UNIVERSITY OF SUSSEX

Policy Schedule

Policy title	Estates and IT Project Budget Costs
Policy Owner	Director of Finance
Policy Lead	Assistant Director of Finance (Finance and Corporate Services)
Approving Body	Capital (Infrastructure and IT) Project Board
Approval date	September 2019
Issue no.	1
Related policies, guidelines and procedures	Financial Regulations Management and Use of Contingency in Estates and IT Projects Purchasing policy
Review interval	The policy will be reviewed after the first year of use and thereafter 3 yearly or on an ad-hoc basis in response to relevant regulatory change.

1.0 Purpose

This document sets out the University's policy on costs qualifying to be charged to an approved project budget and which should be included in the budgeted total cost of a project when a proposal to invest is made.

2.0 Authority

The University's Financial Regulations state that The Director of Finance shall issue and update financial policies and procedures setting out directions for the application of the Financial Regulations.

3.0 Scope

3.1 The policy applies to Estates and IT projects for which a project budget is formally approved by the University's Council, or by the Vice-Chancellor or Chief Operating Officer under delegation from the University's Council, in accordance with the financial regulations.

3.2 The policy sets out the costs which should be taken into account when calculating a project budget and which are eligible to be charged to a project budget

3.3 The policy sets out the approach required to manage the risk that increases in project costs over time become a threat to an authorised project budget.

3.4 Exclusions from the scope of this policy are:

3.4.1 Research projects are the subject of separate policy on pricing and costing.
3.4.2 Financial accounting policy on the capitalisation of project costs is not within the scope of this policy.
3.4.3 Income and opportunity costs which may be used in project investment appraisal are not the subject of this policy.

4.0 Definitions

4.1 **Project** - A coherent item of planned and defined work undertaken over a limited period of time using specified resources to achieve agreed objectives and business benefits. A project will have its own budget which is not part of the normal operational revenue budget of a school or department and may be capital or revenue in nature or a mixture of both.

4.2 **Project budget** - A sum of money approved under the financial regulations to meet the costs of a project.

4.3 **Budget Holder** - The person in whom a Committee of Council, Project Board or other approving body has delegated authority to spend a project budget in accordance with the financial regulations.

4.4 **Project manager**- A person normally with responsibility for managing a project or part of a project.

4.5 **Budget costs** - The costs which, under this policy, are eligible to be charged into a project budget and which should be included in the calculation of a project budget approval request.

4.6 **Incremental cost** - The additional cost to the University as a whole of a particular action or activity.

4.7 **Backfill cost** - The incremental cost arising from the deployment of existing human resource to a project. e.g. The cost of employing someone to cover day to day work of a person who is seconded to a project either wholly or partially.

4.8 **Cost Apportionment** - A calculated proportion of fixed costs e.g. the estimated payroll cost of a department manager who is working 1 day per week on a project to create a new overseas office for student recruitment.

5.0 Principles

5.1 Project proposals must be made under approved process using guidance and practice standards set out in the University's Project Services Web Pages under the Director of Planning Governance and Compliance.

5.2 Project proposals must include a funding solution and this must be agreed by the Finance Director prior to its proposal to the University's Council or the Vice-Chancellor / Chief Operating Officer under delegation from Council.

5.3 Project budgets must be approved in accordance with the University's financial regulations and extant governance procedures.

5.4 The budget for a project must be determined in accordance with this policy before the project is approved.

5.5 A project budget should be calculated as an estimate of the full incremental cost to the University of doing the project.

5.6 The costs eligible to be charged to a project budget are limited to the incremental pay and non-pay expenditure arising as a direct consequence of undertaking the project.

5.7 The impact of price inflation must be recognised in estimates of cost.

5.8 The likelihood that costs may increase and/or may have been omitted must be evaluated and the cost of contingency included.

5.9 Income is not eligible to be credited to a project budget

6.0 Eligible costs

6.1 Costs eligible to be charged to a project budget are the incremental costs which arise because the project is undertaken and are directly attributable to it. They include the costs set out in paragraphs 3.1 – 3.5 and exclude those in section 4.

6.2 **Non-pay expenditure** should be taken to mean any item of expenditure which is not processed through the payroll. It includes but is not limited to the cost of:

6.2.1 Tangible items such as property, fixtures & fittings, furniture & equipment and consumables including rent under leases, tenancies and licences and the associated service charges.
6.2.2 Intangible goods such as licenses and other intellectual property.
6.2.3 Services like building and construction, project management, consultancy, legal & professional advice, subscriptions, project management, facilities

management and maintenance, telephone and mobile phone charges, recruitment, advertising and marketing costs.

6.2.4 Insurance

6.2.5 Expenses incurred while working away from base such as travel and subsistence and allowable hospitality expenditure under the purchasing policy

6.2.6 Statutory fees and charges for permissions, planning and other regulatory and statutory matters including Community Infrastructure Levy.

6.2.7 Temporary/Agency staff engaged under a service contract.

6.2.8 Metered fuel and power charges.

6.2.9 The cost of arranging project specific finance

6.3 **Pay expenditure** should be taken to mean any item of expenditure processed through the University's payroll. It includes but is not limited to:

6.3.1 Gross salaries and remuneration of permanent and fixed term staff..

6.3.2 Fees and remuneration paid to casual staff.

6.3.3 Allowances, bonuses and other remuneration.

6.3.4 Employers NIC, pension contributions and any other on costs.

Eligible pay expenditure is the incremental cost of employing someone to work on a project or the incremental backfill cost associated with seconding someone into a project. It is not the cost of the seconded staff member although the incremental cost of an uplifted salary awarded to a person seconded to a project is eligible.

6.4 **Project Management costs** are eligible expenditure and it is IMPORTANT to ensure that the cost of project management is included in a project budget. The following key points should be considered when estimating the cost of project management:

6.4.1 The number of people required to perform project management.

6.4.2 Whether employed or contracted project management will be deployed to the project.

Both of these points will be influenced by the size, complexity and specialist nature of a project. The lead time to a project and the length of time that it will take to deliver may also influence the likelihood that employed resource can be deployed.

6.5 **Taxes** - VAT, Insurance premium tax, import duty and any other taxes or duties incurred in relation to the costs of a project must also be included in the project budget. Project budgets should always assume that VAT at the standard rate will be incurred on all invoiced costs, however:

6.5.1 In certain circumstances VAT reliefs at the lower or zero rate may apply.

6.5.2 Input VAT suffered may be recoverable in full or in part.

6.5.3 Costs may be exempt from VAT

6.5.4 VAT on invoiced costs should always be included in a project budget at the standard rate unless confirmation has been received from the Finance Director or his/her nominee that an alternative assumption is appropriate.

7.0 Ineligible costs

7.1 Costs which do not qualify to be charged to a project budget are those which do not arise incrementally as a result of doing the project and/or are not directly attributable to it

7.2 **The following costs ARE NOT eligible** to be included in a project budget other than by agreement of the Director of Finance:

7.2.1 Depreciation.
7.2.2 Loan interest charges.
7.2.3 Unmetered fuel and power charges.
7.2.4 Resource allocation charges.
7.2.5 Residual VAT recovery with the exception of a significant capital project that attracts a specific recovery rate under the University's Partial Exemption Special Method (PESM). See para 3.4
7.2.6 Apportionment of any cost which is not an incremental cost arising as a result of the project.

8.0 Project risk

8.1 Project costings must reflect a high level of cost certainty before approval for a project budget is proposed. Project boards should be cautious in their approach to costing with the aim of ensuring that the budget requested is sufficient for its intended purpose.

8.2 **Inflation** - Project costs should be based on clear assumptions that recognise and mitigate the likelihood of price increases. In the absence of specific price indices the bank of England forecast consumer prices index (CPI) should be used to quantify the likely effect of increasing prices on project costs. The period during which prices may increase begins at the point current costs are established and ends at the point an invoice for goods and/or services is received or contract agreed.

There are more relevant indicators of price inflation for specific costs and these should be used when they are available. They include but are not limited to:

8.2.1 For building and construction services the RICS tender price indices available for national and regional contracts.

8.2.2 Employment wage increase forecasts for payroll costs – The University's pay forecast assumption should be used

8.3 **Currency exposure** – May lead to specific price pressures for imported goods and services such as IT computing equipment for example. This may not always be obvious when goods are priced in GBP so it is important to know the source of the supply and the base currency on which pricing is dependent.

Project costs should be reviewed and any exposure evaluated to ensure that costs included adequately cover the likelihood of adverse currency movements leading to price pressure.

8.4 **Contingency** – is a budgetary amount created to cover the assessed risk of unforeseen cost escalation resulting from price inflation, delay and the margin of error in estimating techniques used to calculate input costs required to deliver work. It also protects against omission of costs and scope.

Contingency must always be included in a project budget in accordance with the University's policy on the Management and Use of Contingency which prescribes a risk based methodology for the quantification of contingency.

8.5 **Optimism bias** – Is a value added to the estimate of project cost in recognition of the likelihood that costs have been underestimated. It is a tool which should be used to establish the potential full cost of a project for planning purposes. Its use is appropriate in the early stages of evaluating project cost to mitigate the risk of under providing financially.

8.6 Optimism bias should be used when estimating the cost of a project for inclusion in a road map or financial forecast or in cases when a project budget is requested before final cost certainty has been achieved. For example a building project where the project budget is approved based on a design stage cost plan and in advance of the contract tender price being received.

8.7 Optimism bias should be used in accordance with the University's policy on the Management and Use of Contingency which prescribes a risk based methodology to the quantification of optimism bias.

9.0 Revenue operating budgets

9.1 Projects will often impact on the cost of ongoing business operations. For example a new building will require a range of services to be delivered for it to remain operational and fulfil its purpose and IT projects will often result in ongoing license and maintenance costs. There may also be services that are no longer required or will run less expensively as a result of undertaking a project, if for example an asset is replaced by a more efficient one or an asset is made more efficient to run by introducing improvements. Similarly, decommissioned systems and software may result in reductions in the cost of licenses, maintenance costs and system administration costs. Incremental operating costs or savings include the following:

9.1.1 The cost of services to manage, maintain, repair and upgrade building assets. This includes the cost of building managers, porters, reception services, planned and reactive maintenance and repair.
9.1.2 The cost of maintaining and managing equipment including for example laboratory equipment and compliance obligations in respect of lifts.
9.1.3 Other compliance obligations in respect of buildings such as fire regulation, health and safety and accessibility.
9.1.4 System running costs including maintenance, software licenses, system administration and hardware replacement.
9.1.5 licenses and intellectual property
9.1.6 The cost of staff required to manage a system or a building or other asset or to deliver new services which arise by virtue of the project objectives. For example a building which brings together existing services to be delivered from a single location may result in operational savings from new ways of working but may equally result in higher costs where service delivery points are duplicated.

9.2 The increase or decrease to the University's revenue operating budgets as a result of doing a project must be assessed and the impact quantified as part of the project business case. Project proposals which lead to an increase or decrease in operating costs may not proceed for approval without the authorisation of the Director of Finance.