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Dear Chris

## **UNIVERSITY RESEARCH: COSTS TO GOVERNMENT DEPARTMENTS**

I am writing, as requested by the OST, to help clarify Government policy on costing and pricing of research carried out in the publicly funded science base.

Government policy has been set out in a number of documents:

1. The Cross Cutting Review of Science and Research<sup>1</sup>, which reported in March 2002, concluded that “Based on the recommendation in Section A of the report that Higher Education Institutions should recover full economic costs for much of the research undertaken for government departments, departments need to ensure that their future costings fully take account of the cost implications of the Transparency Review, for any research contracts they intend to place with HEIs”.

2. The Government’s Science Strategy, ‘Investing in Innovation’<sup>2</sup>, published in July 2002, reaffirmed this, stating that “Government Departments must therefore increasingly expect to pay nearer to the full costs of much of their research”.

These policy principles were communicated directly to several of the major civil departments with substantial extra-mural research programmes, some of which is placed with universities. A paper tabled at the Chief Scientific Adviser’s Committee on 19 September 2002 also set out these principles for university research funding, and what this would mean for Government Departments.

<sup>1</sup> [http://www.hm-treasury.gov.uk/spending\\_review/spend\\_ccr/spend\\_ccr\\_science.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_science.cfm)

<sup>2</sup> [http://www.hm-treasury.gov.uk/Spending\\_Review/spend\\_sr02/spend\\_sr02\\_science.cfm](http://www.hm-treasury.gov.uk/Spending_Review/spend_sr02/spend_sr02_science.cfm)



Most recently, the Office of Science & Technology's consultation on the Sustainability of University Research (May 2003) <sup>3</sup>, the Government response to which will be published in due course, stressed the importance, in terms of achieving sustainability in research, of Higher Education Institutions moving to a full economic cost basis for calculating, charging and recovering the costs of their research.

That document sets out that research sponsors – like Government Departments – might be charged on a sliding scale of full economic cost, on the basis of a set of principles, also set out in the document, about the use to which QR funding should be put. The precise costing and charging will be a matter for HEIs and their customers (all universities will be in an increasingly good position to explain their costs when the extensions to their accounting methodology (TRAC) are put in place between now and January 2005). However, the basic principle is that Government Departments<sup>4</sup> – along with other purchasers of research produced by universities under contract - should expect to pay 100 per cent of the full economic costs of the research they commission from universities.

This was confirmed in a recent letter from the Chief Secretary to the Treasury to the Government's Chief Scientific Advisor, Sir Dave King:

“[the Office of Science & Technology] has been leading on the important Dual Support reform work which will require universities to cost, charge and recover the full economic costs of the research they undertake. This reform is essential to ensuring the sustainability of university research. Funders of our research base must accept that they may need to pay more for the research they commission (and that they have been underpaying in the past). This includes Government departments and the research they commission from universities and other publicly funded research establishments. Government departments must ensure that their costed research strategies are calculated on a full economic cost basis.”

The Chief Secretary requested the CSA to pursue this issue with Government Departments to ensure awareness.

I am happy for you and copy recipients to share this letter with Higher Education Institutions or sector bodies, if you consider that this would help resolve any misunderstandings which may exist about the Government's policy principles in this area.

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<sup>3</sup> <http://www.ost.gov.uk/policy/invest-innov.htm#innovationsupport>

<sup>4</sup> excluding the NHS

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