

**To: Heads of higher education institutions in Wales**

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Response By: N/A

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Dear Vice-Chancellor or Principal

**RECOVERING THE FULL ECONOMIC COSTS OF RESEARCH AND OTHER ACTIVITIES**

1. This letter sets out a joint approach by the Office of Science and Technology (OST) and the Funding Councils to identifying the full economic costs of research projects and other related activities. It is for information: no specific response is required.
2. In looking to the future, it is important that all activities in higher education institutions (HEIs) are sustainable in the long term. The Transparency Review of higher education funding, in which all HEIs reported their costs to their Funding Councils on a consistent basis for the first time, showed that research and other related activities would not be sustainable because their costs substantially exceeded the income that could be attributed to them. Action by both Government and the institutions themselves would be needed to correct the position. As part of the way forward, OST and the Funding Councils have agreed a joint approach to identifying the full economic cost of research projects and related activities. Here we set out the work to be done over the coming year and some of the background to it.
3. The 2002 spending review outcome, published in July 2002, stated that:

'In return for greater support for research, universities have a responsibility to manage their research effectively and sustainably. This will mean continued development of their costing and financial management systems to enable them better to understand the contribution of individual research projects to the actual costs, direct and indirect, of the research. The Government will expect universities to manage their budgets in a way which allows them to invest properly in infrastructure renewal and ensures that research is put on a sustainable footing.'<sup>1</sup>
4. These requirements were further elaborated in 'Investing for innovation: a strategy for science, engineering and technology' (July 2002). A number of specific actions have flowed from this document, including:
  - a review of the dual support arrangements for funding research through the Research Councils and the Funding Councils

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<sup>1</sup> 'Opportunity and security for all: investing in an enterprising, fairer Britain', New Public Spending Plans 2002-2006, Chapter 25, paragraph 7 (July 2002)

- a study of how best to further improve universities' financial reporting and activity costing.
5. A new approach to the dual support system and to the funding of research is necessary, in order to make research of all types sustainable in the longer term. To be fully effective, the development process must involve the Funding Councils and OST, as well as universities and colleges. In addition there are implications for the future of research funded by other government departments, charities and industry.
  6. Alongside these developments, the Funding Councils and the sector representative bodies have agreed to support further work by the Joint Costing and Pricing Steering Group (JCPSG), to July 2005. This extension of the work on costing and pricing was set out in a letter to institutions by Professor David Westbury, Chair of JCPSG, dated 6 November 2002. The priorities of JCPSG are to secure the embedding of the Transparent Approach to Costing (TRAC) methodology within HEIs, to provide better cost information at activity and project level that informs academic decision-making; along with the further development of pricing in higher education.
  7. HEIs have made enormous progress in recent years in increasing their understanding of costs, and there are clear signs that this is influencing decision-making. However, we have always recognised that it would take up to five years to embed fully, and that there would need to be continuing support through the JCPSG to secure the rewards from these changes.

#### **Moving to the next stage**

8. Discussions between OST, JCPSG and the Funding Councils have identified the extent of synergy between the review of the dual support arrangements and the work of the JCPSG. To avoid increasing the burden on institutions and to encourage increased consistency across funding bodies, OST has asked the JCPSG to secure the further development and application of the TRAC approach. The aim will be to enable HEIs to identify the full economic costs, in a consistent way, of individual research projects. This would allow them to make sensible pricing decisions in the context of a system in which they are expected to recover the full economic costs of research.
9. The timescale to secure this outcome is short as these arrangements need to be in place by September 2004. This will allow new awards to be made by the Research Councils that take account of the additional funding (of £120 million), available to increase the Research Councils' contribution to project costs from April 2005.

## Next steps

10. The JCPSG has welcomed this development – as it clearly fits with its planned activities – and is moving ahead to begin implementation. This will include working with a small group of pilot institutions to explore how to build upon the TRAC methodology to determine full economic costs at the activity and project level. The JCPSG also plans to secure additional consultancy to assist the process. Further information on these actions will be provided through the JCPSG web-site, [www.jcpsg.ac.uk](http://www.jcpsg.ac.uk).
11. We see this as an exciting opportunity to make even fuller use of the TRAC methodology, to ensure that research activities in institutions are sustainable in the long run. We hope that the outcome of this work will be influential and will establish an agreed basis for determining both cost-based and market-based prices that recover the full economic costs of activities.

Yours sincerely,



Dr John Taylor  
Director General, Research Councils

Steve Martin  
Chief Executive

