University of Melbourne
Costing and Pricing Policy for Research
(Approved by the Planning and Budget Committee, March 7, 2007)

1 Scope
This policy applies to research activities only that are normally priced on the basis of salary and on-costs. It does not apply to consultancies, which should be priced at commercial market rates, meeting all costs and normally generating a net profit.

2 General Principle
The University of Melbourne aspires to be a world class institution, conducting research that is the equal of that conducted at the very best institutions worldwide. This implies that the University must commit itself to the highest standards of service, and must also ensure that its research effort is adequately resourced. It also implies that the University must ensure that our research partners recognise the value that we deliver, and this in part is reflected in the price that they pay for our services. Any attempt to deliver the highest quality of research at ‘bargain-basement prices’ is flawed in both economic and reputation terms. In determining the appropriate price for a particular research engagement, it is therefore desirable to set the highest price possible, consistent with delivering value to the sponsor/client. It is the responsibility of the chief investigator to determine the appropriate price for any research with these factors in mind, and in each case the price is subject to approval by Heads of Department (and Deans, in some cases).

In practice, a large proportion of research conducted at the University occurs under regulated pricing regimes. As shown in the chart below, approximately 42% of the University’s research income comes from Australian Competitive Grants, whose pricing is highly regulated. Specific arrangements for these and other programs are further discussed below.

![University Research Income (2005)](image)

Where no regulations exist, it is important that the chief investigator is mindful of the full cost of undertaking the research when setting the price, to ensure that all costs are met. Also, it is important for compliance with relevant acts and Competitive Neutrality Policy that the price is established in a clearly defined way.¹

¹ The University of Melbourne is committed to a general policy of fully costing externally funded research projects in accordance with the principles of competitive neutrality. The Costing and Pricing Policy for Research herein affirms the University’s compliance with the Trade Practices Act and the National Competition Policy and documents procedures for establishing the price of research activities that are a subject of a competitive grant application, or have been commissioned by external organisations.
3  The Cost of Research
The total cost to the University of undertaking a research project can be thought of as the sum of direct costs and indirect costs (overheads/infrastructure).

Those costs incurred specifically to carry out the project are termed **direct costs**, and typically include:

- salary and on-costs of staff employed to work on the project (including technical, clerical and secretarial assistance)
- salary and on-costs of academic staff working on the project
- stipends for student research assistants and postdoctoral fellows
- computing costs
- materials and supplies
- equipment and components
- brokerage and freight
- communications (long-distance telephone, fax, courier, postage)
- services such as photocopying, report production, photography
- external consulting services
- workshop and other scientific services
- special Facility use charges
- travel and living expenses (conferences and field work)
- space rental

**Indirect costs** are those which are not necessarily directly related to the project, but which must be incurred nonetheless. These include general University physical and ICT infrastructure, University administrative services, the costs of supervising students and access to University research equipment and facilities that may include highly specialised, expensive resources. In the context of contract research it may also include costs associated with managing liaison with the client, and also a contingency to ensure specific objectives are met. Calculation of these indirect costs is particularly important to ensure that the University does not inadvertently subsidise research unnecessarily. For simplicity, indirect costs are usually expressed as a multiple of direct costs, although this is a rule of thumb rather than a direct relationship. These costs can be calculated using the ‘Budget Form for Research’².

4  Pricing of Research Projects
The price to be charged for a research project is determined, in the first instance, by the chief investigator, and should take into account at least four factors:

1. the general principle set out above
2. a comprehensive analysis of direct and indirect costs to ensure that these are understood and covered
3. a full understanding of what price would represent acceptable value to the client/sponsor (bearing in mind that, whilst no sponsors wish to pay more than they have to, they are seeking access to premium-quality University research and should expect to pay accordingly)
4. a deliberative, defensible decision of the final price in the context of Competitive Neutrality guidelines (i.e. to ensure that the price is not unreasonably low and is not being subsidized by use of public assets)

Researchers must complete the appropriate University documentation to help calculate and establish the final price. For grant applications this will mostly be determined by the funding rules and budget templates provided by a grantor. For all research contracts the

Budget Form for Research (SECTION A - Direct Costs) should be completed as a minimum. SECTION B - Indirect Costs should be completed in those circumstances where the University’s in-kind contribution to a project needs to be established.

Wherever possible, researchers should seek to fully include indirect costs in the price sought from a research sponsor. These costs should be written into draft budgets and discussed with the sponsor as early as possible in the process of scoping out the project. If early discussions address only direct costs it will be very hard to introduce indirect costs later in the discussion, say, for example, when research agreement negotiations are drawing to a conclusion.

University of Melbourne policy requires a minimum indirect cost level of 35% of direct costs. In other words, the minimum price to be charged for a research project is 1.35 times the sum of all direct costs. However, in many instances a higher price should be charged. This is especially the case in dealing with business and industry, and with government agencies who have approached University researchers to carry out certain projects; the aim should be to charge, wherever possible, 45-60% on top of direct costs.

Note that all direct and indirect project income goes to the relevant faculty/department.

In the context of Government policy on Competitive Neutrality, the University must not compete on price for research contracts, tenders or commissions against private sector organisations unless the price to be charged includes a minimum indirect cost level of 35% of direct costs.

5 Exemptions from Pricing Policy
Exemptions to the pricing policy are only to occur in exceptional circumstances. It is important to note that, under the University’s current funding model, reductions in cost recovery factor directly result in reduced income to faculties and departments.

It is acknowledged that some granting schemes regulate how prices are set, and thus the relationship between full cost and pricing is not direct in those cases. These schemes may specify that no indirect costs may be charged, or may set a limit on the level of indirect costs that will be met.

In some cases, external businesses or government departments will try to persuade the chief investigator to exclude some or all of the indirect costs, usually claiming that they are some sort of ‘special case’. Whilst it may be appropriate for ‘discounts’ to be given in some cases (see ‘Exemptions’ below), chief investigators should remember that in doing so they are committing scarce University resources to the project, and that under-pricing in the long-run diminishes the resource base of the department/faculty and the University.

5.1 Exemptions Not Requiring Dean’s Approval
As noted above, many of the research activities at the University are undertaken within schemes that regulate prices. In such circumstances exceptions to the pricing policy apply, and the indicated pricing model can be used without requiring the approval of a Dean.

<table>
<thead>
<tr>
<th>Category</th>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian National Competitive Grants</td>
<td>All eligible items under funding rules</td>
<td>NA (not permitted under Government policy)</td>
</tr>
<tr>
<td>Other grants</td>
<td>All eligible items under funding rules</td>
<td>Maximum level of cost recovery allowed for under funding rules (e.g. NIH, 8%)</td>
</tr>
<tr>
<td>Postgraduate student stipends that are the sole component of a research project budget</td>
<td>Stipend plus support costs</td>
<td>0%</td>
</tr>
<tr>
<td>Major items of equipment (&gt;100K) included in a research</td>
<td>Cost of equipment, including any installation and training</td>
<td>0%</td>
</tr>
</tbody>
</table>
5.2 Exemptions Requiring Dean’s Approval
Chief investigators should always seek to include full indirect costs in the price of research work. Where, in exceptional circumstances (other than those set out in 5.1 above), this is not possible, a request to reduce or waive the minimum indirect cost recovery factor of 35% must be authorised by Deans upon written request from the chief investigator, endorsed by the Head of Department, and supported by a compelling business case. Such exceptional circumstances might include but are not limited to:

- where the project is providing specialised equipment that would remain in the possession of the University at the end of the project and be available to support further research at the University (so that the loss incurred by the University in conducting the work below cost is compensated for in the longer term)
- where a substantial part of the research is being conducted by another party (e.g. a collaborating organisation or a sub-contractor) and does not represent an indirect cost to the University
- where a sponsor’s written policy on contract research defines a maximum indirect cost charge less than 35%.

6 Responsibilities of Departments and Faculties
6.1 Approving Budgets for Research Grants and Contracts
The Planning and Budget Committee approved new administrative procedures for the costing and pricing of research grants and contracts that came into effect in January 2006. Under these new arrangements Heads of Department or Department Managers are able to approve budgets included in grant proposals or research contracts without reference to the Research Office, provided that, in their view, the Department has sufficient resources and time to complete the research project. In addition, requests to waive or reduce the minimum cost recovery factor can be made through Heads of Department to the Dean.

6.2 Allocation of Overheads
The allocation of overheads to the Faculty and Departments is a policy matter for the Dean of each Faculty. Deans should ensure that the policy is clearly communicated to all their staff and formally notified to the Vice-Principal (Research).

6.3 Documentation and Record Keeping
Documentation relating to any request for the waiver or reduction of overheads, and the subsequent approval given by a Dean, must be retained by the Department, in a project file. It is also recommended that copies of the documentation be attached to the project record in Themis Agreements.

7 Responsibilities of the Melbourne Research Office
The Research Office will continue to provide advice to researchers and Departments on preparing budgets for grant applications and research contracts. The Research Office will also maintain the Budget Form for Research (available on the Research Office web site) and documentation relating to this policy to reflect any changes that might be made from time to time, and authorised through the Planning and Budget Committee. Copies of completed budget forms may be submitted by Departments to the Research Office for lodgment in a Central Records or project file.