

Moving on – to pricing based on market analysis

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The publication of TRAC Volume III marks an important watershed for the HE sector and for JCPSG. This development of the underlying costing methods means that all institutions now have consistent methods both for management reporting and for costing at the project and activity level.

The driver for these developments, carried out by JM Consulting with the help of nine pilot universities, was the reform of the research funding framework, particularly for Research Councils and other government departments. However, the methods developed all the way through TRAC have ensured that they are holistic and can be used for any project or activity, including teaching.

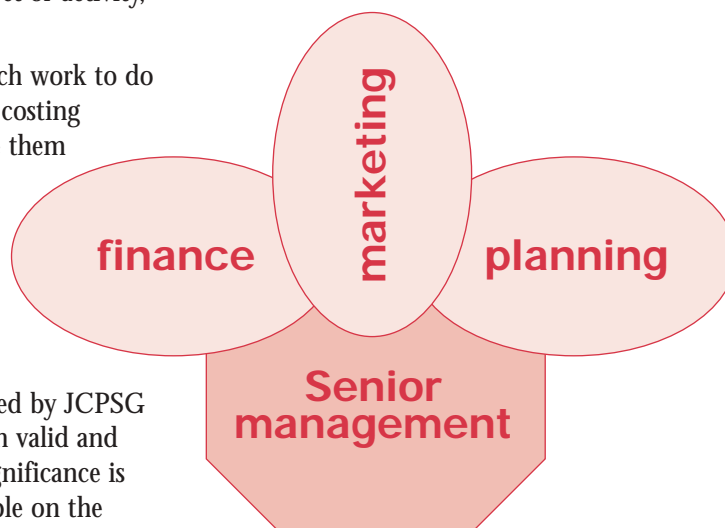
Even though there is much work to do to fully implement these costing methods and to integrate them with institutional management systems, it is now vital that the HE sector moves on (or perhaps back) to the pricing agenda.

The publications produced by JCPSG in 2000 and 2002 remain valid and appropriate, and their significance is growing. Both are available on the JCPSG web-site (see page 2).

As the policy of sustainability, adopted by the Government and the funding council, develops and becomes real, each institution must consider how it will manage the underlying flow of funds to support its core activities on a long-term basis. Managing pricing well must form a key element of this plan.

It is not possible to manage pricing effectively without an understanding of the markets for activities, without soundly-based market analysis information, and an appropriate analysis process linked into planning at the strategic level. The diagram below suggests one possible set of relationships to achieve this.

Planning relationships



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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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Joint Costing and Pricing Steering Group

Markets for higher education activities

Category of activity	Characteristic of market	Pricing approach
Publicly funded teaching	Changing from regulated to partially regulated	Changing from cost-based towards market-based or value-based pricing
Non publicly funded teaching	Unregulated	Market-based pricing
Publicly funded research	Regulated	Cost-based pricing
Non publicly funded research	Unregulated	Market- or value-based pricing
Other	Unregulated	Market- or value-based pricing

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The picture is hugely complicated by the fact that universities and colleges are usually operating in more than one market and that these markets have very different characteristics, some of which are changing. The table indicates this complexity at the highest level.

Each of these high level markets is further sub-divided into segments. For example, non publicly funded teaching quickly divides into segments for international students, conventional postgraduate teaching (both masters level and diploma level), and continuing professional development activities. Each segment has its own characteristics, and the approach to pricing in each will have to take account of these.

Some institutions are taking proper account of these market segmentations and are using their discretion to analyse and price appropriately, but across the whole sector performance is weak. If this continues, then the flow of funds into institutions is unlikely to be sufficient to meet the requirements of sustainability. These questions come into sharp relief as undergraduate UK and EU fees increase and start to be differentiated under the new regime.

Role of academic managers

! Critically, and perhaps for the first time, academic managers in institutions will have to be "up to speed" in these respects, to avoid the risk that day to day decisions could commit the institution to outcomes that do not work at the corporate level. **!**

Operating in a number of markets with different characteristics is difficult, and it is unlikely that an optimum solution will emerge without proper planning, information and support.

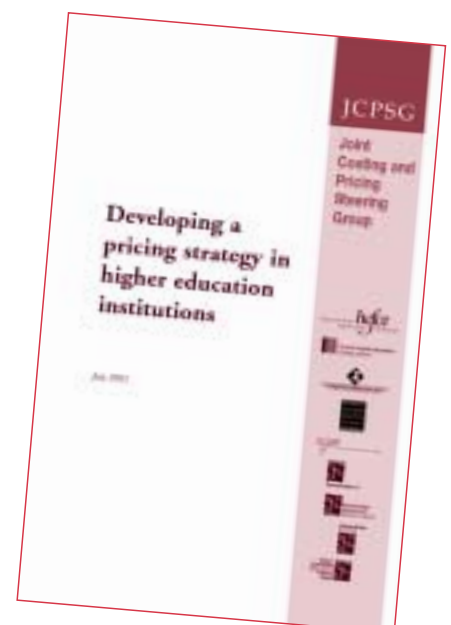
In the past, the 'read-across' from projects funded by Research Councils into the pricing of non publicly funded projects has damaged the sector. It established an inappropriate ruling price, the 'low price culture', and so a deficit in the funds flowing from that aspect of the sector's work. It will not be easy to change this without a real focus on the process in each institution and on the underlying culture of those involved, and clear signals from government that it will play its part.

Against this background, institutions now need to consider how they will manage the transition to a system of

pricing based on accurate information and analysis of the markets - if their activities are to remain sustainable in the long-term.

Web links

- 'Pricing toolkit for the higher education sector', October 2000, http://www.jcpsg.ac.uk/costing_pricing/toolkit/index.htm
- 'Developing a pricing strategy in higher education institutions', July 2002, http://www.jcpsg.ac.uk/resources/jcpsg_pricing.htm



Guidance issued on full economic costing

Last month the JCPSG issued detailed guidance on the methods to be used for costing research projects (and other activities) on a full economic cost (fEC) basis.



The guidance was issued as Volume III of the TRAC manual. All institutions need to have implemented these methods for January 2005. All bids to Research Councils from September 2005 are to be based on fECs; the Research Councils will pay a percentage of these fECs.

The guidance contains a copy of a letter from H M Treasury which formally sets out Government policy on pricing (see Annex 1 to Section

B3). Other government departments are to pay 100 per cent of fECs on cost-based price contracts. This is effective immediately.

Impact on the sector

A series of six technical workshops were held across the country in March, to present the TRAC fEC costing methods. Representatives from 142 institutions attended, including pro vice-chancellors, finance directors, management accountants and TRAC project managers, and members of research support units. This high attendance indicates the importance of these new methods to the sector, and the wide-ranging impact that implementation will have across the institution.

TRAC is something that will affect every academic, and every proposal they make and project that they run. It will affect many significant institutional processes, such as the research strategy, finance and estates strategies, and the resource allocation model.

These wider issues will be discussed at a series of seminars that JCPSG is organising in the spring, specifically to consider the wider sustainability agenda.

The methods have been written to be as light-touch as possible, but there is still a significant amount of work to do in many institutions to be ready on time. Institutions are encouraged

to think through what resources they need for implementation now, if they have not done so already. The guidance manual provides a sample action plan and other material to help plan this.

A loose-leaf version of the manual will be ready in April, and further material and updates will be issued throughout the year. A helpdesk will be available to respond to queries and offer advice. Details will be circulated to institutions shortly.

Quality assurance

Institutions are also required to participate in a joint funding council/research council quality assurance process on embedding TRAC and introducing fEC. The funding councils wrote to heads of their respective institutions on 22 March 2004 with details of this process – see HEFCE Circular Letter 05/2004, on the web at www.hefce.ac.uk under Publications/Circular letters.

More detailed information is shortly to be sent to heads of finance in institutions. The process will give all HEIs the chance to receive developmental advice, and will facilitate benchmarking. This should provide useful information to institutions as they start their implementation of fEC methods.

Joint Costing and Pricing Steering Group

Treasury confirms government must pay full economic costs of research commissioned from HEIs

The Treasury has now confirmed the Government's policy on funding research in HEIs commissioned by government departments.

In a letter dated 13 February 2004 to the Office of Science and Technology (OST), it states that: 'Government departments – along with other purchasers of research by universities [and colleges] under contract – should expect to pay 100 per cent of the full economic costs of the research they commission from universities [and colleges]'.

The Treasury letter can be found at: www.hefce.ac.uk/research/funding/dual/

Institutions are urged to refer to this letter when negotiating prices with government departments and agencies. Some HEIs are already reporting success, with government sponsors agreeing to meet the full economic costs of research. Institutions, of course, should recover at least full economic costs for all contract research and development for industry, in line with earlier recommendations.

Vital for sustainability

The Treasury letter reiterates the policy stated previously in the 'Cross-Cutting Review of Science and Research' (March 2002), and in 'Investing in Innovation: a strategy for science, engineering & technology' (July 2002).

In the context in which the letter is written, government departments include agencies and the Department of Health, but not the NHS, which should be treated in the same way as Research Councils.

Update on case studies

Information Services (IS)

All three case studies – at Nottingham, Newcastle and Reading – are progressing well. Each is tackling the issues of identification of data sources, embedding cost drivers and using IS information for decision-making. The varied approaches will help the sector with establishing the full economic costs of activities, with internal pricing, and in using data for pricing activities provided externally by IS functions.

Estates

The Scottish consortium of the University of Aberdeen, the University of Glasgow, the University of St Andrews and Glasgow Caledonian University is liaising with the pilot universities (Dundee and Heriot Watt) working on TRAC methods for the direct allocation of estates costs to projects.

The project includes a review of current estates management and costing and pricing practices, estates costs to be allocated, information systems in operation for estates and space allocation processes. The consortium also aims to provide guidance on achieving consistency between the TRAC methodology and the Estates Management Statistics project, through liaison with HEFCE and SHEFC estates representatives.

Support for implementing project costing

The JCPSG is establishing a support framework to help institutions to prepare for and implement the new requirements for the full economic costing of projects.

JM Consulting Ltd will provide:

- * A help-desk to offer technical support on the requirements of the TRAC manual, 'Volume III: Full economic costing of projects'. The help-desk will handle enquiries by telephone, e-mail or in writing. Any advice and guidance that is generally applicable will be disseminated through e-mail groups, the JCPSG web-site and

newsletters. The help-desk will be available from April 2004 to September 2005.

- * A series of half-day policy-level conferences for vice-chancellors, pro vice-chancellors, directors of finance and research support directors. These will focus on the wider issues arising from the full economic costing methods – such as pricing, cultural change, and sustainability. These events will take place in May and June 2004 across the UK, with invited audiences of senior managers only.

Further information on the helpdesk, and invitations to the conferences, will be issued shortly.

Developing costing and financial reporting of HEI activity

The Financial Reporting and Activity Costing Group (FRACG) reported in November 2003 that the TRAC methodology is robust and fit for purpose at an institutional level.

The HE funding councils established the FRACG to support the development and implementation of the TRAC methodology which enables institutions to report annually the full economic costs across five broad headings of their activity (publicly funded teaching, non-publicly funded teaching, publicly funded research, non-

publicly funded research and other) to the government.

The group was set up in October 2002 and chaired by Professor John Bull, with membership drawn from the higher education sector, the UK HE funding councils and the Learning and Skills Council.

Other key conclusions by FRACG were that:

- some stakeholders require further assurance, with a more independent element to internal audit processes, that the TRAC methodology has been applied properly and consistently

- the funding councils should consider expanding the annual Transparency Review reporting return to include both income and full costs across the five categories of TRAC reporting.

The report from FRACG, and the actions by the funding councils to address the recommendations can be found in HEFCE Circular Letter 26/2003, on the web at www.hefce.ac.uk under Publications/Circular letters.

Training courses attract wide interest

To meet the increasing need for training on costing and pricing issues, the Training and Development Group of the British Universities Finance Directors Group (BUFDG) has run a number of well-attended seminars over the last few months. More information and copies of presentations are available on the BUFDG web-site at <http://bufdg.niss.ac.uk>

'Introduction to TRAC' courses were held in Birmingham and Glasgow in February 2004. Speakers representing HEIs throughout the sector covered topics such as the purpose and principles of TRAC, cost drivers, cost adjustments, implementation of costing and pricing strategies, and steering groups. If there is sufficient demand, the course may be re-run later in the year.

'Research Funding', held in Edinburgh in February 2004, featured speakers from HEIs in England and Scotland, HEFCE and SHEFC, and prominent external speakers from the OST and two Research Councils. The programme covered such diverse topics as dual support reform, EU Framework Programme 6 and EU post-award administration and contract negotiation.

'Software packages for costing and pricing', held in March 2004 and chaired by Ray Corner, Chair of the BUFDG Financial Systems Group, attracted wide interest from many institutions wishing to find out more about what is on the market. A number of commercial firms gave presentations (including InfoEd, Baum-Hart, Accountability, Clario and STCS); copies will appear on the BUFDG web-site in due course.

Further training opportunities

Future BUFDG courses will cover Management Reporting in HE (9 June 2004), NHS Finance, Costing Estates and Pricing (dates to be confirmed).

Many other sector bodies are addressing issues associated with costing and pricing in forthcoming conferences and seminars. For example, the Research Administrators' Group Network (RAGnet) is holding its spring conference – 'Collaboration, Competition and Concentration' – on 13-14 May 2004. Details are on its site: www.ragnet.ac.uk.

For further information on training opportunities, please contact John Newton (JCPSG National Co-ordinator), on 029 2087 4141; e-mail newton@cardiff.ac.uk

Joint Costing and Pricing Steering Group

News from the regions

Self-help costing and pricing groups are continuing to meet regularly and are well attended. Groups are now extending membership to include representatives from non-finance departments and broadening the agenda at meetings so that their approach to the JCPSG agenda is holistic.

The **Southern and Welsh Medical Group** elected Ian Child (University of Southampton, e-mail I.G.Child@soton.ac.uk) as its Chair at its inaugural meeting, hosted by King's College, London on 23 January 2004. The next meeting, date to be agreed, will be held in Bristol. The next meeting of the **Northern and Scottish Medical Schools Group** will be at the University of Newcastle on 20 April 2004.

The **University of Newcastle** is hosting a **regional conference**, on 19 April 2004, for the five north-east HEIs on implementing the JCPSG costing and pricing agenda. With a target audience of senior academic and administrative staff from each institution, key speakers include representatives from JCPSG, EPSRC,

OST and constituent institutions. They will address costing, pricing and sustainability issues relating to teaching, research and third mission. For further information, contact Rachel Watson (e-mail Rachel.Watson@newcastle.ac.uk).

The **University of Sheffield** has agreed to host a similar conference for HEIs in Yorkshire at a date to be confirmed in mid-May; contact Paula Fisher (e-mail P.Fisher@sheffield.ac.uk) for details. The **Welsh Costing and Pricing Self-Help Group** is arranging a conference in the spring for all HEIs in Wales, to be hosted by the University of Wales, Swansea.

For details of the groups or events, contact John Newton, e-mail newton@cardiff.ac.uk.

Contracting of non-medical education and training between the NHS and HEIs

The Department of Health is intending to implement a new model contract (incorporating standard prices) with effect from 1 April 2004. National benchmark prices will apply for all new and renewal contracts in England.

A review of issues and progress, by the JCPSG National Co-ordinator John Newton, is on the web at:

http://www.jcpsg.ac.uk/download/resources/NHS_document_edit.doc

The JCPSG is not responsible for the recommendations in the review, nor their implementation.

A further update on progress will be provided in the next JCPSG newsletter.

JCPSG Project Manager: temporary change

JCPSG Project Manager, Heather Williams, will be taking maternity leave at the end of March 2004. Andy Beazer (Finance Adviser, HEFCE) will manage the project until Heather's return, and can be contacted at a.beazer@hefce.ac.uk, tel 0117 931 7113



Ideas welcome

What would you like to see in the JCPSG newsletter?

We welcome all comments on this issue, as well as ideas and contributions to improve future editions.

Please send them direct to John Newton, National Co-ordinator for Costing and Pricing, e-mail Newton@cardiff.ac.uk