

Briefing note – non-direct costs / overheads¹

Research grant funders may allow overhead or non-direct cost recovery to be included when costing the budget for a research project. This is in recognition of the costs incurred by the department and centrally as a result of the research activity being carried out. The University uses the [X5 tool](#) to cost and price research grants.

Full Economic Cost (fEC) grants

The UK government requires all Higher Education Institutions to cost the fEC of a project to ensure the full cost of research is monitored and, where possible, recovered. Under fEC methodology, **non-direct costs are allocated to a project on the basis of research staff time**. Non-researcher time does not attract these non-direct costs.

There are separate cost allocation rates for:

- **Estate** costs (which can be either **lab- or office-based**, depending on the work being completed – expenses related to buildings and premises, maintenance, utilities costs, cleaning, security and safety); and
- **Indirect** costs (management and administrative services – personnel and finance departments, libraries, central computing, departmental services, etc.).

In addition to the Estates and Indirect costs, the cost of the time of a centrally-funded **Principal Investigator (PI)** and any Co-Investigators should be charged to the grant as a non-direct cost. PIs funded directly from research projects should be costed as a direct cost to the project.

Estates and Indirect cost rates are set by the University following a costing methodology agreed with the UK government and applied across the Higher Education sector. The rates are updated and [published annually](#) on 1 February. A researcher, regardless of seniority, that works full time for one year will attract the full amount of these rates annually: one 'full time equivalent' (FTE) unit. Rates are pro-rated down on percentage FTE. So:

- One **full-time** member of office-based research staff on a project will attract £7,251 Estates costs and £58,495 Indirect costs annually.
- One **half-time** member of office-based research staff will attract £3,626 Estates costs and £29,248 Indirect costs annually.

1 FTE constitutes: 7.5 hours per day, 37.5 hours per week, 220 days (44 weeks) per annum, or 1,650 hours per annum.

¹ The information in this document is drawn from the following sources:

- <https://www.research-operations.admin.cam.ac.uk/costing-and-pricing-research-proposal>
- <https://www.finance.admin.cam.ac.uk/policy-and-procedures/financial-procedures/chapter-2-budgetary-planning-control/monitoring/budgeting>
- <https://www.ukri.org/files/legacy/documents/fecfaq-pdf/>

Information is correct as at 24 June 2019.

Pricing

Not all funders pay the total full economic **cost** of a project. Instead funders pay a **price** based on their rules.

Common research funders' rules (Table 1):

Funder	Price
UKRI Research Councils (e.g. AHRC, ESRC)	80% fEC (but exceptions for some costs e.g. large equipment purchases)
Charities (e.g. Wellcome Trust, Leverhulme Trust)	100% direct costs plus maximum overhead allowed within funder terms
UK government departments	100% fEC minimum
EC (e.g. H2020 MSCA, ERC)	Generally 25% overhead is applied on direct costs; other funding rules may apply depending on programme
Overseas government or charity	In line with their standard terms, but must meet a minimum of 100% of direct costs
Industry funders	Negotiated subject to IP position (100% fEC minimum)

Research Councils fund only 80% of direct costs. The non-direct costs, also funded at 80%, are used to offset the direct cost shortfall for this funder group.

If the total amount the sponsor is prepared to pay is insufficient to cover 100% direct costs, the department will have to make up the shortfall and the Head of Department will need to decide whether the grant application should go ahead. If the agreed price is less than the cost recovery expectations outlined in the table above then the department will be charged for any resulting shortfall.

In the case of funding from industry, charities and foundations, it may be possible to negotiate a higher price than those listed above. This is financially beneficial for the department. For industry funding, the terms around ownership and use of intellectual property ought to be taken into account. In order to avoid legal allegations of providing state aid to individual businesses, cost recovery may have to cover 140% fEC. Please [contact your Research Operations Office team](#) for more information.

Income from non-direct costs and overheads

Non-direct costs recovered from the funder, less those used to offset direct cost shortfalls, will be split between the central University's "Chest" (i.e. central university) and the department, and credited to the relevant accounts from the project. The proportion in which the overheads are split between the Chest and department varies depending on funder, as per the University's [Income Allocation Policy](#) (Table 2):

Funder	Income Allocation Policy	
	Chest	Department
Research Councils UK Government UK Charity Royal Society British Academy (Other e.g. overseas) EC overhead only	80%	20%
EC PI time Industry funding Cost recovery beyond that listed in Table 1	50%	50%

Where cost recovery exceeds expectations set out in Table 1 for charity or industry funding, the additional income will be split 50:50 between Chest and Department.

Example – Research Councils

Research Councils fund both direct and non-direct costs at 80% fEC:

Category	100% fEC (£)	80% Price (£)
<u>Directly Incurred Costs</u>		
Researcher – working 100% time, 3 years	135,000	108,000
Travel	20,000	16,000
Other Costs (e.g. consumables)	40,000	32,000
Sub-total Directly Incurred Costs	196,000	156,800
<u>Directly Allocated Costs</u>		
Investigators – PI working 10% time, 3 years	35,000	28,000
Estates costs	23,928	19,143
Indirect costs	193,034	154,427
Total	447,962	358,370

There is a £39,200 shortfall on direct costs, being the total direct costs at 100% fEC less total direct costs at 80% fEC.

The non-direct costs received from the funder are first used to offset this shortfall: £358,370 non-direct costs received from the funder less the direct cost shortfall of £39,200, leaves a total non-direct cost recovery of £319,170.

This £319,170 is then split 80:20 Chest:Department per the Income Allocation Policy. So, in this example, the total department share of the overhead is £63,834.

Example – EC (e.g. European Research Council)

The ERC funds 100% direct costs and 25% overhead.

Category	100% fEC (£)
<u>Direct Costs</u>	
Researcher – working 100% time, 3 years	135,000
PI – Chest funded, working 10% time, 3 years	35,000
Travel	20,000
Other Costs (e.g. consumables)	40,000
Sub-total Direct Costs	230,000
<u>Overheads at 25%</u>	57,500
Total	287,500

There is no shortfall on direct costs as the funder funds 100% direct costs. The total non-direct overhead cost recovery is £57,500. As per the Income Allocation Policy, this is split 80:20 Chest:Department, giving the department a total of £11,500.

For EC-funded projects only, any Chest-funded PI time is also split 50:50 Chest:Department. As the PI in this example is centrally-funded, the department will receive half the sum associated with the PI, an additional £17,500.