Overhead Charges on Research Funding
Overhead means the indirect and support costs common to some or all research activities undertaken at the University, that cannot be identified and attributed directly to particular projects or sets of activities, with reasonable accuracy and without inordinate accounting. All funded research results in indirect costs to the University, whether a grant, a contract, or a contribution agreement supports that research.

These overhead costs include, but are not limited to, the following:
- use of buildings and equipment
- support staff time
- plant operations and maintenance
- utilities
- accounting services
- library expenses
- general and sponsored projects administration
- ethics, animal use and health and safety committees

It has been estimated that Canadian universities must spend at least $0.40 in indirect costs to support a dollar of research. The private sector routinely charges ‘overhead’, but instead of separating those costs in an R&D budget, typically cover those costs off in personnel day rates, mark-up on equipment, etc. To enable the university to continue its mission of research and best support its faculty and students, it is important that these indirect costs or overhead are recovered from the research funds.

2. What types of research incur indirect costs?

3. What is the approximate proportion of indirect to direct costs of research?
Cost studies at Canadian universities show that for every dollar a university spends on the direct costs of research, it incurs on average between $0.40 and $0.50 in indirect costs. Some individual research projects may incur substantially higher indirect costs. Research and Development companies charge out their services at rates ranging from 100% to as much as 270% of direct costs in order to ensure that the full costs of a project are recovered.

4. Do the national granting councils provide overhead on their grant funding?
Currently the federal granting councils do not pay overhead on their research grants. However, in the year 2000, the Canadian Advisory Council on Science and Technology recommended that the federal government should begin funding the indirect costs of university research in proportion to the amount of funding for the direct costs of research provided to universities through the granting councils. A specific proposal is presently under consideration by the federal government as part of its innovation agenda.

5. What are SFU's current overhead rates?
Overhead is charged on research contracts. The rate charged depends on whether the contract is with a government agency or private firm. SFU currently charges 65% of payroll on government contracts when the work is performed on campus. The usual rate charged on SFU-authored contracts with industry is 40% of total direct costs. There is normally no charge on unrestricted grants paid in advance, irrespective of the source. For the most part, SFU overhead rates on contract research are similar to the published rates of most other Canadian universities.

6. What if a prospective research sponsor tells the researcher that it won't pay overhead on a research contract?
Researchers should obtain advice on dealing with such sponsors from the Office of Research Services prior to submitting a proposal. Research Services will usually request a copy of the sponsor's proposed funding agreement in order to determine the nature of the deliverables and proposed basis of payment. Research Services staff will undertake to negotiate with the prospective sponsor to cause the arrangement to be as "grant-like" as possible (see point 8). The principle in such cases is that if the University can reduce its performance obligations, deliverables, and risk of non-payment in the terms of a funding agreement, SFU may reduce or waive overhead.

7. What if overhead is permitted, but the research objective cannot be met with the amount of money that remains once overhead charges have been deducted?
It is up to the researcher to build a budget out of the funds available which includes the appropriate amount for overhead by reducing the scope of work or agency will be told that the amount of funds offered is too low to perform the research with respect to the true cost of the work.

8. Sometimes a sponsor refers to its funding of a research project as a grant. How does the University decide whether it will accept this designation and thus not charge overhead?
External funds for research are normally considered by the University to be grants if all of the following conditions hold:

- The project is initiated by the principal researcher.
• All project protocols are designed by the principal researcher and any such protocol can be changed by the principal researcher without further approval of the sponsor.
• The funds are not attached to a specific performance outcome and cannot be retracted as a function of level of performance.
• The principal researcher may publish findings from the research with no approval process or time delay involving the sponsor.
• Any patents or inventions arising from the research belong to the principal researcher or to the University, and not to the sponsor.
• There is no honorarium or other payment to the principal researcher.
• The project is open, with no restrictions involving the sponsor’s proprietary data or other such contractual restrictions.
• Equipment purchased from the grant belongs to the University and not the sponsor.
• The funds are provided in advance of expenditures.

9. What if the arrangement proposed meets all other conditions of a research grant but the sponsor is unwilling to provide funding in advance of the work?
The University may reduce or waive overhead on the understanding that the sponsor is a government-supported agency and that the benefits of continuing long-term support from that sponsor outweigh the risk of non-payment and the cost of additional reporting requirements.

10. Who in the University decides whether overhead must be charged on a funding agreement and at what rate?
Ultimately, the Vice-President, Research decides whether the University may accept a funding arrangement with a reduced rate of overhead or no overhead at all. This includes the decision as to whether to classify it as a research grant or a research contract, with or without overhead.

11. Where does the overhead revenue go?
At SFU, half the overhead revenue is retained by the University to pay the indirect costs of research and the other half is returned to the Dean of the Faculty where the researcher resides. It is up to the Dean how that Faculty portion will be allocated.

Simon Fraser University
Winter 2002
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http://www.sfu.ca/vpresearch/Researchlinks/vol11_02/FAQ.html