Executive summary

The Vice President Research established a Working Group in June 2008 to review the Policy on Research Overhead. This review was conducted at a time when research universities are under significant financial pressure and moving toward a fair and more consistent approach to recover the true indirect costs[1] for supporting all forms of externally supported research. The AUCC estimates the indirect costs of supporting an environment for all externally funded research, collectively termed a “research funding agreement”[2], is 40% of the direct costs of conducting the research. In accordance with the federal government’s Tri-Council program to cover the indirect costs of research, it is recommended that the university’s “overhead policy” be renamed the “indirect costs of research” policy.

The remarkable decade-long growth in research success at UVic has brought with it the need for significant investment in creating a supportive research environment. Except for a federal program which covers a portion[3] of these indirect costs for Tri-Council funded research, various forms of short-term soft funding, and “overheads” for contract research covered under the present policy, the university has had little ability to meet these costs except through reallocating operating budgets from other areas of the university. The inadequacy of the current overhead policy is best demonstrated by the fact that, despite a ten-fold increase in contract research over the past eight years, the indirect funding they have generated annually in absolute dollars has remained relatively static.

The Group surveyed other universities about their policies and experience with indirect funding and consulted with deans and other university members with respect to their experience with the current policy. Based on that feedback, and on current efforts by the BC universities to have the provincial government and other funding agencies pay a fair and consistent indirect cost recovery fee on both grants and contracts, the Group recommends:

> *that the policy be revised to reflect an indirect recovery charge on all new or renewed research funding agreements beginning on July 1, 2009 at a flat rate of 25% of the face value of the research funding agreement. The rate of 25% will be increased each year by 5% until either a rate of 40% is reached or the rate is equal to that provided by the federal government for Tri-Council grants. It is hoped that setting the charge at this level*

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[1] The indirect costs of research include, but are not limited to, those costs associated with the operation and maintenance of facilities (from laboratories to libraries); the management of the entire research process (from providing seed funds and supporting the preparation of grant applications through the commercialization and the dissemination of results; and regulation and safety compliance (including human ethics, animal care and environmental assessment).

[2] Research funding agreements: Funding provided through an agreement with the University to be used for research purposes, whether the agreement would be considered a grant, contract, contribution agreement, or whether the agreement takes any other form, and whether it is legally enforceable or not.

[3] The federal indirects funding program only applies to about 1/3 of all the university’s external research support, and the indirect payment is approximately 25%.

will prevent sponsors from benefitting through different policies within the BC and other research universities across Canada and that the university can recover the funding it requires to maintain a high quality research environment for our faculty and students.

Background

The policy on Research Overhead was initially approved at the University in 2002, and is now up for its seven year review. A Working Group was established to carry out the review:

Howard Brunt (VPR and Chair), Rachael Scarth (Director, ORS), Cecilia Freeman-Ward (EA, VPR), Peter Keller (Dean, Social Sciences), Tom Fyles (Science), Afzal Suleman (Engineering), Mary Anne Waldron (AVP, Legal Affairs and Provost's delegate), Kristi Simpson (AVP, Finance and Operations and VPFO delegate), Tim Stockwell (Director, CARBC), and Brent Sternig (Acting President, IDC).

The Status Quo

The costs borne by the university to support a research environment are significant and, except for the federal government's indirect funding program, various short-term soft-funded programs (e.g. MSFHR's Institutional Infrastructure Program), and contract overheads under the current policy, there are no other sources of income to keep pace with those costs. While the university has seen a 10-fold increase in contracts over the past 8 years, the overhead funding received has remained relatively static year over year. The current policy has failed to operate effectively, partly because of unfounded concerns about the impact it would have on the ability to secure contracts from the public and private sector has led to a culture of overhead avoidance. Both UBC and SFU have been far more successful in this regard, with both experiencing significant increases in overheads that correlate with their external funding successes.

The current procedure in ORS is to charge overhead on primarily only on contracts. Despite the assertion in the current policy that the rates to charge various funders will be posted, no approved ratecard exists – ORS and IDC are using a jointly developed set of charges, but it has not been approved by any authority. Not surprisingly, there are a number of concerns with the existing policy and its implementation:

- Despite a major increase in the value of contracts over the past decade, there has been only a small amount of funding generated through our current overhead policy and procedures
- The current charges are not transparent, nor are they aligned with the actual indirect costs of research
- The actual overhead collected varies substantially for similar work within and between various funding agencies
- Overheads collected are below those collected by other comparable universities
- Varying charge rates for different types of expenses are confusing for both contractor and researcher
- Contracts are being passed off as grants to avoid overhead charges, even though there are clear deliverables

- Researchers omitting or minimizing overhead in their proposals to contractors and grantors
- Overheads back to the Faculties do not always map on to contributions from the Faculties
- Inconsistency in distribution at the decanal level
- Unclear rationale for the distribution formula in the present policy.

Working Group Mandate

The Vice President Research established the working group in June 2008, with the following mandate:

> *To ascertain the status of, and make recommendations on revisions to the Policy on Research Overhead and its implementation, including charges, collection, and distribution of overhead on research grants and contracts.*

Process

The working group has met three times since June 2008. As a first step, the Executive Assistant to the Vice President Research produced a comparison of Canadian comparable university policies on research overhead including distribution policy.

As a second step, the Office of Research Services was asked to produce a financial accounting of research overhead for the past year (excluding Tri-Council indirects).

As a third step, the Executive Assistant was requested to interview all deans with respect to research overhead and its distribution at the Faculty level, in order to determine what is working, and what is not.

All of the above information was reviewed and used by the working group in making its findings and recommendations.

Findings

External Review

The working group undertook a review of how research overhead was treated at other comparable institutions. The Universities surveyed were: Simon Fraser, UBC, Guelph, Waterloo, Dalhousie, and Queen's. The key findings are:

- All universities charge research overhead on contracts. There is a trend toward applying overhead to grants as well, with UBC and Waterloo leading the way.
- Overhead charges for contracts varied from 25 to 100%, with the mean around 40%.
- Overhead charges for grants varied from zero to 25% (UBC will increase its 25% charge by 5% each year to 40% in 2012). Those universities charging overhead on grants had a mechanism to waive or reduce overhead when appropriate (e.g. for non-profit agencies that had limited ability to cover indirect costs

- Some universities differentiate between on-campus and off-campus rates (off-campus rates are typically half that of on-campus rates because infrastructure and facility use is minimised)
- Units receiving overhead within the University were normally a mix of Faculty/Vice-Presidential/University. Universities usually extracted 35-60% of overheads for general revenue, with the mean being around 50%. Vice Presidents Research offices generally received 0-25%. Faculties received from 45 – 90%, with the mean being around 50%. Deans usually have discretion with respect to how they spend the overheads: usually it goes back to the researcher or researcher's department; or is held in a fund to stimulate research within the Faculty. Only one institution, UBC, distributed funding directly back to the PI (10%). And only one institution targeted the overhead going into general revenue – SFU dedicated that funding to research projects with general University impact, with the VPs deciding where the money goes.

Findings from a financial report on overhead for the last year

The ORS produced a report on research overhead received during 2007-08, excluding Tri-Council indirects. The highlights:

- Total overhead for last year earned by both Faculties and Centres was $767K.
- Faculties accounted for $326K, Centres the rest (although this may be an anomaly, as Dispute Resolution received a huge contract this year generating $312K in overhead).
- Three Faculties generated no overhead: Business, Fine Arts, Graduate Studies, and Law.
- Of the remaining Faculties, Science and HSD are the leaders, with $128K and $111K respectively. The rest are all below half that.
- Of 17 Centres, only five generated overheads: Addictions, Aging, Dispute Resolution, Global Studies, and Integrated Energy Systems. Taking Dispute Resolution as an anomaly, Addictions was the clear leader with $62K. The rest are all below half that.

Findings from the consultations with the Deans

Deans interviewed were: Ted Riecken (Education), Andrew Rippin (Humanities), Sarah Blackstone (Fine Arts), Ali Dastmalchian (Business), Tom Pedersen (Science), Peter Keller (Social Sciences), Mary-Ellen Purkis (Human and Social Development), Tom Tjiede (Engineering). Law neither generates nor receives research overhead under the present policy.

Main points garnered from this consultation were:

- Deans were not familiar with the content of the current policy, except for the distribution provisions.
- All agreed that an official tariff should be created and enshrined in policy.
- All agreed that a flat rate of 25%, consistent with the current rate being paid for Tri-Council indirects, should be applied to both contracts and grants (a number of the Deans expressed the hope that this would not be a tax on grants).

- A few of the Deans favoured an exemption or reduction of overhead from non-profit agencies working for the public good.
- Agencies such as NIH, CIDA, offering less than 25%, could be accepted at the discretion of the Dean concerned.
- Deans noted the difficulty of getting faculty to include overhead in their proposals. They recommended that faculty be educated further on the need to include overhead. Or, a computerized research application budget program might be a solution. There was a sense that the overhead collected was much less than the overhead that should be recovered.
- Deans are not in favour of reducing their current 45% allocation of overhead.
- Deans would prefer to see the overhead currently going into general revenue to be redirected to new or hard-to-fund or seed research initiatives.
- Only two deans questioned the return of overhead to research centres.

Recommendations

The Working Group recommends that the Policy on Overheads be revised to charge 25% on the face value of all contracts and grants beginning in 2009, with the charge rising 5% per year until 40% is reached, or until they are at least consistent with the Tri-Councils. These rates should be reviewed biennially in consultation with other universities to maximize consistency and fairness.

Exceptions to this charge would be: Tri-Council grants; previously agreed rates with particular organizations that are consistently applied by all universities (e.g. NIH); and non-profit agencies that are unable to afford to pay indirect costs.. For the latter, the charge could be reduced or waived by the Vice President Research after consultation with the appropriate dean(s), based on ability to pay.

Wherever possible, the indirect costs should be added to each budget category (e.g. personnel, supplies etc.) in a research funding agreement, though a single budget line indicating the indirect charges would be acceptable. In calculating the indirect fees, certain charges which are intrinsically indirect costs of research (e.g. rent paid to the university for space, faculty buy-out at full rates etc.) count toward the total owing. For example, if $5k is paid for rent in a $100k research funding agreement, all of it would go toward the 25% ($25k) indirect fees owed to the university.