

Summary Report from the conference **„Full costing: best practice in Europe“**

A conference on Full costing: best practice in Europe was held in Prague on 10 November 2009. The event was organized by the Technology Centre ASCR and was attended by more than 110 participants from 11 countries.

Invitation to the conference and programme can be found [here](#).

The aim of this conference was to present existing full costing models from different European institutions (mainly universities) and thus help other institutions in the development of 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. Also, some of the speakers shared their experiences during the certification of their methodologies (CoM) for indirect costs by the European Commission (EC), for the purpose of the Seventh Framework Programme for Research and Development (FP7). In addition the European Commission presented its view on the full costing issue.

Lenka Lepicova (NCP for financial issues in FP7, Technology Centre ASCR) opened the conference, introduced the issue of “full costing” and presented the main aims of the event. In Europe there are several universities already running full costing systems but many universities are still in the process of developing their models. However, there is an increasing awareness of the importance of full costing throughout Europe. It is considered as tool for understanding the real costs of externally funded activities and financial sustainability of the institutions. Rules of external fund providers (mainly FP7 on European level and in the case of the Czech Republic also Structural funds – Operational Programme Research and Development for Innovation – on national level) are important drivers for institutions for implementing full costing. Ms. Lepicova mentioned two relevant publications devoted to the issue (“Impact of external project-based research funding on financial management in universities” and “Towards full costing in European universities”) and explained basic definitions and approaches to methodologies used today.

Presentation can be found [here](#).

Willem Wolters (Head of Wageningen International Helpdesk, Wageningen University) introduced general situation of full costing in the Netherlands and concrete example of the Wageningen University. Majority universities in the Netherlands already introduced full costing in year 2008 and all will implement full costing before the end of 2010. Common approach of Dutch universities was based on sharing information and experiences but each university has developed its own methodology. Mr Wolters advises not to try to have one system for the whole country (“one size doesn’t fit all”). It is important to realize that main drivers for implementing full costing shouldn’t be rules of external fund providers but internal institutional reasons. Necessary conditions for successfully implemented full costing are institutional autonomy and robust administrative and accounting rules on university level (“research and management has to go hand in hand”). When creating methodology, institutions should be aware of the specificities of the institution (e.g. at Wageningen

university – high percentage of external research funding, many PPP and FP7 projects, many PhD students funded by external sources) and consequences. Wageningen university uses as primary cost driver academic staff (hours per FTE) and calculates indirect costs as percentage to direct labor costs. Timesheets has to be filled in only by staff funded from external projects.

Presentation can be found [here](#).

Paul Flach (Controller, Finance department, Leiden University) introduced in details full costing methodology of Leiden University by using excel sheets. It is necessary to make distinction between direct and indirect costs and it has to be known, how many people are employed at the university and how much time do they spent on research (assumption is used at Wageningen University). Indirect cost rate can be calculated on faculty level (as fixed amount). Implementation of full costing model at Leiden University took 2 years. Mr. Flach stressed that support of board of directors and using of existing accounting principles is necessary. Some assumptions are according to him necessary too.

Presentation can be found [here](#).

Excel sheets “Model Indirect Costs” [here](#).

Excel sheets “Project budget model” [here](#).

Tim Faehnrich (Systems Accountant, Research Services, Finance Division, University College London) presented British approach to full costing called Transparent Approach to Costing (TRAC) and concrete methodology implemented by the University College London. Firstly, distinction between direct and indirect costs is necessary. Afterwards costs are allocated to the departments and then to the activities. Variety of cost drivers can be used. At University College London no timesheets are used. Academic time is allocated to the activities based on Time Allocation Survey (TAS) – questionnaire which has to be filled in by academic staff aproximenly in three months period. TRAC has to be slightly adapted to the needs of FP7 – ineligible costs and adjustment concerning infrastructure has to be excluded. It results in different (lower) charges for FP7 projects. This adaption is connected with some technical difficulties. Currently is University College London using in FP7 60 % flat rate. Currently 2 British universities have submitted request for CoM to the EC.

Presentation can be found [here](#).

More general information concerning TRAC can be found [here](#).

Jose Luis Pena Sadano (Coordinator, Public Funding Management, R&D&Innovation Management, Telefónica) introduced FP7 principles concerning submission of CoM to the EC. Telefónica was the first organization which received letter of acceptance of the methodology for indirect cost from the EC. During the process Telefónica was asked only to make some minor changes concerning timesheets. The whole process took place since April to December 2008. Mr. Sedano mentioned that compared to the universities, situation in Telefónica was easier. Already 20 years ago Telefónica undergo a change of legal status and all research (RTD) activities have been since than performed by one company (legal entity). Thus, there is no need to separate activities related to research and non-research activities. There is also no problem with filling in timesheets – it is normal managerial practice of Telefónica. Mr. Sadano explained that for project proposal only one rate is used. During lifetime of the project, real rate is reported to the European Commission. This rate is

calculated every 3 months and if it is necessary adjustments are applied in the report of following reporting periods.

Presentation can be found [here](#).

David Mejuto (Audit Administrator, Implementation of Audit Certification Policy, DG RTD, European Commission) presented the Commission's rules concerning actual indirect cost methodologies and current situation in FP7. About 84 % of universities are currently using flat rates in FP7 projects (September 2009 data). Since most institutions in Europe are not ready to use full costing, the European Commission decided to maintain the 60 % flat rate in FP7 even after the end of year 2009. Four pillars of minimum requirements for FP7 methodology were explained in detail: reliable accounting, exclusion of ineligible costs, robust cost drivers and the choice between analytical accounting system and simplified method. Mr. Mejuto stressed that full costing methodology should be designed according to the institution's own management, control and decisional needs and, where necessary, specific adjustments to fulfill the EC cost reporting requirements should be implemented. During the discussion Mr. Mejuto explained that

- full time recording per person is required for the purpose of the CoM and proves to be the most advisable method. However, a reliable project-based time-recording, supported when necessary by complementary evidence of the involvement of the researcher, would be the minimum requirement for the eligibility of the personnel costs.
- for reporting (cost statements) real rates of indirect costs should be used and thus, where necessary, adjustments of previous periods have to be applied (this is of course not applicable for the last reporting period where accessible data based on the last closed accounting period can be used).
- in case of rejection of the methodology by the EC, the reply letter will duly inform the beneficiary on the errors and weaknesses encountered and will suggest the former to re-submit a certificate once the methodology has been adapted to conform FP7 requirements. The EC is willing to facilitate the process of transition to actual costs and to help beneficiaries to comply with the FP7 requirements. Thus, a rejection of the methodology by the Commission does not imply necessarily the need to revert to a flat rate method but the need to implement adjustments in the methodology. However, if the analysis of the methodology evidences that certain ineligible costs are charged to the EC grants, the beneficiary must implement the necessary adjustments in costs already reported in excess to the Commission.

Presentation can be found [here](#).

PANNEL DISCUSSION

Last three speakers shortly introduced their full costing models and experiences. Discussion moderated by Willem Wolters followed.

Manuela Gross (Head of Finance, Accounting & Controlling, Graz University of Technology) presented situation of Graz University of Technology and Austria. Creation of methodology for indirect cost was started in year 2005. A task force comprising finance and research staff members from Austrian universities evaluated this method and the Austrian

Rectors' Conference agreed to apply this model for FP7. In December 2006 a description of this method for calculation of indirect eligible costs was sent to the European Commission, DG Research. In the following months, due to different reasons and obstacles the unified approach was abandoned. Each university is now implementing an appropriate system for tracking research, education and other activities' costs according to their own abilities, terms and conditions. Nevertheless, at Graz University of Technology the methodology was adapted and submitted for certification to the EC but after half a year taken back.

Luisa Fernandes Sal (Coordinator of Project Support Department, University of Aveiro) explained that university has been developing its analytical accounting system since 2000, in consequence of national orientations and legislation applied to Portuguese universities. Now, in second phase, few steps still have to be taken to implement rules of community funds. University of Aveiro plans to submit its methodology to the EC for certification in near future.

More information of University of Aveiro and full costing can be found here: [1](#), [2](#)

Gunter Friedrichs (Project Manager, Heidelberg University) introduced situation at the Heidelberg University and also in Germany at general. Situation in Germany is very heterogeneous; there are very different conditions in different federal states. There are currently about 4-5 universities running full costing in Germany. Heidelberg University has been running full costing since year 2007 and recently even applied for the certification by the EC. They submit methodology for real indirect costs and average personnel costs (using 15 categories) and are waiting for the EC decision. Its methodology consists on timesheets and indirect costs are calculated on the basis of scientific staff (rate of indirect costs is about 115 % from this basis).

Main remarks form the discussion:

- It seems (from experiences of speakers at the conference) that universities calculating real indirect costs end up with percentage higher than 60 % of direct costs.
 - o E.g. Wageningen: 50 – 100 % of direct costs for individual faculties
 - o In this sense definitions are relevant – i.e. “What do we consider as direct and as indirect costs?”
- Important aspects for successful implementation of the full costing methodology:
 - o Personnel devoted to the implementation of the methodology and introducing the new systems
 - o Design of software (buy or develop)
 - o Comprehensive accounting system
 - o Involve external auditors – consultants with experience of universities and project based funding
 - o Involve financial people at the university
 - o Assure that financial and research people work together
 - o Support of management
 - o Financial resources and enough time (at least 1 year and 500 000 euro)