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Request: Copy of the IRS Overhead Costing Review undertaken by CSIRO and PWC
Document: CSIRO IRS Overhead Costing Review - Reissued

For more information, please refer to CSIRO’s FOI disclosure log at www.csiro.au/FOILog
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Introduction

Executive summary

To not be the case.
The cost recovery guidelines do not apply given Complementary Neutrality applies, and would only need to be considered if this were.

To the application of Complementary Neutrality should be undertaken.

significant under both models. However, with the move to a stand-alone or spin-off model a re-definition of the key questions as

Complementary Neutrality would apply to both models given IRs would be conducting a business and this business would be

be seen as a complementary neutrality guidelines.

CWSF may operate as a single entity for 2009-09 as Enterprise overheard under its Business model for CWSF would need an increase in the overheads charged to other Themes within CWSF and

overhead under the stand-alone model would be equivalent or less than under the CSIRO Common Costing Framework depending on the assumptions, particularly those regarding market rental rates. Prime Face. However, reducing IRs

overheads under the stand-alone model is likely from the analysis in Sections 5.6 and 7 that the cost of

Summary

Government’s, Complementary Neutrality Guidelines and the Complementary Neutrality Guidelines.

CSIRO are investigating whether a stand-alone overheard structure can be applied to IRS and if this meets the Australian

with other public and private industrial bodies which provide complementary offerings against a range of CWSF activities.

The CSIRO division is focused on delivering outcomes for the Australian manufacturing sector. IRS provides technical

The CSIRO Research Services (IRS) is one of the key Themes in the CSIRO Materials Science and Engineering (MSE)

The largest and most diverse research agencies in the world.

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) is Australia’s national science agency and one of

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2. Objective

The objective of the review was to create two indicative IRS cost-model cost structures currently used by CSIRO Publishing and modelled, based on:

- Cost Recovery Guidelines:
- Compelline Neutrality Guidelines, and:

- Consideration of Australian Government requirements, including:
  - so though the business was operating on a stand-alone basis, using approximate cost estimates:
  - based on the CSIRO stand-alone model, and:
  - determining indicative overhead costs for IRS:

Framework (CCF)

Gaining an understanding of the current overhead structure under which IRS operates – the CSIRO Common Costing

The review specifically focused on the following:

1. IRS operating as a stand-alone business:

2. IRS operating as a stand-alone business:

The methodology used to develop the overhead cost structure currently used by CSIRO Publishing and modelled, based on:

CSIRO are investigating whether a stand-alone overhead cost structure can be applied to IRS and if this meets the Compelline Neutrality and Cost Recovery Guidelines. The objective of the review was to create two indicative IRS cost-model cost structures.
3 Approach

Reporting:

Common Costing Framework Owner:
- CCF: Mark Hardwick, Executive Manager, Financial Services, CSIRO Corporate Finance and Steve Fitzgerald.
- IRG: Felicity Dillon, Finance Manager, CSE & Niche Manufacturing
- Publishing: Robert Bellmann, Financial Controller, CSIRO Publishing

Structure and the CSIRO stand-alone model. Stakeholders consulted are listed below:
- Stakeholder consultation: This stage of the review involved discussions with key CSIRO, IRG and CSIRO Publishing.

Modeling:
- Developing the stand-alone models for IRG.

The review:
- Business was operational on a stand-alone basis, using standalone cost estimates. This analysis formed the basis of the activities was analyzed and stand-alone models developed for IRG based on the CSIRO stand-alone model.
- Quantitative and qualitative data analysis: During this stage of the review, quantitative and qualitative data collected.

Fieldwork:
- The information gathered at this stage formed the basis of the fieldwork and development of the review criteria.
- Data gathering: During this stage, existing data and documents were identified in consultation with the relevant stakeholders.

The key activities in this review included:
**Overview of CSIRO Common Costing Framework**

CSIRO applies a single costing methodology for all work across the organisation for both internal and external costing purposes.

### Key Points:
- Performance is measured at the Theme level (e.g., profit/loss)
- All resources are accounted for
- Resources are allocated to Projects
- The Full Cost of CME is recovered in Projects
- The Full Cost of CME for each Theme/Unit is based on a combination of
  - Resource and Labour costs
  - Infrastructure and Operating costs
  - External costs

### Inputs
- Direct costs
- Direct labour costs
- Infrastructure costs
- Infrastructure labour costs
- External costs

### Outputs
- Business Unit costs
- Other overhead costs
- Other business unit costs
- Business unit costs

**Note:** The above list is not exhaustive but outlines the main costs.

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### Assumptions:
- The more capital intensive a business unit is, the more it increases the cost to the business unit
- The more infrastructure intensive the business unit is, the more space used and how it is used
- No researchers in the business units
5 Existing CMS enterprise and divisional overheads
## Table

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**Note:**

- The table above is an example of how data can be organized and presented.
- The comment column is used to provide additional information or context about the data.
- The item code column identifies the specific item or category for each entry.
- The amount column shows the value associated with each item.

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**Text:**

- The text provides a brief description or explanation of the data shown in the table.
- It highlights key points or insights that can be derived from the information presented.
- The text is formatted to ensure clarity and readability.

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</tbody>
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**Figure:**

- The figure is an image representing a diagram or graph related to the data in the table.
- It visually displays the information in a more intuitive way.
- The labels and axes of the figure are clearly marked to aid understanding.

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**Note:**

- The figure provides additional context or support for the data presented in the table.
- It can help in interpreting trends or relationships that are not immediately obvious from the table alone.
### Scenario 8

Indicative IRS overheads based on a spin-off
address the above key questions:

1. Am I conducting a business or providing a service?
2. Is the business significant (considered a test)?

stand-alone model:

The following key questions were answered to determine the application of CGFRs under the current model. The Common Reporting Framework (CRS) moved to operate under a global reporting model, the Common Reporting Model under the current model. The CRS: CRS is currently being implemented in accordance with CN.

Current Application of Competitive Neutrality in the Public Ownership of Government Businesses

Advantages over compliments simply by virtue of their government businesses do not apply compliments

Newly introduced (CN) policy aims to ensure that significant

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Newly introduced (CN) policy aims to ensure that significant
Competitive neutrality (cont)
generic.

The aim of this project is to develop a model for the identification of key drivers of productivity growth in the mining industry. The model is based on empirical analysis of data from a sample of mining companies. The key findings of the analysis suggest that productivity growth is driven by a combination of factors, including increases in capital intensity, improvements in operating efficiency, and improvements in the quality of the workforce.

**Key Statistics**

- Output growth: 2.5%
- Capital expenditure: $15 billion
- Employment: 130,000
- Value added: $27 billion
- Export share: 45%
- Share of GDP: 4.5%
- Share of national employment: 2.5%

**Note:** Private companies are not included in this analysis as a market segment. The bulk of research conducted privily is the result of basic research conducted by institutions such as the CSIRO or universities. Basic research often involves the possibility of projects or outcomes that may not be commercializable. However, the results of these projects can feed into private research and development efforts.

**Competitive Neutrality (cont)**
Other industries which may be of interest are as follows:

and 2.27 establishments had payroll employment.

and establishments were non-employer establishments (generally sole proprietorships).

in June 2006, 55% of establishments in the June 2006 Census of Australian Businesses (ABS Cat. No. 8165.0) were not establishments in 2007-08. The industry is estimated by ABSWIND to comprise employment totaling 30,000 persons in 2006-07. This figure is $4.450 million in 2007-08 with value added of $3.35 million or approximately 0.3% of Australia's GDP (in constant 2001 $). The figures are estimates by ABSWIND to

agencies, mining companies, and manufacturers. Other Technical Services Industry Revenue is estimated by ABSWIND to

This industry also comprises for a share of the total technical services market against the house operations of government

agencies, mining companies, and manufacturers. The other Technical Services Industry includes a broad range of scientific testing and analyses and demand is influenced by

Market Size

Competitive neutrality (cont)
Engineering Consultancy services in Australia

This class consists of units mainly engaged in providing consultancy engineering services. Also included are units mainly engaged in providing consultancy surveying services.

Note - Private companies are not included in this analysis as a market segment as the bulk of research conducted privately is the result of basic research conducted by institutions such as the CSIRO or universities. Basic research often involves the possibility of products or processes being patented. The results of basic research are generally used to build products or services.

<table>
<thead>
<tr>
<th>Class</th>
<th>2001</th>
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<tbody>
<tr>
<td>Value</td>
<td>$1.83</td>
<td>$1.37</td>
<td>$1.32</td>
</tr>
<tr>
<td>Full-time Employees</td>
<td>228</td>
<td>220</td>
<td>218</td>
</tr>
<tr>
<td>Plus part-time</td>
<td>10.23%</td>
<td>9.7%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Value added</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Key Statistics
This class consists of units mainly engaged in undertaking research in the agricultural, biological, physical or social sciences.
businesses and encouraged resources to flow to them regardless of their efficiency.

exemptions from regulations being private sector activity. Such advantages gave unfair advantage to government-owned

in the past, many government business activities were able to obtain certain advantages over their private sector rivals as a result of

Another consideration with CN is taxation.

assumptions, particularly those requiring market rentals. Hence, CN would apply with the move to a stand-alone model.

assumptions. The spin-off of stand-alone model would be equivalent or less than under the CSIRO CCF depending on the
cost of overheads. General administration and asset valuations is largely administratively and include changes to accounting

Cost/Benefit Test

would need to ensure that the benefits outweigh the costs for their business activities.

The above analysis indicates that the industry IFs operate is significant in size and numerous. Given the competition faced by

Competitive neutrality (cont)
would need to be reassessed on a regular basis as the business grows to ensure the threshold requirements are met. However, with the move to a stand-alone overhead structure this

Reassessment is not liable due to falling under the threshold.

To pay, the threshold is $10 million or CN related activity in a particular business area before remitting applies.

Department (DFO) has always suggested that significant businesses as defined by CN principles in a particular area may be liable.

CSIRO does not currently calculate and remit Transaction Equivalent Regime (TER) amounts. The Department of Finance and

the Official Public Account (OPA).

Your tax liability is a comparable manner to your competitors and to make an equivalent payment to

This category also includes other significant commercial activities that operate within non-commercial CAC Act bodies. The TER,

An agency of a CAC Act body that has a tax exemption, then you will operate under a Transaction Equivalent Regime (TER). If you are managing a government business activity that operates as a business unit, a significant business activity within an FMA

Transaction Equivalent Regime.

Commercial pressures that face their private sector competitors.

These businesses face the same costs and

CN principles aim to remove these unfair advantages. The principles also remove the impediment to efficient resource allocation that

Competitive neutrality.
Cost Recovery Guidelines

10

Exclusions under the Cost Recovery Guidelines:

1. Fees for goods and services.
2. Cost recovery of leases (e.g., leases, excises and customs duties).

What is Cost Recovery? Cost Recovery is the recovery of some or all of the costs of a particular activity. These fall into two broad categories:

Exclusion under the cost recovery policy (see exclusions below): RS currently does not apply the Cost Recovery Guidelines as they are subject to Cost Recovery Neutrality Principles. This is an exclusion under the cost recovery policy (see exclusions below).

The Australian Government Cost Recovery Guidelines apply to all Financial Management and Accountability Act 1997 agencies and also to those Commonwealth Authorities and Companies Act 1997 (CAC Act) bodies that have been notified under section 28 or 42 of the CAC Act. CSIRO is a CAC Act body.

- Payments by customers to non-Australian Government organisations and firms where Commonwealth policies may affect
- Rents and pecuniary penalties
- Receipts from asset sales, rental of property, royalties, including the sale of rights to access resources
- Repayments of loans to the Australian Government
- General Lessor
- Neutrality principles (e.g., commercial research)
- Other commercial charging arrangements in competitive or potentially competitive markets that comply with commercial
- Lessor are subject to competitive neutrality
- Charges by government business enterprises. These businesses operate in competitive or potentially competitive
- Any form of inter-agency or inter-entity-governmental charging

RS Currently does not apply the Cost Recovery Guidelines as they are subject to Cost Recovery Neutrality Principles. This is an exclusion under the cost recovery policy (see exclusions below):
cost recovery arrangements then IRS would need to seek government policy approval.

If IRS were not to apply to IRS then IRS would need to assess the case for cost recovery for each activity or product. If IRS were not to apply to IRS under the stand-alone model as CN applies. However, if CN were not to apply to IRS then IRS would need to assess the case for cost recovery. If IRS were not to apply to IRS under the stand-alone model as CN applies. However, if CN were not to apply to IRS then IRS would need to assess the case for cost recovery.

Applicability to IRS: Cost recovery does not apply to IRS under the stand-alone model as CN applies. However, if CN were not to apply to IRS then IRS would need to assess the case for cost recovery. If IRS were not to apply to IRS under the stand-alone model as CN applies. However, if CN were not to apply to IRS then IRS would need to assess the case for cost recovery. If IRS were not to apply to IRS under the stand-alone model as CN applies. However, if CN were not to apply to IRS then IRS would need to assess the case for cost recovery. If IRS were not to apply to IRS under the stand-alone model as CN applies. However, if CN were not to apply to IRS then IRS would need to assess the case for cost recovery.

Why Cost Recover: Cost recovery can improve the efficiency with which Australian Government products and services are produced and consumed. Note that cost recovery may not be appropriate where:

- Reels charged by courts and tribunals.
- Statutory marketing levies.
- Changes relating to industry-government partnerships.
- Government's review schedule (on the grounds that it is a one-off specific policy measure).
- Significant cost recovery arrangements that are new, materially amended or which has been reviewed or part of the exception policy measure. Minister must obtain the Finance Minister's agreement where it is proposed to exempt a significant cost recovery arrangement that is new, materially amended or which has been reviewed or part of the exception policy measure. Minister must obtain the Finance Minister's agreement.

Receives from one-off specific policy measures that have explicitly been recognised by the Government as not being

10 Cost recovery guidelines (cont)
Conclusions