

An opportunity to move forward

Professor David Westbury charts the introduction of TRAC-based full economic costing, and reveals a preliminary timetable.

The move to full economic costing for research projects, the opportunity to reform pricing more widely, and the establishment of a new 'ruling price' for higher education represents the crossing of an important watershed for the HE sector.

The opportunities for further reform must not be missed.

The HE sector has made impressive progress in developing Transparent Approach to Costing (TRAC) methods and extending them to forecasting the full economic cost (fEC) of activities. This progress has opened the way for the reform of the Dual Support system for research funding by the Research Councils and Funding Councils, led by the Office for Science and Technology (OST).

JCPSPG has strongly supported the reform process and we are all grateful for the support that universities and colleges have given to these developments.

The importance of the increased confidence in government departments engendered by the approach of the sector to the modernisation of project management cannot be over-estimated.

Significant boost to research funding

On 6 January, the OST and the DfES announced that from September, all applications to Research Councils for project funding must be made on an fEC basis using the extended TRAC methods. Projects will be funded at 80 per cent of fEC (with equipment costing above £50,000 being funded at 100 per cent).

Along with the up-lift in quality-related research funding and the continuation of Science Research Investment Fund capital funding, this reform of the Dual Support system will bring very significant extra funds into universities and colleges for publicly funded research.

There is a clear determination in government for project pricing to move to 100 per cent of fEC within four years.

A new 'ruling price'

The reform of the Research Council approach to funding projects gives an opportunity for a major change to pricing, and sets a new 'ruling price' for much of the sector's work. This will make it easier for the sector to leave behind the 'low price culture' and marks an important step for

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institutions in achieving financial sustainability.

But, to make it work, it is essential that universities and colleges support the changes by trying to recover fEC wherever possible. If prices or funding are accepted that are below full economic costs there are risks that such actions could have repercussions for the whole sector.

Targeting sustainability

Government and Funding Council policy has made it clear that universities and colleges have responsibility for maintaining their sustainability longer term, including investment in infrastructure and innovation. In part, sustainability can be achieved by getting the pricing right.

To make the changes, universities and colleges will have to negotiate

robustly, even with some publicly funded agencies and government departments. So far, a full three-way partnership and framework has only been established in the case of the Research and Funding Councils.

Importantly, Government has made it clear that HE funders employing public funds have a clear responsibility not to undermine the policy on achieving sustainability in HEIs.

Government has provided considerable support for the change in pricing, through policy statements from the OST and the Treasury, and through guidance to individual spending departments. The Welsh Assembly has endorsed the approach for Wales, and the Scottish Executive is expected to make an announcement soon.

HEIs the key to success

The move to a new regime and 'ruling price', however, cannot be

achieved overnight or without action from the HEIs.

Although HEIs are autonomous institutions and should determine their own strategy and approach to pricing contracts, as the implementation of fEC methods based on TRAC proceeds, some co-ordination of approach is desirable.

The accompanying table gives a timetable for implementing the new approach to pricing, particularly for contracts with publicly funded bodies. It is based upon the best information available to JCPSG at the present time.

JCPSG publications, available on the web-site, at www.jcpsg.ac.uk under 'Resources and Publications', provide guidance on establishing a pricing policy and strategy should this be needed.

Research Council grant allocations announced

The OST has announced that the Research Councils, including the Arts and Humanities Research Council, will contribute 80 per cent towards the full economic cost of projects. In addition, grants will cover 100 per cent of the cost of equipment above £50,000.

Professor Ian Diamond, Chair of the Research Councils UK (RCUK) Executive Group wrote to research organisations on 14 January 2005, updating them on the Council's implementation of the Dual Support Reforms, and informing them of figures for a payment to be made in 2005-06 as an interim contribution

towards increased full economic costs, in advance of grants being paid on the new basis. The extra £120 million in funds will be paid in July by the Economic and Social Research Council (ESRC) on behalf of the Research Councils.

A subsequent letter from Professor Diamond was issued on 25 February. This informed the sector of revised extra payments to provide more support for existing (i.e. non-full economic cost, fEC) grants, detailing an additional £21 million on top of the £120 million previously allocated.

There will be no further interim payments in advance of new fEC grants.

Consolidated guidance

J M Consulting is producing a set of two refined manuals to replace existing guidance:

- a short briefing booklet for senior managers and academics
- a consolidated technical manual (in CD-ROM format and for the web-site) which will also support training activities.

The set of consolidated guidance should be more easily accessible to both new and existing staff in HEIs, and will be issued to all UK higher education institutions in June.

Joint Costing and Pricing Steering Group

Timetable for full economic cost pricing

Publicly funded organisations	Start date for TRAC-based fEC pricing	Notes
Research Councils	September 2005	1, 2, 3
Royal Society, Royal Academy of Engineering, British Academy	September 2005	1, 2, 3
NHS research & development	September 2005, TBC	1, 2, 3
Other Government departments, including non-research NHS contracts	From February 2004 if HEI and departmental processes are in place, else no later than September 2005	1, 4
HEFCE	TBA shortly	5
SHEFC	TBA shortly	6
HEFCW	TBA shortly	6
DELNI	TBA shortly	5
Teacher Training Agency	Not known	6
Higher education institutions	April 2005	1, 7
European Union	Not known	8
Regional development agencies	April 2005, TBC	1, 4
Non-publicly funded organisations		
UK charities	Not known	1, 9
Industry and commercial	Immediate, where applicable	1, 10

Notes

- 1) Most universities and colleges implemented the TRAC based full economic cost methods as planned by the end of January 2005. The Quality Assurance project initiated by the Funding Councils and Research Councils will report this month. Therefore, funding bodies can now have confidence that HEI prices based upon costs are properly and consistently determined. The default rate for the calculation of the fEC of projects will also be available this month for those institutions without an accredited indirect cost rate.
- 2) The Research Councils will have established and implemented their new approach to costing and funding research projects and programmes based on TRAC fEC methods by September 2005.
- 3) The Research Councils will pay 80 per cent of the fEC of projects they commission, and 100 per cent of the cost of equipment above £50,000. The Royal Society, Royal Academy of Engineering and British Academy will pay the same as Research Councils for their OST-funded programmes, and
- 4) Under direction from the Treasury, other government departments and related bodies in England and Northern Ireland are expected to pay 100 per cent of the full economic costs for the work they commission so as not to undermine government policy on sustainability. The Welsh Assembly has also confirmed this policy for Wales. The Scottish Executive is currently considering its position and an announcement will be made soon. Although the policy was set out in February 2004, most government departments are unlikely to have changed their systems before September 2005.
- 5) The HEFCE Board is considering its policy for funding HE activities this month. It is likely that the Department for Education and Learning in Northern Ireland will be guided by the decision of the HEFCE Board.
- 6) Discussions are proceeding within the Scottish and Welsh Funding Councils and the Teacher Training Agency to determine their approach.
- 7) Unless otherwise agreed, transactions between HEIs should be priced at 100 per cent of fEC.
- 8) Negotiations are proceeding between the UK Government, the HE sector and EU bodies to establish the basis for funding in the future. It is hoped that the fEC methods based upon TRAC will be acceptable for at least some of these activities. The negotiations may be protracted.
- 9) Discussions are proceeding between the research charities and the HE sector, and in the Funders' Forum, overseen by the OST and the Funding Councils. It is hoped that the TRAC methods will be accepted as the basis for the funding of projects sponsored by charities. The approach has not been determined yet.
- 10) Pricing to industrial and commercial bodies may be cost based, value based or competitive market based, following normal commercial practice. However, in judging appropriate pricing, the full economic cost of projects should be used as a baseline. The requirements of Fair Trading legislation must be respected.

Training and seminars

JCPSG and other sector groups are running seminars and workshops on pricing and full economic costing. Details will be publicised on their web-sites and in the JCPSG E-mail Bulletin. Suggestions for seminar topics are welcome and should be sent to: John Newton, e-mail newton@cardiff.ac.uk.

JCPSG

- Seminars on the case studies commissioned by JCPSG on teaching, resource allocation and financial decision-making will be held throughout the UK. The case study reports will be published on the JCPSG web-site. Confirmed dates so far are: 19 May (Warwick) and 16 June (Manchester)

- further workshops on fEC will be held. Confirmed dates are 5 July (London) and 12 July (Edinburgh).

Association for University Research and Industry Links
www.auril.org.uk

Association of Research Managers and Administrators
www.arma.ac.uk

British Universities Finance Director's Group (BUFDG)
www.bufdg.ac.uk/seminar

Consortium of Arts and Design Institutions in Southern England
www.cadise.ac.uk

The way forward after 31 July

The second phase of JCPSG work ends on 31 July, with its last formal committee meeting on 21 June. The JCPSG is working hard on the various strands of the group's exit strategy, which include:

- encouraging self-help groups to become self-sufficient
- maintaining the JCPSG web-site
- working with other sector bodies (e.g. BUFDG, Leadership Foundation) to ensure both technical and senior management training gets taken forward
- reviewing and updating TRAC requirements and manuals
- supporting HEIs beyond September 2005.

A forum for representatives of the sector's groups and bodies, which will continue to take forward the costing and pricing agenda, will be held in London on 20 June and invitations will be sent out shortly.

If anyone has any particular issues they wish JCPSG or the forum to consider, contact National Co-ordinator John Newton, e-mail newton@cardiff.ac.uk.

The majority of the regional costing and pricing groups have already stated that they will continue with regular meetings after July. John Newton will be contacting all HEIs to let them know which groups they can attend if they are not already doing so.

Exploring the implications of TRAC in the EU

Discussions on costs which may not be eligible for inclusion in European research projects, in light of the use of TRAC, are now underway with the EU.

These discussions follow the recent Universities UK (UUK), UK Research Office (UKRO) and JCPSG joint event. The seminar updated the sector on case studies undertaken to explore the implications of using TRAC for costing such projects, primarily from the Framework Programme.

The case studies explored two key issues:

- cost recovery using TRAC with the Additional Cost (AC) 'versus' the Full Cost (FC) model
- the possibility of future use of the Additional Cost (AC) model.

The event included presentations from Chris Hale (UUK), John Newton (JCPSG), Amanda Crowfoot (UKRO), Marianne Morris (OST).

The presentations are available on the JCPSG web-site at www.jcpsg.ac.uk/resources/ under 'Training Materials'. UUK will be circulating a report to institutions.