



Project Costing and Pricing Policy

FINAL

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1. Overarching policy statement

PNGIMR should charge external funders the full costs of conducting activities, including direct and indirect costs.

2. Scope of policy

This policy applies to externally funded research and non-research activities undertaken by PNGIMR as the primary recipient or sub-grantee, including research projects, consultancies and professional services.

3. Purpose

PNGIMR has three main sources of revenue.

- 1) An operational grant from the Government of Papua New Guinea (GOPNG) to cover core costs of the nation's only public health and medical research institute. The grant pays for recurrent expenses related to governance, administration, utilities, ICT, and some essential research capacity such as salaries of selected researchers and maintenance of laboratories.
- 2) Other GOPNG funding for selected activities, such as diagnostic testing, research activities, and capital works.
- 3) Funds from external bodies such as international health and medical research foundations, multilaterals, non-government organisations, bilateral donors and other development partners restricted to a specific purpose. These funds are usually for research activities but may also be for infrastructure, equipment or training.

The purpose of this policy is to provide a method for costing externally funded activities to assist in determining the total price, in consultation with the external funder and other partners.

This policy includes:

- description of direct costs to be covered by project funds
- explanation on how the indirect cost recovery ratio is calculated and applied to budgets
- use of funds acquired through indirect cost charges
- allowable waivers and exemptions to application of the indirect cost recovery ratio
- processes PNGIMR will use to manage this policy, including review of budgets by the Finance Department before funding applications are submitted.

This policy is necessary because PNGIMR's mission is to conduct research on PNG's health priorities. To fulfil the mission, PNGIMR must attract funding from external sources to conduct high quality research. PNGIMR's management, researchers and research partners need a method to calculate the full costs of research—the direct costs of conducting the activities and the amount of institutional support, such as administration, the activities use.

If the price charged for conducting activities is consistently less than the full cost, the institute cannot be financially sustainable. Under-pricing externally funded activities results in not being able to do the activities planned or subsidising the activities through the GOPNG operational grant.

Subsidising externally funded research activities will leave less funds for the institute's maintenance and development.

4. Definitions

Direct costs Direct costs are identifiable and attributable to a specific project. There should be a clear trail, such as receipts, timesheets and contracts, to show that the expenses are for the project.

Modified direct costs Indirect costs may be applied to the total direct project costs or to a modified subset of direct costs. Costs related to construction, major renovations and large equipment purchases are not included when calculating indirect costs. In some cases, it may be justifiable to exclude one-off expensive consumables such as reagents from the direct costs for the purposes of calculating the indirect cost recovery charge. Some funders only allow indirect charges for personnel costs.

Indirect costs Indirect cost are for supplies and services necessary to conduct the project but are shared across projects and not directly attributable to specific projects. These include:

- costs of administration and compliance
- facilities costs such as rent, repairs and routine maintenance of buildings and equipment, security and cleaning
- costs of research specific services such as the Institutional Review Board, library and archives and media and communication, and research ethics.

Indirect costs are also known as 'overheads', 'facilities and administration', 'non-attributable costs', 'core costs', and 'research management and support costs'. Indirect costs can be divided into the costs of administration, facilities management and research support costs.

Indirect cost recovery ratio The proportion applied to direct or modified direct costs to determine the indirect costs of a project.

Institutional support costs The recurrent expenses from the GOPNG operational account used for administration, building and equipment maintenance, utilities and research support services such as communications and the Institutional Review Board comprise the institutional support costs. These are expenses that would be expected to increase if the amount of research activity increased. Institutional support costs do not include recurrent expenditure for the foundations of a national medical research institute: expenses related to governance, senior executive officers and selected senior researchers.

Full cost The full cost of a project is direct costs plus indirect costs.

Pricing The amount of money to charge (or requested from) a funder. The full cost of a project should be considered when deciding on the price.

5. Guiding principles

The guiding principles of costing and pricing are:

Reasonable—Direct and indirect costs should be based on what is required to conduct the activity to a high standard.

Consistent—The accounting methods used to cost and price research activities will use practices that are subject to annual audit by the PNG Office of the Auditor-General and comply with generally accepted accounting principles.

Transparent – Direct and indirect costs will be documented and the basis for inclusion clearly explained. There will be no double-dipping for institutional support. That is, research funders who contribute to PNGIMR’s operating expenses will not be charged separately for institutional support for research activities they fund. In 2022, the Government of Papua New Guinea is the only funder that provides unrestricted operational funding.

Flexible—The policy will be reviewed regularly and updated to reflect changes in income and expenditures and the financial environment. The policy takes into account the types of research PNGIMR does and the diversity of its funders and collaborators.

One IMR—Full costing of projects reflects the costs to the institute, not individual research units, teams or sites. Decisions related to waivers and variations and the distribution of indirect cost charges will be based on the needs and strategic direction of the institute as a whole. Funds raised by charging for indirect costs are not to be used as an incentive for individual researchers, research teams, or research units.

6. Direct costs

Direct costs are all costs incurred by a project. Common categories of direct costs are listed in Table 1.

Table 1: Categories and descriptions of direct costs.

Category	Description
Personnel costs	Salaries and benefits of full and part-time research project staff, including recruitment costs, base salary, allowances, gratuity, housing, superannuation contributions, payroll tax, and provisions for long service leave and other entitlements consistent with PNGIMR’s employee conditions. Research project staff include principal/chief investigators dedicating at least 10% or half a day a week to the project, research fellows and scientific officers assigned to the project, dedicated technical and support staff, fieldworkers, research assistants, and project managers and coordinators.
Subcontractors	Cost of activities outsourced to external organisation or contractors
Scholarships and stipends	Costs related to students and interns working on the research project
Information technology	Computing equipment and maintenance/depreciation, software subscriptions and purchase, related networking costs, cloud storage, additional internet access
Consumables	All consumables needed by the project (include reagents, electronic components, stationery, fieldwork costs, etc)
Equipment	Purchase, upgrading and maintaining of equipment and charges for accessing specialist equipment if required.
Communications	Phone, postage and couriers, large volume printing
Freight	Brokerage, freight, customs and quarantine charges

Travel	Project related travel – visa, accommodation and per diem or travel allowances charged according to PNGIMR policies, purchase and maintenance of project vehicles or charges for use of PNGIMR fleet vehicles.
Facilities	Rental or other costs for new facilities required such as new field clinic or laboratory. Alternations to make existing facilities fit for specific project use.
Training and development	Costs related to training of project staff and partners.
Dissemination costs	Publication fees, conference fees, costs related to dissemination events not covered through consumables.
Compliance and risk management	Funder required audits, clinical trial monitoring, additional insurances, foreign exchange gains/losses
Other Costs	Costs unique to the project not covered above.

6.1 Personnel costs

Salaries comprise the largest proportion of the total cost of externally funded activities. All costs of project personnel should be included in the project price, based on the amount of time allocated to the project, including annual leave. Personnel costs of researchers and administrative staff that have specific duties for the project and have been previously paid by the GOPNG operational grant should be considered direct costs and included in the project budget. Exemptions must be approved by the Director or delegate.

PNGIMR employees must be paid rates in accordance with PNGIMR salaries and benefits, regardless of the source of funding. Applications for paying different salaries and benefits must be approved by the Director before finalising a contract, and will only be permitted under exceptional circumstances.

Personnel costs include all allowances and benefits employees are entitled to under their PNGIMR contract and PNGIMR's salary and benefits schedule and policies. This includes housing benefits.

Project budgets can be based on the actual salary and benefits of staff members named on the application or on a daily rate at the salary grade commensurate with the work. Daily rates should include all benefits. The Human Resources Department can provide a daily rate.

6.2 Housing

Housing is an employee benefit in Papua New Guinea, subject to specific criteria. Externally funded activities should include housing costs associated with a specific person or salary grade/job classification. Use of PNGIMR-owned accommodation should be charged at a rate that reflects market rental to cover the cost of management, repair and maintenance. The current charge rate for PNGIMR-owned property is K1800 per month.

7. Indirect costs

7.1 Indirect cost components of institutional support

Indirect costs are the costs of using the institute's facilities and administrative services that cannot be allocated to a specific project but are necessary to support project activities. Indirect costs are not profit; they are part of the real costs of conducting externally funded activities provided by the institute.

PNGIMR includes the following recurrent expenses met by the GOPNG operations account as institutional support:

Table 2: Categories and descriptions of institutional support used to calculate indirect costs

Categories	Description
Administration	<ul style="list-style-type: none"> • Salaries and benefits (not including housing) of staff in the Finance, Human Resources, IT, Transport departments, and site managers and Executive Officer, excluding HR and Finance Managers. • General insurance cover • IT consumables, software and repair • Audit and other professional services • Postage and communication
Facilities	<ul style="list-style-type: none"> • Salary and benefits (not including housing) security, cleaning and drivers not paid or reimbursed by external funds • Salary and benefits (not including housing) for lab management, OH&S and maintenance staff • Grounds maintenance, repair & maintenance to buildings, laboratory equipment and motor vehicles • Security expenses, including security contracts and vehicle tracking • Land rates and rentals (excluding housing) • Water, garbage and sanitation, genset, electricity, gas and kerosine
Dedicated research support	<ul style="list-style-type: none"> • Salary and benefits (excluding housing) for library, archiving, media and communication, and ethics officers. • IRB meeting expenses • Library subscriptions and publications & monograph expenses • Media and communication expenses

PNGIMR’s operating account from GOPNG pays for expenses related to governing and managing the institution and maintaining the institute’s core capacity to undertake essential public health and medical research. PNGIMR does not seek indirect or direct cost recovery for:

- Salary and benefits of the Director, Deputy Director Science, Deputy Director Corporate Affairs and Research Services and Research Unit heads unless directly related to the activity (for example, as principal investigator)
- All costs related to the PNGIMR Council
- Salary and benefits of the Human Resource Manager and Finance Manager
- Salary and benefits of selected researchers paid through the operating account
- Capital expenditures from any funding source

PNGIMR will seek to recover indirect costs by applying the Indirect Cost Recovery Rate to externally funded project budgets, whether PNGIMR is the primary grant holder or a sub-grantee. Indirect charges apply only to externally funded activities. See Section 9 for exemptions.

7.2 Method of calculating indirect cost recovery ratio

PNGIMR uses the expenditure apportionment method to calculate its indirect cost recovery ratio.¹ This method has been adopted in many countries and is accepted by many funders. It is transparent, reproducible and relatively easy to calculate from routine financial reports. The table shows the calculation method and a hypothetical example.

Table 3: Calculation of an indirect cost recovery ratio for a hypothetical research institute

Elements	Item	Calculation	Hypothetical example
Recurrent unrestricted core expenditure	A		K10,000,000
Recurrent restricted externally funded expenditure	B		K 6,000,000
Total recurrent expenditure	C	A + B	K16,000,000
Indirect cost allocation ratio (%)	D	$B / C \times 100$	37.5 %
Institutional support costs	E		K4,000,000
Institutional support costs attributable to externally funded activity	F	$E \times D$	K1,500,000
Indirect cost recovery ratio (%)	G	$F / B \times 100$	25 %

In this example, a hypothetical institute has an annual total recurrent expenditure (C) of K10 million, which is the sum of recurrent core funding from the government (A) of K6 million and recurrent external funding from research grants (B) of K4 million. These are only expenditures for recurrent items in a single year (or an average of several years). They do not include capital expenditures.

The percentage of recurrent expenditure paid through externally funded projects (B) out of total expenditure (C) is called the indirect cost allocation ratio. It represents the amount of total expenditure that is from external sources for activities. In this example, 37.5% of total recurrent expenditures are paid through research grants.

The institutional support costs (E) are the expenditures on administration, facilities and direct research support paid by core funding (see Section 7.1) that are for the purpose of supporting research activities through administration, facilities management and research support. In this example, K4 million of the total of K6 million of the core government grant support research activities. Based on the definition above, the institutional support costs do not include governance, senior management positions, and selected research positions.

The institutional support costs (E) are used to support all the institution's activities, not just research activities. The amount of institutional support used for externally funded research (F) is the

¹ See ESSENCE on Health Research (2020) *The Five Keys to Improving Research Costing and Pricing in Low-and Middle-Income Countries*. Available at <https://www.who.int/tdr/partnerships/essence/en/> for a full description of this and other methods.

institutional support costs (E) multiplied by the proportion of total expenditure derived from external research funds – the indirect cost allocation ratio (D). Because the hypothetical institute's recurrent research funding comprises only 37.5% of its total expenditure, only 37.5% of the institutional costs (E) of K4 million are estimated to be used to support research activities. In the example, this equals (F) K1.5 million. In other words, this calculation estimates that 37.5% of the time of HR officers, cleaners, utilities and other institutional support costs are used to support externally funded research activities.

The indirect cost recovery ratio (G) is the institutional support costs attributable to research (F) divided by the total recurrent expenditure from external research funds (B). In the example, the Indirect Cost Recovery Ratio is 25%: K1,500,000 (the institutional support costs attributed to externally funded research) divided by K6,000,000 (total recurrent externally funded research expenditure). In this example, project budgets should add 25% to the total direct recurrent costs.

7.3 PNGIMR's indirect cost recovery ratio

The indirect cost recovery ratio (ICRR) based on 2020 expenditure to be applied to grants in 2022 is 25.7%.

The Administration and Research Support ICRR for 2020 is 14.2%. The Facilities ICRR for 2020 is 11.5%.

Attachments 1 and 2 show the detailed calculations for institutional support costs and the indirect cost recovery ratio for 2020. This ratio will be re-calculated every two or three years or when there is a significant change to the institute's income and expenditure.

8. Distribution of indirect costs

Donors and principal investigators will be more supportive of including indirect costs in project budgets if the use of the funds collected is transparent.

Large organisations distribute a proportion of money derived from indirect cost charges to the unit or section that generated the money. However, PNGIMR is a small organisation with limited unrestricted funding to invest in buildings, equipment or staff development.

All funds raised from indirect charges will be placed in a single account. Units can apply to use it. The leadership can also decide to use it for strategic priorities. An annual report on how the money was used will be given to Council, funders and staff.

9. Exceptions and variations

Under compelling circumstances, the indirect cost recovery ratio may be waived or a partial rate applied. These include:

- Where the funder has its own indirect charges scale, the agency's specified rate may be used. This policy will assist in negotiating direct and indirect budget items.
- Where the funder does not permit indirect charges, this policy will assist in identifying institutional support costs to be included in direct costs, such as a charge for the use of facilities and equipment and project administration costs.
- The indirect cost recovery ratio is waived for activities priced under K50,000, or cover only scholarships, training or equipment purchases.

- If a project operates out of a facility separate from PNGIMR facilities and pays for all facilities costs out of project funds, the facilities component of the indirect cost recovery ratio can be omitted.
- Facility costs can also be adjusted to reflect only costs incurred at the site where the project is conducted.
- Because the Government of Papua New Guinea provides PNGIMR with an operating grant, activities funded by a department or authority of the Government of Papua New Guinea and aligned with the purpose of the institute will not be charged the indirect cost recovery rate.
- The Director or delegate may waive or reduce the indirect cost recovery rate charge if the activity is of strategic importance to the institute, including but not limited to supporting an early career researcher, undertaking a new area of research or establishing a relationship with a new funder or partner. Principal investigators must apply to the Director for the rate to be waived for strategic reasons.

10. Project surpluses

Project surpluses that the funder allows to be retained by the institute may be used by the research unit or team that leads the project. However, plans to use project surpluses must be approved by the Director or delegate to ensure compliance with agreements and transparency.

11. Management of research costing and pricing

To facilitate compliance with this policy, the Finance Department will:

- Prepare worksheets, using PNGIMR cost categories, for the preparation of externally funded budgets. The worksheet will include direct and indirect costs.
- Be familiar with the expenses allowed by funders and funding schemes to advise PNGIMR management, researchers and research collaborators at all stages of fund raising.
- Prior to an application being submitted to the director for approval, a representative of the Finance Department must review the budgets and funders' specifications for direct and indirect costs. The representative will give timely written feedback to the researchers preparing the funding application so changes to be made before submission. The purpose of the review and feedback will be to ensure that the prices reflect the full cost of conducting the activity. The representative may also prepare a written justification for deviating from full cost pricing.

PNGIMR researchers and research collaborators will:

- Use a PNGIMR project budget worksheet or similar tool to capture the full costs of a project in a budget.
- Give the budget and information on funder's requirements to the Finance Department in sufficient time to allow for a thorough review and to make changes.
- Obtain approval on the funding application including budget from the Director or delegate prior to submission.

The PNGIMR Director or delegate is responsible for approving applications with budgets prior to submission. In making the decision, the Director or delegate will take into account the feedback from the Finance Department and allowable exemptions and waivers.

12. Monitoring and reporting

An annual report of indirect costs charges received and the disbursement of funds will be presented to the Council. The Finance Department is responsible for timely provision of this information.

The direct and indirect costs included on funded projects be made available to the management, principal investigators, project administrators and coordinators and other researchers to encourage greater understanding and compliance with good costing and pricing practices.

Attachment 1: Institutional support costs in 2020

The source for personnel costs was the HR database. Non-personnel costs are extracted from PNGIMR's central financial management system. Costs for staff housing benefits are not included.

TOTAL Institutional support costs	5,432,647
Administration and research support	3,008,358
Personnel costs	
HR, Finance & IT	1,473,160
OHS, Lab management, library & communication	366,993
Other	274,179
Insurances	319,516
Audit & professional services	86,200
Library & communication services	30,995
IT expenses	71,673
Telecommunications	328,833
Institutional Review Board	56,808
Facilities	2,424,290
Personnel costs	1,123,814
Site services (e.g. utilities, rates)	496,352
Repair & maintenance of buildings, equipment and vehicles	512,580
Security	291,544

Attachment 2: Calculation of PNGIMR indirect cost recovery ratio (2020)

The calculation uses the expenditure apportionment method as described in section 7.2.

Total recurrent expenditures from the GOPNG operational account and external research funds are taken from PNGIMR's central financial management system.

The second table provide separate indirect cost recovery ratios for administration and research support services and facilities, using expenditures detailed in Attachment 1.

Element	Result	Item	Calculation and description
Recurrent GOPNG operational account	13,684,093	A	Noncapital expenditure from the operating account for 2020
Recurrent external research related expenditure	7,450,414.74	B	Noncapital expenditure from external grants, 2020
Total expenditure	21,134,507	C	A + B
Indirect cost allocation ratio (%)	35.3	D	B/C
Institutional support costs	5,432,647	E	See 'Institutional Support Costs' worksheet. These can be broken down into Admin and Facilities
Indirect cost attributable to research	1,915,137	F	D X E This is the amount of our core expenses we can say is directed to supporting research. The higher the amount of research funding we have compared to our core grant, the larger this amount will be because the departments will be stretched to do more work.
Total indirect research cost	1,915,137	H	F + G G is for direct research support costs. IRB is used for GoPNG funded research as well as externally funded, so included under administration
Indirect cost recovery ratio (%)	25.7	I	H/B

Administration and research support costs	
Admin + Research support institutional support costs	3,008,358
Indirect cost attributable to research	1,060,517
Total indirect research cost	1,060,517
Admin indirect cost recovery ratio (%)	14.2
Facilities support costs	
Admin + Research support institutional support costs	2,424,290
Indirect cost attributable to research	854,620
Total indirect research cost	854,620
Facilities indirect cost recovery ratio (%)	11.5