Frequently Asked Questions (FAQ) on Full Economic Costing (FEC)

Q1 – What is a Full Economic Cost?

A – The Full Economic Cost of the activity includes direct and indirect costs, space/estates charges including depreciation, and adequate recurring investment in infrastructure.

Q2 – What "sustainability requirement" will be imposed on HEIs?

A – Sustainability will be considered at institutional not project level, and over time not as a snapshot. The HEFCE[1] Financial Memorandum for Higher Education Institutions (HEIs) says: "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." Therefore:

(a) It is ***not*** required that HEIs are and can demonstrate that they are fully sustainable in 2005; [*not required because the FM says "taking one year with another"*]

(b) It is ***not*** required that the research business of an HEI as a whole is covering its costs purely from research income – cross-subsidy from other activities is acceptable, especially in research-led institutions, but that should be a conscious and strategic choice for the HEI, made in the light of the full cost requirements (both current and capital) of the planned level of research activity; [*not required because the FM says "across the full range of their activities"*]

(c) It is ***not*** required that every research project should cover its full costs from its external project sponsors – Government will progressively increase the proportion of the full cost of projects funded by Research Council to 100% and Government departments have been instructed that they should generally expect to pay the full cost of research which they commission; but there will be cases where HEI may wish to price either below or above the full economic cost of some work in accordance with its overall strategy. In particular, where HEIs engage in collaborative research with business which enables them to accrue academic benefits and to deliver 'public scientific goods' from such partnerships (for example, though open publication of results), then HEIs may wish to provide co-funding from their own resources; [*not required because the FM says "in aggregate"*]

(d) Research Councils will ***not*** require that applicants can show on each application where the funding for the remainder of the 100% of FEC of that particular project is coming from.

The Government is assisting the move to sustainability by providing significant additional funds. The *Science and innovation investment framework* (covering 2004-2014) and more immediately the 2004 Spending Review provides:

- continued significant levels of capital funding and continued substantial growth (at around 6 per cent real per year for the next three years) in QR (Funding Council block grant for research);
- Research Councils will increase the level of their project funding progressively, reaching close to 100% of FEC by beginning of next decade, including capital streams;
- Funding Councils working together with research charities to provide a higher overall level of funding for a given volume of charity-sponsored research; and
- growing acceptance among Government department and business sponsors that HEIs will be seeking to recover the FEC of projects commissioned from such sources.

Q3 – Will FEC inevitably reduce UK universities' ability to secure EU Framework (FP) funding?

A – No. The implementation of FEC and associated increases in funding mentioned above should place UK HEIs in a stronger financial position to secure external project funding from EU FP and other sources. The UK Government will be negotiating in the coming year to increase the percentage of FEC covered under the new FP7. Where external project sponsors, including at present EU FP, pay less than 100% of FEC, HEIs will continue to be able to bid for and accept such funding, having regard to the sustainability requirement mentioned above and given their stronger financial platforms from increased UK public funding.

[1] The other Funding Councils are considering related requirements.

Q4 – Will academics have to fill in timesheets or record phone calls?

A – **No**. Don't believe the rumours! There will be almost no change for academics.

TRAC aims to minimise the burden on Higher Education Institutions (HEIs) while achieving necessary accountability; it avoids spurious accuracy, recognising the nature of academic processes. For more details ask your research administrators. (They can refer to the TRAC manual, pp.49-53 or contact the helpdesk at director@jmc1.org, but academics don't need to worry about the technicalities; they should focus on justifying the research resources needed.) Occasional short surveys of time allocated to teaching, research etc may be necessary on a three-year cycle, but nothing as onerous as timesheets.

Q5 – Will academic time be eligible for Research Council support?

A – Yes. The time that Principal and Co-Investigators spend on projects is clearly a cost to the HEI, so Research Councils will take account of it in their calculations. Academics need to decide how many hours per week they think they should spend on a project; departmental administration staff can do the rest.

Q6 – Will there be any exceptions to the FEC regime – e.g. for equipment?

A –Probably. While ideally there would be no exceptions, if a purist approach is likely to cause problems Research Councils may advise the Government that certain exceptions should be made. Details will be announced in good time before proposals begin to be written using FEC.

Q7 – How much will TRAC cost our university?

A – For a typical research-intensive HEI, it is estimated that the costs of implementing the extensions to TRAC (Volume III) could be in the region of £100,000—£250,000 per year for several years. But if such an institution increased its overall cost recovery on research projects by 10% it would increase its income by an extra £2–£5 million annually, gaining ten times the value of the investment. By comparison, the Research Councils are being given more than 20% more money not for extra projects (or for RCs' administrative costs) but to increase how much they pay for the existing volume of research. (For less research-intensive HEIs costs could be significantly lower than this estimate; for a few research-intensives which currently have poor systems, costs could be significantly more.)

Q8 – What's in it for us?

A – **More money!**

The transition to a Full Economic Costs methodology will increase the amount of funding received by HEIs, for the same volume of research, by an amount which is substantially larger than the costs being incurred for implementation. Across the sector the extra public funding being provided is £200 million every year from 2007-08 (increasing from £120 million every year from 2005-06). In addition, Government departments have been instructed generally to pay 100% of full economic costs for the research they commission from HEIs; and the higher levels of funding being provided by the Research Councils will raise the benchmark for other funders. Funding Councils have also been allocated increased resources to raise QR block grants very significantly (£239 million more for England in 2007-08 than the 2005-06 level, which itself represents a significant increase on previous years).

Q9 – The volume of research will go down!

A – The percentage of FEC paid by Research Councils will specifically be set at a level which preserves (neither increases nor decreases) the current volume of research. (The percentage will be higher than Councils currently pay because of the additional funds being allocated – see previous question.) Other project funders may maintain their current spend, which might mean fewer but better-funded projects, but don't forget that QR is increasing significantly, and HEIs can choose how to deploy these additional funds.

Q10 – Will I be successful on fewer proposals because the costs will now seem so high?

A – Research Councils are ***expecting*** to pay more for each project. Other funders understand the Government's aim of putting research on to a sustainable basis and that HEIs didn't really know the costs of projects in the past. Also, it is worth remembering that there is a difference between *cost* and *price*: the move to a FEC basis for costing does not determine the percentage paid, or hence the price demanded – these remain a matter for the HEI and the funder.

Q11 – Will I be forced to stop doing work that doesn't meet its cost?

A – While Vice-Chancellors are being asked to ensure the sustainability of their HEI, across the range of activities, taking one year with another, as mentioned above, they are also being given significantly increased QR. Furthermore, Research Council funding per project is also going up, which also frees up resources previously used to 'top-up' RC projects. At the limit, once lots of other projects are up and running, yes, projects which are inconsistent with a department's research strategy, and which are heavily loss-making, may not be allowed to go ahead. But (given current success rates) we doubt this will be the major constraint on an academic's portfolio of projects.

Q12 – We've heard a lot about monitoring. Sounds like more bureaucracy to me.

A – Research Council dipstick testing of **projects** will be basically unchanged. There will be no additional 'audit' of academics (remember: there is no requirement to keep timesheets). At the level of **HEIs**, a single quality assurance process is being introduced for TRAC implementations which is intended to meet the requirements of all funders. More generally, the Government and Funding and Research Councils will be monitoring the impact of the changes, and progress towards sustainability; it's possible that they may ask HEIs' central finance departments for data, but academics shouldn't notice any change.

Q13 – Why is Volume III of the TRAC manual so long?

A – Academics don't need to read it!

The length of the TRAC manual is meant to help university finance specialists, rather than be a burden. There is a great deal of explanation but the actual requirements for Volumes I, II and III of TRAC are stated on just four pages of the manual – pp 36-39. Another reason for the length is that the guidance has two levels of implementation: light-touch with minimal requirements for non-research-intensive HEIs, and a robust method for research-intensive ones.

Q14 – I do not understand the TRAC manual; is there a shorter and less specialist guide?

A – Yes. A six-pager is available at:
http://www.jcpsg.ac.uk/download/transpar/BriefingNoteTRAC.doc

Volume III is a guide for practitioners (finance specialists etc), written for experienced TRAC accountants in HEIs who have been working with TRAC for 5 years and have attended seminars and training events. It will not be easy for anyone new to TRAC to pick up the story from Volume III alone – that was not its intended purpose. The JCPSG website (www.jcpsg.ac.uk) contains materials to help specialists brief others on costing and pricing issues, and for more specific questions the TRAC helpdesk is contactable by emailing director@jmc1.org.

Q15 – Why should I (or my external funders) trust TRAC?

A – TRAC was subject to an external review led by the Financial Reporting and Activity Costing Group (undertaken by KPMG) and was judged "robust and fit for purpose" and accepted by the Treasury. The approach has been agreed by representatives from nine pilot HEIs drawn from across the sector, as well as Research Councils, with endorsement by the National Audit Office. In addition, the Funding and Research Councils are carrying out a light touch review to provide assurance that all HEIs have implemented the original TRAC principles at the institutional level and that the indirect costs rates have been calculated in accordance with TRAC. This quality assurance process will be completed by December 2004. In fact, the sector is now considering extending TRAC to cost teaching as well as research.

Q16 – What is the timetable for implementing Full Economic Costing at project level?

A – HEIs should have systems in place for Full Economic Costing by January 2005; Research Councils will begin to receive applications on the new FEC basis from September 2005. Full Economic Costing should be fully embedded within HEIs by 2008-09.

Q17 – Are fellowships and postgraduate research students included?

A – Fellowships will be included, attracting indirect costs on the same basis as other projects. Postgraduate research students will not be included yet. For the moment they will continue to be funded broadly in the current manner (including “project studentships” associated directly with research projects which will continue to receive their bursary/grant and relevant fees, not as % FEC). This situation may change in due course; there will be communication if it happens.

Q18 – Will charities and others pay FEC at the same percentage as Research Councils?

A – FEC is about costing not pricing, and clearly includes principal investigator time as well as estates and indirect costs. **Charities** may choose to accept TRAC as a methodology while preferring not to fund certain costs. (Funding Councils will also be consulting stakeholders on the charities partnership fund to commence in 2006-07 announced in the *Framework*.) **Government departments** (not the NHS) will generally pay 100% of FEC. Revised guidelines on pricing projects will shortly be available on the OST, HEFCE and SHEFC websites.

Q19 – Will Research Council peer review discriminate against higher cost bids under FEC?

A – No, because all HEIs will be bidding in this way from Sept 2005. Also, the RCs are committed to training referees and panels to judge bids correctly – by concentrating on scientific excellence and whether the resources (number of RAs, equipment etc) are appropriate for the work-programme, rather than focussing on cash costs.

Q20 – Why should we have to do this at all? Simpler just to increase the 46% overhead.

A – The current lack of sustainability in the research base (poor equipment etc) is not just due to insufficient money, but also behaviour. Increases to the 46% would not have prevented continuing unsustainable increases in volume. Also, it would not make any difference to those funders who refuse to pay any ‘overheads’ at all.

Please also see the Government’s recent **Summary statement of Government policy on HE research and sustainability** *(available soon on the OST website).*

Oct 2004. Other questions & comments welcome: please email Laura.Johnson@dti.gsi.gov.uk