Quality assurance review of the Transparent Approach to Costing in UK higher education institutions

Final report to the UK funding bodies, Research Councils and the OST

August 2005

Report by KPMG staff on secondment to HEFCE.

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1 Executive summary

1.1 Background

The quality assurance (QA) process involved the QA Team visiting all institutions in the UK higher education sector to review their compliance with the Transparent Approach to Costing (TRAC) and full economic costing (fEC) requirements. There were also three benchmarking exercises for the sector. The QA process assessed the sector's progress in implementing TRAC and fEC to date. The process focused on the systems and procedures which higher education institutions (HEIs) have adopted, but did not extend to the validation of the results reported by institutions.

Between May 2004 and February 2005 the QA Team completed 166 visits to institutions. This is significantly ahead of the 31 July 2005 deadline. Three rounds of benchmarking have been concluded, with 76%, 70% and 85% of the sector participating in the May 2004, December 2004 and January 2005 exercises, respectively. Institution's reaction to the QA visits together with the level of progress and profile that TRAC and fEC have assumed demonstrate that institutions are highly committed to TRAC and fEC

Summarised below are the key findings from the visits and the benchmarking exercises.

1.2 Key findings

1.2.1 Findings from the QA visits

Common areas of good practice identified are as follows.

- **Compliance with TRAC guidance, volumes I & II –** in many cases institutions have complied with the requirements of volumes I and II. There are however 40 institutions, largely the less research intensive institutions, where some further work is required on time allocation and indirect costs.
- **Senior management commitment -** the senior management teams within most institutions have bought into TRAC and fEC.
- **TRAC/fEC project groups** – all but 26 institutions have established project groups to oversee the implementation of fEC.
- **Implementation plans** – 125 out of 164 institutions (4 institutions merged into 2 during the QA process – see 3.4) have implementation and project plans in place to promote the achievement of the fEC requirements and timescales.
- **Completion of the self-assessment checklists –** the visits confirmed that institutions embraced the checklist in the spirit intended and in most cases provided a fair representation of their position.
- **Internal audit review of TRAC** – the internal auditors within all but one research intensive institution, and 19 other institutions, have reviewed the TRAC processes at least once to date.
- **Implementation of TRAC and fEC by institutions eligible for dispensations** – a large number of institutions that are eligible to claim dispensation from the TRAC

and fEC requirements are actually pursuing their full implementation to aid decision making.

The institutions visited were all very positive about TRAC and fEC, which is demonstrated by the findings above.

The visits also highlighted common areas where further work is required by institutions. These relate primarily to the implementation of fEC, which given that these requirements were only published in February 2004, is to be expected. Indeed the deadlines for achieving compliance with fEC extend to August 2009.

The common issues identified are summarised below.

TRAC I and II issues

- **Robustness of the academic staff time allocation data** – 40 (25%) institutions have further work to undertake to confirm the robustness of the time allocation data.
- **Statistician review of sampling methods** – 12 (7%) institutions visited had not involved a statistician in verifying the validity of the sampling approach adopted for the collection of academic staff time.
- **Allocation of indirect costs to Teaching, Research and Other** – 13 (8%) of institutions visited had allocated indirect costs to T, R & O solely on the basis of the academic staff time data.

fEC issues

- **Estates data –** At the time the reviews were undertaken, almost all institutions had significant work to complete to refine their estates data in order to fulfil the requirements of fEC.
- **Cost definitions** – 47% of institutions need to align their definitions of estates and indirect costs with the fEC requirements.
- **Indirect costs –** institutions need to refine their cost driver model for indirect costs to increase the robustness of the indirect cost rates. Work is also required to refine the allocation of indirect costs to the TRAC categories.
- **Full-time equivalent count –** many institutions need to refine their process for calculating the full-time equivalent count for research.

The more research intensive institutions visited all acknowledge that further work is required to introduce fEC such that institutions can use their own indirect cost rate and include estates and principal investigator costs into Research Council projects from 1 September 2005, but are all confident that this work can be completed by 31 August 2005. Further details of the common issues identified are provided in section 5.

1.2.2 Benchmarking exercise

The sector's response to the benchmarking was encouraging, with between 70-85% of the sector providing responses to the three rounds of benchmarking.

The benchmarking analysis shows that the greater the amount of research income received, the higher the submission rate, completeness of data and reasonableness of the data. Between May 2004 and January 2005 there has been a reduction in the number of institutions where data has been removed for the benchmarking analysis to prevent distortion. We also found that institutions with less research income opted to calculate just one estates rate (generic).

The analysis of the standard deviation in the indirect cost and two estates rates shows that the standard deviation is lower in the January 2005 benchmarking than was the case in May 2005. The standard deviations of each benchmarking group reduce in January 2005. Over a third of the sector indicated in January that they anticipate their rates moving by more than 10% to 31 July 2005. This further refinement of the rates should contribute to the continued convergence of the rates. Whilst it would be logical for the indirect cost rate to reduce over time as more costs are directly allocated, we are not able to state whether the 10% movement in the rates anticipated by institutions will cause the rates to increase or decrease. Although institutions' rates may change up to 31 July 2005, it is not believed that these changes undermine the credibility of the default rates.

1.2.3 Action to be taken following the visits

To enable institutions to use their own indirect cost rate, apply estates costs and include principal investigator (PI) costs in bids to Research Councils and other government departments (OGDs) from 1 September 2005, all issues classified as 'significant' within their QA report need to have been resolved. Institutions are required to have their internal auditors assess the progress against the significant issues within the QA report, and to report this to an appropriate committee within the institution. Confirmation of this review, together with its findings, should then be sent to the QA Team by 31 July 2005 for consideration. The QA Team will analyse the responses before making the results available to the relevant Higher Education Funding Council. Six institutions have already provided confirmation that they have addressed the significant issues raised in their QA report.

1.2.4 Other TRAC/fEC issues for consideration

The interim report on the QA process, issued in September 2004, identified a number of issues for further developing TRAC and fEC. The QA Team has found that good progress has been made in addressing these issues, which demonstrates the 'added value' that the QA process has brought to the sector.

Through the QA visits and benchmarking exercises a number of issues have been raised for consideration by the Funding Councils. These are detailed in section 7.

1.3 Conclusion

The TRAC QA process operated very well and has been completed ahead of schedule. It has been well received by institutions and is assisting in the development of TRAC and fEC within institutions.

The findings from the visits suggest that a large proportion of institutions are compliant with the requirements of TRAC volumes I and II. There is, however, further work required by some institutions to confirm the robustness of their time allocation data. A significant amount of work is still required to fulfil the requirements of fEC (TRAC volume III) – see below.

The more research intensive institutions, and many of the other institutions, acknowledge the work that is required to successfully implement fEC to a stage where institutions can apply their own indirect cost rate and include estates and principal investigator costs into Research Council funded projects from 1 September 2005, but are confident that the deadline of 1 September 2005 can be achieved. Given that the fEC guidance was not released until February 2004 it is reasonable to expect that further work is still required to successfully implement the requirements of fEC.

2 Introduction

2.1 Background

The Higher Education Funding Council for England (HEFCE) engaged with the other Higher Education Funding Councils and Research Councils in the UK to develop the quality assurance process for the Transparent Approach to Costing (TRAC). JM Consulting led the development of this process on behalf of the Councils and the final scope of the TRAC quality assurance (QA) process was agreed early in 2004. The QA Team started work in March 2004.

2.2 Scope of the review

The TRAC QA process was designed to assess the extent to which the UK HE sector is complying with the requirements of TRAC (volumes I and II of the guidance) and is ready to implement full economic costing (volume III). The process has been designed to assess institutions' processes for meeting the TRAC and fEC requirements, but does not review or validate the numbers reported by institutions in their TRAC returns. The process was agreed by the Funding Councils and Research Councils and consisted of the following parts:

- A self-assessment checklist issued to institutions for return by 31 May 2004.
- Three benchmarking exercises requiring returns by 31 May 2004, 31 December 2004 and 31 January 2005.
- A one day visit to 166 institutions.
- A report and action plan for each institution, following the QA visit.
- Two summary reports for the Funding Councils and Research Councils.

Further details of the QA process are provided in section 3 of this report.

Following the agreement of this process, the QA Team has had an ongoing dialogue with JM Consulting, to clarify matters in the guidance and has fed into the periodic updates on TRAC and full economic costing (fEC) guidance.

2.3 Purpose of this report

The project specification required the production of two reports to summarise progress and the findings of the QA Team. An interim report was produced in September 2004 and this is the final report. The purpose of this report is to summarise the findings from all of the reviews and the three rounds of benchmarking to provide an indication of the sector's compliance with TRAC volumes I and II and its readiness for fEC.

2.4 Structure of the report

The report is split into seven sections of which this is the second. The remaining sections are:

- Further details of the QA process

- Performance of the QA project
- Common issues and findings from the QA visits
- A summary of the benchmarking results
- Other TRAC and fEC issues for consideration.

2.5 Acknowledgement

We would like to extend our thanks to JM Consulting, the HE Funding Councils in the UK, the Joint Costing and Pricing Steering Group (JCPSG) and all HEIs for their co-operation and assistance in the QA process.

3 The TRAC QA process

The introduction in section two outlined the key elements of the QA process. This section provides further detail of each element.

3.1 Communication with the sector

The Funding Councils issued circular letters to the sector in April 2004 outlining the QA process (HEFCE – circular letter 05/2004, SHEFC HE 11/04, HEFCW W04/22HE). These were followed up with a letter from the QA Team providing further details of the QA process, together with a copy of the self-assessment checklist and the benchmarking template.

The QA Team has had on-going dialogue with institutions across the sector to arrange the QA visits, to respond to questions and queries raised, and to discuss the checklist and benchmarking exercises. The sector was provided with two main points of contact within the QA Team in order to ensure clarity and consistency in responding to queries.

3.2 Self-assessment checklist

The purpose of the checklist was twofold. Firstly, it provided a framework for institutions to assess the extent to which their systems comply with volumes I and II of the TRAC methodology and assess their progress in implementing the requirements for fEC. Secondly, it provided a transparent basis and focus for the QA visits. JM Consulting developed the checklist initially and it was refined through consultation between the QA Team and JM Consulting. The QA Team issued the checklist to all institutions at the end of March 2004 for return by the end of May 2004.

The checklist had seven key questions with a number of sub questions. In many instances it gave suggested actions to help institutions gauge their progress in complying with the requirements, and provided guidance on how they could enhance existing processes.

Given that the guidance on fEC (volume III) had only been available to institutions from late February 2004, the checklist was structured as far as possible to distinguish between volume I and II requirements and those of volume III. Sections 1-6 assessed compliance with the key requirements of volumes I and II, the only exceptions being in the areas of estates and indirect costs where the revised requirements of fEC are incorporated to be consistent with the benchmarking requirements (3.3 below provides further details). Section 7 assessed the key aspects of fEC; the checklist was seeking to gauge the degree to which institutions had considered these.

The checklist required institutions to assess their progress and compliance against each question as 1, 2 or 3 as follows:

- 1 - there was no further work to undertake
- 2 - work was still ongoing and some developmental matters remained outstanding
- 3 - there were significant issues still to address.

The implication of each question was quantified in terms of institutions using their own fEC basis for costing bids to Research Councils and other government departments (OGDs). Through consultation with JM Consulting, three possible effects were determined and were indicated by asterisks at the side of each question, as follows:

> * only the lower of the default indirect cost rate and the institution's own indirect cost rate can be applied
>
> ** estates charges cannot be applied
>
> *** principal investigator salary costs can not be applied.

A copy of the checklist is provided at Appendix 1.

3.3 Benchmarking

3.3.1 Collection of the benchmarking data

The QA Team administered three rounds of benchmarking for the UK HE sector to enable institutions to compare their results against peers in order to help evaluate and improve the robustness of their results. To provide consistency with previous benchmarking exercises, JM Consulting provided the benchmarking template for use by the QA Team.

The May and December 2004 benchmarking templates required institutions to use the results of their 2002-03 TRAC return together with the calculation of an indirect cost rate for Research and two cost rates for estates costs (as required under fEC). The January 2005 benchmarking was based on the 2003-04 TRAC data. The May 2004 benchmarking template collected more data than the December 2004 and January 2005 templates, which focused on the estates and indirect cost rates.

An example of all three benchmarking templates is provided in Appendix 2.

3.3.2 Analysis of the benchmarking data

The QA Team analysed the benchmarking data submitted and provided feedback to each institution. To analyse the data, institutions were initially divided into six groups (A – F), according to their level of Funding Council and Office of Science and Technology (OST) Research Council income in 2002-03. However following the May 2004 benchmarking, and in response to feedback from the JCPSG and other institutions, two sub-groups were added to provide separate analysis of institutions with established medical schools and those with new and emerging medical schools. Following the December 2004 benchmarking, a further sub-group was added to separately analyse all art and design institutions.

The QA Team calculated the average, the upper and lower quartiles for each group and an overall sector average. In addition to these an average of a combination of the more research intensive groups and the less research intensive groups was also calculated for institutions' reference. Following the analysis, the results were passed to institutions to enable them to compare their results to the average, and the upper and lower quartiles for their group, as well as the combined averages and quartile information for the other groups and sector as a whole. The benchmarking analysis has also been used to inform the QA visits.

3.4 The QA visit to institutions

The QA process required a visit to be undertaken to every UK HEI. The target for visiting the 50 most research intensive institutions was 31 July 2004, and the remaining institutions needed to be visited before 31 July 2005. The distinction between the most research intensive and other institutions was on the basis of research income from Funding Councils and OST Research Councils for 2002-03, as stated in the Higher Education Statistics Agency (HESA) Finance Statistics Return Table 5b.

In consultation with HEFCE and the other Funding Councils, 166 institutions were visited (listed in Appendix 3). Since this list was established there have been two notable mergers in the sector (UMIST and Victoria University Manchester, and Cardiff University and the Welsh College of Medicine). Each of these institutions was visited prior to the mergers taking effect in 2004-05.

The self-assessment checklist provided the structure for the visit. The QA Team considered the institutions' responses on the checklist together with the institutions' benchmarking results to identify potential issues and areas of focus for the visit.

The visits consisted of an initial and a debrief meeting with the director of finance, the academic champion for TRAC and fEC (typically the pro vice-chancellor for research or equivalent) and the TRAC/fEC project manager. In keeping with the aim of the visits to be 'light touch', the visits were undertaken within a day, followed by the production of a report summarising the findings, which were agreed with the institution.

The reports issued to institutions have provided an overall conclusion as to whether the institution can i) use their own indirect cost rate, ii) include estates costs within bids to OGDs and Research Councils and iii) include the costs of principal investigators within such bids. The findings were categorised as satisfactory or weaknesses identified. Where weaknesses were identified, these were categorised as either 'significant' or 'developmental'. Questions on the checklist that were allocated a '3' (see explanation above) during the QA visit led to those issues being classified as 'significant' within the report.

3.5 Follow-up of QA reports to institutions

To enable institutions to use their own fEC as the basis for submitting bids to Research Councils and OGDs from 1 September 2005, all issues classified as 'significant' within their QA report need to have been resolved. Institutions are required to have their internal auditors assess the progress against the significant issues within the QA report and report this to an appropriate committee within the institution. Confirmation of this review, with its findings, should then be sent to the QA Team for consideration by 31 July 2005. The QA Team will liaise with HEFCE to agree whether a follow- up visit should be undertaken to clarify the institution's position. However, any such visits will be kept to a minimum.

4 Performance of the TRAC quality assurance project

This section provides details of how the project has progressed, together with the sector's response to the benchmarking and self-assessment checklist.

4.1 Organisation of the project

Given the size of the project the QA Team developed a robust governance process to manage it. This included clear definition of responsibilities within the QA Team, the development of a database to monitor and control the delivery of the project, and the development of a HEFCE web page[1] to provide a source of reference for institutions.

Throughout the project the QA Team had regular dialogue with HEFCE management to provide progress updates, as well as liaising with JM Consulting to ensure cohesion in terms of the guidance provided to institutions.

4.2 Visits to institutions

The visits have been completed ahead of schedule. As at 31 July 2004, 61 visits had been completed and the last visit took place on 22 February 2005 – some five months ahead of the required completion date. Table 1 outlines the number of visits that have been undertaken, by month.

Table 1: Table outlining the number of visits undertaken

Month	Number of institutions	Cumulative number of visits	Month	Number of institutions	Cumulative number of visits
May	3	3 (1%)	**October**	16	116 (70%)
June	32	35 (21%)	**November**	19	135 (81%)
July	26	61 (37%)	**December**	11	146 (88%)
August	17	78 (47%)	**January**	11	157 (95%)
September	22	100 (60%)	**February**	9	166 (100%)

The results in Table 1 demonstrate the sector's eagerness and level of buy-in to the TRAC/fEC project because although the project enabled institutions to schedule their visits up to 31 July 2005, visits were requested earlier than this.

[1] www.hefce.ac.uk/finance/transparencyreview

4.3 The May 2004 benchmarking exercise

4.3.1 Collection of the benchmarking data

Institutions were required to submit the benchmarking data to the QA Team electronically by 31 May 2004 and the template was made available to institutions through the HEFCE web page for the TRAC QA process.

As at 4 June 2004, 63 institutions had returned their benchmarking data (38% of the sector). Therefore analysis of the data was delayed until 25 June to ensure a broader representation. This extension enabled an overall participation rate of 76%. Table 2 provides further detail of the response rates.

Table 2: Analysis of response rates to the May 2004 benchmarking exercise

	Benchmarking group	Number returned	Response rate
Most research income	**A**	25/25	100%
	B	24/25	96%
	C	20/28	71%
	D	20/29	69%
	E	17/30	56%
Least research income	**F**	20/29	69%
	Total	***126/166***	***76%***

The responses to the benchmarking exercise are positive and reflect the sector’s commitment to TRAC and fEC.

Where the benchmarking data was not returned in time for the sector analysis, this has been noted within the institution’s QA report.

4.3.2 Analysis of the May benchmarking data

To assist institutions with the development of their TRAC and fEC processes the QA Team analysed the benchmarking data returned.

During the analysis the QA Team identified any outlying data and excluded it. There were also a small number of cases where there were transposition errors in the data submitted by institutions. To enable a meaningful analysis of the data, the benchmarking template normalised all institutions’ benchmarking returns to assume each institution had £100M of research income.

Where institutions had not submitted benchmarking data, the analysis for their respective group was still issued to them for their own use internally.

4.4 The December 2004 benchmarking exercise

4.4.1 Collection of the benchmarking data

The December 2004 benchmarking exercise provided institutions with an opportunity to reassess their data and processes, given the progress that had been made in developing their systems and processes since May. The exercise was also based on the 2002-03 TRAC data but focused solely on the indirect cost rate and two estates cost rates as these were deemed to be the key indicators for institutions.

The overall response rate was slightly lower than in May at 70%. This consisted of a 94% response from the more research intensive institutions and 60% from other institutions.

Although the overall response rate was 70%, the data collected (the three cost rates) could only be returned by institutions in receipt of research funding. Table 5b of the HESA data for 2002-03 reports 12 institutions as receiving no Research Council or Funding Council funding, as such these institutions would have provided a 'Nil Return' compared to that in May 2004. Therefore the adjusted response rate for the sector is 77%.

4.4.2 Analysis of the December benchmarking data

As it had in the May 2004 benchmarking, the QA Team analysed the benchmarking data, excluding any outlying data.

In addition to the group analysis provided to institutions, those with medical schools were also provided with additional analysis of their results comparing established medical schools to emerging ones. The QA Team undertook to return the analysis before Christmas and this was completed by 17 December 2004.

4.5 The January 2005 benchmarking exercise

4.5.1 Collection of the benchmarking data

The January 2005 benchmarking was the final benchmarking exercise. It was based upon the 2003-04 TRAC data and provided a further opportunity for institutions to appraise their systems and processes, but also to provide data on which JM Consulting would make proposals to the Research Councils for the default indirect cost and estates cost rates.

The final benchmarking exercise was planned for March 2005, however the deadline was brought forward to 31 January 2005 to coincide with the timetable for the default indirect and estates cost rates being agreed by the Research Councils and to be consistent with the 2003-04 TRAC return.

The response to the January 2005 benchmarking was excellent, especially as the submission deadline coincided with the submission date for institutions' transparency review return to the Funding Councils. The main area of improvement was the response received from the less research intensive institutions where the lowest response rate was 76%.

4.5.2 Analysis of the January benchmarking data

The QA Team analysed the benchmarking data received in the same way as it had in May 2004 and December 2005.

The analysis of the data commenced on 17 February 2005 and the QA Team again completed this work in a timely manner and the analysis was issued to the sector by 18 February.

4.6 Self assessment checklists

The checklist was issued to all institutions in early April 2004, as well as being available through the HEFCE web page for the TRAC QA process.

The sector responded well to the need to complete and submit the checklist. By 4 June 58 institutions (35%) had made their submission, however this rose to 138 (83%) by 21 June with many institutions submitting their checklist at the same time as their benchmarking data. While the QA visits resulted in changes to the assessment made by the institutions themselves, they embraced the checklist in the spirit intended and have in most cases, provided a fair representation of their position. Overall, 12 institutions failed to submit a completed checklist. Consequently, these visits were undertaken without seeing the checklists. None of these 12 institutions has a substantial level of research activity.

4.7 Additional work undertaken by the QA Team

4.7.1 Sector presentations

During the QA process, the QA Team was asked to provide a number of presentations to sector groups on the process and the findings to date. Five presentations were made, as follows;

- North West Finance Directors Groups – Ulster and Liverpool
- Midlands Finance Directors Group – one presentation in Birmingham
- Standing Conference of Principals – one presentation in Northampton
- British Universities Finance Directors Group (BUFDG) and the Council of Higher Education Internal Auditors – Presentation to internal auditors in the sector explaining the requirements for their follow-up of the QA report and guidance on how they may assess the progress.

4.7.2 Guidance and support to the sector

Throughout the project the QA Team has fielded many queries from the sector. This has been another example of the sector's eagerness to 'get things right'. Although a certain number of queries were to be expected, there were more than anticipated. Over 1,000 e-mails have been received and an equal number of phone calls. In responding to these queries the QA Team has maintained a consistent message to the sector and where queries were received regarding interpretation or clarification of the guidance, these were referred to the fEC Implementation Helpline, operated by JM Consulting.

4.8 Summary

A summary of the project's work is provided below:

- By 31 July 2004 61 visits had been completed and by 22 February 2005 all visits had been completed – five months ahead of schedule.

- 49 of the 50 most research intensive institutions visited by 31 July 2004 and the remaining visit was undertaken on 26 August 2004.

- The sectors response rates to the May, December 2004 and January 2005 rounds of benchmarking have been 76%, 70% and 85% respectively.

- The benchmarking analysis following the May, December and January 2005 benchmarking exercises was issued to the sector by 1 July 2004, 17 December and 18 February 2005 respectively.

- Self assessment checklists were received from all of the more research intensive institutions and with the exception of 12 institutions with minimal levels of research activity, all other institutions in the sector.

- Five seminars have been provided to sector bodies on the QA process and its findings.

- A higher than expected volume of queries has been handled by the QA Team, in response to the sector's interest and diligence in implementing TRAC and fEC.

5 Common issues and findings from the QA visits

This section of the report outlines the common issues identified from all of the QA visits undertaken. The section distinguishes between the issues that relate to TRAC volumes I and II, and the requirements of fEC.

5.1 Introduction

The reporting framework, as described in section 3.4, categorises issues as being ‘significant’ or ‘developmental’. The ‘significant’ issues are those preventing institutions from applying their own fEC (indirect cost rate, estates costs and principle investigator costs) at the current time.

From the visits undertaken there were on average four significant issues and three developmental issues at each institution. The vast majority of the significant issues raised related to the implementation of fEC. It is also important to stress that the visits were undertaken between May 2004 and February 2005 (the more research intensive institutions being visited first). Therefore the summary of issues below does not necessarily represent the issues that remain at institutions as at the time of this report. Indeed the QA Team has already been receiving details of the internal audit follow-up reviews of the significant issues raised in the QA reports. Of the eight institutions responding to date, the internal auditors have all confirmed that the significant issues raised have been addressed.

5.2 Common areas of good practice

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 –** many of the institutions visited have had an executive member of the institution championing TRAC and fEC. TRAC and fEC have commonly been debated and discussed by the head of institution’s group (or similar forum) and informal feedback has been received stating that TRAC and fEC are one of the top three issues for vice-chancellors in the more research intensive institutions. However, TRAC and fEC had been less of a priority for institutions with no research income.
- ✓ **TRAC/fEC project groups –** of the 166 visits undertaken, 140 institutions had formed/reformed a project group to oversee the implementation of fEC. Some of the ‘research intensive’ institutions were also using fEC as an opportunity to re-engineer the whole process for identifying, bidding and controlling external funding.
- ✓ **Implementation plans for fEC –** 75% of institutions had implementation plans in place for fEC and the remaining 25% of institutions were aware of the need to develop such a plan. There were a number of instances where the QA visit also made suggestions for further refining these plans, but it is encouraging that institutions have put such plans in place from an early stage.
- ✓ **Calculation of indirect cost rates –** by the January 2005 benchmarking exercise 131 out of 139 institutions returning data had calculated an indirect cost rate for research.

- ✓ **Achievement of deadline for fEC** – many institutions acknowledged and were aware of what was required to fulfil the requirements of fEC and those institutions that intend to implement fEC were confident that the September 2005 deadline will be achieved. Whilst this confidence is encouraging, achievement of the September 2005 deadline will depend on institutions having made an accurate assessment of the resources required to implement their action plans. Other variables that may compromise progress are in the area of estates data where at the time of the QA reviews, much work was planned/being undertaken to collect additional data in respect of the use of space and many institutions were going beyond the minimum requirements and were collecting data required in order to meet the August 2007 fEC deadlines. There is also the overriding issue of competing priorities within institutions, aside from TRAC and fEC, that could affect the achievement of the September 2005 deadline.

- ✓ **Resourcing for fEC** – many institutions had assessed the resource requirements for achieving their implementation plans and were dedicating additional resources to support the implementation of fEC.

- ✓ **Profile of TRAC and fEC** – the more research intensive institutions along with many other institutions had been successful in promoting the benefits of TRAC and fEC internally and had positively engaged the academic community in the TRAC and fEC process.

- ✓ **Review of TRAC by internal audit –** institutions' internal auditors had in all but 20 (12%) cases reviewed TRAC at least once. The institutions that have not had an internal audit review are all 'less research intensive' institutions.

- ✓ **Implementation of TRAC and fEC by institutions eligible for dispensation** – many institutions that had the option to fully implement TRAC and fEC or not, had actually chosen to implement it to provide them with a basis for understanding the costs of their principal activities and thus, cost future activities in a more robust manner. This is further supported by the January 2005 benchmarking results. Of the 50 institutions eligible for dispensation, only eight out of 27 respondents stated that they intend to take the dispensation.

- ✓ **The QA process –** the QA process has been well received and institutions have commented that it has assisted them in developing and refining their systems for TRAC and fEC.

5.3 Compliance with the TRAC standards (volumes I & II)

Across the sector the QA Team has found that there is a higher degree of compliance with the requirements of TRAC volumes I and II in the more research intensive institutions than other institutions. Below is a summary of the issues identified in respect of compliance with volumes I and II:

- **Non-compliant academic staff time allocation process** – in two of the more research intensive institutions and 30 less research intensive institutions the academic staff time allocation process was not compliant with the TRAC requirements.

- **Response rates to academic staff time allocation** – at around 23% of institutions visited further evidence was required to confirm the robustness of the time allocation data, due to the response rates that have been achieved. This was found to be an issue at 15 of the more research intensive institutions and 24 of the less research intensive institutions. A possible explanation for the higher instance of this finding is that a minimum response rate to the time allocation process was not defined until August 2004.

- **Review of the staff time allocation data** – around 20% of institutions (three of the more research intensive institutions and 30 less research intensive institutions) have not had a robust process for confirming the reasonableness of historical time allocation data.
- **Statistician review of sampling methods** – a small number of institutions had employed a sampling method of obtaining time allocation data. At two of the more research intensive and 10 less research intensive institutions (7% of institutions visited) we noted that the validity of the statistical approach had not been confirmed by a statistician.
- **Allocation of indirect costs to Teaching, Research and Other (T,R&O)** – 8% of institutions visited (two more research intensive and 11 less research intensive) were over reliant upon the time allocation data as the basis for apportioning indirect costs to T, R and O.

In light of the work that has been required by institutions to introduce TRAC, these findings are very positive for the sector, but institutions recognise that volume I and II should have been in place for 2003-04 (reported in January 2005).

5.4 Common issues relating to the implementation of fEC (volume III)

There was a varied range of issues raised with institutions as either significant or developmental issues. The following sections of this report detail the more common issues that were raised. A common issue is defined as one raised at more than 5% of institutions.

The graph below summarises the number of institutions with significant issues, summarised by the principal area into which the issue falls.

Figure 1: Distribution of significant issues raised at institutions

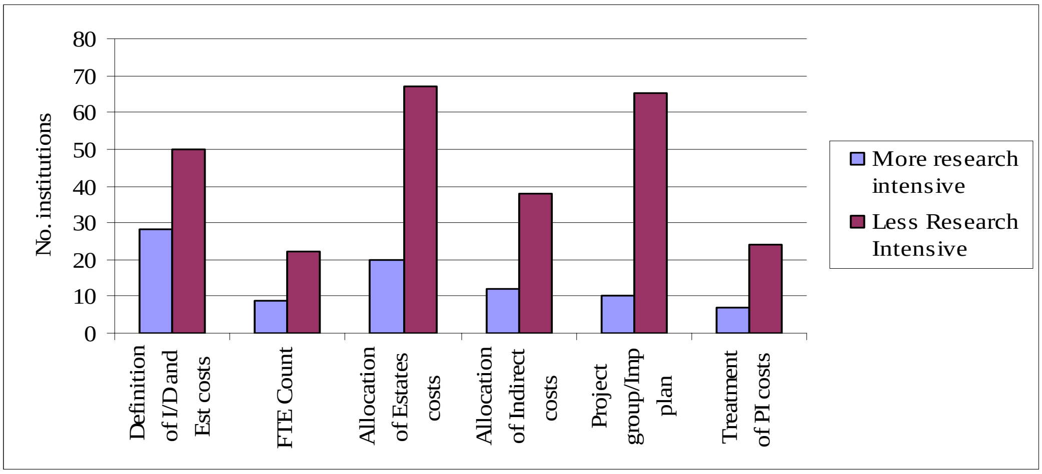

Figure 1 shows that although the issues identified were common to all institutions, there were fewer issues to be addressed by the more research intensive institutions, which reflects the progress made by these HEIs in preparing for the implementation of fEC.

5.4.1 Definition of indirect and estates costs

The most common issue identified across all reviews was that many institutions had not amended their TRAC models for the revised definitions introduced in volume III of the TRAC/fEC guidance. This issue was identified at 78 institutions (47% of the sector) and a higher incidence of this issue was identified at the less research intensive institutions. In many cases the institutions concerned were aware of the error and as institutions need to do very little work to correct it, it should not prevent them from achieving the September 2005 deadline.

5.4.2 Estates costs

Estates costs is the area where almost all institutions had more work to do in order to fulfil the requirements of fEC. This is mainly due to the fact that the fEC guidance has introduced requirements that were not previously required under TRAC. Many institutions visited had projects ongoing for collecting the necessary estates data in order to fulfil the fEC requirements. Noted below are the common issues raised with institutions.

5.4.2.1 *Significant estates issues*

- **Allocation of estates costs to T, R & O** – the methods used by 31% of institutions to allocate estates costs to T, R & O were identified to be inappropriate and rely overly on the time allocation data.
- **Basis for allocating the estates costs to central services –** although all but two research intensive institutions had allocated estates costs to central services, 17 of the less research intensive institutions had not allocated estates costs to central services.
- **Revision of the estates data –** many institutions had some form of estates data, however at 5% of institutions visited, it was more than two years old.

Many institutions are also revising and further developing their estates data so that it can directly drive the allocation of estates costs to academic areas and central support departments.

5.4.2.2 *Developmental estates issues*

- **Direct allocation of laboratory technicians' costs –** all institutions were aware of the requirement to directly allocate the costs of laboratory technicians. However, in 15% of cases, plans had not been put in place for fulfilling this requirement.
- **Direct charging of equipment costs –** many institutions were in the very early stages of identifying how the costs of equipment and major facilities will be identified. However, it is important to note that this is not a requirement until August 2007 and the issue is not relevant for the less research intensive institutions as they do not have significant pieces of equipment that are used for research purposes.

- **Allocation of estates costs to T, R & O –** given the amount of work that many institutions were undertaking in collating estates data, a number of institutions were reminded of the August 2007 requirement for allocating estates costs to T, R & O on the basis of space usage.

- **Calculation of estates costs for four types of space –** at 5% of institutions the need to develop plans for calculating estates rates for at least four types of space by August 2007, was highlighted. This issue is more relevant for the more research intensive institutions, as some of the less intensive institutions do not have the same number of distinguishable spaces. Institutions were also reminded to consider the weighting of estates space.

5.4.3 Indirect costs

Indirect costs was the other fundamental area where institutions need to undertake further work before they can apply their own indirect cost rates. All institutions have a model in place for apportioning the costs of central services to academic areas, therefore the issues raised are to further refine this model to enable a robust indirect cost rate to be calculated and used. Noted below are the common issues raised with institutions.

5.4.3.1 *Significant issues regarding indirect costs*

- **Review of the cost driver model** – 20 institutions have been asked to review their cost driver model for allocating indirect costs as the cost drivers used appear to have very little relationship with the costs they are allocating.

- **Allocation of indirect costs to T, R & O** – around 8% of institutions continued to use the time allocation data as the basis for allocating costs to T, R & O. Institutions have been encouraged to identify a more robust basis for this allocation.

5.4.3.2 *Developmental issues regarding indirect costs*

There have not been any common themes in the developmental issues raised in respect of indirect costs.

5.4.4 Calculation of a research FTE

Most institutions had calculated the research full-time equivalent (FTE) and almost all had also included the postgraduate FTE within this count. However, a common issue for around 19% of institutions was the need to make their FTE count robust by basing the calculation on at least two points in the year.

The need to weight postgraduate research (PGR) students was also a common developmental point in the early stages of the QA process. However following the publication of the standard PGR weightings in October 2004, all institutions all weighted their FTE counts in their December 2004 and January 2005 benchmarking submissions.

5.4.5 Estimating and costing principal investigators’ time

Almost all institutions were aware of the requirements of fEC in respect of estimating and costing the time of principal investigators and although many had plans for achieving this, we identified 31 institutions where plans were at a very early stage of development.

Because of the timing of the QA visits it has only been possible to verify that institutions had plans to address these requirements, rather than confirming that the relevant systems and processes were actually in place. (This can only be verified after 1 September 2005). To enable institutions to include PI costs within Research Council and OGD bids at the earliest opportunity (1 September 2005), it is important that institutions successfully implement the plans outlined to the QA Team during the QA visits.

5.4.6 Reasonableness of the benchmarking data submitted

The benchmarking data submitted by institutions was evaluated by the QA Team during the visits. The reasonableness of the estates and indirect cost rates has been reported under the other sections of this report. We identified that data was excluded for 25 institutions in May 2004, 26 institutions in December 2004, but this reduced to just 14 institutions in January 2005.

5.4.7 Other common developmental issues

In addition to the developmental issues highlighted above, this section details the other common development issues identified.

5.4.7.1 *Time allocation process*

- Many institutions were reminded of the requirement for future time allocation exercises to separately seek the identification of academic time spent supervising PGR students.
- Constructive suggestions were made to 26 institutions for enhancing the reasonableness checks that they had in place for time allocation data.
- It was suggested to 12 institutions that there was scope to increase the robustness of the allocation between research sponsor type.

5.4.7.2 *Implementation planning and project groups*

- Sixty-two institutions visited were in the early stages of developing an implementation plan for fEC at the time of the visit. Therefore these institutions were encouraged to develop the implementation plan so that it becomes a control document for the project.
- There were 22 institutions where an fEC project/working group had recently been established, but the frequency of meetings had not been scheduled. In these instances a development point was made to encourage these groups to meet on a frequent basis.

5.4.7.3 *Other developmental issues*

- At 19 of the less research intensive institutions there was scope for the institutions to increase the understanding of fEC and its implications for the institution.
- We identified a number of institutions, mainly the less research intensive ones, where further thought should be given to how the institution would prevent over charging of staff costs and time to Research Council projects.

5.5 Summary

The findings of the QA visits demonstrate that senior managements in most institutions have bought into the TRAC and fEC process. Project groups were in place to support the implementation of fEC at a large number of institutions and many have implementation plans to control the development of the systems and procedures for fEC. The institutions' internal auditors have reviewed the TRAC processes at least once in all but 20 institutions. Many institutions eligible for dispensation from full TRAC and fEC requirements are actually embracing fEC and taking forward its implementation.

The vast majority of the institutions visited have complied with the requirements of TRAC volumes I and II. The institutions that are not currently complying need to amend their current time allocation process, verify the robustness of the response rates to the time allocation survey, confirm the reasonableness of historical time allocation data and allocate indirect costs to T, R & O on a more robust basis.

The key areas where institutions need to do more work are:

- estates costs
- indirect costs
- the calculation of a robust FTE count
- the implementation of systems for estimating and costing PI time
- improving the reasonableness of TRAC results.

Institutions are undertaking a significant amount of work to resolve these issues and with one exception, the more research intensive institutions are confident that the issues can be addressed by the September 2005 deadline.

6 Results of the benchmarking exercise

This section analyses the key pieces of information from the data provided in the three rounds of benchmarking. The quality of the data and responses received is explored at the beginning of each sub-section. Following this is an analysis of the results that were reported.

6.1 Quality of the data

6.1.1 Benchmarking returns received

The sector participated in several benchmarking exercises, when TRAC was first implemented (last round in 2001-02). However, the May 2004 benchmarking was the first time that institutions had been asked to produce data using the fEC approach for calculating estates and indirect cost rates. The guidance on fEC had only been available to institutions for a little over three months prior to the deadline for submitting the data. This was the reason for holding three rounds of benchmarking as part of the QA process, as it provided an opportunity for institutions to appraise the progress made in implementing fEC at various points in the cycle (May 2004, December 2004 and January 2005).

Tables 3 and 4 below detail the performance of the sector in respect of returning benchmarking data to the QA Team, and a number of other indicators that provide a view on the quality of the data received.

Table 3: Institutions' response to the benchmarking exercise

	Group A	Group B	Group C	Group D	Group E	Group F	Overall
Response rate – May 2004	100%	96%	71%	69%	56%	69%	**76%**
Response rate – December 2004	96%	92%	82%	59%	66%	31%	**70%**
Response rate – January 2005	92%	96%	89%	77%	83%	76%	**85%**
Average response rate	*96%*	*95%*	*81%*	*68%*	*68%*	*59%*	**77%**

+ Most Research Least Research -

Source: May, December 2004 and January 2005 benchmarking returns from institutions

The information in Table 3 indicates the following:

- The response rate in January 2005 represents a significant improvement on both May and December 2004.
- The response rate dipped for the December 2004 exercise. Informal feedback suggests that a possible explanation for this is that some institutions were concentrating on developing their processes in preparation for reporting the data in January 2005 and consequently did not submit in December 2004.

- Response rates are highest for institutions with the greatest volume of research income, for example an average 96% response rate from the 50 more research intensive institutions. These institutions have the greatest interest in implementing fEC as failure to do so will have significant financial consequences.
- Response rates from the January 2005 benchmarking are consistently high (75% +).

Table 4: Completeness and quality of data submitted by institutions

	Group A	Group B	Group C	Group D	Group E	Group F	Overall
Number of benchmarking returns received							
May 2004	25	24	20	20	17	20	**126**
December 2004	23	23	23	17	19	9	**114**
January 2005	22	24	24	23	24	22	**139**
Number of institutions submitting partial data							
May 2004	0	3	1	3	4	16	**27**
December 2004	0	0	6	6	10	8	**30**
January 2005	0	2	4	7	12	15	**40**
Number of institutions' data excluded from the analysis							
May 2004	2	4	1	8	3	7	**25**
December 2004	2	1	6	6	10	1	**26**
January 2005	0	0	4	4	5	1	**14**

+ Most Research   Least Research -

Source: May, December 2004 and January 2005 benchmarking returns from institutions

From the information in Table 4 the following can be concluded:

- There were fewer instances of institutions submitting partial data where a greater amount of research income is received.
- January 2005 had the highest instance of institutions submitting partial data. We understand some institutions opted for one estates cost rate, rather than two, as they do not have any 'laboratory' or other space that has a material cost differential. However, from the data collected it has not been possible to quantify the number of these instances.
- The number of institutions' data that has been excluded from the benchmarking analysis to prevent distortion of the analysis fell significantly from May 2004 to January 2005. This indicates that the quality of the data in the January 2005 benchmarking is higher than in previous rounds.
- There are fewer instances of benchmarking data being excluded for institutions with higher levels of research income. These institutions also submitted more complete data. These factors together suggest their data is more robust than that of institutions with smaller volumes of research activity.

6.1.2 Future movement in institutions' rates

The December 2004 and January 2005 benchmarking exercises asked institutions whether they anticipated their rates moving by more than 10% up to 31 July 2005. Table 5 below summarises the responses to this question.

Table 5: Numbers of institutions expecting their rates to change by more than 10%

Rate	No. of responses by institutions (%)	
	December 2004	January 2005
Total response	*114*	*139*
Estates laboratory rate	41 (36%)	57 (41%)
Estates generic rate	34 (30%)	53 (38%)
Indirect cost rate	38 (33%)	58 (42%)

Source: Institutions benchmarking submissions.

Table 5 shows that more than a third of institutions providing data anticipated their rates changing between January and July 2005. This is likely to reflect that institutions are still to address significant issues raised in their QA reviews and get their internal auditors to sign them off. Institutions are also likely to be continuing to refine their systems and processes, following receipt of the benchmarking analysis. Therefore, based upon the improvement made by institutions to date, it is likely that the robustness of institutions' processes and data should improve in the lead up to 1 September 2005 and the three rates reported by institutions should converge further. However it is not possible to state whether the movement in the rates will be upwards or down.

6.1.3 Summary – Data quality

The sector's participation in the benchmarking exercises increased from May 2004 to January 2005 when 85% of the sector participated. There is a correlation between the response rate, submission of complete data and the reasonableness of data, with the volume of research income received by institutions. The instances of outlying data fell from the May 2004 benchmarking to January 2005, except for institutions submitting partial data, which may be explained by institutions opting to have just one estates cost rate for research.

Although the assessment of the TRAC numbers reported by institutions is not within the scope of the QA process the results suggest that the consistency of data increased over time, and although a third of institutions reported in January 2005 that they expected their rates to change by more than 10% up to 31 July 2005, this shows that the consistency of the estates and indirect cost rates should improve still further.

The data provided by the more research intensive institutions continues to be more complete and comparable than the rest of the sector, although this margin is reducing.

6.2 Indirect cost rates

6.2.1 Analysis of the responses received

The QA Team analysed the comparability of the indirect cost rates reported by institutions. Based upon the number of responses, the provision of indirect cost rates within the data submitted and the indirect cost rates that were deemed to be outliers, the analysis indicates that the consistency of the data has increased significantly to January 2005. Almost all institutions had calculated an indirect cost rate by January 2005 and of the 131 institutions providing indirect cost rates only seven (5%) of these were excluded as outliers.

In many respects the quality of the December 2004 data did fall, compared to May 2004 and January 2005 and although it is not possible to explain in absolute terms why, it is suggested that institutions were concentrating their efforts on developing their systems and processes in preparation for the January 2005 benchmarking and transparency review reporting.

6.2.2 Analysis of the rates

The May 2004 benchmarking exercise was the first time that institutions had calculated a separate indirect cost rate and estates rates for research (per FTE) on an fEC basis. However, many institutions attempted the calculation of the indirect cost rate in May 2004 and improved it in December 2004 and January 2005. Table 6 below details the average sector indirect cost rates reported to each round of benchmarking.

Table 6: Average indirect cost rates for research reported for each benchmarking exercise

Round of benchmarking	Sector average
	£ /FTE
May 2004	£51,736
December 2004	£29,063
January 2005	£35,649

In assessing the rates it is important to note that although the May and December 2004 exercises were based upon 2002-03 TRAC data, the January 2005 benchmarking used the 2003-04 TRAC data. Therefore some movement in the rates may be explained by inflation and general changes in the cost base. The findings of the QA visits undertaken between May 2004 and February 2005 have highlighted that around 47% of institutions have still to apply the correct definition of indirect costs.

The standard deviations in the rates have also reduced over time. The institutions with the higher levels of research income have the smallest standard deviations. Some less research intensive institutions may appear to be an exception in the analysis due to these institutions being at an earlier stage in the implementation of fEC when compared to the rest of the sector.

6.2.3 Summary – Indirect cost rates

> The sector has responded positively to each round of benchmarking. A significant amount of work has been undertaken to amend and revise systems and processes to enable fEC to be introduced and the indirect cost rates to be calculated and refined.
>
> The analysis of indirect cost rates shows that the consistency of the rates has improved and in January 131 out of 139 institutions had calculated an indirect cost rate.
>
> The consistency of the indirect cost rates has improved greatly across the range of institutions.

6.3 Estates cost rates

6.3.1 Analysis of the responses received

The QA Team analysed the estates cost rates reported by institutions to assess their comparability. This analysis highlighted similar data quality issues as those found in the analysis of indirect cost rates (section 6.2.2 above). These issues are summarised as follows:

- Institutions with higher levels of research income have been more consistent in providing estates cost rates for Research.
- The completeness of the estates rate data improved between May 2004 and January 2005, however there were more instances of data being excluded in the December 2004 exercise.
- Although the more research intensive institutions were consistent in providing both the laboratory and generic estates rates, more institutions provided the generic estates rate than the laboratory rate. This is probably due to the less research intensive institutions opting to have just one estates rate as the laboratory rate is not relevant.
- There were no instances in the May 2004 and January 2005 benchmarking where data was excluded from the more research intensive institutions.
- In January 2005 100 (72%) out of 139 institutions provided the laboratory estates rate, and 125 (90%) out of 139 institutions provided a generic estates rate.

6.3.2 Analysis of the estates rates

As stated in 6.2.2, the May 2004 benchmarking exercise was the first time that institutions had calculated two estates rates for Research (per FTE) on an fEC basis. Many institutions provided the estates cost rates in May 2004 and this improved in December 2004 and January 2005. Table 7 details the average estates rates reported to each round of benchmarking.

Table 7: Average estates rates for Research reported for each benchmarking exercise

Round of benchmarking	Sector average
	£ /FTE
Estates rate - Laboratory	
- May 2004	6,516
- December 2004	6,359
- January 2005	8,183
Estates rate - Generic	
- May 2004	3,572
- December 2004	6,839
- January 2005	5,495

Overall, the laboratory estates rate is higher than the generic rate, with the exception of the December data. The reason for this variation in December is thought to be due to this being the first time that more of the less research intensive institutions returned the estates rates and there is a greater number of these institutions reporting just one estates cost rate (the generic rate). In interpreting the rates reported in Table 7, it is important to consider the following:

- There was scope for inconsistency in the May 2004 estates rates, due to the variability in the approach to the weighting of PGR students – such inconsistency does not however prevail in the December 2004 and January 2005 rates.
- Further work was required by 47% of the institutions visited to refine their definitions for estates costs.
- There is legitimate variation in the treatment of laboratory technician costs, major research facilities and equipment some institutions are implementing the August 2007 requirements early.
- There are varying approaches to categorising laboratory and classroom estates costs.
- Many institutions have further work to refine the calculation and allocation of estates costs in order to meet the August 2007 fEC deadline.

The variability in the laboratory estates rate reduced from May 2004 to January 2005. From the examination of the average generic rates reported by each benchmarking group there is convergence in the average generic estates rate over time.

A further trend was identified in the January 2005 benchmarking results in respect of Art and Design institutions. Many of these institutions only reported a 'generic' estates cost rate and the average generic rate for these institutions was significantly higher (£13,747) than the sector average (£5,495). This difference is likely to be explained by both the nature of work that is undertaken by Art and Design institutions and the requirement for proportionately larger areas in which to undertake research activity.

To identify the extent of variability in the treatment of laboratory technician costs, the December 2004 and January 2005 benchmarking template asked institutions to state whether they had included laboratory technician costs within the estates costs. Table 8 below summarises the responses received.

Table 8: Institutions including the costs of laboratory technician within estates costs

	Group A	Group B	Group C	Group D	Group E	Group F
December 2004	13	12	14	10	4	0
January 2005	14	14	11	10	3	3

To summarise the data in Table 8, the laboratory and generic estates rates converged across the sector between May 2004 and January 2005, which demonstrates that the consistency of the data, and processes in institutions have improved.

The standard deviation has (largely) reduced compared to the data for May 2004 to January 2005. Our analysis also shows the convergence of the standard deviations in January 2005 across all groups of institutions. This supports the assertions made already about the improvement in the data provided by institutions.

6.3.3 Summary – Estates cost rates

The sector has made positive progress in developing its two estates cost rates. There is a higher incidence of institutions with less research income only calculating one estates cost rate (generic) and the generic cost rate for art and design colleges is higher than in other institutions.

Both the laboratory and generic estates cost rates converged between May 2004 and January 2005. With the exception of some less research intensive institutions, there is less variability in the estates cost rates between groups in January 2005, than was the case in December and May 2004. The generic and laboratory estates rates reported by the most research intensive institutions across the sector are very similar.

In summary the quality and comparability of the estates cost rate data provided by institutions in January 2005 represents a significant improvement over previous rounds of benchmarking. Although Table 5 reports that over a third of institutions expect their estates rates to change further up to 31 July 2005, this suggests that the consistency of the estates cost rates will only improve further.

7 Other TRAC/fEC issues for consideration

From the reviews undertaken we have identified a small number of issues for the Councils to consider. We have also tracked the progress made by the Councils in considering a number of issues and suggestions made in the interim report on the QA process.

7.1 Tracking of issues raised with the UK HE Funding Councils

The QA Team provided an interim report to the UK Funding and Research Councils in September 2004 providing details of progress and findings to date. This was summarised and a Circular letter was published by HEFCE in November 2004 (20/2004).

Within the interim report a number of issues were raised for consideration by the HE Funding Councils. We have summarised these below along with the response and progress made to date:

- **Use of fEC as a basis for funding teaching in England –** HEFCE has commenced a project that is assessing the future funding arrangements for teaching within the English sector.
- **Consolidation of the TRAC/fEC guidance –** the JCPSG has published a consolidated manual. This brings all the guidance provided to date into a single manual available via the internet and on CD Rom. This can be accessed on the following web site (www.jcpsg.ac.uk/guidance/index.htm).
- **Acceptable response rate to the academic staff time allocation process** – the consolidated manual provides further guidance on this area in chapter C.1 para. 40..
- **Weighting for postgraduate research students** – the JCPSG TRAC development sub-group published the weightings for PGR students for use in calculating the Research FTE count in October 2004.
- **Research Councils' commitment to fund research projects on an fEC basis** – the OST re-emphasised in its letter dated 6 January 2005 its commitment and support of fEC and confirmed that 80% of fEC will be funded by the UK Research Councils with a view to increasing this to 100% in the future.
- **Allocating costs of laboratory technicians** – the consolidated manual provides, in section C.3, further clarification on how the indirect costs of laboratory technicians, incurred in maintaining laboratories and equipment should be treated within the TRAC and fEC.
- **The quality assurance process for fEC in the future** – the UK Research and Funding Councils have commissioned work to design a quality assurance and validation strategy. A report on this is expected later in 2005 which should enable the Research and Funding Councils to set out their quality assurance and validation arrangements toward the end of 2005/early 2006.
- **Aligning the TRAC/fEC and HESA reporting requirements** – the Funding Councils have no plans to combine transparency review reporting with the HESA Finance Statistics Return.

- **Guidance on the allocation of income** – work has continued on this guidance and it was published by the Funding Councils in May 2005 (HEFCE Circular letter 10/2005). It was also included in the consolidated TRAC/fEC guidance manual.
- **The role of internal audit in reviewing fEC** – the fEC implementation update 2 published by the JCPSG in June 2004 provided some guidance on the role of internal audit in reviewing fEC – this was incorporated within the consolidated manual. The JCPSG also held a workshop (December 2004) where guidance was provided on auditing fEC.

This progress demonstrates the additional value that the current QA process has been able to provide in supporting the continued development of the TRAC and fEC guidance.

7.2 Responsibility after the end of the JCPSG

The JCPSG has been responsible for supporting the development and embedding of good practice in costing and pricing in higher education. Following consultation in June 2002 the UK Funding Councils agreed that the JCPSG would end on 31 July 2005.

The JCPSG has developed an exit strategy, in discussion with the Funding Councils and sector bodies. The Funding Councils will become custodians of TRAC guidance and updates after July 2005, advised by new BUFDG costing and pricing group. The full strategy is published on the JCPSG web-site (www.jcpsg.ac.uk).

7.3 Confirmation of institutions' rates

The guidance has enabled institutions to revise and update their estates and indirect cost rates through to 31 July 2005, after which time they are fixed, until they are revised in February 2006 and each year thereafter. Currently there is no requirement for institutions to communicate details of their 'final' rates to either the Research Councils or Funding Councils. Although the future QA arrangements are likely to assess the rates that have been used by institutions in the Research Council bids and verify these back to the underlying systems in institutions, the Research and Funding Councils may wish to consider collecting details of institutions' 'final' rates proactively, rather than waiting for an assurance process to do it retrospectively.

7.4 Confirmation of having addressed significant issues after 31 July 2005

The current QA process will collate the responses from institutions at the end of July 2005 and appraise the progress made by institutions in addressing the significant issues arising from their QA reviews. Inevitably there will be some institutions where further progress is required before the significant issues have been addressed. However, at present, there is no protocol covering what institutions should do when they address significant issues after 31 July 2005. The Councils should consider identifying a process for this and communicate it to any institutions with significant issues outstanding as at 31 July 2005.

7.5 Use of fEC by institutions eligible to apply for dispensation

From our visits to the institutions eligible for dispensation, we found that many wanted to use TRAC and fEC for costing other activities beyond Research Council grants and research projects. The commitment to implementation of TRAC and fEC is also demonstrated by the January 2005 benchmarking where only eight of the 27 institutions responding to the benchmarking exercise stated that they may take the dispensation from the TRAC/fEC requirements.

7.6 Institutions eligible for dispensation

Through the work undertaken to date it has been very positive to see that around 7% of institutions eligible for dispensation do not intend to exercise this option (see section 5.2). However, our analysis has shown that between 2002-03 and 2003-04 the number of institutions eligible for dispensation has reduced (from 55 to 50). Therefore, it is feasible that an institution opting to take the dispensation at the current time may not be able to in future years. The Councils should consider how this matter will be tracked.

7.7 Summary

A summary of the issues raised for consideration is provided below.

Progress in addressing the suggestions made in the TRAC QA interim report

- Good progress has been made in addressing the issues and suggestions made in the interim report, issued in September 2004.

Other issues for consideration

- The UK Research and Funding Councils should consider the benefit of collecting details of institutions' finalised indirect and estates cost rates for use in ensuring that institutions are using the correct rates.
- HEFCE should finalise the arrangements for institutions to communicate progress in implementing significant issues raised by the QA review, after 31 July 2005.
- The UK Funding Councils and Research Councils should develop a process for monitoring the institutions eligible for dispensation.

Appendix 1 – QA process - Self-Assessment Checklist

This checklist will help to assess your preparation for the full economic costing of research projects on a robust basis. It will form the basis of discussions during the visit by the QA team, and will help to inform the action points that the institution is to take forward after the meeting.

Seven key questions will be considered by the QA team. Each key question will be classified as (1) to (3) by the QA team as follows:

(1) no outstanding issues;
(2) minor developmental issues;
(3) significant issues.

Classification of a key question as (3) means that the weakness will need to be addressed before you are able to include all costs in your calculation of Research Council and OGD cost-based prices, as defined by TRAC.

There is a set of supplementary questions under each key question, which the QA team will use to determine the classification of the key question.

The checklist is designed to be as helpful as possible to you, to assist your review of your readiness. It therefore lists a number of points that can be considered when assessing each supplementary question. Not all will be applicable to each institution.

Not all of the supplementary questions nor the review points under them will be covered by the QA team during the visit. Your own classification of each area (through your prior completion of the self-assessment checklist), information provided in the benchmarking proforma, and discussions during the visit, will assist the QA team to select the supplementary questions that they will cover.

Where a key question is classified as (3) by the QA team, only some of the institutional fEC can be used to set the price for Research Council and OGD cost-based contracts, until the identified weaknesses have been satisfactorily addressed. The impact on the price will be one of three ways, as follows:

* only the lower of the default indirect cost rate and the institution's own indirect cost rate can be applied;
** no estates charges can be applied;
*** no PI salary costs can be applied.

The attached checklist is to be completed by all institutions prior to the QA visit and an electronic version is to be returned to the QA team no later than 31 May 2004. The electronic version is available on www.hefce.ac.uk/Finance/TransparencyReview

Institutions are encouraged to complete the checklist as fully as possible. This should take no more than an hour or two. To reduce the burden on institutions, no supporting documentation, explanations or other material should be sent with the completed checklist. There will be scope to discuss any areas of interest during the QA visit.

All returns will be treated as confidential to the QA team and will not be disclosed more widely to the HE Funding Council or other funding body. The only exception to this is where there are major failings that might be of material concern to the HE Funding Council.

Please complete the checklist and return it to Andrew.Bush@KPMG.co.uk
by **31 May 2004**

The information should reflect the position in the institution at the date when the form is completed.

This form can be completed by any member of staff or manager authorised by their institution to do so.

Completed for: name of institution	
On: date	
By: name	
position	
email	
telephone	

TRAC Quality Assurance Self-Assessment Checklist

- The Questions

please tick one box against each question

• X **Key question** x.x Supplementary question • *suggestions to consider*	Areas of weakness: no out-standing issues 1	minor develop-mental issues 2	signifi-cant issues 3
1. Has academic staff time been collected robustly? *			
1.1 are the methods in accordance with the Guidance? * • *method involved either statistical sampling (diaries) or 100% of academics, completing at least 3 in-year time schedules within a period representative of 12 months, or other method at least as robust* • *definitions are consistent with the Guidance Manual*			
1.2 are response rates acceptable for each type of staff and for each group of department? * • *this has been considered at least at laboratory and classroom group level, but also the type of staff (grade, and extent of involvement in R). If indirect costs/estates charges are being calculated for smaller groups of staff, response rates for each have been considered* • *advice of statistical expert has been invited* • *relatively high response rates has been experienced for the most R intensive staff in each of the laboratory and other ('classroom') departments* • *there are appropriate methods to complete datasets/ extrapolate for non-respondents and leavers*			
1.3 has time allocation data been reviewed and updated if necessary for changes in organisational structure/profiles of activity? * • *reviews have been carried out for any data more than one year old, with perhaps some re-collection*			

1.4 are the results considered reasonable? * • *there has been a comparison of costs with income/outputs* • *internal benchmarking has been carried out between like departments* • *there has been a comparison with prior years results* • *the allocation of time between scholarship/research is considered reasonable* • *the allocation of time between direct and Support is considered reasonable and is not an outlier in the May 2004 benchmarking figures* • *some peculiar results have been identified* • *there has been follow-up to resolve these*			
2. Has senior management been adequately involved in the process? *			
2.1 is there is an active and effective project management group? * • *it is chaired by an academic champion* • *it meets regularly* • *its remit has been extended to cover fEC*			
2.2 is there an implementation plan for introducing the new fEC methods by Sept 2005 or earlier? * • *there is a plan or there are clear responsibilities and timescale for drawing one up*			
2.3 have the results been reviewed for reasonableness? * • *there has been internal benchmarking of surpluses/deficits or indirect cost rates by department* • *there has been external benchmarking with a peer institution* • *there has been comparison or other reconciliation of TRAC results with the internal RAM* • *there is a process to ensure the figures are understood, including their relationship with outputs or income* • *reports have been made on TRAC results to an institutional committee, with appropriate commentary to provide assurance that the results are fair and reasonable* • *the surplus/deficit for PFT, NPFT, PFR, NPFR, O look reasonable* • *income has been allocated to the five activity categories as well as costs*			
3. Has internal audit been adequately involved? *			
3.1 has the internal audit review process been undertaken? * • *a full systems internal audit of the TRAC process has been carried out or is planned before January 2005* • *an appropriate institutional committee has or will have confirmed compliance with the Manual by that date*			

3.2 have all the significant action points raised by any internal audit review been addressed? * • *reports on this have been made to the appropriate audit or finance committee* • *any outstanding points have been transferred to an implementation plan that will address them no later than September 2005*			
• **4 Have estates costs been allocated robustly? ****			
4.1 has space usage driven the allocation of costs to central services and academic departments? ** • *cost drivers such as staff and student numbers, or academic staff time, have not been used significantly* • *if EMS data has been used, differences in definitions between that and TRAC have been resolved* • *space usage data has been reviewed within the last two years to ensure that is reasonably up-to-date*			
4.2 has space usage driven the allocation of costs to T, R, and O? ** • *cost drivers such as staff and students numbers, academic staff time, or dedicated space, have not been used significantly* • *an informed method has been used to allocate shared space (and use for O has been taken into account)* • *space usage data has been reviewed within the last two years to ensure that it is reasonably up-to-date*			
4.3 has the right definition of estates costs been used? ** • *it includes the infrastructure adjustment, all research facility and equipment costs, less the recharges for equipment etc being directly allocated* • *it excludes the COCE adjustment and central services' use of estates* • *the allocation of laboratory technicians is robust – if not directly incurred, they are either in estates or directly allocated (but not both)*			
4.4 do the estates charges for Research look reasonable? ** • *the benchmark figures for the laboratory charge are significantly higher than the generic/classroom charge* • *if the charges are above the upper quartile or an outlier (high or low) in the benchmarking figures, there is a view about the reasonableness of this* • *a sensitivity analysis has been or is to be carried out on the allocation model to identify possible reasons for the differential from benchmarking, and to review the appropriateness of this*			

4.5 have the FTEs (in the denominator) been calculated reasonably? ** • *a first calculation of £/FTE charges and indirect cost rates has been made for benchmarking* • *the weighting of PGR student numbers has been considered* • *there are plans to identify how the FTE count can be made more robust and address this by August 2007 (i.e. average for institution for the year; confirming classification of staff; making estimates of staff working outside their normal place of work etc)*			
• **5 Have indirect costs been allocated robustly? ***			
5.1 have good cost drivers been used (to allocate costs to academic departments and to T, R, and O)? * • *a minimum of four to six cost drivers are used* • *there is very little use of academic staff time or income as a cost driver* • *staff numbers alone have not been used where staff and student numbers should be used* • *where staff numbers are used, all academic staff, including RAs, have been included where appropriate* • *PGR students have been included in all appropriate FTE or headcount cost driver totals* • *where possible, proxies are replaced by better allocation methods (e.g. an informed allocation of departmental costs based on Head of Department's estimates; S time collected as S(R), S(T), S(O), and S(scholarship management and administration))* • *where staff numbers are used, there is a plan to use the same FTE figure that is now used to form the denominator for Research indirect cost rate (perhaps with different weightings)*			
5.2 has the right definition of indirect costs been used? * • *COCE and the estates costs of central service departments are included* • *no exceptional items, equipment or laboratory technicians costs are included* • *the model incorporates reconciliations with the costs in the financial statements to ensure that the model has appropriately picked up all costs that are not direct*			
5.3 have FTEs been calculated reasonably? * • *the same FTE figure as that used for calculating the estates charge has been used for calculating the indirect cost rate, but some amendments have been considered (e.g. the level of PGR weighting, staff working off-campus, etc)* • *all points in 4.5 above apply here*			

5.4 is the indirect cost rate reasonable? * • *it is not above the upper quartile of indirect cost rates charges in benchmarking data* • *if so, or it is an outlier (high or low) in the benchmarking data then there is an understanding why (e.g. very low direct time, or high Support time; generally acknowledged through other exercises as a higher/lower cost institution)* • *a sensitivity analysis has been or is to be carried out on the allocation model to identify possible reasons for the differential from benchmarking data, and to review the appropriateness of this*			
6 Are the new fEC requirements for estimating and costing PI staff input likely to be met by September 2005? * * *			
6.1 will PIs have a reasonable understanding of the methods than can be used to estimate time and costs? * * * • *plans to ensure this include guidance, briefing and training events, and appropriate costing support* • *easy reference tables (e.g. with charge-out rates by grade) are planned* • *methods are being planned to improve methods by 2007 (e.g. a sub-project is being established to compare estimates, identify good practice, draw up further guidance based on this)*			
7 are other TRAC requirements likely to be met? *			
7.1 do plans for the annual time allocation process now cover the new fEC requirements for: the separate and robust identification of PGR time; the allocation of all RAs' costs to R; and a three year cycle of time allocation?			
7.2 is institutional-own-funded time on Research being collected appropriately?			
7.3 is the allocation between research sponsor type robust?			
7.4 has clinical academic time and O(CS) cost been allocated robustly? *(does this recognise the use of NHS estate on Research, where it is not directly charged?)*			
7.5 is the TR project manager working closely with finance, research services, planning, estates and academic department finance or resource managers?			
7.6 is the work being resourced adequately?			

7.7 has the benchmarking proforma been completed satisfactorily?			
7.8 has the self-assessment checklist been completed seriously?			
7.9 have the wider institutional implications of the fEC on research projects been understood?			
7.10 does the institution plan to use TRAC information internally?			
7.11 is there an appropriate mechanism in place to follow-up the QA team's visit? *			
7.12 is the allocation between NPFR and PFR robust?			
7.13 is the allocation between NPFT and PFT robust?			
7.14 when calculating the estates charges, have departments been grouped into laboratory and generic/classroom (and clinical, if applicable) in a reasonable way?			
7.15 are the direct charges for research facilities and for equipment being calculated consistently and reasonably, and in accordance with the fEC requirements?			
7.16 are there plans to directly allocate laboratory technician costs at least by 2007? Meanwhile are the direct charges being calculated consistently and reasonably, and in accordance with the fEC requirements?			
7.17 will the methods for the allocation of estates costs incorporate the use of at least four differential space costs, no later than 2007?			
7.18 will there be appropriate procedures to avoid any overcharging of staff cost and time to Research Council and (cost-based) OGD projects?			
7.19 will the systems be able to record the total fEC on each Research Council and (cost-based) OGD project?			

Appendix 2 – Benchmarking templates

May 2004 template

		Results
Surplus/(deficit) on	PFT £m	0.000
	as % PFT inc	0.00%
	NPFT £m	0.000
	as % NPFT inc	0.00%
	PFR £m	0.000
	as % PFR inc	0.00%
	NPFR £m	0.000
	as % NPFR inc	0.00%
	O £m	0.000
	as % O inc	0.00%
	total £m	0.000
	as % tot inc	0.00%
PF/NPF totals (T&R)	PF surplus/(deficit)	0.000
	NPF surplus/(deficit)	0.000
the R Funding Gap	surplus/(deficit) on instn/RC	0.000
	as % income	0.00%

Recovery from sponsors
***surplus/deficit as a % that sponsor's income**

instn/own funded	total costs	£0.000
	surplus/deficit*	0.00%
R Cncls	total costs	£0.000
	surplus/deficit*	0.00%
UK gov	total costs	£0.000
	surplus/deficit*	0.00%
EC	total costs	£0.000
	surplus/deficit*	0.00%
Charities	total costs	£0.000
	surplus/deficit*	0.00%

		Results
other NPF	total costs	£0.000
	surplus/deficit*	0.00%
Academic time allocation (excl RAs and fellows)		
allocated to T		0%
allocated to R		0%
allocated to O		0%
allocated to S		0%
breakdown of S (from TAS)		
S to T		0%
S to R		0%
S to O		0%
general/other S		0%
total (s/be 100)		0%
Support costs of Research		
Support time/cost of academic staff		£0.000
COCE adjustment		£0.000
central services costs (including estates)		£0.000
academic department Support costs		£0.000
Total		£0.000
incl PGR students costs?		Yes/No
Indirect cost rate for Research		£0
weighted PGR student numbers?		0.00
using other rates?		Yes/No
Estates charges		
Laboratory		£0
Classroom		£0
incl PGR students costs?		Yes/No
weighted PGR student numbers?		0.00
using other charges?		Yes/No

December 2004 and January 2005 template

			Results
Research FTEs			
Total direct Research time of all academic and research staff:			
	Estates:	Laboratory & Clinical	0
		Other (Generic/Classroom)	0
	Indirect costs		0
PGR students - FTEs	Estates:	Laboratory & Clinical	0
		Other (Generic/Classroom)	0
	Indirect costs		0
Research costs £'000	Estates:	Laboratory & Clinical	0
		Other (Generic/Classroom)	0
	Indirect costs		0
Research estates charge rates per Research academic FTE			
	Estates:	Laboratory & Clinical	£/FTE
		Other (Generic/Classroom)	£/FTE
Research indirect cost rate per research academic FTE			£/FTE

Information on the Research estates and indirect cost rates

a) Are there plans to review or amend the model and the calculations, which might have a material (more than 10%) effect on the rates?

	Lab Estates	Y/N
	Generic Estates	Y/N
	Indirect Costs	Y/N

b) Do you intend to apply dispensation and use the sector default rates? Y/N

c) Do the laboratory estates figures still include 'pool' laboratory technicians’ costs? Y/N

Appendix 3 – List of institutions to be visited as part of the QA process

Research intensive institutions to be visited by 31 July 2004.

(*Defined by Research income from Funding Councils and OST Research Councils for 2002-03*
(Source: HESA Finance Statistics Return Table 5b)

England	University of Reading
University of Bath	Royal Holloway, University of London
Birkbeck College	University of Sheffield
University of Birmingham	University of Southampton
University of Bristol	University of Surrey
Brunel University	University of Sussex
University of Cambridge	University College London
Institute of Cancer Research	University of Warwick
Cranfield University	University of York
University of Durham	Queen Mary, University of London
University of East Anglia	
University of Essex	**Scotland**
University of Exeter	University of Aberdeen
Imperial College	University of Dundee
King's College London	University of Edinburgh
Lancaster University	University of Glasgow
University of Leeds	Heriot-Watt University
University of Leicester	University of St Andrews
University of Liverpool	University of Strathclyde
London School of Economics & Political Science	**Wales**
London School of Hygiene & Tropical Medicine	Cardiff University
Loughborough University	University of Wales, Aberystwyth
University of Manchester	University of Wales, Bangor
UMIST	University of Wales, Swansea

University of Newcastle upon Tyne	**Northern Ireland**
University of Nottingham	Queen's University Belfast
Open University	University of Ulster
University of Oxford	

Less Research intensive institutions to be visited by 31 July 2005.

Defined by Research income from Funding Councils and OST Research Councils for 2002-03 (Source: HESA Finance Statistics Return Table 5b)

England	
Anglia Polytechnic University	The London Institute
Aston University	London Metropolitan University
Bath Spa University College	London South Bank University
Birmingham College of Food, Tourism and Creative Studies	University of Luton
Bishop Grosseteste College, Lincoln	Manchester Metropolitan University
Bolton Institute of Higher Education	Middlesex University
Arts Institute at Bournemouth	Newman College of Higher Education
Bournemouth University	University College Northampton
University of Bradford	University of Northumbria at Newcastle
University of Brighton	Norwich School of Art & Design
Buckinghamshire Chilterns University College	Nottingham Trent University
Canterbury Christ Church University College	School of Oriental and African Studies
University of Central England	Oxford Brookes University
University of Central Lancashire	School of Pharmacy
Central School of Speech and Drama	University of Plymouth
University College Chester	University of Portsmouth
University College Chichester	Ravensbourne College
City University, London	RCN Institute
Courtauld Institute of Art	Rose Bruford College
Coventry University	Royal Academy of Music
Cumbria Institute of the Arts	Royal Agricultural College
Conservatoire for Dance and Drama	Royal College of Art
Dartington College of Arts	Royal College of Music
De Montfort University	Royal Northern College of Music
University of Derby	Royal Veterinary College
University of East London	St George's Hospital Medical School
Edge Hill College of Higher Education	College of St Mark & St John
Institute of Education	St Martin's College

Falmouth College of Arts	St Mary's College
University of Gloucestershire	University of Salford
Goldsmiths College	Sheffield Hallam University
University of Greenwich	Southampton Institute
Harper Adams University College	Staffordshire University
University of Hertfordshire	University of Sunderland
University of Huddersfield	The Surrey Inst of Art & Design University College
University of Hull	University of Surrey Roehampton
Keele University	University of Teesside
University of Kent	Thames Valley University
Kent Institute of Art & Design	Trinity & All Saints
King Alfred's College, Winchester	Trinity College of Music
Kingston University	University of West of England, Bristol
Leeds Metropolitan University	University of Westminster
University of Lincoln	Wimbledon School of Art
Liverpool Hope University College	University of Wolverhampton
Liverpool John Moores University	University College Worcester
University of London	Writtle College
London Business School	York St John College
Scotland	**Wales**
University of Abertay Dundee	University of Glamorgan
Bell College	Royal Welsh College of Music and Drama
Edinburgh College of Art	Swansea Institute of Higher Education
Glasgow Caledonian University	Trinity College
Glasgow School of Art	University of Wales, Lampeter
Napier University	University of Wales Centre for Advanced Welsh & Celtic Studies
University of Paisley	University of Wales College of Medicine
Queen Margaret University College Edinburgh	University of Wales College, Newport
Robert Gordon University	University of Wales Institute, Cardiff
Royal Scottish Academy of Music & Drama	North East Wales Institute

University of Stirling UHI Millennium Institute	