsequent years.

Where an allocation is made to a College or Service, it is important that any carry forward requests are made promptly to the Head of Management Accounting in order that these can be accommodated in the next update of the 5-year financial plans. If this is not done, then Colleges/Services will have to fund the roll-forward from within their existing baseline.

## Capital Expenditure

**Capital Projects** must form part of the planning process and must be discussed at PRG. Adhoc capital projects which emerge mid-year which have not been discussed at PRG are expected to be the exception rather than the rule.

Where funding of a capital project involves an increase in contribution, this must be shown within Cognos as self funded capital (the use of subjective code T30 has been proposed for this purpose but not yet approved).

The Capital Planning & Project procedures are to be used for all major projects in the University including capital and long-term maintenance projects within the University of Exeter which will require appropriate approval to proceed.  Therefore, all projects involving new build, refurbishment or other building, grounds or estate related work and equipment, irrespective of the funding source, must follow these procedures.

These procedures will therefore specifically include:

* New build or refurbishment activity
* New information systems or major upgrades to same
* Equipment purchases >£25k (except **wholly and externally** funded research equipment – see below)
* inance Leases for land, buildings and equipment with a PV exceeding £25kSubstantial works to the University’s grounds
* Backlog or long term maintenance as defined in the Estates Development Service (EDS) Service Level Agreement.

In respect of equipment purchases for research or consultancy contracts, these procedures do not need to be followed where the purchase of the equipment is **wholly** funded by an **external** research grant. The exception to this rule is where the purchase of equipment requires significant new build, refurbishment or IT infrastructure development. The total gross value of the equipment and the associated additional works will determine the project value and therefore the authorisation limit. All research equipment purchases funded from internal sources, **in full or in part,** (for example, Science Strategy or RKT Strategy etc) are required to follow these capital procedures.

The Capital Planning & Project approval procedures will be reviewed periodically to take account of changes in requirements and ensure practicality of application. The approval document is broken down into four sections covering: Scope & Definition (A) Planning (B); Project Appraisal and Authorisation (C); and Monitoring (D). The document setting out the procedures to be adopted in connection with the planning, appraisal, approval and monitoring of University Capital Investment Projects can be found at <http://www.exeter.ac.uk/finance/cpp/>.

## Capital ‘revenue’ expenditure

The correct classification of planned expenditure into Capital or Revenue is key to the planning process. The rules are quite complex, but in essence:

The spend is capital if:

* It is a new asset
* It is an enhancement to an existing asset which either:
	+ Substantially lengthens the remaining life of the asset, or
	+ Substantially increases the extent to which the asset can or will be used

Detailed guidance on what should be considered capital and what revenue can be obtained from Caroline Muggridge in Finance Services.

## Finance v Operating leases

All lease agreements should be overseen by a member of the finance team to establish if it is a finance lease or an operating lease. This will then pose the question, do we have capital budget available for finance leases and a revenue budget available for operating leases and the interest element of finance leases

In general, leases will be made on an operating leases basis.

Further guidance can be obtained from Caroline Muggridge in Finance Services.

## Research strategies

Science Strategy (<http://www.exeter.ac.uk/research/inspiring/keythemes/science/>)

1. Colleges must budget for the expenditure and the expected direct teaching and research grant income / earnings arising from the investment.
2. No transfers of resource will take place – these must be treated as approved changes to contribution levels.

HASS Strategy (<http://www.exeter.ac.uk/research/inspiring/keythemes/hass/>)

1. All costs and income for staff must be held within College plans. No transfer of resource will take place – these must be treated as approved changes to contribution levels.
2. Discretionary budgets should be in College plans;
3. Project development funds and events budget is within the RKT budget.

Open Innovation Fund (<http://www.exeter.ac.uk/research/toolkit/opportunities/internalopps/>)

1. These must only be included in College plans once an award and a transfer of resource from RKT to the relevant College is in place. A transfer of resource will still occur regarding this fund to provide an audit of how this HEIF funded initiative is being spent.

Further clarification and information is available from the RKT Finance Manager.

## RKT Investment Strategies

RKT Investment Strategy

1. All costs should be in College business plans
2. No transfers of resource will take place – these must be treated as approved changes to contribution levels.

## New programmes/course pricing and costing

Templates have been devised to support these. They are currently being tested, and can be obtained from Julia Hastings in the Strategic Costing team.

These templates are for the costing of teaching provision. They can be used for individual modules or full programmes, and can produce both marginal and fully costed scenarios depending on the parameters chosen. Advice and assistance on their use and on costing other (non-teaching) activities can be sought from the Strategic Costing Team in Finance Services.

## Bids (External)

All bid submissions and contracts must be signed off by the College (Professional Service) Executive team following a financial review by Finance Services, before being submitted. This will ensure commitments in terms of space, staffing etc are understood and can be met. It is also important that future contracts bring in the right contribution. Overall, the College, Professional Services & University need to be assured that the correct strategy is being followed.

An agreed overhead rate should be used for financial modeling purposes taking into consideration sensitivities around market pricing. In order to compete effectively for contracts, the University needs to ensure it is covering its cost base and also making an agreed contribution, unless there is a clear strategic reason for not doing so.

It is recommended that advice is sought from the Strategic Costing team who can advise each College individually, and can provide standard teaching costing rates and parameters.

The current Financial Regulations on ‘Other Income generating activity’ are here: <http://www.exeter.ac.uk/finance/policies/regulations/income/other/>

In particular they state that income-generating activities **must** be *costed and agreed with the Chief Financial Officer before any commitments are made.*

## Professional Development Accounts (PDAs)

Both external income and expenditure relating to PDAs must be budgeted on the relevant SUBJ1 cost line. Activity within the PDA must have activity code 2 (ACT2) coded to A450.

Transfers into PDAs must not be budgeted.

# Outputs/Reports

## Negatives, Brackets and Accounting Sense

In reports that are circulated to non-accounting staff, the use of negative or adverse figures should follow the following guidelines:

* Figures should be shown with positive (i.e. no brackets) representing their normal or default sense, so that
* Income
	+ Income type items should be shown as the opposite of their accounting value (i.e. accounting credits are shown as positive numbers)
	+ So a negative income item represents a reduction in sales – perhaps a refund contingency or a passing on of the income elsewhere
* Cost
	+ Cost type items should be shown as the same as their accounting value (so costs are shown as positive numbers)
	+ So a negative cost item represents a reduction in spend – perhaps a supplier rebate or a recharging of costs elsewhere. Cost recharges should generally be done on P SUBJ1 codes
* Transfers
	+ Transfers must be treated as income, so transfers in are shown as positive, and transfers out as negative
* Subtotals
	+ Subtotals of like items should be shown with the same sense of the items
	+ Subtotals involving income less expenditure should be shown so that a surplus is positive and a deficit negative.
	+ Separate column subtotals (e.g. for showing an internal subtotal) should be avoided if at all possible.
* Variances must be shown with positive meaning favourable and negative meaning adverse. This will mean different formulae for income, cost and sometimes subtotals.
* Negatives should be shown where possible by the use of brackets

Where there may be confusion (for example comparing or combining areas, where income to one is a cost to another), extra care should be taken to ensure clarity is achieved.

Reports that are obtained directly from the accounting system (EAS, CSR, MID3) follow the standard accounting convention of income being negative and costs positive. These are mostly used by accounting trained staff who are used to seeing the data in this form.

Because of some reporting limitations, certain reports (e.g. Cognos Automated) use alternative methods of indicating the accounting sense, (e.g. colour).

# Appendix 1: Glossary

|  |  |
| --- | --- |
| **Word** | **Explanation** |
| Adverse | Less income or more expenditure than budget. |
| Budget | Detailed financial representation of next year's financial plan. |
| Capital | Asset having a long term benefit |
| CAT | Common Action Team |
| CSR | “Client Side Reporting” – facility that produces formatted reports based on data in EAS reports (see blow) |
| Cognos | University Business Intelligence and planning tool |
| Deficit | Excess of expenditure over income. |
| EBITDA | Earnings before interest, tax, depreciation & amortisation |
| EAS | Reporting facility that downloads raw Aptos data into Excel |
| Favourable | More income or less expenditure than budget. |
| FEC | Full economic costing |
| Forecast | Best estimate of the likely outturn of the year. |
| FTE | Full time equivalent |
| HASS | Humanities and Social Sciences |
| HEFCE | Higher Education Funding Council for England |
| HEI | Higher Education Institute |
| HEIF | Higher Education Innovation Fund |
| MID3 | Reporting facility that creates dynamic pivot-table-like reports based on data in EAS reports |
| Outturn | The final financial position at the end of a financial year |
| PAC | University Research database |
| PI | Principal Investigator |
| Planning Cycle | The ongoing process by which the University sets its budgets and manages the outturn |
| PRG | Planning review group |
| Recurrent | Ongoing (repeating) income or expenditure. |
| REF | Research Excellence Framework |
| Resource | Income or Available Allocation |
| Revenue | Effect is temporary and exhausted within the financial year |
| Strategy | A plan of action designed to achieve a long-term or overall aim. |
| SUBJ1 | Part of the accounting code structure, representing the type of expenditure |
| Surplus | Excess of income over expenditure. |
| TRAC | Transparent approach to costing |
| Transfer | Movement of resource from one area to another |
| UG | Undergraduate student |
| VCEG | Vice Chancellor’s Executive Committee |

# Appendix 2: Key Contact Details

|  |  |
| --- | --- |
| Category | Key Contact (click to email) |
|  |  |
| Planning Cycle | Donna Miljus |
| Baseline | Bridget Atkins |
| Assumptions and Parameters | Bridget Atkins |
| General Principles | Bridget Atkins |
| Planning Review Group (PRG) | Bridget Atkins |
|  |  |
| **Income** |  |
| Teaching income including bad debts | Abi Mahde |
| Teaching Income | Abi Mahde |
| Wastage | Abi Mahde |
| Teaching Load Adjustments | Abi Mahde |
| Bad Debts | Caroline Muggridge |
|  |  |
| Research Earnings | Steve Popham |
| Research Bad Debts | Caroline Muggridge |
|  |  |
| Other income | Abi Mahde |
| Endowment & Investment Income | Tanya Hitchen |
| Internal Income | Suzanne Baxter |
| Internal Transfers | Marion Williams |
|  |  |
| **Expenditure** |  |
| Staff costs | Chris Merritt |
| Staff Provisions: | Chris Merritt |
| Professorial/non-spinal pay provision | Chris Merritt |
| Salary re-grades/promotions provisions | Chris Merritt |
| “Absence” Provisions | Chris Merritt |
| Vacancy savings | Chris Merritt |
| Maternity provision | Chris Merritt |
| Long term sickness provision | Chris Merritt |
| Temporary staff related provisions | Chris Merritt |
|  |  |
| Staff FTE | Abi Mahde |
| Research Staff Costs | Steve Popham |
| Research Other Costs | Steve Popham |
| Student Finance Support – Bursaries and Scholarships | Abi Mahde |
| Operational expenditure/Non Pay | Chris Merritt |
| Library | Andrew Burt |
| Space including provisions | Marion Williams |
| Utilities | Andrew George |
| Contingencies | Bridget Atkins |
|  |  |
| Budget centre investment budget | Bridget Atkins |
| Capital Expenditure | Caroline Muggridge |
| Capital ‘revenue’ expenditure | Caroline Muggridge |
| Finance v Operating leases | Caroline Muggridge |
| Research strategies | RKT Finance Manager |
| RKT Investment Strategies | RKT Finance Manager |
| New programmes/course pricing and costing | Julia Hastings |
| Bids | Julia Hastings |
| Professional Development Accounts (PDAs) | Chris Merritt |
|  |  |
| Negatives, Brackets and Accounting Sense | Caroline Muggridge |