

ACCOUNTING FOR HOSTING COSTS IN PROJECT DEVELOPMENT

Summary: To invite discussion and comment on the inclusion of hosting costs when developing projects.

Recommendation: That the report be noted.

Officer Ref: Simon Smith, Project Development and Business Planning Officer

Background

Progress to date

1. The issue of how the Board attempts to recover the hosting costs from the projects it delivers has been raised in a series of Executive Committee and Task and Finish Group meetings. This paper explores this issue and draws some broad conclusions.

What are hosting costs?

2. Hosting costs (also often called on-costs) are the costs of providing the support infrastructure for a project. In terms of Board budgets they can comprise of;
 - Premises costs; rents, rates, cleaning and utilities.
 - Supplies and services; phones, copying, postage, stationery and insurance.
 - Support costs; payroll, audit, human resources, IT support.
 - Line management; line manager's time & associated costs.
 - Governance; Board Member and associated meeting costs.Line Management is frequently itemised separately from the other hosting costs. Where all of these costs including governance are included the hosting costs are sometimes called "full cost recovery".

Hosting costs in bids

3. All of the projects delivered by the Board using external funding since 2009/10 have been reviewed to assess how the Board attempts to include hosting costs and what factors influenced this. **Appendix 'A'**.

This review shows that the Board does include hosting costs in its bids. It has been so doing ever since it was established in 2004/05.

4. Different funders operate different rules. Some refuse to fund staff or hosting costs for capital schemes (E.g. National Grid for the Landscape Enhancement Initiative and the Rural Payments Agency for the Growth Tourism Fund) and some are aware that public bodies will have core funding. For example the National Lottery Heritage Fund (NLHF, formerly HLF) will not fund a public body on the basis of full cost recovery as it will not allow the inclusion of governance costs. It will however fund the other hosting costs.
5. Hosting costs can be worked out differently according to different funder's requirements. A common technique is to work out a portion of the allowable

costs divided by the staff they support. Some funders such as the National Lottery Community Fund (formerly Big Lottery) provide their own spreadsheets for doing this. Another technique is to simply allocate an agreed percentage of employment costs (salary, NI & pension) as was the case with Saving Our Magnificent Meadows (20%), HLF supported, and LEADER (15%), Rural Payments Agency supported. Lead partners of partnership bids will need to ensure consistency and will also set how hosting costs will be calculated, often providing spreadsheets too.

6. The scale of the programme being bid for effects the inclusion of hosting costs. It is easier to include these costs within a programme employing officers e.g. Cotswolds Trails and Access, than a small bid for a specific thing e.g. £2.5k for volunteer chainsaw training from Historic England and £4k from the National Lottery Community Fund to support an event.
7. The adding of hosting costs to bids can be a judgement call which can be heavily influenced by the context and guidance from the potential funding organisation. The NLHF is infamous for stating that these costs can be included but then adding a caveat that it is a competitive process and that they are heavily oversubscribed and will be looking at the value of the bid.
8. A contribution from a project funder towards fixed costs (e.g. accommodation) can help offset the cost of the Board providing match funding as was the case with saving our Magnificent Meadows.
9. The delivery of projects can also bring benefits other than covering a share of central costs. For example the income earned for the Cotswolds Gateways and BATHSCAPE projects can help towards meeting the match funding requirement imposed by Natural England for the Cotswolds Trails and Access funding.
10. All of the above illustrate how officers regularly have to assess what scale of hosting costs can be reclaimed - subject to the rules of the individual funder and the context of the project being developed.

Hosting costs in quotes and tenders.

11. Unlike in bids where we have to comply with the 'rules' laid down by the funder we have more control over the inclusion of hosting costs when charging or tendering for work.
12. The Board has worked out day rates for different officers and this work has recently been refreshed with the development of a day rates calculator. In working out these rates we work out direct employment, hosting, line management and governance costs based on the Board's detailed budget and divide them down by the number of days an officer is available to undertake delivery work (allowing for weekends, bank holidays, annual and sick leave and necessary admin time).

- For a project officer

Cumulative Day Rates based on number of working days	
Day rate Inc. Hosting costs	306
Day rate Inc. Hosting, Line Management & Governance	472

- For a senior officer

Cumulative Day Rates based on number of working days	
Day rate Inc. Hosting costs	356
Day rate Inc. Hosting, Line Management & Governance	522

13. Recent examples of where we have been quoting for officer time are broadly in line with these rates.

- Rural Skills Officer; planning designing and leading the development of a wildlife area project at Burford School, £150 for a half day (1-4.30pm on site.)
- BATHSCAPE; development of radials & circular routes £250 day for a project officer, £400 for a project manager and £500 for a technical advisor.
- The Board currently charges £70 hour for pre-application planning and landscape advice which works out at £560 day + travel costs. Although already higher than the rate indicated by the calculator this charge will be reviewed in the light of market comparisons by the end of this financial year. Natural England currently charge £500 per advisor for a 90 minute meeting then £110 hour for each additional hour. Environment Agency currently charge £100 hour.

14. When tendering or charging for new work in the future the refreshed day rates calculator will be referred to although it won't be used to set rates lower than equivalent market rates. Where the calculator shows our current rates to be a bit low we will have to grow them in a way that brings our existing clients with us.

15. We also need to remain mindful of what the client can afford or the market can bear. Some tendering processes are competitive. Clients are also influenced by other organisations operating in the area. Our Rural skills Officer was recently working alongside a fully funded project officer who hadn't thought about charging for hosting costs at all! Similarly a sole trader working from home has much smaller hosting costs than a public body.

Core Funders Expectations

16. The Board is a publicly funded body. In 2019/20 it will receive £445,646 from DEFRA and a further £144,310 from Local Authorities in core grant. The Board's central government funding used to include a provision where a portion would be directed towards projects. This provision was removed in 2010/11 though there is an expectation that we will secure additional funding from new sources. We have more flexibility but there is still an expectation that some of this core funding will be spent on supporting projects. The Local Authorities also expect significant leverage from their investment.

17. This was illustrated when in February 2016 the then Secretary of State Rory Stewart wrote to all AONB Chairs. In this letter he said;

“Our financial commitment to AONB’s throughout the Spending Review period also provides the financial stability we believe the AONBs need to allow you to investigate and capitalise on new opportunities for income generation.

I know this is an area that the AONBs have individually and collectively been investigating and welcome your continued efforts to find innovative new sources of commercial and philanthropic funding to supplement the grant you receive from Government.”

Additional funding secured is also part of the proposed monitoring of AONB’s under the 25 year Environment plan.

18. As we receive considerable core funding we are not exactly like a business which has to cover all of its costs through delivery. In comparison the Board needs to maximise the leverage against its core funding. Where a project aligns with the Board’s priorities and an external funder will not pay for hosting costs the Board may choose to view this as a legitimate use of its core funds. An example of a project where we have recouped neither committed staff time nor associated hosting costs in the Landscape Enhancement Initiative supported by National Grid.

Conclusions

19. The inclusion of hosting costs is well imbedded in the Board’s culture with officers striving to achieve this as far as is possible and also considering it when assessing opportunities.

20. The inclusion of hosting costs can be constrained by the clear limitations and requirements of individual funders.

21. Funders commonly require cash match funding which cannot always be separately sourced. Securing hosting costs towards our fixed costs can help offset the cost of match funding.

22. There are many often complex factors involved in the decision to pursue any developmental opportunity and hosting costs is only one of these. Each opportunity is different and is assessed on its own merits.

23. Our core funders expect us to secure additional project funding and to use an element of our core funds to achieve this. Where an external funder will not pay for hosting costs this may still be a legitimate use of our core funds.

24. Officers are aware of Members interest in this aspect of project development and information on the inclusion of hosting costs is included in the external bids update which is a standing item on every Executive Committee agenda.

Supporting Paper(s):

Appendix 'A' - The inclusion of hosting costs in externally funded projects.