

November 13, 2020

MEMORANDUM

Application of SFU Indirect Costs (Overhead) to all Research Funding

Indirect cost recovery is an important, and mandatory part of externally funded research at SFU. This memo is intended to clarify policy language, to provide specific examples and to answer common questions - based on issues commonly encountered by ORS and Dean's Offices.

Policy

SFU's [policy on Indirect Costs](#) requires a minimum of 25% overhead on total direct costs in order to account for a portion of the costs of running research at SFU. Any external funding for research, or accessing research equipment, regardless if it is through a grant, research contract, service contract, sub-award or a donation, must apply the 25% overhead.

Rationale

Indirect costs of research are necessary expenditures incurred during the conduct of research at SFU, though not directly attributable to an individual project. Indirect costs include, but are not limited to:

- Infrastructure – building upkeep, power, communications network;
- Common equipment depreciation, life cycle costs;
- Environmental and safety monitoring, security, hazardous waste disposal;
- Ongoing regulatory and certification requirements (i.e. ethical review, biohazard or radiation safety, environmental assessments, provincial and/or municipal regulations and by-laws);
- Financial management;
- Contract and Agreement management;
- Insurance; etc.



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Director, Research Services

Appendix 1 - Process

The Principal Investigator is responsible for ensuring that direct *and indirect* costs are included in all proposed research budgets. Indirect costs can be applied as a 25% lump sum based on all direct costs or by 25% added to each budget item. Some funders have published policies that may override SFU policy, please see table below for examples.

- To be transparent and to avoid difficult conversations with funders at later stages of the funding relationship, indirect costs should always be included in the initial budget ask. (e.g. If Salaries, Equipment, Services and other direct costs add up to \$100,000, the first ask to the funder should be \$125,000 to reflect the full cost of research.) This way the funder can avoid having to get approval for the deficit later and SFU can avoid damaging the research relationship.
- Sometimes funders have an upper limit for a research budget. In these cases, it is the responsibility of the researcher to propose a scope that fits within the maximum allowed budget including all costs of the research, direct as well as indirect.
- If overhead is not allowed as a single line, it can be applied to individual budget items similarly to indirect costs included in the price of goods and services worldwide. SFU will calculate the total overhead and account for it accordingly. If you forget to apply it, your budget for direct costs will be automatically reduced potentially posing risk to the project.

There are variations to this process due to special circumstances with the sponsor:

Tri-Agency grants: The Tri-Agency (TA) covers SFU's indirect costs outside of individual grants so we do not add the 25% to individual TA budgets unless the funding opportunity states otherwise (e.g. NFRF specifically states that 25% is eligible on top of the maximum ask).

Industry match on TA grants need to include overhead and the overhead portion is not matched by the TA so it is important to include the proper amount in the first ask from the industry partner to avoid significant shortfalls later.

Sponsor limits overhead: Some grants (e.g. Innovate BC) have policy for overhead limitation for their portion of the funding, but the industry match should carry the full 25% SFU overhead. Unlike the Tri Agency, Innovate BC matches the full partner contribution, including overhead.

Non-profit prohibits overhead: Some non-profit sponsors are not allowed to pay for indirect costs as part of their mandate. These funders have specific, published policies available on their website. In this case SFU cannot recover the institutional portion of the cost of research. The published policy needs to be linked to the signature sheet for reference.

Industry sponsors are only exempt if they provide funding by a competitive process through a Request for Proposals (RFP) or Request for Applications (RFA) that has specific terms and conditions for overhead.

Sponsor variability: Some sponsors have a different indirect cost rate in their published funding opportunity or as a general policy (NIH only allows 8%; The US Government allows 58.9% for on-campus research). Please note that not all policies apply to the overhead as a percentage of direct costs. In these cases, we follow sponsor policy and make a note of it so it is fair and consistent. (e.g. In accordance with the agreement between SFU and the US Government, SFU is allowed to charge overhead only on salaries and benefits.)

Pre-negotiation: Some sponsors have pre-negotiated rates with SFU. (E.g. Health Canada limits overhead to 10% on direct costs or allows line item charges to recover legal, accounting and other costs.) In these cases, we follow the pre-negotiated process and make a note of it.

Faculty members should not negotiate overhead (indirect costs) rates with sponsors but should contact ORS (ors@sfu.ca) to find out what rates have already been negotiated. If ORS has not had prior dealings with an organization, it will negotiate overhead rates after it has been apprised of the nature of the grant or contract.

If and when in doubt, the researcher needs to contact the Director of Research Services to identify the proper action.

The following table describes SFU indirect costs (overhead) rate based on funding category:

Funding Category	Indirect Costs Rate
Tri Agency grants	<ul style="list-style-type: none"> Please do not apply overhead to budgets, SFU is recovering indirect costs centrally
Grants from government and not-for-profit organizations	<ul style="list-style-type: none"> 25% on total direct costs unless a competitive RFA/RFP process has a different policy or SFU has a specific pre-negotiated rate with the funder
Contracts with government and not-for-profit organizations	
Contracts with business and industry	
Matching funds on Tri Agency and other grants	
Subgrants, subcontracts and subawards coming to SFU	
Examples of Sponsors Specific Rates	
Canadian Space Agency FAST program	<ul style="list-style-type: none"> Administrative costs not to exceed 10% of the grant value
MITACS, MSFHR, Genome BC...	<ul style="list-style-type: none"> No overhead allowed on sponsor portion
National Institutes of Health (NIH)	<ul style="list-style-type: none"> 8 percent of modified total direct costs, exclusive of tuition and related fees, direct expenditures for equipment, and subawards in excess of \$25,000.
US Government (pre-negotiated for Colleges and Universities including SFU for use on grants, contracts and other agreements)	<ul style="list-style-type: none"> 58.9% for on-campus research work and 19.3% for off-campus research work based on direct salaries and wages including all fringe benefits

Appendix 2 – Frequently Asked Questions

Do I have to apply overhead on Matching Funds to Tri Agency or other grants?

SFU does require to recover overhead on grants used to match Tri-Agency or non-Tri-Agency grants or contracts. Examples of these programs include NSERC Alliance, SSHRC Partnership Grants, CIHR Industry Partnered Collaborative Research Program, CIHR Proof of Principle Grants, Genome BC Grants, Innovate BC grants, etc. In these cases, an indirect cost recovery rate of 25% must be applied to the matching funds provided by the industry partner. Please pay special attention to terms describing whether the overhead portion of the matching fund is included or excluded in the sponsor’s match and adjust your ask accordingly.

Please note that matching funds in the form of in-kind contribution will not have to include overhead. See the following examples with and without in-kind contribution.

Example 1: If your budget does not include in-kind contribution and sponsor does not match overhead

Industry Matching Contribution	\$100,000 toward direct costs \$25,000 toward indirect costs (@25%) Total Industry Contribution \$125, 000
NSERC Contribution	\$100,000 toward direct costs (1:1 match of Industry \$)
Total Direct Cost of Research	\$200,000 (NSERC + Industry cash toward direct costs)
Total Budget (Direct + Indirect)	\$225,000
Note: <i>If the indirect cost is not negotiated up front with the industry sponsor, and the sponsor agrees to contribute \$100,000 total toward your budget, your total budget available for research (direct costs) will only be \$160,000 instead of \$200,000. In this case, \$20,000 is deducted after applying 25% indirect costs rate to the remaining \$80,000 cash contribution from the Sponsor’s \$100,000 and another \$20,000 is deducted from the NSERC contribution.</i>	

Example 2: If your budget included in-kind contribution from the sponsor (non-Tri Agency)

Industry Cash Contribution	\$100,000 toward direct costs \$25,000 toward indirect costs (@25%) Total Industry Contribution \$125, 000
Industry In-kind Contribution	\$100,000 toward direct costs (no overhead on in-kind)
Funder Matching Contribution	\$100,000 to match industry cash contribution to direct costs \$100,000 to match industry in-kind contribution Total Funder matching contribution \$200,000 (2:1 match of industry where 50% of industry funds are in cash)
Total Direct Costs of Research	\$300,000 (Industry cash toward direct costs + Funder)
Total Budget (Direct + Indirect)	\$325,000
Note: <i>If indirect cost is not negotiated into the industry cash contribution, funds for total direct costs of research will be reduced to \$260,000 instead of \$300,000. In this case, \$20,000 is deducted after applying 25% indirect costs rate to the remaining \$80,000 cash contribution from the Sponsor’s \$100,000 and another \$20,000 is deducted from the Funder contribution.</i>	

Why must SFU researchers recover indirect costs when budgeting for research projects?

The indirect costs revenue contributes to SFU's ability to provide a supportive research environment through the provision of staff and services that allow researchers to pursue their research programs and seek new funding opportunities. It also enables SFU to provide research facilities and other resources that help to attract and retain high-caliber researchers and graduate students. In turn, the presence of leading researchers and highly qualified personnel ensures SFU's continued participation in major, multi-institutional and international research initiatives.

Does this mean I will get less money for my research project?

Normally, no. You are to include the indirect costs in addition to the direct costs of research. It is intended that the indirect costs are built into each budget item so that the funder understands that the indirect costs are a legitimate component of the actual cost of research and not an "added" cost. However, if the indirect costs are not built into the budget, as shown by the examples above, it can result in the investigator receiving less research funds than they might have expected.

Why is funding from the Tri-Agency (i.e., NSERC, CIHR, and SSHRC) excluded?

Indirect costs of research funded by the Tri Agency are partially recovered through the federal [Research Support Fund grant](#) as a lump sum at the end of each year.

Will salary-only grants and contracts be subject to indirect costs?

Yes.

Will equipment-only grants and contracts be subject to indirect costs?

No. Grants for which 100% of the funds are to be applied toward the purchase of equipment, and not directly connected with a specific research project, are exempt from indirect cost recovery.

Who negotiates the indirect costs rate with individual agencies and companies?

It is the university's responsibility, through the Office of the VPRI and ORS, to set or adjust indirect rates charged to funders. Faculty are not authorized to negotiate indirect costs rate with funders independently. Any variations in overhead rates need to be approved by Director, Research Services.

What is the rate that other Universities are using?

Most Canadian universities charge between 15-30% of direct costs on grants, and 40% on contracts and agreements. Most U.S. universities have negotiated federal indirect cost rates that range between 50-90% of salaries, wages and benefits.

If I build the indirect costs into the price of a research project, isn't this deceptive?

No. Indirect costs are normally included in the price of goods and services worldwide.

How are the indirect costs calculated?

Because in some cases indirect costs may not be applied to all items in a budget, it is recommended that budgets should build the indirect costs into each budget line item. For example, personnel costs are calculated as (salary + benefits) x 125% = 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 25% (or other, agency-specific rate) of the total costs.

Will sub-awards from/to SFU be subject to indirect costs?

Yes. If SFU is a sub-recipient of funds, SFU will apply the same overhead rate as a primary recipient of funds. In both cases, PIs and their Co-PIs must address this issue up front in initial discussions of transfers so the appropriate indirect costs for each institution is included in the transfer of funds.

How are indirect costs collected from my research funding?

Indirect costs of research will be automatically deducted from your research account at the negotiated rate as expenses are incurred. In some cases (i.e fixed fee contracts), Research Accounting deducts overhead as soon as they set up a project account. In case of cost-reimbursable contracts, overhead is applied to incurred expenses rather than the full contract amount.

Can I receive Principal Investigator Fees (PI Fees) on grants and contracts that did not recover the SFU overhead?

No. Overhead will be recovered for institutional costs before additional funds are agreed to be paid to investigators.