

## Guidance manual: Transparent Approach to Costing (TRAC)

**T**he guidance manual has now been finalised and copies will be sent to all institutions shortly. It is substantially unchanged from the draft version (September 1999) but now includes clarification on certain areas and additional advice.

It contains new guidance in two areas:

- Attribution of costs in medical and dental schools.
- Cost adjustments – in particular, the infrastructure adjustment and the cost of capital employed.

It also takes a broader perspective in order to reflect the needs of the whole sector and draws, where possible, on the experience of the pilots (e.g. time allocation).

The final version also includes:

- **an action plan** based on a set of methods which meets Transparency requirements but in the least burdensome way (see 'Transparency Review – Checklist of actions' on page 5)
- **options for time allocation methods** – alternative methods
- **a section on cost drivers and cost pools** – how they should be used within the transparent approach to costing
- **greater detail on the implementation of a cost attribution model** – for use in designing a (spreadsheet) system
- **a key words tracer** – providing a quick reference to information on some key areas.



NEWSLETTER

ISSUE 5 JULY 2000

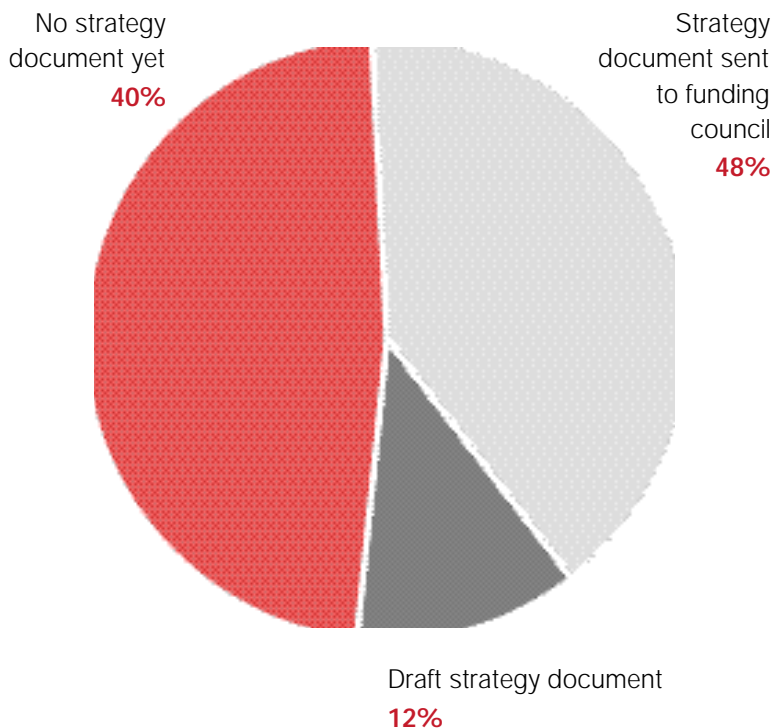
**Suggested Distribution:** Vice-Chancellors and Principals, Directors, Pro Vice-Chancellors (Resources and Research), Deans, Heads of Research, Finance Directors and Costing and Pricing Accountants.

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## Stop press: have you applied for funds?

**Funds to support the development and implementation of strategies for costing and pricing are still available from the funding councils. The number of applications has accelerated in recent months with over half of the institutions in the sector having developed their strategy.**

### Costing and pricing strategy documents



If you would like to discuss your application with a member of the JCPSG team or would like to receive comments on any draft document that you have prepared, please contact your National Co-ordinator.

## Future events

### Transparency Review implementation – training workshops

We are offering further training workshops to help institutions prepare for implementation in 2000-01. Two of these events were held in July, and we will run two further seminars in September on the following dates:

**5 September 2000: London, CVCP**

**26 September 2000: University of Edinburgh**

These seminars will be primarily of interest to those who are in the 'rest of the sector' group, who have already begun to implement the Transparency requirements, and will also provide refresher training for recently appointed project champions or project managers in research-intensive institutions.

#### Further details are available from:

JM Consulting Ltd  
Saville Court  
Saville Place  
Bristol  
BS8 4EJ  
or e-mail Sue Pullen at:  
jmconsulting@dial.pipex.com

### Pricing materials and seminars

The JCPSG has commissioned work to provide the sector with materials and seminars on the subject of pricing. The material will be in the form of a handbook or toolkit focusing on best practice in higher education. The seminars, which will introduce the issues in the handbook, will be of interest to all those involved in the setting and negotiating of prices in HE.

It is expected that the handbook and seminars will be available to the sector during October and November, however, the dates for the seminars have yet to be confirmed.

**Further details will be published on the JCPSG web-site soon.**

## Implementation: organisational value from costing and pricing

### Integration of academic and financial decision making

'There is a general development and introduction of business planning with business case submission and review across the university. Some areas are further developed than others, and reviews of good practice are undertaken by the central finance department.

In addition, the University has introduced a comprehensive financial investment appraisal pro-forma across the organisation that is in a standard format and is to be used for all significant business cases.'

University of Leeds

'Better cost information and a better understanding of pricing should enable Schools to achieve the financial targets established within the academic planning process, in particular, indirect cost recovery through better pricing of externally funded activity. For example, the Schools are being encouraged to review some of their courses, with a view to discontinuing some courses and increasing the price of others. This could not be achieved without a better understanding of the cost-volume-price relationships, which the College's costing and pricing methodology is helping to deliver.'

King's College London

### An increase in the understanding and commitment of staff

'We have established a Finance Client Group which acts as a forum for the exchange of ideas and information between representatives from all of the departments, both academic and support services, and the finance office.'

University of Wales, Bangor

'Using the college intranet, a Costing and Pricing Project site has been set up within the Department of Policy Support and Information. This provides access for all staff to details of the Costing and Pricing Steering Group (membership, agenda, minutes of meetings) and external documentation and guidance received from the JCPSTG'

Edge Hill College

### Improving net contributions

'A standard approach has now been developed for the pricing of commercial activities, and initial indications are that this has resulted in higher prices (and net contributions) without any significant reduction in customers.'

Swansea Institute

'The data from one pilot faculty indicated a clear problem in relation to one of its courses. This provided the impetus to review this provision. As a result, courses have been rationalised and reconfigured and this should result in the elimination of any deficit within 18 months.'

University of Salford

'There has been a push to raise the level of indirectly attributable costs on sponsored research and to raise, overall, the average value of grants and contracts. There is evidence from both applications and new awards that this is being successful.

Pre award grants administration has been strengthened in order to provide proactive support, amongst other things, to the price negotiation process.'

UMIST

### Standardising the approach in identifying cost centres, and the costs (direct and indirect) associated with them

'The accounting structure/chart of accounts have been reviewed, and a standard approach to the establishment and use of cost centres and expense codes has been adopted. The schools are now using course codes to record transactions, and extensive use is also being made of project codes throughout the institution'

University of Wales Institute, Cardiff

'A detailed analysis of space needs has been carried out to assess the current efficiency of room allocations and to assess the future requirements. This should feed into the costing system once the data have been assimilated. The introduction of a computerised timetabling system will greatly assist with both the allocation of accommodation costs to courses and the efficiency of space utilisation within the college.'

College of Ripon & York St John

### Additional guidance

'The university is currently reviewing the administration of its contract and project activities. A detailed guidance document is being drawn up to enable standardisation and consistency across the university. The document includes standard salary costing rates, examples of the required forms that must be completed, notes on the completion of these forms and detailed notes on the accounting treatment of income and costs.'

University of North London

## A strategy for costing and pricing A holistic approach

### Case study: Embedding costing and pricing within a wider framework

Nottingham Trent University

**Here at the Nottingham Trent University, our strategic development plans are articulated in the Long Term Strategy Initiative (LTSI); a strategy covering the whole institution and integrated into our corporate plan. One of the strategic aims is to establish a distinctive image and position for Nottingham Trent within the HE sector, characterised by high quality and standards of excellence in teaching and learning. Another aim is to expand our research and commercial activities.**

A range of management initiatives underpins LTSI which, together with academic planning processes, should provide an integrated management framework that will do much to inform and enhance our decision-making, at both strategic and operational levels. The full integration of our academic, financial and operational strategies is a major feature of the LTSI.

The initiatives set to deliver the strategy include:

- course costing
- costing & pricing working group
- transparent approach to costing
- benchmarking of performance indicators
- agreed cost relativities
- quality-driven resource allocation.

These initiatives are complementary in nature. Some are firmly established, while others are at various stages of development.

Most of these issues require a holistic approach, to ensure that they become embedded in our day-to-day management processes. This is particularly true of costing and pricing, which is not seen as simply another finance department issue.

Within our strategy for embedding costing and pricing systems, we plan to implement Activity Based Costing across the institution. This will involve us in the design and delivery of appropriate training materials for managers (academic and non-academic), and will include material already available from JCPSG.

Managers recognise the need to establish sound costing and pricing procedures. Whilst being a teaching-intensive university, we are keen to exploit opportunities for further expansion of our research and commercial activities. Accurate and reliable costing data is an essential ingredient in ensuring that we achieve maximum contribution from such activities.

In similar vein, improvements in the quality of our management information will better inform decisions on the viability of courses, projects and other internal activities. Increased confidence in the quality and consistency of costing information will lead to better understanding and control of our costs, and so allow most effective use of resources.

The drive for improved management information has benefited from our recent in-depth review of commercial activities. The outcomes of that review are already impacting on the way in which our commercial business is

negotiated and priced. Lessons learned from this review will feed directly into our work on costing and pricing across the university.

Running alongside costing and pricing, the benchmarking initiative will produce detailed comparative data on the use and deployment of resources. This will provide managers with the opportunity to clearly identify any significant variations in performance (both internally and against other institutions), and allow better-informed judgements on the need for, and type of, any action to address such variations.

Along with course costing data, this should be of particular value to academic managers, who will be able to use the data to inform their decisions on resource allocation, and so maintain and further improve the high quality of our teaching and learning.

The Transparency Review will inform (and be informed by) these integrated management initiatives. As these initiatives become fully established, we should be able to generate data for the Transparency Review (and similar projects) as a by-product of our own management processes.

The establishment of a fully integrated management framework is an ambitious undertaking, and we recognise that its implementation will not occur overnight. However, the potential benefits to the whole institution are of sufficient value to warrant the significant investment of time and effort that it requires.

**Bill Turner,**  
**Principal Projects Manager //**

## JM Consulting Ltd: Report on pilot progress...

**The eight pilot universities<sup>1</sup> have now completed the work needed to report the five cost figures required by the Government in July. They have been joined by a ninth, Heriot-Watt, which started time allocation before it became a Transparency requirement, and have now completed their second year of this process.**

The original purpose of working with pilots was to test and develop the costing methods during this first year, so that any difficulties could be sorted out before the whole sector has to begin implementation during the academic year 2000-01. The Implementation Team has therefore been working closely with the pilots and monitoring their achievements during this year. We have been very impressed by the serious and constructive way that all nine institutions have contributed to this first pilot year.

Because of the timing (the universities started in summer 1999, to report on costs for 1998-99) the pilots have all had to use the simplest allowable method for time allocation – annual retrospective, and in most cases they have surveyed heads of departments rather than individual staff. This is not a failing – it was inevitable with the tight timescale required – but it does mean that the pilots still have a significant amount of learning to do,

along with the rest of the sector, as they move to more robust time allocation methods in future years.

To assess the quality of the first Transparency data from the nine institutions, two benchmarking meetings were held in March and May which provided an opportunity to:

- compare notes and assess the way the institutions had interpreted the guidance
- assess the impact of those areas where (rightly) they had to use proxies or approximations in this first year.

The assessment process consisted of the consultants circulating spreadsheets which each institution completed, followed by a meeting to discuss similarities and differences. This was a forerunner of the process of 'reasonableness checking' which is required by the guidance and which all institutions will need to do in future years. The benchmarking process has proved to be very helpful.

Perhaps even more important in this first pilot year is the confirmation that the Transparency methods are practical and workable, and that the sector is therefore well on track to meet the requirements of the Government. In addition the sector will gain some very valuable information which will no doubt contribute to the future financial strategies of institutions.

## Transparency Review

### Checklist of actions

**The final guidance manual includes two checklists of actions required in implementation. These are in the form of a 'standard method' designed for use by either:**

- research-intensive institutions
- institutions in the rest of the sector that wish to adopt a 'minimum effort' approach.

Each describes a 'standard method', giving specific suggestions as to how each step in implementation is taken forward. They provide an example of the range of methods and processes that institutions could adopt.

**Checklist I** – is designed for use by the research-intensive institutions and other institutions that are implementing in 1999-2000 for reporting in summer 2001.

**Checklist II** – is specifically designed for use by any institution (other than research-intensive) that wishes to spend the minimum amount of effort on implementation, and has not yet finalised its plans or started implementation. Checklist II can be used as a quick and easy way to get started for those institutions that are content, at least initially, to follow a 'standard method'.

<sup>1</sup> Birmingham, Bristol, Cardiff, Portsmouth, Strathclyde, Surrey, UCL, Warwick

## Our web-site is a hit!

Do you need answers to any of the following?

**What progress has been made with the review of costing and pricing processes in institutions?**

**How do I apply for funds to help implement our costing and pricing strategy?**

**What role should our internal audit service take with regards to the Transparency Review?**

**When are the next Transparency Review implementation workshops?**

Answers to all the above questions, and more, can be found on the JCPSG web-site. With over 9,000 'hits' on the home page, the site continues to be the primary vehicle for the dissemination of information on costing and pricing issues, JCPSG events, training materials and examples of good practice. The web-site is proving to be a valued and comprehensive source of data for

project managers, senior managers and academic staff across the sector. Many institutions have a link to the JCPSG web-site on their own costing and pricing intranet pages.

### JCPSG web-site Q&A

*I am in the process of writing our costing and pricing strategy document. Can you offer any help?*

The 'Good Practice' page has an extract from one approved strategy document.

Also, the 'Project Manager Information' page, visited by over 600 people so far, features a checklist in the form of a set of questions to guide you in formulating your strategy. The questions incorporate comments from approved applications.

*I have been asked to give a presentation on Transparency Review requirements; is there a set of overhead slides I can use?*

Yes. A PowerPoint presentation is available for you to download from the web-site. Visit the 'Download Files' page. We have had 1,200

visitors to this page so far.

*Where can I find a good example of an institutional web-site used for the collection of Transparency Review data?*

The 'Good Practice' page has web-site examples from three institutions. Why not take these ideas and customise them to your own institutional needs?

The 'Good Practice' and 'Transparency Review' pages have had 1,000 and 4,000 visitors respectively.

*I have been told there is a set of costing and pricing training materials. How can I obtain a copy?*

The training materials: 'Costing and Pricing for Decision Makers in Higher Education' published in June 1999 can be downloaded from the 'Training' page (visited nearly 1,300 times).

*I have not seen all of the JCPSG newsletters. Where can I find previous issues?*

All issues of this JCPSG newsletter can be found on the 'Newsletters' page.



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