

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

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Response By: No response required
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QUALITY ASSURANCE FOR IMPLEMENTING THE TRANSPARENT APPROACH TO COSTING (TRAC): INTERIM REPORT

1. This letter sets out key findings of the quality assurance (QA) of work to implement the Transparent Approach to Costing (TRAC), up to 31 July 2004. The QA team have submitted the first of two reports, with the final report due in spring 2005.

Background

2. The QA process was set up to provide assurance to the Funding Councils and Research Councils that the initial TRAC guidance has been implemented successfully and robustly, and that there is a solid foundation for extending the TRAC methodology for forecasting full economic costs at project level. It was also anticipated that other stakeholders and funders would wish to take advantage of the assurances provided for their own accountability needs.

3. Between May and July 2004, the QA team completed 61 visits, which included all the more research-intensive institutions. The process has been well received and is assisting in the development of TRAC and full economic costing (fEC) within institutions. A confidential report has been provided to each higher education institution (HEI), following each visit, on areas for development or where action is required.

Key findings

4. From the first 61 visits undertaken, it is encouraging to note that there are a number of areas where institutions have consistently demonstrated good practice. These are as follows.

- **Senior management commitment.** All HEIs visited have an executive member of the institution championing TRAC and fEC. TRAC and fEC have commonly been debated and discussed by the vice-chancellor's group (or other similar forum).
- **TRAC/fEC project groups.** all HEIs have formed/re-formed a project group to oversee the implementation of fEC. Some of the research intensive institutions are also using fEC as an opportunity to re-engineer the whole process for identifying, bidding and controlling external funding.
- **Implementation plans.** 72 per cent of HEIs visited have fEC implementation plans in place, and the remaining 28 per cent are currently developing such plans. These findings are encouraging.
- **Achievement of deadline for fEC.** HEIs acknowledge, and are aware of, what is expected of them in order to fulfil the requirements of fEC and are confident that the September 2005 deadline will be achieved. While many are already dedicating additional resources to support the implementation of TRAC, *all* HEIs will have to ensure that they make an accurate assessment of the resources required to implement their action plans if they are to meet the September deadline. Other issues that might impact adversely on progress are in the area of estates data and the overriding issue of competing priorities alongside TRAC and fEC within institutions.
- **Profile of TRAC and fEC.** 60 out of the 61 HEIs visited (at the time of the first report) have been successful in promoting the benefits of TRAC and fEC internally and have positively engaged the academic population in the process.
- **Results of the academic staff time allocation.** The benchmarking analysis has demonstrated a high degree of consistency across the sector in terms of the outcomes of the time allocation exercise.
- **Review of TRAC by internal audit.** Internal auditors in institutions have, in all cases, reviewed TRAC at least once.
- **The QA process.** HEIs have commented that the process has been helpful in assisting them to develop their systems for TRAC and fEC.

5. The QA team found that institutions are complying with the requirements of TRAC Volumes I and II. The only exceptions have been found in the following areas.

- **Response rates to academic staff time allocation.** In around 20 per cent of institutions visited, further evidence is required to confirm the robustness of the time allocation data, due to the response rates achieved. An issue has been raised with a further 20 per cent

of institutions, suggesting that a statistician should be asked to assess whether the response rate achieved is robust.

- **Review of the staff time allocation data.** Around 5 per cent of institutions have not had a robust process in place for confirming the reasonableness of time allocation data that was collected in previous years.
- **Allocation of indirect costs to Teaching, Research and Other (T,R&O).** Five per cent of institutions visited are over-reliant upon the time allocation data as the basis for apportioning indirect costs to T, R and O.

6. In light of the amount of work that has been required by institutions to introduce TRAC, these findings are very positive for the sector.

7. In terms of fulfilling the requirements of fEC, the QA team found that there are common areas where further work is required by institutions:

- almost all HEIs have a significant proportion of work to complete to refine their estates data in order to fulfil the requirements of fEC. This is not unexpected as the fEC requirements were not published until February 2004
- around 20 per cent of institutions need to align their definitions of estates and indirect costs with the fEC requirements
- institutions need to refine their cost driver model for indirect costs to increase the robustness of indirect costs to the TRAC categories
- many HEIs need to refine their process for calculating the full-time equivalent count for research.

8. All HEIs visited acknowledge that further work is required to introduce fEC, but are confident that the necessary work can be completed by the deadline to enable Research Council bids to be made on an fEC basis from 1 September 2005.

9. There will be two further rounds of benchmarking: in December 2004 (on 2002-03 data – submission date 1 December) and in January 2005 (on 2003-04 data – submission date 31 January). These will assist with calculating indirect cost rates on the new basis to meet the requirements for applying fEC at project level (refer to 'Transparent Approach to Costing, Volume III: Full economic costs of projects', Section B1.6, published February 2004), and to establish the default rates for the sector.

10. For further information about this letter contact Nick Williams, tel 02920 682299, e-mail nicholas.williams@elwa.org.uk, or for further information on the overall approach to the joint quality assurance process, contact Andrew Beazer, 0117 931 7223, e-mail a.beazer@hefce.ac.uk.

Yours sincerely

A handwritten signature in black ink that reads "Phil Gummatt". The signature is written in a cursive style with a long horizontal flourish extending to the right.

PHILIP GUMMETT
CHIEF EXECUTIVE