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# **Costing partnerships – collaborative arrangements between HEIs and FECs**

**Report of a study for HEFCE by J M Consulting Ltd**

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### Annex: An approach to establishing the costs of partnership

A description of a costing approach that establishes institutions' costs of partnership provision (see separate file)

### Reference notes for practitioners

Technical detail supporting the approach to costing described in the Annex, including a glossary and a list of the activities carried out in support of partnership provision (see separate file)

# 1 SUMMARY

- 1.1 Supporting student teaching and learning through partnerships can be a very effective model of delivery. There can be significant benefits to students, higher education institutions (HEIs) and further education colleges (FECs). However, working through partnerships is more complex than an institution working on its own. The respective responsibilities of the partners, and the additional complexities in communication and management, need to be clear and understood by all.
- 1.2 Understanding costs is part of this. Costing can help to provide a transparent window onto a partnership's activities, especially if it is done using well-designed methods that are accepted by all involved. Cost information can also help to demonstrate equity, and can show maturity in a collaborative relationship. There are of course challenges in costing – not the least raising undue expectations or imposing burdensome systems – but these can be avoided if the costing system is properly designed.
- 1.3 Costs must be used with care – costing in higher education institutions and colleges is rarely 'precise' and the results should be regarded as indicative rather than accurate. Plans and decisions should not be made on the basis of cost information alone. However, without cost information, perceptions of the financial impact of working in partnership cannot be well informed.
- 1.4 This study was commissioned to help partnerships of HEIs and FECs to consider the costing approaches they could use to provide transparency to their partnership costs.
- 1.5 The report describes various costing methods and summarises benefits and challenges arising in costing. It illustrates different approaches that HEIs and FECs could choose to adopt. The Annex describes an approach to costing all partnership provision in an HEI or FEC that could be used as a basis for a partnership seeking to develop its own model. More detailed 'Reference notes for practitioners' are also included for those who may find this helpful.
- 1.6 Use of the costing approaches described here should help to strengthen partnerships. We believe that they can bring an increase in mutual understanding and greater transparency of objectives, operations and outcomes in collaborative arrangements.

## 2 INTRODUCTION AND APPROACH

### Introduction

- 2.1 The Higher Education Funding Council for England (HEFCE) held a consultation on its policy towards FECs that deliver higher education (HEFCE 2006/48).<sup>1</sup> To help derive the costs of collaborative activity, including the services provided by the lead institution in an indirect funding arrangement, HEFCE proposed that more work should be done on developing information on the costs of teaching. They suggested that extending the development of the Transparent Approach to Costing (TRAC)<sup>2</sup> to further education colleges might be helpful.
- 2.2 While a clear majority of respondents from further education colleges (FECs) and higher education institutions (HEIs) supported this, many institutions also thought there were other barriers to the production of clear and transparent funding agreements, mostly related to the level of costs for different activities.
- 2.3 HEFCE decided that, in the short-to-medium term, TRAC was probably not the right tool to help FECs and HEIs to understand the full range of costs associated with collaborative working, and also that it would be too burdensome for colleges. They decided to commission a special study of the costs involved in partnership arrangements for both FECs and HEIs. The study was to be compatible with TRAC methodology.<sup>3</sup>
- 2.4 The objectives for the full study were as follows:
- illustrate, by way of representative case studies, the types of costs incurred by HEIs and FECs in partnership working; HEFCE would also like to identify the costs and benefits (to HEIs and FECs alike) of working in partnership to teach higher education (HE) programmes or courses, as opposed to HEIs delivering HE programmes themselves;
  - help HEIs and FECs to understand each other's perspectives about the costs incurred in partnership working and hence contribute to sustainable partnerships between HEIs and FECs;
  - develop advice and guidance for partnerships that want to investigate the costs associated with delivering HE programmes in individual HE/further education (FE) collaborations;

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<sup>1</sup> *Higher education in further education colleges: Consultation on HEFCE policy.* See also *Higher education in further education colleges: Outcomes of the consultation*, prepared for HEFCE by Professor Gareth Parry and Dr Anne Thompson.  
[http://www.hefce.ac.uk/pubs/rdreports/2007/rd17\\_07/](http://www.hefce.ac.uk/pubs/rdreports/2007/rd17_07/)

<sup>2</sup> <http://www.jcpsg.ac.uk/guidance/>

<sup>3</sup> Extract from HEFCE Circular letter 27/2007.

- identify any risks and opportunities associated with a study of this kind and with extending costing methodology more widely to HE/FE partnerships; identify the potential for future costing work.
- 2.5 Participants in the study saw value in the support it might provide, in particular to help to encourage institutions to move forward in costing; to provide a useful checklist and some good practice; and to stop individual institutions from having to consider the issues *ab initio*.

## Scope

- 2.6 The study covered teaching and other work linked to teaching carried out in collaborative arrangements. These involve students directly funded or indirectly funded in FECs, and take into account a full range of partnerships involving:
- joint curriculum development, franchising (curriculum developed by an HEI), or development by an FEC;
  - joint delivery agreements or sole delivery (by an FEC);
  - HEIs and FECs working as part of a consortium, lifelong learning network (LLN), new 'university challenge' HE centre, or other strategic partnership alliance (or those working on a more ad-hoc opportunistic basis). The study did not separately look at the activities involved in these formal partnerships, and did not cost LLNs or any costs associated with running them as separate organisations.
- 2.7 A range of FECs were consulted – those with partnerships with more than one HEI, those with specialist and those with a broader range of provision, those offering a full range of HE courses (Higher National Certificates (HNCs), foundation degrees, undergraduate degrees, postgraduate taught degrees) and those offering just a couple of courses. It covered FECs whose HE provision amounted to a significant part of their activity as well as those whose HE provision was much smaller. Similarly, the HEIs consulted during the study included those who have 20-30% of their provision delivered through FECs, as well as those with very little.
- 2.8 Partnerships vary widely. Colleges can have extensive quality assurance (QA) systems of their own, operating with multiple validating partners (including HEIs and Edexcel). Other colleges might work with only one HEI, and rely on it for a significant level of pedagogic, quality assurance and student support. Geographical proximity of partners varies. Strategic reasons for working in partnership differ. Organisational and operational processes differ. All of these factors will affect the type and levels of service that are provided by the HEI and by the college respectively.
- 2.9 In this study it was recognised at an early stage that costing models need to recognise this wide diversity in partnership models and in institutions.

## Terminology

- 2.10 There is very different understanding of the meaning of different terms among individuals in HEIs and colleges. Definitions and explanations of key terms are given in the 'Reference notes for practitioners'. Some phrases are highlighted in the following paragraphs.
- 2.11 Costing in this report means activity-based costing (unless stated otherwise) – building up the costs of the resources used for the range of services and activities that support one specific type of HE provision or agreement. This is different from the costs held in institutions' management accounts, which normally reflect just each department's own costs but with each department's total covering the full range of activities. It is also different from capital costing (building up the expenditure of a building or piece of equipment).
- 2.12 Costing is different from funding or income analysis. Establishing the income available for a particular area of provision, part of which is then passed to an FEC partner in indirect funding arrangements, is different from building up the costs of the resource used to deliver and support that provision.
- 2.13 This report also focuses on full economic costs – building up a full cost of an activity so that it includes academic department, central service department and estates costs, and as well includes a return for financing and investment. This is different from contribution costing (where only the costs of academic departments are generally considered, and the difference between those and income becomes the contribution to central service departments, estates and a fund for financing and investment).

## Approach

- 2.14 The study was taken forward in two stages. A preliminary study had the aim of defining the main study in more detail, in particular the types of cost outputs and models that could be developed. This was necessary because of the complexities of the types of funding and collaborative relationships and the wide choice of costing models that could be introduced.
- 2.15 The work was conducted through:
- a conversation with a number of institutions to identify the nature of their partnership arrangements, their particular interests in costing, and any costing models that they currently use;
  - discussions with other institutions that were known to have an interest in, or experience of, costing in this area; and conversations with various sector bodies, e.g. Association of Colleges, Learning and Skills Council (LSC), Association for Collaborative Provision of Higher Education in Further Education in England (ACP), members of the Mixed Economy Group;
  - a visit to some of these institutions to inform further the costing models that could be developed.
- 2.16 A number of HEIs with collaborative partnerships were contacted, 14 of which participated. More than 20 FECs participated. These included a diverse range of colleges – those with very significant HE provision, and those with very little; colleges with only directly funded provision (and others with none); colleges operating with one partner and others operating with many partners.

- 2.17 A structured interview was carried out (by phone) with at least one senior manager in each institution. This was typically the head of HE in an FEC, or vice-principal, and the head of FE partnerships or planning and finance managers in a university. This discussion had the objective of identifying the nature of their partnership arrangements, their particular interests in costing, and any costing models that they currently use.
- 2.18 The diversity of views from respondents was of considerable use in planning and carrying out the study.
- 2.19 Visits were carried out at a number of HEIs and FECs to discuss their experiences in costing in more detail. One HEI held a meeting that involved four of their partner colleges, at which costing approaches were discussed.
- 2.20 A number of participating institutions provided material for case studies. The case studies in this report are based on one or more institutions' experiences, but do not seek to replicate them exactly.
- 2.21 A workshop with institutions to discuss alternative approaches to costing was held to identify good practice, and to help to ensure that the study produced useful outputs for institutions. As a result of this workshop, it was agreed that the technical part of the work should focus on costing all provision in a college and in an HEI, and other areas of costing (course costing, etc) would not be covered in depth.
- 2.22 Presentations were made to the Association of Colleges and the ACP (to both a board meeting and an executive meeting).
- 2.23 The consultants are very grateful to all those who participated, and in particular to those who provided material for case studies and who spent time in discussing their experiences to help with the study.

## This report

- 2.24 This report describes:
- What should be costed and why (Chapter 3). It establishes the difference between funding, pricing and costing. It describes alternative approaches to costing that focus, for example, on establishing value. It explores the types of benefits that can accrue from different types of costing exercises, as well as the main challenges that need to be addressed.
  - Approaches to costing (Chapter 4). Course costing, costing an activity or service, and costing all activities necessary for partnership provision are described. These are illustrated with examples of different models and approaches.
- 2.25 An Annex then provides a step-by-step description of a costing approach that establishes institutions' costs of partnership provision. This is supported by a technical document – 'Reference notes for practitioners' – that gives technical detail supporting this costing approach. It includes a glossary and a list of activities and resources that might be used to support partnership provision.

### 3 WHAT SHOULD BE COSTED AND WHY

#### Views on costing

- 3.1 A clear majority of the respondents to the 2006 HEFCE consultation supported the costing of collaborative provision, but there was a wide range of responses.
- 3.2 Many institutions agreed that costing would be useful, but with caveats. The ACP gave “broad agreement – with the important caveat that costs of teaching do not equate to the costs of collaborative activity”. This view was echoed in many of the responses to HEFCE from institutions that commented on the diversity of activity, and that the difference in contracts and conditions of service between HEIs and FECs and among individual FECs would need to be factored into TRAC (if that approach was to be used).
- 3.3 One respondent to the HEFCE consultation commented that: “While developing information on the cost of teaching will assist in identifying the cost of collaborative activity, thereby assisting FECs in allocating the appropriate level of resources to support HE activity, we would be concerned if this were deployed to question the agreed funding arrangements between FECs and HEIs.” Others had concerns about the additional administrative burden (of TRAC): “we would, though, wish to avoid an unnecessary level of detail”.
- 3.4 Early in this study, it became apparent that individuals look at costing from a number of different perspectives.
- 3.5 Transparency in funding is considered important, both by HEFCE and by individual institutions in collaborative partnerships. It is not, however, universally accepted that transparency in costing is as necessary. Some institutions are happy with their relationships and do not feel that greater transparency in costs would improve this. They feel that the funding amounts and proportional splits are fair (often informed by comparisons with other institutions and partnerships), or (in some FECs) the amount of collaborative provision they have is so small that it is not worth the effort, or they are “not in it for the money” – they are receiving such a range of other benefits that as long as the funding looks reasonable, that is sufficient.

#### Pre-requisite to costing – understanding funding

- 3.6 Other FECs are primarily interested in understanding how the funding is allocated. As a response to the HEFCE consultation stated: “The issue to be addressed is not how much it costs to teach HE in FE colleges but how much the HEI retains for the services it provides.” They are more interested in understanding the cost to them of the HEI retaining part of the funding. This is defining ‘costs’ in a way that really represents the ‘price’.
- 3.7 This cost is often derived from a ‘funding top-slice’ or ‘service charge’. Many indirectly funded FECs are, appropriately, interested in a better understanding of this:
  - What income is the HEI receiving that is relevant to their provision?

- What income is given to the HE/FE partnership manager to distribute to colleges?
  - What proportion of total funding is being retained by the HEI?
- 3.8 Once these questions are understood, then it is possible for institutions to move onto areas where costing can help: what activities and resources does the HEI need to support this provision; what proportion of funding is represented by the costs incurred by the HEI and the FEC respectively. But without an understanding of the funding, it is unlikely that institutions will be able to focus properly on understanding costs, and unlikely that they will be able to use the cost information properly in taking forward their collaborative partnerships. This must be a first priority – understanding funding, without any costing work – which should, by itself, bring significant transparency (and hopefully perceived equity) to a collaborative partnership.
- 3.9 An understanding of funding (specifically the HEFCE funding and fees that are received by the HEI for the collaborative provision in an indirect funding arrangement) is a necessary pre-requisite before costing work is considered.
- 3.10 The significant majority of those we talked to already have a good understanding and agreement on funding. However, some participants indicated that this was their major concern. While this study did not look at funding issues, we note that to tie in with subsequent costing work, it is important that a holistic, or comprehensive, view on funding is taken, i.e. all funding is considered:<sup>4</sup>
- fees, including variable fees, receivable by the institutions for the students recruited, or those completing;
  - standard unit of resource (fees plus grant), which is calculated for each HEI based on their profile of students and which takes into account:
    - the assumed fee;
    - the number of full-time equivalent (FTE) students;
    - the weightings to reflect subject-related factors (laboratory vs classroom subjects for example);
    - London weighting;
  - the institution's tolerance band (a plus or minus 5% margin around standard resource which is designed to provide flexibility and to minimise burden in the application of the funding);
  - targeted allocations such as those for widening participation, part-time study and foundation degrees;
  - other allocations such as capital funding.
- 3.11 HEFCE has stated that formal written agreements should make clear the amount of total HEFCE funding – including premiums (now called targeted

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<sup>4</sup> HEFCE's current approach to funding is described in the HEFCE publication *Funding higher education in England: How HEFCE allocates its funds* (September 2008/33).

allocations) and access funds – that is being allocated to the HEI in respect of these students.<sup>5</sup>

3.12 When institutions in partnership arrangements are planning and agreeing their funding allocations they should also consider a range of other issues:

- how allocations of capital funding (e.g. the FEC proportion of the capital investment fund)<sup>6</sup> should reflect need, size or strategic development in partner FECs;
- whether actual or average scholarships/bursaries should be taken into account;
- the impact of under-recruitment on the HEI's tolerance band and therefore future levels of funding (and student numbers) and on the HEI's long-term contract with HEFCE;
- the impact of non-completions on fee income and on the HEI's tolerance band;
- levels of irrecoverable fees;
- the HEI's policies on retaining income at the centre (to cover central service department and estates costs), and on covering the HE/FE partnership unit's costs, prior to determining the amount of money available for distribution to partner colleges;
- cash flows;
- stability in planning.

3.13 These broader considerations help to ensure that funding decisions are made with a more complete understanding of the financial environment surrounding this provision.

3.14 The allocation of this funding among partners should be done in a way that is transparent and equitable. This will depend on the maturity and nature of the partnership.

3.15 It is likely to be informed primarily by the strategic reasons for participating in the partnership (the perceived benefits), as well as the type and level of services provided:

- Some partnerships operate with 75% or 85% HEFCE grant/fee passed to FECs where the college recruits and does all the teaching, and the university develops new courses, validates new awards, provides quality assurance, and provides HE funding and management information processes and systems, publicity and library facilities.

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<sup>5</sup> *Higher education in further education colleges. Indirectly funded partnerships: Codes of practice for franchise and consortia arrangements* (HEFCE 00/54). This is being updated in 2009 following the review of HE in FECs. The revised guidance will not differ substantially.

<sup>6</sup> An indicative capital allocation for FECs which are indirectly funded is given within HEIs' capital allocation.

[http://www.hefce.ac.uk/pubs/hefce/2008/08\\_04/](http://www.hefce.ac.uk/pubs/hefce/2008/08_04/)

- This percentage can be reduced where the university shares in the teaching load.
- Alternatively, a university might only be providing validation/accreditation services (to a directly funded organisation). A set fee (covering partnership/approval and course validation) plus a fee per student (for registration/award) might be charged for this.

“The partnership is mature, and the course is well established and running well. We want bare bones validation – a proportionate level of intervention by the university.”

- More complex models exist of course. Universities can develop menus of charges for different types of service. Some are considering separate funding arrangements for new course development/validation (as these costs are incurred upfront rather than on a per student basis, and there is a risk of investing in courses that do not run).
  - Other universities have a policy of passing on more funds to their consortium partners than they do to those in less strategic partnerships, although the levels of service are the same. This recognises the strategic nature of the consortium and the value added through that relationship.
- 3.16 Costs can provide valuable information when allocations of funding among partners are being considered. In mature partnerships that are not purely commercial arrangements the availability of cost information to all partners can help to address any perceived imbalances of power, and improve perceived equity.
- 3.17 However, costing is just one piece of information to consider. It should never drive or dictate decisions (on funding allocations, or even whether to continue to support the provision at all).

## Pricing

- 3.18 Costing and pricing are linked but are not the same. The extent of cost-based pricing is limited in higher education teaching. Information on costs can, however, inform prices (e.g. suggesting a minimum level) and examples of this can be found in nursing and allied health professions (the benchmark prices).
- 3.19 In partnership, costs can inform levels of validation charges made on directly funded provision, but as important is the market price for these services. Often there are fewer strategic reasons for a directly funded college to have a partnership with their validating HEI, and value for money and competition can be more important than the long-term relationship between one university and an FEC. Some FECs, with significant directly funded HE provision and strong quality assurance arrangements of their own, are only interested in paying the lowest price for the validations they had to commission from HEIs. They are not interested in the costs incurred by the HEIs, only in the price the HEIs are charging for (in effect) a good but minimal level of service.

- 3.20 However, even in these cases, it is still of value to the HEI to understand the full economic cost of the services they provide, and to understand whether these (sometimes 'commercially provided') services are in surplus or are being subsidised.

## Alternatives to costing

- 3.21 An alternative approach to costing was taken by a group of institutions that have paid particular care to transparency in their collaborative arrangements. Having reviewed how best to achieve transparency in arriving at the funds available for distribution, they considered how to inform the distribution of these funds. Instead of calculating costs, they recommended distributing the funding according to value.
- 3.22 Their main reasons for not using costs were that:
- costing is not a science – it is full of assumptions and averages;
  - it reflects historical funding and spend, which are probably no longer valid by the time you have worked them out;
  - it could lead to cost competitions between institutions (each designing costing methods that justify their position).
- 3.23 Their valuation method looked instead at the proportionate value of the contribution that each partner made to the provision.

### **Example – a valuing approach**

A funding transparency group was set up by the Greater Manchester Strategic Alliance (GMSA) to look at funding arrangements for foundation degrees: how transparent they are, whether they match the code of practice, the basis of the HEI top-slice/charges, and the services covered by each partner.

The researcher considered how costing could help, but felt that costs are too full of assumptions, estimates and averages, and tend to result in 'cost competitions' between institutions ("costs can be generated to prove any point an institution wishes to make about equitable distribution of funds").

Instead, he described an approach to quantifying (valuing) the tangible and intangible elements of a foundation degree. This covered identifying all the components involved in the design, development and operation of a foundation degree programme; assigning a value to each component (equalling 100 overall); then distributing the values to the collaborating college and HEI, according to the contributions they were likely to make.

The components included: development; validation and quality assurance; validation and branding; marketing, recruitment (taking into account risk) and registration; teaching, learning and assessment; information and support services; central administration.

Valuing each component was to be done specifically without regard to cost. It was recognised that giving a value to each component would therefore be entirely subjective. "That is the beauty of a valuing approach: everything flows from negotiations. There are no right answers, only the possibility of an agreement respected by the partners."

It was considered that the main benefits of this approach would be to inform the distribution of funds, based on contribution to the benefits received by the partnership, and at the same time to give staff a better appreciation of what each partner contributes to a collaboratively run programme.

- 3.24 Another partnership assessed the quantitative and qualitative aspects of the benefits accruing to partners in the consortium.

#### **Example – costing the benefits of belonging to a consortium**

A university commissioned a review that would cost the benefits of participation in a consortium. This looked at both qualitative and quantitative aspects, and was based on an understanding of the funding, the activities of the consortium, an in-depth review of library and e-learning resources provided to members, and a survey of and discussions with consortium members.

It produced 'quantitative benefits' based on the funding per student received by members (grant, fees and capital funding), a per capita allocation of library costs to reflect the facilities made available to members by the lead university, and a list of other benefits that could not easily be quantified:

- the economies of scale derived from consortium membership, such as corporate marketing of courses, combined purchasing power and pursuit of supplementary funding opportunities;
- the high student retention rates within the consortium (a higher non-completion rate would mean lower levels of income available to members);
- sharing development costs for new courses and market intelligence on new practice.

In addition, 'qualitative benefits' were described which included:

- the extensive range of library services made available to members' staff and their students;
- membership of a HEFCE-funded Centre for Excellence in the university which offers extensive online facilities, the development of e-mentoring, support to particular aspects of course provision, the commissioning of research, and development of a journal in the discipline area.

Telephone interviews were conducted with a number of partner colleges which highlighted value-added services (e.g. regular meetings to aid networking and standardisation of processes; well-run fundamental 'basic' services (e.g. support in external quality assurance inspections); and some areas where improvements could be beneficial (e.g. changes to summer school arrangements).

Overall, the review showed that the consortium was perceived to be a quality service provider and was still viewed as being competitive on price.

- 3.25 Although these approaches are of great interest, there are still considerable benefits in obtaining cost information. Most institutions which participated in this study felt that cost information would be of use to them. Of course there are pitfalls to be avoided when costing (some of which were highlighted by the GMSA work), and we describe them after benefits, below.

- 3.26 As we stated above, cost information, even if robustly prepared, should not be the only piece of information that drives decisions about funding or

arrangements. It is best used along with assessments of benefit and risk, and an understanding of strategic priorities and plans. A valuation approach such as that described above, or such techniques as the 'balanced scorecard'<sup>7</sup> (with costs being only one piece of information), can help to support good management decisions. They help partners to understand (and elucidate) objectives, benefits and risks. However, these approaches do suffer from a lack of an economic or financial basis and are entirely subjective. Information on costs (a quantification of resources contributed by partners) can help to give a firmer basis to negotiations.

## Costing for monitoring, planning and decision-making

- 3.27 There are a whole range of costing systems that help with monitoring, planning and decision-making. This study does not cover basic institutional costing systems within accounting, budgeting and resource allocation frameworks, although there are strong connections with these and the activity-based costing systems described here.
- 3.28 In particular, space utilisation systems and space charging can provide good cost information. A manager from one college commented that this would "Force better use of space. Significant capital investment might be avoided." However, the costing methods discussed in this report do not cover these types of systems (it is assumed instead that estates costs are apportioned at a high level when attributing them to different types of provision – see 'Reference notes for practitioners').
- 3.29 Resource allocation systems (and workload planning models) can help to incentivise academics and lecturers to carry out work, or not to carry it out. They help to determine the amount of expenditure available in a department, and therefore the level of actual spend. While full economic costing will give good information for strategic planning and decision-making, the different rules and allocations in the full economic cost model and the institution's resource allocation model should be clearly understood so that perverse incentives do not exist. For example, at an institutional level, working in partnership may be achieving strategic aims; however, at a departmental level, academics may be disincentivised because the time they are actually putting in is not sufficiently recognised in their resource allocation system. Full economic costing can help to expose these areas of conflict and encourage them to be addressed.

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<sup>7</sup> The concept was originated by R S Kaplan and D P Norton. See in particular *Balanced scorecard: translating strategy into action*, 1996, Harvard Business School Press.

## What should be costed

- 3.30 This study identified three main areas where costing could be of value:
- i. a course – including some of the new ‘employer engagement’ initiatives;
  - ii. an activity or service – e.g. the costs of validation in an HEI, or the costs of different levels or types of service or an HE centre;
  - iii. the activities and resources covering all collaborative provision in an HEI or in an FEC.
- 3.31 In discussion, institutions usually indicated that they were interested in only one or two of these, but their interests varied. We cover all of these approaches in Chapter 4. However, the main focus is on (ii) and (iii). Examples of course costing (i) are given, but the focus in the Annex and the reference notes is on the second two areas listed above: costing an activity and all provision, in an HEI and/or an FEC.

## Benefits of costing

- 3.32 There are many benefits that can be gained from an improved understanding of costs. These can be felt by both HEI and FEC partners. Most of the quotations given below were provided by institutions that contributed to this study through telephone conversations or in meetings.

### **Strengthening relationships**

- 3.33 “The best of the(se) mature relationships are characterised by equity, integrity and honesty” – Quality Assurance Agency for Higher Education (QAA), *Code of practice for the assurance of academic quality and standards in higher education*.<sup>8</sup>
- 3.34 There can be considerable friction in a partnership if there is lack of clarity – it is likely to lead to opportunities for misunderstanding. As a head of HE/FE collaborations said: “Nothing gets in the way more than the financial arrangements – because of their lack of transparency and clarity.” Bringing costing and income issues out into the open, and introducing a way of examining these collectively, can remove much of this friction.
- 3.35 Costing can help to show that partners are equal. The perception that power is uneven in the partnership can be mitigated with transparency of costs – it provides “proof of mutual benefit, trust, reciprocity”.
- 3.36 Some FECs were not yet part of a strong partnership and felt that transparency – i.e. better cost information – from their partner HEIs would improve understanding and therefore trust between them. Holding free and open discussions about funding distribution, informed by cost, would prove that they were really equal partners in the partnership and that the partnership was mature or strengthening (without showing opportunistic characteristics). There

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<sup>8</sup>*Code of practice, Section 2: Collaborative provision and flexible and distributed learning (including e-learning)*, QAA, September 2004, para 17

would be no question of 'exploitation' – it could only enhance a healthy relationship.

3.37 One college manager commented that:

"We want the (university) school to value what we are doing and to support it. We don't want a passive role. For example, we make a significant contribution in terms of specialist rooms and facilities that is not recognised in the current service-level agreement." An FEC commented that: "[x] university (our main partner) is getting more transparent – we see this as sign of a strengthening relationship. We are a partner, not a franchisee."

3.38 Some HEIs feel pressure to justify their 'top-slice'. By calculating costs (even broadly) they feel that they would be in a better position to discuss the distribution of funding with their partners. Rumours and mutterings about "what are we getting for the top-slice?" could be countered with good quality information. And they find that these discussions tend to be cyclical in nature, with new FEC principals interested in opening up discussions that have been dormant for several years.

3.39 More broadly, costing is felt not only to remove misunderstanding about cost burden and income sharing, but also improves a common understanding of the aims and objectives of the partnership: "it provides an important channel of communication".

### **Strategic planning**

3.40 Some FECs had recently experienced considerable growth in their HE provision and hoped that this would continue. They wished to ensure that they fully understood the real financial position of this (now significant) area of their provision, and any strategic resourcing or subsidisation issues around it. This information would contribute to their strategy about why they were doing HE and help to ensure that there are no unintended financial consequences.

3.41 A college manager commented that the recent government announcement on additional student numbers (ASNs) – severely limiting the ASNs that are now available – has created a less stable planning horizon: "Understanding the costs behind our HE provision in our strategic plan becomes more crucial than before. We can't subsidise our provision; we must identify ways of growing that are sustainable."

3.42 Another manager commented that he "welcomed costing in a frozen world...anything that improves the collective understanding must be good".

3.43 The head of HE/FE partnerships in a university felt that: "We now need to make changes to our business plans – everything was predicated on growth. We are looking for a way to get over what is a very difficult two-year period."

3.44 In some HEIs, the amount of their provision delivered by FECs has become significant (above 15%). They consider it important to have a very good understanding of their costs in an area of huge strategic importance but which is non-standard, with multiple partners and in some respects carrying higher risks than with their on-campus provision.

3.45 One university, with 67 foundation degrees delivered in partnership with colleges, asked: "How many are successful, vulnerable, not run at all? How much has this cost?"

- 3.46 The QAA has included a precept in its code of practice which states that: “Collaborative arrangements should be fully costed and should be accounted for accurately and fully”.<sup>9</sup> This is to remind awarding institutions that financial risks associated with collaborative or flexible or distance learning arrangements can be considerable.

### **Equity and an understanding of what services are being provided**

- 3.47 A consultation paper issued by HEFCE<sup>10</sup> stated that:
- “Colleges tell us of cases where it is still unclear what services are being provided by the HEI, and how the costs of services have been determined. HEIs also may not be clear about the costs, but most believe that they do not recover the full costs involved.
- We do not think that lack of clarity and transparency is defensible in indirect funding arrangements.”
- 3.48 Most institutions interested in costing were not driven by the hope or expectation of receiving more funding (i.e. that their costs would ‘prove’ that they should receive a higher proportion of the available funding). Many FECs were interested in understanding what they were getting for the top-slice funding they were experiencing, and both HEIs and FECs wanted to ensure that the top-slice was ‘fair’.
- 3.49 A senior manager at a college asked:
- “What can the college expect from this top-slice...it is not clear what it buys. It’s a lot of money to lose.”
- They want to have an understanding of the delivery model they can expect from their partner university.
- 3.50 A university director in charge of education partnerships commented:
- “Our colleges want more cost information. Although we set out what we are doing for the top-slice in the annex to the contract, this only gives broad headings. It gives a certain level of reassurance, but perhaps it doesn’t justify the large sums we retain, particularly in partnerships or programmes with large numbers of students.”
- 3.51 The process of costing can improve partners’ perception of what is required from the university to run an HE programme in a college, and also can bring a mutual understanding of the FEC’s teaching, managerial and quality assurance environment – staff contracts, attitudes to students, contact time, etc.

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<sup>9</sup> *Code of practice*, QAA, 2004, page 11, Precept A6

<sup>10</sup> *Higher education in further education colleges: Consultation on HEFCE policy*. HEFCE 2006/48

## Pricing

- 3.52 Some FECs are experiencing higher prices (top-slices or validation charges) from HEIs (compared with other institutions) and wish to understand why, and to ensure that they are getting value for money. A principal at an FEC commented that: “we were simply very concerned at the levels we were being charged for validation for our directly funded students”.

### **Example – setting prices for validation services**

An FEC was interested in understanding the costs of the services being offered to them by their partner university. The college had a significant amount of provision, which covered a wide range of levels of HE, was mainly directly funded, and was taught at a distance from the university.

A costing exercise on the validation services offered to them was carried out by the university. This led to discussions about the type and level of the quality assurance processes that were needed to support the college’s provision, and about the actual use the students made of the university library, information technology (IT) resources and students’ union facilities (irrespective of their eligibility to do so). It was difficult to obtain agreement on the extent that these services and resources were required, and therefore whether their costs should be included (and recovered through a charge to the college).

In the end, straightforward commercial decisions were taken by the institutions and prices were market-based. The costing process therefore informed the partnership arrangements, but did not directly drive the price eventually charged.

- 3.53 Some HEIs are interested in introducing a more appropriate pricing structure. This includes offering:
- a menu of services (opt in/opt out);
  - opportunities for enhanced services (e.g. opportunities for further staff development, joint research activity, collaborative recruitment of international students, etc);
  - variable levels of services (e.g. services and prices varying for different levels of quality assurance); or
  - prices based on a better understanding of cost behaviour (variable and fixed elements, both in a year and across the lifetime of a course or partnership). This often includes making a separate charge for the initial validation, or charging it throughout the life of a course on a per student basis. Understanding fixed costs also helps to inform decisions about setting minimum levels of ‘service charge’ that are not directly related to student numbers/income.

## **Effectiveness and efficiency of delivery**

- 3.54 A college manager stated that they would wish to focus their costing on the student experience: “it is all about progression for level III students”. Another college commented that: “the costing exercise is more important than the cost outcome – it should be academically driven; the aim is to cast a light on what is

happening”. A university commented that: “Our focus is on the service we offer to our students”.

- 3.55 As part of this, they wished to ensure that they were properly resourcing or managing the provision overall, and wanted a much closer insight into the activities that were being undertaken and the resources required: “Are the right people working in the right way?”.
- 3.56 The deputy principal (finance) at one college was seeking to resolve the question of: “How can the college organise its provision to create a proper experience for the learner when we lose money (from the top-slice)?”.
- 3.57 The same is true for HEIs. They want a better understanding of the services they are providing. Costing would give them this understanding, as it requires a good knowledge of activities and resources. As well as allowing a more flexible pricing policy, HEIs often want to ensure that they are:
- not over-specifying the support they are providing;
  - offering standard levels of services across their departments.
- 3.58 Many HEIs have significant internal variation of services within their institution. If one department is doing a lot less (on validation, for example) does this mean that the quality of their service is less? Or that other departments may be doing work that is not needed? Colleges are very diverse, and ‘one size may not fit all’ in terms of the type and level of services they should be receiving. An HE development manager in a college believed that their partner HEI “has a good product but it is over-designed”. This was echoed by a vice-principal in another college: “our partner operates a heavy-handed validation model”.
- 3.59 Many HEIs wish to understand the service and resource implications of changing how their partnership provision is managed and organised.

#### **Example – examining the efficiency and effectiveness of processes**

A university with significant partnership provision operates with a very small central partnership unit. The support provided to partners is highly decentralised, with each faculty holding responsibility for quality assurance and support for programme delivery. Funding, student finance and student affairs, and marketing are dealt with by separate central units of the HEI, some of which deal directly with their counterparts in the partner FECs, although others use the small central partnership unit in the HEI as an intermediary.

There are university regulations that determine the processes that should be in place in each faculty, but these can be interpreted differently in each (for example, in deciding exactly what level of input is required from faculty managers in quality assurance). Colleges find that this varies by faculty.

The central partnership unit recognises that good communication is an essential feature of good collaboration and is continuing to seek to improve methods within the HEI, with the FECs and between the colleges.

The QAA’s Integrated Quality and Enhancement Review (IQER) process of development engagement and summative review that the partner colleges are undergoing is not only bringing the management of HE into sharper focus within the colleges, but is also having an interesting impact upon the HEI in bringing to light important issues which previously had not received as much attention. For both the

partner colleges and the HEI there are extra resource implications for the strengthening of processes.

University management has asked consultants formally to carry out a small-scale review of the efficiency of the partnership processes and management. This is likely to examine what activities are being carried out and by whom. As an integral part of this, managers are likely to be interested in the cost implications of current and alternative arrangements.

### **Organisation models**

- 3.60 Some FECs had specific structural issues that they wished to consider – in particular, should they set up a separate ‘HE campus’ or management unit.

“We are expanding – what is the critical level of activity at which we should consider setting up an HE centre, when we can afford to make the investment to staff and resource it?”

### **Changing behaviour**

- 3.61 Some HEIs recognise the usefulness of costing exercises in changing behaviour. Resource allocation models play a key part in this. Some university resource allocation models do not allocate any funding from collaborative provision to academics (it is retained centrally to cover quality assurance and registration). The academics then say: “we shouldn’t do collaborative provision because it costs us money”. Heads of academic departments can also believe that work with FECs is burdensome and “not profitable”.
- 3.62 Costing can give a clear indication of the real position – the type and location of the work being done and the resources that are being used. It can highlight the need for adjustments in internal funding mechanisms to recognise resource implications and to promote partnership working at all levels.
- 3.63 Conversely, costing helps to ensure that enthusiastic academics make decisions about developing new courses for delivery by FECs in an informed way (i.e. understanding the costs of initial development and validation which are incurred whether or not students can be recruited). The institution can then change internal charging or resource allocation systems to influence behaviour (i.e. to manage the development of this provision better).

### **Example – informing resource allocation systems**

A costing exercise in a university found that faculties are not being reimbursed for management and administrative work that they do to support partnership provision. Although much of the work is done through link tutors who are recruited specifically, there is still a decentralised quality assurance and management function that is not considered in the current resource allocation process.

### **Lecturers’ engagement in scholarly activity**

- 3.64 There are often tensions surrounding the amount of time available for staff delivering HE in FECs to undertake scholarly activity. This type of costing exercise can expose and quantify this, and provide a forum for taking forward discussion with the HEI and with the college management.

3.65 As one director of partnerships in a college commented:

“It is important for colleges to do a similar costing exercise to HEIs. They need to be able to account in detail for what they do”. He continued by explaining that if they can show the time that the HE provision takes, it provides an opportunity to show that there is not enough time for engaging in scholarship and research.

#### **Using a ‘standard’ methodology**

3.66 Many institutions showed considerable interest in using a costing methodology that is externally designed or specified. This, it was felt, would remove some of the more subjective elements that might otherwise be introduced which could distort the figures in favour of one party or another. It would introduce consistency when costs were being identified across several partners in a university’s FE activities. And it might also provide some scope for comparisons across universities and colleges.

### **What challenges to costing need to be addressed?**

3.67 There are a number of risks in costing. Strategically, expectations can be raised unrealistically, which might not add positively to the development of the partnership relationships. Or time can be wasted on undertaking costing exercises that either die away or become so burdensome or overwhelmed in detail that the information is never used.

3.68 Unforeseen consequences or consequential damage should be avoided, and the cost figures produced at the end of the costing exercise should be fit for purpose – they should appear right and fair.

3.69 The costing approach should therefore minimise risks and plan to address challenges. These are grouped under two headings below: strategic and technical.

#### **Strategic challenges**

- Expectations need to be managed – the costing work is about identifying costs. This is not automatically going to lead to any decision on funding, and certainly not result in every (or any) under-funded party receiving more income, or that all costs of each partner will be covered:

A university manager commented that they expected to find that both sides of the partnership were incurring costs that were higher than the total funding. As they currently operated a simple but clear funding method, which was accepted by all partners, he felt that: “there was not a lot of benefit (to the funding arrangements) if they costed what was going on” and it would only be done for other reasons, such as strategy or efficiency;

- There should therefore be clarity on the aims of the exercise – and it is more helpful in the longer term if it is possible to express these in terms of services or levels of support, rather than a means of allocating funding.
- Frank and open discussions should be maintained, but participants in the costing exercise should still be prepared for some heated conversations.

“What we (the college) are buying needs to be the same as what they (the university) are selling.”

- It is important to recognise that costs give only one piece of information, and not generally the most important one. Costs do not determine the success of a partnership: institutions are not generally members of partnerships for financial reasons. What are generally much more important are the strategic reasons for the partnership, such as widening participation, growth, diversity and breadth of provision, flexibility of provision, progression, links with local employers, etc.
- Costs, risks and value are all of importance – we cover only costs in this study.
- Costing often looks at current or past activities and spend, which in turn may be significantly informed by historical funding levels. This does not mean that future spend or resourcing should be at the same level, and the cost information produced needs to be considered in this light (comparing costs internally and between institutions is useful here).
- The costing burden should be minimised. Unnecessary detail should be avoided, and the time frame of the costing exercise planned carefully (often costing is best done as a one-off exercise, rather than an annual activity).
- One of the aims of costing should be to maintain or increase trust among partners. Clarity and agreement on aims will help, as will communication and a clear review/decision-making process once the cost information is available.
- In addition, openness is important. Decisions about confidentiality and disclosure should be made at the beginning of the exercise. This would cover information-sharing between two partners, among all partners within a strategic partnership alliance, and with the wider sector.
- HEIs, colleges and partnerships differ widely in terms of their history, size, mission, strength of partnership working, involvement in HE, and so on. A costing approach needs to recognise these differences, at the same time not becoming too burdensome to use, and maintaining sufficient comparability in the cost outputs.
- Senior management support is key. However, the detailed planning and work should be undertaken at appropriate levels (in FECs, the principal can sometimes be personally involved in agreeing how the costing should be done, and this can lead to a considerable amount of elapsed time between meetings, which can reduce interest in and commitment to the costing exercise).
- Where possible, reliance on one individual to lead and carry out the costing exercise should be avoided. These exercises can take months to carry out, and the departure of one key person without a clear deputy to carry on the work can jeopardise its success and waste the effort that has already been made.
- Producing data on costs can lead to more questions than answers. Careful planning of both the costing process and the potential use of the data should minimise this.

- Information can be misused. Some of the assumptions and data used in costing studies can raise contractual/equivalence issues that are of great interest to trade unions. This can be ‘fraught with danger’ – institutions, if unwary, could ‘open cans of worms’. Again, careful planning can help to avoid this.

### **Technical challenges**

3.70 There are various technical challenges to be addressed during any costing exercise. These are briefly described here. The approach to costing described in the Annex and in the reference notes is designed to address these challenges.

- Costing is an art, not a science. The cost information which is produced will not be, and cannot be, precisely accurate, but needs to be considered by all partners to be ‘fair and reasonable’. It is not necessary, or often even helpful, to consider systems such as timesheets to capture the data needed.
- Similarly, some areas can be ‘measured’ and costed fairly precisely (such as academic staff contact time), yet there are a number of areas that are difficult to cost as robustly as other areas but are as important to the provision and the partnership (e.g. assessment, pastoral support, access to the library, continuing professional development (CPD), joint development or collaboration in other areas). These need not prevent the costing exercise taking place at all, but their treatment when included (or excluded) should be specifically understood when looking at the information.
- Even something as simple as contact hours can be difficult to define consistently (consider support for dissertations, supervision in podiatry clinics, placement visits, accreditation of prior learning).
- It is not possible to measure academic staff time precisely. Outside TRAC, there is no common set of definitions or terminology that classifies academic work in a way that can be easily costed. Lecturers in colleges have a wide variety of contractual hours. The type of their work that is scheduled, or accounted for in remissions, differs; this anyway only records part of their actual hours worked.
- It is very easy to get enmeshed in detail. (The focus during a costing study will all too easily turn to detailed discussions, to the detriment of strategic discussion.) This can be avoided through the use of techniques that involve assessing materiality, using assumptions and higher level allocations, and incorporating norms or standards (e.g. including the ‘usual’ number of validation visits, or ‘normal’ staffing numbers that ignore temporary vacancies, or agreeing the number of contact hours for each face-to-face situation and then how many actual hours this represents to ‘uplift’ it for preparation/assessment/development/quality assurance/administration, etc). We cover this further in the Annex and the ‘Reference notes for practitioners’.
- Technical guidance should be available that provides partners with sufficient support, and allows non-technical accountants to provide the data in as easy a manner and consistently as possible.

A vice-principal at a college carried out a costing exercise with their (main) partner university. They had “no information to hand, so it was very time-consuming. Clear guidance would have minimised the burden.”

The Annex provided with this report can be used to provide a common understanding of how the costing should be undertaken. It should help to ensure consistency across institutions (i.e. when assessing what activities to include, or deciding how to cost an hour of delivery, how the costs of scholarship, administration, management and centralised functions should be handled, etc).

- There may need to be a system that moderates the cost information being produced. Where an institution is delivering a course that is franchised to a number of others, different costs may be identified for that course from each provider. The partnership will need some sort of method for understanding the differences, correcting any misunderstandings in the data, and addressing differences in teaching and learning methods if appropriate. It is unlikely that any use of the data for informing funding allocations would want to reflect different costs for the same course for different institutions.

## 4 APPROACHES TO COSTING

4.1 We identified three main areas of costing that are useful within collaborative arrangements, as follows:

- i. a course – including some of the new ‘employer engagement’ initiatives;
- ii. an activity or service – e.g. the costs of validation in an HEI, or the costs of different levels or types of service or an HE centre;
- iii. the activities and resources covering all collaborative provision in an HEI or in an FEC.

4.2 We describe these, and the costing approaches that could be adopted, below.

### i. Course costing

4.3 Most HEIs and FECs have course costing models that are used as part of the process for planning (assessment of viability) or taking forward new courses. These often show income as well as cost, and are usually on a contribution basis. The costs of a new foundation degree, for example, can be established to determine whether overall it is likely to provide the contribution or surplus that is required within the HEI or FEC. (Again, the decision to continue with the course or not is a separate decision; costs are just one set of information to consider.)

4.4 Alternatively, costs can be used to inform a price for a course.

#### **Example – course costing model in a university**

A university considers the costing and pricing of a proposed collaborative link (support to a programme) to be an essential part of the planning process. It has developed a comprehensive spreadsheet for this purpose. The aim is to provide costs that will be used to set a realistic and fair price for their partners. The cost information is not shared.

The spreadsheet gives a forecast cost that will be incurred by the university, and provides the basis for a pricing formula. This is typically completed for all new programmes, including new developments with existing partners. The one exception is when the proposal is received from a member of the university’s established network of FEC partners. For transparency, in the latter case a standard charge has been agreed and implemented per FTE, irrespective of their programme of study.

The spreadsheet is designed to take only an hour for the project leader to complete. Input is by a member of the Collaborative Partnerships Office in conjunction with the project leader from the faculty.

Each project leader (based in a faculty of the university) provides a set of information to inform the completion of the spreadsheet:

#### Programme and student information

- Number of semesters to be taught by the partner/university per year
- Number of modules in the programme per semester/year

- Number and mode of assessments for each module
- Number of students anticipated per cohort
- Number of cohorts per year of full-time and part-time students

#### Development of the programme for validation

- Number of school staff to be involved in the development of the programme with the partner
- Number of hours/days anticipated for each member of staff to develop the programme
- Number of likely visits to the partner to develop the programme

#### Validation

- Number of school staff to attend the pre-validation meeting to be held at the university
- Number of school staff to attend the validation meeting, usually held at the partner organisation (this information will be repeated to cost the programme review, held during the final year of the approval period for the programme)
- Number of externals required for the panel event

#### Access to university resources

- Whether or not students studying on the programme at the partner organisation will require access to the university's learning resources (especially electronic access) and to Blackboard

#### Setting and marking of assessments

- The level of involvement of school staff in the setting of assessments or the moderation of assessments set by partner organisation staff, and the likely time to be spent on each
- The level of involvement by the university in double or sample marking, or moderation of marking by partner organisation staff, and the amount of time likely to be spent on each

#### Management of the programme

- Amount of time to be spent per year by the link tutor, external examiner, administrative or other school/faculty staff in maintaining the programme on an ongoing basis, including both visits to the partner and days' activity at the university on behalf of the partner
- Any other anticipated costs, e.g. videoconferencing
- Registry and student data management costs and provision of transcripts and certificates
- Any costs to be incurred for graduation attendance by university staff

#### Staff development

- Anticipated staff development required by partner organisation staff and provided by university staff, either at the partner organisation or at the university

Teaching
<ul style="list-style-type: none"> <li>The extent of teaching, if any, by university staff</li> </ul>
Assessment boards
<ul style="list-style-type: none"> <li>The extent of university staff involvement, in terms of staff numbers and time per staff member per year, in assessment boards for the programme, either at the partner organisation or at the university</li> </ul>
Quality assurance
<ul style="list-style-type: none"> <li>The extent of Quality Unit staff involvement in terms of staff resources to ensure that the various quality monitoring and enhancement processes for the programme are carried out.</li> </ul> <p>This gives an estimate of the time required for university staff, and any direct costs associated with the programme. The spreadsheet then applies a standard staff cost per hour (per HERA (Higher Education Role Analysis)/Hays level appropriate for each member of staff).</p> <p>A standard cost is included if the students have access to the university's learning resources and to Blackboard.</p> <p>The model requires capture of the proposed hours of activity by central service teams as well as faculty staff. There is no separate addition of an indirect cost charge. No estates costs are included (this might be considered were there to be significant teaching at university premises).</p> <p>The costed spreadsheet forms the basis of all financial arrangements relating to the collaboration.</p> <p>The development and validation costs are separately identified and there is a negotiation with the partner to confirm whether this will be a one-off or staged payment.</p> <p>Typically, one of a number of pricing options is agreed with the university and the college partner:</p> <ol style="list-style-type: none"> <li>a per capita fee (fixed fee per student);</li> <li>a minimum charge (based on the projected cohort size), plus a per capita fee. This approach is generally used in preference to the first, to minimise shortfall in income arising from any under-recruitment;</li> <li>a fixed fee (a standard fee either per annum or per cohort, irrespective of the number of students).</li> </ol>

- 4.5 The above course costing model focuses exclusively on the costs of the course that are incurred by the university, although it is run in partnership.
- 4.6 Further education colleges have their own course cost models that are maintained at least for new courses. These generally use estimates of the scheduled hours and direct costs that are required to develop and run the courses, and the courses are then expected by the college to make a contribution that is considered to cover student support and central service costs.
- 4.7 A detailed allocation of central service costs to programmes, using activity-based costing methods such as TRAC, is rare in colleges. However, there are

examples of this (e.g. the Understanding Costs project organised by the then Learning and Skills Development Agency over 2002/03 and 2003/04).

- 4.8 Some further education colleges run comprehensive course costing models that allocate actual costs, each year. They use their workload allocation systems, very detailed student number databases, and current year budgets or costs to do this. This can highlight the variability of costs per student when cohort numbers change.

#### **Example – course costing in FECs**

The majority of colleges have a well-defined system of course costing for their FE and higher level provision. These often start with the number of guided learning hours (GLHs) that a course is actually being delivered in, compared to the standard Learning Aims Database paid hours (for FE), and with the funding rate and value (i.e. the number of learners multiplied by the rate per learner) for the course.

Many colleges used external consultants to assist with this. One, Tribal Education Ltd, produces efficiency formulas incorporating:

- funding efficiency (paid GLH/delivered GLH);
- income per taught hour;
- average staff-student ratios;
- departmental income per taught hour differences from Tribal benchmark;
- qualification GLH and success benchmarking;
- numbers of qualifications/income generation per learner.

#### **Calculating course costs**

This analysis is often extended by institutions' heads of departments supplying (during a data collection meeting with a Tribal consultant) information on group sizes, staff mix and hourly pay for the staff teaching on these courses. Staff contact hours can then be derived, and a teaching pay cost per hour calculated. To this, non-teaching costs and pay costs per course (using institutional allocations) are added.

#### **Calculating the contribution**

Income derived from funding and fees is compared with teaching-related costs to arrive at the contribution to support college overheads. Tribal calculates whether a positive or negative contribution (to central department costs) is being generated on a course-by-course basis and at a departmental level compared to a sector average benchmark.

This type of analysis covers all levels of provision, including higher levels, and can include franchised provision.

The annual costs of each higher level course can then be summed to arrive at the teaching cost of HE provision in FECs, or (more frequently) are added to those of the FE provision to arrive at teaching costs in each department or subject area.

- 4.9 There are a number of different methods that can be adopted when costing courses. There are particularly interesting challenges with work-based learning (WBL) and e-learning.
- 4.10 An advice note setting out options and points to consider when designing a course costing model for use in HE was prepared for the TRAC Steering

Group (note that many of the methods do not require TRAC to be used). It is available at:

[http://www.jcpsg.ac.uk/guidance/downloads/Coursecosting\\_HEIs.doc](http://www.jcpsg.ac.uk/guidance/downloads/Coursecosting_HEIs.doc)

- 4.11 A piece of work is currently being carried out by the South West Pathfinder project to identify cost information that is designed to be useful for informing funding methodologies for employer engagement.

**Example – costing courses supported by a collaboration between HEIs, FECs and employers**

The teaching and learning – here called learning experiences (LEs) – undertaken by students are provided by a combination of HEI, FEC and employers. Features include flexible, innovative learning opportunities that are outside the normal ‘course-based’ models. These cover a wide range of experiences, including: work-based learning, accreditation of prior experiential learning (APEL), accreditation of employers’ in-house training programmes, short courses tailored to employers’ needs, and e-learning/blended learning.

The costing method is real-time, over a two-year period, and captures actual time and costs incurred by staff in all organisations working on the LEs.

Timesheets are completed on a monthly basis by staff in all organisations that work on an LE. These are academic and administrative staff or those involved in the LE, but it does not include staff in central service units. They record time against development and delivery activities.

Direct non-pay costs are established for each LE.

The total indirect costs (of teaching) are already available from universities’ TRAC systems. It is assumed that there is no double-counting of support costs in academic departments. Identifying comparable indirect cost rates in FECs and employers has proved challenging, and it is likely that the average indirect cost rate for universities will be used for all participants. The relevant indirect costs are divided into three, with one-third allocated to academic staff FTEs, one-third allocated to students registered at the institution, and one-third to students being taught by staff in the institution. So indirect costs for students registered at a university but being taught elsewhere by college or employer staff are being allocated to the relevant partner. TRAC estates cost rates (for teaching) are also used to record costs against the appropriate partner providing the teaching.

Development costs are spread over the likely life of the project. An FTE is established for each student.

For each LE, an annual cost of each student is established for each partner. The proportion of total costs incurred by each partner can be calculated, which should be of interest in planning co-funding policies. A comparison can then be made between the annual cost and the standard unit of resource (HEFCE’s funding method for teaching), which may be of interest in determining the level of funding for this work in the future.

- 4.12 This type of costing exercise can be time-consuming. A much simpler approach (although resulting in a lower level of cost information and accuracy) can be used to inform pricing and funding decisions in multiple partner relationships.

### **Example – cost-informed pricing for employer-based training accreditation**

This example illustrates the assignment of funding when a company-based training programme is accredited by an HEI and delivered by an FEC.

Following an assessment of their in-house training programme by the Employer Based Training Accreditation arm of Foundation Degree Forward, a company was put in touch with a specific university.

Using the national framework for foundation degrees, the university agreed to recognise the award of 80 credits towards a foundation degree for employees completing the company programme. For those 80 credits the university charged a set fee to the company, based on an assessment of the costs of recognising the prior learning. The remaining 160 credits were delivered by a mix of electronic and face-to-face learning, and the full fee was charged to the company, accompanied by a draw-down of HEFCE grant.

Delivery of the programme by an FEC led to the income being divided between the HEI and the college on the basis of delivery of services. The college received the largest proportion of the funding, reflecting its primary role in delivery, while the HEI retained some monies for overseeing quality assurance.

## **ii Specific services offered by an HEI**

- 4.13 Some institutions are interested in understanding the costs of individual activities or services that the HEI is offering to the collaborative provision. This can be used to review the level of that service (is it being over-specified? Is there too much effort being spent on, for example, quality assurance, which some FECs with strong quality assurance systems of their own do not really need?). It can be used to support a menu of services that might be optional for some partners (e.g. the collection of fees could in many cases be undertaken by either the HEI or the FEC). It of course can help to inform the price for a validation arrangement for provision directly funded in an FEC.
- 4.14 These specific activities form part of the full suite of activities carried out by the HEI and FEC, and we consider costing approaches for these under (iii) below, with one approach described in detail in the Annex and in the accompanying 'Reference notes for practitioners'.

## **iii The activities and resources covering all collaborative provision in an HEI or FEC**

- 4.15 There are three main approaches that can be used when costing partnership activity across a whole institution:
- a) the 'top-down' approach used to generate the information to support TRAC for teaching, referred to as TRAC(T);
  - b) a similar approach for FECs that does not involve TRAC;
  - c) a 'bottom-up' approach that looks in more detail at the activities being carried out.

These are described next.

**a) Top-down approach for TRAC(T)**

4.16 TRAC is a sector-wide costing approach to costing activities in HEIs. It is not in place in FECs, and therefore this approach is not suitable for FECs.

4.17 TRAC(T) is a development of TRAC:

- In HEIs, under TRAC, all institutional costs are allocated between teaching, research and other activities, using cost drivers (academic time allocations, measures of estates use, etc).
- The costs assigned to teaching are allocated to departments and mapped onto subject areas – Higher Education Statistics Agency (HESA) academic cost centres, as defined by HESA/Higher Education Students Early Statistics Survey (HESES).
- The teaching costs are then allocated between publicly funded and non-publicly funded (overseas students, short courses, etc).
- The costs of publicly funded provision are then allocated between Funding Council-fundable and other (e.g. funded by the Department of Health).
- The costs of Funding Council-fundable provision are then allocated between subject-related factors (costs that vary because of difficult disciplines, e.g. engineering, business, art and design) and non-subject-related factors (additional costs that are incurred because of the nature of the provision or the student, e.g. widening participation, part-time modes of study, etc).
- The subject-related costs of the Funding Council-fundable provision are divided by student FTEs to produce an average annual cost of teaching a student, in each subject area, called Subject-FACTS.

4.18 Collaborative provision is included as part of the costs of Subject-FACTS. It can be a significant part of the provision in any one subject area. Because of this, the TRAC(T) annual return is now asking for these costs to be separately identified. These costs are then matched with franchised-out student numbers, to produce a cost per franchised-out student. This can be compared with costs of other students, or with income.

4.19 When the costing allocations are made between types of students (e.g. estates or central service department costs are being allocated between students taught in FECs and on-campus students), appropriate cost drivers should be used. There is scope in many institutions to improve these allocations so that they better reflect the different cost profile of students being taught in FECs.

4.20 For example, as one obvious area, students not being taught on university campus should not be allocated estates costs (although university staff involved in this provision, such as link tutors, could be allocated estates costs). There are many other more subtle areas that could be considered, some of which could be built into a more sophisticated TRAC(T) cost allocation model.

<b>Example – establishing the costs of franchised-out provision in TRAC(T) by academic department</b>		
<i>Type of cost</i>	<i>How the cost is established</i>	<i>How the cost is attributed between franchised-out students and university-based students</i>
Academic staff time	Academic staff costs are attributed to each department with students who are taught by those staff in TRAC(T)	<p>Student numbers in each department are weighted to recognise the different levels of academic staff time required to support them.</p> <p>Firstly, a broad estimate is made of the percentage of time spent on the two main categories of teaching activity, for example:</p> <ul style="list-style-type: none"> <li>a) course development, validation and QA, management, administration, scholarship 50%;</li> <li>b) delivery (teaching, assessment and student support) 50%;</li> </ul> <p>totalling 100% of academic staff time.</p> <p>Secondly, each activity is examined to see whether it as equally applies to franchised-out students as it does to university-based students:</p> <ul style="list-style-type: none"> <li>a) might be considered to be the same for both;</li> <li>b) would only be applicable to university-taught students. Franchised-out students would be weighted at zero.</li> </ul> <p>Overall, the student numbers might therefore be weighted 0.5 for franchised-out provision, and 1.0 for university-taught provision.<sup>11</sup> These weighted numbers would be used to allocate academic staff time between the two types of provision.</p>
Partners' contributions	Funding (fees and grant) passed to partners <sup>12</sup>	Direct cost of the franchised-out provision.
Other academic department	A relevant part of these costs are allocated to teaching	For some of these costs, if they are significant and relate to only one type of provision (e.g. fieldwork, placements) the costs could be

<sup>11</sup> Variations here would include: looking separately at each activity within (a); reflecting any shared teaching with collaborative provision in the weighting given to those students in (b); and of course reflecting weightings for other types of provision or students – work-based learning, distance learning, etc.

<sup>12</sup> This does not purport to reflect the real cost incurred by partners. The funding passed across by the university is merely a proxy (in the HEI's books).

costs	through the TRAC process	allocated only to the provision incurring those costs.  Otherwise, all other teaching costs in an academic department could be allocated using student numbers, with franchised-out provision perhaps being allocated a weighting (e.g. 0.5) to reflect the lower level of direct support being provided by the university, offset by higher travel costs for example.
Learning resources (including electronic)	Central library/IT costs allocated to teaching in TRAC	The teaching costs of the library might be allocated on the basis of student numbers. Franchised-out students might be weighted to reflect the reduced resources spent in supporting them face to face. <sup>13</sup>
Estates	Academic department estates costs of teaching are identified in TRAC	Some estates costs relate to academic staff; this could be ignored, and all costs allocated on the basis of student numbers. If franchised-out students are not taught at university premises, no costs would be allocated to them.
Central service costs	Central service costs attributable to teaching, for each academic department, are identified in TRAC	Franchised-out students could receive the same weighting as university students (assuming that extra costs of managing partnership arrangements are offset by lower costs of direct marketing, part-time fees collection, etc).

- 4.21 This type of model would produce higher quality cost allocations, and more realistic Subject-FACTS. It would also encourage the HEI to understand more about their collaborative provision – its real costs and financial contribution to the institution. It would be relatively easy to operate, by the TRAC manager in an HEI with some initial discussions with heads of central and academic departments, and could be rolled out each year.
- 4.22 However, the approach described above – top-down costing in HEIs based on TRAC(T) approaches – is not sufficiently detailed for many academic managers. It does not offer high quality information on the costs of services or activities that are offered within an academic department. It is, however, valuable for TRAC reporting and national benchmarking, to support strategic business analysis within the HEI, or to inform internal resource allocation (e.g. to help allocate costs or identify required contribution levels in departments that match with the income from these partnership arrangements).
- 4.23 A more sophisticated approach could be adopted when identifying the weightings applied to different types of courses, as indicated in the footnotes to the example above. Some pointers on this are provided by a study of work-

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<sup>13</sup> A more sophisticated approach is described (as good practice) in Annex 11 of the TRAC guidance – see [http://www.jcpsg.ac.uk/guidance/annexes/Annex\\_11.doc](http://www.jcpsg.ac.uk/guidance/annexes/Annex_11.doc)

based learning carried out for the Higher Education Academy (HEA) in 2008.<sup>14</sup> The techniques can be used when establishing an HEI's costs of collaborative provision, as both are carried out (from the HEI's point of view) 'off-site'.

### **Example – costing off-site provision in academic departments in an HEI**

In this WBL study for the HEA, three universities looked at each type of teaching cost (as determined through TRAC) that is incurred in academic departments. Nearly 40 types of activity and cost were considered in an attempt to distinguish between the costs incurred on an off-site programme and those of programmes delivered on the university campus.

The identified differences were:

- proposal development – requires relationship development;
- programme writing/adapting – increased costs of meetings off-site and contextualisation of material;
- validation costs – high where the programme was small or running for a short time;
- tutorial costs – fewer queries, partly because of the maturity of the students;
- quality assurance – peer observation of outside lectures;
- student administration – greater workload;
- travel time and cost – increased cost;
- learning resources – fewer queries and requests, but more difficult to resolve, and higher volume subscriptions to e-journals (space saving, but VAT if sourced overseas);
- technology support – setting up, maintaining and updating a virtual learning environment (VLE) for each programme;
- placement arrangements – site visits are one to one, rather than tutorial support to groups of students.

However, the costs themselves were built up using bottom-up techniques (covered under c) below). Academics made estimates of the time they would spend on this type of course, to which was added visiting lecturer time and direct time. One university costed in meetings. There was no detailed costing of estates costs and central services costs (indirect costs) – the three universities adopted slightly different approaches:

- the university's standard estates and indirect cost rates (per course or student) were charged;
- a reduction in the university's standard estates and indirect cost rates was considered;
- no allocation of these costs was made (a contribution to estates and indirect costs was calculated).

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<sup>14</sup> *Work-based learning costing study*, Higher Education Academy, July 2008, ISBN 978-1-905788-76-7

4.24 The approaches finally used by these universities are variants on fairly standard course-costing models.

**b) A similar top-down approach for FECs that does not involve TRAC**

4.25 Although FECs do not (and do not have to) use TRAC, they could introduce a top-down approach as their model to cost their provision.

4.26 This holistic approach would involve a review of all costs in the institution, and all types of provision. Costs would be allocated, using a top-down method, to each major type. Cost drivers, similar to those in the activity-based costing method used in TRAC, would be required for this. These would include:

- specific allocations (e.g. the costs of the HE unit allocated to the HE provision);
- measured cost drivers (e.g. lecturers' time from workload measurement models allocated to the courses they are teaching or supporting);
- apportionments (e.g. the costs of the principal's office allocated across different types of provision on the basis of perhaps student numbers).

4.27 This would provide a strategic view of each area of FE and HE provision.

4.28 However, it would suffer from the same problem as TRAC(T) – a lack of detail and insufficient information on specific activities involved in HE provision. It would of course be a much more significant task than one that just focussed on partnership provision. As obtaining the costs of HE provision is generally predicated as part of a partnership exercise involving both HEI and FECs, it would be important to use a method that both parties could implement easily. It is more likely that this would be achieved through a bottom-up approach. We cover this next.

**c) 'Bottom-up' approach to costing HE activities**

4.29 Alternatively, a more focussed and detailed bottom-up approach can be taken to understanding the HE costs of collaborative provision. This approach is often of interest to academic managers involved in the partnerships.

4.30 It can be used to provide the costs of specific activities that would help in understanding service levels, or in pricing a menu of services. It is useful in explaining what services are being provided by the HEI towards the partnership (thus helping with discussions of top-slices).

4.31 Unlike TRAC in a) above, this is also an approach that could be followed, consistently, by both HEI and FECs in a partnership – producing consistent information that could be evaluated together.

4.32 It relies on an examination of the activities that are carried out in each department or unit of the HEI that supports this provision, and the costs associated with these activities – for example, time spent in developing the course, initial validation, link tutors, marketing and registration, etc.

### **Example (c.1) – costing partnership provision in an HEI**

A university with a significant amount of their HE provision delivered by partners believes that their partnership arrangements are of immense strategic importance. Collaborative arrangements bring significant benefits in terms of addressing widening participation and access agendas, and in progression. The university is very transparent in terms of the funding they receive for the collaborative provision. The only area of uncertainty is in the amount of widening participation funding that should be passed to the colleges (should it be retained by the university to cover some of their costs of partnership working and outreach, or should it be passed to the colleges, which recruit and teach students who have the widening participation characteristics used by HEFCE to determine funding?)

The colleges asked for the top-slice percentage to be reviewed, and it was agreed that both the university and the colleges would examine costs to help to inform this. Four out of seven of the partner colleges participated fully in this costing exercise. The focus was on costing the partnership model that involved validation by the university, and validation and delivery by the colleges.

In the university, the number of days or hours spent by each type of staff was estimated for one programme. This was done for each of 35 sub-activities, listed under the categories of validation, annual monitoring and periodic review. Staff costs (per hour or per day) were calculated for each of nine types of staff (using standard assumptions on productive hours, on-costs, etc). Overheads were included only for departments that offered services directly to partnership activities (recruitment, academic services, students' union, planning and finance, executive). These costs were allocated on the basis of student numbers. Other overheads were not included (human resources, marketing, registry, student services, library/IT) as these were considered to be costs of a delivery model, and the partnership arrangements were mainly development/validation.

It took a considerable amount of time, and "as the cost information increased, so did the fogginess". The costs of staff development activities and of student recruitment activities in colleges were hotly debated, but not specifically included. The exercise took three months (elapsed) and seemed to require a lot of time to those participating. This was in part because the approach sought to reflect every difference in each college.

If repeated, the exercise would be carried out in a more structured way:

- there would be more use of standards, rather than actuals (such as standard delivery hours, not workload allocations, and standard approaches to determining a cost per hour);
- as a result, it would not be done in such detail (avoiding such minutiae as leavers/joiners, backfilling staff absences, and validation visits that were missed out in one college or in one year);
- the focus would be on deriving 'ballpark' figures;
- costing approaches would be agreed early in the exercise (making more guidance available to the 'enthusiastic amateurs');
- more use of TRAC would be made (in agreeing cost drivers for central service costs in the university);
- there would be a clearer analysis of fixed and marginal costs.

At the end the figures varied widely between the colleges (per staff hour, and per student on the same programme). There was considerable discussion whether this should be reflected in the prices. In the end it was agreed to leave the top-slice the

same for all partners – and not to change it from previous levels.

The costing exercise was, however, useful. It “stopped the muttering,” and it led to a change in the internal resource allocation in the university (to stop deans saying – incorrectly – that partnership activity to them was carried out in deficit). Part of this related to a clarification as to the amount of money retained by faculties, and a realisation that enthusiastic academics should not over-deliver. It brought a particular focus to service levels, standardising service levels among faculties and among partners. Differences between the expectations of partners and the levels of service provided to them were exposed and resolved. This sort of information (on validation) then proved to be of use to the university when applied to their on-campus programmes as well.

And overall, particularly in the university, it created an understanding in the faculties of what partnership really meant to them, and its importance to them strategically.

### **Example (c.2) – costing partnership provision in an HEI**

A pro vice-chancellor (PVC) in another HEI asked for full cost information on their partnership activity. The colleges felt that they were making a loss, yet the university finance team felt that they were passing on too high a level of income. Academic heads of department felt that they were receiving too little of the fees and grant retained by the university.

In the first year, a cost accountant approached each school (the dean, or finance and resources manager) and asked for their estimates of the time spent supporting the partnerships. This was based on their knowledge, in particular the remission given to their staff for such work as link tutoring.

The exercise was repeated in a second year – one of the aims now was to inform the production of a handbook describing the standard practice required for partnership provision. All partnerships were included (not only those with FECs). The head of collaborative partnerships drew up a detailed description of activities (i.e. describing about 10 sub-activities under each main activity heading such as ‘validation’ or ‘assessment’). She approached each academic asking for their estimates of hours spent on each sub-activity.

In both years the head of each professional department (central services) estimated the time and costs in their department that were relevant to partnership provision. TRAC costs (allocated to teaching) were used. Allocations were made on the basis of the number of students, or relevant proportions of staff working on partnership activity. The methods used were not complex; for example, the librarian estimated that although the students were geographically distant, it cost more to support them electronically (so student numbers were used to allocate costs).

Costs in departments were then allocated across partners, either by numbers of partners or by size (number of students being supported). Weightings were considered, but not commonly used.

A loss of about 5% (of total funding) was identified. However, the costs included an allocation of all of the direct costs and estates costs of academic departments (allocated purely on the basis of staff FTEs), many of which would not have been relevant to this partnership provision. Excluding these costs led to a figure that was near break-even.

In the first year the results of the costing exercise were shown to the PVC, but the exercise was interrupted by his departure. In the second year the same sort of result (break-even) was derived, despite the different approach to obtaining estimates. Pricing policies were changed (simplifying them), but this was not a direct result of the costing exercise.

The exercise was felt to be useful in exposing some of the costs that were being incurred, and in raising questions about why and how different people were involved and the level of support being provided by different departments (and how these could be standardised).

It also highlighted the benefits of working in partnership – particularly in terms of progression, growth (from a restricted campus), and through the support provided to widening participation/community agendas.

- 4.33 In an FEC, the approach used by the HEI can also be used. However, some of the costing methods need to be different – for example, the assumptions about scholarship and the working year.

#### **Example (c.3) – costing partnership provision in an FEC**

A college works with a university in what they feel is a very strong regional partnership: “a mature partnership that works”. The top-slice being made on their (indirectly funded) HE in FE provision seemed to be mid-range (compared with other universities’ policies), but there was no evidence it was appropriate. The various HEI and college partners agreed to examine costs incurred by both the university and the colleges.

The college head of HE provision worked with the college finance director to cost both validation activities and delivery. Only costs of indirectly funded provision were established (e.g. technical support on directly funded HNC programmes was not included).

A simple approach was taken: a ‘walk-through’ of the validation process was done; the estimates for delivery took about one day to derive from the workload allocation model. The number of hours of contact time per week on the relevant programmes was identified. A cost per hour, based on 828 contractual hours per annum, was applied to these to arrive at the total staff costs. (Time spent in planning, marking, management, scholarship, travel and activities such as outreach not recorded in the 828 contractual hours accounted for the difference between these contractual hours and the 1500-1650 hours actually worked in a year.) The costs did not recognise that staff actually, on average, are scheduled to work 750/780 hours (not 828); nor did they include some other activities, such as remedial teaching, which were being funded internally through other income streams.

The costing showed that their indirectly funded HE provision was making around a 100% contribution to central service department costs, broadly equal to the budget targets. This method assumed that overheads are incurred in direct proportion to the costs of delivery across all types of provision, and that the ratio of actual hours to contact hours is also the same across all types of provision.

The participants in the costing exercise felt that it was carried out at about the right level (i.e. not too complex or onerous), although if repeated they might consider using simple cost drivers for central service department costs, and may reflect more on the staff cost/hour calculation. They felt that the exercise was very valuable in learning about the processes in place in the university and in the college. It reinforced their belief that the partnership was more than a commercial arrangement (with prices purely reflecting cost or market) – they felt that value, risk and strategy were even more important for this type of pricing negotiations.

- 4.34 The Annex describes an approach to costing partnership provision that reflects many of the experiences of the three case studies described above (c.1 to c.3).

It can be used in both HEIs and FECs, and provides a basis that could be used by all partners in a relationship as they develop their own common costing model.

- 4.35 The Annex is then supported by further detail in the 'Reference notes for practitioners'. This gives an explanation of some of the terms used in this report and in the Annex, and provides technical detail that should be of use for the management accountant supporting the costing exercise.
- 4.36 The second half of the reference notes lists all of the activities which might be carried out in an HEI and/or FEC in support of this provision. Each activity is accompanied by notes explaining how to establish the time spent on each activity, and how allocations or apportionments (to establish the cost of this relevant provision) might be carried out.
- 4.37 Again, the main value of these reference notes will lie in institutions discussion of the activities and the methods for establishing time and cost, and in agreeing a joint, consistent approach to doing this. The Annex should not be implemented exactly as it stands without institutions first undertaking this type of review and analysis to ensure that the selected costing approach reflects institutions' and a partnership's own circumstances and will produce data that is fit for purpose.
- 4.38 Neither the approach described in the Annex nor the reference notes are mandatory, nor do they represent a HEFCE policy or requirement to carry out this sort of work. They have been developed and published in this document because respondents to the HEFCE consultation in 2007, and participants in the costing study described in this report, felt that it would be of use and would strengthen partnership relationships, for those partnerships that choose to implement it.