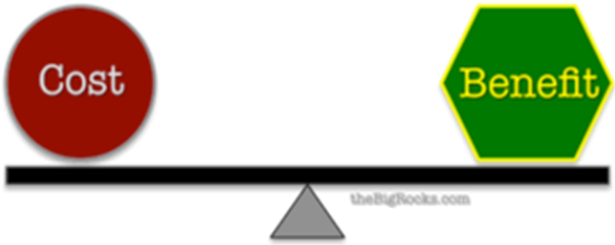
UNIVERSITY OF CAMBRIDGE

Cost & price in research contracts

Cost & price outline

- What is full economic cost (fEC)?
- Expenses to consider
- Overheads
- Calculating costs for industry
- Presenting price
- Questions



A pressured environment

More regulation and complexity	More restrictions for PI‘s
Larger individual grants	More risk for PI’s
More collaborations	More complexity for PI‘s
Reduction in available sponsored research funding	More competition for PI‘s

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Economic Slump	**Less money available for PI‘s**

FULL ECONOMIC COSTING (fEC)

fEC – a quick background

April 2006,

- *"a price which, if recovered across an institution's full programme, would recover the total cost (direct, indirect and total overhead) of the institution, including an adequate recurring investment in the institutions infrastructure"*

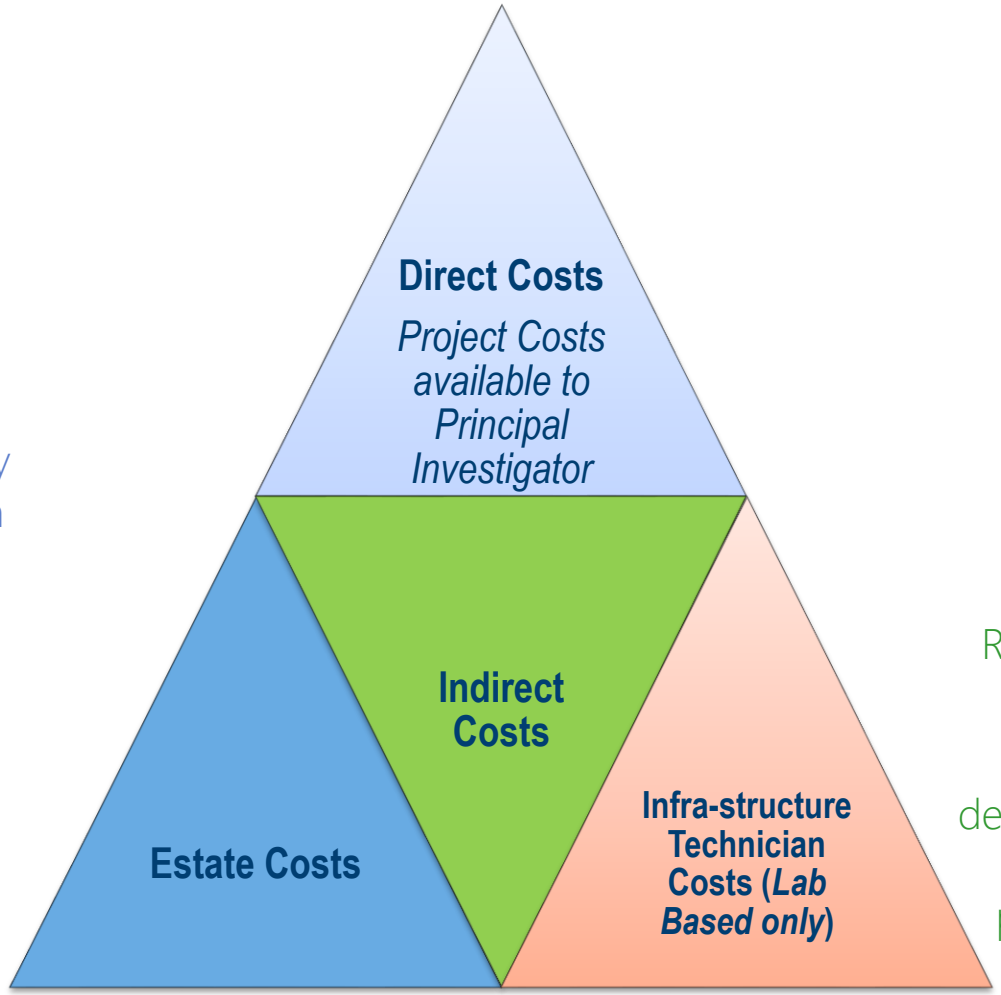
fEC Comprises

Two rates: laboratory and office/classroom

Includes:
energy/water costs,

depreciation of buildings and equipment,

cleaning/custodial services, repairs & maintenance



Indirect Costs:

Library,

HR Services,

Payroll,

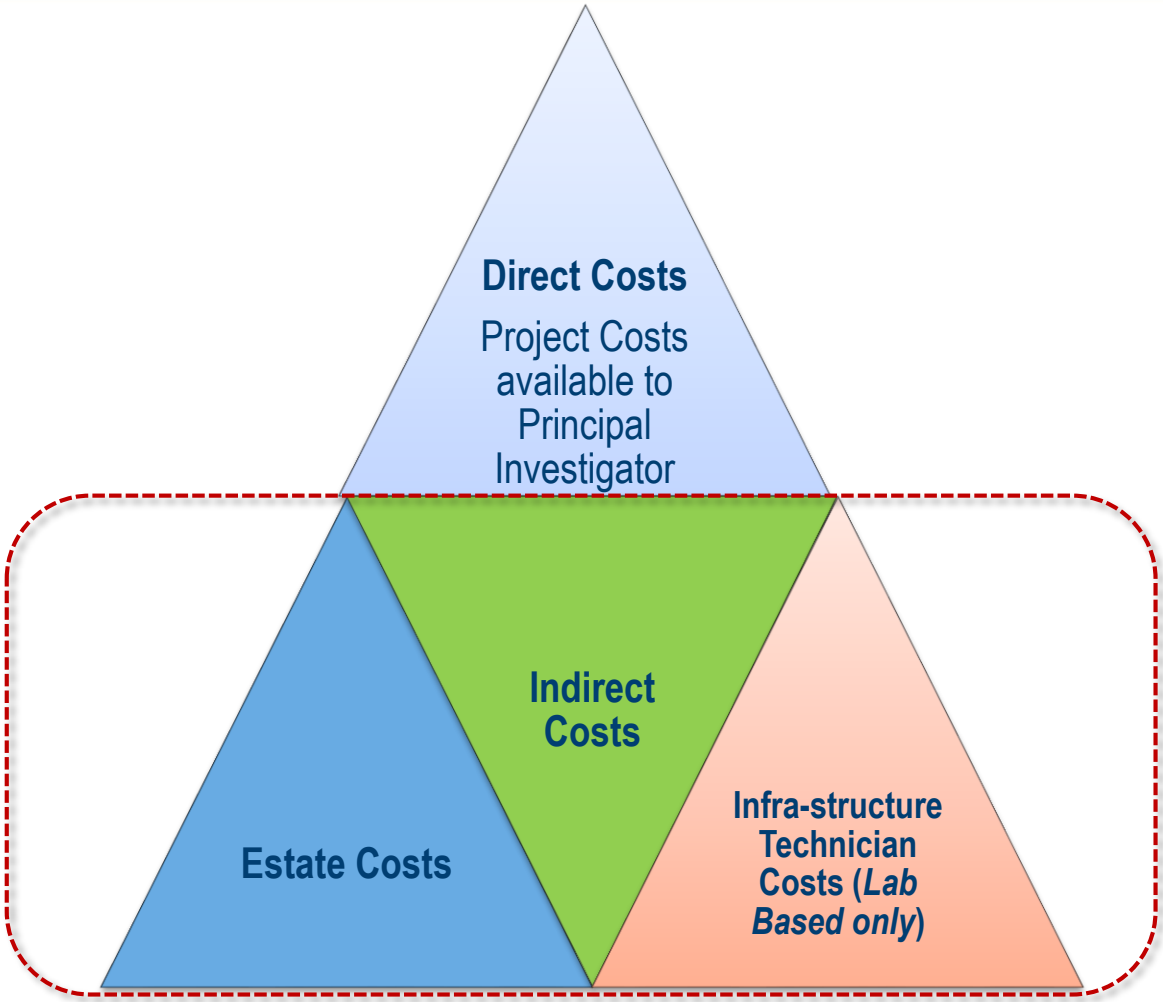
Central IT,

Finance,

Research Operations Office

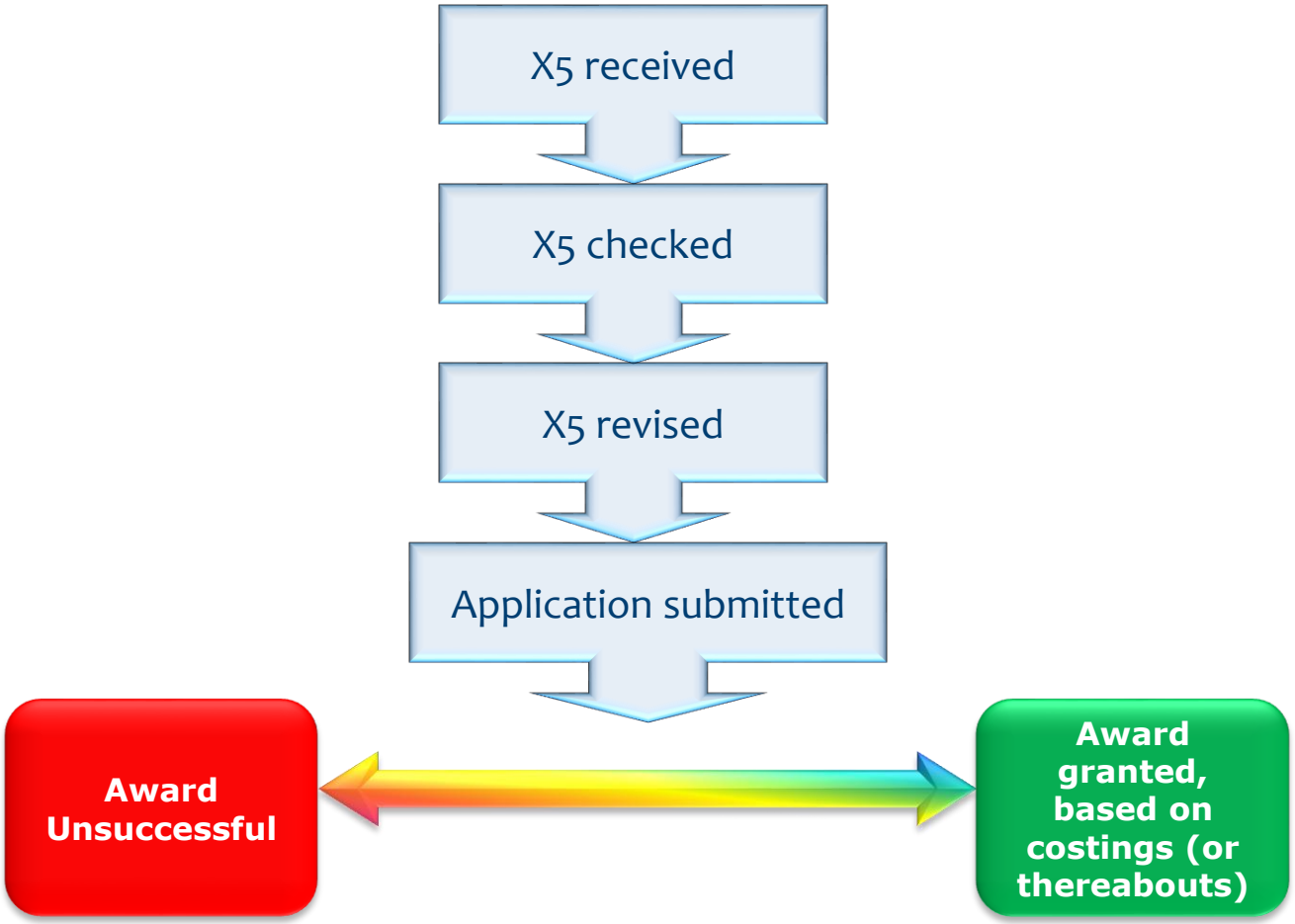
Includes departmental support staff, office supplies, postage, computers

Sustainability

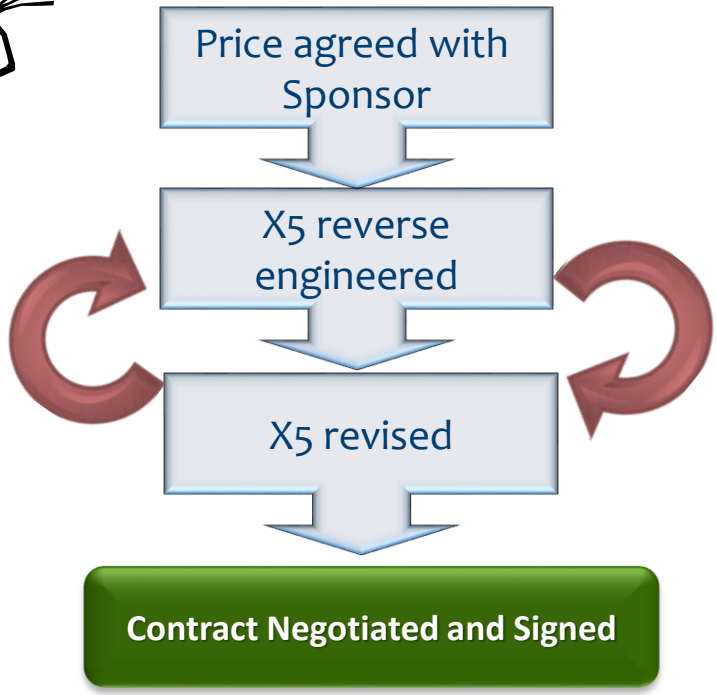


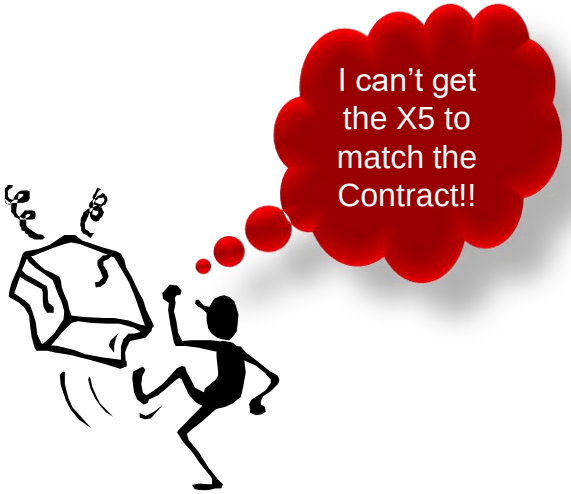
Costs incurred at Department and University Level

Cost and Award – Applications



Cost and Award – Contracts





Cost vs Price

What is the difference between Cost and Price?

Cost is the actual cost of the work, i.e. the real costs we incur in undertaking the project (salaries, consumables, equipment, overheads)

Cost vs Price *cont/...*

The **Price** is what we charge the sponsor for the work

The minimum price is the Direct Costs + The Chest share of overheads.

There is an opportunity for departments to negotiate their share of overheads up or down

Funder's Terms & Conditions

What are the key areas we should be aware of?

Financial:

- Staff
- Equipment
- Reporting
- Penalties

But remember….

Are other terms & conditions compatible with and acceptable to the University?

Questions to answer at planning stage

1. Is the PI already paid from the Chest? (DI or DA)
2. Will the project require replacement teaching for PI?
3. Does the project require sub-contractors (VAT may be incurred)?
4. Does the project require sub-collaborators?
5. Does project require non eligible resources (where funded?)
6. Does the project require equipment with matched funding?
7. Does the project require specific lab/greenhouse/facilities?

Calculating costs for Industry

Same considerations in calculating the cost of a Project…..

But……

- Cost is not necessarily the same as the Price charged
- There is no requirement to itemise the Price
- Price can be broken down in various ways

And….

Income Allocation Policy (IAP)

- The centre is responsible for ensuring overhead recovery
- IAP sets out target rates for fEC recovery that differ according to sponsor type
- For industry sponsors, target rate differs depending on position of ownership of arising intellectual property
- Share of overheads between centre and department varies between sponsors

Income Allocation Policy (IAP)

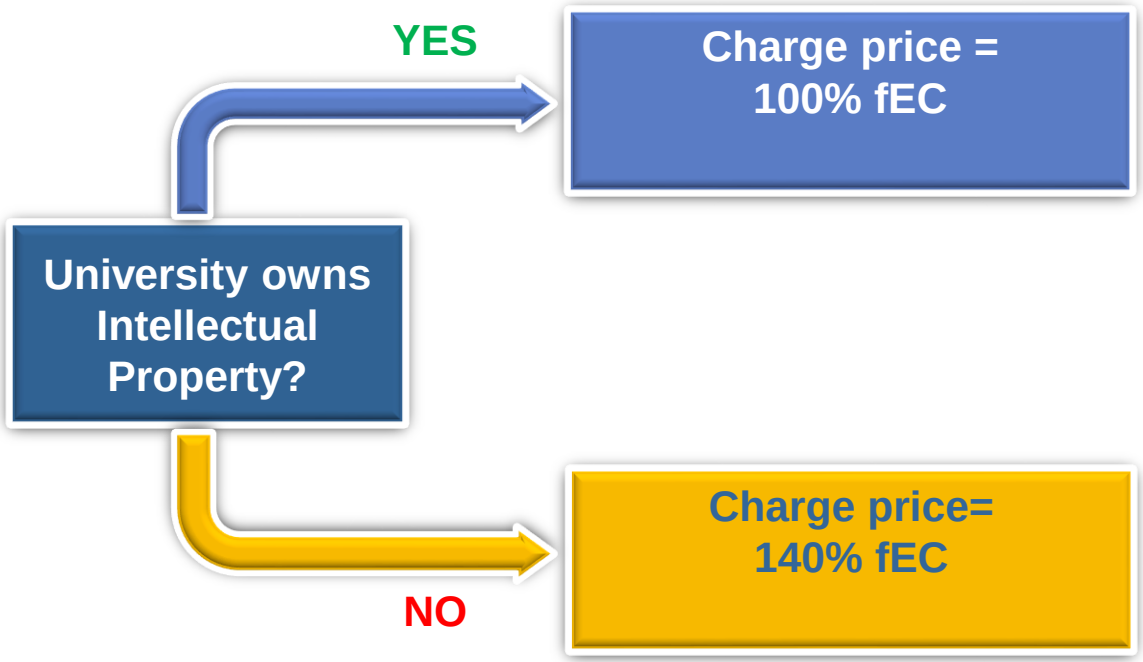
RG & C Income Policy	Income policy	
	Chest	Dept
Research Councils	80%	20%
UK Government		
UK Charity		
Royal Society		
British Academy		
Other (e.g. overseas)		
EC	50%	50%
Industry		

So….?

Postdoc, Travel etc.	Estates, Indirects	fEC Recovery	Chest	Department
Direct	Non-Direct	%fEC		
70	30	100		
70	50	120		
70	20	90		
70	10	80		

Industry - Income Allocation Policy

Over-simplified summary:



Industry - Other considerations

But what about…?

- *If we own Intellectual Property jointly?*
- *If we are restricted in our use of the results?*
- *If our publications are delayed?*
- *etc., etc., etc.*

Remember…. all is negotiable – that includes the price!

A Strategy of Flexibility

Contradicting needs and goals - what can we do?

- Awareness of perceptions and assumptions
- Flexibility and capability to change models and approach
- Understanding pricing cannot be disconnected from the research, the needs of industry, the contract terms, the engagement levels of relationship building
- Having a clear idea of the needs of your PI(s) and knowing which restrictions are acceptable for your PI(s) and the University at large (minimise restrictions)
- Promote/foster/support closer academic/industry collaboration, interaction, communication
- **Focus on and support identification and alignment of mutual interests and benefits**

Pricing Model 1

1. Fixed price, no breakdown

Pricing Model 2

2. Bare mention of fEC

Pricing Model 3

3. No mention of fEC

BUT…

- Life's not like an exercise and rarely follow models
- Best intentions could be scuppered by PI delivering figures to sponsor in advance (missing overheads)
- Sponsor may set a budget limit and the costs then need reverse engineering

Summary

- Pressure of academic life today
- Looked at how cost & award and cost & price differ between grants and contracts
- Looked at different ways of presenting price
- Income Allocation Policy and IP position
- Industry Pricing Policy
- Seeking appropriate funding from industry

Questions