

What did it ever do for us?

Professor David Westbury (with apologies to Dr Adam Hart Davies and the BBC) takes stock of the Transparency Review and asks - was it worth it?

A great deal of effort went into meeting the Government's requirements under the Transparency Review of Higher Education Funding, both in JCPSPG and in every university and college in the UK. A number of people have asked, quite reasonably, what happened as a result, and was it all worthwhile.

The achievement of the Transparency Review across the whole sector on a demanding timescale was in itself very impressive, and informally had a big impact on government departments including the Treasury. It demonstrated that institutions across the sector can act together to deliver substantial change.

Influencing policy

The Office of Science and Technology (OST) and the Treasury have accepted the methodology of the Transparent Approach to Costing (TRAC) and its implementation, and have started to act on the data generated. The information was a major input to the 2002 Spending Review, through the Funding Councils, OST and DfES. Universities UK was also involved in putting the case for a change in funding for the sector.

I, myself, was drawn into discussions at the informal level, and I can report that the information was taken seriously, was challenged and analysed and ultimately accepted. As a consequence, the understanding of higher education activities and their costs is now substantially improved. That can only be good.

Extra funds for research

The Transparency Review itself spawned a series of related studies: of the research infrastructure, of the teaching infrastructure, of the relationship between HE and the research charities, and between HE and the NHS in training and education.

As a result of the Transparency Review and these additional reports, it has become clear to the key government departments (and to the institutions themselves) that many activities, especially those related to research and to contract work, are not sustainable in the medium to long term because of the deficits generated. This is bound to impede the Government's strategies to grow research and the 'third stream' activities in the move to a knowledge economy, and the further expansion of student participation in higher education. So the political importance is high.

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Joint Costing and Pricing Steering Group

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Both the Government's strategy paper 'Investing for Innovation' (July 2002) and the White Paper on HE (January 2003) have focused on sustainability and funding levels. In both areas the need for a better framework and more funding is highlighted.

Following the 2002 Spending Review, a lot more money has been allocated to HE. Much of this is in support of research. There is also additional capital for teaching facilities. In all, this amounts to more than £3 billion extra over the next three years. The Transparency Review was a major factor in releasing all of this.

Contributing full costs

One of the outcomes that the sector, and JCPSG, has been looking for is the recognition that government departments should pay the full economic cost of the activities that they commission from universities and colleges. One of the blockages to progress has now been removed: institutions themselves now have a framework for determining full cost on a consistent basis if they build on the basic TRAC methods. Not enough have effective pricing policies, and not all of them take full costs into account in their pricing submissions so there are things for us to change.

However, OST and the Funding Councils have begun a review of the dual support mechanism and the basis for determining the funding of Research Council projects. JCPSG and a group of pilot universities are involved in this as an extension of the TRAC methodology, and progress is expected over the coming year (see page 4).

A new formula, hopefully moving away from 'overheads' to a more modern approach based on full economic costing, would be very important in correcting the underlying deficits in publicly funded research. Even more importantly, it would set a new and more realistic 'ruling price' for related activities funded by other government departments, charities and industry.

Progress with the costing and pricing of EU projects could be slow. Framework Programme 7 must be the target, though it will not be easy to get TRAC and its implications recognised. It may be more important to engage with partners more effectively, such as the Regional Development Agencies, because universities and colleges themselves cannot bear the cost of European work alone.

What progress in HEIs?

So much for 'them', what of 'us'? Have we made progress? More work is going on to make the TRAC implementation more robust, and to bring the data into management processes more effectively. I don't think many institutions have completed that yet. In addition, the Funding Councils are working with the sector to make financial reporting more 'joined up' and to sort out any inconsistencies. I hope that there will be a report this summer. Transparency Review data will then become more mainstream.

I'm not sure how many universities and colleges are making consistent use of TRAC data in their management decision-making. I suspect that the answer is 'not many'. The self-help groups supported by the national co-ordinator could be very important here.

Under-pricing activities

The informal discussions that I have had suggest that institutions have made limited progress on developing their approaches to pricing. We need to move this agenda on quickly. The Transparency Review data showed clearly that non-publicly funded research made as much of a deficit as the publicly funded activity. Under-pricing here is something HEIs must take responsibility for.

Institutional understanding and practice needs to take a leap forward. This is not easy as many of our colleagues are not used to thinking in this way and a culture change is required. Further, the 'market' in these areas is not a mature one, with little marketing experience and no market leaders for benchmarking. Despite the difficulties, we need to sort this out. The Government and the Funding Councils will be looking for progress, and the institutions need to achieve a proper return on these activities.

There is an issue of confidence here, too. If the pricing of publicly funded research is corrected over the next two or three years, as seems likely, then there is the risk of a complaint that these extra public funds are being used to subsidise non-publicly funded activities in an unacceptable way. That charge cannot be sustained at present as both are in deficit to an equal degree but the situation will change. JCPSG will be giving this issue priority over the next two years, but in the end, only the institutions can resolve it.

So what did the Transparency Review do for us? Actually, quite a lot, and there are more wins to be had over the next few years. Let's keep up the momentum.

Next steps for improving costing and pricing

The JCPSG is now entering the second phase of its work to develop costing and pricing in HEIs. It has agreed the following aims for this work.

By July 2005, all HEIs should have embedded costing and pricing processes that are integrated with their financial and academic decision-making, and form part of a financial strategy and management process that ensures their activities are sustainable in the long-term.

As a result of this development:

- all institutions should be able to determine the full economic cost of all their activities at a level appropriate to their decision-making
- all institutions should be able to set a price for their activities using market-based pricing (taking account of markets, customers, competition and risks), or cost-based pricing where appropriate.

In addition, institutions should use appropriate performance measures to quantify the benefits derived from improved pricing, costing and decision-making, thus encouraging continuing development.

Support from the JCPSG

In support of these aims the JCPSG undertakes:

- to secure the continued embedding of good practice in costing and pricing (including related marketing practice) in HEIs
- to work with HEIs and other organisations to promote awareness and understanding of good practice, and to continue to encourage the introduction of this within HEIs' decision-making and management processes, so enabling institutions to improve the financial contribution from their activities
- to maintain and develop existing guidance on costing and pricing – including the TRAC methodology and its application to the costing of teaching, research and other activities – and to develop new guidance where there are clearly defined needs
- to continue supporting the development of good practice in costing, and particularly in pricing, and to communicate this to the sector
- to promote the development of training, in collaboration with sector bodies and institutions, that will support the costing and pricing strategy

- to act as an advocate on behalf of HEIs on costing and pricing and related matters, and to provide support to Universities UK and SCOP as they fulfil their advocacy role
- to communicate effectively with HEIs and other stakeholders
- to develop a framework that will ensure that costing and pricing activities are taken over by institutions and appropriate sector bodies after July 2005.

The strategy has been publicised widely. This and the activity plan, to be agreed by the JCPSG, will appear on the JCPSG web-site.

See page 4 for membership of the JCPSG for phase 2.

Joint Costing and Pricing Steering Group

Future events on extending TRAC

JCPSPG is to undertake development work to extend the TRAC methods into the area of dual support funding. A series of events will keep institutions informed, and seek input.

Following the outcome of the Spending Review of 2002 and the publication of the strategy paper, 'Investing in Innovation', OST and the Funding Councils are reviewing the operation and balance of the dual support arrangements for research. The JCPSPG has been invited to explore extending the TRAC methods into this area. It has contracted with JM Consulting Ltd to take a project forward with 10 pilot institutions.

A series of events is planned to keep institutions up-to-date and to seek their views as JCPSPG develops this next phase in embedding the TRAC methodology. The first event will be aimed at the more research-intensive institutions and will be held on **10 June 2003** at King's College London. Invitations will be issued shortly in a letter from Professor David Westbury, chair of the JCPSPG.

Plans for training and sharing good practice

Training, events and activities to develop and share good practice will be central to JCPSPG's plans over the next six months.

Events:

- a forum for representatives of the self-help groups
- a conference for academic champions.

Training:

- establishing a framework to support training and development that will embed costing and pricing processes in HEIs
- collaborating with sector bodies to run training courses.

Good practice:

- providing support to institutions to embed costing and pricing
- securing the commitment of governing bodies and heads of HEIs
- establishing a framework for identifying and commissioning case studies of good practice
- developing a framework for benchmarking
- identifying areas where further costing guidance is required.

Please forward any comments or ideas on the above to John Newton, e-mail newton@cardiff.ac.uk

Members of JCPSPG - Phase 2

Professor David Westbury	Chair
Patricia Ambrose	Standing Conference of Principals
Irene Bews	University of Aberdeen
Lisa Blackshaw	Manchester Metropolitan University
Dr Tony Bruce	Universities UK
Andrew Clark	Higher Education Funding Council for Wales
Kath Coughlin	North East Wales Institute
Professor Graham Henderson	University of Teesside
Steve Igoe	Edge Hill College
Ian Lewis	Higher Education Funding Council for England
Liam McCabe	Scottish Higher Education Funding Council
John Newton	National Co-ordinator for Costing and Pricing
Professor Stuart Palmer	University of Warwick
Derek Pretty	University of Bristol
Berenice Smith	University of Leeds
Heather Williams	Project Manager, HEFCE

New national co-ordinator appointed

John Newton has taken over from Lisa Blackshaw as the JCPSG's National Co-ordinator for Costing and Pricing.

Secoded from his post as Assistant Director (Corporate and Business Services) at Cardiff University, John took up his new role on 1 November 2002. He has been interested in costing and pricing for many years, gaining his initial practical experience in manufacturing industry. He is now an FCMA and one of the national membership assessors for the Chartered Institute of Management Accountants (CIMA).

John has been involved with the implementation of the TRAC methodology from the start, having been project manager for one of the Transparency Review pilot sites. At Cardiff University he implemented the Hanham costing methodology (the forerunner of TRAC). In developing activity costing further at Cardiff, he gained an MPhil by research into financial decision-making and financial control in British universities. John is also one of the joint authors of a paper describing experiences at Cardiff in 'Management accounting in universities', edited by RH Berry (CIMA, London, 1994).

Role and responsibilities

As national co-ordinator, John's specific responsibilities are to:

- work with institutions in embedding their costing strategies to inform decision-making
- lead the work of the JCPSG in developing good practice for pricing in HEIs, and in helping institutions to implement their strategies and to identify and disseminate good practice
- support the self-help groups and create a forum for co-ordinating and facilitating the activities of these groups
- take responsibility for the JCPSG'S communications strategy, including overseeing the management and development of the JCPSG web-site.
- work with the sector's representative bodies in delivering training to improve knowledge and understanding among managers in universities and colleges, and specifically among project managers for costing and pricing
- identify areas where new or updated guidance on costing and pricing is required, and identify research projects

- maintain a system to evaluate the sector's progress on implementing strategies for costing and pricing.

Outside work, John is an active member of the Ramblers' Association and of Cardiff Conservation Volunteers, a group which does practical conservation work in nature reserves.



John Newton

Contact details

To contact John Newton in relation to any of these issues, telephone 029 2087 4141, or e-mail newton@cardiff.ac.uk

Implications of the 2002 Spending Review

Using data derived from the Transparency Review, the Government's 2002 Spending Review announced the largest sustained growth in science expenditure for a decade - £1.25 billion extra a year by 2005-06. Here we look at the implications for costing and pricing in higher education.

In July 2002 the Government's report 'Investing in Innovation' declared that it would:

- establish a substantial and dedicated stream of capital for universities, worth £500 million per year by 2004-05, to develop their science research infrastructure
- provide substantial new resources to the Research Councils from 2005-06 to enable them to make a more realistic contribution to the full costs of the research that they sponsor in universities.

The report stated (in section 3.45) that 'the Government will ask the Funding Councils to review via an independent evaluation, how best to improve further universities' financial reporting and activity costing, building on the progress to date and balancing reporting requirements against the benefits to funders and universities'.

The steering group appointed by the Funding Councils to take this work forward is due to issue its report shortly. The next JCPSG newsletter will outline the key recommendations on:

- a review and evaluation of the TRAC methodology
- a review of reporting arrangements for the Transparency Review.

Treasury recommendations

The Treasury report on the 'Cross-cutting review of science and research' (March 2002) had

previously made a number of recommendations on costing and pricing in HEIs. The JCPSG has taken these into account in planning the programme of activities for phase 2 of its work. Relevant extracts are reproduced below.

Recommendation A10: The Government should in future take the view that continued public support for research at individual institutions will depend on institutions being able to demonstrate that they are recovering the full costs of research (including contributions from other activities). To put this another way, the Government should not in future underwrite shortfalls in research funding arising because of inappropriate management decisions or inadequate management systems within institutions.

Recommendation A25: Having made clear to the HE sector its responsibility for recovering the full costs of research from all sponsors taken together, the Government should signal also to research sponsors what is expected of them in the drive to achieve long-run sustainability of the Science and Engineering Base.

Recommendation A27: The HE sector and the Funding Councils should consider building on the principles for public research support recommended earlier by developing guidelines to help institutions to develop more robust pricing strategies. This should be done as part of the project (see recommendation A34) to build on the present TRAC

management accounting systems. Any such guidelines should make clear that, subject to the overall requirement in relation to cost recovery, universities are free to take a view on the value to them of non-cost considerations on individual projects when negotiating prices.

Recommendation A34: Government departments should agree that TRAC methodology should in future be used as the basis for determining the full economic cost of their research. This will require on the part of the HEIs (see recommendation A42 below) a willingness to build on the foundations laid by TRAC to develop project costing systems.

Recommendation A35: Prices for contract R&D for industry should reflect the value given and received by each side. This means that HEIs should charge at least full economic cost.

Recommendation A42: HEIs should put in hand quickly measures to ensure that they are able to identify the true costs of research at project level and by funder. They should build on TRAC as a management tool rather than a reporting mechanism.

Recommendation A43: To assist the sector in delivering this next phase of development, HE representative bodies, key research funders and Government should develop the work started under the Transparency Review to embed robust and consistent management information systems across the sector.

Recommendation A44: As a result of these measures, HEIs should aim - quickly - to be able to demonstrate that each of their businesses (or all of their businesses taken together) are sustainable. This should be driven by sound business planning incorporating realistic income projections.

Joint Costing and Pricing Steering Group

Self-help groups will be the focus of support

The regional self-help groups will be the main focus of the JCPSG's future support to the sector. The JCPSG is also collaborating with a number of bodies such as BUFDG, AURIL and SCOP to ensure its aims and strategic objectives are met.

In response to consultation in October 2002, HEIs indicated that support for the self-help groups is important if the momentum of embedding good practice in costing and pricing in decision-making is to be maintained.

The framework of self-help groups was set up in 2000 to allow HEIs to share ideas and experiences and promote good practice. With the successful introduction of TRAC, some group activities had lapsed and groups found that they needed a new focus. The framework has now been re-established and includes groups in Scotland, Wales, the South-West, North-West, North-East, Midlands, London, Greater London, South, the Consortium of Art and Design Institutions in the South-East (CADISE) and North-West Colleges. The national co-ordinator is also seeking to set up additional groups, particularly for institutions with a medical school.

Forum to improve networking
Most HEIs have participated in group meetings over the last six months. Agendas have covered a variety of topics and also provided a useful two-way link between HEIs and the JCPSG. To facilitate their operation, most groups have now appointed a chair and secretary.

A forum for representatives of the groups will be held in June to facilitate networking between groups and debate on their role and future activities. Issues covered are expected to include communication from the JCPSG, benchmarking, advocacy, training, good practice, and additional guidance on costing.

If anyone has any comments on the groups, the forum, or future group activities, they should contact the chair or secretary of their group, or the national co-ordinator (see contact details on page 5).

New and improved web-site

The JCPSG web-site - www.jcpsg.ac.uk - is being relaunched this month, following a major update.

The web-site is the primary communication channel between JCPSG and its stakeholders. There were over 20,000 visitors to the site last year, 15 per cent of them from overseas. The most popular topics were the Transparency Review and costing and pricing.

Readers can keep in touch with events, training and latest developments in costing and pricing

by subscribing to the e-mail bulletin. There are already 120 registered subscribers, and it is free to join. Just follow the link from the home page.

Comments and suggestions about the web-site and any ideas on how it could be used to greater effect are welcome, and should be e-mailed to newton@cardiff.ac.uk.

Updated TRAC guidance

In January 2003 JCPSG published a consolidated volume of 'Updates and supplementary guidance' on TRAC (Volume IIa). This will shortly be available to download from the JCPSG web-site.

All institutions should note the full requirements which need to be in place for 2003-04 data or earlier, and should refer to the updates on section C1 pages 7 to 10. These include:

- costs of T, R and O have been calculated by department and research sponsor type
- indirect cost rates have been calculated for T, R and O and by subject type
- a robust method of time allocation was in place and used for reporting 2003-04 activity
- the Audit Committee has assessed the adequacy and effectiveness of the controls
- there are plans to re-run or introduce new robust systems over the next five-year cycle (starting on 2004-05 data).

A number of institutions have requested further guidance on some aspects of the TRAC methodology. If you would like clarification of any issues, please tell John Newton (see contact details on page 5). Work may then be commissioned to develop guidance.



Transparency Review data show costs for UK HEIs

Data that HEIs submit annually to their Funding Councils allow the sector and the Government to see the balance of costs and public funding for both teaching and research. A breakdown of UK-wide data is shown below.

Costs by activity: 1999-2000 to 2001-02

UK aggregated data	2001-02		2000-01		1999-2000	
	£000	%	£000	%	£000	%
Full costs						
Publicly funded teaching	6,486,128	41.9	6,197,187	42.8	5,888,151	43.6
Non-publicly funded teaching	887,939	5.7	791,723	5.5	715,110	5.3
Publicly funded research	3,903,552	25.2	3,557,123	24.5	3,289,398	24.4
Non-publicly funded research	1,867,551	12.1	1,750,697	12.1	1,566,258	11.6
Other	2,329,063	15.1	2,185,419	15.1	2,047,260	15.2
Total costs	15,474,203	100.0	14,482,147	100.0	13,506,177	100.0

Cost adjustments	2001-02		2000-01		1999-2000	
	£000	%	£000	%	£000	%
Total expenditure per audited financial statements	14,331,387		13,469,968		12,589,782	
Infrastructure adjustment	403,024	2.8	377,374	2.8	326,217	2.6
Cost of capital employed	748,588	5.2	671,098	5.0	623,230	4.9
Exceptional items adjustment	-8,796	-0.1	-36,292	-0.3	-33,047	-0.2
Net adjustments	1,142,816	8.0	1,012,179	7.5	916,400	7.3
Total costs	15,474,203		14,482,147		13,506,177	

The calculation of costs starts with the expenditure information reported in HEIs' audited financial statements. These are then subject to three adjustments, which are described below. For the two years reported to date, the *infrastructure adjustment* only covers buildings. The methodology to extend this adjustment to include equipment is still being developed, so the infrastructure adjustment is understated. Some HEIs that revalue their buildings and maintain their

estates in good order have adjustments closer to zero.

The *cost of capital employed* adjustment under the Transparency Review is to cover: the surpluses required for rationalisation, updating and development; and the costs of raising and servicing capital, including short-term borrowing. In this context, the costs of capital employed do not cover the costs of maintaining or depreciating assets: these are included in the infrastructure adjustment. In

calculating this adjustment, assets that were publicly funded are excluded, and interest costs are deducted from the total charge (to avoid double counting of costs). Some HEIs, with high non-cash net asset values, will require a greater adjustment than those with lower non-cash net asset values.

The costs of activities in any one year should not be distorted by significant unusual costs or gains. The *exceptional items* adjustment spreads these over a suitable number of years.

EDITOR: John Newton

The newsletter is the official bulletin of the JCPSG. It provides information on current activities of the group, training materials and events, and feedback on progress being made in the sector. Contributions are welcome and should be sent to John Newton, National Co-ordinator for Costing and Pricing, Cardiff University, 56 Park Place, CARDIFF CF10 3XR, e-mail newton@cardiff.ac.uk