

Implementation of full costing in Sweden

From contributions to administration
to
to full cost accounting

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The Swedish scene

- 1960's
10 higher education and research institutions

≈ 5 major national external funding bodies

A few public research institutes affiliated to universities

- 2010
38 public higher education institutions,
whereof
≈13 universities
≈ 5 HEI's do postgraduate teaching

Competitive funding is national, European and international

has increased significantly (4x?)

Almost no independent research institutes

External funding in Sweden

- Basic doctrine:
Government funded research should be done at universities
 - NOT in research institutes independent from universities
- Funding for research comes as
 - Government allocations to institutions
 - European grants and contracts (ERC; FP7 etc)
 - National research council grants
 - National research foundation contracts
 - Private corporation contracts

- **Before 1975**
Swedish funding
Line budgets per faculty
- **1975**
Lump sum budgets per **faculty** split between research and undergraduate teaching (excluding costs for space, facilities and equipment)
- **1993**
Lump sum budgets per **institution** split between research and undergraduate teaching (excluding costs for space and facilities)
- **1994**
Space and facilities included in lump

The problem of “external” funding

- **External funding**
= money not allocated directly by Government
- The **full costs** are always covered
- the only question is: By whom?
- **Less** than full cost compensation on external funding
is in fact
a subsidy from Government funded activities towards
externally funded activities, e.g. research projects

To Recover Costs

- The 1960's
 - 2 % of grant to contribute to admin (personnel and payments) costs
- The 1970's
 - 3 % of grant to contribute to these admin costs
- 1982
 - Full cost recovery with exceptions:**
 - Research councils 3%
 - Government agencies 5%
 - Space only if added area was necessary

Full cost recovery 1986

- **Memo to the Ministry of Education and Science**
Why? What for? How much?
- **Why?**
Comparison to a consultancy firm!
- **What for?**
The institutional infrastructure (management, expert support, library, quality control, equipment and marketing)

Admin support etc in the academic department

Admin support on central levels

How much?

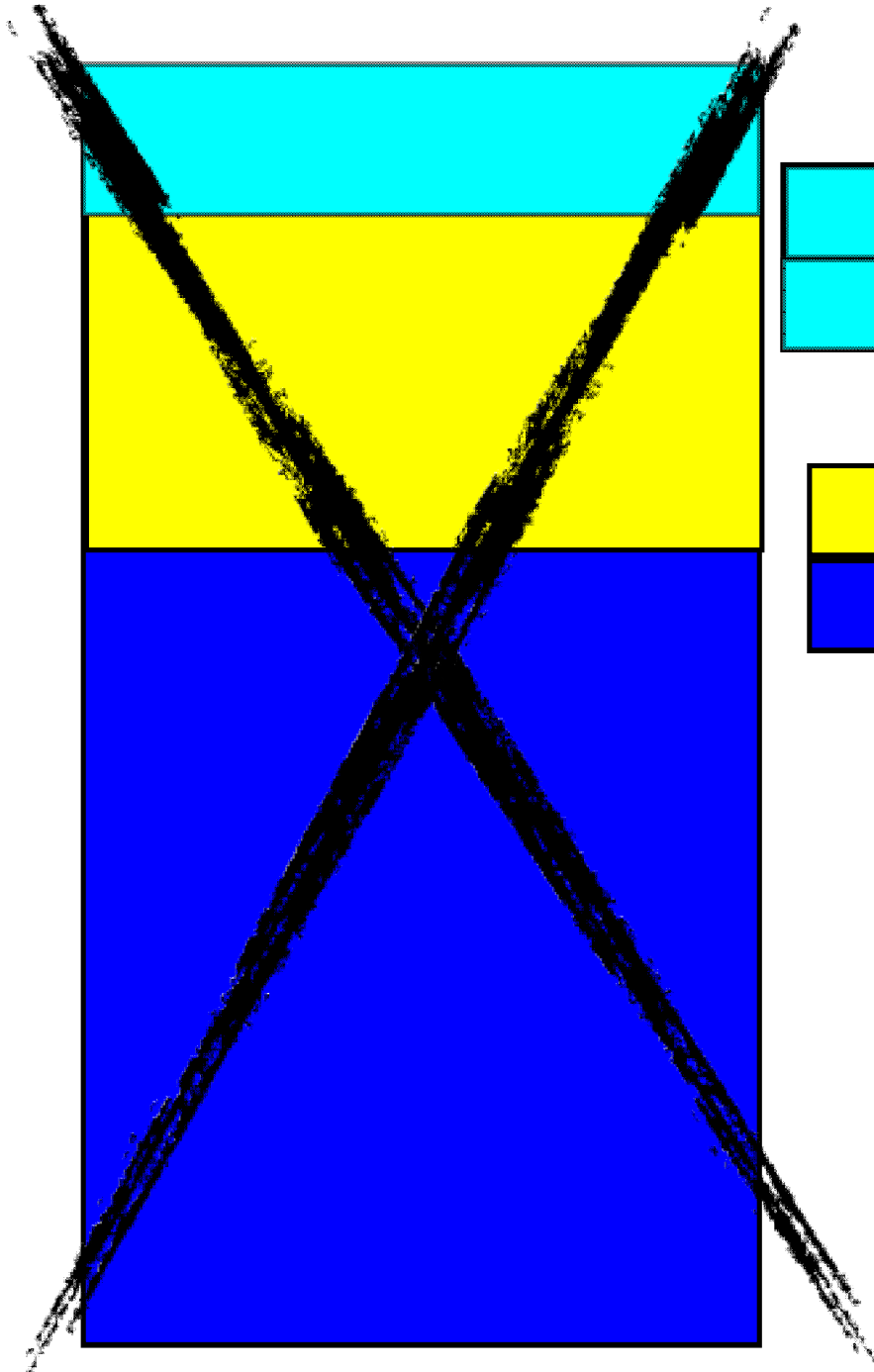
- Analysed by **function** (to overcome differences in organisation) in 10 universities (excl. space)
- Relevance to research? (Study counselling etc left out)

% of total budget	Max	Min	Average
Central Admin	5.6	2.9	3.6
Central services	2.3	4.4	3.1
Indirect personnel	1.5	4.3	2.5
Library	1.7	4.3	2.5
Total per university	17.5	9.7	11.8
+ in departments	15.0	5.0	?

Space and facilities

- 1994 Government decisions
 - Space and facilities are included in lump-sum allocations
 - This should be reflected in increased indirect cost compensation from external funding.
- Refusal from foundations (and other Ministries!!)

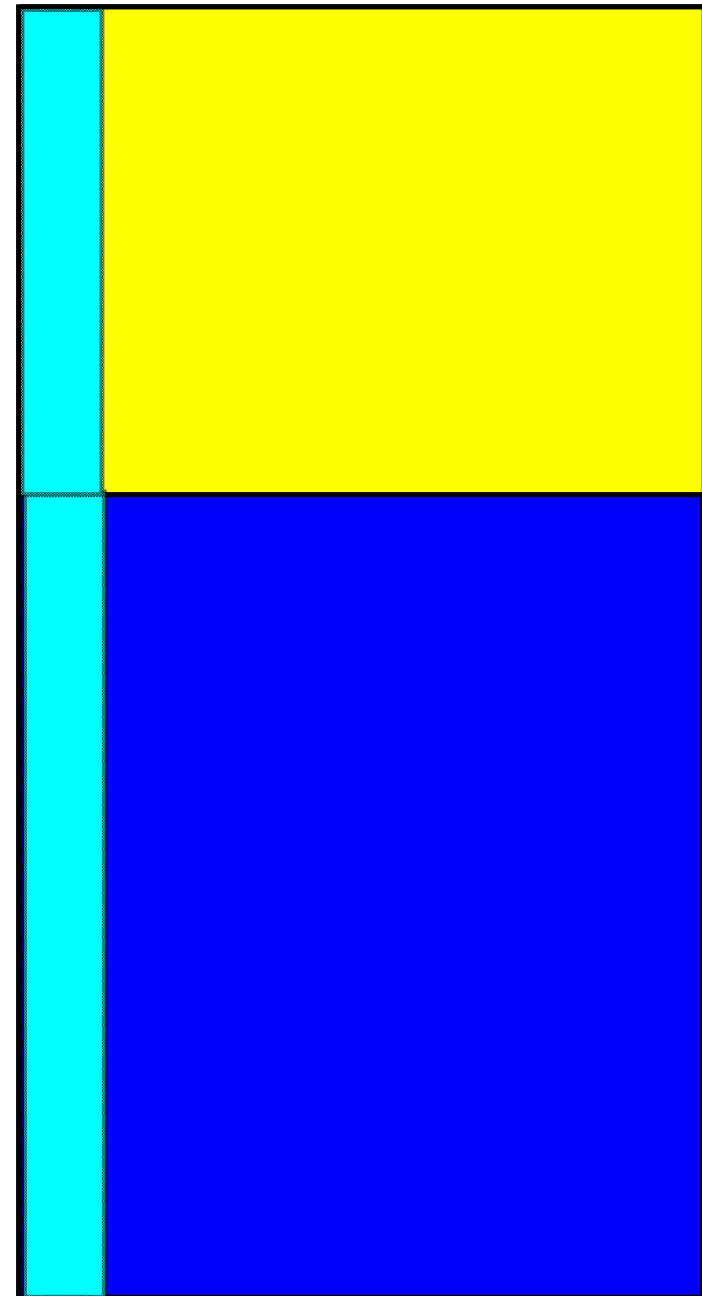
Full cost recovery



Not externally funded

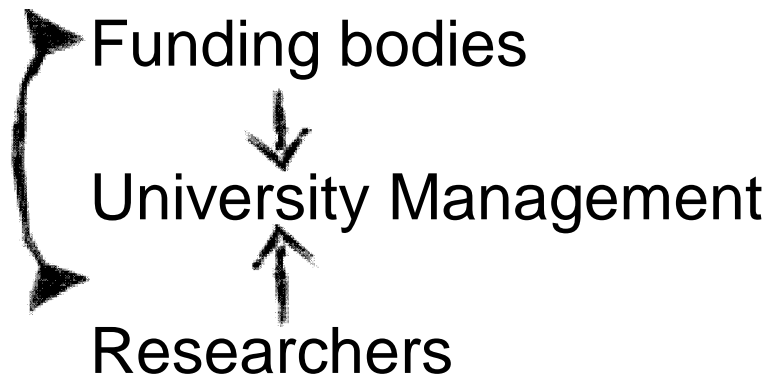
Indirect

Direct



Continued Conflict

- A two-front war for University managers



- The conflict had two components:
 1. Why pay for resources already there?
 2. We do not know how much that is!

Conflict resolution?

- The Association of Swedish Higher Education (former Swedish Rector's Conference) and
- some Research funders
- set up a joint working group
- Result 35 per cent indirect cost rate

Almost accepted.....

- Riksbankens Jubileumsfond (funding humanities and social science projects) questioned and refused to accept the level (but eventually the principle)
- Auditors criticised how external funding was accounted for
- Created a need for new budgeting and accounting standards

New (old) accounting

principles

- Principles used in manufacturing industry since the 1940's
- Basically three dimensions:
 - TYPE OF COST
WHAT kind of cost? E.g. Salaries, material, depreciation
(also structure of the published accounts)
 - COST CENTRE
WHERE is the cost incurred?
 - COST UNIT
WHO (what product) is to bear the cost?
- The fourth dimension (a Swedish speciality since 1975)
 - 1st and 2nd cycle teaching
or
research / 3rd cycle teaching

Cost allocation

- Direct costs
are allocated directly to activities/projects (**cost units**)
- Indirect Costs
 - The relevance of functions/costs to **research and teaching respectively** are observed
 - Central university costs are allocated to faculties
 - Faculty costs (incl. its part of central costs) are allocated to departments (**cost centres**)
 - Department costs are allocated to activities/projects
- **Total project cost**
= direct + proportion of indirect (Central + faculty + dept.) costs

Implementation

- Model developed by a group of finance officers after the auditors reports in 2005
- Supported by the The Association of Swedish Higher Education, recommendation to be used in 2007
- National information material and workshops for institutional project leaders
- Peer-to-peer learning and development

Full cost accounting

- Prescribed by government and audited
- Allocation base is direct salaries or direct costs
- Indirect costs are identified in prescribed cost centres (which doesn't necessarily imply a uniform organisation)

Full cost budgeting

- Higher precision in budgeting for indirect costs
- Charged indirect cost rates are based on latest available data
- Eventually a "normal year" may be defined
- Discrepancies will be analysed in terms of
 - variation from budget volume
 - variation from budget cost

The end of the beginning?

