

RCUK Efficiency 2011-2015 Guidance Note

RCUK Top-slice Working Group¹ - January 2012

BACKGROUND

In response to the Wakeham review in June 2010², and following the December 2010 budget allocation and expectation that substantial savings be made, Research Councils UK published a report entitled 'Efficiency 2011-2015: Ensuring Excellence with Impact' setting out plans to drive efficiency in research funding. The methods for RCUK to make savings on both existing and future research grants held by the University are as follows:

- A percentage reduction (the '**Single Efficiency Factor**') is applied to indirect costs (*not* Estates or other FEC rates). Five possible efficiency factors ranging from 0% to 5% are allocated according to increases/decreases in indirect cost rates over two years. Cambridge was allocated a 2% factor for this Research Council year, 1 April 2011 to 31 March 2012.
- For existing grants, **indexation** is being reduced on both direct costs (excluding equipment) and FEC rates. For new grants, indexation is currently fixed at 0%, rising to 0.81% in 13-14.
- Reduced funds are available for equipment costs and a requirement to share assets within and between institutions.

The reductions are significant and their impact will be felt by the University and individual grant holders and their departments for the next few years for the Single Efficiency Factor and Indexation; equipment will be affected longer term.

This Guidance Note focuses on the Efficiency Factor and Indexation, together referred to by RCUK as 'the **top-slice**'. Guidance on equipment savings is being issued separately.

KEY INFORMATION

Reductions are applied to (a) **existing grants** with funds remaining on 1 July 2011 and, with respect to the Efficiency Factor only, (b) **new grants** awarded from 1 July 2011. To be clear, the reductions are applied only to remaining funding due from Research Councils as of 1 July 2011, not the whole grant. Both the Efficiency Factor and indexation reductions are cumulative year on year so grants affected most are longer grants awarded in the months leading up to 1 July 2011.

For **grants awarded prior to April 2010** indexation is assumed fixed at 1.5% (this was the rate used in the 2009/10 re-indexation of grants and for any new grants awarded in the remainder of that year). For **grants awarded after April 2010** the top-slice assumes the new indexation rates at that time. Where indexation on the original award was lower than these values, RCUK say they have capped the amounts to the original levels awarded.

The percentage reduction on all awards is compounded annually for the remaining years of the grant as shown in the table below. Indexation is deemed to start in 2011, so the cumulative indexation added prior to then is not being removed.

The University's Efficiency Factor is to be applied cumulatively for each year of a grant. Thus, assuming our Efficiency Factor is unchanged, there will be a 2% loss in Year 1 of a grant, 4% in

¹ Made up of members of the Research Office, FP&A Office, PRAO and Research Accounting.

² 'Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions'

Year 2, and 6% for the remaining years. However, the Efficiency Factor is to be reviewed annually, so could both increase or decrease (potential other factors are 1%, 3.5% and 5%).

Percentage reductions by grant year			
Period	Indirect Cost reduction	Indexation reduction	
		Before 1 April 2010	After 1 April 2010
Year 1) 1 July 11 to 31 March 12	2%	1.5%	1.5%
Year 2) 1 April 12 to 31 March 13	4%	3.0%	4.04%
Year 3) 1 April 13 to 31 March 14	6%	4.6%	6.90%
Year 4 and beyond) 1 April 14 to 31 March 15+	6%	6.1%	9.84%

HOW WILL THE TOP-SLICE BE MANAGED THIS YEAR?

On RCUK's advice, new applications from 1 July 2011 have continued to be costed and submitted using the University's full indirect costs and awards are made on this basis. To claw back funds, each Research Council will send the University an annual top-slice invoice. The first top-slice invoice was received in December and covered most grants affected in the present Research Council year (ending 31 March 2012); a second invoice is expected soon for remaining grants. Further annual invoices are expected during each subsequent Research Council year until 2015.

It has been agreed that the University Chest will absorb the first Year's Efficiency Factor bill. However, the indexation element of the bill is too high to be covered centrally and so will be allocated to individual grants on the basis of the detailed grant information with top-slice breakdown received from RCUK. The average amount per grant so far in Year 1 is £1,800.

The separate components of the indexation relating to direct costs and overheads will be dealt with differently:

1. Indexation relating to direct costs will be inserted as a new direct cost in each grant affected so as to reduce the funds available. It will be inserted under the Direct Cost heading as expenditure without a budget. The overall Funds Available for Direct Costs will reduce and this figure should be used to monitor spending and avoid overspends. As a result, grant holders have the freedom to vire between costs to help manage the grant. The cost will be claimed from the Research Council under the normal FES procedure and the funds received used to reimburse the University Chest for its payment of the top-slice invoice.
2. Indexation relating to FEC rate costs will, at least initially, be managed outside individual grants and the individual data will be sent to schools to allocate.

HOW WILL THE TOP-SLICE BE MANAGED IN FUTURE YEARS?

The top-slice invoice will only claw back funds relating to the current year of the grant, therefore indexation will not be fully recovered in year one. To safeguard against overspending in future years, each affected grant's full indexation costs will be estimated based on RCUK's compound indexation figures and inserted under the Commitment heading in CUFS. Once the next set of top-slice data arrive, the actual top-slice will be inserted and the Commitment reduced accordingly.

Whilst in future years the University Chest will continue to absorb its 6/7th share of Efficiency Factor reduction relating to indirect costs, it will not absorb the remaining 1/7th which is likely to be managed in the same way as the FEC rate component of the indexation and therefore outside individual grants.

WHAT ABOUT RESEARCH SUB-CONTRACTS?

The proportion of the indexation reduction relating to a sub-contract may be passed on to the sub-contractor through an amendment to the sub-contract, provided the amount to be transferred exceeds £1,000 per annum. It is for the department to decide whether the reduction is passed on, since the PI has the flexibility to vire between direct cost items and may decide to absorb outside the sub-contract. The department must inform their Research Office team of their decision so that amendment paperwork can be put in place where required.

Note that the above amounts refer to indexation cuts relating to direct costs only. Indexation relating to FEC rates and the reduction in indirect costs are not being considered for passing on as they are negligible.

As a recipient of a research sub-contract, we can expect different approaches to this. Some institutions may pass on the full amount, others none at all and some, like us, at a de minimis level.

QUESTIONS

- What about a grant that has already ended or is close to ending? *The top-slice will be inserted automatically provided there are sufficient remaining funds available. Where funds are not available this will be looked at case by case.*
- Will the Efficiency Factor remain the same next year? *Not necessarily; Efficiency Factors are to be reviewed annually. We will inform departments of any change to our Efficiency Factor.*
- What if a grant is going to be transferred to another institution? *This will require discussion case by case – please contact your Research Office team.*

FURTHER INFORMATION

Full RCUK guidance is available in the reports listed below which are accessible via the following weblink:

<http://www.rcuk.ac.uk/Publications/policy/Pages/Efficiency2011.aspx>

- RCUK Report 'RCUK Efficiency 2011-2015: Ensuring Excellence with Impact'
- RCUK Changes to Requests for Equipment from 1 May 2011
- RCUK Guidance for Existing Grants: Top-slice Calculation
- RCUK Changes to Indirect Cost Grant Submissions.