INDIRECT COSTS PROGRAM

REPORT ON FIRST YEAR OUTCOMES REPORTS

ADDENDUM TO THE 2003-04
BRIEFING REPORT TO THE MINISTER

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1. INTRODUCTION

The Indirect Costs Program Secretariat submitted its *Briefing Report to the Minister* for the 2003-04 fiscal year in September of 2004. At that time, the Secretariat provided the minister only with data based on institutions' grant requests, as it had not yet received their annual Outcomes Reports.

In order to access funds to which they are entitled under the Indirect Costs program, eligible institutions must submit a grant request that outlines how they plan to use the funds in terms of the program's five priority areas: facilities, resources, management and administration, regulatory requirements and accreditation, and intellectual property. The program's Results-Based Management and Accountability Framework (RMAF) also requires that participating institutions submit, each year, an Outcomes Report and a Statement of Account. The latter must provide a breakdown of grant expenditures in terms of the same five priority areas. The former must provide both quantitative and qualitative information about the impact that the expenditures have had in each of the priority areas.

Having now received the 111 Outcomes Reports from the first year of the program, the Secretariat submits the following addendum to the September 2004 *Briefing Report to the Minister*.

2. QUALITY

The quality of the reports varies widely from one institution to another. The funding provided by the program covers only a portion of the real indirect costs of federally funded research and institutions can apply grant funds to specific expenses or to a portion of all their eligible indirect costs expenses. Reporting on the impact of this funding is a complex process, as the expenses are by definition *indirect* and the impact of investments is often diffuse, occurring over the course of years.

3. SUMMARY INFORMATION FROM STATEMENTS OF ACCOUNT

Table 1 below presents a comparison of expenditures projected in the 2003-04 grant request forms with the actual expenditures reported in the Statements of Account.

TABLE 1: FUNDS REQUESTED AND EXPENDITURES REPORTED

2003-04	Request	Report
Facilities	96,352,175 **43%**	87,441,719 **39%**
Resources	45,008,883 **20%**	49,493,437 **22%**
Management and Administration	60,654,897 **27%**	63,360,301 **28%**
Regulatory Requirements and Accreditation	10,132,848 **5%**	10,556,811 **5%**
Intellectual Property	12,071,948 **5%**	12,402,884 **6%**

In 2003-04, actual expenditures did not vary significantly from those projected in the requests. Overall, the largest investments were made in two of the five priority areas: Facilities, and Management and Administration.

Table 2 below shows 2003-04 expenditures in each of the five priority areas by size of grant.

TABLE 2: INSTITUTIONS' EXPENDITURES BY PRIORITY AREA AND SIZE OF GRANT

	Number of Institutions/ % of total IC grants	Facilities	Resources	Management & Administration	Regulatory Requirements & Accreditation	Intellectual Property
Aggregate	111 100%	39%	22%	28%	5%	6%
Less than $100,000	53 .6%	29.6%	23.2%	38.4%	4.6%	4.2%
$100,000 - $1,000,000	27 6.5%	34.7%	18.9%	38.5%	3.3%	2.4%
More than $1,000,000	31 92.9%	39.4%	22.3%	27.5%	4.8%	5.8%

Because the 31 institutions that have indirect costs grants over $1 million account for almost 93 per cent of the program's budget, the aggregate spending mainly reflects these institutions' spending priorities.

The 31 institutions with indirect costs grants of over $1 million invested almost 40 per cent of their funds in facilities and a little under 30 per cent in management and administration. The 53 institutions that received less than $100 thousand in funding apportioned their investments in almost the reverse proportion, with about 30 per cent dedicated to facilities and almost 40 per cent to management and administration. The 27 institutions that received between $100 thousand and $1 million spread their investments rather more evenly than either, with 35 per cent invested in facilities and 39 per cent in management and administration.

4. PROGRAM SPENDING TRENDS

In addition to the quantitative information provided in the Statements of Account, institutions are required to give qualitative descriptions of how they used their indirect costs grant funds. The Secretariat has used this information to identify spending trends in each of the five priority areas.

FACILITIES

Within this priority area, there are five sub-categories of eligible expenditures:

- renovation and maintenance of research spaces;
- renovation and maintenance of equipment;
- technical support for laboratories, offices, animal care and other facilities;
- custodial, security, utility, leasing and capital planning costs;
- insurance on research space.

Institutions used grant funds to cover expenses in each of these sub-categories, although very little was used for insurance for research space. However, several Outcomes Reports noted the impact of steadily rising insurance rates on their ability to operate research facilities and it is likely that, in future, more institutions will use indirect costs funds for this expense. The most commonly reported investments were in renovations to research space, technical support for laboratories, and utilities costs.

Based on the institutions' reports, it is likely that, in this first year of the program, the largest investment was made in renovations to research space. Research infrastructure varies considerably from one Canadian university or college to another, and often from one faculty or department to another. Although some institutions report that their research spaces are in satisfactory condition, many institutions explain that they have a lot of upgrades and a large amount of deferred maintenance to carry out. Those institutions that indicated the nature of the renovations to research space for which they used their indirect costs grants most often specified upgrades to lab space and to animal care facilities. These investments have made improvements in the availability of research space across the postsecondary research system. The numerous upgrades to animal care facilities funded through the program address recommendations made by the Canadian Council on Animal Care and enable more Canadian institutions to meet these standards.

The other two most commonly cited areas of investment in research facilities are technical support for labs and utilities costs. Both represent major expenses for institutions' support of the research enterprise and affect both small and large institutions. The rapid and steep rise in utilities costs across the country has reportedly put enormous strain on the operating budgets of institutions that support research. For example, one large institution reported an increase of $2.43 per square foot—11 per cent over the previous year—in the cost of maintaining their research space. Many institutions report that, without the additional support afforded by the Indirect Costs program, they would have had to significantly cut back their operations in the areas of technical support and utilities. Examples of potential cutbacks include: approving fewer research projects, reducing lab hours, closing labs, and increasing the wait time for technical assistance for researchers.

RESOURCES

Within this priority area, there are two sub-categories of eligible expenses:

- acquisition, custodial, security, utility, leasing, and capital planning costs associated with libraries, data bases, telecommunications, information technology systems and research tools;
- insurance for research equipment and vehicles.

The most common investments in resources are to support research libraries and to upgrade technology infrastructure. In 2003-04, institutions invested heavily in both print acquisitions and electronic resources. Many institutions state that the Indirect Costs program has enabled them to address critical needs in library resources that had been steadily growing due to lack of available funding.

Institutions report both steadily rising demand from researchers for electronic resources, and steadily rising charges for electronic journal and data base subscriptions. One way institutions address this challenge is by participating in the Canadian Research Knowledge Network (CRKN; formerly the Canadian National Site Licensing Project). This joint initiative between 72 universities and colleges and the Canada Foundation for Innovation (CFI) enables institutions to negotiate the best possible prices for electronic journal subscriptions, with the CFI covering 40 per cent of the licensing costs and university operating budgets the remaining 60 per cent. Seventy of the 111 institutions participating in the Indirect Costs program are members of the CKRN consortium. Several of these explicitly state that they use their indirect costs grant to pay for their participation in the CRKN; others simply report they use some of their indirect costs grant to pay for electronic journal subscriptions.

In the Resources category, upgrading technology infrastructure is the second most commonly cited use of indirect costs funds, often to update or expand computer networks and telecommunications resources. Although students as well as researchers use technology infrastructure, institutions explain that it is generally the demands of researchers that most stress this resource. Institutions that invested heavily in this area report that indirect costs funding enables them to offer researchers more and better technological resources. For example, one large university used its indirect costs grant to install a campus-wide wireless network, giving their researchers unprecedented access to Internet research tools from anywhere on campus.

MANAGEMENT AND ADMINISTRATION

Within this priority area, there are eight sub-categories of eligible expenditures:

- research planning and promotion;
- help for researchers to prepare research proposals;
- public relations;
- training of faculty and research personnel;
- financial and other administrative services;
- acquisition, maintenance, and upgrade of information systems to track grant applications, certification and awards;
- human resources and payroll, i.e., salaries and benefits of employees who support the research enterprise but whose work is not already funded through a direct research grant;
- purchasing, audit, health and safety costs.

In 2003-04, management and administration represents the program's second-largest spending category. The reports indicate that indirect costs grant funds were used in all of the foregoing sub-categories. The expense most frequently reported is salary support for personnel in research administration, though it should be pointed out that the same individuals often provide services listed in other sub-categories, e.g., "help for researchers to prepare research proposals." In some cases, institutions used indirect costs funds to pay the salaries of existing employees, but often—particularly in the case of institutions that received more than $1 million dollars in indirect costs funds—they added new employees.

An emerging trend among these large universities is the appointment of "research facilitators," officers whose role is to reduce the burden on researchers of administering their grants. Research facilitators stay *au courant* with funding opportunities, inform researchers about them, assist researchers with applications, and help administer grants when they are awarded. Institutions report both quantitative and qualitative benefits from employing research facilitators: more applications for funding are forthcoming from researchers, and the researchers themselves are giving considerable positive feedback.

REGULATORY REQUIREMENTS AND ACCREDITATION

Within this priority area, there are three sub-categories of eligible expenditures:

- creation and support of regulatory bodies;
- training of faculty and other research personnel in animal care, ethics review, radiation and biohazard;
- costs of international accreditation related to research capacity.

Institutions spent only about five per cent of their total indirect costs funds on Regulatory Requirements and Accreditation (see Table 1 above). However, the Outcomes Reports suggest that this is not because institutions undervalue ethical requirements. Rather, it would appear that regulatory bodies in Canadian universities and colleges normally function on a voluntary basis. Consequently, administrative costs for research ethics boards and similar groups remain relatively low, typically involving only salary support for an administrative assistant. Institutions claim this expense under "support for regulatory bodies" in this category, but also often claim it under “salary support” in the Management and Administration category.

The major trend in the present category is expenditures on training for those involved in animal-based research. The guidelines of the Canadian Council on Animal Care, published on that organization’s Web site, specify that “all personnel involved with the use of animals in research, teaching and testing must be adequately trained in the principles of laboratory animal science and the ethical issues involved in animal use.” In order to respect this recommendation, many institutions direct some of their indirect costs funds to pay for the development and procurement of such training.

INTELLECTUAL PROPERTY

Within this priority area, there are four sub-categories of eligible expenditures:

- creating, expanding or sustaining a technology transfer office or similar function;
- reports of patent applications, licensing, and creation of spin-off companies;
- communications costs incurred and outreach activities undertaken to transfer knowledge through venues which are not eligible for funding under other federal programs;
- marketing teaching materials, scientific photo libraries, survey instruments, statistical packages, data sets and databases, software and computing needs.

Institutions made the vast majority of their investments in the first two sub-categories, with the primary focus on costs associated with technology transfer offices. The reports show a fairly even split between institutions that are developing intellectual property management offices or policy frameworks and those that use their grant to maintain or expand a technology transfer office. Many institutions that are actively engaged in the commercialization of research are members of multi-institutional consortiums that pool resources to support technology transfer. Of the institutions that invested some of their indirect costs funds in this area—less than half did—many report that Indirect Costs program funding was crucial.

5. CONCLUSION

The $225 million Indirect Costs program has provided a major infusion of funding support for the research enterprise in Canadian universities, colleges, and their affiliates. Grant funds directed toward each of the program's five priority areas allowed institutions to address many long-standing needs. In 2003-04, the first year of the program, institutions received their grant payments only near the close of the fiscal year, and for this reason, the funding was essentially retroactive. This late awarding of grants did not afford institutions the opportunity to carry out strategic financial planning in 2003-04, but many have indicated in their reports that this reliable source of funding will now allow them to do so.

In this first year of the program, the recurring phrase used to describe the Indirect Costs program was "financial relief." In many cases, it seems, the initial infusion of indirect costs funding served to prevent cuts to research support. Although the first-year reports do not in all cases explain how the program has contributed to institutions' ability to support research, comments from the "Overall Impacts" and "Your Comments" sections of the reports articulate emphatically that the program has indeed contributed to the development of research. In its Outcomes Report, one institution expressed concern on this point:

> One concern about the program is that in evaluating the effects of this program some of the most profound effects will not be immediate, obvious or easy to demonstrate cause and effect. For example in the area of technology and knowledge transfer it is a relatively simple matter to show that increased expenditures have been made on an additional technology transfer officer or increased expenditures on patent protection. However the outcomes from these expenditures are not likely to bear fruits for several years....In providing additional resources for these functions the Indirect Costs program will have a major impact, but the line from expenditure to ultimate outcome and benefits to Canadians is difficult to trace, yet real.

As institutions develop plans for their indirect costs grants, we can expect that they will be in a better position to explain how the program helps sustain the research enterprise and generate improvements, efficiencies and innovations in its management.

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