



INDIRECT COSTS (OVERHEAD) ON SPONSORED RESEARCH

GENERAL

The Office of the Vice-President (Research & International Relations) has established key principles with respect to the recovery and distribution of the indirect costs of sponsored research, sometimes also referred to as “overheads”. These include:

- Western seeks to maximize its recovery of indirect costs and in this regard endeavors to recover at a minimum 40% of the direct costs of research;
- The distribution of indirect costs earned on contract research shall relate to Industry sponsored contract research and shall be in accordance with M.A.P.P. policy 7.7 www.uwo.ca/univsec/mapp/section7/mapp77.pdf , otherwise indirect costs recovered will be directed towards the central infrastructure costs of the University;
- In some limited cases, the Research Infrastructure Support Fund (RISF) as an example, a portion of the indirect cost recovery is redistributed through the annual budget process to individual Faculties to assist in covering their indirect costs of research within the Faculty.

Western is committed to supporting and furthering sponsored research in a fiscally responsible manner. This interpretation applies to all sponsored research activity administered through Western’s research office including grant research, contract research, technical/analytical services, professional consulting, flow through funds, program evaluation, and clinical trials and has been created to provide Western with a means of recovering the indirect costs associated with performing research. The administration of Western’s policy on Indirect Costs of Sponsored Research is carried out by Research Development & Services.

The following information is provided as a guide to the assessment of indirect costs on externally funded research. Specific funding situations should be discussed with the Research Development & Services office during application development.

Standard definitions can be found at the end of this document. If clarification is required please contact Research Development & Services directly.

INDIRECT COST ASSESSMENT

All research conducted on campus has both direct and indirect components, both of which are absolutely essential to the process (See the Definitions section at the end of this document). Direct costs cover such things as salaries, supplies, and travel, and are the responsibility of the researcher. Indirect costs, for items including heat, light, water, building maintenance, and grant administration are costs wholly incurred by the institution.

Typically, the direct costs of research are covered by the researcher through the granting process. Indirect costs must be recovered by the institution. In some cases, they are included in the initial application. In other cases, they are negotiated by the institution with the sponsor on an individual grant/contract or program basis. Either way, in accordance with agreements reached with the large research universities across Ontario and Canada, the objective is to recover a rate of 40% of total direct costs of research.

In some cases, sponsor guidelines establish a maximum rate that is different from 40%. In these circumstances, the university will assess the maximum rate allowable. In situations where no rate is published, the university will consider the funding conditions and determine if further negotiation with the sponsor is required. Certain standard programs do not require assessment of indirect costs within the application since they are dealt with through other mechanisms. For example, Tri-council programs (NSERC, SSHRC, CIHR). Appendix A sets out the general indirect cost rates associated with research activity at Western and an example of certain sponsor specific rates; these rates are often program specific and are subject to change. Actual rates should be confirmed with Research Development & Services during the application or proposal development stage prior to submission or request for signature.

INDIRECT COSTS CALCULATION

There are generally three methods to calculate the indirect costs of research:

1. Total the direct costs of the project and multiply by the indirect cost percent applicable for the sponsor category.
2. If the program has a total cap on the available funding, with an imbedded overhead rate of say 40%, the simplest way to calculate the overhead is to take the maximum total amount and divide by the maximum allowable overhead rate. For example, if the total allowable amount of the grant is \$200,000 then the maximum portion allocated to direct costs would be $\$200,000/1.4 = \$142,857$ and the difference is the overhead of \$57,143.
3. Flat rate indirect cost – this method is not as common, however may occur in a fixed price contract. The rate is specified as a total dollar amount regardless of the spending pattern on the project.

EXCEPTIONS

In exceptional circumstances an exception can be considered to the general indirect cost rules if mandated by a sponsor and/or approved by the VP Research & International Relations. Requests

for special consideration are to be vetted through Research Services before a proposal or statement of work is submitted to a sponsor and well in advance of submission deadlines. Requests for an exemption when mandated by a sponsor can be made by forwarding a copy of the sponsor guidelines to Research Services. Other requests for exemptions are to be submitted using the “Application for Modification of Indirect Costs from Sponsored Research” form found at www.uwo/research/rds/resource/rds_resources_forms.html/ . Examples where exemptions may be considered include:

- a) On Campus versus Off Campus Projects (where Western is the administering institution): On campus project budgets for sponsored research should reflect indirect costs at the appropriate sponsor rate as described in Appendix A. This amount can be reduced if project work will occur substantially off campus; the final rate will be determined on an individual project basis.
- b) Nonprofit/Government: Western's policy will be to assess indirect costs at the going Western contract research rate unless otherwise prohibited in the sponsor’s guidelines. The indirect cost policy of that sponsor will dictate the indirect cost contribution to the overall project costs. However, only official published policies that are consistently applied to all universities will supersede Western’s indirect cost rate policy and the onus will be on the researcher to provide documentation.
- c) Collaborative Research: In exceptional cases some factors may reduce the amount of indirect cost to be included, for example: the proportion of work carried out by the sponsor, the availability and sophistication of the sponsor’s equipment and facilities, the relationship and or history between the sponsor and Western, etc.
- d) Nature of Expenditure: Certain internal University expenses may already include an indirect cost calculation in the charge out rate (for example: animal care, machine shops) and thus will be exempt from the standard indirect cost rate.
- e) Donations: Arms length donations received in support of research generally will not be subject to indirect costs.

DISTRIBUTION OF INDIRECT COST FUNDS

Depending on the source of funds, there are different distribution methods of the monies flowing from indirect cost recoveries.

The standard distribution of indirect cost funds that are received as a result of **industry sponsored contract research** is:

<u>Unit</u>	<u>Rate</u>
Faculty Deans Office	30%
Contracting Department or Unit	12.5%
Contracting Laboratory (PI)	12.5%
Corporate Western	22.5%
VP Research - Promotion Fund	22.5%
Note: indirect cost sharing with Western’s affiliate	

institutions (i.e. LHRI) will occur when the research activity is conducted on their premises.	
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DISTRIBUTION EXCEPTIONS

Exceptions can sometimes be made to the standard distribution of indirect cost funds, if mandated by a sponsor and/or approved by Research Development & Services. For example:

- a) Centres: A Centre as approved under the Board M.A.P.P policy 7.9 may be eligible for an indirect cost distribution exception if the research activity is being submitted under the name of an approved Centre and where the Centre is charged full operating costs, including the indirect costs. A Principal Investigator working as a member of an approved Centre while engaged in sponsored research must reference any official (university Board approved) published indirect cost rate guidelines adopted by that Centre when seeking Research Development & Services' assistance during the budget formation/approval process for the distribution of overhead funds.
- b) Faculty reallocations: certain faculties or departments may choose to redistribute their share of the indirect costs generated from industry sponsored contract research within their unit. This change is at the discretion of the unit and changes of this nature should be communicated to the Research Development & Services office at the time of the grant application or proposal.

DEFINITIONS

Direct versus Indirect Costs

Direct costs are those eligible costs that can be specifically associated with a particular research project or activity, such as costs for materials, supplies, equipment, travel, and salaries. Sponsor guidelines often specify allowable costs or will provide a list of non-eligible costs.

Indirect costs encompass both physical and human costs and are the facility or infrastructure costs required to perform research, and typically include costs associated with maintaining and operating physical facilities (e.g. heating, lighting, maintenance, insurance), project administration costs (e.g. accounting) and support facilities (e.g. libraries and computing facilities).

Note: *for the purpose of this information the term "overhead" is synonymous with the term "indirect cost" and this policy will apply where external Sponsors' guidelines refer to overhead.*

Grant versus Contract versus Donation

The terms and conditions of the funding agency and program will often provide information to determine whether the funds being provided are in the form of a grant or contract. Generally:

A *grant* refers to funds that are awarded to the researcher, research group or team to enable the performance of self-directed research, where there is no contractual obligation for performance. The inventor and/or university owns all intellectual property generated during the grant period

(as per the terms of the Faculty Collective Agreement), there are no limitations or restrictions on publications, and funds normally flow in advance of spending. Applications for research grants are normally submitted to public (and sometimes private) granting bodies and are normally reviewed by a committee of the applicant's peers.

A *contract* refers to an exchange of promises that gives rise to legally enforceable rights and obligations. Typically, the researcher is asked to solve a particular problem for the sponsor as defined by a scope of work with specific deliverables and where expert knowledge is provided. The university generally retains ownership of any intellectual property generated and licenses it to the sponsor. An important distinction between a grant and a contract is that a contract places legally enforceable restrictions on how the research is to be conducted and on the dissemination of results, while a grant does not. A research contract can be expressed in a variety of forms, including an exchange of letter between the parties, purchase orders, form contracts and contracts requiring execution under seal. A contract can also be referred to as a "grant" or "grant agreement" by the sponsor, but in actual fact is a contract – the determination will be based on its conditions.

Donations are outright gifts designated for research activity in which the recipient did not solicit funds and the donor imposes no conditions; refer to M.A.P.P 2.2 for further information on donations.

Types of activities that will garner indirect costs

Clinical Trials are studies of promising and new experimental treatments for patients. A clinical trial is performed when the researcher feels that the treatment may be of some value to the patient. The most commonly performed clinical trials evaluate new drugs, medical devices, biologics, or other interventions on patients in strictly scientifically controlled settings, and are required for regulatory authority approval of new therapies. Trials may be designed to assess the safety and efficacy of an experimental therapy, to assess whether the new intervention is better than standard therapy, or to compare the efficacy of two standard or marketed interventions.

Collaborative Research Projects typically involve at least two parties (Western, one or more companies, and usually one or more government agencies, such as the Natural Sciences & Engineering Research Council (NSERC) or an Ontario Centre of Excellence (OCE)). By the nature of its meaning, collaborative research presumes that the sponsor's employees will play a significant role in working on the research project (in-kind contribution) and that the sponsor will contribute to the financial needs of the project.

Flow-through contracts meet the definition of a contract, as described above, however, Western may be acting as an agent to facilitate the specific research activity. Thus, it is expected that there be minimal activity and indirect costs occurred at Western.

Professional Consulting occurs when the arrangement involves University resources and/or the University is a party to the consulting arrangement. Unless the VP Research & International Relations agrees to a different rate, services provided in support of professional consulting are

charged the full industry contract rate and may also include an equipment-use fee based upon the use of specialized, costly, or high maintenance equipment during the project.

Technical/analytical Services exist where the purpose of the arrangement is the generation of specific data with minimal new intellectual input. The methodology, scope, timelines, and output are clearly defined. The sponsor usually owns the data generated and IP is not usually anticipated.

Program Evaluation is a formalized approach to studying and assessing projects, policies and programs and determining if they 'work'. Program evaluations can involve quantitative methods of social research or qualitative methods or both. Often program evaluations involve first describing the program theory in terms of a logic model; the logic model provides hypotheses for evaluation to test.

Other definitions

Intellectual Property (IP) is a product of the intellect. Intellectual property refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce. Intellectual property is often divided into two categories: Industrial property, which includes inventions (patents), trademarks, industrial designs, and geographic indications of source and may have commercial value; and Copyright, which includes literary and artistic works such as novels, poems, plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs.

Other important M.A.P.P. policies:

M.A.P.P. 7.3 Copyrights www.uwo.ca/univsec/mapp/section7/mapp73.pdf

M.A.P.P. 7.4 Patents www.uwo.ca/univsec/mapp/section7/mapp74.pdf

M.A.P.P. 7.5 Research Grants www.uwo.ca/univsec/mapp/section7/mapp75.pdf

M.A.P.P. 7.8 Signing Authorities for Research Contracts www.uwo.ca/univsec/mapp/section7/mapp78.pdf

M.A.P.P. 7.9 Guidelines for Collaborative Research www.uwo.ca/univsec/mapp/section7/mapp79.pdf

Appendix A

Indirect Cost Rates Chart # 1 – general rates based on type of activity

<u>Research Activity Type</u>	<u>Target Rate</u>		<u>Cost Base</u>
Contracts	40%		Of total direct costs
Grants	40%		Of total direct costs
Technical Service Agreements	40%		Of total direct costs
Consulting	40%		Of total direct costs
Flow Through Contracts	tbd	(1)	Of total direct costs
Clinical Trials	40%		Of total direct costs
Program Evaluation	40%		Of total direct costs
(1) indirect costs associated with flow through projects will be determined on an individual project basis			

Indirect Cost Rates Chart # 2 – general rates by funding category

<u>Sponsor Category</u>	<u>Target Rate)</u>		<u>Cost Base</u>
Federal Government	40%		Of total direct costs
Provincial government	40%		Of total direct costs
Private Sector/Industry	40%		Of total direct costs
Foreign Government	40%		Of total direct costs
Charitable Organizations & Foundations with no formal rate policy	40%		Of total direct costs

Indirect Cost Rates Chart # 3 – Sponsor specific rates *

<u>Sponsor</u>	<u>Rate (contracts)</u>	<u>Rate (grants)</u>	<u>Cost Base</u>
CIDA	tbd in negotiation	12%	Of total direct costs
IDRC	tbd in negotiation	13%	Of total direct costs
Public Works & Government Services Canada i.e. CSA, DND	65%/2%	n/a	65% of salaries & benefits 2% of travel
Industry match to Gov't sponsored Partnership Programs i.e. NSERC CRD	40%	n/a	Of total direct costs of industry amount
OCE's	35%	35%	Of total direct costs
Ontario Ministries i.e. OMAFRA, MTO, MOHLTC	40%	40%	Of total direct costs
USA Dept of Health & Human Services All Programs i.e. US Army	44.2%	44.2%	Of salaries & benefits
National Institute of Health	44.2%	8%	Of total direct costs
Tri-council NSERC, SSHRC, CIHR	n/a	0%	As defined by program guidelines

* If the sponsor has a posted rate in general or for a specific program, researchers are required to include the maximum allowable indirect cost rate in their budget.