

## Nearly there – but not quite

**This issue focuses on the excellent progress being achieved by universities and colleges in their implementation of improved costing and pricing practices, and in meeting the external accountability and transparency requirements.**

The progress being made throughout the higher education (HE) sector has proved to government and other stakeholders that it is capable of successfully tackling a large and complex collaborative project within a limited timescale, and with limited resources. It has also improved confidence within institutions that these issues can be addressed successfully, and that implementation can bring positive benefits in the longer term. The Transparency Review Champions' Conference held on 23 February (see pages 2 and 3) was one opportunity for institutions' representatives to discuss issues relating to the project.

The progress achieved has shown that the Transparency Review framework has been 'eminently useable' and that the complex process has been taken forward in a smooth way. This is because the sector has worked hard in implementing it. The Transparency Review process has increased confidence within the sector, and has increased stakeholders' confidence in what the sector can deliver.

Over half the institutions in the sector have completed their collection of 1999-2000 data and attended the benchmarking sessions in March to discuss the validity of their emerging results. Benchmarking is valuable in helping institutions understand what is emerging from the implementation of the process across the whole sector before formal reporting is made. A further round of benchmarking sessions are planned for May (see page 3).

The Transparency Review data is also beginning to provide benefits to institutions. The Transparent approach to costing (TRAC) manual has provided a consistent means of understanding more about institutional costs. As the University of Southampton highlighted at the conference in February, anything that can be done to inform and improve the decision-making and business management processes within institutions is of great benefit to universities and colleges.

We are also pleased to report (see page 5) that nearly 80 per cent of institutions in the sector have now formulated their costing and pricing strategy and have plans to use their full funding entitlement from their funding council. Many institutions in the remaining 20 per cent of the sector intend to submit their application for funds in the next few weeks.

# LETTER TO THE SECTOR NEWSLETTER

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### 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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JCPSPG is hopeful of achieving close to 100 per cent of institutions applying by the deadline of 31 July 2001.

Universities and colleges are beginning to address the issue of the low price culture. Until now there has not been a robust way of seeking a proper rate for support costs and 'hidden' costs – but information gathered via the Transparency

Review process is now enabling institutions to do just that. Many institutions have started to discuss how they can use the transparency data in their pricing decision-making to ensure that the price takes account of the full economic cost of activities. The JCPSPG pricing seminars helped 124 institutions (320 delegates) begin to think about their pricing practices and how they

might improve them. One example of good practice shared in one of the seminars is featured on page 5.

**In summary, we are not there yet, but the ongoing work in institutions on costing and pricing looks like a success for the UK higher education system, and we are well on track to delivering the benefits that everyone wishes to see come out of this exercise.**

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## Transparency Review

Feedback from the Transparency Review Champions Conference

**S**enior academic managers from more than 100 institutions were at the Royal Society on Friday 23 February to discuss the policy aspects of Transparency. Professor David Westbury, who chaired the conference, pointed out that this was the first time that the whole sector had met at this senior level to discuss Transparency, and that the meeting came at a critical stage in the project with all institutions due to report costs demanded by the Transparency Review process for the first time in July 2001.

The purpose of the conference was to discuss policy issues and opportunities for the sector in advance of the first report, and to take stock of progress in implementation.

Stephen Speed is the senior official who is leading the Government's work on the issues arising out of the Transparency Review. He spoke about the Treasury requirements that led to the development of the Transparency Review process; the increases in Government funding of the Science Base over the period;

and his expectation that the Office of Science and Technology (OST) will be able to negotiate some 'quid pro quos' for the sector in terms of a better alignment of public bodies' requests for information.

Steve Egan, Director of Finance at the Higher Education Funding Council for England (HEFCE), congratulated institutions on the progress made. The HEFCE perceives that the UK HE system is now a world leader in terms of the costing of activities. He saw this as a key influence in building and maintaining the confidence of the main stakeholders of higher education, and he expected that this confidence would in turn lead to two main benefits for institutions:

- less detailed and intrusive monitoring than would be necessary without such a general accountability framework on the use of public funds
- further funding benefits in future public spending reviews.

Sir Howard Newby spoke both as vice-chancellor of a leading research university, and also from his perspective as President of Universities UK. He expected that the improved

understanding by the sector of its costs (and evidence of some problems – for example, over the funding of research) would be used to assist policy development. One area in which he would expect this to happen is in reviewing the dual-support system for research, which is perceived to have broken down under the increased volume of (partial) funding from charities, government departments and Europe.

From an institutional perspective, Sir Howard had found implementing the Transparency process at Southampton less complex or burdensome than some had feared. He offered the following practical advice to institutions still in the earlier stages of implementation:

- **prepare early**
- **communicate well** (at Southampton senior management had held meetings with academic staff to explain the benefits)
- **keep it simple** rather than aiming for perfect accuracy – 'the best can be the enemy of the good'.

# Joint Costing and Pricing Steering Group

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Turning to implementation issues, Jim Port of JM Consulting reminded institutions of the key issues for their planning this year, and illustrated the good state of progress to date. He noted some of the benefits already emerging for the sector, including a study of infrastructure costs about to be undertaken by OST.

Delegates heard case studies from two institutions. Professor George Lunt (University of Bath) and Professor Graham Henderson (University of Teesside) had started from different perspectives in very different types of institution, but there were some interesting parallels (and differences) in their approaches to implementation. Both had linked the Transparency Review process to broader institutional strategies, and both believe the Transparency Review will benefit their institutions.

In what was an interesting and full morning, there was limited time for debate, but a key policy issue was raised by Professor Ulph (University of Southampton). He noted that while the Transparency Review process has already been influential in identifying and provoking study of the 'physical infrastructure investment gap', it was more difficult in costing terms (but equally important for institutions) to recognise the gap in terms of investment in human resources

(chiefly academic staff). In other words, Transparency is demonstrating the long hours worked in some institutions, and this can be said to be an element of subsidy from institutions to support the publicly funded activities of teaching and research. David Westbury confirmed that JCPSG saw this as an important issue and that the TRAC methodology provides a firmer base from which the HE sector could mount a study of this and any similar issues.

Another point raised concerned the need for speed in resolution of the low-price culture that currently prevails among sponsors – particularly the EU, and UK government departments. The Office of Science and Technology (OST) is firstly focusing on the one or two government departments that dominate the scene, with the aim of expediting discussions quickly. The OST and the funding councils all recognise the need for rapid progress in the obtaining acceptance of TRAC by UK government departments, since this is an important precursor to acceptance within the EU and could potentially unleash further EU funding for the UK HE sector. With regard to the EU Framework VI contract arrangements, these are likely to be agreed in the middle of 2001, and it would be unlikely for the TRAC methodology to be

accepted in that timescale. Therefore OST will be arguing to maintain the Additional Cost method for Framework VI, and hopes to have agreement for the transparency review process well in time for the framework that will follow.

Meanwhile, the additional capital allocation made available under the current Comprehensive Spending Review should reassure institutions that the transparency review process is delivering benefits to the sector. To achieve these benefits, though, the sector must deliver the outputs demanded by the process. There is a general feeling of optimism that the government will continue to deliver as the sector continues to implement the transparency review process.

Overall, this was a very positive conference. The work of institutions is well recognised and appreciated in Government, and it is clear that many universities and colleges are already perceiving the benefits of Transparency for their internal management.

A summary of the conference proceedings is available on the JCPSG web-site under Transparency Review.

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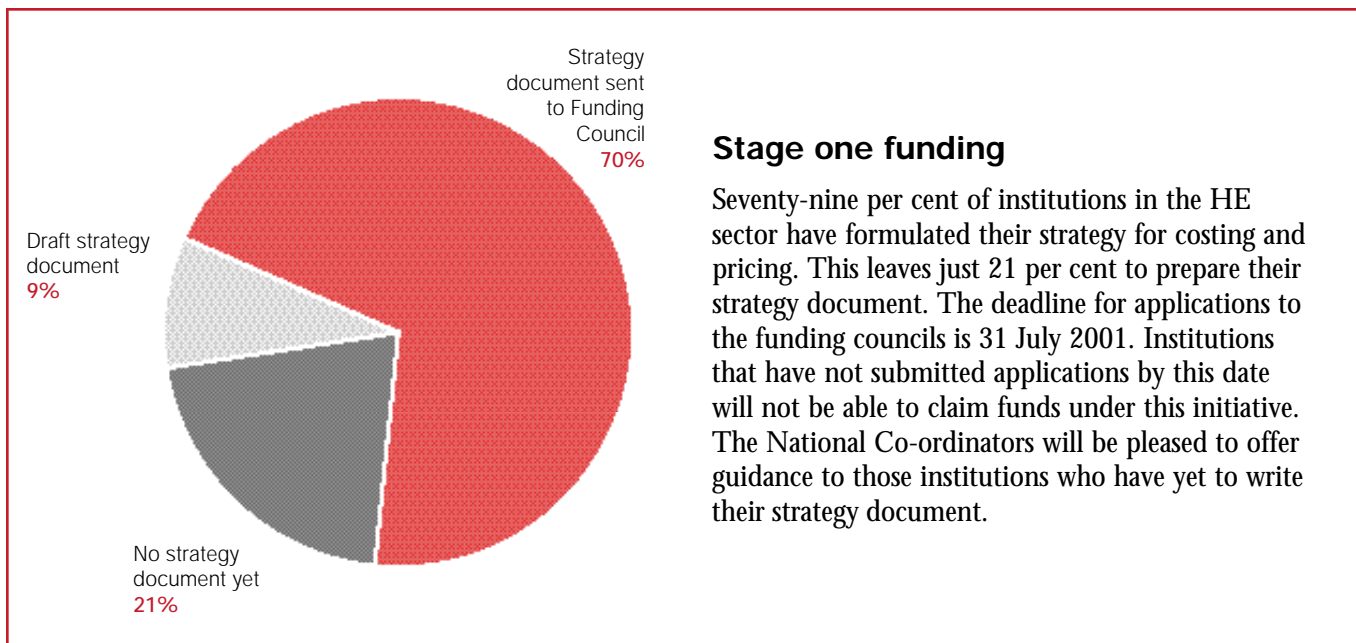
## Benchmarking

A series of benchmarking meetings were held in March to allow institutions to discuss and compare their initial (and developing) Transparency Review results on an informal and confidential basis. Many project managers commented on how valuable the sessions were at this early stage to identify potential outliers, and to ensure that the reasons for this were valid, and not resulting purely from the use of different assumptions or methods.

### Second round in May

There will be a second round of benchmarking sessions in May 2001 and we urge institutions to attend one of the events, particularly if they have not been able to participate in the March meetings. JM Consulting will be writing to Transparency Review project managers with further information.

## Update on applications for funds



## Are you ready to claim stage two of the funding?

**F**or those institutions that are considering applying for the next stage of the funding process, the funding councils have now published the criteria for stage two applications.

To meet the criteria, institutions should be able to demonstrate progress toward the overall objectives established as part of their stage one submission, and achievement of key milestones in the implementation plan. In practice, we expect institutions to have progressed beyond the stage of piloting the approach in a small number of departments and to be progressing with rollout across all activities and departments. Progress with implementing the

Transparency Review methodology and meeting the reporting requirement will be evidence of progress. However, to satisfy the requirement of the costing and pricing initiative, institutions will also need to show progress towards achieving the wider objectives of the costing and pricing strategy, such as:

- embedding of the costing and pricing in standard procedures
- improving management information for decision-making
- improving pricing policies and price negotiations
- improving contribution rates from income-generating activities.

Institutions are encouraged to submit their claim for stage two funding as soon as they consider they can demonstrate significant progress towards implementation of their costing and pricing strategy across the institution, and may submit at any time up to the deadline date of 30 June 2002. Applications received after June 2002 will not be eligible for stage two funds.

To help institutions with their stage two claim, there is a template and guidance notes on the JCPSG web-site under 'Joint Funding Councils' Initiative'.

## Do you have a pricing procedures manual?

**In the last issue we featured a typical costing and pricing training programme for a higher education institution; here we look at the use of a pricing procedures manual and how it can assist in embedding improved processes and practices within an institution.**

As suggested in the publication 'Pricing Toolkit for the Higher Education Sector' (October 2000) a pricing procedures manual should be widely circulated within the

organisation and should specify for any decision the following elements:

- the various tasks to be undertaken and the individual responsibilities involved
- the minimum standards to be applied in undertaking these tasks
- the departments/individuals who should be consulted for advice in relation to different types of pricing decision
- sources of internal advice and information on costing and pricing matters

- who to contact for external specialist advice where required (for example, specialist legal advice).

A representative from the Southampton Institute attended one of the pricing seminars and spoke about the benefits that had accrued from having introduced a 'diversification projects manual' which is now being used by all staff in the institute. We believe other institutions could benefit from considering the approach taken in the manual, and therefore have reproduced its table of contents below.

### Diversification Projects Manual

#### Foreword

#### Executive Summary

#### Section 1 – Rationale, Principles, Structures and Key Processes

Introduction and rationale

The scope

Criteria for new business

Managing quality for diversification projects

Diversification Steering Group – Aims, objectives and remit

Business planning for new projects

Preparing proposals

Project authorisation

Marketing and promotion

#### Section 2 – Guidance for Diversification Activities

##### Costing and Pricing

Costing and pricing for different activities (Education, training and CPD services, including short courses, seminars and educational conferences)

Costing and pricing for one-off/short duration projects

Costing and pricing for projects lasting more than one year

Overhead cost recovery

Making a surplus

Pricing

Room and venue hire

Hiring out other Institute facilities

Charge out rates to be used for staff, space, and equipment costs.

Overseas activities and ventures

##### Project Authorisation

Process

Management and accountability

Potential HE/FEFC funding and pricing implications

##### Risk Assessment

Control risk self assessment

Risk finance

##### Budgeting and Project Financial Control

Budget code

Records required

Year-end balances

##### Contracting for Services

Purchasing

Agreements with customers to supply services

Terms of Business

Credit Control

Invoicing

Staffing

Payments to external contractors

##### Recording Activity for Management and Official Returns

Project type, income and income by source

Students and trainees

##### Project Management

Capability to deliver

Project planning

Project manager

Customer service, evaluation and complaints

Service review procedures

Formal contract reviews with clients

Documentation

Insurance cover

##### Marketing and promotion

Promotion

Support from external realigns service

Advertising

Market research and customer contacts

## An approach to the apportionment of central support costs

**T**he University of Wales, Swansea recently reviewed the way that central costs are apportioned across academic departments and other direct service departments. The Costing and Pricing Project Manager recently shared some of the lessons learned with members of the Welsh self-help group, and we summarise his comments here.

In identifying the number of cost pools and associated cost drivers to be used, he acknowledged that the following criteria needed to be met:

- The system had to be comprehensible to all those who would be affected by it.
- It could not be over-complicated. This, in practice, meant limiting the number of cost pools to the minimum necessary, while maintaining the required degree of accuracy.
- It had to be seen to be fair, objective and neutral. The temptation to use it as a means of redistributing resources should be avoided.
- It should behave in a predictable and rational way. Cost centre managers should know that a change in staff or student numbers, or space, will result in a proportionate change in their apportionment of the associated central support costs.
- It should be capable of being developed and maintained with the minimum of additional staff resources.
- The amount of new data required to make the system work should be kept to a minimum.
- It should be applicable to all activities – business services (such as Catering and Accommodation) as well as academic departments.
- Finally, it should meet the minimum Transparency Review requirements.

The resulting apportionments, when compared with those made under the existing methods, produced some interesting results:

- The indirect cost recovery rate for research and consultancy services is currently expressed as a percentage of direct salary costs. A single rate is applied across the University. The new method produces a recovery rate that varies significantly between departments. This suggests that institutions should be using different recovery rates rather than the one global rate.
- The Business Service department's share of central costs also changes under the new system, which might have implications for its future pricing policies.

### 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 developments include:

- **Stage two funding – Template and guidance notes** – A form and guidance notes to help institutions submit their claim for second stage funding.
- **Newsletter Issue 7.**
- **Order form for CD-ROM** – Order form for CD-ROM version of the TRAC manual.
- **Transparent Approach to Costing Update No.2** – A note from the consultants giving further guidance for those institutions with medical and dental schools (March 2001).
- **National Conference for Transparency Review Champions.** Summary of the proceedings of the Conference held at the Royal Society on 23 February 2001.

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This Newsletter is the official quarterly bulletin of the JCPSG. Its purpose is to provide information on the following: current work being undertaken by the JCPSG; information on training materials and events; feedback on progress being made within the sector and any other items of interest. All contributions are welcome and should be sent to Lisa Blackshaw, National Co-ordinator for Costing and Pricing, Manchester Metropolitan University, All Saints, Manchester M15 6BH.

Please note: Where institutions, companies, organisations or individuals not part of or directly affiliated to the JCPSG are quoted in this newsletter, the opinions expressed do not necessarily represent JCPSG policy.