**BU Guide to Full Economic Costing**

**Summary**

***What is fEC?*** – Full Economic Costing (fEC) is a standardised method of calculating the actual costs of an activity which was developed in response to the funding councils’ ‘Transparent Approach to Costing ([TRAC](http://www.hefce.ac.uk/funding/finsustain/trac/))’ methodology with the aim of increasing funding whilst making HEIs responsible for their own financial stability. TRAC data indicated that publicly-funded research in particular was significantly under-funded as the true costs of running the activity were not being adequately identified or subsequently reimbursed. fEC was introduced for all UK HEIs in September 2005. In essence, fEC is a national, standardised costing method that provides a forecast of the full cost of undertaking a research project.

***How do I calculate the fEC?*** – All bids at BU must be costed in accordance with the principles of fEC by the [RKEO Funding Development Team](http://blogs.bournemouth.ac.uk/research/contact/funding-development-team/) using pFACT (costing system). Everything must be costed and cross-checked against the funding body’s guidelines. You must ensure all costs are included at this stage as funders will not make up a shortfall after money has been awarded, as well as ensuring costings are realistic and offer good value for money as most funders require a full justification of the requested resources.

﻿***How do I price the work?*** – After completing your costing you will need to establish what funding is available, i.e. the price, and consider how this compares to the cost (fEC recovery). The majority of research funders have set guidelines stating how much of the fEC they will fund or which elements of the costing they will fund. However, where the funder/client does not have guidelines on this then a decision needs to be made of how to price the work to be undertaken. Pricing should be considered carefully and discussions should take place after the fEC has been calculated. Pricing decisions should always be discussed with your Deputy Dean (Research & Professional Practice), Dean and/or Director of Operations prior to quoting a price to the client. Pricing for contract research and knowledge exchange (KE) should be carefully considered to ensure that ‘pricing precedents’ are not established with a particular funder.

* Research Councils and NHS 80%
* Charities averaging around 50%
* EU around 75%
* Industry 100%

The rate for commercial work varies but BU aims to recover 110% fEC across the whole Research and KE portfolio. Therefore surpluses must be achieved where possible (i.e. over 110% fEC) to cover the deficit made by research (typically 80% fEC and lower).

**The detail**

Using the TRAC methodology, costs are normally divided into four main types:

* Directly Incurred Costs
* Directly Allocated Costs
* Estates Costs
* Indirect Costs

***Directly incurred (DI) costs***

Directly incurred (DI) costs are items or services which are incurred or purchased specifically for a project. Costs are charged to projects on actual cash value and are auditable in the financial accounts (e.g. supported by a supplier invoice). If the project didn’t go ahead then these costs would almost certainly not be incurred.

Care should be taken when identifying costs for inclusion as some costs, such as telephone, photocopying or stationery, will already be covered by the indirect cost charge. The [RKEO Funding Development Team](http://blogs.bournemouth.ac.uk/research/contact/funding-development-team/) will be able to advise you on this.

You should consider whether the project requires the following DI costs:

* Fixed-term project staff (research assistants, research fellows, dedicated technicians or administrators)
* Travel, subsistence and conferences
* Equipment and consumables (purchased specifically for project)
* External consultancy fees

***Estimating staff time***

A key resource in the delivery of any project is academic staff time. All projects will have a Principal Investigator (PI) and some may also have Co-Investigators (Co-Is). PIs and Co-Is are the core academic staff who probably also spend time working on other research and KE projects as well as having other duties, including teaching and administration.

Academic staff are required to estimate how much time they think they will need to spend on a particular project. Below is a suggested approach as to how this could be done by taking into account three considerations: 1) time available to do new research and KE, 2) project tasks, and 3) what to include and what to exclude. Considering these three things should help to produce an estimate of the average number of hours per week over the life of the project that could be spent on the project in question.

Academic staff will generally not have to keep detailed formal records to verify this, but will have to be able to:

* Justify this as a reasonable estimate of the effort required to deliver a particular project
* Produce some evidence of time spent on the project at the end of the project, e.g. lab notes, minutes of project meetings etc.

Some funders (such as the EU) require more detailed documentation to justify the amount of time spent on a project; this can include keeping accurate timesheets showing time spent working on the project and the tasks that were undertaken. Where necessary, the [RKEO Project Delivery Team](http://blogs.bournemouth.ac.uk/research/contact/project-delivery/) will advise as to the exact requirements.

**Time available to undertake new research –** It is worth considering the amount of time already committed to teaching activities, management/administrative duties and other research and KE projects.

**Project tasks –** The second consideration is the factors that are likely to affect how much time a particular project may require. Projects differ in terms of scale and complexity and have varying requirements for the amount of academic time needed. The following factors might be worth considering, but this is not an exhaustive list as each project will differ:

|  |  |
| --- | --- |
| **Research project tasks** | **Factors likely to affect this** |
| Establish methodology, approach, technique | What is PI’s experience? How well understood is the area? |
| Assemble project team / plan / coordination of team meetings | How many PI/Co-I? How many collaborating partners?Frequency of meetings |
| Fieldwork, laboratory, studio | What is PI’s experience? How well understood is the area?How accessible is the location?Recruitment of sample/research subjects |
| Report writing (initial, progress, final) | How demanding is the funder? How many words is each report? |
| Conference attendance / dissemination activities | How large scale is the planned activity? Where are the conferences held? |

**What to include / exclude –** Under fEC methodology, certain activities can be included whilst others can’t.

*Include*:

* Write-up time for reports and dissemination activities
* Direct time required to manage the project, undertake the work and supervise any project staff

*Exclude*:

* Bid preparation time
* Postgraduate research student supervision (if applicable)
* General administrative duties not directly related to the project

**Time estimate –** The PI should now be in a position to confidently estimate the amount of time which will be spent by staff on the project.

You can use the [BU estimating staff time spreadsheet](http://blogs.bournemouth.ac.uk/research/files/2011/08/Copy-of-estimating_staff_time.xls) as a rough guide to calculate time available to undertake new research and KE activity.

***Directly Allocated (DA) costs***

Directly allocated (DA) costs are the costs of resources on a project where the same resources are shared by other activities and projects. Directly allocated costs are different to directly incurred costs because the costs are not exclusively related to any one individual project.

DA costs are charged to the project based upon an estimate, rather than actual cash values.

Examples of DA costs include:

* Principal Investigator (PI) and co-Investigator (Co-I) salary costs
* Estates costs

Investigator salary costs –explained above in ‘[estimating staff time](#EstStaffTime)’ is how to estimate the time that the PI and Co-Is will need to spend on the project in terms of average hours per week. This will now need to be used to calculate the salary cost of each of the Investigators on the project.

You will need to know, for each Investigator, the average hours per week they will devote to the project and the [RKEO Funding Development Team](http://blogs.bournemouth.ac.uk/research/contact/funding-development-team/) will then use pFACT to calculate a project salary cost for each Investigator.

Please note that if you have an investigator who is going to be 100% funded from the project (such as Research Fellowships) then this cost should be included as directly incurred, as these staff will need to be charged as actual costs to the project.

***Estate and Indirect costs***

There are some major items of expenditure in support of research activities made both by the Faculty and centrally by the University. These costs are important as they ensure that the University has a well-maintained infrastructure and administrative support to enable research and KE activities to be carried out. Under fEC these are termed estate costs and indirect costs.

Estate and indirect costs are true costs that the University is incurring and are based on the expenditure contained within the audited annual accounts.

The calculation of estate and indirect costs is a mandatory requirement for all UK HEIs, and is done using the same methodology in each institution. The costs that are calculated will be different, but they will have been calculated in a standardised and consistent way.

***Estate costs*** – these provide a share of the cost of providing the physical infrastructure for research, and are calculated by each HEI using its own cost rates.

***Indirect costs*** – these are non-specific costs charged across all projects based on estimates that are not otherwise included as directly allocated costs. Examples of costs included in the indirect cost charge are:

* academic support time not spent on teaching, research or other (as defined by TRAC)
* clerical and technical staff costs
* non-staff costs in academic departments
* staff and non-staff costs in central service departments
* gross cost of capital employed (i.e. restructuring and interest costs and the net COCE)

Estate and indirect costs are driven by the academic/research FTE allocated to the project and will be calculated by the [RKEO Funding Development Team](http://blogs.bournemouth.ac.uk/research/contact/funding-development-team/) as part of the costing.

***Exceptional items***

For Research Council applications in particular, certain costs will be classified as ‘exceptional’ and will be subject to a different funding arrangement to the rest of the costs on the project. These are:

* Postgraduate student fees and stipends (NERC and ESRC only)
* Externally contracted social surveys (ESRC only)

Research Councils will usually pay 100% of the fEC of these exceptional items. For further information, see the individual [research council](http://www.rcuk.ac.uk/funding/howtoapply/) guidance. Tuition fee and stipend levels for Research Council funded students can be found on the [RCUK](http://www.rcuk.ac.uk/media/news/160125/) webpages.

In the case of equipment, items up to the [OJEU](http://www.ojec.com/) procurement threshold are typically funded at around 50%, although there is no fixed percentage; and those above the threshold may be funded at 100%, although, again, this is not fixed. Single capital items of equipment costing less than £10,000 (inclusive of VAT) should be included in ‘Other Directly Incurred’ costs.

Contact RKEO, [Funding Development Team](http://blogs.bournemouth.ac.uk/research/contact/funding-development-team/) for more information and assistance with costing your research or knowledge exchange application.