

Indirect Costs: Rationale

**Office of Research
University of Guelph**

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1. Introduction

The indirect cost policy at the University of Guelph strives to create an equitable mechanism for recovering the indirect costs of research activities from research sponsors. This policy, the “*Revised Policy on Indirect Cost Rates for Research Conducted at the University of Guelph - August 14, 2015*” can be found at:

<https://www.uoguelph.ca/research/document/revised-policy-indirect-cost-rates-research-conducted-university-guelph>

The purpose of this document is to provide background information to support the above policy document. It provides evidence and examples of indirect research costs and indicates how the University uses revenues recovered under the indirect cost policy.

2. Evidence of Indirect Costs of Research

A considerable body of evidence indicates that the indirect costs of university research are substantial. It is beyond the scope of this document to provide an exhaustive survey of the evidence; however, a few examples are provided.

In a 2009 report, the Association of Universities and Colleges of Canada (2009) documents several studies that have been conducted in Canada to assess the indirect costs of research. This report states that “In 1982, the Canadian Association of University Business Officers (CAUBO) published a report that found that, for the 14 universities that carried out more than 60 percent of sponsored research, the indirect costs of research represented 50% of the total direct costs of research (not including faculty salaries). A 1996 report commissioned by CAUBO, the Association of Universities and Colleges of Canada, and Industry Canada put the institutional costs of research at an average of 54% of direct costs. More recently, the Advisory Committee on Science and Technology found compelling evidence that indirect costs should be funded at 40% of direct costs with an intention of increasing this to 45% of direct costs. AUCC itself has long argued that institutional (indirect) costs for all institutions should be funded at a rate equal to at least 40% of the direct costs of research”.

Actual rates of indirect cost recovery vary in Canada; however, many universities charge 40% on contracts, and between 15 and 30% on grants. For example, at the time of writing, an indirect cost rate of 40% on industry contracts applies at the Universities of Calgary, Regina, Toronto, and at Brock, McGill, Memorial and McMaster Universities, to name a few.¹ In the United States, universities appear to recover a higher portion of the indirect costs of research than in

¹ Like Guelph, most universities make some exceptions to this general rate. For example, the rate may be lower if the industry funds match a Tri-Council award or if some of the direct costs are for university services (such as the Central Animal Facility) for which the user fee already includes indirect costs.

Canada. For example, Sale and Sale (2010) found that for 163 US universities examined, the average indirect cost rate was 48.2%. At Guelph, the indirect cost rate is 25% on grants and 40% contracts.

The indirect costs of research are thus significant. Much of the research undertaken at the University of Guelph and elsewhere is resource-intensive. Indirect costs must be included in research project budgets for reimbursement by sponsors to ensure that the University has the needed resources to support its research enterprise. Research projects that do not include indirect costs are subsidized by those that do; sponsors who fail to recognize indirect costs as an eligible project expense are subsidized by those sponsors who do pay.

3. Examples of Indirect Costs of Research

Indirect costs of research include facility, administrative and service costs. While a comprehensive listing of indirect costs is beyond the scope of this document, they include such things as:

i) Physical Plant and Operational Costs

- Utility costs such as electricity, air conditioning, heat, light
- Library and information services
- Computing, internet and communications services
- Maintenance and operational costs of research facilities
- Building security, janitorial services, fire and emergency response services

ii) Services provided directly by the Office of the Vice-President (Research)

- Processing of applications/proposals
- Negotiating and legal review of research agreements/contracts
- Providing infrastructure and systems to maintain regulatory and safety compliance for:
 - Animal Utilization Protocols and approvals
 - Research Ethics Board approvals
 - Employee health and safety
 - Environmental compliance of research activities
- Setting up research trust accounts
- Financial and audit reporting to major agencies and sponsors
- Intellectual property and commercialization services

iii) Additional, Centralized Administrative Services Supporting Research Activities

- Human Resources
- Financial Services
- Revenue Control

- Purchasing and Procurement Services
- Occupational Health and Safety
- Environmental Health and Safety and the Biosafety Committee
- Animal Care Services and the Animal Care Committee

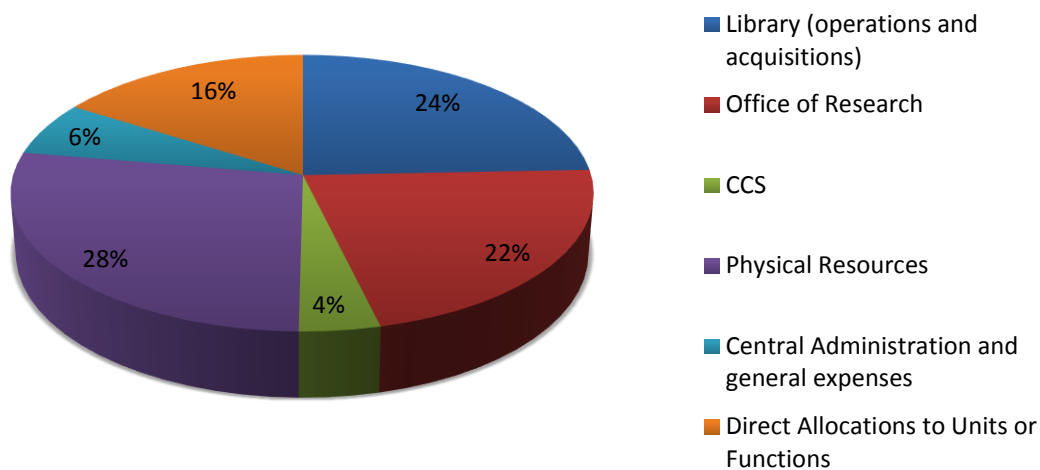
There are many other indirect costs and one that might surprise researchers and sponsors is the cost associated with financing research projects that receive funding in arrears. In the majority of cases, the university receives research funding only after expenses are incurred and invoiced. Accordingly, the institution incurs substantial debt financing costs to float research operating lines of credit to support the research activity.

4. Allocation of Indirect Cost Recoveries

In 2011/12, the University received \$21.4 million in revenues from indirect cost recovery. The majority came from the OMAFRA contract (\$10.3 million) and the Federal Indirect Cost program (FICP) (\$6.4 million)². The remainder came from indirect charges on grants and contracts with industry and government (non Tri-Council) sponsors. Figure 1 shows how these revenues were allocated to support various operations of the University. For example, 28% of the funds were used to support the cost of Physical Resources operations, 24% supported the cost of Library operations and acquisitions; 22% supported the cost of the Office of Research operations, 16% was returned directly to academic units or functions within the University, and so on.

² In 2003, the Tri-Councils (NSERC, SSHRC and CIHR) recognized the very real costs universities incur in covering indirect costs and initiated the Federal Indirect Cost Program (FICP) under which universities receive a lump sum annual payment to offset the cost of administering Tri-Council awards. These grants are allocated annually based on a three-year rolling average of an institution's Tri-Council revenue. Although rates vary across institutions, the indirect costs as a percentage of direct costs are about 20-22% at the University of Guelph.

Figure 1
Research Indirect Funding Allocation 2011/12



5. Summary

Indirect costs of research are significant and real, and if they are not recovered from research sponsors, they must be found within the operating budgets of the University. Increases in both research and resource-intensive research, along with increasing demands on the base operating budget, mean that the recovery of the indirect costs of research from all sponsors is of critical importance. While there is a wide variety of expense categories that are covered by indirect cost revenues, in general they are utilized to support the continuation, and expansion and growth of the research capacity at the University of Guelph.

6. References

Association of Universities and Colleges of Canada (2009), "Funding the Institutional Costs of Research: An International Perspective", available at:
<https://www.uoguelph.ca/research/document/funding-institutional-costs-research-international-perspective>

Sale, Martha Lair and R. Samuel Sale (2010), "Indirect cost rate variation determinants in university research, an empirical investigation", *Research in Higher Education Journal*, Vol. 6, pp 1 – 8.