INNOVATION & RESEARCH CAUCUS

# UNDERSTANDING LOW LEVELS OF FEC COST RECOVERY ON UKRI GRANTS

IRC Report No: 022


REPORT PREPARED BY

**Tim Vorley**
Oxford Brookes University

**Stepen Roper**
University of Warwick

**Jen Nelles**
Oxford Brookes University


Delivered with ESRC and Innovate UK

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**Authors**

The core members of the research team for this project were as follows:

- Professor Tim Vorley – Oxford Brookes University
- Professor Stephen Roper – University of Warwick
- Dr Jen Nelles – Oxford Brookes University

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**About the Innovation and Research Caucus**

The Innovation and Research Caucus supports the use of robust evidence and insights in UKRI's strategies and investments, as well as undertaking a co-produced programme of research. Our members are leading academics from across the social sciences, other disciplines and sectors, who are engaged in different aspects of innovation and research systems. We connect academic experts, UKRI, IUK and the ESRC, by providing research insights to inform policy and practice. Professor Tim Vorley and Professor Stephen Roper are Co-Directors. The IRC is funded by UKRI via the ESRC and IUK, grant number ES/X010759/1. The support of the funders is acknowledged. The views expressed in this piece are those of the authors and do not necessarily represent those of the funders.

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# Executive Summary

Research grant proposals and fellowship applications submitted to UKRI Research Councils are costed based on their 'full economic costs' (FEC). Those that are successfully awarded typically receive 80% of the FEC from UKRI, with the research organisation funding the remaining balance of funds for the project/fellowship from other sources.

However, analysis of TRAC data returns shows that, on average, UK universities recover only about 70% of the FEC of research activities supported by UKRI Research Councils. In this report, we investigate universities' views on why we observe this low level of cost recovery.

The study takes place during a particularly challenging time for UK higher education. All of our interviewees expressed concerns with the current financial health of the UK university sector and, in some cases, their own institutions. Consequently, cost recovery on all activities, including UKRI-funded research, is increasingly important.

The research approach adopted involved semi-structured interviews with 31 HEIs and Research Institutes conducted during October and November 2024. Interviews included a range of Russell Group and post-1992 institutions and Research Institutes across England, Scotland and Wales. Interviews involved Directors or Heads of Research Offices, Deputy Heads of a Research Office, Chief Finance Officers and PVC Research & Innovation/Directors for Research Strategy.

## Understanding of TRAC and FEC

All of the research organisations consulted expressed a growing interest in understanding the level of FEC recovery. TRAC data is an important aspect of this understanding.

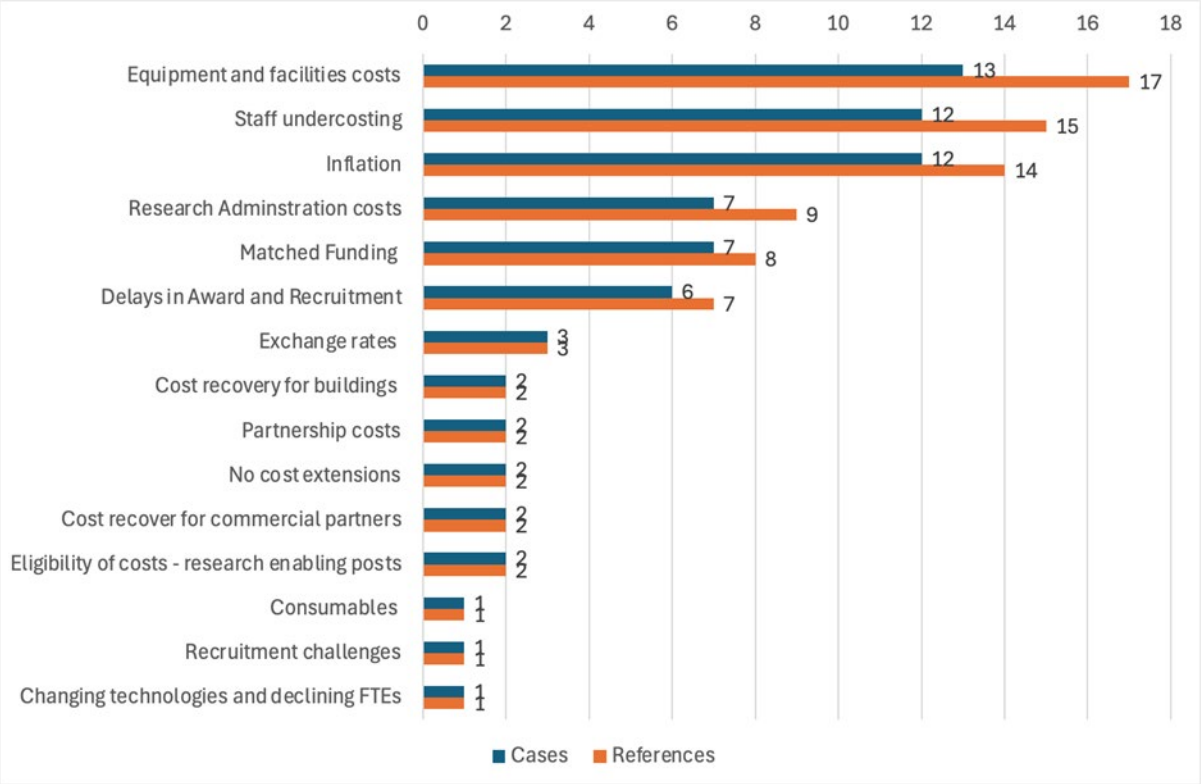
Detailed knowledge and understanding of TRAC performance was generally limited to specific roles in central administration or finance, specifically those responsible for finance and specialist functions relating to TRAC reporting. As a result of increased institutional awareness and interest in FEC recovery, TRAC was on the radar of the Executive Board or equivalent at the research organisations consulted.

Almost all the interviews revealed a strong sense that TRAC data circulates widely among senior decision-makers throughout the sector. Many institutions report that the executive board and relevant finance committees request or receive data as part of their reporting requirements. This data is more critical due to some institutions' current financial situations.

## Reasons for low levels of FEC recovery

The figure below provides an overview of the number of times respondents raised specific issues related to low-cost recovery during the interviews ('references') and the number of interviews ('cases') in which each issue was raised.

Almost all respondents highlighted three factors as important in low cost recovery: equipment and facilities costs, often related to increased utility costs; staff under-costing; and inflation. Around half of all respondents highlighted a second group of factors: research administration costs, matched funding, and delays between award and project delivery (due primarily to recruitment issues).




**Reasons for low-cost recovery in UKRI-funded research projects**

Addressing these issues is a shared endeavour that requires UKRI and funded research organisations to comprehend and tackle the factors leading to lower-than-intentional levels of FEC recovery.

## Implications for UKRI and the Research Councils

There are several actions that UKRI and the Research Councils could take to help mitigate low levels of FEC recovery. As suggested by our consultations, these include:

- Providing guidance to research organisations on how facilities and equipment should be costed and how these costs should be included in pricing research bids.
- Many respondents highlighted staff under-costing. Some are adopting internal norms for PI and CI involvement in projects. UKRI may benefit from providing specific guidance in this area.
- Research organisations frequently highlighted inflation in staffing and delivery costs. This suggests the value of reviewing indexation approaches and the potential value of reviewing when project delivery costs are fixed. Is it possible, for example, to allow research organisations to update costs at the point of project award?
- It would be helpful to provide more explicit guidance to applicants and their institutions on match funding expectations. Perhaps the key issue here is eliminating ambiguity around this issue for any specific call.
- Current proposals suggest sharing infrastructure and assets to increase utilisation and cost-effectiveness. This will require detailed guidance on how such facilities are to be costed and how this can be reflected in project bids.

## Implications for Research Organisations

Given the current focus on financial sustainability, respondents emphasised the increasing value of TRAC data and benchmarking. This underscores the importance of sharing good practices in collecting and using TRAC data.

A key challenge for many organisations in maintaining cost recovery is better managing the link between project budgets—based on proposal costs—and project delivery costs. Integrating financial systems and PI training may help ensure the effective management of project budgets.

Respondents emphasised the contrasting perspectives of academic PIs aiming to craft successful research bids. Clarifying expectations about staff time commitments and matched funding will help address some of these conflicts. Adopting common costing frameworks for equipment and facilities may also help reduce the scope for gaming these costs.

# 1. Project aim and context

Research grant proposals and fellowship applications submitted to UKRI Research Councils are costed based on their 'full economic costs' (FEC). Those that are successfully awarded typically receive 80% of the FEC from UKRI, with the research organisation funding the remaining balance of funds for the project/fellowship from other sources. However, analysis of TRAC data returns (published by OfS for FY2021-22) shows that (on average at sector level) UK universities recover only c.70% of the FEC of research activities supported by UKRI Research Councils. Furthermore, UKRI analysis of TRAC data shows that this cost recovery rate has decreased over the past five years. In this report, we investigate universities' views of why we observe this low level of cost recovery through a series of detailed interviews with senior staff across the UK university sector.

The study takes place during a particularly challenging time for UK higher education. All of our interviewees expressed concerns about the current financial health of the UK university sector and, in some cases, their own institutions. Consequently, cost recovery on all activities, including UKRI-funded research, is increasingly important. One interviewee from a Russell Group university illustrated the extent of the re-evaluation of priorities being undertaken and commented:

> *'I mean, who knows what it will be like next year, or the year after that, or 5 years from now, but just at the moment all of the cards are in the air, as the university tries to work out its financial sustainability. It's not to say, of course, that we are about to go bankrupt, but it does mean that we want to protect our staff, and we want to protect all of the activities that we do. So, everything is on the table, I think, in terms of where we are making those strategic decisions in a way that it hasn't been before.'*

Other interviewees from post-1992 institutions and Research Institutes commented similarly and provided the context for the more detailed consideration of cost recovery in subsequent sections of this report. However, it is essential to acknowledge that institutional context differs markedly related to the number of research grants held (and therefore, the ability to spread overhead costs), location (levels of QR funding in Scotland differ from those in England), and for Research Institutes which are unable to cross-subsidise from international students to research.

Concerns about financial sustainability are increasing the importance of cost recovery on research grants, and respondents suggested that maintaining the status quo would ultimately threaten their ability to invest in higher-cost areas, infrastructure, and research at current levels. For some institutions, the problem is already acute:

> *'And you know we often ask ourselves whether we can afford to do as much research as we currently do, because I'm going to get the precise number*

> *wrong. But the strategic point stands. I think we're recovering about 76% on a TRAC basis, so that drives a need to cross-subsidise it from other activities which was great when international students were flocking to the UK. But in the times that we are finding ourselves in that is much harder to deliver that subsidy. … We have to fix it one way or the other, so you can get the other income in to pay for it or you've got to stop the activity.'*

This report explores the reasons for this low level of cost recovery through a series of detailed interviews with senior staff from HEIs and Research Interviews. It covers the following areas:

- Institutional approaches to project costing and the compilation of TRAC data and how these feed into shaping strategic and operational decisions help establish TRAC data's value and importance for institutions.
- Views on what is shaping low levels of cost recovery on UKRI grants. Are there any particular types of projects or cost items which prove particularly difficult?
- What could UKRI do to ensure delivery cost recovery better aligns with the expected norms?

The research approach adopted involved semi-structured interviews with 31 HEIs and Research Institutes conducted during October and November 2024. Interviews included a range of Russell Group and post-1992 institutions and Research Institutes across England, Scotland and Wales. In most institutions, interviews typically lasted 30-40 minutes and involved one respondent. In some cases, more than one respondent was involved, and in other cases, two interviews were conducted with some institutions due to diary commitments. Job titles varied somewhat between institutions. However, interviews involved Directors or Heads of Research Offices, Deputy Heads of a Research Office, Chief Finance Officers and PVC Research & Innovation/Directors for Research Strategy.

One of the overriding findings from this study is that there has been a concerted push within institutions to understand and maximise FEC recovery, which has taken on more urgency given the challenging financial environment. The reduction in international postgraduate students, in particular, has necessitated a more aggressive focus on maximising value from the resources available for research. As belts are tightening, universities and research organisations are questioning whether they can continue to support research activities at current levels. This should sound the alarm for funding councils. Better aligning cost recovery is one potential lever to ensure that UK higher education continues to deliver world-class research at current levels.

There was universal recognition that the challenges of FEC recovery need to be a 'shared endeavour' with UKRI and that research organisations have not necessarily considered this a priority issue in the past. The increased focus on FEC recovery has raised internal issues within universities and public-sector research establishments and clarified some points for UKRI.

## 2. Understanding TRAC and FEC

Before exploring the causes of cost under-recovery on UKRI-funded projects, we sought to establish the extent to which TRAC data was disseminated and utilised. This is crucial in helping us comprehend how influential TRAC data is in shaping resource allocation and strategic decision-making. Consequently, this section is based on a series of interview questions centering on the composition of TRAC data, the utilisation of the data produced, and its role in influencing decision-making.

As already noted, there was growing interest in understanding the level of FEC recovery in all of the research organisations consulted, including UKRI. TRAC data is an important aspect of this understanding.

Knowledge and understanding of TRAC performance was generally limited to specific roles in central administration or finance, specifically those responsible for finance and specialist functions relating to TRAC reporting. All HEIs and other organisations interviewed have a TRAC Steering Group or TRAC Group, which oversees the compilation of TRAC data. Typically, these groups were chaired by the PVC-Research or CFO. While PVCRs were aware of TRAC, they often had a weaker grasp of the details. As a result of increased institutional awareness and interest in FEC recovery, it was on the radar of the Executive Board or equivalent at the research organisations consulted.

The data collected for TRAC does not exist within research organisations and would not otherwise be collected in this form if it were not for the TRAC reporting requirement. That said, the reporting is starting to be used more widely at the organisational level, with some universities cascading reporting to Faculties/Schools/Departments.

For TRAC reporting, universities reported that staff time was attributed in one of three ways: i) Time Allocation Surveys (TAS); ii) workload planning data; or, iii) contracts. During the consultations, it was apparent that these ways of calculating the time of academics devoted to specific projects were problematic and not likely to provide a meaningful basis for wider comparison. Key reasons cited were that TAS enables respondents to enter actual hours instead of contracted hours, which were then changed to a percentage. In contrast, workload planning hours were recognised as not reflecting the reality of how time was used but rather were hypothetically allocated within the parameters of a 1600 to 1640 working hour year.

Data integration and preparation of the TRAC return are usually a centralised finance function. Several interviewees indicated that the data production process had been subject to significant internal scrutiny and review in recent years. The costing of estates, facilities, and equipment has been a key element of system upgrading in many institutions.

There was a strong sense from almost all the interviews that TRAC data circulates widely among senior decision-makers across the sector, with many institutions reporting that the executive board and relevant finance committees request or are supplied with data as part

of reporting requirements. This data is seen as being more critical due to the current financial situation of some institutions. One Russell Group university reflected on this change, noting that reporting was less of a priority when the financial situation was more stable. However:

> '*Now we're having various requests from our senior team and from our VP Research around what might our portfolio look like if this changed. So, our team will do the modelling on some different scenarios for that and try and inform that discussion a little.'*

Another respondent highlighted how TRAC data is increasingly important for setting KPIs and understanding competitiveness within the sector:

> *'I think we started in 2020. We did start to very much try and use the TRAC alongside other data sources to understand where we were, sector-wide benchmarking. It did very much inform a KPI that we then set institutionally around income per FTE, and looking at how much external income that we brought in. So, I think TRAC was a critical part of driving KPIs.'*

In some cases, this also reflected significant investments designed to improve the quality of data collection. There was an interest in TRAC benchmarks, particularly within peer groups. However, several universities highlighted the limitations of the existing TRAC groups and the comparability of the data given how it is compiled. Little reference was made to the TRAC reports per se, with institutions taking an aggregated view of the TRAC data. In some universities, there was a push to use the data at the Faculty/School/Department level. Still, there was limited evidence that it was more than a reference point in operational or strategic decision-making.

In most research organisations, responsibilities for TRAC, project costing, and project delivery are separated. Unlike the compilation of TRAC data, project costing is often a devolved function undertaken within individual departments or schools. There was an impetus in several research organisations to bring these functions closer, although generally, this was a work in progress instead of something already achieved. As such, it was typically the leadership who had involvement across TRAC, project costing, and project delivery, as opposed to cross-cutting operational activities. Where there has been progress in joining up the costing to recovery processes across the project life cycle, it was still at a comparatively early stage.

Interviews revealed a strong sentiment that the research priorities of research-intensive universities and research institutes (RIs) are driven more by academic concerns than by cost recovery rates. However, even in these institutions, cost pressures are prompting new discussions. In teaching-led institutions, cost recovery is treated more strategically, with projects requiring central approval when cost recovery is lower. In some resource-

constrained institutions, particularly those in TRAC groups C and D, regarding research and specialist institutions, the decision on how to allocate funding for the 20% not covered by UKRI typically rests with the Pro Vice-Chancellor for Research.

Three findings stand out here. First, TRAC data compilation and project costing are typically very separate activities, often undertaken by different finance and administrative teams. Second, almost all institutions see cost recovery on research as increasingly important. Third, and relatedly, this leads to broader use of TRAC data and benchmarking by senior decision-makers.

## 3. Reasons for low levels of FEC recovery

During the interviews, respondents were asked for their views on the various factors driving low-cost recovery in UKRI-funded research projects. Figure 3.1 provides an overview of the number of times respondents raised specific issues during the interviews ('references') and the number of interviews ('cases') in which each issue was raised. In each case, responses are only counted where there was a substantive discussion of a problem rather than a brief mention or reference. Each issue is addressed in turn.

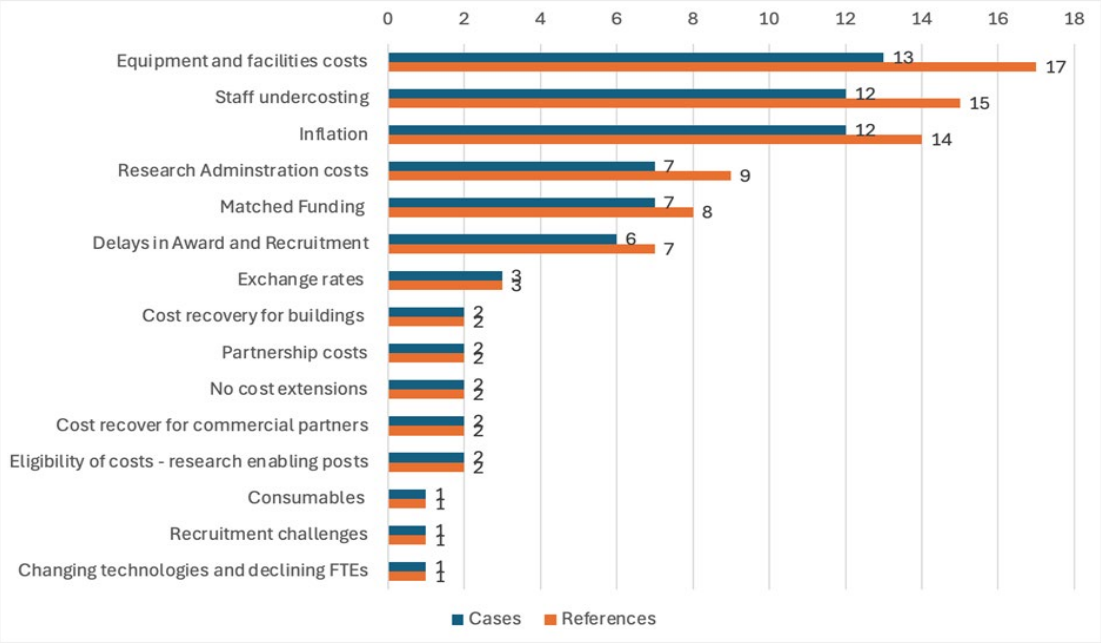



**Figure 3.1: Reasons for low-cost recovery in UKRI-funded research projects**

### 3.1 Equipment and facilities costs

Equipment and fieldwork costs were determined using actual expenses incurred, and there are issues with the allocation and costing of overheads and estates that are 'agreed' but not precisely allocated by institutions. This is in part acknowledged to be an institutional issue,

with the cost of some facilities and infrastructure not fully costed and allocated to proposals submitted, impacting the recovery. Many respondents noted the difficulty in realistically costing equipment and facilities shared between projects or between projects and teaching. A research-intensive university commented:

> *'We have a constant battle around facilities and cost recovery of facilities. Often the research facilities are expensive. They're perceived to be expensive, and our academic community often will lowball the cost. They wouldn't. They would resist including the full cost within the costing. I think we have very few research facilities where we are, including the full economic cost in the costings.'*

A key short-term issue here has been the recent sharp increase in energy costs. One research-intensive university commented: 'with costs of utilities going up, that does create big problems in the research area, particularly, for when you know, something is using a lot of energy'. Another research-intensive university commented: 'our estates costs have shot up over the last few years. On top of that has also been the utilities, you know, costs, and the massive inflation on that … all the projects that we're doing now haven't had that costed in'.

The cost of equipment and facilities involved several interconnected aspects related to eligibility, changing technology, and difficulties in predicting operating costs and utilisation rates. Regulations raise serious challenges in balancing different interests regarding facilities. For instance, if a facility is not TRAC eligible but needs to be used for research, then costs are not recoverable. Some respondents reported that their facilities compete internally, driving incentives to offer services cheaply to win business, which has the unintended consequence of lowering their value for cost recovery.

Technological considerations also drive technology acquisition on timelines that do not align with FEC recovery. As one interviewee reflected:

> *'… technology can move pretty fast. You know, and some of the research projects, you know are longer than the timescale for new equipment…. It's a competitive business, research. Obviously, you know, if other institutions are going to be having this equipment, you want it before them in order to get the research done. You know, definitely all of those issues are driving costs that aren't necessarily within the original awarded amount'.*

Similar issues were reported regarding data infrastructure and storage and the implications for data security. One Russell Group university commented:

> *'So, one way of getting around part of the problem would be to make long-term data storage an allowable cost. And another way around it would be to*

*give us block grant funding for long-term data storage. And that block grant funding could also be expanded to capture data security.'*

## 3.2 Staff under-costing

Another commonly mentioned challenge was the tendency for PIs to under-cost their own and other colleagues' time commitment to projects. Typically, this is regarded as the cost where researchers can influence the budget, often resulting in under-resourcing and under-costing of projects - effectively meaning that the work programme is not deliverable on budget. There was a general sense from the senior administrative and leadership team members that academics tend to underprice grant projects, believing that this will likely increase success rates. In one typical comment, a respondent reflected:

*'So again, we're just looking at this at the moment, and were slightly horrified to hear that we've got a couple of grants where academics are putting, say, 2% of their time in. It's that slightly behavioural thing of wanting to look cheap, wanting to get the grants not really wanting to care too much about whether the cost recovery is good, bad, or indifferent. So, we are being more strict around that and trying to devise some updated principles for colleagues to be aware of what we're not going to approve.'*

Research organisations must ensure that this does not occur, and some are taking this seriously. One respondent described efforts to educate applicants about the value of their time and the consequences of low-cost recoveries. Others have developed time contribution policies that require 20% combined PI and CI time.

While much can be done at the institutional level, there is also potentially a role for grant reviewers to focus on value rather than cost in assessing proposals and to look at the viability of the proposed research project.

## 3.3 Inflation

Almost all participants emphasised Cost inflation across all research cost elements. Staff costs are affected due to pay settlements, and where researchers are promoted during a funded project or pay awards outstrip the costed inflation. Facilities, consumables and equipment costs have also increased rapidly alongside utility and running costs. Inflation was seen as a challenge in longer projects where unanticipated cost rises could occur.

One research-intensive university summarised the situation as follows:

*'Massive. So yeah, it's massive, because we've got a double whammy of things here. So, indexation rates have been historically low, they've been lower than 1%. This has always been an issue. And now we have this inflation issue on top of that. So, we just have an unrealistic indexation rate. And that's*

> *problematic because you have to cost at the time at which you're submitting the grant. So, you then have a double whammy of a delay up to a year, a year and a half between submitting costs, and the project starting and low indexation rates.'*

Indexation rates were also a concern for another Russell Group university:

> *'when we cost a project, we cost it without inflation and the research councils will add their own indexation rates that has always been lower than sort of the real inflation that we've had through the system. So, as a sort of a starting point that always brings [cost recovery] down I suppose below 80%.'*

Some institutions were mainly concerned with staff costs and the need to continue offering competitive salaries in global talent markets. Visa costs were also part of the picture for one Research Institute:

> *'… over the last couple of years there's been quite a lot of escalation in terms of staff costs, … we recruit globally into the organisation … our competitors are quite high paying institutions and we're looking to maintain our salary rates against them. You've got things like the visa costs and the health surcharge that if we're recruiting globally, are a massive overhead. So, we put a lot of money into supporting people coming into the UK.'*

Another Russell Group university commented on the implications for TRAC:

> *'Inflation is quite important, because we don't really have a key guide on when to include inflation in applications. How much inflation should we include for pay inflation, for example? You may be aware that the pay negotiations concluded last week. So, if they conclude last week, at what point is it appropriate for us to cost pay inflation, actual pay inflation, or expected pay inflation into grants. So, there isn't necessarily consistency between application, inflation and TRAC inflation.'*

## 3.4 Research administration and support costs

Another issue around half of our respondents raised concerns about the costs of supporting and administering UKRI grants. For some, this was a 'hidden cost' difficult to allocate directly to specific projects. For others, it was an increasing cost due to what were perceived as increasing audit and compliance requirements. Interestingly, issues around research administration and support costs were highlighted less frequently among Russell Group respondents and more regularly by other research-intensive and smaller universities and research institutes.

One research-intensive university commented:

> *'I think it is actually because it's the compliance around terms and conditions and building in extra capacity where it's been done. I'm not too sure that we're maybe fully putting that into our TRAC, or whether there is a separate overhead rate for that for administration. When we were audited by UKRI that created a huge amount of work.'*

UKRI audits were described as a burden that cannot be effectively costed into or attributed to individual projects:

> *'I think the cost, the regulatory cost, is so much higher than it was in the past. I mean, even the UKRI audits, the overhead from that was huge. The team had to pause everything they were doing for three months to cope with the UKRI audit. And I think there was something like 120 transactions requested or something. And our external audit has gone exactly the same way where there is huge amounts of transactional testing. The auditing of it becomes quite a burden.*'

Administrative overheads on research grants are felt particularly strongly by smaller institutions or teaching-intensive institutions with fewer research grants. As one teaching-intensive university commented:

> *'My understanding is that a larger university can benefit from economies of scale when they're implementing, and they can spread the cost of the research infrastructure over 20, 30, 40 projects. But we don't. And as a consequence, we have higher per unit cost, don't we? You know, because we haven't got the volume of projects to cover it so we can't spread ourselves out between a lot of projects.'*

## 3.5 Matched funding

Another major cause of concern, raised by almost half of respondents, was the issue of 'match funding', which may be explicitly required by a funding call or implicitly regarded as desirable by UKRI, reviewers or researchers to make a proposal more competitive. Responses varied from frustration with the fiction of matched funding to reflections on the unrecovered costs of using large equipment. There was also uncertainty about the value or necessity of matched funding as part of grant bids and a strong call for more comprehensive guidance on the part of UKRI.

One respondent from a research-intensive university described the situation as follows:

> *'And just like the works of fiction that people would come up with to justify match funding. We would be contorting ourselves. So, I don't think that process is right at the moment. So, if people were really honest about it, I think that's a broken process, for want of a better phrase. …There's the kind*

> *of unhelpful and imprecise guidance that a call might have. But there's also, then the kind of peer review element of it'.*

A similar comment was made by another respondent from a Russell Group university:

> *'I think UKRI needs to reset the approach to matching funding because there is perceptions, confusions and reality. … Some will say it's crucial to your success rate, to others will say it's got no relevance whatsoever'.*

Explicit clarification on match funding and guidance to researchers, reviewers and panels would help eliminate these issues.

## 3.6 Delays and costs

Around half of the respondents also emphasised the impact of delays between application, funding decisions and project spend as a reason for low-cost recovery. Most respondents related this strongly to the inflationary climate over the last few years suggesting that during the period between application and projects starting, costs had risen substantially. This meant that project costs – specified at the time of application – were often insufficient to meet final delivery costs. Some respondents also mentioned other issues related to delays due to the introduction of the new funding service and costs incurred before the formal start date of the project.

A number of respondents focused on operational delays in delivering projects and the consequent requirement to reprofile costs. One Russell Group respondent commented:

> *'I suppose reprofiling of activity is usually driven by staff moves to some extent. It would either be long term absences, it would be individuals sort of having maternity leave for example, that those are the predominant reasons. And then from a research delivery perspective, it might be actually the outcomes of that particular research project itself. So, when we look at things such as clinical trials, it might be recruitment of patients.'*

Other respondents stress recruitment and visa challenges when starting projects. Delays in getting visa approvals add time to projects that are out of the control of the institutions administering them. The magnitude of these delays can be unpredictable, making them difficult to plan for.

The more stakeholders involved in projects, the more likely there will be delays. Some respondents noted that contracting between universities can be a lengthy process as well as contracting with the funder. Delayed award letters and the expectations that projects will be fully ready to commence at the award start date also create complications that can impact timelines and spending. To attempt to mitigate complications related to recruitment etc.

universities are increasingly encouraging their researchers to prepare before the award. As one respondent observed:

> '*There are a lot of costs that happen before the awards start. So how do we manage that? And that's a big problem. Because if you can't claim it back from the grant, you've got this sunk cost. So, the project management team that we've got and we're going to expand within RIS is looking at how it works directly with PIs to effectively and quickly set up projects particularly things like recruitment websites getting up, etc, collaboration agreements so that we can start spending on day one. So, you don't have that delay of 3 months to recruit'.*

## 3.7 Other factors

A number of other factors shaping low cost-recovery were also highlighted by small number of our respondents. Each of these may be particularly important for specific respondents but these issues were less frequently cited than those discussed earlier.

Exchange rates were cited as an issue by Russell Group universities and research institutes that were procuring equipment and consumables internationally. Sometimes during the period between grant application and actual spending, changes in exchange rates and costs imposed significantly increased costs. One Russell Group university illustrated this with the following example:

> *'I'll give you a very easy example on that. A colleague applied for a grant 18 months ago that has just been awarded. The piece of equipment was costed in, I think it was in yen, and the exchange rate fluctuated. I mean, I've had to find £27,000 in cash to pay the shortfall. This is really difficult to understand a way around that. I mean, it could be that you could award, based on the figures at time of award'.*

Another set of issues related to the eligibility of different types of costs and perceived exclusions from what constitutes the 'full' economic costs of projects. One aspect of this was the way in which the costs of maintaining and running research assets/facilities could be included in research grants. This worked differently in each institution. For one research-intensive university, it was about overhead recovery on large research facilities:

> *'We run some of the national facilities. We had a number of software engineers costed on this facility, and the research councils refused to cover any indirect associated with those software engineers. So that was an immediate loss. … they did fund it at 100%, but only the direct cost element without offering any FEC overheads on top'.*

For some other institutions, the difficulties of costing facilities were linked to shared assets where attributable costs were not always clear.

Challenges in costing buildings were also identified by two respondents, an issue which has become more important as energy costs have risen. One research-intensive university commented:

> *'We have a lot of space that is used for both teaching and research. So, we ask the schools, well, what percentage of your space of this mixed space do you think you use for research? And what do you use for teaching?'.*

Another aspect of costs which are not currently eligible are costs incurred before the project start date. One research-intensive university argued that costs should be eligible instead from the date of award:

> *'So, one of the things that would be really incredibly helpful is for UKRI to allow the back claim of costs from when the award is announced and given to the university rather than the project start date. Because it isn't realistic to think that we're not spending in that time period. Clearly are. And for the majority of items, we cannot claim those costs back'.*

The nature of UKRI funding means that there is no scope to build risk and contingency into costings, which can have an impact on levels of recovery - especially where plans change, or things go wrong. The cost recovery at 80% was therefore considered a hypothetical best-case scenario. Another issue in the current financial climate where universities are running deficits is the way in which institutions calculate MSI, which takes into account profit on an actual and planned basis. So, if institutions post a deficit the nature of the MSI effectively bakes that deficit into future costing, which is likely an intended consequence but is making the prospect of recovery more difficult moving forward.

Small numbers of respondents raised a number of other issues which they regarded as significant in low cost-recovery:

- ***Increasing capital intensity*** - For one research institute, the capital intensity of research was increasing meaning less people were involved. This was leading to a reduction in the overhead attached to staff and lower levels of cost-recovery.
- ***Cost recovery for partners*** – Cost recovery for third sector or commercial partners was raised by two participants. In each case the institution reported covering the 20% cost of their involvement in projects not funded by FEC. This contributed to lower cost-recovery on the overall project.
- ***Recruitment challenges*** – were identified separately by some institutions both in terms of initial recruitment and then the difficulties of retaining staff, particularly those moving internationally.

- ***No cost extensions*** – were also thought by some institutions to pose additional costs due to the re-profiling of costs, as well as more hidden knock-on costs on project support and research time.

## 4. Discussion

Overall, the issue of understanding and increasing eligible FEC recovery has become a matter of concern in the research organisations consulted, largely as a result of the wider financial challenges faced. Consequently, there is now a greater impetus to understand the nature of FEC recovery at the highest level with the intention that this will inform strategy and decision-making. For the majority of the research organisations interviewed, this has been a recent issue, with only a few having been reviewing FEC recovery for a longer period.

The limitations of TRAC were frequently cited, and while not without limitations in informing costings, TRAC was seen as helpful for reporting given the issues noted in this paper. That said, some institutions are using the data for internal purposes, which although internally comparable is not necessarily an accurate portrait of how time and resources are allocated to research. The consensus was that the current approach is not without its limitations, but accepting and acknowledging these provides a reasonable benchmark until a better system can be established and implemented.

There are complexities within institutions, and the shock caused by the downturn in international student numbers is necessitating institutions to rethink their business models. The sector norm in research-intensive universities, which allocates 40% teaching, 40% research, and 20% administration, is under review, with many already making changes. In many of the more teaching-intensive universities, variable research allowances are commonplace, and there is a growing number of teaching-only contracts.

Addressing the question of FEC recovery is an important subset of a broader question of financial sustainability. There are a number of issues raised in the report that highlight challenges that contribute to lower than intended levels of FEC recovery and identify opportunities to improve FEC recovery. Almost all respondents highlighted three factors as playing an important role in low-cost recovery: equipment and facilities costs which was often related to increased utility costs; staff under-costing; and, inflation. A second group of factors was highlighted by around half of all respondents – research administration costs, matched funding and delays between award and project delivery (due primarily to recruitment issues).

Addressing these issues is a shared endeavour. It requires both UKRI and funded research organisations to understand and address the issues causing lower-than-intentional levels of FEC recovery.

# 5. Addressing low-cost recovery

## 5.1 Implications for UKRI and the Research Councils

There are several actions that UKRI and the Research Councils could take to help mitigate low levels of FEC recovery. As suggested by our consultations, these include:

- Providing clear guidance to research organisations on how facilities and equipment should be costed and how these costs should be included in pricing research bids. Several of our interviewees suggested a lack of guidance in this area and little by way of agreed costing methodologies. Clearer accounting standards or approaches for costing equipment and facilities could be established by UKRI with significant system-wide benefits.
- Staff under-costing was an issue highlighted by many respondents. Some respondents are adopting internal norms for PI and CI involvement in projects. It may be helpful for UKRI to specify some guidance in this area. This could take two forms. One option is to specify guideline time commitments for PIs and CIs on projects with a given value. For example, the expectation would be that normally a PI on a £1.3m project would be devoting 0.2-0.4 time to managing/leading that project. An alternative approach is to strengthen guidance to reviewers and panel members related to project cost and value. The former approach is perhaps more likely to address the concerns of research organisations.
- Inflation in staffing and delivery costs was frequently highlighted by research organisations. There was a general view that existing approaches to indexation are not sufficient to reflect inflationary impacts and that delays between project costing, award and commencement often compounded inflationary effects. This suggests the value of reviewing indexation approaches. It also suggests the potential value of reviewing when project delivery costs are fixed. Is it possible, for example, to allow research organisations to update costs at the point of project award?
- Providing more straightforward guidance to applicants and their institutions on match funding expectations would be helpful. Where a high level of collaborative funding or matched funding is sought, this should be explicitly stated in any call for proposals. Otherwise, the need for match funding should be explicitly ruled out. Eliminating any ambiguity around this issue for any specific call is perhaps the key issue here.
- Current proposals suggest a focus on sharing infrastructure and assets to increase utilisation and cost-effectiveness. This is likely to require detailed guidance on how such facilities are to be costed and how this can be reflected in project bids.

## 5.2 Implications for research organisations

Given the current focus on financial sustainability, respondents emphasised the increasing value of TRAC data and benchmarking. This scenario is likely to increase research

organisations' openness to engaging with TRAC mainstreaming and development initiatives and related staff training. This emphasises the importance of continuing to share good practices in the collection and use of TRAC data.

A key challenge for many organisations in maintaining cost recovery is better managing the link between project budgets—based on proposal costs—and project delivery costs. This often results from these budgets being based on different financial systems and conducted by various teams. PI training may help ensure the effective management of project budgets.

Respondents emphasised the contrasting perspectives of academic PIs aiming to craft successful research bids and professional services staff seeking to maintain adequate cost and overhead recovery. Clarifying expectations about staff time commitments and matched funding will help address some of these conflicts. Adopting common costing frameworks for equipment and facilities may also help reduce the scope for gaming these costs.

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