

SUBJECT: INDIRECT COSTS AND OVERHEAD CHARGES FOR RESEARCH AND FOR INSTRUCTIONAL SERVICES SURPLUSES**1. Purpose**

The purpose of this policy is to compensate the University for its indirect operating costs of performing research and providing instructional services. These indirect costs include, but are not limited to, the costs of faculty time allocated to research activities, for the provision of instructional space, including facility maintenance and servicing (utilities), for the use and maintenance of equipment, for a proportionate share of other things such as insurance and legal services, and for services provided by the University - for example, through the Office of Research, Finance, Human Resources, Purchasing, Facilities, and the Library.

2. Scope

This policy applies to all research and instructional services that occur on the University's premises and/or involve the use of the University's resources.

This policy does not apply to:

1. Institutional contracts that do not fall under a College¹;
2. Gifts or sponsorships that are intended to be used to assist with the development of new or current University courses or programs;
3. Contracts for ancillary services such as Continuing Studies
4. Contracts with regard to scholarly or research conferences, meetings or seminars where:
 - (a) the conference is organized by UNBC faculty, staff or students on a not-for-profit basis; or
 - (b) UNBC faculty, staff or students will receive the primary benefit of the conference.

3. Authority/Responsibility

The Provost and the Vice President (Research) have the authority to make exceptions to this policy and to enforce and manage this policy.

4. Context: General

While the University's mandate is to provide a public good, it is often possible for the University to recover its indirect costs when revenues for offering an educational service exceed the direct costs or if research is sponsored so that the funder receives more than a fair benefit at the University's loss on indirect costs. The cost to the University of providing services under contract includes both direct costs (e.g. salaries and benefits of persons assigned to providing the service, materials, fax and courier charges) and indirect costs.

Most contracted services place an additional burden on some combination of administrative services including ITS services, Finance, Purchasing, and Contract services, Library resources, and utilities. In most instances, it is not practical to determine or estimate the actual indirect costs attributable to a particular contract. A common practice is to calculate an overhead charge as a percentage of the direct costs of providing the services under the contract.

¹ Where an institute is given its own Org number separate from any Program Org number.

Overhead charges have been applied to research contracts for a number of years. The percentages contained in this policy are similar/same to those applied to research contracts and similar to those levied by other Canadian universities that have developed policies on this topic.

It is recognized that each activity will have factors that affect how much it can contribute toward indirect costs. Thus, these factors weigh in determining the appropriateness of overhead and indirect costs charges, and the amount of overhead charged will vary.

5. Context: Research

It is recognized that a wide variety of research arrangements and agreements are in effect, ranging from those that meet all or most of the definitive criteria for a grant to those that meet all or most of the definitive criteria for a contract (see below). It is also recognized that each research funding arrangement may serve the aims and objectives of a Faculty member's research and the pedagogical and other aims and objectives of the University in different ways and to different degrees – that the University may derive benefits other than financial from the performance of research. These factors weigh in determining the appropriateness of overhead charges, and the amount of overhead charged will vary.

5.1 Characteristics of a Grant

Grants usually do not cover the full indirect costs of research and thus overhead included in a grant is often minimal and sometimes non-existent.

- There is no honorarium or other payment to the principal researcher.
- The project protocol is designed by the principal researcher and can be changed by the principal researcher.
- The monies are not attached to a specific performance outcome and cannot be retracted as a function of performance.
- Any patents or inventions belong to those making the invention and/or to the University, and not to the funding group.
- The project involves few contractual commitments, and does not involve proprietary data belonging to the funding group.
- The research project is initiated by the principal researcher.
- The funds are available in advance of expenditures and not in arrears.
- Capital equipment which may be purchased from the award belongs to the University and not to the funding group.

5.2 Characteristics of a Contract

A Research Contract is any legally binding agreement to perform research on behalf of an outside sponsor who, as a condition of sponsorship, requires a certain performance by the researcher, within a specified time frame, and acquires ownership, preferential use, and/or control of the research results or the publication of the research results.

Contract research is carried out under the terms of a written agreement which will normally include some or all of the following provisions:

- a description in specific terms of the work to be carried out for the contracting agency (statement of work) and when its components are to be completed (progress reports/final report);
- a budget providing for payments based on actual expenditures, except that some portion of each payment may be withheld (holdbacks) until the contracted work is complete and a final report submitted and accepted;
- that detailed financial records be maintained in order that financial statements can be prepared and expenditures audited;
- payment of a stipend, fee or honorarium to the principal investigator and co-investigators;
- restriction on the publication of research results for a limited time period;
- establish ownership, patent rights and licensing arrangements;

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- confidentiality of information supplied and created;
 - considerations for acceptance and/or termination of the contract.

As the sponsor is receiving benefit from a research contract, a contribution to the indirect costs of research to the University is expected, and overhead will be charged in accordance with this policy (see Section 9).

Considerable care must be taken in the management and accounting of research contract funds as service contracts are inherently more restrictive than research grants.

6. Context: Instructional Services

The University occasionally agrees to provide educational services to external clients under a contract (hereinafter called an "Instructional Services Contract"). External clients may include government agencies, corporations (profit and non-profit), societies and others. The context in which such contracts arise covers a broad spectrum. At one end of the spectrum are contracts where the educational services that the external client seeks are services that the University would not undertake as part of the University's normal mandate. At the other end of the spectrum, the University may be seeking financial assistance and participation in the development of new educational programs or materials that fall within the University's normal mandate and that will likely benefit both the contractor and the University or its students. Other contracts will fall somewhere between the ends of the spectrum.

The University's Provincial operating grant, tuition revenue, and many charitable donations are intended to be used to fulfil the mandate of the University that is described in the University Act. When an external client requests the University to provide educational services that are neither directly nor indirectly related to the University's mandate, the aforementioned funds should not be used to subsidize the provision of such services to an external client. In such cases, the University should seek to recover all of its direct costs as well as a full measure of the indirect costs associated with providing services under the contract.

Where course materials or pedagogical techniques are being developed under an Instructional Services Contract and the University will have the right to use in its own programming, the services fall within the University's mandate. Therefore it may be justified to reduce the percentage of overhead sought in the Instructional Services Contract.

7. Negotiation and Administration of University Contracts

The University alone has the legal capacity to enter into contracts which bind the University. Thus contracts for research and instructional services must be between the University and the contracting agency, and may not be written in the name of an individual, Program, Institute, Centre, School, or College. Any written document to which the University is a party must be executed by the designate of the Board. In the case of research contracts, the Vice President (Research) holds delegated authority, within limits, to sign on behalf of the University. In the case of instructional contracts, the Provost holds delegated authority, within limits, to sign on behalf of the University. Early discussion with the appropriate office is encouraged to establish appropriate budget terms including relevant rates of overhead to cover indirect costs.

8. Personal Contracts

Personal contracts negotiated between an individual and an external agency, and signed by that individual, will not be accepted for administration by the University, nor may University facilities be used for activities carried out under such contracts except as provided in Section 10 below.

9. Including Overhead in Budgets for Contract Services

9.1 Preparation of Budget

Instructors and principal investigators must include in the budgets prepared for submission to contracting agencies all items which can be charged legitimately to the project, including overhead. If, in so doing, the total cost of the proposed research project is greater than the sponsor is either willing or able to pay, then the cost of the project is also beyond the University's range of support. Reducing or omitting costs included in a research proposal with the expectation that the University will be able to absorb them is unrealistic since the University has neither the mandate nor the financial resources to subsidize contract services. Nevertheless, it may be feasible to reduce the amount of the work required to fit the resources available to fund it. Responsibility for a budgetary shortfall is ultimately the responsibility of the Instructors or principal investigator.

9.2 Amount of Overhead

An overhead charge to compensate for indirect costs associated with the project shall be established by the Provost or the Vice President (Research), in consultation with the Instructors or principal investigator respectively. The amount of overhead levied depends on a variety of conditions including the nature of the funding body, the purpose of the project, the extent to which the contract supports the academic program (e.g., employment of graduate students, provision of needed equipment), the number of specific deliverables, the specificity of time requirements for completion of the contract, the degree of transfer of ownership of intellectual and physical property to the sponsor, payment arrangements and the extent of special services required (e.g. legal advice, external audit). In small contracts (less than \$5,000) or where there is little or no payroll component, it may be more appropriate to levy an administrative fee rather than an overhead rate. Advice should be sought from the appropriate office on the applicability of this arrangement in particular circumstances.

9.2.1 Government of Canada - Research Agreements

When a research contract or agreement is with a Canadian Government ministry or agency, the overhead charges specified in the 1982 agreement between the Department of Supply and Services (D.S.S.) and the Association of Universities and Colleges of Canada (A.U.C.C.) shall apply.

These overhead rates, agreed to by all universities and colleges in Canada conducting contract research for the federal government, are as follows:

- 65% of Direct Payroll Costs (including fringe benefits) for on campus work;
- 30% of Direct Payroll Costs (including fringe benefits) for off campus work;
- 2% of Travel and Subsistence expenses.

Any deviation from these figures must be approved by the Vice President (Research).

9.2.2 Corporations and Other Agencies

If a service contract is with a corporation or an agency other than the Government of Canada, overhead may be levied. Normally the minimum rate will be 40% of the direct payroll costs including fringe benefits.

10. Use of University Facilities for Non-University Research

The University encourages faculty and staff to develop linkages with the private and government sectors, both as a means to expand research opportunities and to transfer technology developed in university laboratories or know-how developed by the University faculty and staff to the public sector.

In some cases, University personnel may wish to request permission to use University facilities, services, or materials for outside work. Permission must be obtained from the Vice President (Research). The demand for use of University facilities and services may create pressure on Colleges and Programs to make these facilities available and, at times, may potentially place University personnel in conflict of interest situations. University needs take priority over use of facilities for non-university research. The guidelines below were developed in an effort to facilitate outside work that

may require the use of University facilities while at the same time ensuring that the University's interests are protected.

10.1 User Agreements for University Resources

The University may permit an employee to use facilities, services and materials for outside work conditional on obtaining prior permission from the Provost or Vice President (Research). The Provost or Vice-Provost will, normally in consultation with the Dean and other concerned personnel, establish a fee for:

- use of these facilities,
- services,
- materials, and,
- time which employees, other than the principal investigator, devote to said work.

The use of laboratory or other facilities or services is a privilege normally extended only to University personnel.

A User Agreement, establishing the terms and conditions under which use is permitted, and costs to the faculty member, is to be signed prior to use of such facilities. The services required and the related charges are written into the Agreement. The holder of the User Agreement is expected to ensure that proper records are maintained of use of space and equipment. These records will be stored with the Program Chair or laboratory supervisor and must be accessible for audit and monitoring.

The User Agreement will describe the work to be undertaken, and the resource required including the amount of time to be devoted to the work by the principal researcher, the time of other employees (e.g., technicians), and the facilities, services and materials required. All costs (including the nominal cost of the researcher's time) need to be estimated. The fee charged for such work should include rental for the space and use of the equipment, technical and other services, materials and supplies, and other costs which may be incurred. The Provost or Vice President (Research) has the final authority to set such fees. Normally the Dean of the College and other concerned personnel will be consulted to establish appropriate fees. Where work is for a non-profit organisation the fees may be reduced.

The User Agreement is to be signed by the Provost or Vice President (Research) and the university employee using the facilities. If the work is done through a corporate entity (e.g., a company owned wholly or partly by an employee), the User Agreement must also be signed by an authorized officer of that corporation.

11. Disbursement of Overhead Funds within UNBC

Overhead monies will be disbursed 50% to the Provost or the Vice President (Research), 25% to the Dean of the College, and 25% to the Program Chair. Expenditures of these monies are restricted to the advancement, broadly defined, of the mandate of the University, including, but not limited to, support functions in ITS, Human Resources, Purchasing, Finance, and other areas.

11.1 Annual Report

An annual report covering the previous calendar year is to be made to President's Executive Council by the Provost and the Vice President (Research), the Deans and the Program Chairs on the overhead funds collected and the disbursement of those funds.