International Approaches to the Indirect Costs of Research

Presentation to the Project Steering Group – Indirect costs of university research project
What this presentation will cover

Practices in:
- United States of America
- United Kingdom

highlighting differences in approach and aspects that are relevant to Australia
USA – Key features 1

Quote from OMB Circular A-21

“This Circular establishes principles for determining costs applicable to grants, contracts and other agreements with educational institutions. The principles are designed to provide that the Federal Government bear its fair share of total costs determined in accordance with generally accepted accounting principles…”
Facilities and Administration (F&A) costs that can be taken into account, and acceptable methodologies, are set out in OMB circulars.

A-21 imposes a cap on reimbursement of administration costs.

Indirect costs are negotiated with relevant authority (ONR or HHS) every 3-4 years.

Universities prepare and justify their case (in a prescribed uniform format).

ONR/HHS team scrutinizes proposals closely.

Final result is a negotiated rates expressed as a percentage of grant funds.
USA – Key features 4

- The indirect cost rate remains unchanged throughout the life of a research project.
- Most universities are subject to annual audits (OMB Circular A-133).
- Universities are required to provide assurances that reimbursement of building amortization is reserved for research expenditures.
- Universities believe that increased regulation (ethics, animals, biotech) has raised their administration costs above the cap.
USA – points to note

- Building (property) costs amortised except for government funded facilities
- CI salaries taken into account because most are paid for only 9 months by their university
- Indirect cost payments are made though funding agencies
- Significant costs in preparation of indirect cost case
- Significant accounting and audit costs
United Kingdom – Key features

The Transparent Approach to Costing (TRAC)
“employs the principles of activity based costing, but applies them in a way that is appropriate to the complex activities and culture of a higher education institution” – TRAC Manual Foreword

TRAC objectives:
- Accountability of use of public funds
- Cost information to assist planning and management
- A basis for pricing (for research funding)
- A comprehensive cost model to guide future investment
UK – an evolving approach

- Transparency review (1998-99)
- TRAC(R) (2000)
- TRAC(T)
- Catch-up (2001+)
- Significant increases in funding (>£1b pa)
- fEC (from 2005)(clause 26)
- 2009 TRAC Review
- 2009 QAV Review
UK TRAC approach

- Costs are allocated to Research, Teaching, Other and Support
- Costs can be Directly Incurred, Directly Allocated, or Apportioned
  - *Directly Incurred* costs would not have been incurred if the project had not taken place
  - *Directly Allocated* costs can’t be attributed to any one project (eg animal houses)
  - *Apportioned* costs are shared costs grouped into cost pools and attributed to research projects on the basis of a proxy – a cost driver
UK – what counts as research

- Fieldwork, laboratory, desk/library work
- Management of projects, informal discussions, progress reports
- Recruitment and supervision of research staff
- Attendance at conferences, seminars & society meetings that are directly connected with research projects
- Production of research reports, papers, books
- Training & supervision of PGR students including training in research methodology, review of drafts & preparation of thesis & external examining
- Collaboration with other departments/institutes in any of the above
- Outreach where research is underlying activity (eg TCS)
UK – current situation

- Indirect cost rates applied to this year’s grants using TRAC returns reporting last year’s data
- 80 per cent fEC from Research Councils
- less from charities
- Government Departments told to pay 100% of research costs but don’t
- Industry asked to pay 100% but reality is that universities charge what the market will bear
- Teaching breaks even
UK – Time Allocation Surveys

- Has been some flexibility in how these are done, but this could change following recent review
- Minimum reporting requirements determines survey format
- Teaching – publicly and non-publicly funded
- Research – Institution, Research Councils, other government agencies, industry, EU and other
- Other – Clinical services, consultancies
- Support – support activities for T,R and O
- Hours worked reported and salaries factored in to calculations
UK – Issues

- University compliance costs (£100k-£300k pa?)
- Continuing problems with time allocation
- European FP7 influence
- Growing complexity
- Indirect costs reflected in “charge out rates”
- Weighting factors for PGR students
USA/UK Approaches - Conclusions 1

Both the USA and UK:

- Rely on staff time surveys as the basis of a cost driver. Such surveys have their limitations.
- Also use space allocation as a cost driver – this is costly and prone to disputes with faculty managers and auditors.
- Full activity based costing not practical
- Tradeoff between precision and costs involved in tracking expenses
USA/UK Approaches - Conclusions 2

- Systems that account for indirect costs in universities need to be designed to meet management needs as well as providing data for funding calculations.
- Indirect cost reporting requirements need to be integrated with existing requirements.
- UK has put considerable importance on explaining TRAC to staff. Also need a committed senior manager and a consultative committee in each university.
USA/UK Approaches - Conclusions 3

Universities need additional staff to track indirect costs. Existing staff (including research office staff) will need training.