Transparent approach to costing (TRAC) and Full economic costing (fEC)

27 September 2004
Today

• TRAC-data collection
• fEC-principles, why we are doing it
• Pricing
• Discuss issues and concerns of Heads
TRAC

• Began with 1998 Spending Review
• TRAC revealed: research under funded
  : infrastructure problem
• TRAC led to: SRIF 2 (£500m)
  : SRIF 3 (£500m)
  : Research Councils (£120m
  in 05/06 plus £80m in 07/08)
  : Project capital 3 and 4 for
    teaching
  : Additional £90m QR for charity
    funded research
• In return- HEIs to become sustainable
TRAC requirements

• Split total University costs between:
  - Publicly funded teaching
  - Non-publicly funded teaching
  - Publicly funded research
  - Non-publicly funded research
  - Other activities

• Key to methodology is allocation of academic staff time

• By and large annual TRAC return done centrally

• Needed to become more robust over time
TRAC needs…

• All Academic staff to complete the return once every 3 years
• Will not be able to secure our share of new RC funds (£4m by 07/08) if TRAC data is not robust
• Recent QA visit reinforced this
• Current return is less than 40%
• Web or paper form
• Hours versus percentages
• Spurious accuracy not required. 10% blocks on major activities are fine!
How does TRAC link to fEC?

• Locally, TRAC data will be used to determine estates costs and indirect costs per FTE for use in fEC

• Nationally, TRAC return show that underfunding is declining as new money and fEC take effect
fEC

• fEC only determines COST not PRICE
• From September 2005, all Research Council applications must be based on fEC.
• Research Councils price will be X % of the fEC
• Charities unlikely to meet full cost
• Prices to other sponsors to be fEC or more
• We will need to make choices about what we do if we are to be sustainable
What is in the fEC?

• Directly Incurred Costs
  – RA’s/Fellows
  – Technicians
  – Equipment, consumables etc.

• Directly Allocated Costs
  – PI’s & Co-Is (estimate of time)
  – Estates (£ per FTE)
  – Specialist Facilities, Pool Staff (usage)

• Indirect Costs (£ per FTE)
Benefits for us

• Real, new, additional money for what we are already doing
• No increase or decrease in volume of RC funded activity
• Extra income will allow us to begin to address the infrastructure issues (“lifts, drains and boilers”)
Infrastructure

- Nationally, average backlog assessed as 30% of insured value of estate.
- Recommended annual spend to maintain infrastructure is 4-5% of insured value.
- If we are average, our backlog is £300m and we should spend £50m each year on maintenance.
- Currently spending less than £10m pa.
- SRIF is helping with backlog.
- Proper costing and pricing of ALL activities to close the gap.
Funders & Pricing Policy

- Research Councils: x% of fEC
- Charities: Direct costs?
- Other Govt Depts: 100% fEC
- Industry etc.: Market Price => 100% fEC
- EU: c. 50% fEC
Who Funds our Research?

02-03 Research Income

- Research Councils: 36%
- UK Charities: 16%
- Other Govt Depts: 20%
- Industry etc.: 24%
- EU Govt: 4%
# Pricing Strategies

<table>
<thead>
<tr>
<th>Type of work</th>
<th>Pricing</th>
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<tbody>
<tr>
<td>Research of high academic value and prestige (RAE benefits, IPR etc.) [Core Teaching]</td>
<td>At least all directly incurred and directly allocated costs <em>(loss-leader)</em></td>
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<td>Applied research (little addition to HE knowledge base or IPR), short courses, PG students, T contracts (discretionary T)</td>
<td>fEC <em>(sustainable)</em></td>
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<tr>
<td>Consultancy (knowledge activity, but no IPR), overseas students</td>
<td>fEC plus (never below) <em>(makes a contribution above costs)</em></td>
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<td>Commercial (no academic benefit)</td>
<td>Market price informed by fEC <em>(surplus for subsidy and investment)</em></td>
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What are we doing about this?

• Changing hearts and minds into a new way of thinking—fEC is here to stay and we deserve the benefits of it. (SMG, Heads of Budget Centre, all staff)
• Focusing on research initially, but teaching and other activities cannot be far behind
• Thinking through implications for IDM, CSC and Schools wef 2006 (alongside fees)
What are we doing about this?

- Working with Schools to determine charge out rates for major facilities (Finance Office and School Managers)
- Working on estate and indirect cost rates per FTE
- Later in 2005, training staff in Schools on “mechanics” of new costing and pricing methodologies. Start with “high earners”
Challenges

• Does managing the portfolio threaten academic freedom?
• Is making a surplus for investment culturally acceptable?
• Can we “happily” spend on “lifts, drains and boilers” rather than RAs and equip?
• Can we make more use of assets by sharing?
• Will insisting on market price lose us projects?
Issues and concerns ?