

UNIVERSITY OF EXETER

Making Pricing Decisions: Costing, Pricing and the University's Income Distribution Model

1. The purpose of this advice is to guide academics in cost recovery and pricing decisions with a view to improving Schools' trading positions. The guidance takes account of the full economic costing (fEC) agenda which is explained further within the accompanying annexes.
2. This document is divided into three parts:
 - A – Advice to Academics
 - B – Supplementary Guidance for the Head of School / Directors of Research
 - C – Useful Resources: where to go for more information

Key Definitions

Cost:

Costing involves tracing how resources are used within the organisation and matching expenditure incurred with final outputs. Costs include direct costs that are relatively easily identified (eg. salaries, materials and services) together with indirect expenditure. The latter is attributed to units based on allocations or apportionments – eg. space is allocated to projects/courses etc. based on square metres occupied, professional service costs based on cost drivers such as students or staff. Cost drivers are chosen to reflect factors which change the costs of the activity – for example Personnel costs would be allocated to units based on staff input.

Price:

Prices charged to customers / sponsors may be informed by costs but should also take into account other factors – for example:

- how the market behaves – eg. consumer reaction to increases / decreases in the level of income sought;
- whether markets are regulated or deregulated;
- the strength of competitors – whether there is direct competition or whether the University is the sole provider – eg. the market for overseas students is well developed causing little variation in prices from one institution to the next;
- Corporate Strategy – institutionally, the University may wish to consider pricing low in order to capture market share;
- Customer demand;
- Academic benefit associated with the work;

PART A: ADVICE TO ACADEMICS

Introduction

3. Before committing to an activity, whether Teaching, Research or Other, it is important to spend time thinking about the cost of the work undertaken and the amount that can be recovered or price that can be charged to Funders, Sponsors, or industry/customers.
4. This guidance note has been prepared to guide Academics in considering such issues, and to assist Heads/School Managers in reaching decisions in the context of their business plans and strategy and the need to achieve a sustainable trading position. An institution is being managed on a sustainable basis if:

“taking one year with another, it is recovering its full economic costs across its activities as a whole, and is investing in its infrastructure (physical, human and intellectual) at a rate adequate to maintain its future productive capacity appropriate to the needs of its strategic plan and students, sponsors and other customer requirements”
5. Nationally, the full economic costing (fEC) agenda has been developed to address government concerns over sustainability (see Annex 1 for further details). This agenda can be expanded to include strategy, pricing, project management/cost recovery and investment in infrastructure.

The benefits of new approaches to costing and pricing (fEC)

6. Implementation is supported by additional government funding. Annex 2 sets out both current and future funding streams for information. Implementation of fEC will raise awareness at all levels of the financial impact of proposals on Schools’ trading positions.

Costing School activities

7. In considering whether to carry out a discretionary activity, eg. running a new module, short course, conference or research activity, Academics should review costs against the amount that might be recovered from customers to allow informed decision-making. Costs should be full economic costs categorised into four main categories:

Directly incurred (note that in funding applications, we advise that you maximise these to assist in negotiations)	<ul style="list-style-type: none">- Staff, including employer’s superannuation and national insurance- Travel and Subsistence- Equipment- Other
Directly allocated	<ul style="list-style-type: none">- Principal Investigator time , including superannuation and national insurance. Time can

	<p>be estimated from time allocation schedules, although formal timesheets are generally not required.</p> <ul style="list-style-type: none"> - Estates costs, which should reflect the type of accommodation offered
Indirect Costs	Eg. Professional Services costs (expressed as £'s per annum for each person employed on a project).
Add: inflation to uplift prices to cover any price increases that may occur between application and the subsequent project award	

**fte – is a full time equivalent person, or student – eg. if you work full-time on a project you will be counted as one full time equivalent. If you work for one-day a week on a project, you will be counted as 0.20.*

8. Neil Chamberlain Keen, Costing and Pricing Accountant, will shortly be giving updated advice on rates that should be used (anticipated February).
9. When putting together a costing, we advise that as many costs as possible are allocated direct to a project as this will help you in negotiating with customers and sponsors. Time Allocation Schedules and records maintained to support such allocations, may be helpful in justifying charges proposed. Remember to include all costs, including staff time, within any proposal, as any schemes that are run at a deficit will either need to be supported from other funds or discontinued.
10. The University's Project Costing Form will guide you through the main types of expenditure and rates that should be included. Other support is available including School support staff, Research Development Officers (RDOs), Management and Research Accountants and information included on the University's website.

The Pricing Decision

11. In establishing the price or recovery sought, a number of matters should be considered. This section provides some general tips, and discusses the non-cost related factors that you might consider in defining a price. It also explains specific considerations for particular sponsors and customers. The principles are guidelines only with final decisions being based on an assessment of the individual project's contribution towards University activity.
12. Many sponsors and funders prescribe funding levels. Nevertheless, the decision to proceed should still be based on a full knowledge of financial implications and the costs Schools will incur. In other areas, eg. in pricing teaching modules or a conference, Schools have discretion.

i. Putting proposals together – General Tips

- Ensure the early involvement of your Head of School to obtain approval for the project and use of space/other resources. Do not assume that the institution will automatically provide accommodation or any other necessary facilities.
- Consult with School administrators, your Research Development Officer and Management/Research Accounting Services who will be able to offer both practical help in preparing the proposal/costings and in advising on funding sources.
- Where a formal application is not required (eg. for consultancy/pricing of short courses), use the University's Project Costing Form to construct the application/proposal. This will help you define your project and ensure all costs are fully considered. Consider the negotiation services offered by Exeter Enterprises.
- Consider the justification of resources required. This is becoming very important, as Sponsors, Funders and Commerce/Industry will carefully scrutinise costs before making awards. You must state why you need the resources to undertake the work, and how the costs are calculated.
- Classify as many costs as possible as direct – eg. space, time input from Principal Investigators and Academics, typing support etc, as these are less easily challenged.
- Consider what supporting records will help in establishing and negotiating price. This might include information from Time Allocation Schedules.
- Think about the VAT liability of the supply and obtain accounting advice if in doubt (Annex 3).

Once a price has been agreed (or a project awarded), you should compare the amount awarded with your costs. Any serious shortfall in funding should be investigated and you may need to consider questions such as the scope of work, other sources of funding and overall viability

ii. Summary of factors that should be undertaken in establishing a price

13. Factors that might be taken into account in establishing a price are summarised below:

- Full Economic Costs
- Competitor analysis
- Value / End benefit (to your customer) – marketing and promotion activities
- Quality
- Customer analysis – price sensitivity / transfer costs (willingness to change supplier), etc.
- Desire to capture market share

- Surplus capacity (eg. where a short-term, one-off project is considered)
- Implications on the price of mainstream activity
- Differentiating research / services from those of competitors, availability of substitutes
- Public subsidy and the avoidance of unfair competition (taking account of possible legal and political implications). The Financial Memorandum of the University requires it to base prices for goods and services on the full costs of provision unless there are good reasons for doing otherwise
- The balance between financial and corporate objectives

iii. Specific Considerations for particular customer / sponsor groups

14. The price or recovery sought will be influenced by the type of work undertaken and funding body / customer. Where work is for public scientific good, the School may wish to consider using its HEFCE grant to subsidise activity. Customers can be split into a number of broad categories:

- Research Councils
- Charities and Trust
- Government Departments and Agencies
- Industry and Commerce
- Students / Parents

15. Each of these will be considered in more detail below:

<p>Research Councils – the six UK Research councils fund research across most academic disciplines apart from Arts and Humanities. Arts and Humanities are supported by the Arts and Humanities Research Board (AHRB) and by the Research Academy.</p>	<p>The six councils fund research through a number of different types of grant, fellowship and student schemes.</p> <p>The amount recovered will be fixed by the Councils taking account of general government grant distributed through HEFCE (which is linked RAE performance and the quality of Research undertaken).</p> <p>Funding from Research Councils should be pursued as they will meet around 80% of costs including overheads. The balance of funding will usually be found from general government grant as this category of work is linked to “public scientific good”.</p>
<p>Charities and Trusts</p>	<p>Charities can be limited in what and how they fund by the terms under which they have been established. They are confined by the terms and conditions of their charter.</p>

	<p>Charities normally fund direct costs only, therefore careful construction of applications is important.</p> <p>Schools should review the amount of charitable work they undertake and balance this with the need to subsidise the indirect costs from other sources. Where there are links with School and Institutional objectives, the School may wish to seek support from the Strategic Development Fund.</p> <p>(Nb. Charitable activity contributes indirectly to each School's HEFCE grant allocation. Each £ undertaken will eventually generate an entitlement to 26p additional grant, albeit that this funding is only calculated annually and therefore lags behind).</p>
<p>Government departments and agencies (excluding the NHS) – eg. the Ministry of Agriculture, Fisheries and Food (MAFF); The Health and Safety Executive (HSE); Department for Education and Skills (DfES); the Department for Trade and Industry (DTI) and Ministry of Defence (MOD).</p>	<p>Government funding may be to support and inform Government policies, or to provide scientific foresight and help identify future policy options.</p> <p>Government Departments should generally pay 100% for research commissioned to meet policy needs.</p>
<p>NHS/Department of Health (DoH)</p>	<p>The NHS provides significant funding towards the research base and research within it. Therefore when the NHS commissions clinical and other health-related research which helps to generate new knowledge for the public scientific benefit, it can expect to receive the same pricing treatment as Research Councils (with charges below full economic costs).</p> <p>Current indications are that the NHS and Research Councils will both meet around 80% of costs.</p>
<p>European Funding</p>	<p>Funding levels are prescribed and Schools will need to consider the costs/benefits of pursuing this work.</p> <p>Nationally, sector bodies are lobbying for an increase in the percentage support.</p>
<p>Industry and Commerce – Types of funding could include consultancy, contract research or services, collaborative research or</p>	<p>Market forces may apply in seeking industrial funding, and advice may be appropriate, eg. from Exeter</p>

donation/sponsorship.	<p>Enterprises Ltd.</p> <p>Rights to Intellectual Property and Patents may form part of your pricing decision and early contact with the Communication and Partnership Division is encouraged.</p> <p>Where work is specific and not generally applicable, then academics should expect that the sponsor will meet at least the full economic cost of the work (Nb. to decide whether work is specific or generally applicable, consider ownership of outcomes).</p>
Students / Parents	<p>The price charged will be influenced by market forces including costs, competitor analysis, value to the customer, quality, desire to capture market share, surplus capacity, implications for mainstream activities, and any unique selling points of the product in question.</p>

iv. Circumstances where the price or cost recovery might be less than full Economic Cost

16. It is important that Schools consider all relevant costs before making a pricing decision. Often, staff are conscious only of the direct costs and fail to understand that it is important to incorporate a proportion of the indirect costs (library, personnel, payroll, etc.) in order that the income generated will contribute to all the costs incurred by the School and potentially generate profit.
17. A price below cost may be justified in certain circumstances with Head of School approval.
 - Research Council work for public scientific good. Under current arrangements, Schools receive HEFCE ‘block grant (QR)’ which can be used to support work deemed to be for the public scientific good. More details of current and future funding for Research work are contained at Annex 2. Typically, block grant will be used to support Research Council and charitable applications.
 - On the basis on realistic expectations of future benefits – eg. increased QR, anticipated value from Intellectual Property, increased business.
 - Where a project will utilise slack capacity (eg. space, staff time, etc.)
 - Where a project makes a significant contribution towards School and corporate objectives.

18. However, marginal cost pricing (ie. the setting of prices to recover direct costs only rather than the relatively fixed costs arising from professional services and space), must be treated with caution. If all activities were priced on the basis of marginal costs then there is a significant risk that insufficient revenues would be generated to finance the indirect costs of the School and organisation.

Timetable – implementing the new approach

19. Generally, we recommend adopting the new costing methodologies with immediate effect, although for a temporary period, Research councils and other sponsors, will continue funding proposals on the “old basis”. The timetables we are working to are set out below:

Commercial / Non-regulated markets (eg. short courses, conferences, and contract research) – applies immediately
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Government Departments – 1 January 2005

Research Councils – 1 September 2005

PART B: SUPPLEMENTARY GUIDANCE FOR THE HEAD OF SCHOOL

20. Financial plans should seek to achieve sustainability taking into account the portfolio of available funding including HEFCE grant, income from fees and other services rendered and sponsor/funder contributions.

Costing / Pricing and implications for Financial Plans (School's Multi-year Income Distribution Models (IDMs))

21. It is important for Heads to articulate School and Institutional objectives as a framework for financial planning and prioritising proposals. Strategies and Financial Plans should take into account government (HEFCE) resources and in non-regulated markets both cost and market related factors (see paragraph 13 above). In considering their strategy and portfolios, Schools should consider funding from QR (and the amount of research activity this can support), income earned from Other Services Rendered, and possible application to the Strategic Development Fund (SDF) for support towards charitable activities. The paragraphs below set out key principles for the Head of School to consider and University proposals to support charitable activity.

i. Overall Financial Planning Objectives

22. Schools are required to 'at least' break even and should therefore ensure that all projects (Teaching, Research and Other) are evaluated in terms of a comparison of costs and benefits taking account of QR and agreed SDF allocations.
23. Market and other pressures may lead to decisions to recover less than FEC in limited circumstances. However, such decisions should be carefully considered taking account of:
- the imperative for price/cost recovery and any HEFCE grant allocated to a project to meet, at the minimum, the direct costs of work and to make (wherever possible) a contribution towards overheads.
 - any incentives that might be available institutionally, eg. to support charitable activity (considered below).

The limited circumstances in which recovery of direct costs only might be appropriate are given above at paragraphs 16 to 18.

ii. Research Activities – general principles to consider when utilising QR income

24. Sponsors support HEI research for a number of reasons, some of which relate to public scientific good and are, as such, congruent with the objectives of QR. Others, for equally valid reasons (such as commercial research), are not. In the latter case it follows that HEIs should not generally use QR or other public sources of income to subsidise such research.

25. In practice a sliding scale of prices to charge research sponsors can be envisaged, ranging from a proportion of full economic costs for a Research Council grant to the full economic cost or even more for a purely commercial project (ie. a sliding scale for the portion of the cost offset by deployment of Funding Council block grant and other sources of income).
26. The following guidelines are not intended to be overly prescriptive.

Principles to guide the pricing of research and other projects
<p>a) Funding Council income should be used to support only that research (whether own-funded or commissioned by others) which is intended to, or is otherwise likely to, generate a public scientific good. Checklist to consider:</p> <ul style="list-style-type: none"> - open publication of results without delay - ownership of IPR - generation of new knowledge of a fundamental nature - production of highly trained researchers for the enhancement of the research base
<p>b) The University must, taking one year with another, recover the full economic cost of its research activities from an appropriate mix of external and internal sources (demonstration is likely to be required in future years – 2008?)</p>
<p>c) To do this, the University must have systems in place, which enable it to calculate with reasonable accuracy the fEC of research at project level which should include methods of attributing the professional service and space costs to front-line activities and a means of reflecting within prices long-term infrastructure needs.</p>
<p>d) Research Council funding is available for use at the University's discretion. The University is therefore free to consider how resources should be applied to support research taking into account:</p> <ul style="list-style-type: none"> - the contribution research makes to the enhancement of the UK research base / public scientific good - the level of funding proposed taking into account of other strategies and priorities (local, regional and national) - quality issues, project appraisal, peer review, project management procedures, etc.

27. In reviewing research portfolios, Schools should take into account the impact of proposals on current and future HEFCE grant, the relative importance of the activity to the School and whether cross-subsidy is required from Teaching, Research and other and the justification.

iii. Proposals for Charitable support

28. The Planning and Resource Allocation Review Group are currently considering strategic support for charitable activity, to ensure that such work is not discontinued by Schools on cost grounds with potential detriment to the School and Institution's overall objectives. Heads are therefore encouraged to review their research portfolios, and to identify the level of charitable activity and its justification. This issue will then be further considered by PRARG.

Practical advice on Income to be included within business plans

29. Schools are encouraged to set challenging but realistic targets for income generation over the period of the financial plan in line with the University's vision "Imagining the Future" and desire to be within the top-twenty research institutions. Targets should take into account School strategies and market-related factors.
30. Broad estimates of income that might be anticipated through additional Research Council funding are tabulated below, subject to each School's consideration of issues that might arise from restructuring proposals. Supporting information on each academics awards and applications can be obtained from Angela Daveney, Head of Research Accounting.

Analysis of Research Council income by School in 2003/2004

Assessment of possible implications of additional Research Council Funding for each School

Please note that these are estimates only of the financial impact of fEC

School	Research Council Income 2003/04	Expected additional income under new funding arrangements			
		05/06	06/07	07/08	08/09
	£	£	£	£	£
Arab & Islamic	708	0	0	0	0
Biological Sciences	898,700	40,000	121,000	202,000	243,000
Business and Economics	137,598	6,000	19,000	31,000	37,000
Camborne School of Mines	0	0	0	0	0
Classics, Ancient History and Theology	19,001	1,000	3,000	4,000	5,000
Education	196,549	9,000	27,000	44,000	53,000
Engineering and Computer Science	1,221,711	55,000	165,000	275,000	330,000
English	56,708	3,000	8,000	13,000	15,000
Geography and Archaeology	582,580	26,000	79,000	131,000	157,000
Historical, Political and Sociological Studies	570,078	26,000	77,000	128,000	154,000
Law	18,153	1,000	2,000	4,000	5,000
Mathematical Sciences	50,221	2,000	7,000	11,000	14,000
Modern Languages	59,488	3,000	8,000	13,000	16,000
Performance Arts	54,804	2,000	7,000	12,000	15,000
Physics	1,108,795	50,000	150,000	249,000	299,000
Psychology	186,632	8,000	25,000	42,000	50,000
Sport & Health Sciences	1,617	0	0	0	0
Grand Total	5,163,341	232,000	698,000	1,159,000	1,393,000

Assumptions:

1. That Exeter maintains its competitive position in relation to its total share of national funding - ie., it neither gains or loses ground across Schools.
2. That national funding increases are allocated pro-rata to national spend (eg. there is no top-slicing to support institutions of low research intensity).
3. That national increases are distributed evenly across Research Councils.
4. The profile above recognises that additional funding will take time to flow through as old projects run-out. First awards are anticipated from February 06.
5. JM Consulting advise that this percentage will remain steady for four years.

31. Indications of the additional amount of HEFCE grant (QR) available to support charitable activities (as announced in SR2004) from 2007/08 have also been estimated (see emboldened figures).

HEFCE grant (QR) to support charitable research (based on historical spend)					
		Value of Charitable work used in grant calculations	QR currently received	Additional QR anticipated from 07/08	Total QR from 2007/08
Arab & Islamic Studies	Middle Eastern & African Studies	29,137	4,000	4,000	8,000
Biological Sciences	Biological Sciences	74,536	5,500	5,500	11,000
	Environmental Sciences	0	0	0	0
Business & Economics	Economics	0	0	0	0
	Business & Management Studies	32,507	1,700	1,700	3,400
	Accountancy	0	0	0	0
Classics, Ancient History, & Theology	Classics	104,057	12,400	12,400	24,800
	Theology	0	0	0	0
Education & Lifelong Learning	Education	425,212	75,100	75,100	150,200
Engineering, Computer Science & Mathematics	Computer Science	0	0	0	0
	General Engineering	8,492	600	600	1,200
	Pure Maths	14,695	900	900	1,800
	Applied Maths	22,886	4,800	4,800	9,600
	Statistics & Operational Research	1,882	200	200	400
English	English Language & Literature	0	0	0	0
Geography, Archaeology & Earth Resources	Geography	131,234	10,100	10,100	20,200
	Archaeology	25,827	4,300	4,300	8,600
	Mineral & Mining Engineering	63,542	4,700	4,700	9,400
Historical Political & Sociological Studies	Politics	32,489	4,800	4,800	9,600
	Sociology	125,110	17,400	17,400	34,800
	History	179,735	25,700	25,700	51,400
	Celtic Studies	0			0
Law	Law	0	0	0	0
Modern Languages	French	0	0	0	0
	German	8,902	1,400	1,400	2,800
	Italian	0	0	0	0
	Russian	0	0	0	0
	Spanish	0	0	0	0
Performance Arts	Drama	39,415	3,200	3,200	6,400
Physics	Physics	88,204	18,100	18,100	36,200
Psychology	Psychology	15,511	2,700	2,700	5,400
Social Work	Social Work	0	0	0	0
Sport & Health Sciences	Sports Science	3,805	800	800	1,600
Total	TOTAL	1,427,178	198,400	198,400	396,800
Centre for Legal Practice					
PMS	Hospital-Based Clinical subjects	466,962	87,300	87,300	174,600
Academic Division					
	Total	1,894,140	285,700	285,700	571,400

32. Schools should therefore plan within the following parameters:

- That subject to any changes in the volume of activity, income from Research Councils will increase in line with figures tabulated above
- That Other Government Departments (OGDs) will meet 100% of fECs
- That there will be no change in EU funding
- That on a day-to-day basis charities will meet direct costs only, although there will be a time-lagged (and indirect) benefit through an increase in HEFCE QR grant as tabulated above.

Nb. Schools should maximise the costs classified as ‘direct’ to assist with negotiations – eg. by including time recorded on Time Allocation Schedules, Space costs for each member of staff, etc.

- Income from industry and commercial activities should be maximised, taking account of market forces.
33. Practical steps to derive figures for your business plan are set out below:
- As a starting point, we recommend that Heads forecast income from known awards together with a realistic assessment of the likely success of existing applications (data can be obtained from Angela Daveney, Research Accounting).
 - Data from the above should be modified to reflect any transfers/loss of research income arising from staff that are forecast to leave the University over the planning period plus any transfers arising from staff who join the University during this period.
 - Future income from future applications should be based on School plans and capacity taking into account the capacity to raise prices to/towards fEC outlined at paragraph 32.
34. In preparing financial plans, Schools should ensure that adequate resource is available to assist academics in project costings, taking account of the enhanced funding that should be available and possible collaboration between Schools.

Conclusion

35. The fEC agenda highlights the need for Schools and the Institution to consider the relationship of costs to income and the viability of activities.
36. It supports financial planning and provides a structured framework for the evaluation and recording of decisions made. Support will be available to Heads, Academics and School Administrators (as set out within Part C below). A detailed training programme is being developed for delivery in late February/March. This will take into account revised terms and conditions of Research Council Funding (to be issued in January 2005) and will launch the university's new Project Costing Form.

Next Steps

37. fEC principles should be applied with immediate effect and will be supported by a number of actions:
- issue of the University's Project Costing Form – January 2005
 - launch of a training programme – February/March 2005
 - issue of updated guidance on costing rates to apply – February 2005
 - final proposals for strategic support for charitable work – January/February 2005

PART C – USEFUL RESOURCES: Where to go for more information

- The School's latest Financial Plan
- The University's website: <http://www.ex.ac.uk/admin/fec/>
- The University's Project Costing Form (currently being revised)
- Planned training, scheduled for February / March 2005 (details to be circulated shortly)
- Research Development Officers, who will advise on 'the design' of the application and the general preferences and policies of different Sponsors/Funding bodies
- Communication and Partnership, who will advise on contract construction and IPR issues
- the School finance staff who will respond to requests from academics to prepare detailed costings based on the general project specification. Using information from the academic, the School's finance staff would cost proposals including staff, lab facilities, travel and collaboration (referring detailed technical issues to the Full Economic Cost Accounting Team, Management and Research Accounts)
- the Full Economic Cost Accounting team, Management and Research Accounts who will provide technical guidance and advice, and formally review applications prior to formal submission.
- Exeter Enterprises – who will offer support, particularly in relation to pricing advice.

Sue Gabbott
Deputy Director of Finance, 18.12.04

Annex 1 – Background to Full Economic Costing

What is Full Economic Costing?

Higher Education Institutions are being required to be sustainable, taking one year with another, across the range of their activities. This will require calculating the true costs of all activities: Teaching, Research and Other - i.e. the "Full Economic Cost" (fEC).

The Full Economic Cost includes both direct costs (which are easily recognised and understood) and indirect costs: space/estates charges; depreciation; and provision for investment in infrastructure. (Indirect costs include things such as the costs of payroll, personnel, the University's central library, and Academic Office)

Why was Full Economic Costing introduced?

fEC was initially introduced to address national deficits on research activity to respond to the "low price culture" which has developed within Higher Education Institutions. National statistics reveal that HEIs have failed to recover the full costs of their research, cross-subsidising it from other sources and making inadequate investment in infrastructure. The principles of fEC will help Schools in addressing current financial plan deficits.

What are the benefits of FEC?

fEC ensures that activities are undertaken in full knowledge of the financial implications that result, and that pricing decisions are made within a defined framework. It is essentially a business initiative, assisting universities in their negotiations, and is supported by additional funding, including that announced within the Science and Innovation Investment Framework, published in July 2004. Annex 2 sets out current and future funding for Research activities.

Annex 2 – Funding available for Research: Now and in the Future

Current Funding

Funding Council support is currently provided as two streams through the dual support system:

- **Research block grant** (quality-related (QR) funding) is to provide an underpinning research capability for HEIs, for example:
 - to provide resources to pursue some “blue-skies” / own-funded research;
 - as a contribution to the costs of training new researchers;
 - to support the salary-related costs of permanent academic researchers (where not funded from projects); and,
 - to provide resources to contribute to building research capabilities (support staff, basic consumables and infrastructure).

All these activities provide a base from which permanent academic staff can make and carry out credible proposals for research project funding from Research Councils and other research sponsors (including underpinning funding for Research Council projects).

Each University’s level of funding takes account of ratings established through the 2001 RAE and volume measures such as research income from charities which attract around 13% QR (26% from 2007/2008); the number of research students, assistants and fellows; and, research active staff submitted to the 2001 RAE.

- **Funding through the Research Councils.**

A summary of the current support available and indirect cost contribution rates from the Funding Council and other sponsors is set out below:

Sponsor	Indirect cost contribution from sponsors
Research grants funded by Research Councils	46% direct costs
Research grants funded by the European Union	Circa 20% of all direct costs
Charities and Voluntary organisations	No indirect costs allowed in pricing
Commercial	Based on negotiation

Additionally, capital support is available through the Science Research and Investment Fund (SRIF) at the rate of £500m (nationally) per annum.

Future Funding

Additional funding announced within the Spending Review 2002 and Science and Innovation Framework 2004/14, includes:

- additional national funding channelled through the Research Councils which is expected to increase recoveries by around £3m pa by 2010.
- an extension of SRIF capital funding (SRIF2 and SRIF3) over the period from 2004/2005 – 2007/2008.
- additional QR funding to support charitable activity totalling £90m nationally from 2007/2008. The exact distribution of this sum is unclear, but it is expected to amount to around £300,000 for UoE (being around 13% of the value of charitable activity undertaken). This stream has also been referred to as the “charity support fund” in various publications.

Annex 3 – The VAT liability of supplies

a. Teaching / Education

The main supplies provided by the University are education and research. Education is an ‘exempt supply’, thus no VAT is chargeable to students, but equally none of the VAT incurred on associated expenditure may be recovered.

b. Supplies that are incidental to education

Many of the other supplies that are made to students are regarded as ‘incidental’ to the main supply of education and are also classified as exempt. However, the precise boundary needs careful consideration.

Whilst the provision of accommodation and catering to students is regarded as incidental to the main supply of education, VAT guidelines specifically exclude alcoholic drinks, clothing and laundry or laundrette services.

The dividing line may appear very arbitrary at times. The sale of confectionary is standard rated, unless part of a supply of catering. Sales of confectionary from refectories are therefore exempt (as being catering) while sales of confectionary from retail outlets such as the university supermarket are standard-rated.

c. Research:

At present the VAT liability of research can be outside the scope, standard-rated or exempt, depending on how the research is funded and who is supplying it.

Outside the scope research – this type of research is generally for the public good and the body funding it (often one of the research councils) does not receive any supply of goods or services in return for the funding. As there is no consideration for the research carried out under these contracts, it is outside the scope of VAT. (VAT on associated expenditure cannot be recovered).

Standard-rated research – contracted research [carried out for business purposes] supplied between two commercial organisations or between a commercial organisation and a charity or university etc. is standard-rated for VAT purposes. The university can recover the VAT incurred on expenditure associated with standard rated research.

Exempt research – contracted research supplied between two eligible bodies is exempt from VAT. An eligible body for exempt research purposes is a:

- School;
- University;
- Higher or further education institute;
- Central or local government body or similar;
- Non-profit making body/charity.

(VAT on expenditure associated with exempt research cannot be recovered).