

## University Covid-19 Contingency Costs – December 2020 Update

### Departmental Spending

The University's Covid-19 enforced temporary cessation of business as usual has given rise to a range of previously unforeseen costs as well as income streams foregone. While such impacts should be mitigated as far as possible, there will inevitably be significant residual costs for many departments and institutions. It remains too early to determine the final quantum of these costs or say how much of these costs might be covered by the University's central reserves and how much may need to be covered by departments and institutes (recognising that all funds ultimately belong to the University); the full extent of the likely exposure won't be known until the overall path of the pandemic is better understood, which is unlikely to be for several months yet. In recognition of these potentially lengthy timescales, this document updates and supersedes previous guidance issued regarding the University's approach to Covid-19 related departmental expenditure: principles for mitigating costs; and guidance for recording and tracking costs which cannot be mitigated ('Residual' costs).

For the purposes of this guidance, the financial impact of Covid-19 on departments and institutions is considered in the following broad categories:

- i. Costs incurred to adapt and respond to the lockdown<sup>1</sup> as well as ongoing new ways of working that have occurred as a result; either to allow working from home or infrastructure and protective gear to enable on-site working;
- ii. Costs of Covid-19 related initiatives (e.g. testing facility, digital platforms to enable on-line teaching), each with specific Planning and Resource Committee approval;
- iii. Research staff costs which cannot be recovered from funders, either because:
  - a. staff have been unable to carry out research necessary to meet contracted deliverables due to the impact of the pandemic; or
  - b. funders have reduced their budgets in response to Covid-19 uncertainties.
- iv. Trading income lost due to temporary cessation or part-cessation of activities.

### Source of Funds (SoF) ALBE

SoF ALBE has been set up to allow departments and the University to track previously unforeseen costs resulting from the Covid-19 pandemic, funding for which has not been otherwise approved. Costs incurred are expected to be necessary, reasonable and proportionate to the circumstances that gave rise to them and should only be recorded in ALBE to the extent that they:

- exceed any departmental savings arising as a result of the pandemic/over the period since March 2020; or
- are not recoverable from other sources.

ALBE is primarily a holding account: charging costs to ALBE does not guarantee that the Central University will cover them. Once there is greater visibility on the path of the pandemic and the

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<sup>1</sup> This includes costs arising from unforeseen requirements to respond swiftly to the realities of lockdown, such as temporary staff costs, emergency travel cost, or conference cancellation expenses

aggregate financial impact on the University, the question as to how these costs should be shared between additional allocations from the Chest or from departmental reserves shall be considered. The Central University's ability to cover Covid-19 costs, will depend on amounts charged to ALBE, as well as wider impacts of Covid-19 on the University's finances (e.g. impact on student fee income, Cambridge Assessment and CUP, etc.). The lower the amount charged to ALBE overall, the greater the proportion that the University will be able to cover, in due course.

It is important that departments and institutions take a consistent approach to using ALBE in line with this guidance. School and Non-School Finance Managers will monitor expenditure charged to ALBE and other specific Covid-19 SoF in support of these objectives and to highlight any emerging disparities. Emerging questions on specific matters which require interpretation of this guidance, should be referred to Finance Managers in the first instance.

### **Source of Funds (SoF) ALBM**

There are two exceptions to the above general principles. The Central University has confirmed that it will reimburse, in full, 'Residual' costs in respect of:

- Staff costs arising from the University's Contract Extension Scheme<sup>2</sup>; subject to the requirement to first utilise any surplus funds on the specific research grant, from which the individual was employed (if applicable);
- Salary costs of furloughed staff who are funded from research grants (to the extent they have not been mitigated through successful CJRS claims and where all other reasonable routes to recover costs from the funder have been explored); subject to prior approval of furloughing, on a case by case basis and the requirement to first seek to recover such costs from the grant funder. Note that there is further guidance regarding treatment of salary costs of furloughed staff funded from other sources, at the foot of this document.

A new SoF has been created (ALBM) to track these costs specifically, so they can be easily identified for reimbursement purposes. In both cases, residual costs should be transferred to ALBM when it is clear that there is no route to recover costs from the funder. Line item descriptions in CUFS should clarify that such costs relate to Contract Extension or Furloughed Research Staff, so they can be identified centrally. The phrases 'Furlough' or 'Contract Extension' should be inserted right at the start of the line item description, to ensure appropriate identification.

### **Detailed Guidance**

#### ***Unforeseen COVID-19 costs (item (i) – excluding costs pre-approved under (ii))***

- Costs under item (i) should be mitigated or otherwise recovered from external funders as far as possible, before any unrecoverable amount (the 'Residual') is transferred to ALBE.

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<sup>2</sup> This includes any additional redundancy cost arising from the increased length of service caused by the University's Contract Extension Scheme.

### ***Specific Covid-19 Initiatives (item (ii))***

- PRC has set aside a limited budget for University funding of specific, discretionary Covid-19 related initiatives. Budget proposals are scrutinised by the Finance Scrutiny Group/Financial Implications Task Force ahead of submission to PRC for approval. Where proposals are approved and funds awarded, specific sums will be set-aside and allocated to budget-holders, as a contribution to related costs incurred locally. In due course a distinct SoF will be set-up for each initiative (*e.g.* ALBI – Digital Platforms; ALBJ – UG Teaching Funding), so that awarded budgets can be allocated and expenditure tracked; departments / other budget-holders should charge relevant costs to the appropriate SoF, to a maximum of the amount awarded;
- Costs incurred on approved Covid-19 initiatives may initially and temporarily be charged to ALBE until specific budgets are set-up (only where PRC awards have been made), ideally in a ring-fenced local Cost Centre, which allows tracking of related costs;
- Any excess costs incurred locally, beyond the amount awarded by PRC, should be covered from funds available to the department, school or institute (not ALBE), until or unless this has come back to PRC for an agreed top up.

### ***Unrecoverable Research Staff Costs (item (iii))***

- ‘Residual’ research staff costs which cannot be recovered from funders, either because: staff have been unable to carry out research necessary to meet contracted deliverables due to the impact of the pandemic; or funders have reduced their budgets in response to Covid-19 uncertainties; should be transferred to ALBE;
- Except where costs relate specifically to furloughed research staff or staff covered by the University’s Contract Extension Scheme (where the University has already confirmed it will cover those costs – see above); in these cases, related staff costs should be charged to the specific SoF (ALBM), for separate tracking and reimbursement<sup>3</sup>;
- Transfers should not be made pre-emptively and costs should remain on respective grants (or other funds available locally), until it is confirmed that they cannot be recovered from the grant provider or from other sources;
- In most cases this will only be confirmed when each grant closes (which may be 3-6 months after the end date): when performance against deliverables can be properly assessed and negotiations with funders about additional sums and possible extensions reveal the extent of any shortfall in funding, required to meet outstanding contract deliverables;
- It is expected therefore, that some research costs will continue to be recharged to ALBE over the course of the next few years, as affected grants draw to an end; although it is hoped that the longer the time to a grant ending, the greater the scope to make-up any lost time in meeting research deliverables before the end date.

### ***Trading income lost due to temporary cessation or part-cessation of activities (item (iv))***

- Costs incurred against trading accounts which experience significant loss of income, due to total or near-total temporary cessation of activities during periods when buildings cannot be accessed, should continue to be charged against normal trading accounts, for the time being. Exposed costs arising from the loss of trading income should not be charged to ALBE<sup>4</sup>;

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<sup>3</sup> Where qualifying costs have already been charged to ALBE, these should be transferred to ALBM to ensure they are identified for reimbursement.

<sup>4</sup> This represents a clarification of previous guidance, which anticipated that some costs relating to temporarily ceased trading activities, would be transferred to ALBE once it was clear that no mitigating funds had been identified. Such charges to ALBE should now be reversed out.

- Affected departments and institutions should seek to mitigate the impact of lost income through appropriate cost efficiencies<sup>5</sup> (in the context of maintaining the activity as a going concern) and pursuit of alternative sources of income (e.g. grants);
- This may lead to some trading accounts going into deficit and perhaps remaining in deficit for a period; the University will not allow institutions to fail as a consequence of the financial impact of the pandemic and is prepared to allow activities to continue to operate under these conditions;
- The Central University will not make good all trading income lost. However, where the impact of the pandemic results in a permanent deficit for certain trading accounts which cannot be recovered from future activities, and where the trading account is a material component of an institution's overall finances, the Central University will consider requests, based on sustainable business plans, for funding top-ups to restore the financial position and sustainability of the activity; requests won't be considered until the end of this financial year (July 2021) at the earliest, at a time when there is a better understanding of the pandemic's impact on University and local accounts;
- In the meantime, resulting overspends should remain in the local trading account (not ALBE), so that significant emerging funding issues attached to specific activities, can be tracked at a high-level across the University;
- If some costs relating to trading activities have already been transferred to ALBE, these costs should be transferred back to the appropriate local trading account to be included within any overall local deficit or reduction in reserves.

### **Furloughed Staff Costs and Receipts in Relation to CJRS**

The treatment of 'Residual' furloughed staff costs will depend on the funding source, as set out below:

- ***Chest Funded***: no change, costs should continue to be charged to the Chest account where respective budgets have continued;
- ***Research Grants***: as detailed above (charged to ALBM where prior approval was sought);
- ***Trading Accounts***: as detailed above (continue to charge costs to local trading account);
- ***Other, including Donations, Trust Funds and Overheads***: no change, costs should continue to be charged to the respective account; as the funds themselves will have remained in place<sup>6</sup>.

Where the Central University receives income in respect of a successful claim under the Government's Coronavirus Job Retention Scheme (CJRS), for existing or future claims, that income will be transferred to the relevant department or institution except where the individual is funded through a Chest allocation. This will reduce the 'Residual' furloughed staff cost, eligible for recharge to ALBM for research staff.

Please note, not all furloughed staff were eligible for inclusion in a CJRS claim. In addition, a number of potentially eligible furloughed staff were not included in a CJRS claim. Where eligible furloughed

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<sup>5</sup> Organisational change that is likely to result in compulsory redundancies should be considered only as a last resort.

<sup>6</sup> In rare cases where Other income has been adversely affected by Covid-19 and that has exposed residual costs (e.g. committed costs against phased donation income which was subsequently foregone as a consequence of Covid-19), these may be charged to ALBE but only with agreement from the appropriate School Finance Manager.

staff were not included, and the department/institution had taken all of the necessary steps for them to be included, the relevant costs should be tracked, as indicated above (based on the funding source).

## Expenses Policy Addendum

An addendum to the University's expenses policy setting out the position as regards additional costs to employees, as a result of the Covid-19 pandemic, was issued in April 2020 [\[link\]](#); these measures were initially implemented until 30 June, but are now retrospectively extended until further notice. In all other respects, the addendum remains valid.

A number of queries have been received as to whether household utility costs (e.g. electricity, gas, telephone, broadband, etc.) can be claimed via an expense claim, due to home-working. As set out in the original communication, telephone costs (i.e. specific incremental call costs not line rental charges) incurred while on University business and incremental (i.e. additional) costs incurred to access broadband capacity to a level necessary to work at home, are eligible for an expense claim. Please note, it will be necessary to provide receipts to evidence the incremental costs. Other utility costs, such as heating and lighting, cannot be reclaimed via expenses, although staff should be aware that they may be able to claim income tax relief for additional costs related to working from home, as a result of Covid-19. The link to the HMRC website dealing with making claims was included in a previous communication [\[Link\]](#)

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## Appendix

### Covid Contingencies Departmental Guidance Table

	Default Funding Approach	Funding of Residual Costs <sup>1</sup>	Post Pandemic
<b>Necessary (ex-budget) Costs Incurred to Adapt and Respond to Covid (i)</b>	Mitigate costs as far as possible	Charge to ALBE where not recoverable from other sources	ALBE apportioned between Department and Centre (proportion TBD)
<b>Specific Approved Costs of Covid Related Initiatives (ii)</b>	Charge to ALBE temporarily pending specific budget allocation	Charge to specific SoF (eg. ALBI, ALBJ) to a max of budget awarded	Charge to specific SoF (eg. ALBI, ALBJ) to a max of budget awarded
<b>Staff Costs funded from Research Grants (iii)<sup>2</sup></b>	Continue to charge to Research Grant	Charge to ALBE (Furloughed and Contract Extension staff costs to ALBM <sup>3</sup> )	ALBE apportioned between Department and Centre (proportion TBD)
<b>Activities Funded from Lost Trading Income (iv)</b>	Continue to charge to Trading account	Continue to charge to Trading account	University will consider funding top-ups in respect of material, unrecoverable deficits, based on sustainable business plans

1. Residual Costs are those which cannot be mitigated or otherwise recovered from the appropriate funding source, or other related funds available to the department. In the case of research costs it is likely that final Residual costs will only be identified on a grant by grant basis, as each grant closes and discussions with funders lead to exposed costs.
2. Further guidance re. treatment of staff costs which aren't funded from research grants is included in the document. In rare cases where other unavoidable costs of Covid arise, which do not fit into any of the above categories, please discuss with School Finance Managers in the first instance.
3. ALBM to be used for all Residual Contract Extension Scheme staff costs, whether funded from research grants or otherwise.