



RESEARCH
COUNCILS UK

Research Councils UK

**Efficiency 2011-15:
Ensuring Excellence with Impact**

Foreword

Research is a major UK strength. So it is fitting that, even in these hard economic times, the Science and Research Spending Review settlement for 2011-14 was relatively protected from the cuts seen in other areas of public funding. However, this does not mean we can be complacent: every penny of public money needs to be spent very carefully. The Spending Review allocations mean we still face significant challenges, especially to achieve savings in research delivery and to cope with the major cut to our capital budgets.

If we are to sustain the UK Research Base we need to make sure that the funding we give to HEIs and our own institutes is efficiently used. This means driving down the costs and overheads of research whilst maintaining and safeguarding the excellent research for which we are renowned. Research will be one of the main drivers of the future growth, prosperity and wellbeing of the nation. We must ensure that the maximum amount of money is invested in the best work to fulfil our potential.

The changes set out in this document are not introduced lightly. They mirror some of the significant challenges in funding that we are facing as Research Councils and even as a nation. We have tried to put these plans together to protect research as a vital resource for the future. Collectively across the entire research community – in HEIs, institutes and research and funding councils – we must demonstrate that we have achieved savings and driven efficiency. We must justify the investment of public money made in science and research.

There will be challenges in implementing these changes; some will probably require a change in culture across the sector. But I hope that we can work together to take the opportunities they present for greater collaboration. After all, the money saved through efficiency measures will be reinvested in research, our common concern.



Rick Rylance
RCUK Champion for HE Policy
Chair-elect RCUK Executive Group

1. Background

The UK research base is highly successful and has a vital role to play in the Country's future growth, prosperity and wellbeing. But, efficiencies must now be made in this sector in order to safeguard the long term security of research in higher education and other research institutions and to ensure that the needed economic and societal benefits can be realised.

In June 2010 Sir William Wakeham published his report, *Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions*, on the implementation of the recommendations made by the Full Economic Costing (fEC) Review published in April 2009. The report confirmed the importance of the higher education sector being transparent and effective in the use of public funds. It made several key recommendations on how Higher Education Institutions (HEIs) could reduce their indirect cost rates as well as encouraging the more intensive use of existing and new assets across the research base.

Although the Research Councils, together as Research Councils UK (RCUK), had been considering how they would implement the recommendations from the Wakeham report, the budget allocations for the Councils set targets for the efficiencies that would need to be made in funding to ensure the future sustainability and competitiveness of UK research.

2. Formulating the right balance

In formulating the changes to funding there has been a cross-Council approach to ensure that they are introduced consistently across the research base whether they are applied to HEIs or to Research Council Institutes and Facilities (RCIF).

Central to the decisions made around how to implement the changes is that they should enable reductions in administrative costs in both the research and funding councils and in the research organisations whether they are an HEI, independent research organisation or Research Council Institute or Facility. RCUK will be working with HEFCE and the other Funding Councils to implement the recommendations.

All savings made will remain within the ring-fence to be reinvested within science and research.

The savings will be achieved by:

- introducing a single efficiency factor for deriving indirect costs which includes indexation,
- introducing efficiency groups,
- more intensive utilisation of assets,
- reducing rates of indexation for years 2011/12 onwards.

It is expected that inflation will initially be set at 0% for 2011/12 and all future years, with salaries incremented, but not adjusted for inflation increases. For years beyond 2012/13 this may return to the GDP deflator value, but this will be reviewed firstly through the light touch review of the process in about six months and then through the more detailed review of actual values after about one year.

In order to achieve the savings identified in *The Allocation of Science and Research Funding 2011/12 to 2014/15 – Investing in World-Class Science and Research* published by BIS in December 2010, RCUK has a limited number of parameters that can be adjusted:

- Reduction of indexation rates on new grants,
- Introduction of Efficiency Factors on the indirect rates used to build the cost of new grant submissions,
- Reduction of indexation rates on existing grants,
- Introduction of Efficiency Factors on the indirect rates used in current grants,
- Whether indirect savings reductions should be applied to estates and if so from what date,
- Balancing the impact of savings on HEIs and Research Council Institutes and Facilities.

The Allocation of Science and Research Funding 2011/12 to 2014/15 defines an aggregate annual profile over the four year period 2011/12 to 2014/15 as well as an overall savings total which means we will need to deploy a combination of all these parameters.

Table 1 summarises the planned savings for the period. The numbers in table 1 are derived from the table of efficiency savings from Research Council funding for HEIs given in *The Allocation of Science and Research Funding 2011/12 to 2014/15* (BIS, 2010, p.15-16) and the total efficiency savings indicated in the individual Research Council allocation letters from which the Research Council institute figures have been derived.

Table 1 – planned efficiency savings 2011/12 – 2014/15		
£M		2011/12
AHRC	HEI	0.79
BBSRC	HEI	3.25
	RCIF	1.82
EPSRC	HEI	7.95
ESRC	HEI	2.05
MRC	HEI	4.35
	RCIF	3.41
NERC	HEI	1.21
	RCIF	1.85
STFC	HEI	2.14
	RCIF	1.70
Total	HEI	21.74
	RCIF	8.78
Total saving over 4 years		427.85

The HEI savings figures were allocated to individual Councils based on the HEI indirect and estates cost rates held as TRAC (Transparent Approach to Costing) data by RCUK Assurance. From the same TRAC data each research organisation has been assigned to an efficiency group. This then provides an estimation of savings per Council. Further information on efficiency groups can be found in section 4.

The Research Councils are agreed that they will achieve the year one savings as laid out in table 1. As the funding landscape evolves, for years two to four, the mix of the savings across the Research Councils, across HEIs and Research Council Institutes and Facilities will be subject to change and therefore no individual set figures have been agreed on at this stage. The aggregate target, however, is fixed.

The Research Councils recognise that the balance between HEI and RCIF funding during the Spending Review period could change significantly from the 2010/11 baseline as a result, for example, of RCIF programmes transferring to HEIs. We will maintain the principle of equitable treatment of HEIs and RCIFs. In addition, it will be difficult to predict how quickly HEIs will achieve efficiency savings and therefore improve their efficiency grouping. Consequently, the four Research Councils with Institutes have agreed the year one split of the Institutes' target as per table 1, However, for years two to four the figures are still to be firmly set. This is because the Research Councils will need to monitor the adjustments to the HEI/RCIF ratios per year and any equity/ inequality issues between the two. Any changes will always deliver the aggregate target set by BIS. The Councils will work with local knowledge to determine how to allocate the required institute savings to each Council.

3.A single efficiency factor for indirect costs

The Wakeham Report contained five recommendations (numbers 6, 9, 10, 11 and 12) concerning indirect costs and one (recommendation 10) concerning indexation.

Rather than implement all of these recommendations separately, which could put an administrative burden on research organisations, RCUK have distilled them down to just one change. A single indirect costs efficiency factor will be applied by RCUK on every eligible research organisation. This will cover both the inflation allowed for in the calculation of indirect cost rates and the efficiencies required.

Further information about how the efficiency groups will be categorised is in section 4. However, the efficiency factor applied by RCUK will vary depending on which efficiency group a research organisation occupies.

RCUK Assurance will action the changes to the indirect and inflation rates, and work with the TRAC Development Group to minimise any impact on administration to research organisations. There is an expectation that inflation will initially be at 0%, with salaries incremented, but not adjusted for inflation increases.

4. Efficiency groupings

RCUK have sought to devise a method of defining the efficiency groups that provides the research organisation with the autonomy to make savings, where the impact is minimised, removes uncertainty, and does not require the research organisation to collect huge amounts of additional data or RCUK to build expensive monitoring systems.

Research organisations will be categorised into five efficiency groups; A to E with A representing the most efficient and E the least efficient.

The efficiency group is defined by a research organisation's absolute indirect cost rates and the relative change in the rate compared with the previous year.

HEIs in the less efficient group (C, D, E) would be subject to increasing scrutiny and pressure to reduce their indirect cost rates. The assignment of research organisations to efficiency groups will be subject to annual review.

The five efficiency groups have been created to reflect the savings required to be made by the research organisations, ranging from 0% to 5%. These groups and the savings to be made were defined in table 2 below:

Table 2 – The efficiency groups and savings required					
Efficiency Group	A	B	C	D	E
Savings to be made %	0	1	2	3.5	5

Table 3 shows how these may be defined; we will have calculated the quartile using all the indirect rates for research organisation:

Table 3 – Showing the permutations that determine which efficiency grouping is to be applied, the quartile rates are example to be applied				
Absolute Rate	% increase in rate	≤ 0% increase	0-5% increase	≥ 5% increase
		Upper quartile (greater than £39,901)	C	D
Middle quartiles (between £33,393 & £39,901)		B	C	D
Lower quartile (less than £33,393)		A	B	C

Table 4 displays all the possible scenarios for calculating which efficiency group an organisation fits into. The coloured coded columns are those which are applied to determine which efficiency grouping is to be applied.

The colour coding in the table differentiates the quartile that the research organisation's rate fell within and the change in the rate from 2007-08 to 2008-09.

This follows the format:

- Upper Quartile or more than 5% increase = Pink
- Middle Quartiles or 0-5% increase = Amber
- Lower Quartile or less than 0% increase = Green

Whilst the rate for year may be easy to define, the change in rate is calculated using the following formula:

$$\frac{(\text{Present year rate} - \text{previous year's rate})}{\text{Previous year's rate}}$$

Table – 4 outlining the possible scenarios that could occur

	2008/09	2007/08	Rate vs. Rate 08/09 vs. 07/08	2008/09
Column reference	A	B	C	D
Calculation	-	-	$\frac{(A-B)}{B}$	methodology outlined in Table 2
Name	Rate (£)	Rate (£)	% change	Efficiency Group
University A	33,235	34,855	- 4.65	A
University B	37,232	40,326	- 7.67	B
University C	32,999	30,210	3.09	B
University D	48,239	49,304	- 2.16	C
University E	37,860	36,404	4.00	C
University F	31,926	27,207	17.35	C
University G	43,749	43,417	3.29	D
University H	36,999	31,054	19.15	D
University I	43,417	36,193	19.96	E

Explanations of columns:

- Columns A & B: These contain the indirect rate calculated by the research organisation for the years to be used to determine the efficiency groups.
- Columns C: This is the change in indirect rates, calculated using the formula outlined on the previous page.
- Column D: This is the efficiency group that the research organisation has been categorised into, using the methodology defined in table 2 of the previous page.

Working out the Efficiency group for “University D”

Firstly, noting the in-year indirect rate (2008/9) University D has a indirect rate of £48,239. This is greater than 39,901, therefore the University falls within the upper quartile limit row as per table 3.

Secondly, calculating the change in rate, using the formula above, this would be:
 $(48,239 - 49,304) / 49,304 = -2.16\%$

This, -2.16%, falls into the column for “Less than 0% increase” in rate.

We would then be able to define the “cross-over” point as the top left of table 3 and confirm that University D would be in Efficiency Group C.

5. Applying the efficiency factor to existing and new grants

Including the indirect cost efficiency factor on new grants has been clearly identified in the Wakeham Report, but the application of these savings to existing grants and changing the rates of indexation are additional considerations in light of the evolution of the economic climate and the level of savings that need to be made. Analysis of different scenarios has shown that it is not possible to achieve the level and timing of savings required just by implementing the efficiency measures to new grants.

To ensure that these changes to indirect cost rates do not present an administrative burden to research organisations, and reflecting the time it takes to prepare an application, existing grants will for this purpose be classed as those submitted via Je-S¹ before 30th June 2011. Rather than apply reductions to each individual awarded grant, a top slice will be applied by the Research Councils to research organisations’ portfolio of funding after the 1st July 2011. The percentage of this indirect cost efficiency top slice will be dependent on the efficiency group that a research organisation is in.

Reduced rates of indexation will be used both as part of the efficiency factor for indirect costs and for other elements of grants that are indexed in line with current policies. Reduced rates of indexation for other elements of grants, other than the indirect costs element, will be introduced on 1st April 2011 in line with usual Research Council policies. The indexation changes will be greatest during the first two years to coincide with the period of Public Sector pay restraints, but will be gradually relaxed as the effect of savings being applied to new grants contributes greater

¹ Or equivalent

efficiencies. The indexation savings will be applied to both new and existing grants. For new grants, new indexation rates will be used for grants awarded from 1st April. For existing grants that have been awarded with different indexation arrangement, i.e. those awarded on or by 31st March, the changes will become part of the “top-slice” by institution.

For the purpose of the indirect cost efficiency factors, new grants will be classed as those submitted through Je-S on or after 1st July. For these applications, the research organisation will apply the efficiency factor as notified to them by RCUK.

6. Applying savings to estate costs

Applying savings reductions to estates requires close co-operation with the TRAC Development Group (TDG) to introduce appropriate modifications to the TRAC rules. The Wakeham Report commented that “financial sustainability implies regular and proper investment in estates and infrastructure and that HEIs do appear to be doing this” and so recommended not affecting estate charge-out rates. At this stage, it is possible to meet the savings targets without affecting estates rates and so the current plan is not to apply any savings reductions to these rates for at least the first year. This position will be kept under review as a part of reviewing overall progress against the annual savings targets.

7. Utilisation of assets

The cuts to the capital budgets of the Research Councils will present significant challenges. Therefore, more intensive utilisation of assets and equipment will be vital to ensure that there are resources available to underpin the excellence of UK research and ensure that it continues to make an impact on the growth, prosperity and wellbeing of the country.

RCUK will work with the research base to develop methods of pooling shared resources in the best location, and where it is clear there is a strategic need to provide national capability on behalf of the wider community. There are some distinct changes that will come into effect to enable this:

- The threshold for individual items of minor research equipment will rise from £3k to £10k.
- Equipment purchases beyond £10k funded by the Research Councils will be subject to a separate investment decision.

For applications requesting the funding of equipment between £10k and the Official Journal of the European Union (OJEU) threshold, the research organisation will need to provide evidence of an evaluation of the use of existing relevant capital assets. Where a Research Council determines that it is prepared to support the acquisition of an asset the Research Council will contribute a percentage of the final purchase price and will expect the research organisation to contribute the remainder from non-Research Council funding, for example the Capital Investment Fund (CIF). The final decision on the percentage contribution will be made by the Research Council on advice from the peer review panel for each grant application. However, those submitting and reviewing applications will need to be aware, and to bear in mind, the fact that Research Councils

have a received reduction on average of 53% in their capital allocations in the first year and, from indicative figures received, are expecting similar settlements across the remaining years of the Spending Review period.

An additional limit will also be introduced tied to the OJEU EC Procurement Threshold (<http://www.ojec.com/Thresholds.aspx>) for supplies under Schedule 1. From 1st January 2010 this threshold (net of VAT) is €125,000 (£101,323). Inclusive of VAT this sets the threshold for this category at £121,588

For equipment above the OJEU threshold (inclusive of VAT) a business case will be required. The business case will need to set out how the requested equipment matches the institutional or departmental strategy and that the applicant has also given consideration to how the request fits into regional and/or national capacity. The business case should also outline the potential usage of the equipment, taking into consideration the whole research spectrum. It should also estimate the actual capacity usage across the areas of research considered. There should also be a consideration of sufficient resource for effective maintenance and support. Investments will be made strategically across the research base, for example building upon existing similar infrastructures and competencies across the UK. RCUK will decide the strategic location for these items and will continue to fund 100% of items meeting these criteria.

These thresholds will apply to individually capitaliseable assets, rather than by accumulating the value of a number of assets, except where individual assets are clearly intended to be used together as a combined asset.

These thresholds will not apply to grants where the development of a new “instrument” is at the core of proposal.

Further guidance on the requirements of the business case and details applicants will need to supply as part of these changes will be made available to applicants shortly.

8. Timing of the introduction of the changes

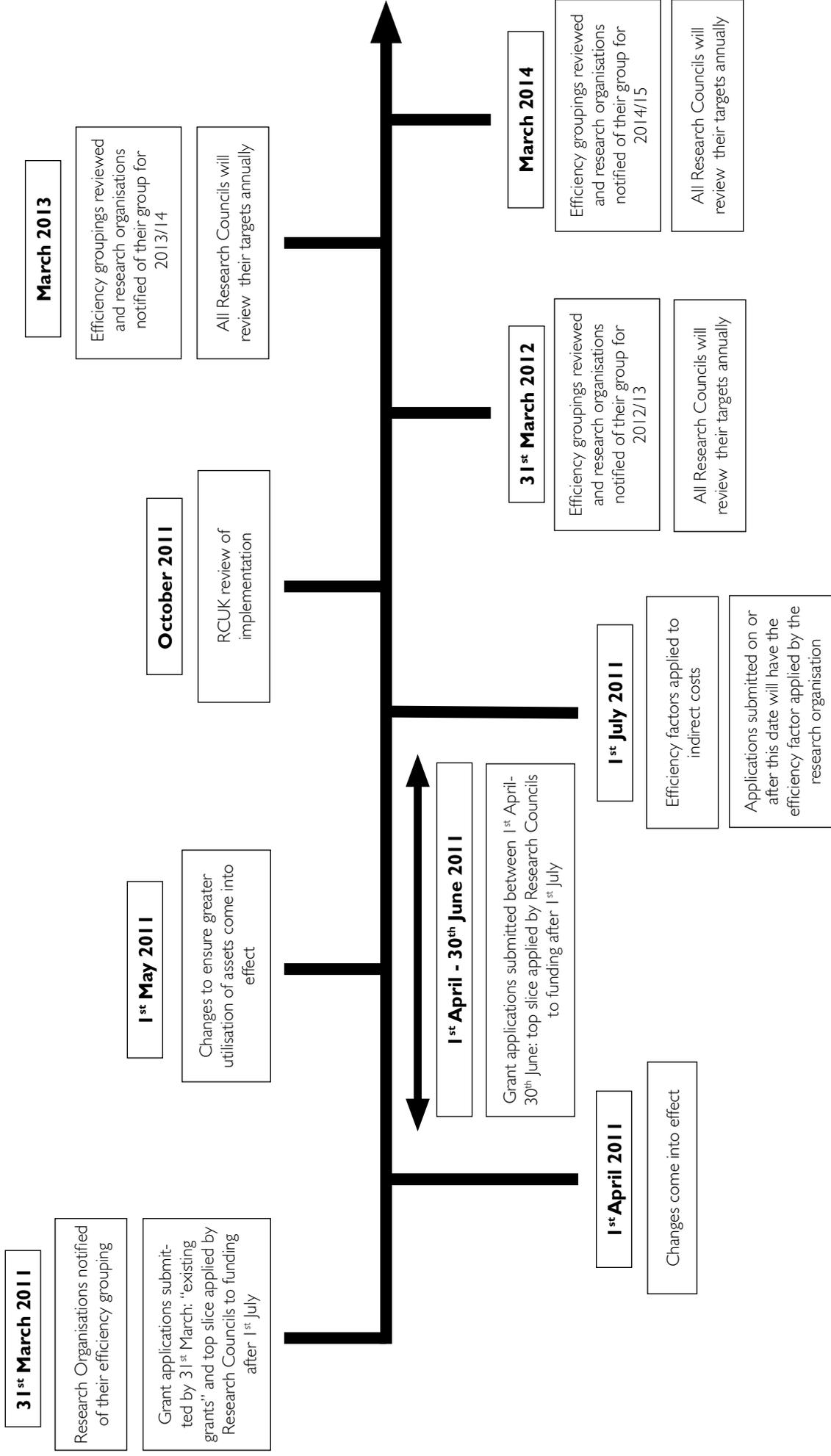
Analysis has shown that it is possible to meet the savings targets by introducing the efficiency factor measures from 1st July 2011. Therefore, the efficiency factor will be introduced on all new and existing grants with effect from July 2011.

The changes to indexation will be introduced on all new grants which are awarded from 1st April 2011. Introducing changes on existing grants from 1st April 2011 is problematic owing to the limited time available to prepare. The changes to indexation on current grants will therefore become part of the “top-slice” by institution.

However the changes will come into effect from 1st April 2011, to give research organisations time to prepare. Research organisations will be notified of their efficiency group by 31st March 2011.

Changes to grant applications to take account of the greater utilisation of assets will be for applications submitted on or after 1st May 2011.

Figure 1 - timeline of the main milestones for implementation.



9. Reviewing and monitoring

RCUK will undertake a high level light touch process review after the first six months of implementation (post 31st October 2011), to ensure that the implementation is working as planned and that there are no unintended consequences. If necessary some fine tuning will be made at this point.

RCUK will monitor savings achieved on a quarterly basis to demonstrate progress against target. In addition, RCUK will conduct an annual review of achievement against target. During this review it will also finalise the profile of the savings for the following year and consider whether an alternative balance between the savings options discussed will be needed. As part of this annual review, the four Research Councils with Institutes will review the ratios between HEIs and RCIFs, amending their targets where necessary, without altering the total target. This will allow the Research Councils to monitor any inequity within the sector.

The review mechanisms will ensure that an appropriate level of savings are being made to drive further efficiency within the sector. In addition to safeguarding the future sustainability and competitiveness of UK research, the Research Councils are confident that a strong research base will also, vitally, underpin the future growth and productivity of the UK



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