THE UNIVERSITY OF BIRMINGHAM

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 <u>price</u> 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 Incurrred 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")

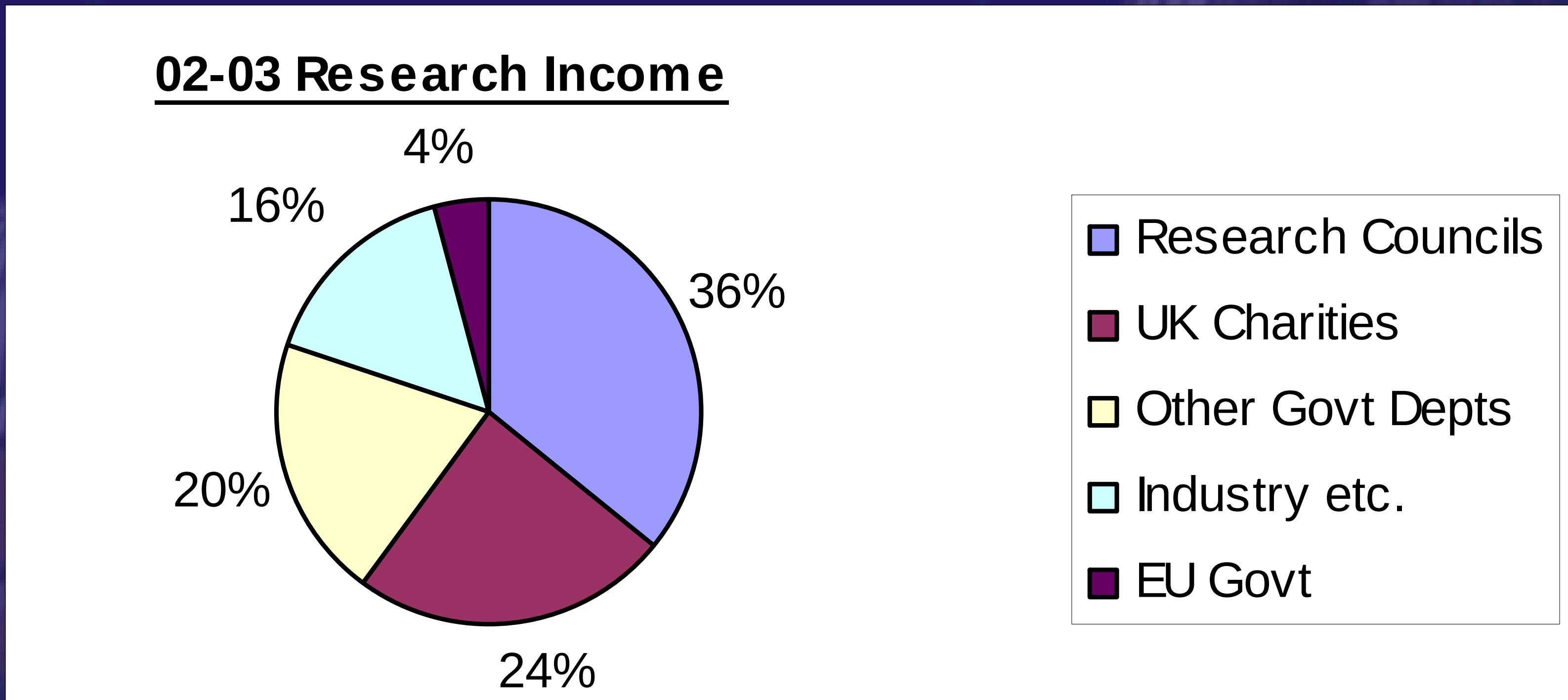
Infrastructure

- 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?



Pricing Strategies

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

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 ?