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Overhead or indirect
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OVERHEAD OR INDIRECT COSTS OF UNIVERSITY RESEARCH

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Prepared by MOSST

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1.0 INTRODUCTION

In recent years there has been considerable discussion on the distortion of the university budgetary process caused by federal research funds which are restricted to direct-cost coverage. This distortion is due, in part, to the present fiscal transfer arrangements between Ottawa and the provinces, under which the latter receive 50 per cent of the federally allowed costs of post-secondary education. Since these costs are based in part on university expenditures, including those incurred to meet indirect costs of federally supported research, the Federal Government is, in effect, paying 50 per cent of the indirect costs of research in the universities. The problem arises in that this payment is made to the provinces and that most provinces calculate payments to the universities on the basis of student enrolment. This led the Macdonald Committee to conclude that "the only way to guarantee (a neutral budgetary) effect is through full federal payment, direct to each university, of all indirect costs associated with federally supported research."¹

However, before the Federal Government can reasonably be expected to pay indirect costs, what costs are to be considered as direct and what as indirect must be identified; how indirect costs are allocated to direct costs must be determined and actual cost figures must be obtained. It is of course realized that there are many problems in doing this and that there are differences from university to university.

1. John B. Macdonald et al., The Role of the Federal Government in Support of Research in Canadian Universities, (Prepared for The Science Council of Canada and the Canada Council), Queen's Printer, Ottawa, 1969, p. 137.

To facilitate matters a consistent set of definitions must be used. The assignment of what costs should be considered direct and what costs should be considered indirect to some extent is arbitrary. Even more arbitrary is the allocation of indirect costs to direct costs.

This paper is presented for discussion purposes primarily on the components of indirect or overhead costs. What theoretically can be identified as indirect costs often are not possible to obtain except at great expense of time and money. Here, a pragmatic approach is taken concerned with what dollar figures it should be possible to obtain. At this point, it should also be mentioned that there are certain costs which can be identified as indirect and should be accounted for as such, but should not be paid for under a research agreement.¹ These costs will be discussed further in the remainder of the paper.

2.0 COMPONENTS OF INDIRECT COSTS

2.1 Primary Functions and/or Activities of Universities

In any discussion of costs, the starting point must be the categories or classifications into which costs are to be collected and analyzed. The major classifications should be related to the primary functions and/or activities of the university.

The major functions of contemporary Canadian universities are instruction of students and the conduct of research.

1. Research agreements in this paper refers to both grants and research contracts.

The third major classification would be the other institutional activities carried on by universities. These latter activities would include intercollegiate athletics, residences, bookstores, cafeterias, hospitals, museums, theatres, student unions and services to the community carried out through extension departments. There is no clear cut separation even among these three major classifications. Instruction, both for credit and non-credit courses, is carried out through the auspices of extension departments; and some ancillary enterprises such as hospitals provide facilities for instructional and research programs. The costs associated with instruction and research in other university activities should be identified and allocated to proper classification.

The separation between instruction and research is even less precise. Some research is undertaken solely to instruct students in research methodology. Moreover it is generally agreed that one of the principal reasons for doing any research in a university is to enhance the quality of teaching. If this is the case, it raises the question whether a portion of the costs of research should be allocated to instructional purposes.

Student research and thesis work raises another problem because it is partly instructional and partly research in nature. Whether this should be given a separate classification, allocated to instruction, allocated to research, or an attempt be made to separate the two parts is open to debate.

It has been recommended in the Peitchinis Report¹ that

1. S.J. Peitchinis, Financing Post-Secondary Education in Canada, (Council of Ministers of Education), 1971, p. 285.

"the costs of research projects which are related to the instructional process should be covered by universities from the general revenue". It is suggested that this should be the case when the research is clearly identifiable with the instructional process and the purpose of doing the research is not to increase the body of knowledge by publishing the findings.

In all other cases, it is suggested that student research and thesis work should be classified as research for the following reasons:

1. the student is doing research and in most cases it would make very little difference in cost of time and money whether a student or post-doctoral fellow was carrying out the work.
2. there is no satisfactory way of separating out the instruction related portion of the total research costs.
3. some research contracts are used to employ graduate students while others have almost no involvement of teaching staff or students. If a portion of the cost of the research had to be charged to instructional purposes because graduate students are used, it would cause many accounting problems and encourage universities not to use graduate students in performing contract research.
4. in regard to allocating the cost of faculty members' time to the various classifications, the AUCC Cost Study¹ illustrated that individual faculty members are not readily able to analyze their time into student research supervision, instruction, and research. The report does indicate that there is validity in using the mean estimates of a large

1. An Exploratory Cost Analysis of Some Canadian Universities, (Association of Universities and Colleges of Canada), Ottawa, 1970.

sample of faculty members in estimating time, but that the percentage of a faculty member's time spent on student research supervision is small (4%-5%). Precise measurement of time allocation would appear a futile exercise.

2.2. Direct Costs of Research

Direct costs are those that can be identified specifically with a particular cost objective, in this case the research agreement. Thus any item which can be charged under a recognized method of costing to a specific research agreement should be treated as a direct cost. The following is a list of items that may be considered as direct costs:

2.2.1 Salaries and Wages

1. Postdoctoral Research Assistants
2. Student Research Assistants
3. Consultants
4. Interviewers
5. Computer Programmers
6. Technicians
7. Editorial Assistants
8. Subjects
9. Hourly Personnel (where easily identifiable)
10. Fringe benefits (for the above persons)
11. Vacation accrual and/or use.

Stipends for graduate students is a problem. Some graduate students receive remuneration in the form of teaching assistantships, others in the form of direct scholarships and bursaries, and others in the form of research assistantships through research agreements to faculty members.

Although they may be spending one-half or more of their time on research, students on teaching assistantships are receiving their remuneration for teaching and therefore it is suggested that the cost to research of these students in salaries be considered "free". The salaries of the other graduate students should be accounted for as a cost of research. However, the Macdonald Report¹ has recommended that the costs of scholarships and bursaries for full-time graduate students be recognized as allowable costs in computing the Federal Government contribution to university education through the fiscal transfer arrangements and that the support of students through research agreements be discontinued. This matter must still be resolved.

In regards to the salaries and wages of the other personnel, the primary criterion in considering them as direct costs is the availability of accounting data that will allow the assignment of the costs to the research agreement.

2.2.2 Equipment

1. Fixed equipment not already available to the Principal Investigator
2. Movable equipment
3. Office equipment
4. Equipment rental
5. Equipment installation
6. Equipment repairs and maintenance
7. Insurance on equipment.

1. John B. Macdonald et al., op. cit., p. 203-204.

Whether insurance should be included as a cost is debatable. It can be identified as an on-going cost and the universities have a responsibility to protect themselves against loss or damage. However, since the title of the equipment goes to the university, the Federal Government should not have the responsibility of insuring the equipment. As well, the present method of funding on a short-term basis makes the feasibility of federal support for insurance questionable.

2.2.3 Materials and Supplies

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1. Animals
2. Animal food
3. Laboratory supplies
4. Glassware
5. Chemicals
6. Electronic supplies
7. Test materials
8. Questionnaire forms
9. Report materials and supplies
10. Duplicating materials
11. Office supplies
12. Communications

Problems arise with materials and supplies that are of a semi-permanent nature. For example, animals may be used



for several experiments and glassware may be in use for years. Ideally the costs of such items should be prorated to the various projects or programs. If multiple usage is known, a priority then such should be the case in practice. Otherwise, it is suggested that the costs be designated to one project and the costs in subsequent projects be considered "free".

Office supplies, etc. should only be considered direct costs when the volume of these supplies are sufficient to be directly charged to research. Otherwise they should be considered as an indirect cost of administration of research.

2.2.4 Travel

1. Administrative
2. Field Work
3. Professional meetings
4. Travel for consultation
5. Consultants' travel
6. Subsistence
7. Automobile rental
8. Aircraft rental
9. Ship rental

It is probable that some limits as to the extent of travel allowable under research grants would have to be imposed.

2.2.5 Services

1. Computer costs
2. Duplication services
3. Publication costs
4. Photographic services
5. Service contracts
6. Machine shop services

2.2.6 Other

1. Space rental outside the university
2. Alterations and renovations
3. Purchase of periodicals and books

Alterations and renovations (and capital costs in general) pose a problem in accounting. To what extent these costs can be attributed to research is debatable. If the alterations are carried out by the maintenance department of the university, it is suggested that they be treated as a part of the indirect cost of plant maintenance. Otherwise, it is suggested that only alterations that are absolutely necessary for the conduct of research be considered a cost of research. Capital costs will be discussed further under the indirect cost of depreciation or use expense.

The purchase of periodicals and books leads into the whole question of library expenses which will be discussed under indirect costs.

2.3 Indirect Costs of Research

Indirect costs are those that have been incurred for common or joint objectives, and thus are not readily subject to treatment as direct costs of research agreements or other ultimate cost objectives. The major problem arises in determining a process to allocate the indirect costs to research, instruction and other institutional activities in reasonable proportions consistent with the use of the institution's resources. In order to achieve this, it is necessary to establish cost groupings which then may be allocated to the functional areas of the university using a common

base. Where allocation can be made by assignment of a cost grouping directly to the area benefited, such as research administration, the allocation should be made in that manner. Where the expenses under a cost grouping are more general in nature, such as plant maintenance, the distribution to appertaining cost objectives should be made through use of a selected base which will produce results equitable to both the government and the institutions. In general, any cost element or cost-related factor associated with the institution's work is potentially adaptable for use as a distribution base. Some of the distribution bases that may be used are:

1. percentage of total direct expenditures
2. percentage of salaries
3. man-hours applied
4. square feet utilized
5. hours of usage
6. population served
7. number of documents processed
8. percentage of total annual student course credits

In accounting for indirect costs, attention must be given to not only separating the costs into the three primary functional categories but also to the question of what level in the university structure the costs are to be allocated. It is suggested that allocation should be done at the departmental level. Any finer delineation would cost too much while any larger delineation such as by faculty or college would result in too many inconsistencies.

It is, of course, realized that what are to be considered as departments must be stated to remove inconsistencies from university to university. For example, commerce or business administration may be considered as a department at one university but as a faculty or college at another. Big Science, multi-disciplinary research programs and co-operative research pose special problems which will be discussed later in the paper.

The following are items that should be considered as indirect costs of research: -

2.3.1 Plant Maintenance

1. Superintendents¹ and assistants' salaries
2. Janitors' wages
3. Staff benefits for above
4. Superintendents' office costs
5. Supplies
6. Building maintenance and repairs
7. Fuel
8. Electricity and gas
9. Fire insurance
10. Telephone service
11. Vehicle operation
12. Municipal taxes
13. Grounds maintenance
14. Furnishings

The AUCC Cost Study¹ has pointed out a number of the practical difficulties in allocating plant maintenance costs.

¹ op. cit., pp. 18-19, and 46-47.

A theoretically correct apportionment would require the determination of what services were provided and how much each department benefited from the expenditures for these services. They attempted to distribute plant maintenance costs to specific physical facilities so that separate costs would have been obtained for each classroom, office, laboratory, library and so on.

The best base for allocating plant maintenance costs would appear to be that of usable floor space. Using this technique would require the determination of actual space used for research, instruction and other institutional activities. The corridors, stairs, washrooms, service areas, offices, etc. would thus be considered as sort of an "overhead" to the functional categories in proportion to the floor areas actually used. As pointed out in the AUCC Cost Study, this technique fails to differentiate between the costs of occupying old, spacious buildings and modern, more compact buildings but that this distortion is for the most part insignificant in dealing with indirect costs.

The actual results obtained in the AUCC Cost Study were disappointing in that few institutions maintained central records of facility use and that, in many cases, no attempt was made to distribute the costs to different types of facilities.

2.3.2 General Administration

1. Salaries and expenses of President's office
2. Salaries and expenses of Administrative Vice-President's office
3. Costs relating to Chancellor and Board of Governors

4. Legal fees
5. Purchasing office
6. Personnel services
7. Payroll services
8. Accounting department
9. Internal auditor
10. External audit expenses
11. Liability insurance
12. Special trust accounts section

Since these general administration costs deal with running the whole institution, they should be allocated on some basis that gives appropriate weight to non-academic functions as well as academic ones. The only appropriate means that is readily feasible appears to be as a proportion of total direct expenses.

2.3.3 Research Administration

1. Salaries and benefits of administrator, assistants and secretarial staff.
2. Equipment and supplies of research administration office

The expenses under this heading are those that have been incurred by a separate organization or administrative unit established solely to administer the research activity. All the expenses in this category should be allocated to research. Allocating to departments should be done on the proportion of direct costs of research in each department to the total direct costs of research.

2.3.4 Faculty and Department Administration

1. Deans of Faculties
2. Deans of Graduate Studies
3. Department Heads
4. Secretarial Staff in departments
5. Stock room facilities

These costs deal primarily with the academic functions of instruction and research. The greatest difficulty arises with Deans and Department Heads who hold joint administrative and faculty positions and may do some teaching and research as well as their administrative tasks. It would be necessary in each case to determine the appropriate administrative costs. These then could be allocated to research and instruction on the basis of total direct costs within the department.

2.3.5 Library Costs Attributable to Research

1. Salaries and wages
2. Staff benefits
3. Supplies
4. Equipment of main and branch libraries

Although it is relatively easy to determine the costs of libraries, it becomes almost impossible to allocate them in any meaningful manner. The two basic functions performed by university libraries are the collection and retention of research materials, and the provision of curriculum-oriented supplementary reading and

reference material. The AUCC Cost Study¹ found it not possible to devise a practicable scheme for the recognition and apportionment of the research element in library costs and thus decided to ignore the problem and to treat any research costs as part of the total to be distributed in proportion to regular acquisition and usage. Another weakness of the AUCC Cost Study is that there was no separation of acquisition (a direct cost) from operation (an indirect cost).

In order to determine the costs of libraries associated with research, most libraries will require more detailed records of acquisitions and cataloguing costs. There is, however, a problem of timing with respect to acquisition and processing costs since most materials are used repeatedly for several years and the costs should really be distributed accordingly. Theoretically, some suitable depreciation calculation should be adopted and actual usage should be the basis for allocation. If the annual patterns of acquisition were relatively constant, the use of current acquisition costs as a substitute for actual usage figures would not make much difference to the results. It is suggested that current acquisition costs be used regardless whether the pattern of acquisitions are constant or not. Any depreciation formula will only give an estimate of the true cost and whether this estimate would be more accurate than using current acquisitions as an estimate is debatable.

Another major problem is that it is extremely difficult to relate the costs of some research material to any particular department. Ideally, the costs should be related to usage, but it

¹ op. cit., p. 48

is likely that some arbitrary method must be developed in order to relate the costs to a department such as the department for whom the books were purchased or the Library of Congress classification.

2.3.6 Depreciation or Use Expense

1. Buildings
2. Equipment

Depreciation of assets is used in accounting for two purposes: -

1. timing of expenses with benefits received from those expenses
2. taxation

The latter purpose for most universities is immaterial in considering research costs. The former, however, should be considered. In most cost studies on universities, this item has been ignored for convenience sake. In an accounting sense, this also leads into the whole problem of capital assets. If some method of amortization is devised, then no asset that is amortized should be accounted for at the time of purchase. This could lead to considerable discrepancies between government accounts and university accounts regarding the cost of research.

In terms of research agreements, any asset that was purchased with Federal Government funds would have to be deducted before depreciation calculation allowable under an agreement was made. This could lead to the necessity of maintaining elaborate

accounts of the terms of purchase of assets. Moreover, it can be argued that cost of facilities for research does not vary with income for research. All universities tend to regard it as desirable that faculty do research since this activity brings prestige to the institution. Thus, it could be that all universities erect, and then have to maintain, research facilities so that research is possible.

Therefore, it is suggested from a pragmatic point of view (although theoretically incorrect) that depreciation not be considered an indirect cost of research and that accounting for capital assets be done on a cash basis at the time of purchase.

2.3.7 Faculty Salaries

1. Time spent on research
2. Administrative tasks relating to research

The portion of university faculty salaries allocated to research is an important component of the total research bill. As such, it should be accounted for in determining the cost of research. However, as the Macdonald Report¹ recommended, the entire cost should be paid out of the universities' general revenue. The principal argument for ascribing the payment of salaries to the universities themselves is that university control over the acquisition and retention of academic staff is essential for the maintenance of the universities as strong and independent institutions. The practice of outside agencies to augment the universities' normal capacity for hiring faculty by paying for time spent on research has been questioned.

¹ John B. Macdonald, op. cit., p.p. 137-138

Accounting for the cost of faculty time spent on research is a major problem. The major objections to the reliability of the AUCC Cost Study centre on the distribution of faculty time. A validity study was undertaken which indicated that most faculty members were not able to estimate the percentage time they spent doing certain tasks. It would appear that self-estimates are useful only when considering a large population of respondents. Thus, all faculty members would be considered as putting in the same proportion of their time on research and there would be no differentiation from one department to another or from one university to another.

2.4 Big Science, Multi-Disciplinary and Co-operative Research

There is a trend in research towards large projects which will be referred to as 'Big Science' and which usually involve more than one university, multi-disciplinary programs usually involving several departments in one university, and co-operative research between universities and government laboratories. Special problems are posed by these, in accounting for direct costs as well as for indirect costs. Many will have their own administrative structures that must be accounted for as an indirect cost. A major problem is to ensure that double counting of any of the costs is not carried out in the accounting process.

With multi-disciplinary programs, the problem is how the costs are to be apportioned to the various departments involved. Indeed, in many cases, which department has title to equipment purchased under such a program is difficult to assess. All the

costs may be allocated to one department or divided among various departments. If the costs are divided among departments, some formula for equitable division must be devised..

Big Science projects have similar difficulties in that all the costs may be allocated to one university or divided among universities; or they may even be allocated to one department or divided among various departments. However, the allocation of costs of Big Science projects to one department or to a number of departments may seriously affect the overhead of these departments. Perhaps, it would be best to treat many of these projects as a separate department if a formal organizational structure to which the costs can be allocated is, or shortly is to be, in existence.

In co-operative research where one or more individuals from a university are using the facilities of the Federal Government or some other institution, it would appear that the majority of the indirect costs would reside with the host organization. The university might, however, incur some administrative expenses. Therefore, grants to researchers who are using other facilities should, at most, only make provision for overhead costs at a much lower rate to offset the lower administrative expenses.

2.5 Costs Not Attributable to Research

In any attempt to develop a list of costs attributable to research, it is just as important to clarify those costs that are not attributable to research so that consistency is maintained.

Given below are some costs of universities that should be excluded from the costs of research: -

1. Vice-President for Student Affairs Office
2. Registrar's office
3. Admission's office
4. Cost of Convocation
5. Dean of Student's office
6. Counselling services
7. Health services
8. Ancillary enterprises
9. Other institutional facilities
10. Tuition and fees for student research assistants
11. Losses
12. Contingency provisions
13. Entertainment costs
14. Interest charges
15. Public information costs
16. Fines and penalties
17. Fund raising costs
18. Student aid costs
19. Student activity costs
20. Recruitment and relocation costs
21. Life insurance costs

3.0 EXISTING PRACTICES AND PROPOSALS

In Canada, for the most part, indirect costs of university research have not been paid by the agency or department supporting the research except very indirectly through fiscal transfer arrangements. The three granting councils (NRC, MRC, Canada Council) generally do not pay indirect costs. At present, NRC pays approximately 25% of computer operating costs in research grants.¹ Research contracts through the Department of Supply and Services allow for payment of overhead costs at the rate of 30% of the cost of salaries, supplies and materials on campus, 15% of the same for work sub-contracted (or off campus), 2% on travel and nothing on equipment.

In the United States, the granting agencies often pay all of the research costs. The approach used there involves a comprehensive and detailed list of allowable costs and unallowable costs.² At the same time, tight auditing procedures ensure that universities are reimbursed only for allowed items. This system can be difficult to administer, especially for smaller universities.³

Proposals for payment of indirect costs of research in Canada have centered around the recommendation of the Macdonald Report that: -

"The indirect cost allowance payable by the federal research council over and above the direct research support be 35 per cent of the direct research support given to each university."⁴

¹ National Research Council, Special Announcement: Operating Grants and Computing Costs, 1971.

² Principles for Determining Costs Applicable to Research and Development under Grants and Contracts with Educational Institutions, (U.S. Bureau of the Budget Circular A-21), March 3, 1965.

³ John B. Macdonald, op. cit., p. 143

⁴ John B. Macdonald, op. cit., p. 143

The report did point out a number of exceptions to the pro-rata formula for paying indirect costs, examples of which are: -

1. large institutes managed by the universities
2. large grants in excess of \$100,000 such as negotiated development grants
3. book acquisition grants
4. major equipment grants above \$10,000

For items of this nature, the report suggested that an item-by-item approach would be preferable and that a system be established to referee cases that might be exceptions to the normal pro-rata payment of indirect costs. The report made no recommendation as to when indirect costs should be paid to universities. Miss S. Dymond of the University of Toronto¹ also recommended that 35% of the total direct costs be used to cover indirect costs with the payment to be a lump sum in arrears.

The use of a figure of 35% of direct costs as an estimate of indirect costs is of questionable validity, without any sound basis on factual data in regards to direct and indirect costs to universities.

4.0 OPTIONS AVAILABLE REGARDING PAYMENT OF INDIRECT COSTS

There are a number of options available regarding the payment of indirect costs of research by the Federal Government.

4.1 Maintain Status Quo

One option is maintaining the status quo in which the Federal Government aids in the payment of indirect costs through the fiscal transfer arrangements to provinces. This, however, appears to be unacceptable to most universities.

¹ Miss S. Dymond, Indirect Costs in Relation to University Research paper prepared for MOSST, 1972.

4.2 Payment of Arbitrary Percentage

The Federal Government could aid universities in covering indirect costs by paying an arbitrary percentage of the direct costs directly to universities. This percentage may or may not have any relation to the true indirect costs such as the 35% recommended by the Macdonald report.

4.3 Payment of Actual Indirect Costs

Payment of the actual or best estimate of the actual indirect costs appears to be the most appropriate payment. In considering payment, there are a number of variables which can be altered: -

1. Basis for payment - it would appear that a percentage of the direct costs is most appropriate but others could be considered as well.
2. Timing of payment for indirect costs.
3. Subdivision by costs - different percentages could be allowed for different groupings of indirect costs.
4. Subdivision by area - different percentages could be allowed for different provinces, different universities within provinces or even different departments within universities.
5. Subdivision by granting agency - different percentages could be allowed by different granting agencies.

Various combinations of these variables make an infinite number of options available for the payment of indirect costs.

Some of the possibilities are: -

4.3.1 Lump Sum Percentage of Grant

A lump sum payment could be made in arrears using a percentage of direct costs with the same percentage applicable to all research agreements. This method, however, neglects the fact that different universities have different indirect costs and that the timing of payment has no relationship with the incurrence of indirect costs.

4.3.2 Percentage of Grant by Instalments

This would be similar to above with all research agreements receiving the same percentage of direct costs but the payment could be made in instalments or when the direct costs are paid.

4.3.3 Minimal Subdivision of Costs

A minimal breakdown could be established similar to what is now in existence with DSS contracts. Different percentages would be allowed for different indirect cost groupings but all research agreements would receive the same percentages.

4.3.4 Establishment of Allowable Costs

An extensive breakdown could be established such as is now in existence in the United States with different percentages allowed on every indirect cost but all research agreements receiving the same percentages.

4.3.5 Establishment of Percentage for Each University

A percentage of the direct costs could be established for each university. Thus, each university would receive a different percentage but no subdivision by indirect costs would be made.

4.3.6 Maximum Subdivision by Costs and Areas

A complete and elaborate subdivision could be established where different percentages are allowed for different indirect costs which would vary from university to university or even from department to department within a university.

It is suggested that different granting agencies not pay different rates for overhead costs.

5.0 IMPLICATIONS OF PAYMENT OF INDIRECT COSTS ON FISCAL TRANSFER ARRANGEMENTS AND UNIVERSITY FINANCING

The payment of indirect costs will have a large number of implications on fiscal transfer arrangements and university financing in general. These implications will in part be interdependent with other policies that may be established.

5.1 Within the Federal Government

1. If the Federal Government pays for indirect costs, the amount paid to the provinces under fiscal transfer arrangements should be reduced equivalent to 50% of the indirect costs of research, now being paid through the fiscal transfer arrangements.
2. Provided the Federal Government maintains to support 50% of the operating costs of instruction and other institutional activities through fiscal transfer arrangements, the total Federal outlay will increase; OR
3. Payment of indirect costs will result in fewer projects being funded.
4. Provided the payment of all indirect costs of research is accepted, the budgets of the granting agencies, especially NRC, MRC and Canada Council, will increase while the budget of the Finance department for fiscal transfers will be reduced.

5. If the payment of graduate student stipends are not allowed under grants from the three Councils as recommended by the Macdonald Report, but paid in some other manner, a complete realignment of the budgets concerned will have to be made.

5.2 Within the Provinces

1. The provincial governments will have less flexibility in distribution of funds since they will be receiving less from the Federal Government.
2. If provinces continue to distribute funds on a student enrolment basis, the universities with considerable research activity will receive more money while those with little research activity will receive less. This may necessitate an increase in tuition and fees at smaller universities and community colleges.
3. The provincial governments may find it necessary to revamp the method of distribution of provincial funds to post-secondary educational institutions.
4. It is possible that the "Have" universities may receive a greater proportion of the funds available for post-secondary education while the "Have-nots" receive less resulting in greater discrepancies in the diversity of education. This may result in reduced over-all quality of education or in the elimination of options.

5.3 Within the Universities

1. Should detailed methods of indirect cost determination be required, the administrative costs of university operations will be increased. Variation in the detail of accounting required will be dependent on the method adopted for cost payment.

