

## Policy for Accounting for Research Project Overheads and Surplus

### **1. Project Overhead definition**

- 1.1 A project overhead is the residual income from a project after deduction of the directly incurred and directly allocated costs charged to, and necessary to complete the project (including PGR tuition fees funded by the project).
- 1.2 Overheads are a vital contribution towards the real but indirect costs connected with infrastructures and the general operation of the University. This includes costs related to support provided by the Faculties and central services such as the RaISE support hubs, HR, Central IT, the library, the Finance department, and unfunded staff time not charged directly to the project.
- 1.3 Estates overheads are included in research projects by selected funders as a separate item. Estates overheads are intended to specifically cover central costs related to buildings and premises, including capital (depreciation), maintenance, utilities costs, cleaning, security and safety. Infrastructure Technicians is an additional subset of the Estates overhead amount which is included by selected funders on some projects.
- 1.4 For the purposes of the remainder of this policy, unless where otherwise stated, the term “overhead(s)” refers to all overheads inclusive of Indirect Costs, Estates overheads and Infrastructure Technicians.
- 1.5 This policy specifically covers the treatment of overheads once awarded, on research projects only. A research project is defined as a project where the income is, or will be, classified as research income in the statutory accounts and HESA return. This is driven by the nature of the activity being funded, which must conform to the conventions of the Frascati definition of research.
- 1.6 The Costing and Pricing Policy covers the inclusion of overheads on project costings.
- 1.7 The treatment of Overheads on Consultancy projects is not covered in this policy. This is covered in the University’s Consultancy Policy (currently in development).

### **2. Allocation of Research Project Overheads to Schools**

- 2.1 Overheads are credited to the School to which the Principal Investigator (PI) of the project belongs (i.e. where the academic portion of their salary is charged in the University accounting ledger).
- 2.2 The split of overheads for collaborative projects where multiple schools have significant involvement from the project outset is covered in section 5.
- 2.3 Any split of overheads on a research project budget is confirmed in an External Research Funding (ERF) form. These forms are sent to and approved by the Principal Investigator and Head of School or Dean of Research.

### **3. Treatment of Overheads**

3.1 Overheads due to Keele are credited to the relevant school in line with this policy. The amount due to the school is credited in its entirety to the school using a subjective code on the accounting ledger for each type of overhead (Indirect Costs, Estates and Infrastructure Technicians) as detailed in **Annex 1**.

3.2 The amount credited to the school is not available for expenditure and forms part of the School's contribution to other University costs including the examples in 1.2.

3.3 10% of the project overhead to Keele is made available as an expenditure budget in the Faculty office. The allocation of this expenditure budget is at the discretion of the Faculty Executive Dean (usually delegated to the Faculty Research Dean).

### **4. NHS Partner Organisations**

4.1 Where the Principal Investigator of the project is based at an NHS partner organisation, a share of the overhead figure may be attributable to the NHS partner organisation.

4.2 The arrangements for such splits of overheads, and the payment of overheads to NHS partner organisations are detailed in the Partnership Agreement between the University and the relevant NHS partner organisation.

### **5. Cross Departmental / Interdisciplinary Projects – Overhead split**

5.1 For projects which involve two or more schools within the University, each leading significant elements of the project, each project element will have a distinct project budget.

5.2 The residual overhead available at a project level (i.e. after covering funding shortfalls across all elements of the project) is split between the elements of the project (and hence the different schools) on the basis of the proportion of the original underlying overhead generated (on an *FEC* basis) by each element of the project.

5.3 A notional example of such a scenario is presented in **Annex 3**.

5.4 Where an element of the project does not attract any *FEC* overheads, any funding shortfall on that element of the project will be made up from the overheads from the other element(s) of the project.

5.5 In rare cases where the split of overheads is in dispute, the split must be agreed between the two Heads of Schools. If the two Schools are in the same faculty, the mediator is the Faculty Research Dean. If the two Schools are not in the same faculty, the mediator is the Deputy Director & Head of Research Strategy Delivery.

5.6 The split of overheads is agreed at the point that an *ERF* is drawn up by *DRIE*.

### **6. Utilisation of Overheads to cover funding shortfalls**

6.1 Where the University has opted to proceed with a project which does not recover all costs on a full economic cost basis, for example, a research council project which only funds 80% of full economic costs, then overheads are used to fund / make up the direct costs of the project.

6.2 In the case of an 80% funded project, overheads would need to be reduced to fund the remaining 20% of direct costs.

6.3 A notional example of 6.2 is shown in **Annex 2**.

6.4 To cover funding shortfalls overheads are reduced in totality before the passing of overheads to NHS partner organisations.

6.5 If a project with no overheads remaining still has a funding shortfall, the Directly Allocated costs are then reduced.

## **7. Clinical Trials Unit (CTU)**

7.1 Where the CTU has involvement with a project, they are entitled to be allocated a proportion of the overheads for reporting purposes, and for the purpose of the overhead calculation only, will be treated effectively like a separate school, as per the guidance in section 5.

## **8. Treatment of “Surplus”**

8.1 If funding received for a project exceeds the Full Economic Cost of the project (as calculated using *TRAC* methodology and Indirect Cost rates in force at the time of project award) then the amount of funding in excess of the Full Economic Cost of the project can be deemed as “surplus” for the University.

8.2 For research projects, the “surplus” would effectively be considered additional overhead income and treated in accordance with this policy.

8.3 For consultancy projects, the “surplus” would be treated in accordance with the University's Consultancy Policy (in development).

## **9. Posting of overheads and profit**

9.1 Overheads are recognised and posted to the accounting ledger by the research finance team upon the receipt of income for the project. The relevant overhead percentage is applied to the amount of income received.

9.2 The split of overheads posted is based on the approved *ERF* issued for the project, unless an overruling change in University policy is to be implemented on existing projects.

9.3 Where an invoice has been raised on a project, the overheads are not posted until the payment for the invoice has been received.

9.4 The only exception to the above procedure is European Union funded research projects. For these projects, the overheads are recognised and posted in line with expenditure on the projects. This correlates with the income for the project being released from the Euro denominated bank account to protect the University against currency exchange fluctuations.

9.5 The ledger subjective codes used for the posting of overheads are detailed in **Annex 1**.

## **10. Review, Approval and Publication**

10.1 This Policy is subject to review every 3 years by the Director of Finance and Director of Research, Innovation & Engagement.

10.2 Updates to the policy will be reviewed by the University Research Committee and final approval will be given by the University Executive Committee.

10.3 The policy is located on the University Policy Zone. Queries regarding this policy should be directed to the Research Finance Manager in the first instance.

**11. Document Control Information**

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## **Definitions / Glossary**

**CIF** – “Consultancy Income Form” - A document issued by *DRIE* confirming the outline details of a consultancy / non research project, and the split of the project budget, including the split of any overheads. The document is formally approved by the Faculty Research Dean, the Principal Investigator and the Head of Research Grants & Systems.

**DRIE** – Directorate of Research, Innovation and Engagement

**ERF** – “External Research Funding” - A document issued by *DRIE* confirming the outline details of a research project, and the split of the project budget, including the split of any overheads. The document is formally approved by the Faculty Research Dean, the Principal Investigator and the Head of Research Grants & Systems.

**FEC / Full Economic Cost** - a price for a project which, if recovered across an institution’s full programme, would recover the total cost (direct, indirect and total overhead) of the institution, including an adequate recurring investment in the institutions infrastructure (as calculated by the annual TRAC return).

**PGR** – Postgraduate Research

**RJAH** – The Robert Jones & Agnes Hunt Orthopaedic Hospital NHS Foundation Trust, Oswestry

**TRAC** - “Transparent Approach to Costing” - The standard methodology used by UK higher education institutions for costing their activities, identifying the Full Economic Cost of all activities to improve the accountability for the use of public funds and inform institutional decision making.

**UHNM** – University Hospitals of North Midlands NHS Trust

## Annex 1

### Accounting Ledger codes used for Overheads postings

Research Projects			
<u>R Code (Debit Subjective)</u>		<u>Credit Code (I&amp;E Account)</u>	
<b>Overheads</b>			
<b>Sub.</b>	<b>Description</b>	<b>Broad</b>	<b>Sub. Description</b>
962	Research Overheads	C	233 Research Overheads
<b>Estates</b>			
<b>Sub.</b>	<b>Description</b>	<b>Broad</b>	<b>Sub. Description</b>
699	FEC - Contribution to Estates	C	233 Research Overheads
<b>Infrastructure Technicians</b>			
<b>Sub.</b>	<b>Description</b>	<b>Broad</b>	<b>Sub. Description</b>
966	Infrastructure Technicians	C	233 Research Overheads
<b>UNHM Share of Overhead</b>			
<b>Sub.</b>	<b>Description</b>	<b>Ledger Code</b>	<b>Description</b>
682	Trust Estate costs	Z9878 185	Trust Estate
683	Trust Service Area	Z9878 187	Trust Service Area
684	Trust R&D	Z9878 188	Trust R&D
686	Trust Capacity Building / Set Up Fee / Archiving	Z9878 188	Trust R&D
<b>RJAH Oswestry Share of Overhead</b>			
<b>Sub.</b>	<b>Description</b>	<b>Ledger Code</b>	<b>Description</b>
759	Overheads - RJAH	Z9873 230	Overheads - RJAH
Non Research / Consultancy Projects (S Codes)			
<u>S Code (Debit Subjective)</u>		<u>Credit Code (I&amp;E Account)</u>	
<b>Overheads</b>			
<b>Sub.</b>	<b>Description</b>	<b>Broad</b>	<b>Sub. Description</b>
753	O/heads - S Central Contribution	C	237 Non-Research S - Central O/h Contributions

## Annex 2

### Notional Example of Utilisation of Overheads to cover funding shortfalls (see paragraph 5.3 of policy)

**\* Please note all figures included in the example are entirely notional \***

The University receives a 3 year research project from a Research Council funded at 80% FEC.

The project budget is as follows:

Cost Type	Cost Heading	Project FEC £	Actual Funding Receivable £	Re-allocation of funding shortfall £	Project Budget £
DI	Research Assistant	105,000	84,000	21,000	105,000
DA	20% PI Buy Out - Prof X (Salary Cost £100k per year)	60,000	48,000	12,000	60,000
DI	Consumables	20,000	16,000	4,000	20,000
Overhead	Overheads based on £50k per FTE	165,000	132,000	(37,000)	95,000
		<u>350,000</u>	<u>280,000</u>		<u>280,000</u>

### **Cost Types**

DI = Directly Incurred costs - these are the incremental costs which will be incurred by the University as a result of doing the project.

DA = Directly Allocated costs - these are costs associated with the salaries of existing members of University staff, based on an estimation of the time

spent on the project by the relevant members of staff.

### Explanation of Example

The total FEC cost of the project is £350,000 including overheads.

The University will receive 80% of this value, i.e. £280,000.

The £280,000 needs to cover 100% of the direct costs (i.e. total of DI & DA costs) on the project (£185,000).

This leaves a residual project overhead of £95,000.

The FEC overhead generated by the project was £165,000. 80% of this is paid by the Research Council, i.e. £132,000.

£37,000 of the £132,000 is then used to make up the funding shortfall on the direct costs, leaving the residual overhead of £95,000.

### Annex 3

#### Notional Example of overhead split on a cross departmental / interdisciplinary project (see paragraph 6.3 of policy)

**\* Please note all figures included in the example are entirely notional \***

The University receives a 3 year research project from a Research Council funded at 80% FEC.

There are two distinct elements of the project which have been costed separately in RMS for the application, and will have their own budget.

Element 1 is led by Prof. X in School A. Element 2 is led by Prof. Y. in School B.

The project budget and overhead split is as follows:

Cost Type	Cost Heading	Element 1 School A		Element 2 School B		Total Project School B	
		FEC £	Budget £	FEC £	Budget £	FEC £	Budget £
DI	Research Assistant (Element 1)	105,000	105,000			105,000	105,000
DA	20% PI Buy Out - Prof X (Salary Cost £100k per year)	60,000	60,000			60,000	60,000
DA	20% PI Buy Out - Prof Y (Salary Cost £75k per year)			45,000	45,000	45,000	45,000
DI	Consumables (Element 1)	20,000	20,000			20,000	20,000
DI	Consumables (Element 2)			10,000	10,000	10,000	10,000
Overhead	Overheads based on £50k per FTE	165,000	88,000	15,000	8,000	180,000	96,000
		<b>350,000</b>	<b>273,000</b>	<b>70,000</b>	<b>63,000</b>	<b>420,000</b>	<b>336,000</b>

#### **Cost Types**

DI = Directly Incurred costs - these are the incremental costs which will be incurred by the University as a result of doing the project.

DA = Directly Allocated costs - these are costs associated with the salaries of existing members of University staff, based on an estimation of the time spent on the project by the relevant members of staff.

#### Explanation of Example

The total FEC cost of the project is £420,000 including overheads.

The University will receive 80% of this value, i.e. £336,000.

The £336,000 needs to cover 100% of the direct costs (i.e. total of DI & DA costs) on the project (£240,000).

This leaves a residual project overhead of £96,000.

Element 1 generated an original FEC overhead of £165,000, which is 91.67% of the overall FEC overhead generated by the project.

Element 1 will therefore receive 91.67% of the residual project overhead, i.e. £88,000.