

## All I want for 2000... Is a costing and pricing strategy

**A**s we enter the last year of the second millennium, few institutions would expect to have better costing and pricing at the top of their wish list.

When we look around the sector we see many areas competing for attention: leading research groups working in archaic accommodation; young researchers unable to obtain secure posts; students working long hours to finance their study; information technology and learning resources that belie the rhetoric about the knowledge society; academic staff working long hours for modest monetary reward. Even the most successful universities admit that they are struggling to remain competitive on the international stage.

Of course UK higher education is still very effective and highly regarded worldwide. However, what many vice-chancellors probably want for the New Year is to preserve their institutions' autonomy and to gain some uncommitted resources (with no strings attached) to invest in development and improvement. Where can these resources come from?

The Transparency Review is already showing that some of the leading research institutions have underestimated (and understated) the true costs of their research. This will not be news to many in the sector (although the figures may surprise them). Initiatives like the Joint Infrastructure

Fund (JIF) have been a welcome (but not wholly satisfactory) attempt to recognise this. It has been easy for the Government to discount pleas of "a funding gap" while there is no hard evidence. And it has been possible for research and commercial sponsors to persuade universities and colleges to undertake contracts at prices which would put a commercial consultant out of business overnight. The sector has been aware of these problems, but has not confronted them.

The solution lies with the institutions themselves, backed by evidence. Transparency is providing the evidence. But for it to be used effectively, a significant proportion of institutions need to have a proper strategy for costing and pricing. This will enable each individually to unlock the resources that (surprisingly) still exist within institutions but are poorly targeted. Even more productively, it will provide the best chance for the sector as a whole to increase its income from all sources, but especially from external grants and contracts, which now make up a high proportion of the income of even non-research institutions.

Just as in industry, it takes foresight to see that paying attention to an apparently internal process can lead to better performance in the market. However, we are convinced that this is one of the best investments that institutions can make as the sector looks forward to its second millennium.

*Jim Port, JM Consulting*

# NEWSLETTER

ISSUE 3 JANUARY 2000

### Suggested Distribution:

Vice-Chancellors and Principals, Directors, Pro Vice-Chancellors (Resources and Research), Deans, Heads of Research, Finance Directors and Costing and Pricing Accountants.

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## Training seminars on pricing

**F**ollowing demand from the sector, the JCPSG is planning to run seminars in the summer to provide training and guidance on pricing.

The aim is to help institutions to review their pricing policies and to introduce a standardised pricing framework.

John Clements (Secretary to the Chest at the University of Oxford and representative of the BUFDG Training Committee) and Lisa Blackshaw (National Co-ordinator for Costing and Pricing) are currently developing the programme.

### Who will benefit?

The training will benefit both academic and non-academic staff who are involved in the pricing process. It will show how pricing relates to robust costing information, and help staff to improve their skills in setting and negotiating prices.

### What will be covered?

It is expected that the seminars will include the following:

- Reference to all income-generating activities and academic decision-making, including research contracts, residences, catering and conferences, consultancy and other services.

- Factors to consider in pricing, using examples relevant to most institutions and any identified good practice.
- The different types of cost-based methods and ways of calculating overhead rates.
- The importance of non-financial factors including social, environmental and political issues.

### Further details

Further details will be available in the spring from Lisa Blackshaw, and posted on the JCPSG web-site.

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## Regional self-help groups for finance staff

**T**welve regional self-help groups for finance staff in higher education are being set up around the UK.

The JCPSG is inviting finance directors, costing and pricing accountants and management accountants in HEIs to join a group in their region. Groups will provide an opportunity to share ideas and experiences and to spread good practice.

Membership will be voluntary, and group members will nominate their chair and determine their own agenda and meeting arrangements. Groups will be able to raise any areas of concern or points that need clarification with the JCPSG's National Co-ordinators, as well as keeping the co-ordinators informed of general progress within institutions.

### Existing groups

Such a group has been in existence in the North West since 1997 and is chaired by John Cunningham, Deputy Director of Finance, UMIST. It was set up to discuss costing and pricing issues and now has an over-arching interest in ensuring the Transparency Review requirements are met.

Other self-help groups set to meet for the first time in the New Year include the Yorkshire and North-East Group chaired by Sue Campagna (Management Accountant, College of Ripon and York St John), and the North-West Colleges Group chaired by Neil Taylor (Finance Director, Royal Northern College of Music).

Institutions in Scotland have also organised themselves into three groups. They intend to meet in January to learn from the experiences of two research-intensive institutions that are well on their way to implementing the recommendations of the Transparency Review. Donald

Pollock, Deputy Director of Finance, University of Stirling, will chair this meeting.

### Further details

Lisa Blackshaw, National Co-ordinator, will be contacting institutions over the next few weeks with details of the self-help group in their area. In the meantime, further information can be obtained from Lisa on 0161 247 1890; or e-mail [L.Blackshaw@mmu.ac.uk](mailto:L.Blackshaw@mmu.ac.uk)

### What about the Champions?

The JCPSG is considering setting up similar self-help groups for project 'champions'. Lisa Blackshaw would welcome your views on this idea. You can ring her on 0161 247 1890, or e-mail [L.Blackshaw@mmu.ac.uk](mailto:L.Blackshaw@mmu.ac.uk)

# Notes for project managers

These notes are aimed at those who are project managing the implementation of the Transparency Review requirements and the wider costing and pricing strategy. They clarify some of the issues in the Guidance Manual (page ii) and include a checklist of items that institutions should address when formulating their strategy for costing and pricing and applying for funds from the funding body (pages iii-iv).

## At the hypothetical University College of Tynebridge, the Project Manager explains how they intend to implement the requirements of the Transparency Review when allocating academic staff time.

“ Here at the University College of Tynebridge we are not going to wait to learn from the experiences of the pilot sites. We are aware that we will need to begin work on the Transparency Review soon because, like all institutions, the college will have to report in 2001 on 1999-2000 data. We have decided to ask the heads of most of the academic departments to complete the time allocation schedules on behalf of their staff. We have chosen some departments, however, to help us start some in-year time allocation methods.

Those heads of departments that are completing time allocation for their staff will gather information through an annual workload meeting with their staff. The workload profiles of some members of staff will be used as a proxy for others of a similar grade and with similar workloads.

Verification and validation requirements mean we will use a robust method of collecting time data over a five-year cycle. In-year data will be collected from our academic staff over this period. We intend to introduce in-year methods during the calendar year (2000), as we consider this to be representative of the academic year 1999-2000. We intend to apply this to 25% of our staff, with the rest of the institution being covered by annual retrospective data collection for that year.

For the departments starting in-year time allocation we have designed three schedules, covering terms 2 and 3, and term 1 of 2000-01. (We know that two will not meet the Transparency Review requirements.) Heads of department will not need to sign off these schedules. After discussions with our project team, which includes academic representatives, and our Director of Personnel, we do not plan to collect information on the total number of hours worked.

The total publicly funded research activity for our institution is actually much less than the £0.5 million threshold identified in the Guidance Manual. This means that, according to the costing standards, we are not actually required to carry out verification and validation checks (see the discussion on dispensations on page ii). We have decided, however, that we will undertake the verification processes in order to improve the robustness of the data and provide more useful information internally.

In the first year we will also carry out some reasonableness testing to show that our data are fair and reasonable. We will do this by benchmarking outputs against those from similar institutions, studying outlying results, and comparing time data with that derived from different sources (such as from our workload planning models).

We do not intend to repeat our methods of data collection year after year unless we are aware that the figures previously provided have materially changed and are no longer appropriate. We do intend, however, to improve our information year on year to ensure that we are reporting robust data. Whatever time allocation methods we use, we will want to carry out reasonableness checks every year.

After the first five-year cycle we may use another accepted method in order to reduce academic involvement, namely, statistical sampling. Or we may consider the ‘big-bang’ approach whereby we would ask all appropriate academics to complete several in-year time allocation schedules over the same year. We will want to learn more about best practice in the sector, based on experience in the first five years, before deciding on this. ”

**An institution can opt to use a range of methods within the organisation, as long as they meet the Transparency Review requirements for robustness. Project managers should ensure that they are fully conversant with the Guidance Manual and the costing standards.**

**As project managers within institutions tend to be responsible for the development of a wider costing and pricing systems, they need to ensure that the work of the Transparency Review is part of a holistic approach and embedded in the institution’s own costing and pricing systems.**

**The JCPSG is planning to run workshops for project managers in the summer, focusing on taking forward the implementation phase. Details will be posted on the web-site.**

# Clarification of the Guidance Manual

## Reducing the burden for small institutions

### Dispensations

The Transparency Review guidelines recommend that all institutions should have regard to the principle of materiality. Following this principle, institutions will not be required to carry out verification and validation checks if their total income for publicly funded research activity falls below £0.5 million. This dispensation will cover about 40 institutions.

The dispensation means that cost drivers are not subject to verification and validation. Time is of course a key cost driver (of staff costs), and the requirement to introduce a 'robust' time allocation method in five years is relaxed. Similarly, there is relaxation of the requirement to verify other cost drivers, such as those used for estates and learning resources costs. High-level proxies such as student FTEs or student numbers can continue to be used to allocate these costs, and there is no need to investigate and identify other more 'robust' drivers (such as the space or library resources used by each department and for each type of activity).

However, these verification processes do ensure that more robust data and more useful management information are provided. For this reason, some institutions that fall within the dispensation category have already decided to carry out some verification and validation checks.

All institutions, irrespective of the size of their research income, are required to carry out reasonableness checks on their data to ensure it is fair and reasonable and a fair reflection of reality. A list of suggested reasonableness checks is provided in the Guidance Manual, Section C4 page 23.

The dispensation also states that there is no need to calculate cost rates, unless institutions wish to justify costs to sponsors under the Transparency Review of Research. However, it would be useful for institutions to calculate cost rates because they can use the data to inform price setting for teaching and other activities.

For further information, contact Lisa Blackshaw, National Co-ordinator for Costing and Pricing, on 0161 247 1890.

## Development of the Guidance Manual

The following two main areas of guidance still need to be developed:

1. The treatment of clinical service costs within medical and dental schools. A consultation paper has been distributed to medical and dental schools.
2. Adjustments to the costs showing in the final accounts to reflect an institution's full infrastructure costs and also to provide for a rate of return. A paper on this subject is being submitted this month to the Transparency Review Steering Group, chaired by Dr John Taylor.

### Definitions

The following clarifies some **definitions** in the guidance manual:

1. Preparing Research papers and books for publication should be classified as Research.
2. Preparing non-research papers and books should be classified as scholarship or Support for Teaching.
3. Preparing materials for Teaching should be classified directly to Teaching.
4. Time on external examining is classified as Teaching (not Support for Teaching).
5. Clinical trials may be classified to either Research or Other (the definition in Section D3 is correct).
6. Overseas/self-funded students on UK courses should be pulled out as Non Publicly Funded Teaching if material (a high level apportionment would be acceptable). However, you may find that considering materiality at a department level is more relevant than at an institution level.

# Strategy for costing and pricing - checklist

The following questions will guide institutions in formulating their strategy for costing and pricing. A longer version incorporating comments from approved applications can be found on the JCPSG web-site at [www.bris.ac.uk/JCPSG](http://www.bris.ac.uk/JCPSG).

## **1 Do senior management support the implementation plan and timetable?**

The application for funds should include a detailed implementation plan and timetable. Senior managers should be clear about the outputs/deliverables from the proposed strategy and be fully committed to its successful implementation. The plan should show clearly how the strategy will become fully embedded in the management decision-making process and adopted within the institution as part of its day-to-day operations.

## **2 Has the institution secured the resources to implement the plan?**

The institution should consider how the initiative will be resourced at the set-up stage and as an on-going strategy. The project may require all or some of the following:

- a dedicated accountant/part qualified accountant to manage the project
- guidance and availability of a senior member of the finance division
- a temporary member of staff to cover the work of somebody seconded to the project
- releasing time for other members of the project team
- enhancements to computer hardware and the purchase of costing and pricing software
- use of consultants and training costs.

The main question to ask is 'Will the resources employed produce the desired outcomes?'

## **3 Is there a plan to train all staff involved in the costing and pricing of activities?**

Training will be integral to the success of the project. Institutions that have already formulated their strategy and who are starting to implement beyond the Transparency Review requirements intend to give training a high priority, using materials commissioned by the JCPSG and other internally generated training packages.

The training of staff should be ongoing and will need to develop in line with advances in institutional information systems. Any training programme should be aimed at all staff with an interest in costing and pricing, that is, the senior management team, the academic board, heads of schools and central services, budget holders, and finance division staff.

## **4 Are the implementation plan and timetable to be discussed and approved by the governing body?**

The proposed strategy will need to be approved by the institution's internal committee structure. However, applications can be made to the funding council in advance of governing body approval; funding will be conditional on that approval being given at the next meeting of the governing body.

## **5 Does the plan include a post-implementation review?**

The institution should plan to review the work undertaken and inform the governing body of the benefits gained.

## **6 Does the plan include an examination of the processes and decisions involved in pricing activities?**

Institutions should review pricing policy with a view to introducing a standardised pricing framework. They should revise formal internal planning and approval processes and structures to include a review by, and recommendations from, the finance division.

The Financial Memorandum between the funding councils and institutions states that institutions should ensure that the full cost of all research, consultancies and other activities commissioned or sponsored by outside bodies is assessed. A costing model can be used as a basis for assessing prices for activities.

**7 Do the strategy and implementation plan follow the guidelines in the JCPSG publications?**

The proposed strategy should be based on the principles set out in the documents distributed by the funding bodies, the JCPSG, and the CVCP. These include 'Management information for decision-making: costing guidelines for higher education institutions', published by the funding councils in July 1997; and 'Costing and Pricing of Research and Other Projects', published by the CVCP in March 1998.

**8 How does the costing and pricing strategy fit with the overall institutional strategy?**

Any costing and pricing strategy should fit with the institution's strategy and mission. To enable a full understanding of resource usage, it must also cover all the institution's activities, at home or overseas, academic and non-academic (such as residences and catering). The strategy should also fulfil the requirements of all stakeholders, namely, the Government, other sponsors, and of course the university or college itself.

**9 How will the institution promote the integration of academic, financial and other operational decision-making?**

The integration of academic and financial planning is a key element for effective decision-making in HEIs. Institutions will need to embed their costing and pricing methods within the academic and non-academic processes of the institution.

**10 Is the work for the Transparency Review part of a holistic approach to costing and pricing?**

To gain the maximum benefits, institutions may find it appropriate to satisfy the requirements of the Transparency Review as part of a holistic approach to costing and pricing, and to embed this into whatever systems and methods it adopts. The outcome of the Transparency Review should strengthen the drive towards proper costing and pricing.

**11 What benefits will the institution derive from its strategy?**

Each institution will have its own benefits, however, for every institution the strategy should provide:

- a more strategic approach to financial planning
- enhanced management information, decision making, and transparent funding
- greater confidence using a more credible base, in negotiating prices with commercial clients
- a more consistent approach throughout the institution to evaluating existing and new activities
- a greater understanding of the financial implications of academic and other decisions
- greater awareness of the relative contributions of the operating units and an increase in net contribution
- increased control of the institution's costs.

**12 How is the project going to be managed?**

The project will need clear commitment from the senior management team, with leadership from the top. A multi-disciplinary steering group can provide direction and help establish consistent and approved principles and a framework against which the project will operate. Other staff members with specialist knowledge may be co-opted to the group as required.

The project will need a manager to oversee development through every stage. A project team should also be identified, whose members will be responsible for the day-to-day management of the project. The project should be centrally controlled and co-ordinated in both the development and post-development stages to ensure a consistent approach throughout the institution.

**13 Will the exercise be piloted in a particular faculty or department?**

It may be appropriate to apply the resultant model to a pilot faculty or group of selected departments to test principles and approaches.

**14 When will the project start?**

Developmental work must begin as soon as the institution has received the first tranche of funding from the funding council.

## Funds still available

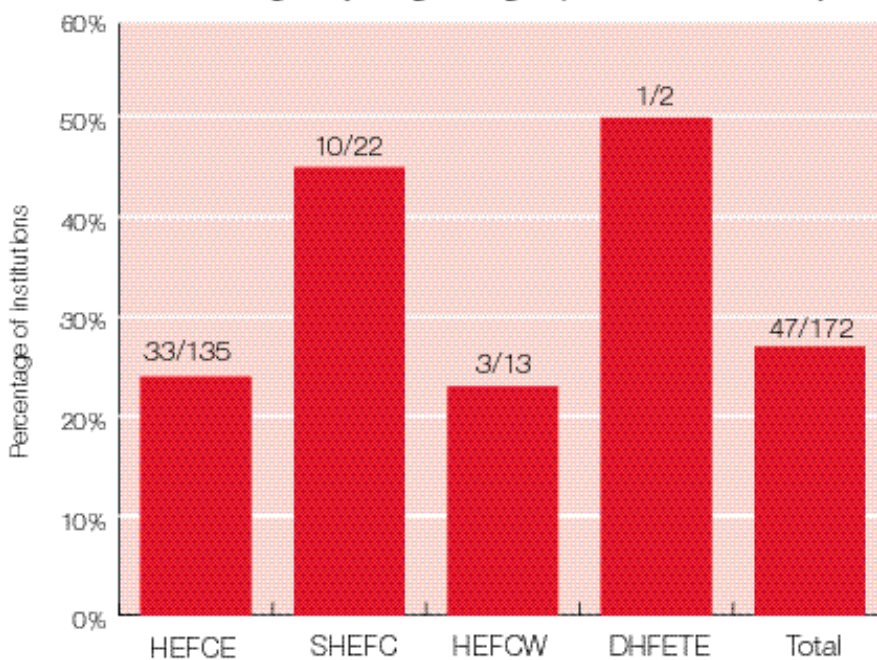
**Funds to support the development and implementation of strategies for costing and pricing will be available to all institutions until 31 July 2001.**

The four funding bodies launched initiatives in June 1998 to provide funding to help institutions develop their strategies for costing and pricing, and to improve management information and decision-making.

After a slow start, due to uncertainty over the requirements of the Transparency Review, the number of applications accelerated in the second half of 1999, and many more are in the pipeline. However, take-up in England and Wales is lagging behind that in Scotland (see chart below).

The enclosed 'Notes for project managers' give advice on preparing a strategy and applying for funding.

**Applications to UK funding bodies to develop and implement costing and pricing strategies (at 23 December 1999)**



	HEFCE £000	SHEFC £000	HEFCW £000	DHFETE £000	Total £000
Funding available	2,640	380	340	45	3,405
Funds paid to date	223	165	25	13	426
Funds still available	2,417	215	315	32	2,979
%	92%	57%	93%	71%	87%

Note: Funds are paid in two tranches: the first on submission of an application and strategy that address the criteria, and the second when the strategy has been implemented across the institution. Payments to date relate to stage one only.

## 10 Golden Rules for a costing system

Here are 10 golden rules to guide you in developing or reviewing a costing system. They apply both to systems based on the use of spreadsheets and to commercial software packages.

- 1** Keep it simple – at least in the early stages. Refinements can come later.
- 2** Spend a long time planning and thinking. Work the logic of the system through on paper before you start to computerise it.
- 3** Avoid re-keying data. Download data from other host systems where possible, such as payroll, accounting and student record systems.
- 4** Ensure the hardware you are using is powerful enough – particularly if you are downloading information from other systems.
- 5** Ensure the system has in-built flexibility.
- 6** Ensure the user can easily change the system. Avoid the need to involve computer programmers for slight modifications.
- 7** Have a plan for implementing the system. Don't make the timetable too tight.
- 8** Break the development of the system into blocks. A critical path analysis will help you determine the order in which the stages have to be completed.
- 9** Test the system using a pilot department or faculty.
- 10** Keep the system up-to-date.

## It's never too soon – but it could soon be too late...

... to start your time allocation surveys... to devise your strategy for costing and pricing... to appoint your project manager

### Time allocation surveys – 'in-year' data collection

All institutions (whether research-intensive or not) are required to report on their 1999-2000 financial information.

Many institutions may choose to use a 'retrospective' time allocation method for collecting information to allocate costs to the various activities. However, they could still choose to use an 'in-year' time allocation method if they start now. This allows them to test or start introducing a more robust method that will meet the Transparency Review requirements over the five years. By doing this, it should be easier to understand and explain the data to be reported for 1999-2000.

The research-intensive institutions are required to do some testing of their approach or data in the first year, and most are doing this by collecting 1998-99 data in some pilot departments. However, some are taking the opportunity to start in-year work in 1999-2000. It is optional for the rest of the sector, but the advantages in terms of improved understanding and quality

of information means that many are considering some in-year work.

Some of the pilot universities are also doing in-year work, even though they are having to focus specifically on collecting 1998-99 data across the whole institution.

Time allocation methods are discussed in Section C2 of the Manual of Guidance. Clarification and options are given in notes issued by JM Consulting on 15 November (Notes) and 22 December 1999 (Notes 2). Contact your National Co-ordinator for further information.

### Strategy for costing and pricing

Institutions will derive maximum benefits from implementing a costing and pricing strategy if the objectives are clearly defined at the outset, and if the strategy is integrated with the overarching financial and corporate strategy for the institution.

Establishing objectives early in the process will help to ensure that the outputs from the costing and pricing strategy, particularly in terms of improved management information,

can be used to support the delivery of academic and corporate goals.

Further information on preparing a strategy is given in the enclosed 'Notes for project managers'.

### Have you appointed your project manager and started planning?

The 'Transparency Review Report' identified 1999-2000 as a 'year of planning' for most institutions, but there is still much to be done in preparation. All institutions should therefore have appointed a project manager, and have started work on planning the implementation, by spring of this year at the latest.

Further information on what institutions need to do is given in Sections B1 and B2 of the Manual of Guidance. By May 2000, institutions will need to have made progress on the first seven steps in the list on page 6 of Section B2.

The JCPSG is planning to run a series of workshops for project managers in the early summer which will focus on progressing to the implementation phase.

## What's new on the JCPSG web-site

The JCPSG web-site is at [www.bris.ac.uk/JCPSG](http://www.bris.ac.uk/JCPSG). Latest additions include:

- presentation slides from the seminar by JM Consulting on implementing the Transparency Review
- checklist for institutions that are developing costing and pricing strategies and applications for funds
- electronic documents issued by the JCPSG.