

*Costing, Pricing and Sustainability:
Introduction to Discussion*

Professor David Westbury

Research Policy Issues for both Government and Universities

- **Increase activity**
- **Increase productivity and efficiency**
- **Achieve and maintain long-term sustainability**
- **Use capacity for important research activities**

Issues for Discussion

- **Policy of Sustainability**
- **Costing and Pricing Issues**
- **Cultural Issues**
- **Issues of Confidence**

Sustainability: a Definition

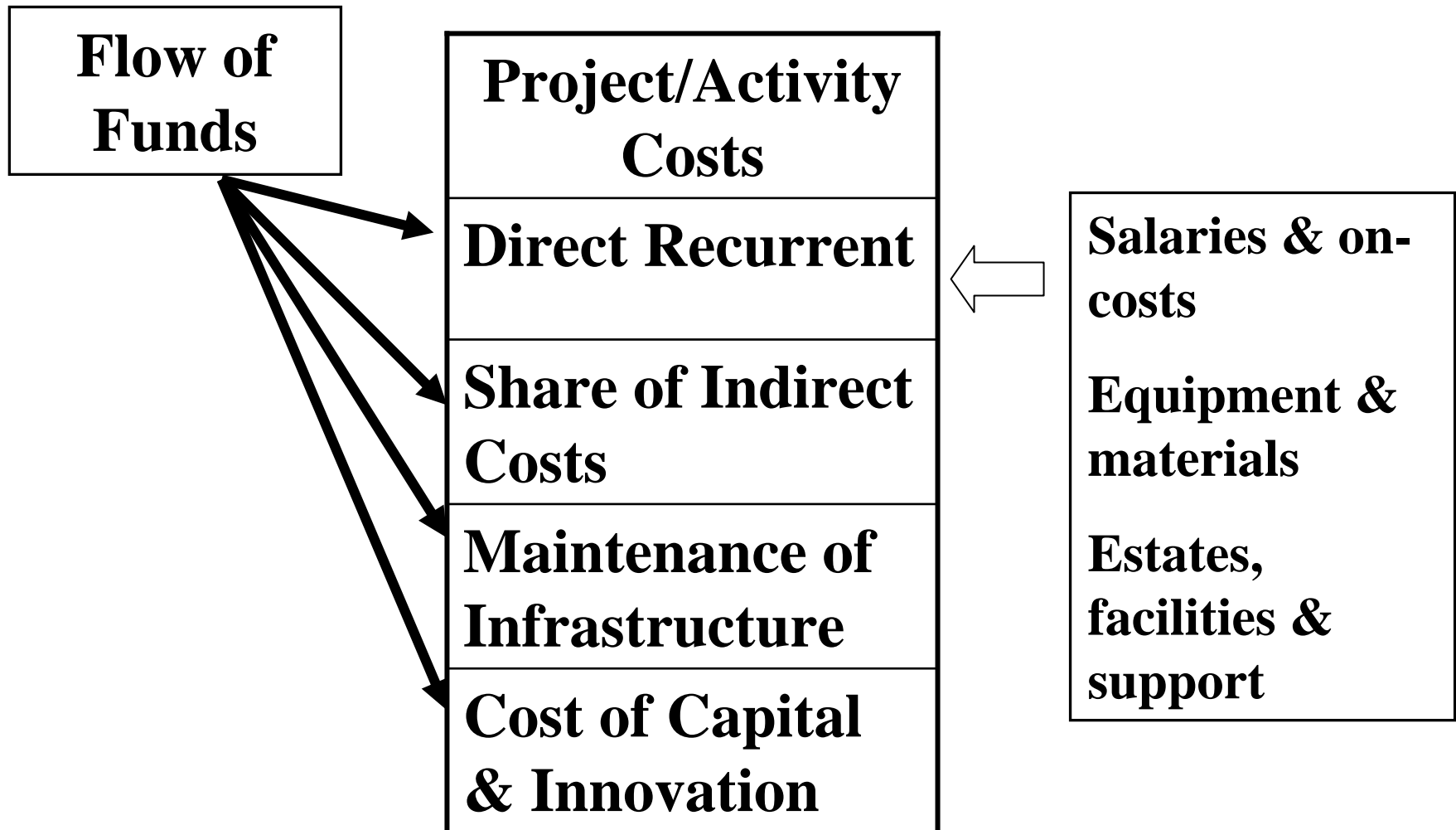
- **For an activity to be sustainable, resources must be identified to meet the full costs in the long run:**
 - **direct,**
 - **indirect,**
 - **maintenance of infrastructure,**
 - **cost of capital and forward investment for innovation**

Sustainability and Funds Flow

This means costing and pricing the activity properly and ensuring that the funds are used for purpose for which they were gained

For each activity (perhaps project), the university should identify the flow of funds needed to meet the full economic cost

Flow of Funds for Sustainability



Sustainability

- **Although sustainability is principally a financial discipline, it should also include human resource considerations, and it has a cultural aspect and should involve academic staff in the process**

Consequences of Reform of Research Funding to Achieve Sustainability

- Research Councils should fund the fEC of the work they agree**
- Government departments should also fund fEC of the work they commission**
- New ruling price for HE activities emerges, where cost based pricing is appropriate, eg charities, NHS, etc.**
- Pricing of commercial activities in universities needs better understanding and reform also**
- Better management of projects required in universities**

Costing

The process that analyses the consumption of resources and links this to an activity and an output

i.e. it measures input

Objectives of Costing

- **To provide consistent information about costs to assist university planning and management**
- **To provide a basis for pricing activities, especially publicly funded activities**
- **To meet the requirement for accountability for the use of funds, especially publicly funded activities**
- **To provide a consistent cost model to guide investment for the future for both government and university**

Pricing

Pricing enables an appropriate financial return to be attached to an activity or an output

i.e. it rewards output

Pricing

- **Pricing is a different discipline from costing**
- **Pricing is strongly linked to understanding the market for the activity**

General Approaches to Pricing

- 1) Market based**
- 2) Cost based**

**Derive from two different cultures:
Private sector and public sector**

Cost based Pricing

**Price is based on cost recovery, ideally
using full economic cost principles**

Public Sector Culture

Pricing is equivalent to funding

Market based Pricing

Price is based on the value to the customer “in the market place”

Private Sector Culture

Price is not related to cost

Market Based Pricing

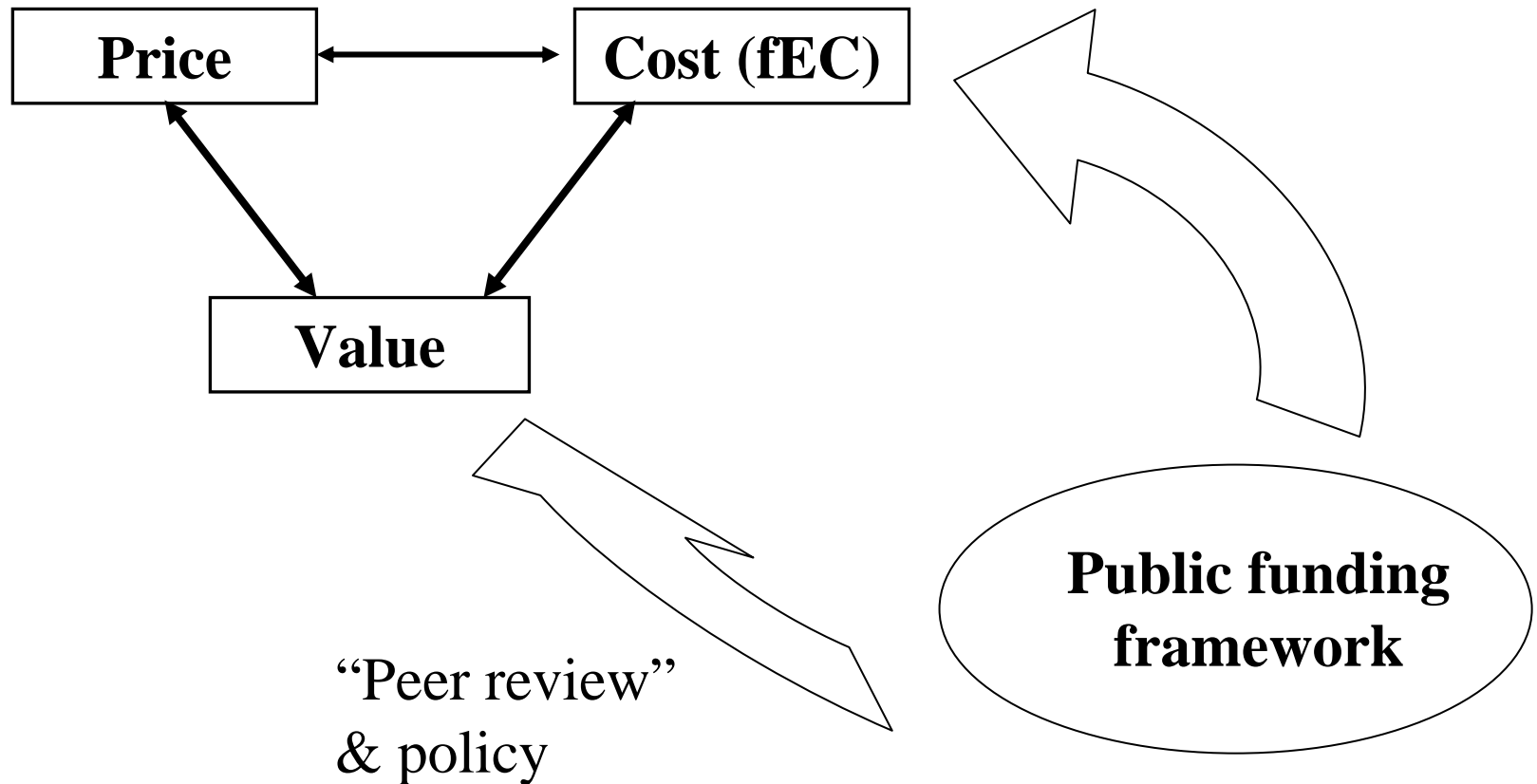
Two main types:

Competitive market pricing: price set by assessment of market and competitors

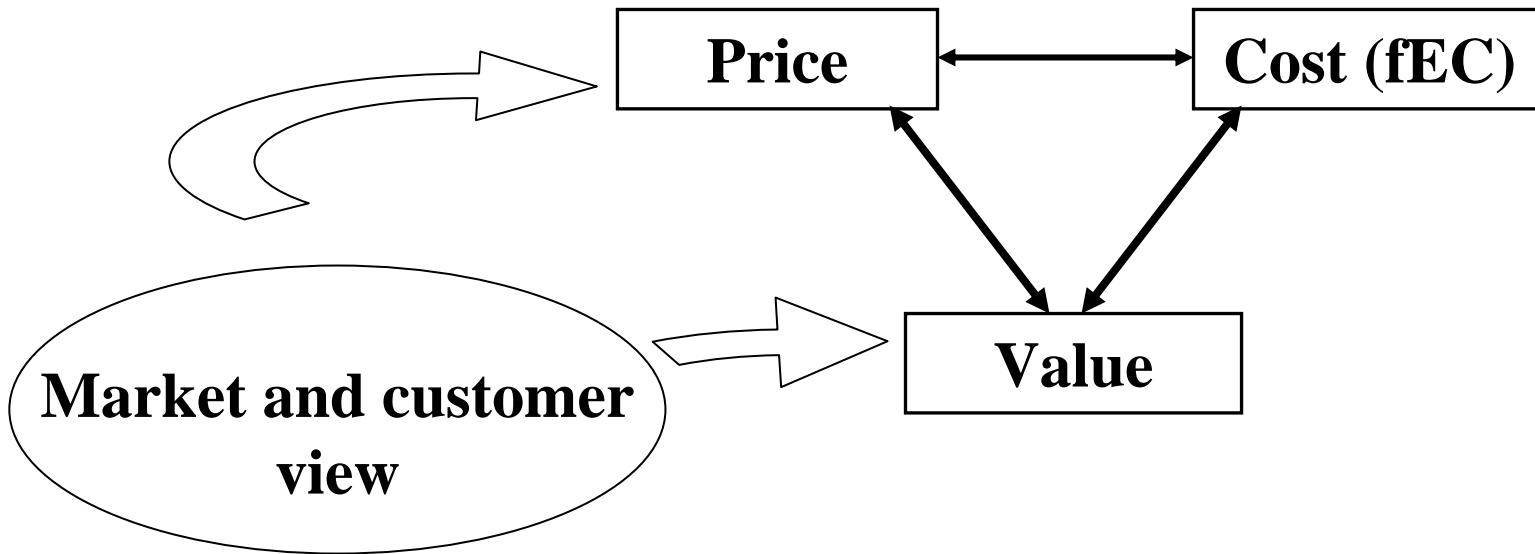
Value pricing: price set from a calculation of the value of the product to the customer.

Both depend on negotiation and a good understanding of the customer's business.

Cost Based Pricing: Public Funding



Market or Value Pricing



Commercial Funding = Price

Pricing and Transparency Review Categories

Category	Pricing
PFT	Changing from cost based to market or value based
NPFT	Market based
PFR	Cost based
NPFR	Market or value based
Other	Market or value based

Pricing and Market Position

Non competitive, public funded:	Cost based
High demand, low competition:	Value price
Low demand, high competition:	Market price
High demand, high competition:	Market price
Low demand, low competition:	Cost plus price

**Can the different pricing
cultures exist together in one
institution?**

**Yes... but there has to be a
university and government
strategy and framework**

Cultural Issues

- **Impact on academic staff**
- **Issues of confidence**
- **accountability**

Discussion