

JCPSG closes, but what of the future?

Professor David Westbury, Chair of JCPSG

The role and work of the JCPSG has come to an end, with a substantial measure of success. The progress made over its eight-year life shows how a consistent focus, consultation and collaboration can deliver appropriate outcomes for higher education.

The work of the group evolved and expanded in a way that could not have been foretold at the beginning. We were fortunate in being able to harness and at times to guide developments in government policy, and there have been considerable benefits for universities and colleges.

In 1997, when we started, there were few universities and colleges with robust business processes outside of financial accounting, and even those were not effectively integrated with academic decision-making. There was no comprehensive and widely accepted framework for costing, although a few institutions had begun to experiment with such processes.

Pricing was relatively under-developed, and prices were often based upon marginal costing. The significance of this grew as institutions diversified in response to government policy and financial pressure. Publicly funded activities – particularly research and related work – were also priced largely

on marginal costs, reinforcing a ‘low price culture’ across the whole sector. There was no properly based cost model for higher education activities, either at institutional or at national level, to guide investment as the sector expanded to meet national economic and social objectives. No individual institution was capable of breaking out of this straitjacket unaided.

By 2005, as JCPSG completes its work, the effect of this unfortunate combination of circumstances is well understood, both by institutions and by Government and its agencies. JCPSG has developed a robust and effective system, the Transparent Approach to Costing (TRAC), which is based upon the principles of activity-based costing and yet is appropriate for HEIs and acceptable to academic staff and managers. TRAC has proved to be capable of appropriate and proportional implementation across the widely diverse group of UK institutions. All now report high-level cost data on their principal activities. The data show clearly the relationship between the costs of principal activities, their outputs and the income that can be attributed to them. The information has grown year by year, and has been influential both in guiding management in institutions and in enabling a review of public funding levels.

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NEWSLETTER

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Key outputs

What have we achieved? The key outputs of JCPSG activity since 1997 can be identified as:

- Development of TRAC, and its implementation across the sector
- Development of pricing guidance for HE
- Input to reform of the Dual Support system and the pricing of publicly funded research
- The establishment of a more realistic 'ruling price' for HE activities through the extension of TRAC to forecast full economic costs (fEC), at activity and project level, and its implementation across the sector
- Training for staff to support TRAC and better costing and pricing.

Finally, the data from TRAC are starting to build, nationally and for each institution, a cost model that

will guide investment decisions in a much more robust way. This has contributed substantially to the present focus in funding councils and in HEIs on the sustainability of core activities in the long term.

End of the beginning

So what of the future? As JCPSG draws to a close, a new period of development begins, one in which the universities and colleges themselves must play a leading role. TRAC itself will inevitably evolve as HE evolves and new challenges emerge. We will never have 'finished TRAC'! It is a tool for management and change, not an end in itself. But stepping beyond that, the environment for HE is now changing rapidly, becoming more competitive, and with a more complex mix of publicly and privately funded activities.

HEIs will only survive and prosper if they tackle head-on the challenges of managing in the new environment.

The process of development brings with it considerable cultural tension and change. And it is here, in the integration of the best of the academic tradition with effective management of the business of HE, that universities and colleges must lead for the future. Strategic planning, management of the portfolio and of costs, market analysis, competitive pricing and negotiating skills will all be increasingly important. Not only must institutions aim for sustainability, they must generate a margin for surplus and then invest that selectively for innovation and development.

The achievements so far have increased confidence, within the sector and in government departments, that the flow of substantial funds from the public purse and from non-public sources can be managed effectively, and that accountability can be demonstrated. The importance for the future of that increase in confidence cannot be over-estimated.

Support for HEIs after 31 July 2005

As part of its exit strategy, the JCPSG has been keen to ensure that there will still be help for HEIs in implementing TRAC.

Helpdesk

JM Consulting will continue to run the TRAC implementation helpdesk until 30 September 2005 (tel 0117 959 3687, e-mail director@jmc1.org).

After September 2005, queries will be dealt with by staff at the funding councils:

- HEFCE-funded institutions should contact their HEFCE finance adviser
- SHEFC-funded institutions should contact their SHEFC financial analyst

- HEFCW-funded institutions should contact Nick Williams (tel 02920 682299) or Richard Hirst (tel 02920 682253).

JCPSG web-site

The web-site – www.jcpsg.ac.uk – will continue to operate under the JCPSG logo. The new costing and pricing group of the British Universities Finance Directors Group (BUFDG) will be responsible for managing the content of the site, with technical support and hosting provided by HEFCE.

Other areas of support initiated by JCPSG now accessible to HEIs include:

- new BUFDG costing and pricing group
- publication of consolidated TRAC guidance
- arrangements for future training
- case studies
- self-help groups.

Further information on each of the above can be found on pages 3, 5 and 6 of this newsletter.

Statement from Funding Councils

The Funding Councils have for a number of years been encouraging and supporting HEIs in identifying the full costs of their activities to better inform financial and academic decision making.

Substantial progress has been made through the efforts of a large number of people across the sector over these years, in particular through the work of the Joint Costing and Pricing Steering Group.

That support and encouragement from the Funding Councils will continue. The momentum built up behind full economic costs needs to be maintained. In particular we are looking actively at where we might need to strengthen the actions set out in the JCPSG exit strategy.

BUFDG sets up new costing and pricing working group

The first meeting of the new working group on costing and pricing, established by the British Universities Finance Directors Group (BUFDG), took place on 17 June. Though the aims of the group have yet to be finalised, it will not to be taking on the breadth of JCPSG's current role.

The group will concentrate on:

- being the guardians of the full economic costing (fEC) methodology
- acting as an advocate, co-ordinator and negotiator with funders on the high level issues surrounding fEC implementation
- supporting and being a national point of contact for the regional fEC self-help groups.

Chaired by Jon Gorrington (Director of Finance, University of Edinburgh), the group is made up of finance directors representing the sector geographically and by type of institution. It is expected that the membership will be widened to bring in other groups such as directors of research, and will also invite participation from the major funders such as the Funding Councils and Research Councils.

The group's work will take account of the fact that the fEC agenda is not just about research, since to be fully sustainable institutions need to be recovering the full costs on their broad range of activities.

Further information on the new BUFDG group will be available shortly on the JCPSG web-site, www.jcpsg.ac.uk under 'Resources and support'. Jon Gorrington can be contacted on tel 0131 650 2181, e-mail jon.gorrington@ed.ac.uk.

Update from Research Councils

The Research Councils held seminars in June and July 2005 to outline the impact of the new arrangements for funding Research Council grants on peer review, and to summarise the changes to proposal forms.

The seminars were intended for both researchers (as applicants or peer reviewers) and administrators in research organisations. They included a session on validation of costing methods for non-universities.

Generic guidance for the peer review community, to ensure they are clear about their role in an fEC environment, has been published at www.pparc.ac.uk/jes/DSR_Peer_Reviewguidancev1.0.pdf

The Government has said that the current volume of research funded should be maintained and not increase under fEC. To this end the Research Councils will be monitoring activity on fEC research grants and applications and awards for fellowships, against current patterns. It will also be important for research organisations not to change

current patterns of application practice for principal investigator and co-investigator time, otherwise a distortion of the overall funding could occur.

In addition, Research Councils would not expect to see an increase in the number of applications, as this will add pressure to the peer review system and reduce success rates. Research Councils are asking for the co-operation of colleagues in the research organisations, and encourage central monitoring within HEIs.

Public sector bodies accept fEC

The principle that public funders should pay the full economic costs (fEC) of research they commission from universities has become widely accepted.

The government set out its policy on the costing and pricing of publicly funded research in the Cross Cutting Review of Science and Research (March 2002) and reaffirmed this in the science strategy 'Investing in Innovation' (July 2002) and HM Treasury's letter to Dr Chris Henshall (13 February 2004).

It has been further reinforced through the Government's '10 year Science and Innovation Investment Framework 2004-14', published in July 2004.

Scotland and Wales

The Scottish Executive has confirmed that, along with its agencies and non-departmental public bodies, it now expects to pay for the full economic costs of research bought from UK universities to improve evidence-based policy making. The Higher Education Funding Council for Wales has confirmed that the Welsh Assembly Government has implemented the Treasury's policy of funding 100 per cent of the fEC of work commissioned from HEIs, as set out by the Treasury in February 2004. (See www.ost.gov.uk/research/government_departments_and_university_research.doc)

HEFCE has recently published on its web-site how it takes account of full economic costs in the funding it distributes for higher education (see www.hefce.ac.uk/finance/costing/)

Government departments

Some institutions are already recovering full economic costs on research commissioned by government departments. Others are urged to refer to the Treasury letter (February 2004) in their negotiations – see link above. Occasionally the HEI may conclude that it wishes to price a particular government department research project at less than 100 per cent of fEC; this should only be done as a conscious decision, within the context of strategic objectives and having regard to the requirement, taking one year within another, to recover in aggregate the full economic costs of their activities across the full range.

(Refer to the Financial Memorandum between funding councils and HEIs, and the government's suggested guidelines for HEIs to use when considering whether or not to subsidise projects from those public funds which have specifically been allocated for 'public scientific good' research. See www.ost.gov.uk/research/reviced_pricing_guidelines_Oct04.doc)

However, the simple fact that the research supports evidence-based policy-making by Government is **not** sufficient to satisfy the principles. Government departments would potentially pay more than 100 per cent of fEC if the work were competitive or other market conditions applied.

The DTI has announced that Knowledge Transfer Partnership (KTP) projects should be funded at 100 per cent of fEC from September

2005, being the start of new programmes. The HEI element of Knowledge Transfer Network (KTN), LINK and other DTI Technology Programme projects, often being associated with Research Councils, will be funded at the same percentage as the Research Councils, currently 100 per cent of fEC.

The NHS

All government departments are to pay 100 per cent of fEC unless the Government has determined a different policy for a particular department to allow it to pay at the same rates as the Research Councils (currently 80 per cent of fEC). At present this only applies to the NHS (not the Department of Health) where an NHS trust is contributing to the project by making clinical facilities available and the trust is not recharging for the use of these facilities.

NHS bodies have now made explicit statements on web-sites that they expect to meet 80 per cent of fEC from April 2006. Refer to the NHS Health Technology Assessment Programme at www.hta.nhsweb.nhs.uk, under FAQ/Submitting Proposals; and the NHS Service Delivery Organisation Research and Development Programme on www.sdo.lshtm.ac.uk. HEIs will need to negotiate research contracts with local NHS trusts but it is anticipated that the same principles will apply.

Joint Costing and Pricing Steering Group

Consolidated TRAC guidance

A set of consolidated TRAC guidance was published for the sector in June 2005. It consists of:

- **An overview of TRAC** for senior managers and academics. This provides a non-technical introduction to TRAC, and a summary of the main features. It is aimed at those who are not directly responsible for implementing TRAC, but who need a high-level understanding of its purpose, the costs and benefits, and the implications for their work.

Each HEI has been sent copies of the Overview. Further copies are available from HEFCE Corporate Communications (tel 0117 931 7035); or a pdf copy can now be downloaded from the contents page of the web-based guidance at: www.jcpsg.ac.uk/guidance.

- **Guidance on the web**, which consolidates the technical guidance issued in TRAC Volumes I-III and subsequent



updates. The guidance is at www.jcpsg.ac.uk/guidance. It contains a search facility, links and drill-down features to help users find what they need.

Self-help groups to continue

The regional self-help groups will continue to meet, and to provide support and advice to HEIs in their region. Contact details are given below. Information about which HEIs belong to which regional group is on the JCPSG web-site at www.jcpsg.ac.uk under 'Resources and support'.

Self-help group	Chair	Secretary
CADISE Group	Members rotate duties. Latest contact is Bethan O'Neil (boneil@surrart.ac.uk)	
Midlands Group	Bal Aujla (B.Aujla@wlv.ac.uk)	
North East Group	Mike Horsfall (m.horsfall@hud.ac.uk)	Paul Cropper (p.cropper@hud.ac.uk)
North West Group	Russell Lee (Russell.j.lee@man.ac.uk)	
Scotland Group	Mike Sparks (Michaels@miscorp.ed.ac.uk)	
South Group	Michael Johnson (Johnsonm@bournemouth.ac.uk)	Sophocles Chelepis (s.chelepis@kent.ac.uk)
South West Group	Susan Gabbott (S.J.Gabbott@exeter.ac.uk)	Neil Chamberlain-Keen (N.M.Chamberlain-Keen@exeter.ac.uk)
Wales Group	Malcolm Burke (m.burke@swansea.ac.uk)	Kirsty Jenkins (krd@aber.ac.uk)

Training needs are being met

One of the key aims of JCPSG was to promote the development of training, in collaboration with sector bodies and institutions, to support the JCPSG costing and pricing strategy.

The National Co-ordinator has arranged a number of seminars via the British Universities Finance Directors Group (BUFDG) Financial Seminars programme. Presentations are available on its web-site, www.bufdg.ac.uk under Seminars, covering the following:

- Introduction to TRAC
- Full economic costing (fEC)
- Internal audit and fEC
- Software packages for full economic costing of projects

- Estates/Finance and fEC (jointly run with the Association of University Directors of Estates)
- Pricing
- Financial decision-making.

The Association of Research Managers and Administrators (ARMA) held a series of training seminars on fEC for its members, and its spring conference focused on sustainability issues. For more information on ARMA, see www.arma.ac.uk

The Association for University Research and Industry Links (AURIL) held a successful spring conference covering many topics related to costing and pricing. Copies of presentations are on its web-site, www.auril.org.uk under Events. Details of its CPD programme are at www.auril-cpd.org

Future training

The Chartered Institute of Management Accountants (CIMA) intends to arrange a conference in spring 2006 which will feature presentations from some of those actively engaged in implementing better costing and pricing.

BUFDG and the Leadership Foundation also intend to continue to run courses and seminars focusing on areas of costing and pricing. See www.bufdg.ac.uk under Seminars, or www.lfhe.ac.uk under Events, courses and programmes.

Institutions will be responsible for ensuring that their staff are kept up to date with skills training on costing and pricing processes. If you are interested in attending a specific training session, please contact your relevant sector body.

Case studies now on the web

The second round of case studies commissioned by JCPSG has been published on the JCPSG web-site – www.jcpsg.ac.uk. See the 'Resources and support' pages.

- **Course and module costing for financial viability review and decision-making** (Liverpool John Moores University)
- **Embedding good practice: activity costing and its role in decision-making** (University of Salford)
- **The development of best practice guidance on the integration of project costing and accounting within the main financial accounting system** (Coventry University)

- **The development of fEC appraisal techniques to project appraisals** (Coventry University)

A consolidated report on the information services case studies commissioned from the Universities of Newcastle, Nottingham and Reading has also been published on the JCPSG site.

A good practice case study on the internal audit of Transparency Review and TRAC data, following consultation with the Council of Higher Education Internal Auditors (CHEIA), has been provided by Cardiff University and is available on the CHEIA web-site: <http://www.cheia.squarespace.com/cheia-news/2005/6/3/cheia-conference-2005.html>

Thanks from the National Co-ordinator

As this is my last opportunity as Editor of the JCPSG Newsletter, I should like to thank all the people I have met during my secondment for their support, friendship and help. I am returning to Cardiff University as Assistant Director of Finance from 1 August 2005 but hope that we meet up again, maintaining links and relationships.

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