

Ministers reaffirm commitment to dual support

In a joint letter to all vice-chancellors and principals (dated 24 November 2003), Alan Johnson, Minister of State for Lifelong Learning, Further and Higher Education, and Lord Sainsbury, Minister for Science and Innovation, reaffirmed their commitment to the dual support system for funding research.

They also announced that the new procedures for applying for Research Council grants would come into effect from September 2005, with funding based on the full economic cost methodology from April 2006.

The letter can be found on the OST web-site at:



Alan Johnson



Lord Sainsbury

www.ost.gov.uk/research/higher_educ_letter.pdf

For statements from the two ministers, see the DfES press notice at: www.dfes.gov.uk under News Centre.

New Year challenge - ensuring sustainability of HE activities

2004 promises to be a busy year for the JCPSG as it supports universities and colleges in ensuring that their principal activities are sustainable in the long term.

Although the sector is reporting annual surpluses, this does not reflect the true long-term position. If full economic costs are taken into account, for example, from the Transparency Review data, the sector is showing a considerable year on year deficit.

This was one of the key messages from the recent JCPSG conferences, held in London and Manchester in November. Presentations by senior figures from the Funding Councils and from the Office of Science and Technology (OST) underlined the importance of the

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NEWSLETTER

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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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Joint Costing and Pricing Steering Group

JCPSG's work on the reform of research and other funding streams, and of the underlying business processes in universities and colleges.

Key themes

Highlights of the conferences were as follows:

- it is vital for all of the sector's activities to be sustainable in the long term. This will not be possible unless the funding agencies and universities and colleges work together to put in place better systems
- the Transparency Review has shown that research (both publicly funded and non-publicly funded) makes a year on year deficit and so is not sustainable in the present framework. This must be addressed given the importance of UK research to the economy and to society
- reform of research funding has two components: reform of the dual support system for publicly funded research, and reform of the pricing of non-publicly funded activity. They are linked because public funding tends to set a 'ruling price' for other funders, and because both depend on good underlying costing processes
- although the present focus is on research, JCPSG has a holistic agenda – to ensure that the methods should be applicable across all activities in HE.

Next steps

An important stage is the development of suitable methods to determine the full economic cost of activities at project and activity level, based on the TRAC costing methodology. JCPSG has commissioned JM Consulting to work with a group of pilot universities to develop such methods. Agreement on the approach has now been

reached, and work on the guidance is under way. It should be available in spring 2004.

The timescale for the changes is now clearer, with implementation in institutions by January 2005, and Research Councils requiring submissions in the new form from September 2005 for funding based on full economic costs from April 2006.

Four strands of work

To ensure a good outcome, four separate areas of work are required.

- Development of methods to determine full economic costs at project level (JM Consulting, pilot institutions, JCPSG).
- The development of a cost-based price for publicly funded research based on full economic costs and linked to outputs (OST/Research Councils).
- Determination of the funding flows necessary to meet the full economic cost taking account of the policy of sustainability (OST/Research Councils, Funding Councils, HEIs).
- Light-touch verification that funds have been used for the purpose for which they were given.

Each area is distinct and should not 'leak' into others. Although this sounds largely technical, at the heart it is not. The managerial disciplines and processes will also need to change substantially as implementation proceeds. The strategic and cultural aspects and the changing of attitudes will be significant, and universities and colleges were advised to start work on these as soon as possible.

What makes an integrated institutional strategy? Do we have one?

Does your institution really know where it is going, where it is positioned in the sector and why?

An integrated institutional strategy implies the following:

- that strategies for teaching, research, 'third stream' activities, estates, finance, capital investment and human resources are integrated within an overall strategy for the whole HEI
- full economic costs are recovered on all mainstream activities
- there is adequate investment in infrastructure (4-5 per cent of insured asset value annually)
- risks are managed effectively
- there is business process management
- data needs are met and used to influence planning, pricing, portfolio management and project management
- there is analysis of customers and competitors to differentiate the institution from its competitors
- processes enable the institution to adapt to changing external and internal factors.

Joint Costing and Pricing Steering Group

Timetable for implementing revised research costing methods

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| February 2004 | TRAC guidance to be issued (draft available now) |
| March 2004 | Regional training workshops |
| September 2004 | New Research Council application forms available |
| By January 2005 | HEIs have initial methods in place |
| From early 2005 | HEIs train principal investigators |
| From mid 2005 | HEIs can use new robust full economic cost data with other projects and sponsors such as charities and government departments |
| September 2005 onwards | HEIs able to apply to Research Councils on new basis |
| From 2005-06 financial year | First new projects funded by Research Councils on full economic cost basis |

Case studies commissioned

Case studies of good practice in estates and information services have been commissioned by the JCPSPG, with results due to be published in the summer.

Consultation with universities and colleges indicated to JCPSPG the importance of these two areas of work, and the approaches developed should assist many in developing their costing and pricing processes.

Several Scottish HEIs (led by Aberdeen) are collaborating on the estates study; and the Universities of Newcastle, Nottingham and Reading will be working together on information services (IS). For further details contact John Newton, e-mail newton@cardiff.ac.uk.

University of Aberdeen

Working with Universities of Glasgow, St Andrews and Glasgow Caledonia on estates cost attribution

to academic departments within the resource allocation model and TRAC, and compatibility with estate management statistics.

University of Newcastle

Working on determination of cost drivers for IS department, calculation of overhead rates and use of information in decision-making.

University of Nottingham

Study on developing cost drivers for IS, leading to: improved understanding of what drives IS consumption and improved IS cost allocation for costing and pricing teaching and research.

University of Reading

IS case study on development and use of cost data in institutional decision-making and use of performance indicators from statistics from sector bodies (SCONUL and UCISA).

News from the regions

Self-help costing and pricing groups are meeting regularly and meetings are well attended.

The Scottish group organised a national conference in November attended by over 70 academic and administrative staff representing all institutions. Liam McCabe (SHEFC) spoke on costing and pricing from a funding council perspective, Sue Boorman (UUK) discussed managing the Transparency Review in institutions, John Newton did a presentation on costing and pricing of research, while OST representative John Wand spoke about dual support reform and ensuring the sustainability of the research base. Issues were debated both in discussion groups and a question and answer session. Alan Johnstone, Chair of the Scottish Group, commented that feedback on the day had been very positive.

Other groups are planning regional conferences aimed at academic and administrative staff to create a better knowledge and understanding of costs and the processes involved. Dates will be publicised in due course via the groups, but contact John Newton, e-mail newton@cardiff.ac.uk for further information or suggestions.



(Left-right) Liam McCabe, Sue Boorman and John Newton

Getting into training in 2004

JCPSG is working closely with a number of bodies to support provision of training in costing and pricing.

The BUFDG Training and Development Group is hosting the following events:

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| Introduction to TRAC (Birmingham) | 5 February 2004 |
| Introduction to TRAC (Glasgow) | 18 February 2004 |
| Research funding and administration (Edinburgh) | 24-25 February 2004 |
| Software packages for costing and pricing (London) | 9 March 2004 |

Other courses planned include one on pricing and management accounting. For details see the BUFDG web-site

<http://bufdg.niss.ac.uk/seminar> or contact Karel Thomas, the BUFDG Executive Officer, e-mail K.Thomas@lboro.ac.uk

The Research Administrators' Group Network, RAGnet, will be running an introduction to TRAC, aimed at research staff. The date and venue will be posted on its web-site, www.ragnet.ac.uk.

In spring 2004, the JCPSG will also be supporting workshops on the implementation of the TRAC methods for determining full economic costs at project level.

Indirect tax – an update from the BUFDG Tax Group

As a follow-up to the information on direct tax in the last newsletter, this article looks at indirect tax and the possible implications of applying the TRAC methodology.

Institutions can only recover VAT on purchases in so far as it is attributable to onward taxable (including zero-rated) supplies. Where there is no direct attribution, because the supplies relate to both taxable and exempt supplies, then an apportionment must be done. This is known as partial exemption. A partial exemption scheme assists HEIs to recover otherwise irrecoverable VAT.

The partial exemption method is usually based on proportions of income. Indeed the legislation sets out a Standard Method based on the value of outputs. Although few if any institutions operate the Standard Method, having agreed a Special Method with Customs and Excise, most methods are income-based variations on the Standard Method.

TRAC for allocating costs

However, income is not always a good indicator of how purchases are used. Customs and Excise has argued

that recovery of VAT should be linked to use, and that any partial exemption method is only acceptable if it provides a good approximation of use. It may suggest that the TRAC methodology provides a sound basis for allocating costs and related input VAT to activities.

This may well be the case, but it is for individual institutions to consider whether they want to adopt an input-based partial exemption method. TRAC may be helpful in this respect for some institutions, but it may operate at too high a level to be useful in detailed computations and apportionments.

What does Funding Council grant subsidise?

Of more concern is that one of the key messages coming out of the Transparency Review is that publicly funded activities should not subsidise non-publicly funded activities. Many

institutions have partial exemption methods that exclude any part of the Funding Council grant, on the grounds that the grant subsidises all activities of the institution.

Customs and Excise has suggested that this causes distortions by understating the amount of exempt teaching activities, and that the Transparency Review seems to support the argument that the Funding Councils' block grant for teaching only subsidises the exempt teaching activities of the institution. Customs and Excise may also use the Transparency Review to argue that the block grant for research only subsidises the institution's non-business research activities.

The BUFDG Tax Group is currently considering these issues and will provide more advice in due course. In the meantime, institutions should continue to resist the inclusion of the Funding Councils' block grant in the denominator of the partial exemption calculation.