



Turun yliopisto
University of Turku

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**Full costing principles and practices in the
University of Turku**

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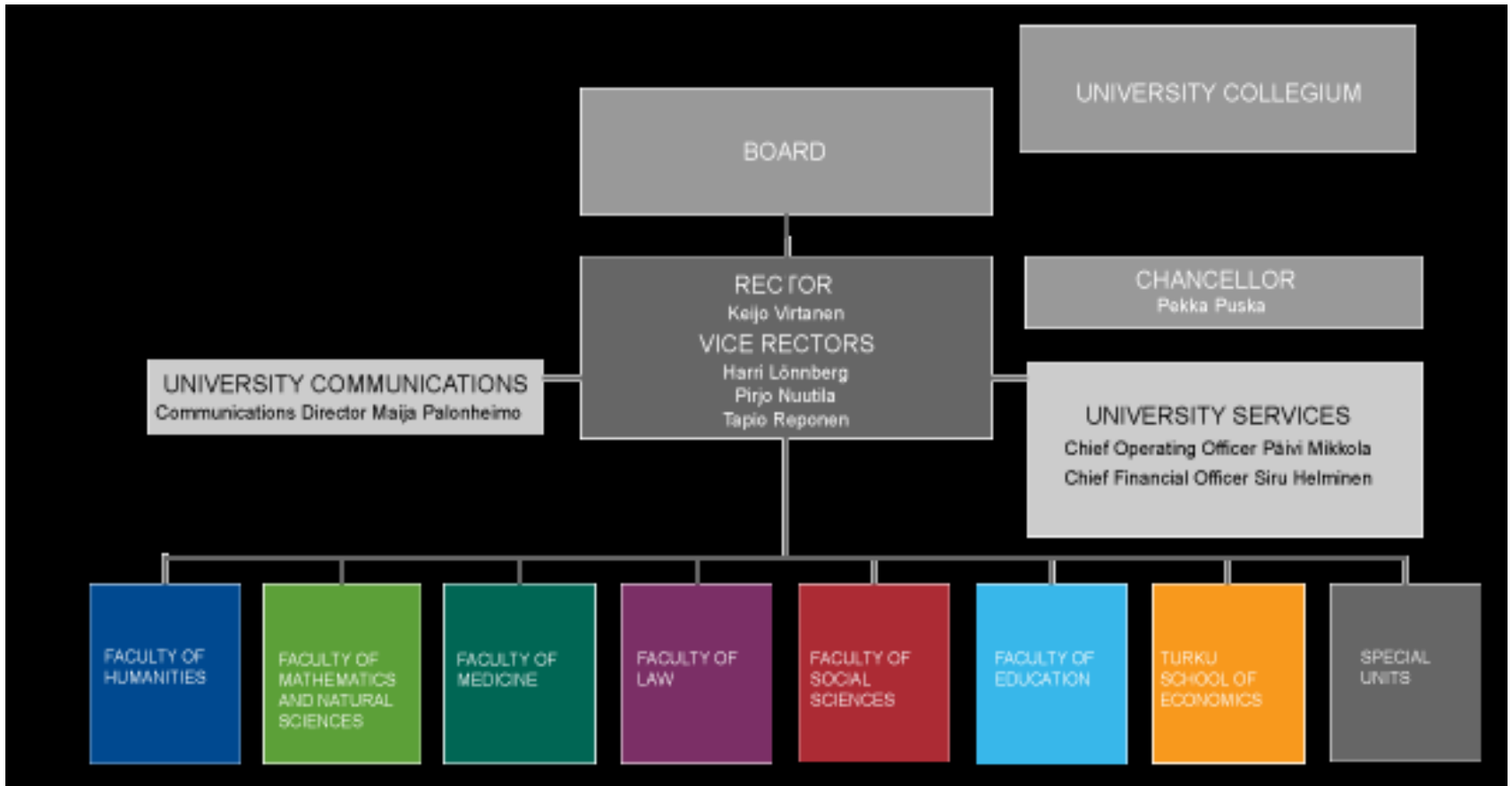


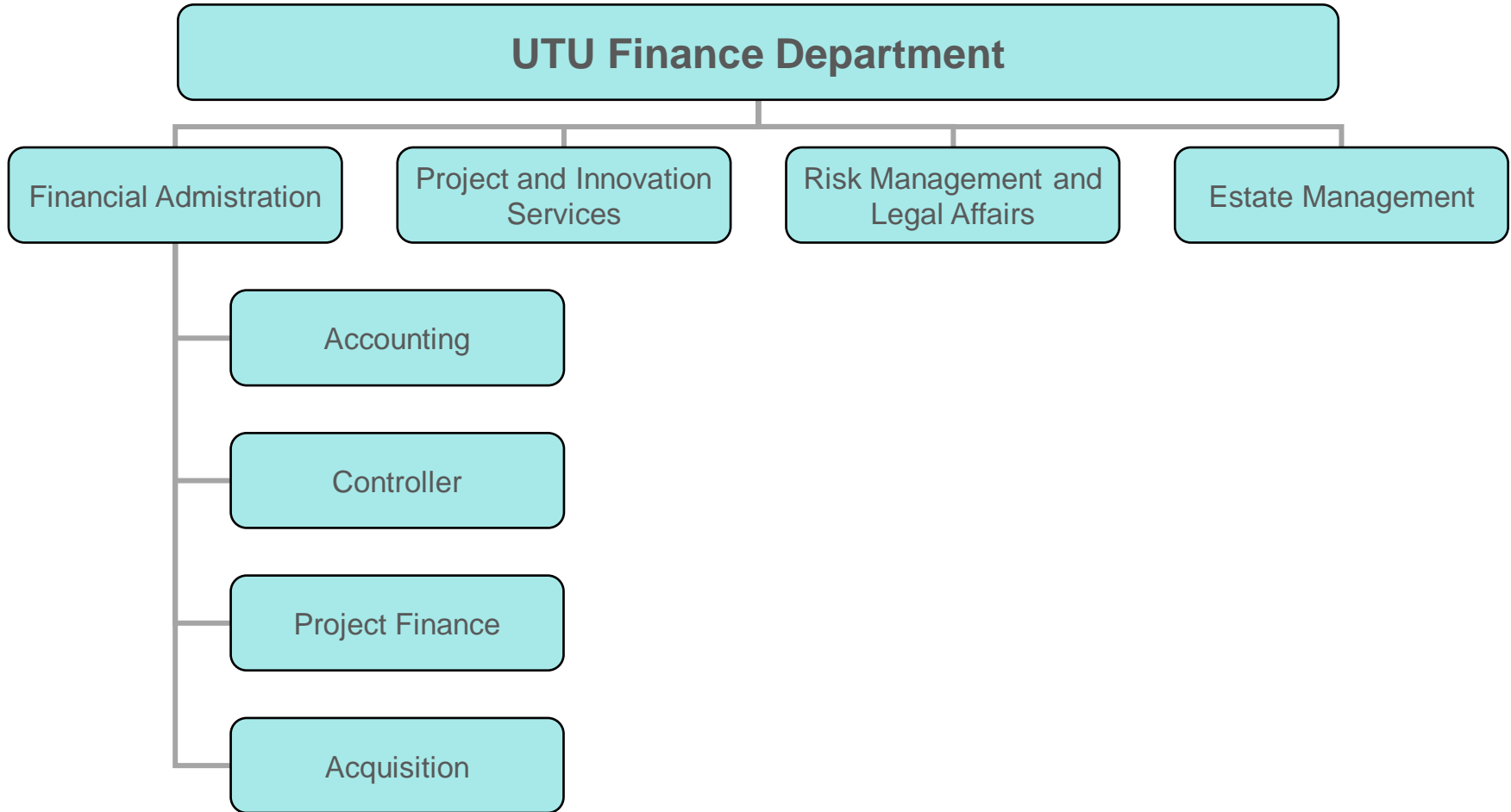
UTU FUNDING IN 2010

- Total funding: 252,9 million €
- Basic funding (the Ministry of Education and Culture): 165,1 million €
- External funding (other than basic funding): 87,8 million €
- Share of total university funding 34,7 %
- Most significant sources of external funding (share of total funding):
 - commercially funded activity 9 %,
 - Academy of Finland 10 %
- Target for funding period 2010-2012: external funding 40 % of total funding



UTU ORGANIZATION







FULL COST MODEL

- **Public funding bodies: funding based on AC → funding based on FC**
- **Full cost model used for collaborative projects at UTU 12/2008 → UTU main principle in project budgeting**

FULL COSTS OF PROJECT

= ALL DIRECT AND INDIRECT COSTS CAUSED BY THE PROJECT

DIRECT COSTS

Direct (effective) salary costs (= effective working time)

Other direct costs

INDIRECT COSTS (according to annual accounts)

Indirect employee costs (coefficient)

Overheads (coefficient)



BUDGETING PROJECTS: FULL COST MODEL 1

COST ESTIMATE (calculation spread sheet available)

Salary Costs

- Salaries of all the persons working in the project (both temporary and permanent staff!)
- Effective working time = gross salary x 0,92 (approx. 11 effective working months/year)

+ Indirect employee costs (coefficient)

- 51 % of salary costs
- Includes all mandatory costs + holiday salaries and paid leaves of absence



BUDGETING PROJECTS: FULL COST MODEL 2

+ Overheads (coefficient)

- 82 % or 67 % of sum of salaries + ind.employee costs

+ Other direct costs

- Travel, consumables, equipment, subcontracting, other

= FULL COST OF THE PROJECT



BUDGETING OF COMMERCIALY PRICED PROJECTS

Full costs of the project (according to the full cost model)

+ profit (8% of FC)

+ add or subtract according to market situation

= MARKET PRICE

+ VAT (23%)

= TOTAL PRICE OF PROJECT

→ ALL the costs (+ profit) caused by the project are covered by the price paid by the buyer!



FUNDING OF FULL COSTS

Cost estimate of the project (using full cost model) = funding plan of the project

e.g. Academy of Finland

- **AF funding max 80% of FC**
- **Other funding sources min 20%**

Commercial projects: **buyer's funding 100% of**

U.Turku own funding may consist of

- Permanent staff salaries corresponding to the efficient working time in the project
- Share of the overheads paid by the funding body and/or
- Other funding not tied up by other projects or activities



KEY FINANCIAL CONCEPTS IN UTU 1

2010 -> UTU financial system SAP

2010 -> accounting done by outside service provider (Certia, owned by universities outside Helsinki area)

Profit center: organizational unit financially responsible
(upper level in SAP)

Cost center: follow-up object of costs (under profit center in SAP)

Internal order: follow-up object of costs and revenues
(under profit center in SAP)

Project: an action for a specific period that is based on a contract or a grant from external source, costs and revenues
(under profit center in SAP)



KEY FINANCIAL CONCEPTS IN UTU 2

Finance Department in the central university services opens internal orders and project accounts in SAP. Profit and cost centers are established by Certia.

Project account can be opened after the financier has made a written decision on the funding.

UTU Financial Guideline 2010:

Head of Profit center: financially responsible for the profit center (department) as a whole

Person in Charge: responsible for the project according to project plan and terms of funding



FULL COSTING AND SAP 1

- The indirect employee costs (51 %) are charged on the basis of the salary costs entered on the project account
- The overhead costs (82 % (technical sciences) or 67 % (other sciences)) are charged based on the total sum of salary costs + 51 % coefficient
- If no salary cost allocation, no overhead costs will be charged on the project -> the cost center in charge of the project covers the overhead type of costs of the project
- Applied also on own funding salary costs



FULL COSTING AND SAP 2

- Until 2010 the overhead was charged based on income and/or costs
- The costs and income of the project are posted on different project accounting components (different project account number)
- SAP directs the overhead cost calculation so that it is run only on costs
- External income will remain untouched at the income component of the project account and can therefore in full be used to cover the costs of the project



FULL COSTING AND SAP 3

- Income related to university self financing of the project is at the profit center (is not transferred on the project account) -> at the end of the project the deficit on the project account shows the amount of the university basic funding needed to cover the own funding
- The profit center must follow its project portfolio in order to fulfil the own funding deficits of the projects
- Crucial problem for the units with limited amount of university basic funding and a large project portfolio
- University strategic funding can be used to support these units (3 million € in 2011)



WORKING TIME ALLOCATION

- Efficient working time is allocated on project using a working time allocation system
- Every employee has to use the system
- The working time is allocated on education, research, administration, external affairs and leaves of absence
- The allocations are transferred to SAP monthly. If no allocation is made -> the salary cost will not transfer on the project account -> no full cost model coefficients -> no full costs to present to the financier
- Indirect employee coefficient of the full cost model is calculated on the basis of the working time allocations



INTERNAL OVERHEAD COST PROSEDURE 1

Rector's Decision 17 Jan 2011:

The overhead cost run on the projects is directed back to four cost centers according to the following rule:

- University's central administration 20 % of the financier's share (the amount of euros allocated for overhead costs)
- Faculty 15 % of the total overhead costs
- Department 15 % of the total overhead costs
- The cost center of the leader of the project approx 50 % (the rest of the total overheads)



INTERNAL OVERHEAD COST PROSEDURE 2

- The faculty (profit center) can decide to allocate the overhead refund to departments (profit center under faculty).
- The refund on the cost center of the project leader (50 %) is meant for covering the overhead type of costs of project portfolio of the cost center. If the refund is more than the full costs of the project, the project leader can decide on usage of the rest
- The refund is used in all levels of the university to cover the deficits of basic funding.



IN THE FUTURE: UTU STEERING SYSTEM

Project started in 2010

Principles of steering include

- setting targets for the operation,
- allocating resources for achieving the targets,
- monitoring and reporting on the operation,
- evaluating and developing the operation as well as its quality and profitability

Steering system includes budgeting and follow-up of basic and external funding and external funding reporting.



UNIVERSITY STEERING SYSTEM: IMPLEMENTING, MONITORING AND REPORTING SUPPLEMENTARY FUNDING PROJECTS

The total life cycle of the project in the system:

- The project application is prepared and accepted in the system.
- When the decision of the financing body arrives (in future also in an electronic form) the financial administration establishes the project in the financial system (SAP) and stores the project number into the steering system. The information is sent electronically to the responsible leader of the project and the responsible unit.



UNIVERSITY STEERING SYSTEM: IMPLEMENTING, MONITORING AND REPORTING SUPPLEMENTARY FUNDING PROJECTS

- The leader of the project updates the budget prognosis of the project. The prognosis functions as basic information for the monthly monitoring and the interim reporting of the basic unit. The steering system produces the project's follow-up reports. (Imported from SAP.)
- The leader of the project can see his/her own projects in the system (portfolio). The heads of the basic units and the units can see the projects in their respective units.
- The responsible leader prepares an evaluation of the project in the steering system. The evaluation information can be useful when applying future projects.



Thank you!

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