Summary

- The financial information you need to *run* a company
- Accounts of what income and expenditure around particular projects or products
- Forecasts of what is likely to happen in the future.
- Cost of Labour
- Overheads
- Budgeting
- Cashflows
Cost of Labour

- **Costs:**
  - Wage/Salary
  - Tax - (UK National Insurance Contribution) - usually proportional to salary level e.g. 10%, can be much higher e.g. 60% in some countries.
  - Superannuation
  - Medical insurance
  - Total is the payroll cost (In Edinburgh University this is 1.21 times the salary cost)

- **Effort**
  - 260 weekdays in the year
  - Deduct: Public holidays + annual leave + Sick Leave + Unproductive time (at least 40-50 days per year in the UK)
  - Approx 210 days per year times 7 working hours per day = 1470 hours

- So someone earning £30k at UoE costs $(30K \times 1.21)/1470 = £24.69$ per hour
Overheads

- Consider a company producing tangible goods (e.g. computers) as well as the production staff that assemble the goods we might also have:
  - Premises costs - rent, heat, light, business rates, ...
  - Management costs
  - Support staff costs (e.g. secretaries)
  - Vehicle costs - running cost, depreciation, ...
  - Advertising
  - Consumables - bandwidth, postage, paper, phones, ...
  - Advertising/Marketing
  - Insurance
  - Professional Fees

- Issue is how to allocate overheads to goods - share equally, or make proportional to labour needed to manufacture?
### Overheads in Universities

#### TRAC dispensation default rates – for non-HEIs and for HEIs eligible for and applying dispensation.

<table>
<thead>
<tr>
<th>Category</th>
<th>Indexed rate expressed as £ per staff FTE to be applied from April 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect cost rate</td>
<td>£38,000</td>
</tr>
<tr>
<td>Laboratory estates rate</td>
<td>£11,100</td>
</tr>
<tr>
<td>Non-laboratory estates rate</td>
<td>£6,400</td>
</tr>
</tbody>
</table>

#### TRAC upper quartile rates for the sector

<table>
<thead>
<tr>
<th>Category</th>
<th>Indexed rate expressed as £ per staff FTE Based on 2007-08 data indexed for two years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect cost rate</td>
<td>£41,200</td>
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<tr>
<td>Laboratory estates rate</td>
<td>£13,400</td>
</tr>
<tr>
<td>Non-laboratory estates rate</td>
<td>£7,300</td>
</tr>
</tbody>
</table>
Budgets

- Financial Plan of expected income and expenditure typically over a year.
- Typical sections are:
  - Overhead Costs: premises costs, management costs, advertising ...
  - Operating Costs: cost of materials, labour costs, depreciation on plant, ...
  - Income (typically from sales): estimated sales of different items at different costs.
- Typically a budget should show a surplus over the year.
- Budgets are often “profiled” into monthly expectations of spend and income.
Cashflow

- Monthly predictions of inflows and outflows of cash over the forecasting period of 6 or 12 months.
- Calculate the net flow for each month (either negative or positive).
- Calculate the cumulative cashflow for each month in the period.
- The cumulative cashflow can be used to predict the need for working capital.
- There is a difference between budgets and cashflows, if we sell goods for £X to company Y then:
  - that counts as £X of income in the budget
  - if company Y does not pay the invoice for three months that will be reflected in the cashflow.