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Feedback from the Pricing Conference

Market forces

In his keynote speech Sir Richard Sykes, Rector of Imperial College of Science Technology and Medicine, examined the concept of higher education (HE) as a business operating in a marketplace, and looked at how HEIs can optimise their returns on capital employed. He argued that HE does not operate in a single market but in two – research and teaching – each with different characteristics. Different markets mean that different

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specifications and quality levels have to be supported. Having different levels of quality and remuneration is one way to address the ‘pricing’ issue, but Sir Richard went on to explore other options.

He argued that HEIs need to look for new sources of non-Government funding, where they have some freedom to set charges and raise funds. One such source is fees from overseas students, where institutions may need to examine whether they can increase both volume and margins. Another area is the recovery of indirect costs. Sir Richard urged HEIs to set indirect cost rates based on rigorous analyses, and to communicate properly how often they work for a loss. Whatever they do should be carried out professionally – as if it were a business with demanding shareholders.

In the final part of his talk, Sir Richard raised some important issues for the sector to address. He said that all universities and colleges should:

- look increasingly at how they can improve their finances through their own actions
- communicate clearly why they exist and what their aims and values are for the future
- look at what activities they should stop or reduce, and where their capabilities should be re-focused. Examples include the balance between teaching and research; the mix of Home, EU and overseas students; and poorly-subscribed courses versus new courses which meet tomorrow’s needs
- emphasise both the need to attract the best minds to generate and disseminate knowledge, and that HEIs export one of the most valuable commodities in the world – new knowledge
- market themselves more effectively and accept that major returns require substantial investment. Skills such as relationship management, market research and feedback surveys, communications, negotiation, competitor analysis and strategic positioning will all be key to creating a business-like culture
- link quality to reward – both in what they produce for customers and how they review contributions and excellence in their staff.

Research funding

Dr John Taylor, Director General of Research Councils, gave the second keynote speech about the government as funder, performer and user of research. He stated that there were three issues facing the research base. The first relates to the amount of funds attributed to research compared with the actual costs as shown by the Transparency Review. The second relates to the balance between funding for infrastructure and funding for recurrent costs. And the third issue concerns cost recovery, pricing and indirect costs.

One of Dr Taylor’s present tasks is to construct arguments for the Treasury to enable further growth in the science base to bring the UK up to the level of other leading industrialised countries.

Strategies for pricing and cost recovery

Dr David Halton, Deputy Vice-Chancellor at the University of the West of England (UWE), spoke about the differences between pricing policies and pricing strategies from a market perspective rather than a cost perspective. He felt that HEIs should be looking to develop pricing strategies for each of the main markets they serve. A pricing policy cannot be determined in isolation but must be integrated with the pricing strategy, financial objectives, corporate objectives, and various elements of the marketing mix. Dr Halton went on to describe the adoption of a pricing strategy at UWE, and its impact on the university’s pricing culture.

Dr Jim Port, of JM Consulting Ltd, spoke about how the costing model, which has now been accepted through the Transparency Review, can help with pricing. Institutions can be aware of the portfolio of market and pricing segments that they are working in, and can manage cost recovery in the appropriate way within each segment. Dr Port argued that the conditions needed for an effective pricing and cost recovery strategy include:

- a clear academic strategy that is linked to a financial and business strategy
- a strategy that is supported by good information on costs (making use of Transparency Review data)
- a strategy that is communicated, owned and understood by academic staff, who are often the negotiators of price
- a knowledge of the market.

The Transparency Review will help in three ways. Surpluses and deficits can be identified by department and activity. The information will inform pricing and recovery at project level. And at the national level it should influence funding policies on, for example, dual support funds, charities, infrastructure funding and EU programmes.

Dr Port stated that commercial pricing should be market based. Institutions should move away from any notion of cost-recovery and should move towards bundled pricing, with daily rates quoted for professors, lecturers, researchers and so on.

Delegates also heard case studies from two institutions. John Cunningham, Director of Finance at UMIST, and Karen Everett, Director of Finance, and Dr Richard Pension, Associate Dean External Development, of the Southampton Institute spoke about the work they had done in their institutions that had resulted in an improvement in net contributions and a change in the pricing culture.

Overall, this was a positive conference that delivered some important messages. Feedback from the delegates showed that although only a few institutions have already formulated a pricing strategy, many intend this to be a priority for their institution over the next 12 months. This suggests that the sector understands the need to move away from its traditional low-price culture.

Full notes of the conference proceedings along with the slides used on the day can be downloaded from the JCPSG web-site, under 'Costing and pricing'.

Transparency Review guidance manuals

The JCPSG has a stock of Transparency Review Guidance Manuals. As institutions may benefit from having a few extra copies of the guidance, we will be sending these to HEIs free of charge.

Transparency Review: reporting of 2000-01 data

All higher education institutions (HEIs) will need to report their 2000-01 data by 31 January 2002. This is in accordance with the timetable agreed with the Government.

The additional capital allocation made available under the 1998 and 2000 Spending Reviews should reassure institutions that the transparency review process is delivering benefits to the sector. To achieve further benefits, though, the sector must deliver the outputs expected by the process. Almost 100 per cent of institutions reported their 1999-2000 figures in July 2001, and these aggregated data are informing the Government's 2002 Spending Review.

The form for reporting the data has now been issued to HEIs on disk.

If you have been unable to participate in the benchmarking sessions held earlier this month and would like a member of the Transparency Review Implementation Team to review your figures against benchmarked data, please contact:
JM Consulting on 0117 959 3687,
e-mail jmconsulting@dial.pipex.com

Have you applied for Stage 2 funding?

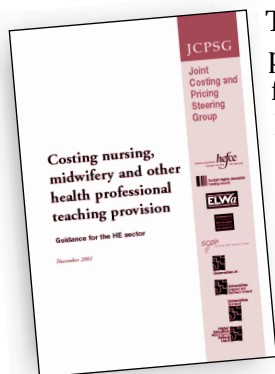
Institutions that have not already claimed the second tranche of funds from the funding councils are encouraged to do so as soon as possible. Funds will only be available until 30 June 2002.

To submit a claim, they should document the progress made towards improving their costing and pricing policies and procedures, using the template and guidance notes available on the JCPSG web-site on the 'Joint Funding Councils' Initiative' page. For examples of institutional progress that could form part of a stage two claim, see Issue 9 of this newsletter.

Lisa Blackshaw, the JCPSG National Co-ordinator, is happy to discuss any HEI's progress and give advice on submitting an application.

Supplementary TRAC guidance

Costing nursing, midwifery and other health professional teaching



The JCPSPG has produced guidance for institutions on how to use Transparency principles in building up robust and comprehensive estimates of cost, to be used in

pricing nursing and other health profession contracts with the new NHS confederations and other sponsors. This is timely in the context of the recent National Audit Office report ('Educating and training the future health professional workforce in England'), and the work of the NHS/Universities UK working group which is looking at the possibility of benchmark prices for

non-medical education and training (NMET) contracts.

The use of indirect cost rates in costing government contracts

This technical guide describes how the indirect cost rates produced as part of the Transparent Approach to Costing (TRAC) can be used to cost projects for research and other activities funded by public sponsors.

Use of TRAC in institutional decisions

The JCPSPG has produced a paper showing how the Transparent Approach to Costing (TRAC) methodology can be used to inform institutional decision making, and setting out the guidance that is available.

All these documents can be downloaded from the JCPSPG web-site from the 'Costing and pricing' page.

What's new on the web-site

The JCPSPG web-site is at www.jcpspg.ac.uk. Latest developments include:

- Pricing Conference, 8 November 2001: Note of proceedings – full notes of the conference along with the presentation slides used on the day.
- Newsletter Issue 10 – in Word and Adobe Acrobat format. This issue (Issue 11) will be added shortly.
- Use of TRAC in institutional decisions – a paper showing how the Transparent Approach to Costing (TRAC) methodology can be used to inform institutional decision making, and setting out the guidance available.
- Costing nursing and other health professional teaching provision – advice to institutions on how to use Transparency principles in building up robust and comprehensive estimates of cost, to be used in pricing nursing and other health profession contracts.
- Internal audit further guidance (final version) – this replaces the draft version issued on 18 December 2000.
- Slides and handouts – used at the workshops held in November 2001 to support the guidance on the use of indirect cost rates.

JCPSPG standard definitions for costing and pricing

Insered in this newsletter is a handy reference leaflet giving standard definitions for costing and pricing. In order to avoid confusion, the JCPSPG strongly advises all HEIs and their sponsors to adopt these definitions when using costing and pricing terminology in a higher education context.

Section one contains terms that are used by the higher education sector and commercial organisations alike. It gives the definition of each, drawn from the Chartered Institute of Management Accountants (CIMA) Official Terminology, and explains how the term is used in higher education. Section two lists terms that are specific to costing and pricing within HEIs, and gives the JCPSPG definition.

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This Newsletter is the official quarterly bulletin of the JCPSPG. Its purpose is to provide information on the following: current work being undertaken by the JCPSPG; 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.