

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

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Response By: No response required  
Further Information: Linda Tiller  
Tel: 029 2068 2228  
E-mail: [linda.tiller@hefcw.ac.uk](mailto:linda.tiller@hefcw.ac.uk)

## **RESEARCH SUSTAINABILITY – FULL ECONOMIC COSTS**

I enclose a copy of a letter issued by Lord Sainsbury to HEIs in England on 6 January. The Welsh Assembly Government has agreed that we should write to draw this to the attention of HEIs in Wales, particularly for the information which it contains about changes to Research Council funding within the framework of full economic costs (FECs).

Please note that references contained in the letter to increased QR funding apply to England only. As you are aware HEFCW has, thus far, been working with units of funding for 5\*, 5 and 4 ratings in all Units of Assessment at a higher rate than in England. We will, however, keep the position of relativities between England and Wales under continuous review. You will, of course, appreciate that were we at any point to consider an increase in QR funding, this could only be achieved (short of an increase in overall funding) by consequential reductions elsewhere.

Yours sincerely

**PHIL GUMMETT  
CHIEF EXECUTIVE**



**Lord Sainsbury of Turville**

PARLIAMENTARY UNDER SECRETARY  
OF STATE FOR SCIENCE AND  
INNOVATION

6 January 2005

Dear Colleague

## **HIGHER EDUCATION RESEARCH**

We are writing to give you an update on the main developments in securing research sustainability over the 12 months since our Departments' joint statement reiterating the Government's backing for Dual Support in November 2003, and to announce the percentage of full economic costs (FEC) which Research Councils will pay for applications submitted after 1 September 2005.

Our continued commitment to Dual Support is evidenced by the significant funding increases for both funding streams announced in the recent Spending Review. The Government also published its *Science & innovation investment framework 2004-2014* ('the Framework'), in which we announced our intention to move to paying close to 100% of the full economic costs of projects by the beginning of the next decade, taking full account of capital funding streams. That is a move which has been backed with substantial extra funding of £80 million a year from 2007-08 in the Spending Review, building on the additional £120 million a year set aside in the previous Review. We hope that this will be welcomed by the sector alongside the increases for QR, which will be £234 million higher in 2007-08 than next year, which itself represents a much higher level than previously.

We are delighted to be able to announce that the Research Councils will pay 80% of full economic costs, somewhat higher than our initial estimates of 60—70%. In addition, where equipment, survey or similar costs exceed £50,000 on a grant, then the amount above this figure will be paid in full. The initial £120 million available for distribution

### **Department of Trade and Industry**

V 850  
1 Victoria Street  
London SW1H 0ET

**Direct Line** +44 (0)20 7215 5624  
**Fax** +44 (0)20 7215 5410  
**Minicom** +44 (0)20 7215 6740  
**Enquiries** +44 (0)20 7215 5000  
[www.dti.gov.uk](http://www.dti.gov.uk)  
[mpst.sainsbury@dti.gsi.gov.uk](mailto:mpst.sainsbury@dti.gsi.gov.uk)

in 2005-06 will be used to provide extra support to existing Research Council grants in HEIs: any HEI which received Research Council grants in 2003-04 will be allocated a share of £120 million in proportion to its 03-04 RC research grant or equivalent income, with a minimum payment of £10,000 for HEIs whose relevant income that year was less than £100,000, and a minimum payment of £30,000 for those with income above £100,000. Research Councils will shortly be informing HEIs of how much each will receive.

Of course, the Framework was not simply about extra funding. The Government recognises the progress the sector has made to improve its costing systems. In addition, we thought it might be helpful to highlight certain aspects of Government policy on Dual Support in a summary statement, which we have pleasure enclosing with this letter.

We hope you find the attached statement useful.

Yours sincerely,

Handwritten signature of Lord Sainsbury of Turville, appearing as 'Sainsbury' with a large flourish at the end.Handwritten signature of Kim Howells.

**LORD SAINSBURY OF TURVILLE**

**DR KIM HOWELLS**

Minister for Science and Innovation

Minister of State for Lifelong Learning,  
Further and Higher Education

## **Summary statement of Government policy on Higher Education research and sustainability**

1. The Government recently set out its policy on science and innovation in the *Science & innovation investment framework 2004-2014*<sup>1</sup> ('the Framework'), building on previous documents such as *Investing in Innovation*. The Framework demonstrates to the science and business communities the Government's commitment to the future of British science and the aim of making Britain one of the most competitive locations for research and innovation in the world.
2. Academic enterprise works across national and organisational borders. Research in Higher Education Institutions (HEIs) is greatly enriched by links with researchers in other institutions in the UK, the EU and more widely, and with charities and business. The Government welcomes the contribution that charities and others make to this, as well as their continuing commitment to fund projects here; the Government also applauds the reputation and success of UK academics in winning European Union and business funding.
3. The Framework emphasises the value that the Government places on the excellence of UK research in delivering its economic and public service goals. It also recognises that the financial foundations of the research base have suffered long-term neglect which will only be addressed through long-term commitments to funding and action by Higher Education and other institutions themselves to ensure that funding is properly applied. These actions are vital to sustaining and improving the excellence of our research base.
4. The Government and other funders have made major commitments in the Framework and in previous spending rounds to increasing the funding available to HEIs to address both the backlog found by Dearing and subsequent surveys. A recent evaluation of the effects of the Joint Infrastructure Fund and the Science Research Infrastructure Fund (SRIF) suggests they have had a positive impact, and the Government is maintaining SRIF at £500 million a year. But the Government is concerned that scientific research is properly funded and that universities do not unknowingly take on research grants that they cannot fully fund.
5. The Government is seeking to ensure this in three ways. The first is to ensure that HEIs and their research funding partners have the tools they need to understand the real costs of the research they are pursuing, and to ensure that these are properly considered in discussions on funding. To this end, the Funding Councils and the Office of Science and Technology have together commissioned the Joint Costing and Pricing Steering Group (JCPSG – a joint body across HEIs and Funding Councils) to refine and apply the existing TRAC methodology to allow institutions to estimate the full economic costs of the research and other activities they are pursuing.
6. The second is to place a general requirement on HEIs to recover, in aggregate, the full economic costs of activities. The HEFCE<sup>2</sup> Financial Memorandum says:

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<sup>1</sup> [www.hm-treasury.gov.uk/spending\\_review/spend\\_sr04/associated\\_documents/spending\\_sr04\\_science.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_science.cfm)

<sup>2</sup> The other funding councils are considering related requirements.

“Institutions should know and understand the full economic costs of the activities<sup>3</sup> that they undertake, and this information should be taken into account within their management decision-making processes. Institutions should seek to recover the full economic costs of all their activities, whether pricing is determined by reference to those full economic costs or by reference to prevailing market conditions. While there may be cases for individual projects or activities to be priced at below their full economic costs, this should be done as a conscious decision, within the context of strategic objectives. Institutions are expected, taking one year with another, to recover, in aggregate, the full economic costs of all their activities across the full range of their activities.”

7. The third element of the Government’s sustainability package is to provide funds to allow the Research Councils to increase the percentage that they contribute to the full economic costs of projects and programmes they fund. The Framework makes clear the Government’s intention to provide sufficient funds to allow Councils to pay close to 100% of the full economic costs of projects by the beginning of the next decade, taking account of capital funding streams. An initial tranche of funds has been made available for 2005-06 and an announcement is being made today about the price, i.e. percentage of full economic costs, that Research Councils will pay from 2006-07 (see covering letter). Further funds will come on stream in 2007-08.

8. The Government has given particular consideration to the handling of research supported by the charities, the European Union and by business. As noted above, all of these play a vital part in supporting excellence in our research base. The Government is increasing QR and also increasing the contribution that Research Councils make to project costs. This will give HEIs significantly more funds to apply to research projects from both Research Councils and other funders. The Government believes that HEIs are themselves best placed to decide how to apply these funds to best effect and has therefore sought to place the minimum restriction on their freedom. The Government has made clear that HEIs may use QR to contribute towards the full economic costs of commercially funded research provided there is an expectation of public good that justifies such use of public funds. And the Government has announced in the Framework that, in recognition of the ongoing partnership between Government and the charities, the Funding Councils will in future take more account than at present of charity support in allocating QR to HEIs (though HEIs will continue to be free to use QR as they judge best).

9. There are concerns that these developments may impact negatively on HEI’s participation in the EU Framework Programme. However, the changes described above will give HEIs more public funds than they have at present to apply to the costs of participation in EU Framework research if they so wish. In addition, the Government will be pressing to increase the percentage of FEC covered under the new FP7. While the Government will continue to promote UK involvement in these programmes where that can provide benefits to our research and industrial base, it believes that decisions about participation in specific activities are best left to HEIs and their academic and business partners, without further direction from Government.

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<sup>3</sup> ‘Activities’ in this context refers to the five reporting categories under the Transparency Review: publicly funded teaching, non-publicly funded teaching, publicly funded research, non-publicly funded research, and other.

10. The Government recognises that, just as it will be some years before Research Councils pay close to 100% of full economic costs, so other funders will need time to adapt to these new arrangements completely. Through the UK Research Base Funders' Forum, the Government is meeting with all the key stakeholders (Funding Councils, Research Councils, charities, industry, and HEIs themselves) to share information and strategies and to monitor progress towards sustainability. Even in the steady state, the requirement on HEIs to recover full economic costs across their activities is a flexible one. The intention is that, taking one year with another, across the range of activities, HEIs should be recovering their full costs, including depreciation and a surplus for reinvestment. It is not intended that HEIs should be rigidly required to demonstrate that any aspect of their business is in balance in any one year. And during the transition period the Government recognises that more flexibility will be needed. Funding Councils will integrate sustainability monitoring with their dialogues with HEIs. The intention is that HEIs should be able to show that they are making progress, which will give Government the re-assurance and confidence it needs to continue to increase public spending to achieve sustainability.

11. In implementing all these developments to promote sustainability, the Government does not wish to change those critical aspects of the UK research base that have underpinned its outstanding performance to date. The Government believes that it is important that Vice-Chancellors with their Heads of Faculty/Department etc should continue to have responsibility for developing and implementing research strategies for their institutions and departments. Senior academic managers are the right people to decide which funders and research partners to work with. Nothing in the current approach changes that. It will, however, make visible cost information which was previously hidden, and in doing so it will enable researchers and HEIs to make fully informed choices about which activities they choose to undertake, and the terms on which they should do so.

12. It is important that everyone understands the thinking behind these changes and communications are, therefore, being given increasing priority as the changes are rolled out across HEIs. A Q&A brief addressing some of the most common concerns is available at [www.ost.gov.uk/research/dualsupport.htm](http://www.ost.gov.uk/research/dualsupport.htm).

13. At the same time, the Government is acutely aware that there is scope for these developments to have real, unintended consequences. It has held extensive discussions with the sector and stakeholders during the development of the policy. This dialogue will continue throughout implementation, which is either being led by the sector itself or being conducted in close collaboration with it. The Government has instructed the Research Councils and the Funding Councils to monitor the behaviour of the system and provide early reports on any indications of unintended consequences. The Funders' Forum will monitor progress towards sustainability across the system and consider and advise upon any emerging evidence of problems. In this way, the Government looks forward to working with all concerned to achieve the key common goal of a world-class, sustainable research base in the UK, to underpin the nation's prosperity and quality of life.