

Indirect Costs of Research

Background Information Prepared by the Research Services Office at the Request of the University Research Policy Committee

January 2014

With the change to the distribution of indirect costs at the University of Alberta (moving to 85% to the Faculty (ie, Dean) and 15% to Central Administration) - which was approved by the Board of Governors on 13 December 2013 and took effect on 1 January 2014 - the following information is provided to researchers and administrators to assist in discussing the importance of including indirect costs in research funding applications.

The costs of doing research may be separated into direct costs and indirect costs (or “overhead”).

Direct costs are costs *directly* related to research projects and may include salaries and benefits, supplies, equipment, research-related travel, fees and consultant costs.

Indirect costs of research are ongoing, necessary operating expenses that are attributed to a specific department, but cannot be attributed to the specific project or product.

Indirect costs are real costs that are *directly* related to research projects, and include:

- Space allocated to the specific projects including heating, cooling, power, cleaning, and maintenance;
- Faculty and departmental services such as machine and electrical shops, Faculty/Departmental secretarial and office assistance, purchasing, shared equipment, etc;
- Academic services such as the Library and Computing Services;
- University-provided administrative services such as Purchasing, Finance, and Human Resources, Chemical and Radiation Safety, etc;
- Research and contract administration and support such as Research Services Office; and
- Regulatory compliance activities and support from the Research Ethics Office, animal care facilities, the Biohazards/Biosafety Unit of Environmental Health and Safety, Controlled Goods Program, etc.

The University’s *Indirect Cost of Research Procedure*, which is available at:

<https://policiesonline.ualberta.ca/PoliciesProcedures/Procedures/Indirect-Costs-of-Research-Procedure.pdf>

is in place to ensure that we recover a portion of the indirect costs of research which are valid and tangible costs of doing research over and above the direct costs. The University’s capacity to absorb these costs is extremely limited and therefore it is important for us to recover these costs where eligible.

If the sponsor was conducting the research project “in house”, the sponsor would be required to pay for the necessary indirect operating expenses to support the research project attributed to the project or product. The University should not be subsidizing the sponsor’s research by absorbing these costs.

A 2011 review by Internal Audit Services (IAS) determined that the indirect cost of research is approximately between 57% and 59% for research intensive faculties. In other words, for each research dollar received, it costs the University an additional \$.59 to support the research enterprise.

The IAS determination is consistent with the Facilities and Administration (F&A) rate agreement for use on grants, contracts and other agreements with the US federal Government negotiated between the U of A and the US Office of Management and Budget. The current F&A rate under this agreement is 59.0% on direct salaries and wages, including vacation, holiday, sick pay and other paid absences but excluding all other fringe benefits, and excluding equipment purchases of \$5,000 or more.

The University of Alberta’s standard rate of indirect costs for research Grants, Contracts and Technical Services Agreements is 20%, which is *one of the lowest indirect costs rates in Canada*. The standard rate for most of the U15 universities in Canada ranges between 30 – 40%. For example, the University of Calgary’s standard rate for grants is 25% and 40% for research contracts.

The Research Services Office Directors from nine of the U15 Canadian universities participated in a comparison of the rate of indirect costs recovered on non-federal research revenue for the 2011-12 fiscal year. The University of Alberta recovered 1.6% of indirect costs as a percentage of non-federal research revenue, and the range for the nine participating universities was between 1.6% and 19.5%.

When presenting a project budget to the sponsor, researchers should include both direct and indirect costs. In other words, a researcher should ***build the 20% indirect cost rate into each line item***, rather than negotiating/estimating only the direct budget cost for a project. For example, personnel costs are calculated as (salary + benefits) x 120% = total salary cost. When a government or non-profit agency requires that indirect costs be presented as a separate line item, budgets should include an indirect costs line-item equal to 20% of the total costs (or other agency-specific rate). The University of Alberta is serious about creating and sustaining a culture where indirect costs are always included in grant applications. Every effort will be made to recover 20% from the grant whether there is a specific line item for indirect costs of research or not.

Student salaries are not exempt from the assessment of indirect costs of research. It is inaccurate to assume that students’ tuition fees cover the cost of all University services they use as the cost of tuition is subsidized in Alberta, and as such does not pay the full cost of academic instruction. In addition, students working on and paid from a research project also require University services such as libraries, computing equipment and services, space and human resources services.

The Tri-Councils are not exempt from indirect costs charges, and the University recovers part of its indirect costs of research funded by the Tri-Councils. At the end of each year, the University receives a reimbursement of some of its indirect costs as a lump sum grant through the federally-administered Indirect Costs Program.

Strong interest has been expressed by Deans, Chairs and the senior executive of the University to significantly improve the recovery of indirect costs. This will only be achieved through the increased understanding of the importance of including indirect costs in grant applications, as well as the collaborative effort of both researchers and administrators.