



# Entrepreneurial Research in a Public Sector Culture: one School's experience of the introduction of a fully comprehensive project costing model.



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# Some statistics on Monash University

- 6 campuses in the State of Victoria (in Australia)
  - Clayton and Caulfield are the two largest campuses in established suburban areas
  - Parkville campus is an inner-city campus (Pharmacy)
  - Peninsula and Berwick are outer-suburban campuses in population growth areas
  - The Faculty of Medicine Nursing and Health Sciences, also has large schools located at the Alfred Hospital, Monash Medical Centre and Box Hill Hospital, and a presence at several other health services.
  - The School of Rural Health has it's Head Office in Bendigo and also operates out of several Gippsland sites as well as Mildura and the surrounding area.
  - We have 2 international campuses and a significant presence in several other international locations.

# Some statistics on Monash University (2013 data)

- 63,068 students (49,672 EFTSL)
- 8,104.8 staff (FTE)
  - 3,479.7 Academic
  - 4,625.1 Professional staff (includes research professional)
- Revenue of \$1.7 billion
- Research, consulting and other external project income (included above) over \$500 million
- Assets \$3.1 billion

# Some statistics on the Faculty of Medicine, Nursing and Health Sciences (2013 data)

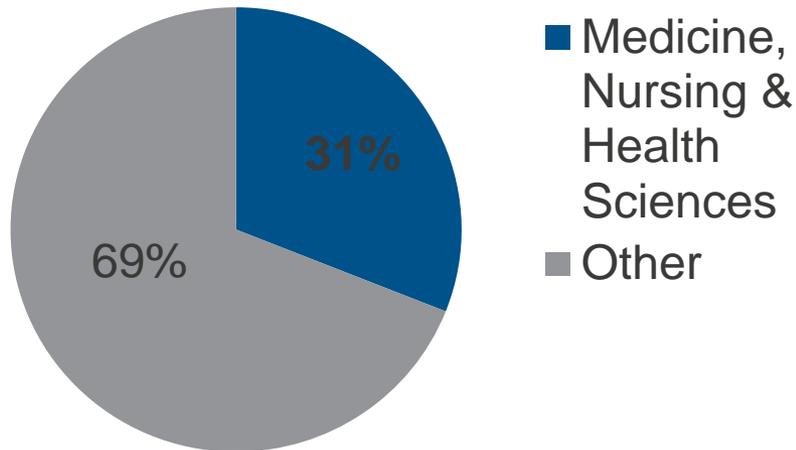
- 10,793 students (8,846 EFTSL)
- 2,042.8 staff (FTE)
  - 1,077.8 Academic
  - 965.0 Professional staff (includes research professional)
- Revenue of \$520 million
- Research, consulting and other external project income (included above) over \$263 million

# Some statistics on the School of Psychological Sciences (2013 data)

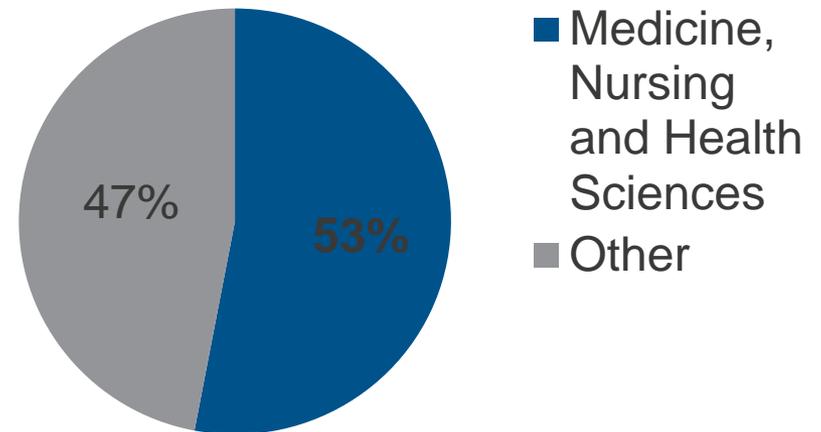
- 4,404 students (1288 EFTSL)
- 136.1 staff (FTE)
  - 78.4 Academic
  - 57.7 Professional staff (includes research professional)
- Revenue of \$41 million
- Research, consulting and other external project income (included above) of \$10 million

# Faculty % of University revenue

## Total University Revenue 2013



## Total University Research and External Earnings 2013



# Why must we cost our projects?

## 1. Changes in Faculty budget approach

- Faculty budget model – the past:
  - Faculty covered all central support charges and Faculty overheads
  - Deducted from teaching and research support revenue ‘off the top’
  - Remainder distributed to Schools as earned
- Result was subsidisation of research by teaching activities;
  - Lack of transparency
  - Inability to compare academic units across the University
  - Little incentive to manage costs
  - Research intensive areas returning large surpluses, while teaching intensive areas returning large deficits

# Why must we cost our projects?

## 1. Changes in Faculty budget approach cont...

- Revised Faculty budget model 2013
  - 100% of revenue and 100% of central support charges and contribution to Faculty overheads directly allocated to School as incurred
  - School surplus/deficit targets negotiated
- Budget results profile for academic units were reversed – research intensive areas recording deficits and teaching intensive areas returning surpluses
- Recognition that better management of unfunded costs of research was needed:
  - Increased focus on managing indirect expenditure and overheads, and understanding real costs of undertaking research



# Why must we cost our projects?

## 2. Funding environment

The May 2014 Federal Budget announced a significant set of changes to the higher education sector.

*“Australian universities have been underfunded for some time, a situation that has been exacerbated in recent years by real reductions in government funding. With the current constrained financial climate, that trend is unlikely to be reversed in the foreseeable future.”*

(Professor Ed Byrne, Vice-Chancellor and President, Monash University, Message from Vice-Chancellor, 14 May, 2014)

# Why must we cost our projects?

## 2. Funding environment cont...

and in the May 2011 budget.....

*“We are already operating in difficult financial times and, as most of you will by now be aware, the Federal Government has announced a \$1 billion cut in higher education funding. The bulk of that sum - just under \$500 million - will come from the Sustainable Research Excellence program, which meets many of the administration, and infrastructure costs that accompany research, but that research grants do not cover.”*

(Professor Ed Byrne, Vice-Chancellor and President, Monash University, Message from Vice-Chancellor, May, 2011)

# Why must we cost our projects?

## 3. Legal requirements

- *Competitive neutrality* is a legal requirement to ensure Australian Government business activities do not enjoy competitive advantages over private sector competitors, simply by virtue of their public sector ownership.



- Pricing research projects under market value may be a breach of this requirement.

# Major cultural change was required

- Researchers would apply for what they thought they could get rather than what was required
- Because budgets were not a primary focus, little or no discussion about the affordability of the research would take place
- Little thought about where money to make up the short fall would come from should there be one
- Lack of understanding of the true costs



"I was close to a breakthrough when the grant money ran out."

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**The result was that many areas fell into deficit**

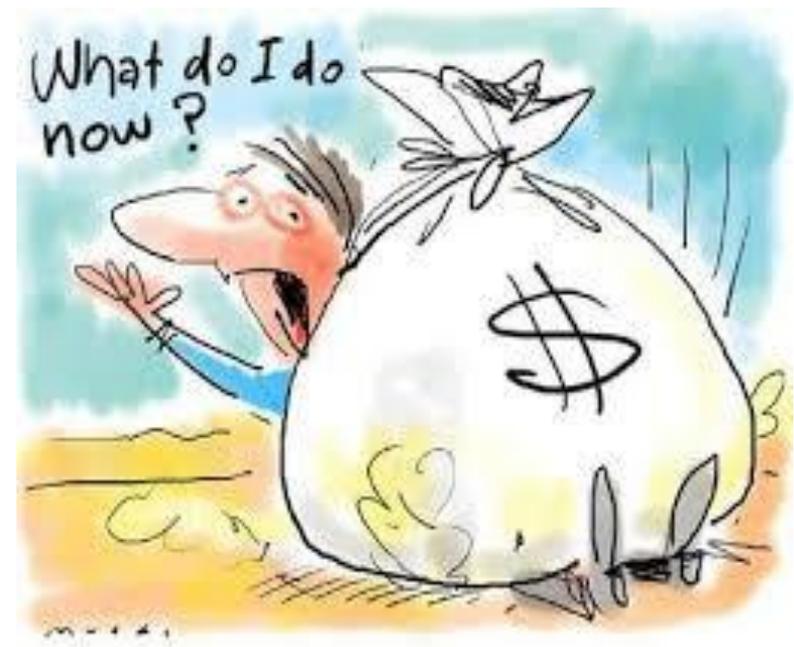
# What needed to happen

An increase in financial literacy

- What are the full costs?
- Why is it necessary to ensure full costs are met
- Knowing the difference between cost and price, and when discussions need to take place if funds available are less than the cost of conducting the research
- Who picks up the tab when there is a shortfall?



- Once the money was awarded, because no thought went into the original budget during the application process, little or no planning went into how the money would be spent across the life of the project.
- This created the risk that the project would run over or under budget - both had implications:
  - Over budget creates financial strain on the department, school, faculty flowing on to the university
  - Under budget, with grants now coming under greater scrutiny, money is sometimes required to be returned which may not be positive!



# What did we do?

- The Faculty wanted more transparency around the pricing of commercial and grant applications
- Developed a comprehensive costing and pricing model
- Developed guidelines and a communication plan
- Developed a Faculty policy for how different sized projects should be treated
- Put a process in place to systematically recover costs
- Pricing decisions remained with the School however, any shortfall has to be covered from an alternative nominated source within the School's budget



"Keep this to yourself, Henderson, this will fund our research for the next ten years!"

# The costing and pricing model

- Is able to be used for all external activities, with overheads built in for commercial and non competitive grants and projects
- Is customised for different schemes
- Ability to build in profit margins when appropriate
- The model calculates direct expenditure, including salary on costs, and overheads.
  - Overheads include the cost of faculty management and central portfolio operating costs

# Success Factors



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# Success Factors

- Senior leadership endorsement
- Pre-existing, limited cost recovery model previously in place
- Cultural change:
  - School had undergone transformation in previous 5 years, with significant academic staff renewal
  - Increased emphasis on research performance
  - New staff with increased financial literacy
  - International staff with expectations of full cost recovery and self-funding

# What did we learn?

- Consistent policies and procedures
- Timely and ongoing communication
- Integrated systems and technology to support
- Need for exceptions
  - Potential loss of revenue and reputation
  - Loss of opportunity and potential impact on academic career trajectory
  - How far to push resistance?
- Creative use of costing/pricing model
- Give consideration to strategic imperatives





# WHAT'S NEXT?

# Integrated Research Administration System (IRAS) Project

IRAS enables the University's Research Strategy to professionalise research management. It aims to enhance research administration practices to deliver optimum support and administrative services for research staff, administrative staff and the University.

Project Managed  
from Beginning to  
End

Business Process Improvement  
to ensure processes are aligned  
to Strategic Goals, Targets,  
Roles & Responsibilities and  
Solution Capability



Integrated with key  
Monash  
applications inc  
Finance and HR

Initiation and development of funding proposals for contracts and grants, ethics, post-award, research outputs, researcher web profiles, and institutional and strategic reporting

# IRAS Project

A single research administration system; providing full visibility of all research activity and information

- End-to-end processes that span faculties and central units
- Simplified common business processes
- Clear business rules



- Clearly defined roles and responsibilities for research administration
- Freeing up researchers to focus on core research activity