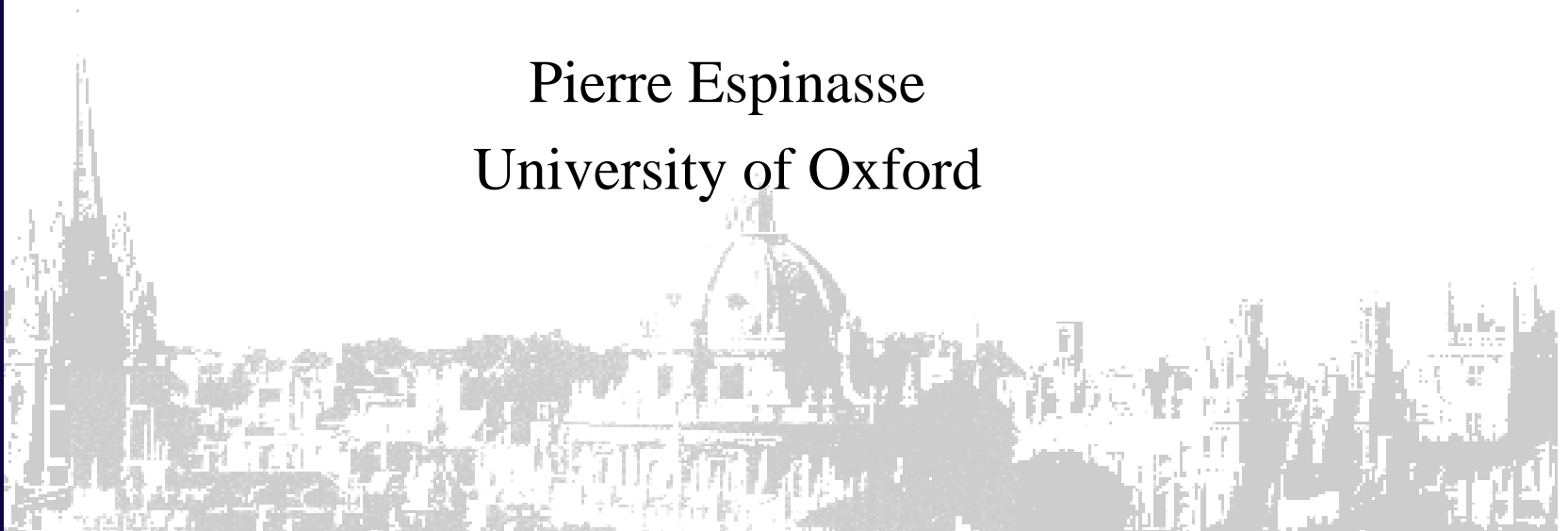


# Transparent Costing and Industry Engagement The UK Experience

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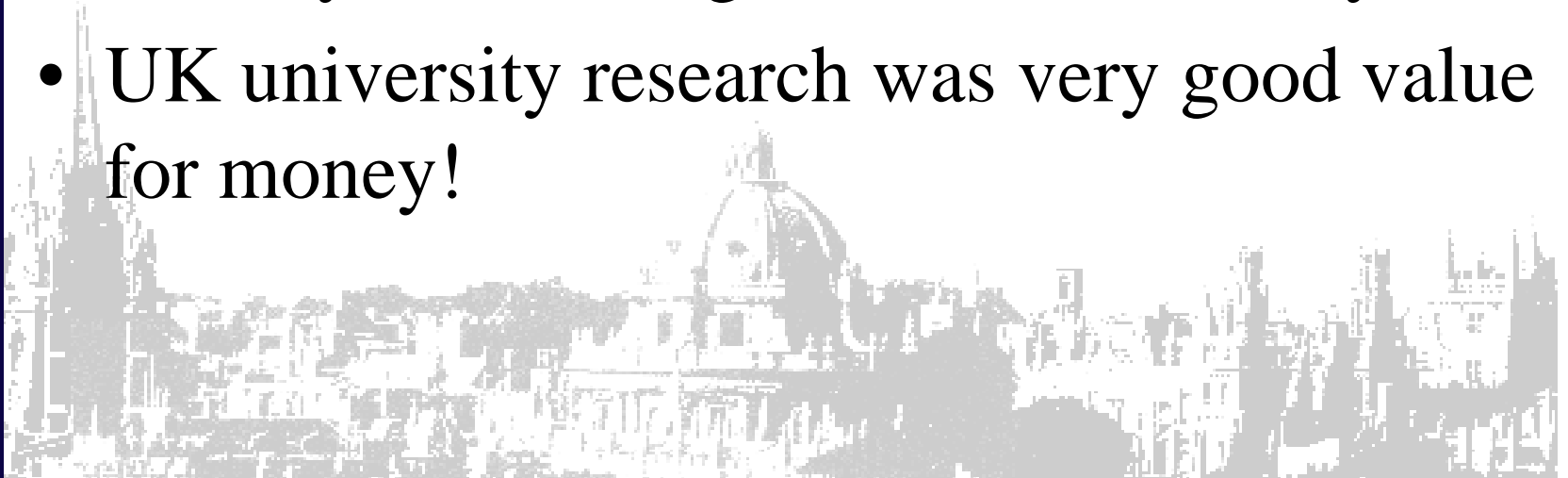


1. Background to Transparent Costing and Full Economic Costing in UK
2. The expectations behind the introduction of FEC
3. Impact on Industry funded research
4. Issues which emerged
5. Pricing of research



# Background to Full Economic Cost (FEC) in UK

- Prior to 2005 universities costed research projects on basis of additional direct costs plus ‘notional’ overhead
- No way of knowing real cost of activity
- UK university research was very good value for money!



# Introduction of FEC (1)

“In return for greater support for research, **universities have a responsibility to manage their research effectively and sustainably**. The Government will expect universities to manage their budgets in a way which allows them to invest properly in infrastructure renewal and ensures that **research is put on a sustainable footing**.”

(HM Treasury 2002)



# Introduction of FEC (2)

Financial Memorandum between English Funding Council and universities:

“Institutions should know and understand the full economic costs of the activities that they undertake, and this information should be taken into account within their management decision-making processes.”

“Institutions should seek to recover the full economic costs of all their activities, whether pricing is determined by reference to those full economic costs or by reference to prevailing market conditions. While there may be cases for individual projects or activities to be priced at below their full economic costs, this should be done as a conscious decision, within the context of strategic objectives. Institutions are expected, taking one year with another, to recover the full economic costs of all their activities across the full range of their activities.”

# What is FEC?

“A price which, if recovered across an institution’s full programme, would recover the total cost (direct and indirect) of the institution, including an adequate recurring investment in the institution’s infrastructure.”

FEC includes:

- Additional direct costs of project (research staff, consumables, travel)
- Academic staff time
- Estates charges (including depreciation)
- Indirect costs (including recurring investment for infrastructure)

*Estates & Indirect costs calculated on £ per FTE on project (not as percentage of time)*

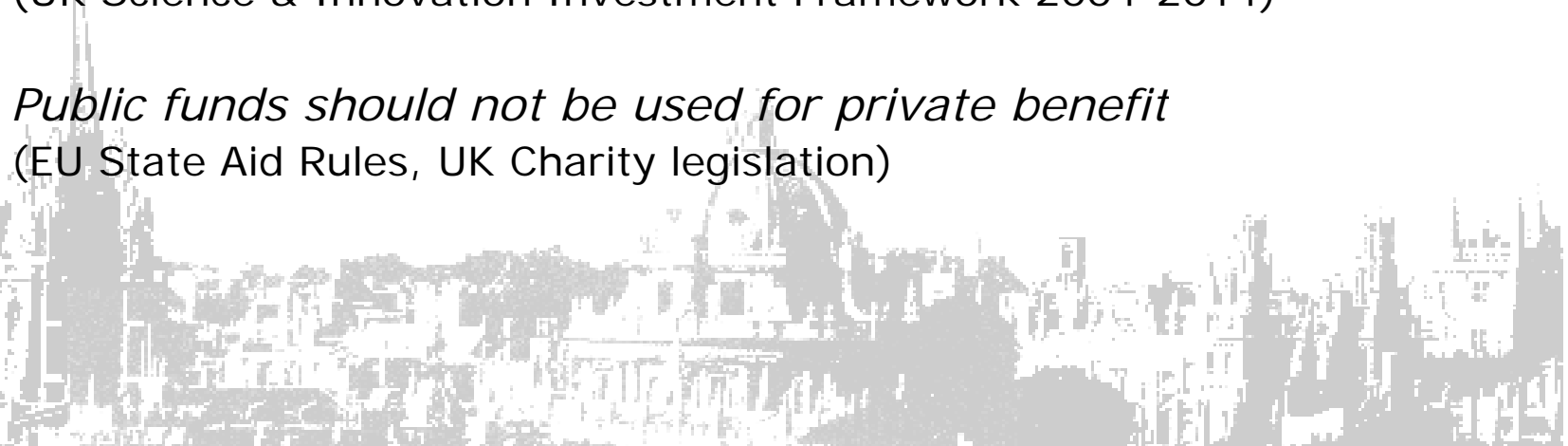
# Expectation for industry-funded research

*"We expect our funds not to subsidise non-public activities"*  
(HEFCE Financial Memorandum)

*"Universities....should charge, and industry funders of contract research primarily for the commercial objectives of the commissioning company should assume that they will pay, prices for research sufficient to cover at least the full economic costs of the work they commission.... For collaborative work and longer term partnerships, a range of co-funding between university and business is feasible."*

(UK Science & Innovation Investment Framework 2004-2014)

*Public funds should not be used for private benefit*  
(EU State Aid Rules, UK Charity legislation)



- From September 2005, UK universities were required to identify the full economic cost of individual research projects and price them accordingly.
- These costs were, in most cases, significantly higher than the previous ‘estimated’ overhead rates.
- So UK universities became more expensive for industry-funded research



# Impact on Industry Funded Research of FEC (1)

FEC introduced 2005-06

Research Income trends 2002 – 2008

Funding Source	Income per funding Source 07/08 Prices (£million)						%Annual change
	02/03	03/04	04/05	05/06	06/07	07/08	
Research Councils	935.6	924.3	1,000.4	1,136.0	1,187.2	1,358.2	8.0
UK Charities	744.7	767.0	756.1	768.0	791.0	825.8	1.8
UK Govt	520.5	579.2	611.2	610.2	625.2	639.3	3.5
UK Industry	293.8	274.4	262.9	271.4	298.6	296.1	0.9
EU+Govt	209.9	209.3	218.5	232.0	266.0	284.9	6.7
Other EU	39.1	36.2	37.0	42.6	47.3	46.2	5.1
Other overseas	148.3	159.1	163.4	181.8	205.2	217.3	8.0
Other sources	69.5	62.1	65.4	60.7	59.9	54.2	-4.1
<b>TOTAL</b>	<b>2,961.5</b>	<b>3,011.6</b>	<b>3,114.7</b>	<b>3,302.8</b>	<b>3,480.4</b>	<b>3,721.9</b>	<b>4.7</b>

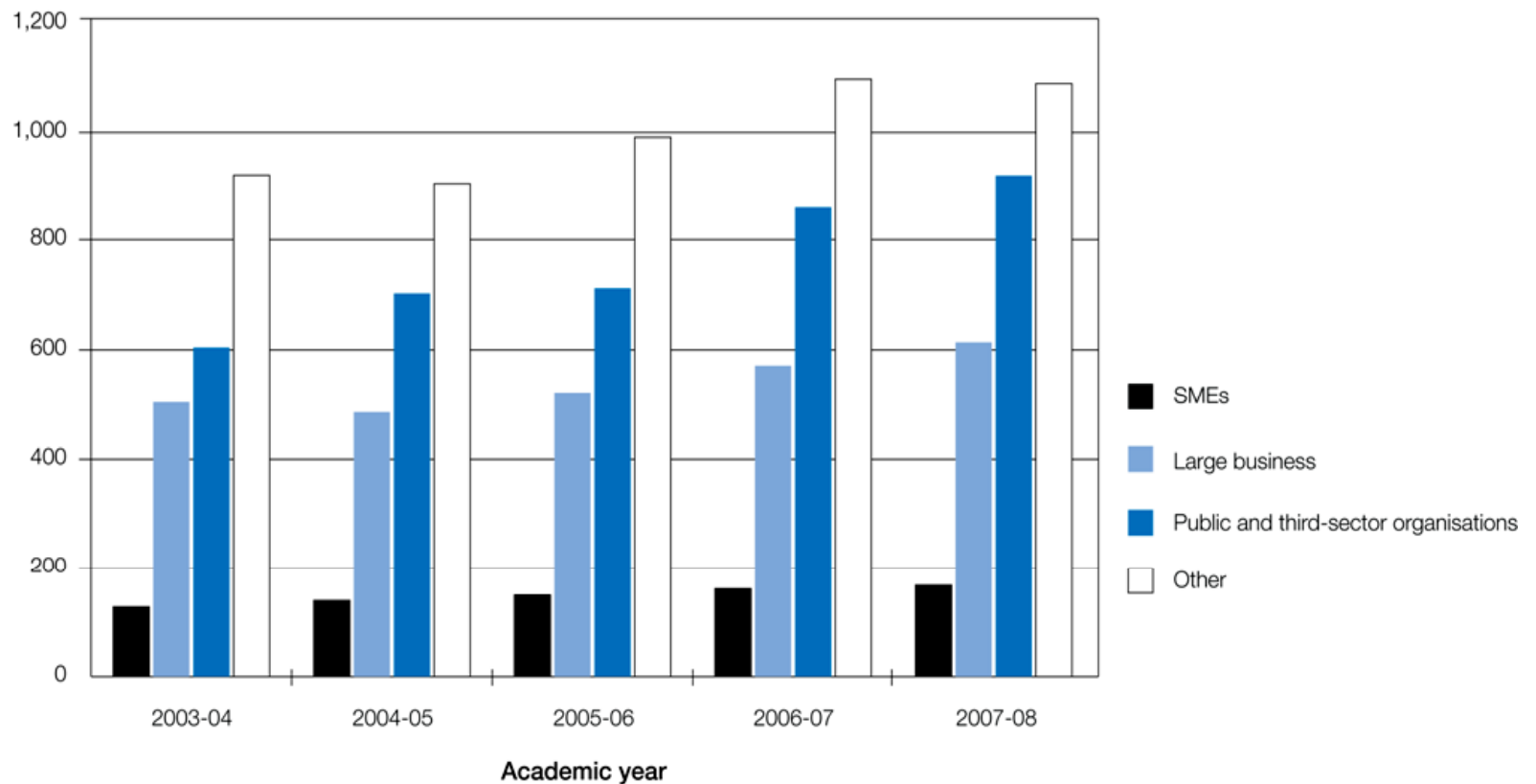
RCUK/UUK Review of the impact of FEC on the UK HE Sector - 2009



**Research  
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World-Class Research  
and Knowledge  
Exchange*

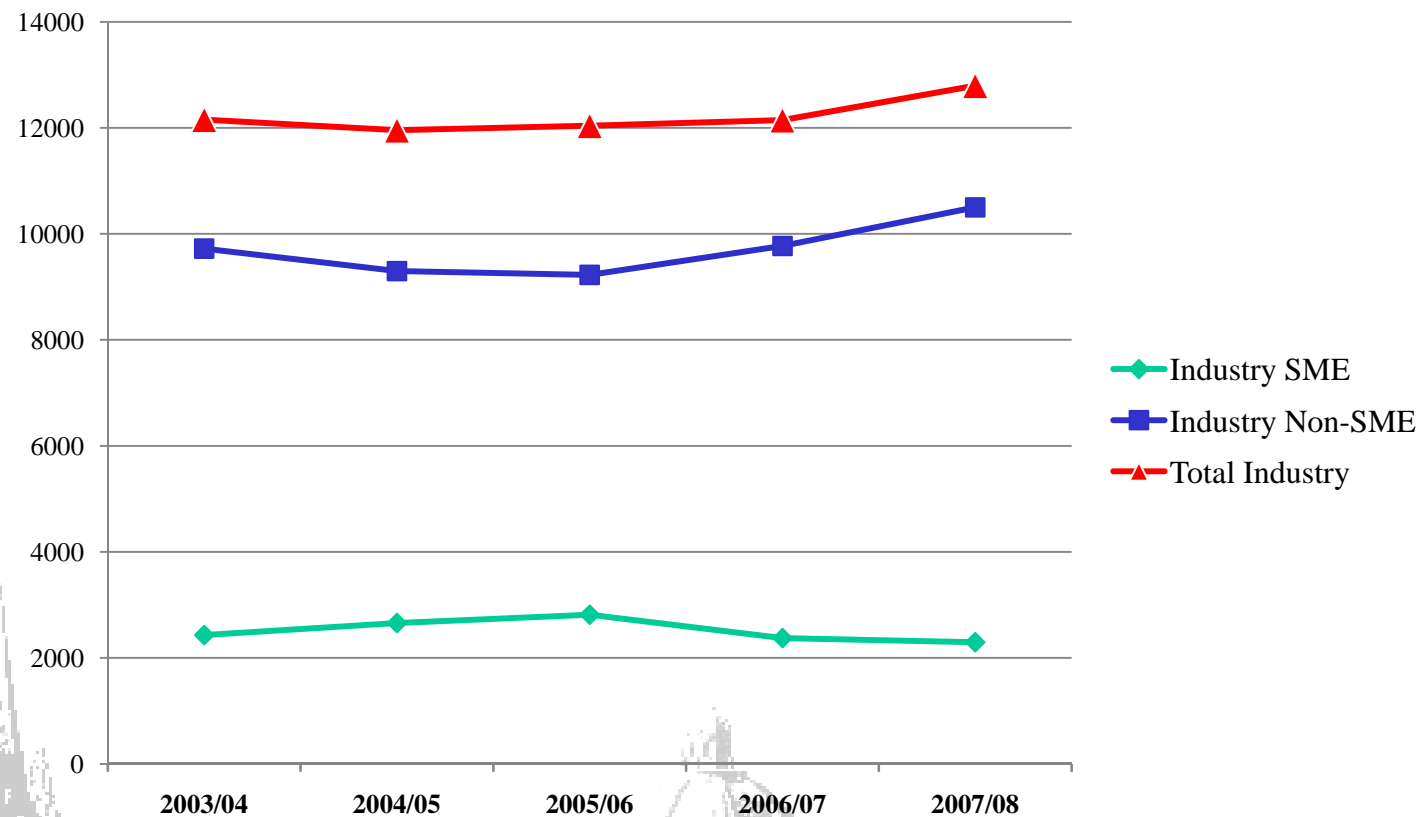
## Contract/Collaborative Research Income (£M pa)



HE-Business Interaction survey 2007/08



## Contract/Collaborative Research: Number of Contracts



HE-Business Interaction survey

# Impact on Industry Funded Research of FEC (2)

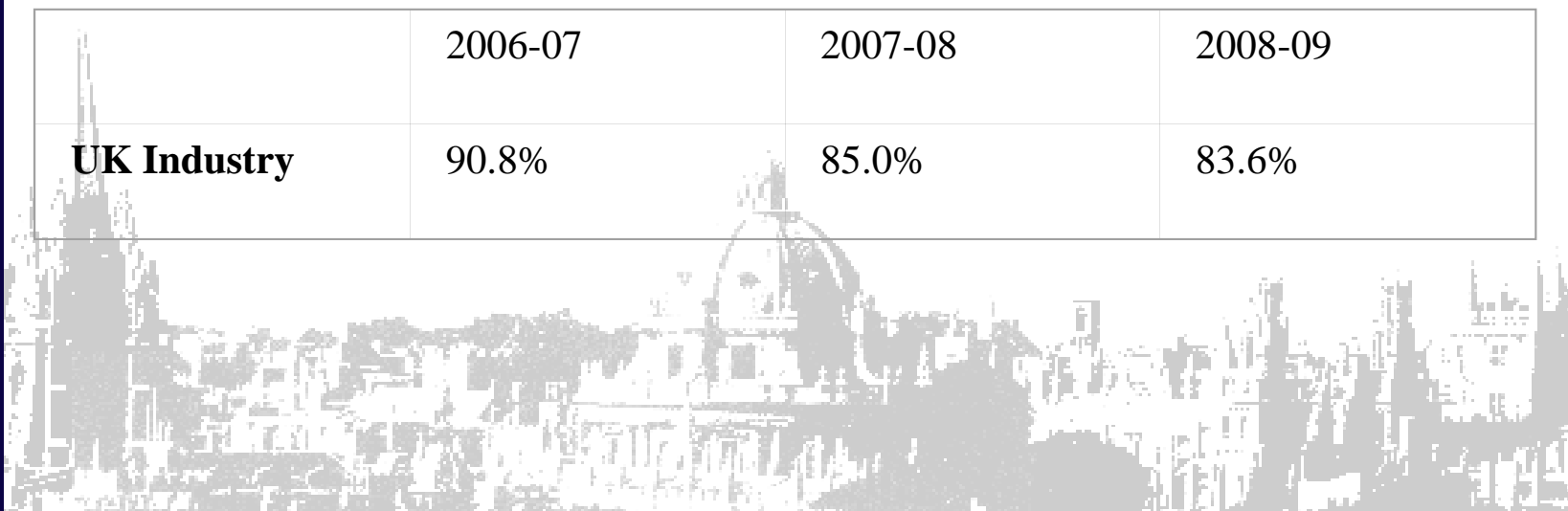
## Assessment of cost recovery in UK HEI sector

	<b>Research Councils</b>	<b>Other Govt</b>	<b>EU</b>	<b>UK Charities</b>	<b>Industry &amp; other</b>
<b>2007-08</b>	70.6%	75%	57.8%	60.4%	74.9%
<b>2006-07</b>	64.4%	72.7%	58.1%	60.2%	74.7%

RCUK/UUK Review of the impact of FEC on the UK HE Sector - 2009

## University of Oxford cost recovery

	2006-07	2007-08	2008-09
<b>UK Industry</b>	90.8%	85.0%	83.6%



# Issues which emerged (1)

## Relationships/Expectations

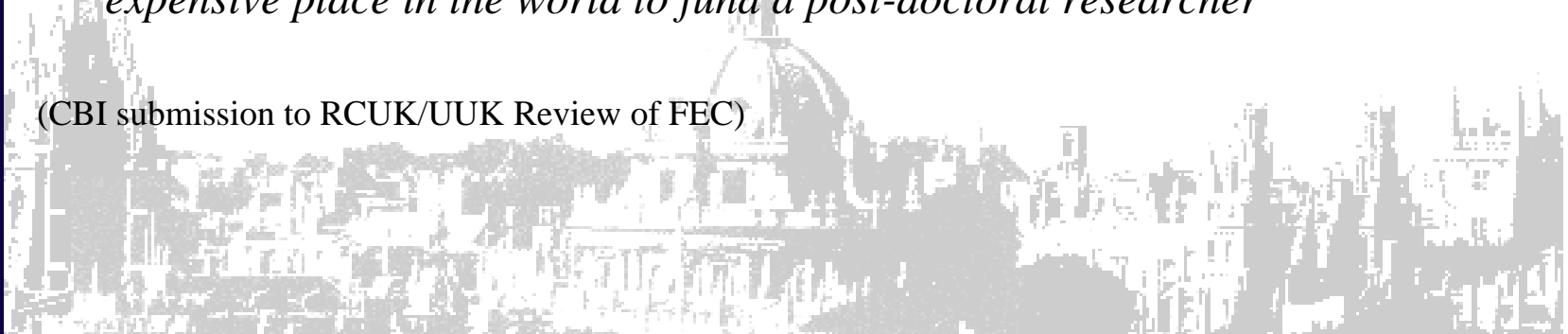
*“It must be noted that while universities were still relatively good value for money then we would accept some poorer performance (in terms of delivery of precisely that was expected) amongst the broader set of activities that we funded. When we have to pay what is described as FULL cost then we expect FULL delivery”*

*“Paying high costs is ultimately not such a huge issue if the service delivery as well as the content continue to be excellent ”*

*“If universities know their full costs, why don't they act to reduce them?”*

*“There is a general consensus among (CBI) members that the UK is now the most expensive place in the world to fund a post-doctoral researcher”*

(CBI submission to RCUK/UUK Review of FEC)



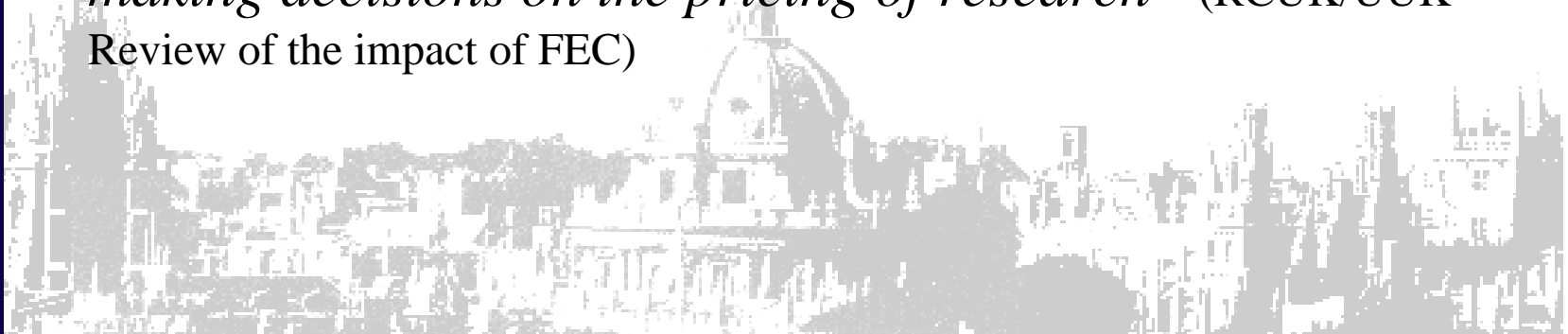
# Issues which emerged (2)

## Cost vs Price

- Universities focus too much on costs
- Transparency of costing should be at institutional not project level
- Need to shift focus from inputs to outputs
- Price against deliverables
- Adjust deliverables to budget not the other way around

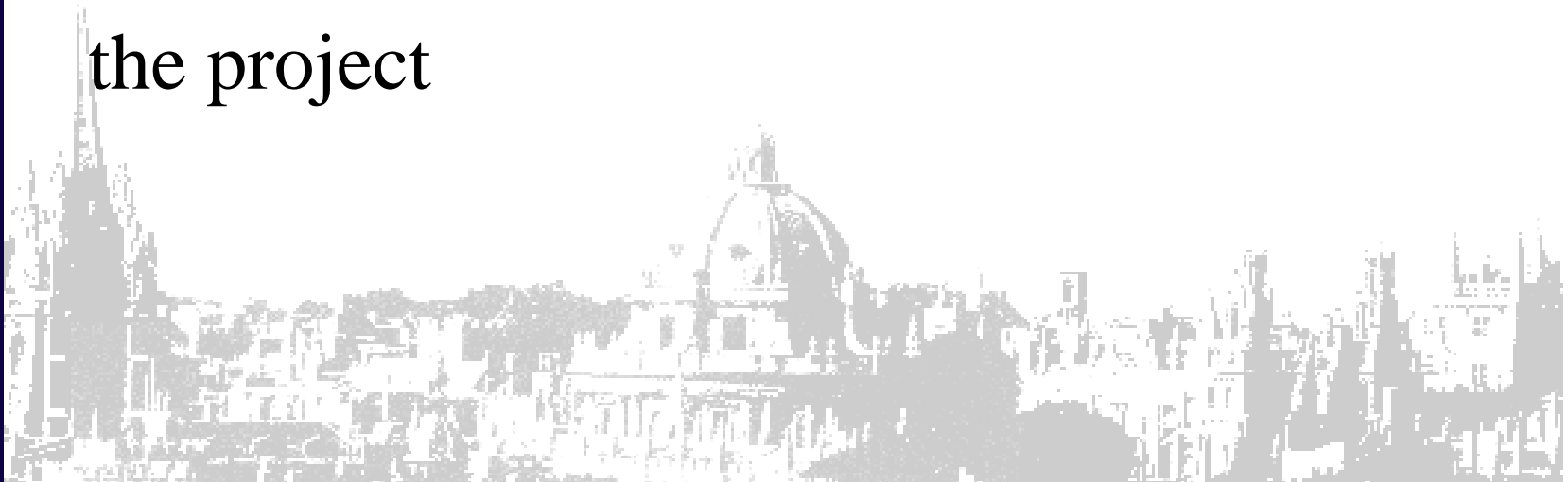
# Issues which emerged (3)

- Affects academic culture
- Contractual negotiations with industry have become more ‘robust’
  - IP rights
  - Liabilities/Indemnities
  - Publications
- *“Universities should develop a clear and explicit formulation of the factors to be taken into account when making decisions on the pricing of research” (RCUK/UUK Review of the impact of FEC)*



# Pricing Research (1)

- Price is just one element of a contract
  - The ability to use and publish results
  - Share any commercial benefits arising
  - In-kind contributions
  - Access to data, materials or facilities
- Price should reflect the circumstances of the project



# Pricing Research (2)

<b>Factors which may influence Price</b>	<b>Potential Higher Price Charged</b>	<b>Potential Lower Price Charged</b>
Who is proposing the project?	Industrial party	University
Who is providing key background technology?	University	Industrial party
Is the industrial party providing any in-kind support?	No	Yes
Will the University be retaining control over intellectual property that arises?	No	Yes
University retains the right to a share of any commercial benefits?	No	Yes
Will the University be able to publish results within a reasonable timeframe ?	No	Yes
Will the University be free to use the results for its further research purposes?	No	Yes
Will the University be free to make commercial use of the results outside of the industrial party's specified field of interest?	No	Yes
Is the University uniquely/well-placed to perform the research or could the industrial party get the research performed to a similar standard at other institutions?	University well-placed to deliver	Research could be performed elsewhere

# In Conclusion

Transparent costing will impact on relationship with industry but, for those universities who establish clear support mechanisms and policies on handling such funding (not just on pricing), it offers opportunities to put that relationship on a more equitable footing

