Imperial College London

Policy Title	**COSTING AND PRICING OF EXTERNALLY FUNDED RESEARCH**
Version	12
Reference	ROP/01
Effective Date of Policy	1 January 2022
Dissemination Method	Research Office to Faculty Deans for faculty dissemination
Policy Review Date	1 October 2024
Policy Owner	Director of the Research Office
Revision Timetable / Process	Regular review of the policy is required to ensure it evolves to support the changing funder portfolio and College needs.

Contents

1. INTRODUCTION

1.1 Description

Application: Costing principles apply to all externally funded research projects irrespective of the source of funding.

Pricing principles apply to all externally funded research projects and are differentially applied depending on the source of funding

Exceptions: Applications for approval of exceptions to the costing principles set out in this policy should be made to the Director of the Research Office.

Applications for approval of exceptions to pricing policies should be referred to the relevant Faculty Finance Officer in the first instance.

1.2 Background

In 1998, the UK government launched the Transparency Review to demonstrate the full costs of research and other publicly funded activities in higher education. This led to the creation of a costing methodology called Transparent Approach to Costing (TRAC) which is used by Higher Education Institutions (HEIs) to determine the costs of three activities at an institutional level – Teaching, Research and Other – using a range of appropriate drivers. 'Other' includes non-academic activities such as residences and catering.

Full Economic Costing methodology was introduced in September 2005 and is a development of TRAC. It is used by HEIs across the UK to calculate the full economic costs of research activity at a project level and provides a framework for managing the long-term financial sustainability of research.

1.3 Aims

Imperial College London's mission is to achieve enduring excellence in research and education in science, engineering, medicine and business for the benefit of society. Financial sustainability is essential to ensuring that the College can deliver world-class scholarship, education and research.

To manage research on a sustainable basis, the College aims to: establish and recognise the full economic costs of research; secure better prices for research; manage bids and relationships effectively; manage research activity strategically; improve project management and cost recovery; and invest in the research infrastructure.

The College's costing and pricing policy is designed to:

a) Increase awareness of the requirement to establish the true cost of research.

b) Ensure that best practice for costing and pricing is embedded within the College.

c) Ensure that pricing outcomes result from an explicit process of informed decision making.

d) Ensure that pricing decisions do not contribute to the perceived "low price" culture within the university sector.

e) Support the development of faculty pricing policies in line with College policy.

2. PRINCIPLES GOVERNING THE COSTING OF EXTERNALLY FUNDED RESEARCH

2.1 All research proposals for external research funding (other than the exceptions approved in line with Section 1.1) must be costed using Full Economic Costing methodology (see APPENDIX I).

2.2 The Full Economic Cost (FEC) represents the cost of all resources necessary to undertake an individual research project.

2.3 The FEC is not dependent upon what the funder will pay. The pricing of a research project should be informed by the FEC, but specific project costs must not be excluded from the FEC in order to fit within the price available.

3. PRINCIPLES GOVERNING THE PRICING OF EXTERNALLY FUNDED RESEARCH

General

3.1 The price represents the amount that a funder is willing to pay and what the College is willing to accept, i.e. the price can be equal to, lower or higher than the FEC.

3.2 Once the FEC of a project is established, it is the price that will vary depending on the funder.

3.3 Project Recovery is the percentage difference between the FEC and price. This is calculated by dividing the price by the FEC:

- **Over-recovery** - when the price is more than the FEC (>100% recovery)
- **Full recovery** - when the price equals the FEC (100% recovery)
- **Under-recovery** – when the price is less than the FEC (<100% recovery)

Over-recovery provides an institutional surplus. Under-recovery requires an institutional contribution.

3.4 The College undertakes a wide range of research activity, ranging from research conducted for the benefit of the public supported by public bodies, to commercially sponsored research. Pricing is dependent on the funder portfolio (which may include a combination of commercial and non-commercial bodies) and the nature of the activity.

3.5 Pricing should take account of the College's strategic and financial objectives.

3.6 In all cases (whether it is non-commercial or commercial research), the price cannot be proposed to the funder without appropriate internal consultation and authorisation in line with the College's Approval and Authorisation Policy and any approved faculty-specific pricing policy if applicable.

3.7 Deviation from the pricing policies of non-commercial funders as listed in 3.13 is not permitted.

3.8 With the exception of those for which prescribed pricing policies apply (see 3.13), research projects which are funded at less than FEC cannot be undertaken without appropriate justification and authorisation in line with the College's Approval and Authorisation Policy and Preferred Terms and Conditions Policy, e.g. to acquire benefits which will contribute to future academic endeavours or for other strategic reasons.

3.9 Maximising the pricing of externally funded research grants and contracts is essential for the long-term financial sustainability of the College's research base. The pricing of a research project should be informed by an understanding of the FEC of that research project. The FEC must be recovered in the price charged wherever possible, whilst recognising that in some cases, the price is set or restricted by the funder.

3.10 The price must include a provision for known and/or anticipated pay awards. The College will not centrally cover any shortfalls arising from inadequate provision for salary increases, nor will it cover any shortfalls arising from an indexation rate which is imposed by the funder themselves.

3.11 Negotiations with funders should focus on the staff and other resources necessary to undertake the research project and its outcomes. Costs should not be disclosed unnecessarily.

3.12 If a project includes subcontracted activities, academic departments should also consider the associated costs of managing multi-partner collaborations (e.g. contract negotiation, project management).

Non-Commercial Research

3.13 The FEC should be recovered in the price charged wherever possible, but it is recognised that the pricing of a research project is often not entirely within the College's control. In some cases, the price is set or restricted by the funder. This means the FEC must be 'translated' into a price in accordance with the funder's terms and conditions.

Examples of funder-prescribed pricing policies include:

- **Research Councils** - pay a proportion of FEC. This is currently set at 80% of the FEC with exceptions, e.g. new equipment (which will be awarded at variable rates).

- **Other Government Departments** - generally pay 100% of FEC on non-competitive research contracts, but this will vary depending on government department and funding scheme.

- **Charities** - usually pay Directly Incurred costs only but may occasionally meet some Directly Allocated costs for certain projects.

- **European Commission** - set their own pricing policies for each framework programme and associated funding schemes.

3.14 Public bodies (e.g. Research Councils) that fund research which demonstrably contributes to the enhancement of the UK research base or in some other way funds research for the 'public good', should never be charged more than FEC.

Commercial Research

3.15 For commercial funders (UK and overseas) and other UK Government Departments that operate a competitive tendering mechanism for specific funding opportunities, there is flexibility to set a price that takes account of the 'market value' of the research; level of competition; and potential for 'promotional pricing'. The pricing strategy is open to negotiation and reference should be made to faculty-specific pricing policies if applicable. Negotiations with funders should focus on the resources necessary to support the project and the value attached to the research activity by the funder, i.e. to compete on quality rather than price. Where possible, costs should not be disclosed unnecessarily, such as showing the 'overhead' recovery as a separate item when quoting a price.

3.16 Pricing decisions should take account of associated contractual obligations and the Preferred Terms and Conditions Policy. For example, deviation from the preferred terms of trade relating to the right to publish would mean that a project falls outside of the definition of academic research.

3.17 Commercial research may be priced above FEC. When providing unique expertise in particular, the College should seek to charge a premium in excess of FEC which will result in an institutional surplus. Pricing decisions should be informed by the “market context”. This will require an understanding of areas such as:

a) Funder’s willingness and ability to pay and the value of the College’s research to their business.
b) The College’s position within the wider market, e.g. ability to retain or gain market share.
c) Existence and knowledge of competitors.
d) Opportunities to take advantage of gaps in the market and/or gain a competitive edge.
e) Ability to respond to the funder’s priorities where appropriate, i.e. supply versus demand.
f) Impact of funder-imposed obligations outside of the College’s Preferred Terms and Conditions, e.g. consequences of assigning intellectual property ownership in return for a price above FEC.
g) Potential risks and threats which need to be minimised before proceeding.

3.18 Where commercial research is priced below FEC, this needs to be supported by a strong justification that shows the link between the activity and the core strategy of the College. This justification must be approved by the Head of Department before submission to the funder.

Factors that may support a recovery rate below FEC (subject to faculty approval and College authorisation) include research which:

a) Is considered of strategic academic and/or strategic commercial importance.
b) Secures or attracts further research funding without setting a precedent, e.g. pump-priming; feasibility studies.
c) Is collaborative (e.g. if a faculty has funds available to propose a jointly-funded programme). In this case, the financial contribution from each partner and share of intellectual property rights will need to be clearly established at the outset.
d) Secures specialist equipment or other support in kind (e.g. laboratory refurbishment) which continues to support further research.
e) Significantly contributes to the College’s prestige and reputation e.g. through an improved Research Excellence Framework (REF) submission.
f) Involves a substantial component that is conducted by another party but does not represent a significant opportunity cost to the College.
g) Provides substantial doctoral student sponsorship or bursary funding.

3.19 If the proposed funding does not meet FEC, the department (in consultation with the PI) must either:

a) Accept that the activity will be cross-subsidised (and explicitly record how and from where it will be subsidised); or
b) Reduce the project scope and cost (if the price is fixed); or
c) Accept the funding on a promotional basis (ensuring no precedent is set); or
d) Accept the funding but discourage future agreements on similar terms; or
e) Decline the funding

4. FACULTY OBLIGATIONS

As determined by the College, each faculty is required to:

Costing

4.1 Calculate the FEC of all research projects (irrespective of the source of funding) in accordance with FEC methodology (see APPENDIX I).

4.2 Calculate and record the final institutional FEC of a project using the College's Pre-Award management system, Worktribe, to ensure accurate reporting of cost recovery. Worktribe is used for developing project costings and supports internal approval prior to proposal submission.

4.3 Ensure that this costing policy has been complied with in accordance with obligations set out in the College's Approval and Authorisation Policy.

Pricing

4.5 Ensure all pricing decisions are considered and approved in line with the College's Approval and Authorisation Policy and Preferred Terms and Conditions Policy.

4.6 Adhere to the prescribed pricing policies detailed in 3.13 if applicable.

4.7 Ensure that the development of a faculty pricing policy is in line with the College policy for research activities where pricing is open to negotiation (e.g. commercial research).

4.8 Ensure that the Research Office is notified of a faculty pricing policy as this is developed and updated.

4.9 Ensure that the terms of a faculty pricing policy do not detrimentally impact the research activities of other faculties.

4.10 Ensure that cross-faculty bids and collaborations are supported. It is the responsibility of the lead faculty to ensure that a final price is agreed in consultation with all participating faculties and departments.

4.11 Manage and monitor price recovery across the entire funder portfolio as part of a faculty's normal business and in line with any College reporting requirements.

APPENDIX I

FULL ECONOMIC COSTING SUMMARY

Detailed guidance on Costing and Pricing can be found on the Research Office website:
https://www.imperial.ac.uk/research-and-innovation/research-office/preparing-and-costing-a-proposal/costing-and-pricing/

FEC Definitions

a) **Directly Incurred (DI) Costs** are costs that are explicitly identifiable as arising from the conduct of a specific project. They are charged as the cash value actually spent and supported by an audit record, e.g. staff costs, consumables, travel, equipment.

b) **Directly Allocated (DA) Costs** are costs of resources used by a project that are shared by other activities. They are charged on the basis of estimates rather than actual costs, e.g. Principal Investigator (PI) and Co-Investigator (Co-I) time and salary, Estates costs, Directly Allocated Infrastructure Technicians and Pool Technicians, Directly Allocated research facilities.

c) **Indirect Costs** are non-specific costs charged across all projects based on estimates, that are not otherwise included as Directly Allocated costs, e.g. Finance, Human Resources, ICT, Library.

d) **Full Time Equivalent (FTE)** is the amount of time an employee works as a proportion of full time, e.g. an employee appointed for 12 months on a project for exactly half of their working time would equate to an FTE of 0.5 (50%) for that period.

e) **Project FTE** is the sum of the researchers' FTE (both academic staff and researchers) and postgraduate research (PGR) students (weighted for different types of cost for PGRs). Only staff that undertake research are counted within the Project FTE. Support staff are not included.

FEC Methodology

f) FEC methodology uses three cost categories:

- Directly Incurred Costs
- Directly Allocated Costs
- Indirect Costs

g) Part of the FEC calculation is an estimate of the time that a Directly Allocated Principal Investigator (PI) and any Co-Investigator (Co-I) contributes to a research project. At the College, Directly Allocated academic staff costs are calculated using pay bands, i.e. an average cost is calculated for several pay ranges.

h) The College maintains two Estates rates:

- Laboratory
- Non-Laboratory

The Estates rate applied to an academic or researcher is determined by the default rate assigned to their department.

i) A single Indirect Costs rate is set annually at institutional level and is assigned to all academic departments.

j) Estates and Indirect Costs for a research project are calculated by applying the appropriate institutional Estates rate and institutional Indirect Cost rate and multiplying it by the total Project FTE for all academic and research staff working on the project. Therefore, the Project FTE is the driver for calculating Estates and Indirect Costs.

k) Indexation (i.e. inflation) will be automatically applied to all relevant cost categories when calculating the FEC of a project, regardless of the funder's policy on indexation. The indexation rates are approved annually by the College's TRAC Committee.