1. Background

In 1995, the Council of Australian Governments (COAG) implemented the recommendations of the report entitled National Competition Policy, commonly referred to as the ‘Hilmer report’. One aspect of that agreement which has implications for UNSW is the application of the principles and practices of competitive neutrality.

The Australian government’s policy of competitive neutrality (CN) applies to business activities carried out by publicly funded institutions, including universities.

The relevant objectives of the policy in terms of UNSW commercial activities are:

• To ensure that commercial businesses do not enjoy net competitive advantage over their private sector competitors simply by virtue of their public ownership (and the various advantages this entails, either by the removal of the advantage or by applying some surrogate which neutralises the advantage)

• To encourage fair and effective competition in the supply of goods and services

Key aspects of the policy relate to administrative transparency, accountability, and contestability as well as efficient allocation and utilisation of public resources. Complaints about failure to comply with competitive neutrality principles may be referred by the Premier to the Independent Pricing and Regulatory Tribunal of New South Wales.

2. Application of Competitive Neutrality at UNSW

This policy applies the principles of competitive neutrality to UNSW businesses and other commercial activities (including contract research).

The principles of competitive neutrality require that UNSW businesses and other commercial activities charge a competitive amount for their services, rather than a reduced price based on cost advantages that arise from being part of a large, government-funded institution. These cost advantages emerge from a range of sources, such as the University’s tax-free status and shared infrastructure and resources funding, which typically underwrite the indirect costs of projects.

Many of the benefits of applying CN are not easily measured in dollar terms, but are substantial for UNSW:

• the adoption of improved business practices at UNSW
• establishing a better basis for resource allocation decisions at UNSW
• improved accountability and transparency at UNSW
• unwinding of cross subsidies in service provision at UNSW
The costs that must be recognised in terms of CN principles include buildings and physical infrastructure, university-wide information technology, and other non-faculty services, including insurance and financial management services. From 2006, these costs will be recovered through an overhead levy to be charged on all externally funded commercial activities and contract research.

3. Full Cost Recovery

Prices charged should reflect the full cost of activities. This means that prices should include all direct and indirect costs (including shared and joint costs) associated with providing the service. Where the client is external to the University, UNSW expects the client to meet the total costs of the activity, including indirect costs.

Cross-subsidisation between commercial and other activities is undesirable as it is not competitive and reduces the transparency of transactions. While under-pricing may appear to have advantages in securing a contract, such an approach is usually not in the interest of the University. Full cost recovery encourages identifiable and rational use of resources and the disclosure to the community of the real cost of providing services. This leads to pricing policies for commercial work in line with national competition policy.

4. Costing

To calculate full project costs you need to identify the direct costs of the project, calculate the indirect costs of the project, and add these figures together to arrive at the competitively neutral cost.

The cost of a business activity is the sum of the full direct and indirect costs. The price of the activity to the client must be at least the full cost, unless a conscious decision is made by the University that the activity should be subsidised on community benefit grounds.

4.1 Direct Costs

Direct costs are those costs that are directly attributable to the project, and may include:

- salaries and on-costs of project staff, including the principal investigator/consultant (on-costs include superannuation contributions, payroll tax, worker’s compensation insurance, annual leave loading, and provisions for long service leave; on-costs are approximately 26% of base salary, though this may vary depending on the superannuation scheme)
- stipends or research assistants
- specialised computing and database charges
- materials and supplies
- equipment and components
- brokerage and freight
- large volume communication (telephone, fax, courier, postage)
- photocopying, report production
- external consulting services
- workshop, laboratory, and other scientific services
- travel and living expenses

4.2 Indirect Costs

Indirect costs (overhead or infrastructure costs) are the costs to the institution for carrying out programs that cannot be easily allocated to single projects.

Indirect costs for a particular research or consultancy project:
• do not represent a profit margin for the university
• are difficult to attribute and difficult to quantify
• are estimated by averaging them across all projects to derive a simple formula (at UNSW, a percentage of each project’s gross revenues irrespective of whether the project makes a profit or loss)

At UNSW, the indirect costs for which commercial activities are charged are:
• provision and maintenance of buildings and physical infrastructure
• university-wide information resources and technology
• basic telecommunications
• insurance and legal services
• financial management services
• security
• non-faculty administrative services

5. Pricing
In order to ensure that pricing of commercial activities and contract research is consistent with the interests of the University and the principles of competitive neutrality, pricing for each project will be determined on the basis of:
• a comprehensive analysis of direct and indirect costs; and
• a deliberative and defensible decision about the final price in the context of competitive neutrality guidelines and the University’s expectations of full cost recovery.

Pricing of projects will be done in the context of developing a contract between the external client and UNSW or one of its controlled entities.

6. Community Benefit
Under certain circumstances, government permits that universities may supply particular goods and services, including research, at or below cost, on public policy grounds.

This permission is modelled on the public sector commitment to community service obligations (CSOs), where certain activities are undertaken for community benefit and are therefore not required to be commercially profitable or competitively neutral. CSOs allow the public sector to retain its commitment to social and cultural objectives in the context of competition policy reform.

Any University subsidy of commercial activities undertaken on the basis of community benefit must be transparent, and this funding approved and reported. In signing off on the proposal for such activities, the Dean is required specifically to approve the subsidy on the grounds of community benefit, with a periodic review requirement from the DVC (Academic).

7. Approval
Approval of University Paid Outside Work and other University commercial activities by the HOS/Dean is dependent on the appropriate costing of all aspects of the activity and provision for the full recovery of any UNSW costs associated with the activity.

8. Staff Responsibility
Staff should ensure that UNSW business activities (including contract research) are conducted in accordance with the principles of competitive neutrality and the UNSW Pricing Policy. Any departure from full cost recovery and competitively neutral pricing
should only occur in accordance with this policy and must have the approval of the Dean, with reasons placed on the registered file.

9. Reporting and Review
All commercial activities at UNSW are required to have a Registered File and be reviewed at least every three years. Staff are required to report involvement in paid outside work on an annual basis. The review of this policy will take account of the reports of these reviews.
## Appendix A: History

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