Full costing in Czech universities

There is a trend throughout the whole of Europe to move towards full costing and Czech universities are certainly following this trend
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Full costing in Czech universities

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Nowadays, universities are influenced by a number of external factors, and demands on them are growing rapidly. Long-term financial sustainability is gaining in importance and certainly will be the primary issue of concern for universities in the next few decades. An important step towards reaching this goal is for universities to identify the real direct and indirect costs of their activities — so called full costing. Only institutions that know the full costs of their activities and projects can judge if they are able to operate on a financially sustainable basis.

The Bursar of Masaryk University in Brno, Mr. Janíček, mentioned in an interview for ECHO in February 2009 that, “Full costing should be natural economic practice and it is surprising that its implementation at universities hasn’t been broadly discussed already.” In addition, the Bursar of the Institute of Chemical Technology in Prague, Mrs. Čvalína, added that, “It is necessary to admit that common expenses like water, energy, depreciation and others aren’t for free and it is necessary to allocate them to the relevant activities.”

ECHO is a bulletin published in Czech every two months by the Technology Centre ASCR. One edition was devoted to full costing and can be found at: www.tc.cz/dokumy_raw/295echo-209c-3_46.pdf

The current situation

Most Czech universities are currently at the stage of discussing the advantages and disadvantages of full costing methodologies and the development of these systems. Some universities are more advanced than others, but there is general awareness about the importance of implementing full costing. There is no common national approach or ambition to create one common methodology which should fit all. Instead institutions are developing their own methodologies, either individually or in collaboration with a couple of other universities of the same type.

On a national level, discussions and an exchange of knowledge are already taking place, with two special one-day meetings of all Czech bursars being devoted to the issue. No Czech university is implementing full costing yet, but it is expected that some universities will introduce full costing methodologies at the end of 2010 or in 2011.

European driver for the implementation of full costing

The drivers towards full costing should lie at the institutional level. It should be primarily seen as a strategic management tool enabling identification and an understanding of the real costs of externally funded activities. However, important drivers are also the requirements of external R&D fund providers and their funding schemes, both on national and European levels.

On a European level, the most important driver is the Seventh Framework Programme for Research and Development (FP7). Under FP7 rules, the beneficiaries should declare their real costs. However, if the beneficiaries are unable to identify with certainty their real indirect costs for the project, they may opt to declare a flat rate of 60% of the direct costs. This is a specific flat rate which helps universities achieve a smooth transition between the old additional cost model and full costing.

Currently all Czech universities apply for a 60% flat rate in FP7. But they have recognised the European tendency towards full costing and have been motivated to try and calculate whether their figure is actually above or below the 60% flat rate. FP7 rules go further, and the European Commission can provide certification of full costing methodologies of individual in situations and thus give reasonable assurance on the reliability of the beneficiaries’ costing methodology for further participation in FP7.

However, the possibility of certification is open only to the most important FP7 beneficiaries with multiple FP6 and FP7 projects, and therefore no Czech university can request this certification. However, a certificate issued by the European Commission to any university can be seen as best practice and is an inspiration to all European universities, including those in the Czech Republic.

National driver for the implementation of full costing

On a national level in the Czech Republic, the most important driver for implementing full costing is a programme called Operational Programme Research and Development for Innovation (OPR_DI). This programme, co-funded by the EU Structural Fund, has a budget of over €2,400,000,000 for the period 2007 to 2013 and represents a unique opportunity to strengthen Czech research. Its managing authority, the Czech Ministry of Education sets rules of eligibility of indirect costs based on full costing. Universities not having full costing cannot ask for reimbursement of any indirect costs in OPR_DI projects.

The basic requirements regarding conditions for eligible full costing methodologies were set out by the Ministry in a document entitled, ‘General rules (framework methodology) for reporting actual indirect project costs under OPR_DI’. This document has been prepared so it doesn’t contradict the rules of FP7 or Czech legislation, to be general enough to allow research institutions to take into account their specific financial contexts, and to provide
definitions of the basic rules and conditions. This document should be considered as basic guidelines explaining the term of full costing, with no detailed explanations or specific processes set out.

To provide certainty for the Ministry and reassurance for universities concerning the quality of developed and used methodologies, the Ministry will issue certificates of methodology to all institutions in OPER. DI projects i.e. institutions who are asking for reimbursement of real indirect costs in these projects. To do this, the Ministry will soon publish a call for tender to a specially selected auditing company. They will have the appropriate knowledge of accounting and full costing procedures, and the ability to carry out ex-ante controls of the methodologies developed and used by the institutions.

Raising awareness about full costing

Efforts to raise awareness in the Czech Republic concerning the development of full costing were the driving force behind the decision by Technology Centre ASCR to hold three events in Prague devoted to this issue.

The first conference was held in March 2009 and was entitled, ‘future of full cost in R&D in the Czech Republic.’ This event was supported by the Czech Ministry of Education, the Czech Research and Development Council and the Czech Rectors’ Conference. The main aim of the conference was to gather together representatives of external funders in the fields of R&D with Czech institutions who are aiming to prepare and implement full costing.

The event provided a platform for discussing the importance of implementing full costing, exchanging information about the requirements of individual funders and sharing best practice from Czech institutions who have first hand experience with developing full costing models. The Deputy Minister of Education opened the conference and outlined the importance of this issue. In his introductory speech he stated, “I believe that the present discussion about the importance of full costing, exchange of information on requirements of both individual Czech and European funders and the sharing of experience of the Czech and European institutions will lead to a better understanding of the issue and the establishment of a dialogue between all the parties involved.”

In addition, the Deputy Minister considers as very important the, “…unification of requirements by all Czech funders, facilitating the process of implementation of methodologies of real indirect costs reporting by Czech institutions.” At the same time, he called upon institutions, the management of universities and institutions of the Academy of Sciences in particular, “…to focus on this issue.”

The second conference, called, ‘full costing: best practice in Europe’ was held on 11 November 2009 and was attended by more than 110 participants from eleven countries. The aim of this conference was to present existing full costing models from different European institutions mainly universities, and therefore help other organisations to develop their own full costing methodologies.

Speakers from the Netherlands, Great Britain, Spain, Germany, Austria and Portugal shared their experiences in the development, implementation and running of full costing systems. Some of the speakers also shared their experiences of the FP7 certification of their methodologies for indirect costs by the European Commission. The European Commission itself also presented its view of the full costing issue.

The third event was entitled, ‘Forum: Full costing and FP7’ and took place in Prague on 8 May 2009 in the framework of the Research Connection 2009 Conference - the biggest event about research organised under the Czech Presidency of the Council of the EU. The conference focused on the connection between FP7 and the implementatio of full costing systems by institutions, mainly universities and public research bodies, throughout Europe.

Funding of development of full costing

So it can be seen that in 2009 there was increasing attention given in the Czech Republic to the issue of full costing and a more active approach to developing methodologies in the universities. However, many barriers have been identified. The development of full costing systems is a highly demanding process in terms of methodology, finances, personnel, time and the experience required. Developing and introducing full costing methodology at the level of individual institutions requires, for example, additional funds to cover the cost of adapting existing accounting software programs, exchanging knowledge, funding the expert staff, consulting, training and so on.

To remove one of these barriers, the Ministry of Education in December 2009 opened a call for proposals which aims at supporting the development of full costing methodologies at Czech universities. Financial contributions of €36,500 up to €385,000 can be requested by a university for the duration of the project for up to three years. This call will be financed from Structural Funds. Operational Programme Education for Competitiveness and will be open with cut-off dates till the end of 2010.

This financial support on a national level was very welcome. However, the nature of Structural Funds produces one negative effect: only universities outside Prague are eligible, as Prague is a ‘wealthy region’ which cannot be financially supported from this kind of public sources. Currently, efforts are being made to find other funds for universities in Prague and also for public research institutions.

In conclusion

Even though the process of full costing development has already started in the Czech Republic, Czech universities still have a long way to go and there are many barriers to overcome. One of the most important is inconsistency and the different rules and requirements of external funding providers. For the successful implementation of full costing, both the universities and funding providers need to be prepared. Universities have to create reliable and robust full costing methodologies, and funding providers have to apply consistent rules and be prepared to cover the full costs of research.