



Office of Science and Technology

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Higher Education Funding
Council for Wales

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

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Dear Colleagues

**Full economic costing of projects: Transparent Approach to Costing Volume III
Reform of pricing and the dual support system for research funding**

Enclosed is Volume III of the Costing Guidelines for UK higher education, which sets out a consistent approach to determining the full economic cost of projects, and to meeting the Government's policy of sustainability.

This document has been prepared by JM Consulting Ltd and the Joint Costing and Pricing Steering Group (JCPSG), supported by the Office of Science and Technology and the Research Councils and the UK funding bodies. A group of nine universities have acted as advisers and pilots in this process. The document builds upon and supplements TRAC Volumes I and II, and the work of the Transparency Review which began in 1998-99.

TRAC Volume III represents an important step forward because it provides a robust and consistent method for costing activities and projects in higher education institutions (HEIs). It sets out the principles for the cost-based pricing of non-competitive contracts between HEIs and government departments. It will also underpin the costing and pricing of projects agreed with Research Councils, as the dual support system for funding research is reformed.

The immediate focus of this work is upon the costing and pricing of research and related work. However, the JCPSG and JM Consulting Ltd have ensured that the approach set out is

holistic, and can be employed to cost all projects and activities, including teaching and related work, on the same full economic cost basis.

Institutions will be aware of the review and reform of the dual support system that is being carried out by the Office of Science and Technology and the Funding Councils. The policy framework was set out in the government strategy paper, 'Investing in Innovation', published in July 2002 and in the subsequent consultation process. The principle of dual support was re-affirmed by Lord Sainsbury, Minister for Science and Innovation, and Mr Alan Johnson, Minister for Lifelong Learning, Further and Higher Education, in their joint letter on 'Higher Education Research' dated 24 November 2003.

The reform of the dual support system is intended to resolve the funding difficulties for publicly funded research projects highlighted by the Transparency Review. The objective is to place publicly funded research in higher education on a sustainable basis in the long term. To meet this policy objective will require significant change both in HEIs and on the part of funding bodies. We would urge universities and colleges to begin the process of change now. The Research Councils will announce their new approach to pricing research projects in summer 2004.

TRAC Volume III is a substantial document, though the actual changes to the costing methods are not very complicated, building as they do upon the work carried out in institutions over the last five years. The technical costing aspects are set out in sections A3, A4, and B1 and can be summarised in just four pages. However, the cultural changes for universities and colleges and for their academic staff are significant.

Sections A1 and A2 set out the policy framework and background within which the costing process has been developed. These sections are intended to inform senior management and the academic community of the approach adopted. Sections B2 and B3 provide guidance on the approach that institutions should take in the costing and pricing of projects, including the management of the flow of funds to meet the requirement for sustainability. The final part, Section C, provides advice and a timescale for implementation of the new approach.

Timing for implementation

Institutions are strongly advised to press on with implementing the new approach, and the systems required to operate it. The agreed timetable for implementation requires HEIs to have systems in place for costing of all activities at project level by **January 2005**. In addition, the Research Councils will require all institutions that wish to submit applications for funding from **September 2005** onwards to do so on the new basis. There is, however, no reason for HEIs to delay in securing more effective costing and pricing with other bodies. For example, government departments are expected to fund non-competitive contracts with HEIs at full economic cost, so long as these costs are determined in accordance with the TRAC approach. This is set out in the letter from HM Treasury, 'University research: costs to government departments' dated 13 February 2004¹.

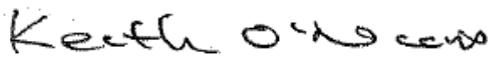
Implementation of the new systems will carry a significant cost, particularly during the transition, though ultimately the transactional costs should not be much greater than now. Institutions will, however, benefit substantially from the increased flow of funding that will result from reform of the dual support system, and from the pricing of projects for government departments and others at full economic cost.

JM Consulting Ltd will be leading a series of regional seminars in March 2004 to explain the new methods and their implementation. The JCPSG hopes to announce shortly arrangements to assist the process.

Three copies of the manual are enclosed for distribution within your institution. Further copies will be available in April in loose-leaf ring binder format, together with Section C2, Training pack for academic staff. Section C3, Examples of instructions and forms, will be issued in September 2004. If you require further copies at this stage, please contact info@hefcw.ac.uk.

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Yours sincerely



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