Competitive Neutrality and Pricing Policy

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.

University Commercial Activities are defined under the University of New South Wales Act, 1989 (NSW), as amended in 2001, as those activities ‘comprising the commercial exploitation or development, for the University’s benefit, of any facility, resource or property of the University or in which the University has a right or interest’ (s6.3a). This definition includes the exploitation of intangible property and resources including knowledge, research, and intellectual property and includes all Knowledge Exchange activities such as consulting, contract research and UNSW Paid Outside Work.

2. Application of Competitive Neutrality at UNSW

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 university that receives public funding. 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 cost of activities.

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
- Establishing a better basis for resource allocation decisions
- Improved accountability, transparency and equity
- Financial sustainability

The costs that must be recognised in terms of CN principles include buildings and physical infrastructure, university-wide information technology, and other Central and Faculty services, including insurance and
financial management services. These costs must be recovered on all externally funded commercial activities.

3. Full Cost Recovery

Prices charged should reflect the full cost of activities wherever possible. This means that prices should include all 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.

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 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 the full cost of activities, the direct costs and indirect costs should be calculated, and added together to arrive at the competitively neutral cost.

The cost of a commercial activity undertaken for an external organisation is the sum of the direct and indirect costs.

4.1 Direct Costs

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

- Salaries and on-costs of 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 29.5% of base salary, though this may vary depending on the superannuation scheme)
- Stipends of 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

These are the costs to the institution for supporting commercial activities that cannot be easily allocated to a single project. These costs:

- Do not represent a profit margin for the university
- Are estimated by averaging them across all activities to derive a simple rate

At UNSW, these costs include:

- Provision and maintenance of buildings and physical infrastructure
- University-wide information resources and technology
- IT and Telecommunications
- Insurance and legal services
- Financial management services
- Research management
- IP management and commercialisation
- Security
- Central and faculty administrative services
- Other costs signed off by the Chief Financial Officer
5. Pricing

In order to ensure that pricing of commercial activities is consistent with the interests of the University and the principles of competitive neutrality, pricing for each activity will be determined on the basis of a comprehensive analysis of costs undertaken by the Chief Financial Officer.

6. 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. The Chief Financial Officer will review compliance and provide advice to the Deputy Vice-Chancellor Enterprise.

7. Staff Responsibility

Staff should ensure that UNSW commercial activities (including contract research) are conducted in accordance with this Policy. Any departure from competitively neutral pricing should only occur in accordance with this Policy and must have the approval of the Deputy Vice-Chancellor Enterprise, with reasons placed on the registered file.

8. 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.

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**Accountabilities**

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<tr>
<th>Responsible Officer</th>
<th>Chief Financial Officer, Division of Finance and Operations</th>
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<td>Contact Officer</td>
<td>Director, Knowledge Exchange</td>
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**Supporting Information**

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<tr>
<th>Legislative Compliance</th>
<th>University of New South Wales Act, 1989 (NSW)</th>
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<tbody>
<tr>
<td>Supporting Documents</td>
<td>Nil</td>
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<tr>
<td>Related Documents</td>
<td>Paid Outside Work by Academic Staff Policy (under review)</td>
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<td>Conflict of Interest Policy</td>
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<td>Pricing of Externally Funded Research Procedure</td>
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<td>UNSW Guidelines for Commercial Activities (under review)</td>
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<td>Superseded Documents</td>
<td>Policy on Competitive Neutrality and Pricing, v1.1</td>
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**File Number**

**Definitions and Acronyms**

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<tr>
<th>Affiliates</th>
<th>Conjoint and visiting appointees; consultants and contractors; agency staff; emeriti; members of University committees; and any other person, not being an employee, appointed or engaged by the University to perform duties or functions for the University</th>
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<tbody>
<tr>
<td>CN</td>
<td>Competitive Neutrality</td>
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<tr>
<td>IP</td>
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<td>IT</td>
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**Revision History**

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<th>Approval date</th>
<th>Effective date</th>
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<tr>
<td>1.0</td>
<td>UNSW Council (CL05/093)</td>
<td>29 August 2005</td>
<td>1 January 2006</td>
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<td>1.1</td>
<td>President and Vice-Chancellor</td>
<td>26 March 2013</td>
<td>2 April 2013</td>
<td>Sections 2, 2.4 and 6</td>
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### Further Information
This section is not published on the final PDF document. It is for website purposes only.

<table>
<thead>
<tr>
<th>Keywords for search engine</th>
<th>competitive neutrality and pricing, competitive neutrality, pricing policy, commercial policy, commercial pricing</th>
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<tr>
<td>FAQs and answers</td>
<td>Include any Frequently Asked Questions and answers to be included with the Policy (in a separate tab or section) in the Governance Policy Repository</td>
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