

# Full Costing

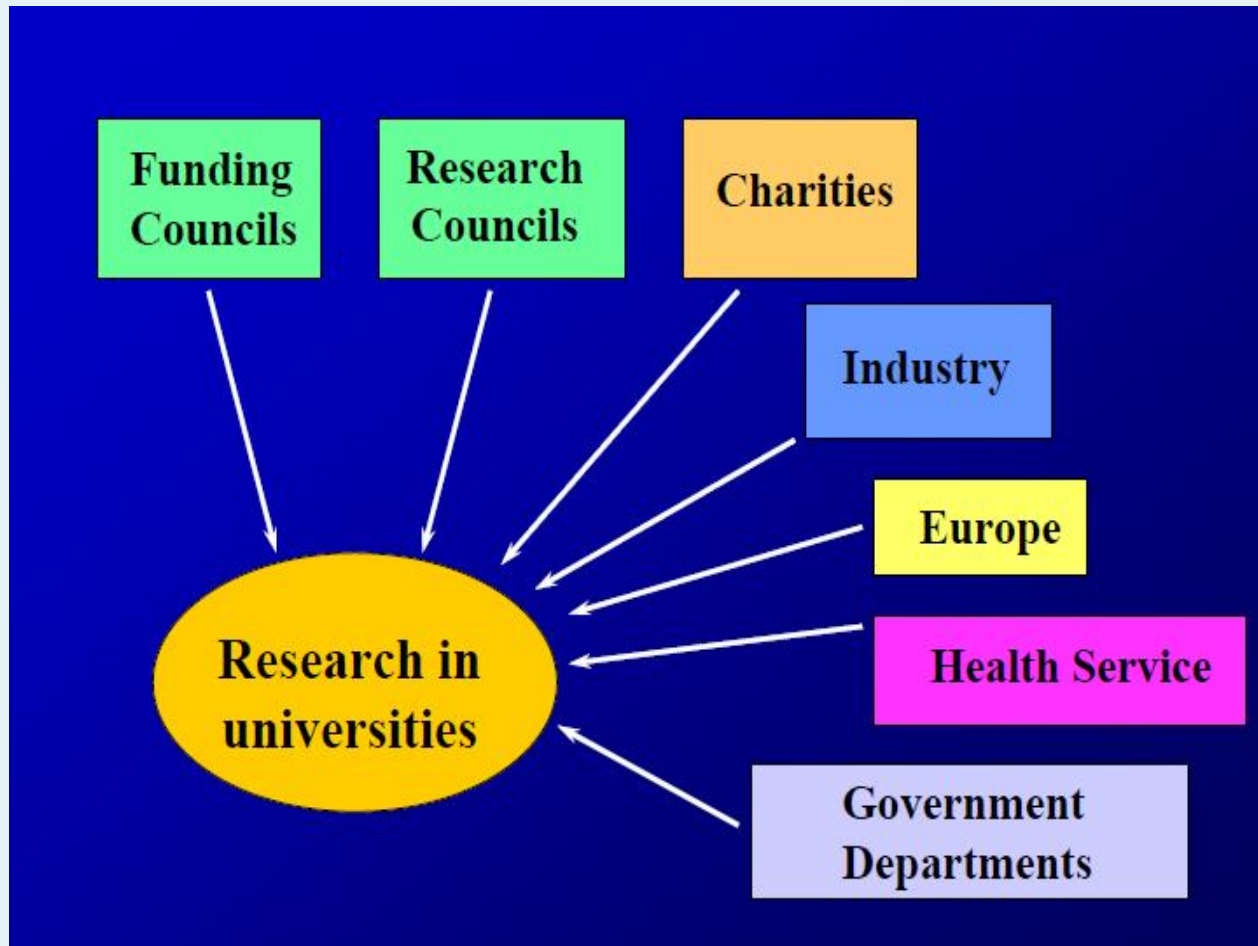
An introduction and lessons learnt from the  
UK and Finland

Pierre Espinasse

1. Background to Full Costing – national examples from the UK and Finland
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4. Challenges of implementation
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# Funding of Research – An Example

## The UK Dual Support System

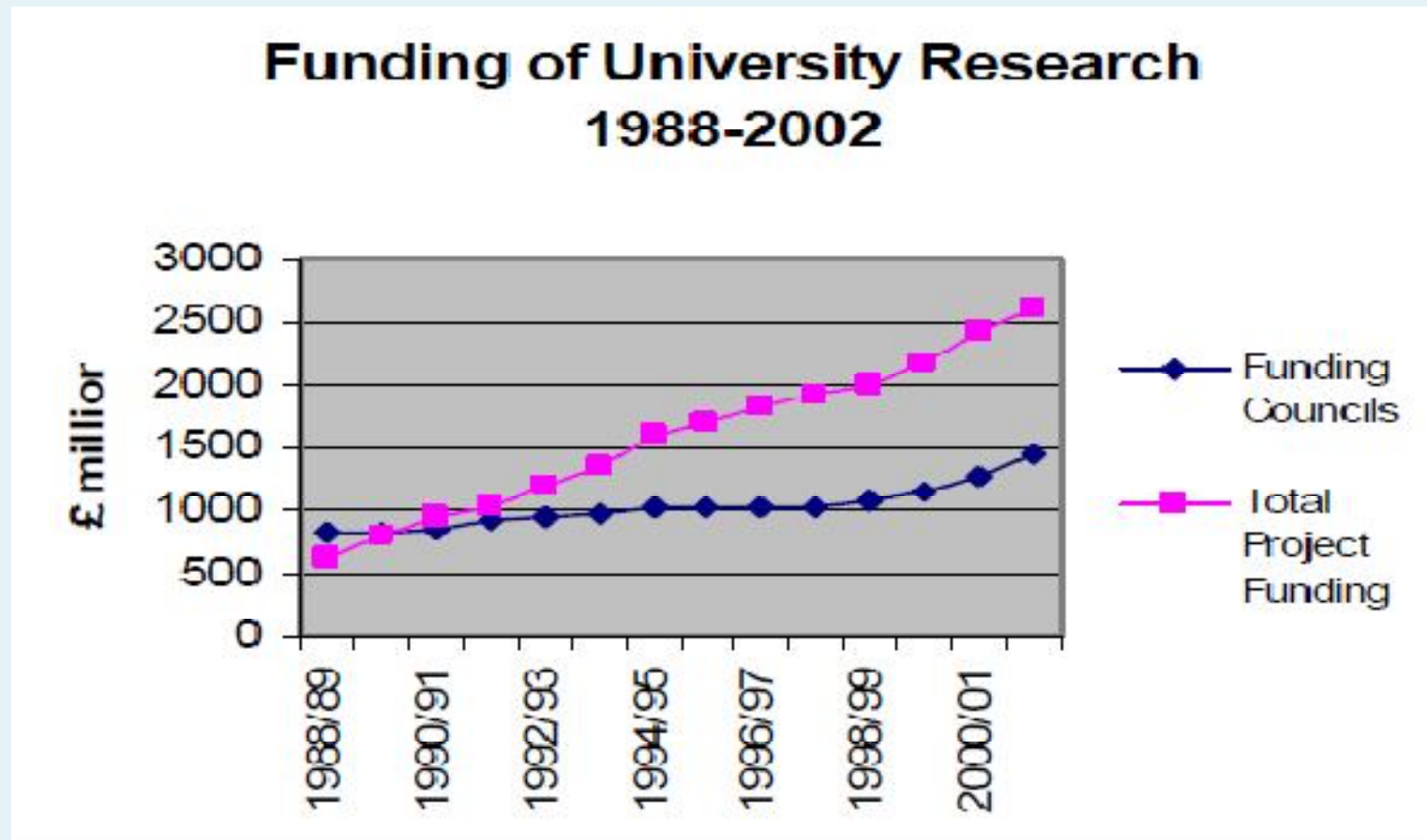


Funding Council provides capability and capacity in universities

Research Councils support 'peer reviewed' projects ...

... so do many other types of sponsors

# Funding of Research: what happened in the UK



# The Result

- Under-Investment in university infrastructure highlighted in the Dearing Report in 1997
- Transparency Review detailed
  - Backlog
  - Recurrent Gap
- “Persistent failure to invest in research infrastructure”

# The Finnish experience

- Required to report annually since 1997 on allocation of expenditure across teaching, research and societal interaction
- 1600 hours pa work load introduced for academic staff in 1998 but work time monitoring banned under agreement with unions – making time allocation models impossible
- Recognition of full costs under FP7 and unilateral move by major national sponsors to full costing models from 2010 provided new impetus
- New cost allocation models negotiated individually with unions
- Coincides with impact of preparations for major University reform in 2010
- Possible coordinated move towards FP7 cost model certification with Ministry support

# A Common Problem across Europe?

## At Government level:

- No clear cost framework for the university sector to support growth in research activity
- No clear definition of purpose of core funding for research
- Allows perverse incentives to develop that can be counter-productive

## At University level:

- Few Universities know their full costs at activity level
- Have few robust administrative processes to cope with cost pressures
- Don't price research properly for commercial activity

# The move to Full Economic Cost (FEC) in the UK

“In return for greater support for research, **universities have a responsibility to manage their research effectively and sustainably.** This will mean continued development of their costing and financial management systems to enable them better to **understand the contribution of individual research projects to the actual costs,** direct and indirect, **of the research.** The Government will expect universities to manage their budgets in a way which allows them to invest properly in infrastructure renewal and ensures that **research is put on a sustainable footing.**”

(HM Treasury 2002)



# So what does 'Sustainable Footing' mean?

- costing and pricing an activity properly and ensuring that the funds are used for the intended purpose
- Identifying the flow of funds needed to meet the full economic cost of each activity

# What about universities?

## Mission Statement (Extract)

*The University of Oxford aims to achieve and sustain excellence in every area of its teaching and research, maintaining and developing its historical position as a world-class university...*

*In support of this aim, the University will:*

- *provide the facilities and support for its staff to pursue innovative research, building upon Oxford's outstanding research record, by responding to developments in the intellectual environment and society at large, and by forging close links with the wider academic world, the professions, industry and commerce...*

# From 'vicious' circle ...

How to achieve and maintain excellence:

- Raise profile/awareness
  - publications/citations
- Recruit & retain key academic staff
- Develop and maintain facilities & infrastructure

...to 'virtuous' circle

Through proper funding and investment  
in physical and human infrastructure

**But**

To do so you need know *and* recover  
your full economic costs

# However

- Historically universities have had little or no understanding :
  - of the cost of different activities,
  - of the difference between cost and price,
  - that on virtually every research grant awarded the institution would lose money
- Academic staff are motivated to win project funding not to worry about financial consequences

and

- Universities operate in an environment where long term strategic financial planning is challenged by short term 'easy win' objectives
- The diverse research funding base and sponsors' aims are not easily compatible with long term financial planning

# What is Full Costing?

## The UK Model

### Transparent Approach to Costing (TRAC)

- TRAC costing methodology developed and implemented 2000-01 to calculate Full Cost of university activities
- Allowed costs to be compared with income
- TRAC data then used to establish indirect cost rates
- Full Economic Cost at project level introduced in 2005

# TRAC methodology (1)

- Activity-based costing
- Annual retrospective allocation of costs from audited financial statements to activities at institutional level
- As many costs as possible identified as direct
- All other costs allocated on a robust basis using consistent cost drivers
- Accounting for use of academic staff time
- Two cost adjustments
  - Infrastructure cost adjustment
  - Return for financing and investment



# Implementation Challenges and Issues

First things first:

Moving to Full Costing is not just a Finance or Research Office matter

- This is a culture change, so need broad awareness raising and institutional leadership
- Do not belittle the implications – if there were none, there'd be no point in doing it

# Motivation for change

## **For University**

- Sustainability
- Recovery of full costs
- Transparency
- Strategic planning

## **For Researchers**

- Unconvinced!
- More transparency
- Better funding
- Funding of academic time

# Lessons to be learnt (1)

## The UK experience

- Development of TRAC/FEC was by the sector, for the sector
- Single methodology at national level
- Developed by 9 pilot universities
- Full collaboration/support from Government and Research Councils
- Additional funding provided
- Clear objectives at the time
- Original intention was to maintain a 'light touch approach'  
*However, five years on, accountability and assurance requirements are increasing*

# Lessons to be learnt (2)

## The Finnish experience

- Process could have benefitted from greater coordination between universities on development of a full costing methodology
- Full costing introduced unilaterally by main two research sponsors
- Limited support from Ministry of Education
- No additional funding to meet full cost of research
- Differing views of what full costing actually means

## Lessons to be learnt (3)

- Be clear what objectives are
- Coordination/communication between Government, major research sponsors and universities is essential
- Develop methodology at national level
- But build in flexibility to allow for differences between universities
- Recognise that there are major funding implications
- The move to Full costing is the first step on a long journey

And, above all, remember:

Full Costing is a tool, not the  
solution