

ANNEX

An approach to establishing the costs of partnership

This Annex describes an approach to costing partnership arrangements that could be designed and implemented by institutions. It calculates the total costs of managing and supporting HE provision carried out by groups of HEIs and FECs in partnership.

It describes one approach, but there are alternatives. Institutions wishing to undertake this type of costing exercise could develop their own approach, using the material in this Annex as a base.

It is designed for reading by academic and institutional managers. A supplementary paper 'Reference notes for practitioners' is also available. That contains technical detail and is of use to accountants and costing managers. Key words in *italics* indicate that there is more detail in the reference notes. A glossary of terms is also available there.

Six steps in designing a costing exercise are described here.

1. Agree objectives and principles

The objectives of the costing exercise should be agreed. The approach described in this Annex has the following objectives:

- to improve the effectiveness of delivery, and to identify any scope for movement of resources that will enhance student teaching or support;
- to inform resource allocation (e.g. to ensure equity of resource allocations within an institution and/or to incentivise academics to participate);
- to inform a new pricing policy (e.g. menu of services, fixed/variable pricing, allocation of grant and fee income among partners, cost-based price for validation of a course or quality assurance of a partnership);
- to identify any areas of subsidy, review the benefits of partnerships, and feed this information into strategic planning exercises.

Other objectives could include:

- to help to ensure that the right levels of service (consistency, breadth and depth) are being provided by different departments in an HEI to partners;
- or by different HEIs/validation bodies to a college;
- to provide cost information (on different activities) for use in pricing a service-level agreement;
- to provide cost information on the development of new courses;
- to provide cost information on particular validation or QA activities (e.g. collaborative audit, IQER);
- to highlight areas where there may be scope for improving communication or better management;
- to provide strategic planning information on different types of provision (e.g. different types of HE within an FEC).

However, in order to meet these other objectives, the approach described in this Annex would need to be modified by those designing their partnership costing model.

Agreement should be reached on the types of costs that are to be produced. Those assumed here are:

- the annual costs of each partnership, separately for each participating HEI and FEC; but not the costs of each type of *HE provision*;
- the total costs of each partner, but not the costs of each major *activity* separately. The only exception is in the HEI, where the average costs of course validation and of partnership quality assurance (both initial and periodic costs) would be identified separately (so that average annual costs can be calculated).

Various costing principles should be agreed to ensure that the exercise achieves its aims and avoids obvious risks and pitfalls. In particular, the costing exercise should not be burdensome. Complexity is avoided by:

- taking a broad-brush approach that, for example, only requires a couple of hours of time from one or two individuals;
- using standards. An example of this is the use of contact hours to cover an agreed set of activities carried out by lecturers in FECs, and then agreeing a standard uplift to extrapolate contact hours to a total for the working or *productive hours* in a year;
- the use of ball-park figures, not detailed or pseudo-accurate figures. An example of this is relying on estimates of academic effort provided by an academic manager, rather than individual academics each providing information. In libraries, attention can be focussed on data that can be collected (e.g. potential users of the library) rather than collecting more detailed information that is not readily available (e.g. use of the library by each student group);
- recording estimates of costs and time at the level of the institution (i.e. not for each activity);
- not recording time on complex and very variable activities (e.g. course development) but building them into other estimates.

Data should be presented in a way that encourages appropriate use. The strategic value of partnership to partners should be highlighted throughout. The following need to be avoided:

- believing that the cost figures are 'precise'. They are high-level costs that will improve an understanding of activities and resources, but they cannot be considered as accurate at a low level;
- raising more questions than answers. Consistent methods and assumptions should be used so that figures can be compared. Sufficient information needs to be collected to ensure that differences can be explained;
- exposing information that 'opens cans of worms'. Potential areas of concern need to be agreed at the beginning (e.g. assumptions on contact hours and productive hours, and on the services being provided by one partner to another);
- raising undue expectations (i.e. that more funding will be made available to any partner). The focus needs to be on process outputs and the effectiveness and efficiency of the use of resources, rather than on addressing the deficit incurred by any one partner;

- highlighting deficits within an institution that cannot be remedied by more funding, and as a result reducing the support for this provision that academic or central service departments feel able to provide. Strategic benefits of partnership need to be given a high visibility.

Partners need to agree which HEI and FEC partners are to be involved and whether all or some HE provision is covered.

A summary of key characteristics of each partnership should be drawn up to ensure that there is a common understanding in such areas as: the courses to be covered; student headcount; sources of funding; partnership structures; responsibilities for each activity. A common understanding should be obtained on the types and levels of each service provided by the HEI that is used by each college (e.g. the services not used should not be included in the HEI costs; how quality assurance is carried out might vary, depending upon colleges' internal arrangements).

Agreeing the list of activities, and associated responsibilities, often adds to the transparency and understanding in partnerships, irrespective of whether any costing exercise is subsequently carried out.

2. Agree costing conventions

The following costing conventions are used in the approach described here:

- *full economic costs* – not marginal costs, including an uplift for the TRAC *cost adjustments* in both HEI and FECs, and attributing all costs to activities (*contribution costing* is not used);
- the use of TRAC principles and conventions, but only costing the partnership part of the institutions' activities (i.e. not a holistic costing model);
- all costs are allocated or apportioned to activities. Any existing TRAC *indirect cost rates* for teaching are not applied;
- *normal* levels of activity and cost are reflected (removing the effect of unusual fluctuations, and year-on-year variations);
- *standard* costs and assumptions are used where helpful.

Consistent costing methods should be used across all institutions. All partners should use the same techniques so that the figures can be understood and are comparable.

3. Collect time

Academic staff time is a key element of the cost. Two methods for obtaining estimates of time are used in the approach described here:

i) Estimates of time spent on each activity

This method is used to capture all staff effort in HEIs, and that of management and staff in central service departments in FECs.

Estimates of HEI staff time are built up in the HEIs by looking at the list of activities given in

the reference notes and considering who is involved, and the time taken on each.

Actual hours, or a percentage of time, spent by individuals or groups of staff on partnership activities are estimated. These estimates are provided by department managers or equivalent. Workshop sessions with a small group of staff can help to inform these estimates if required. Many estimates are obtained through reference to staff contracts (i.e. 0.5 of their time is on QA related to HE provision), by standards (e.g. x visits per course for each link tutor), or by a simple allocation (e.g. their total time is allocated between partnership and all other provision based on the number of students they support).

As the time estimates are collected, the managers indicate:

- which partnerships they related to; and
- whether the allocation of time/cost to each partnership should be made equally, weighted in some way, or allocated on the basis of student numbers.

ii) Contact hours

For staff carrying out the teaching, *contact hours* are used to provide estimates of time. This method is used to cover lecturers' time in FECs (and in HEIs, if appropriate). An alternative method – *contractual* or scheduled hours – is not used here.

The method of capturing time needs to be the same across all departments and colleges. Using contact time provides the simplest way of doing this. Partners need to define contact time consistently in a way that includes or excludes the same activities in every institution, in particular considering whether supervising dissertations, visiting placements, remedial work, recruitment and admissions, and programme leadership are included or excluded.

A standard assumption should then be agreed, for use across all departments and all colleges, for the purposes of this costing exercise only, which extrapolates or uplifts contact hours to actual hours (e.g. one contact hour could be assumed to equal 2.5 actual hours of effort for this type of HE provision). This *uplift* assumption would recognise the demands on time from working in partnership, higher level provision and scholarly activity. It would not be a formal part of any workload allocation model or contractual arrangement.

It is important that partners agree which activities are included in the contact time records, which are assumed in the uplift, and which are provided through additional estimates. The activities outlined in the reference notes (particularly those listed under D, E and F) can be used as a checklist to ensure that it is clear which are recorded in contact hours (and their uplift) and which need to be estimated separately. For example, the contact time and its uplift might include programme leadership and therefore input made by the programme manager and curriculum area manager, but might not include the time of the head of department, nor of the HE co-ordinator (outside any specific teaching responsibilities of those managers which would have been covered in the contact hours), nor support provided to IQER (and other external quality assurance) by a lecturer.

The relevant time of these latter posts on these specific activities would then be estimated separately.

4. Test data and convert to costs

A number of techniques should then be carried out to ensure that the time data is reliable, and to convert it to cost.

Significant fluctuations in a year need to be smoothed out. The contact hours and estimates should be adjusted to remove any impact of significant (temporary) under- or over-staffing of the department, joiners/leavers, etc.

The estimates and application of contractual or contact hours should be accompanied by reasonableness tests. These include comparing:

- contact hours between courses and institutions;
- total time derived from estimates with the total hours available/total student load for those staff;
- other non-financial data (such as number of link tutor visits, number of people involved at a validation event).

The time then needs to be converted to cost. The following techniques are used here:

- Pay-bands – two for academic staff, two for administrative staff, two for senior managers. This allows the costs to reflect differences arising from seniority/experience, but not the length of service of every single academic/lecturer, nor the salary of every member of staff or manager.
- On-costs for superannuation and national insurance – a standard assumption is made and applied across all partners.
- A cost per hour (where hours, rather than FTEs have been recorded):
 - For HEIs, 1500 per annum is used as the estimate of *productive hours* (salary/productive hours gives cost per hour). This is derived from the 1650 hours per annum used in TRAC, reduced to ensure that part of academics' *support time* that is neither being charged directly to partnerships, nor being charged through any indirect cost rate, is charged through the cost per hour calculation.
 - For FECs, 1650 hours is used to calculate the cost per hour, which is applied to contact hours plus the uplift. Here, support time is already included in the uplift, so support costs are already being charged to the partnership, and do not need to be reflected in a lower productive hour assumption.

5. Collect and attribute other costs

As well as time (see section 3 above), other costs in academic departments and central service departments need to be attributed to partnership activities. This includes secretarial and administrative staff in academic departments (not working specifically on a partnership activity), non-staff costs in academic departments and central service units. Two methods are used:

- Direct attribution – costs are directly identified with a partnership activity (e.g. travel between HEI and FEC), or are directly allocated (e.g. estimates are made of the percentage of library costs that are used by students in the partnership).
- Apportionment – costs are attributed using proxies, such as student numbers.

A method that can be used for each activity is described at the back of the reference notes.

To provide a full economic cost, the TRAC cost adjustments should be added. This allows a good comparison with HEFCE fee/grant funding levels. To all partnership

costs established so far in both HEI and FECs, 8% can be added on the basis that the TRAC cost adjustments add that amount to HEIs' costs across the UK.

All costs are then attributed to partners (using estimates if provided, or a proxy of student numbers).

The summary cost data should be produced in a common format by each partner. These can be aggregated and various totals and averages produced.

6. Comparison and reporting

All participating partners should see all of the results. Some of the data may need further examination, or re-collection or further analysis, in order to understand it better or to improve robustness. This is part of the process of comparison. The 'first cut' figures rarely prove to be the final figures.

Reasonableness checks are an important part of ensuring that the data is understood and is of appropriate quality. Only large anomalies should be investigated. The key questions are: "Is this a picture we recognise? Is it fair and reasonable?".

It is worth remembering that:

- The data will be sensitive and confidentiality should be respected.
- Anomalies should be understood before the information is used or circulated more widely.
- The costs are likely to have been prepared using high level techniques. They should give a good indication of the magnitude of the costs of different activities, and of different partners, but they should not be regarded as precisely right.
- Costs are just one piece of information. They should always be accompanied by an understanding of the strategic aims and benefits of the partnership, as well as risks. Costs should never drive decisions; they should instead form just one piece of information used in a wide decision-making or planning process.
- The information should always be put in context – the benefits of partnership working, and strategic priorities, are as important as costs.