Recharging overhead costs on research projects

Summary

One of VU's key points is to increase revenues from sources of funding other than the contribution we receive from the ministry (OCW). This is driven by the realization that VU has a relatively small share of this type of revenue compared to other universities. Increasing this revenue, especially through the commitment to LLO, is also an important starting point in the upcoming institution plan.

It has been observed that the current way of charging overhead can lead to a negative incentive to start these types of projects and initiatives. The charging of overhead regularly leads to a negative financial result, resulting in projects either not going ahead or not being applied for.

Therefore, it is proposed here to replace the system of "overhead allocation" with a system of ‘overhead coverage’. This is based on the contribution that the project can or should make to total overhead costs rather than the costs the project generates. This should ensure that starting and bringing in these types of grants and initiatives is encouraged rather than inhibited.

The following percentages are proposed:

Cluster 1	**2e Geldstroom projecten (NWO, KNAW, SGF, ZWK)**					**A/G**	**Beta**
	Van		**Tot**		**Projecten t.o.v. totaal**	**Subcluster**	**Voorstel % Overhead**	**Voorstel % Overhead**
Directe lasten	€	-	€	350.000	55%	1A	2%	2%
Directe lasten	€	350.001	€	850.000	35%	1B	2%	3%
Directe lasten	€	850.001	€	999.999.999	10%	1C	2%	4%

Cluster 2	**3e Geldstroom projecten met subsidiedekking (EU, NIH, Templeton,...)**
Hier zijn verschillende percentages mogelijk ingegeven door de subsidieregeling zelf.	

Cluster 3	**3e GS Publiek projecten overig**					**A/G**	**Beta**
	Van		**Tot**		**Projecten t.o.v. totaal**	**Subcluster**	**Voorstel % Overhead**	**Voorstel % Overhead**
Directe lasten	€	-	€	200.000	55%	3A	10%	20%
Directe lasten	€	201.001	€	850.000	32%	3B	10%	20%
Directe lasten	€	850.001	€	999.999.999	13%	3C	10%	20%

Cluster 4	**3e Geldstroom Privaat projecten**
De volledig overheadlasten moeten op het project landen. Kosten kunnen varieren.	

This memorandum further contextualizes and substantiates this new system of charging overhead to projects. This is done by first outlining the current situation and reasoning behind it, then the problems this causes before elaborating on the solution. The new overhead system will take effect as of **1-5-2025**. Projects applied for before this date but awarded after 1-5-25 will be converted to the new system. Where this results in a deficit, the department will cover that difference with an own contribution.

Current situation

History

From 2015 to 2021, overhead (hereafter OH) on research projects was determined in two different ways. The first was a percentage over gross salary costs. The second was a percentage over income received. The latter system at the time had the major disadvantage that in the first year of a project, high OH benefits were received and then for three to four years nothing at all. Those benefits then had to be spread out administratively over the remaining years. An administratively error-prone method that was then performed by both Project Control and Business Control.

At the request of the then director of finances, the KDM system was taken as the starting point for the level of OH. The premise was to pass on all project-related costs at the deepest possible level within the university, and thus be charged to projects. With this system, VU would be in a better position to apply for full reimbursement on the 3rd money stream private projects. Also, understanding the structure and amount of OH among project leaders had to lead to greater awareness of actual costs incurred. This should lead to a more conservative budget that took into account the desire for limited faculty/department own contributions

The structure of the current overhead costs is the same for all faculties, with for some Beta departments also an extra lab surcharge. Since 2nd money stream projects have no OH-reimburement from the grant provider, the choice was made to cover these costs almost entirely through the VUSAM-I contribution to faculties. For 3rd money stream public projects, partial reimbursement is anticipated and therefore only the central KDM costs are covered by VUSAM-I. For 3rd money stream private projects, due to public/private rules, no costs are covered by VUSAM-I. The picture below visually illustrates how the current system works.

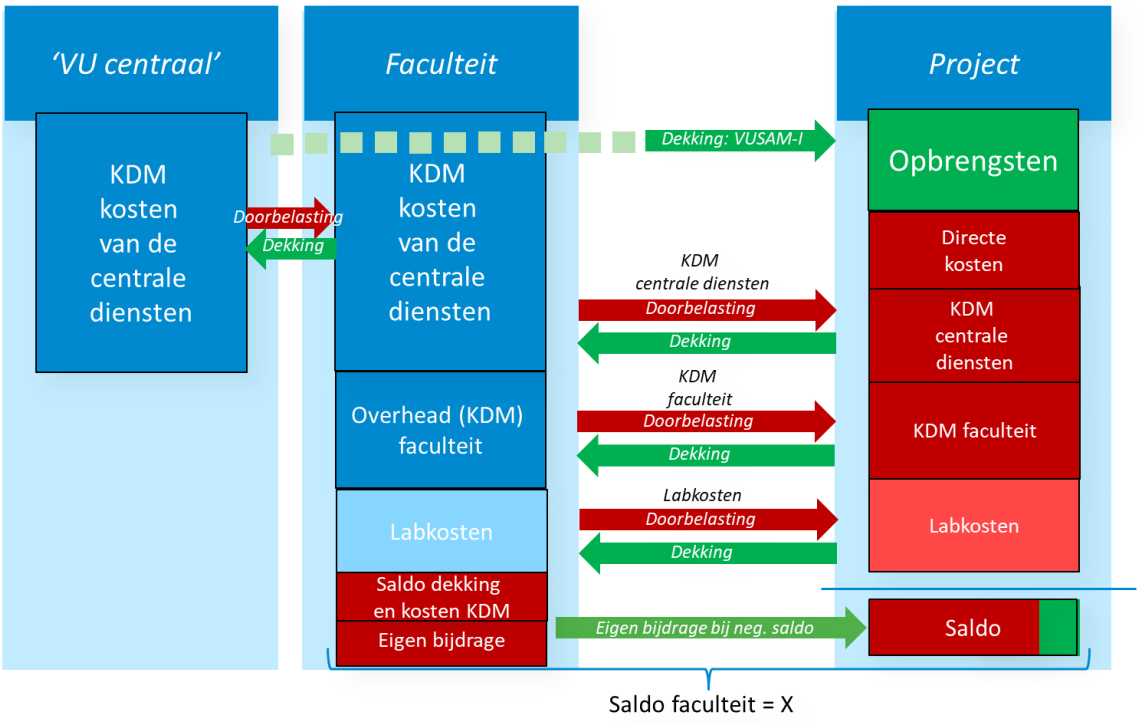

Figure1 : visual representation of operation of chargeback KDM on projects

The figure shows that all overhead charged to projects occurs within the faculty. Overhead is charged to projects and includesfaculty overhead as well. The overhead charge should cover

the overhead costs incurred. If it results in a deficit on the project, a contribution takes place from the faculty to the project in the form of an own contribution. That is a costfor the faculty and a revenue for the project. The balance of both determines the faculty result.

The numbers involved are as follows:

Table1 : Amounts associated with pass-through KDM.

	Overhead	Interne dekking 2e GS	Interne dekking 3e GS publiek	Interne dekking 3e GS privaat
KDM centraal	22.160	22.160	11.080	0
Facultaire overhead AG/BETA	8.100	8.100	0	0
Wachtgeld / tranisitievergoeding	1.000	0	0	0
Tot. A/G en Bèta zonder lab	**31.260**	**30.260**	**11.080**	**0**
Additioneel Bèta lab laag	3.000	3.000	1.500	0
Additioneel Bèta lab hoog	30.000	30.000	15.000	0

Table2 : Structure of total overhead per FTE per year by cash flow and type of project

Vanaf 2024	**Per 1-1-2024**	**Per 1-1-2024**	**Per 1-1-2024**
	KDM overhead kosten per FTE per jaar GS2	**KDM overhead kosten per FTE per jaar GS3 publiek**	**KDM overhead kosten per FTE per jaar GS3 privaat**
1000 FRT	€ 1.000,00	€ 20.180,00	€ 31.260,00
1300 FGW	€ 1.000,00	€ 20.180,00	€ 31.260,00
1400 RCHT	€ 1.000,00	€ 20.180,00	€ 31.260,00
1600 ACTA	€ 1.000,00	€ 20.180,00	€ 31.260,00
2500 FGB	€ 1.000,00	€ 20.180,00	€ 31.260,00
2600 FSW	€ 1.000,00	€ 20.180,00	€ 31.260,00
2700 SBE	€ 1.000,00	€ 20.180,00	€ 31.260,00
2900 BETA	x	x	x
5300 CIS / SOZ	**€ 55.000,00**	**€ 55.000,00**	**€ 55.000,00**
BETA - geen lab	€ 1.000,00	€ 20.180,00	€ 31.260,00
IVM (2980)			
Athena (2940)			
Wiskunde (2840)			
BETA - lab laag	€ 1.000,00	€ 21.680,00	€ 34.260,00
Informatica (2820)			
Gezondheidswetenschappen (2943)			
BETA - lab hoog	€ 1.000,00	€ 35.180,00	€ 61.260,00
Natuur- & Sterrenkunde (2860)			
Scheikunde en Farm. Wetensch. (2880)			
MCB en E&H (2950 en 2930)			
Neurowetenschappen (2960)			
Aardwetenschappen (2920)			
Ecologische Wetenschappen (2970)			
Bedrijfsvoering (TC's)			
Onderwijs			

As of 1-1-24, a recalibration of the charging of overhead to projects took place after three years. This involved recalibrating both the new KDM calculation and a revised calculation for faculty overhead. This resulted in a 45% increase in overhead per FTE.

Table3 : KDM overhead per FTE after indexing 1-1-24

		Begroting 2024	Begroting 2021	Verschil	In %
Dienst	**Activiteit**	**FTE WP op project**	**FTE WP op project**	**FTE WP op project**	
FCO	Zitwerkruimte op de norm	€ 8.044	€ 5.687	€ 2.357	41%
BZ	Beleid VU, juridische dienst, ombudsman, VU fondsenwerver JZ: privacy, MR, kiescomm, FG Vereniging VU+ stichting, projectregie, audit, Grants office	€ 3.750	€ 1.877	€ 1.873	100%
UB	Collectiemanagement, RDM, Research data, Big deals Registration en Open access	€ 3.404	€ 2.891	€ 514	18%
HRM+AM	strategie, MD-programma, ontwikkeling, advies clusters, pers. serv, procesontw. financiele service, systeemkn, TWK mutaties gebouw en brandveiligheid, BHV	€ 2.776	€ 1.780	€ 996	56%
FIN	Control faculteiten en diensten Centrale P&C, projectcontrol	€ 2.033	€ 1.762	€ 270	15%
IT	Werkplek desktop standaard Basisvoorziening IT	€ 1.281	€ 991	€ 290	29%
Overig	CvB, C&M, DURF	€ 872	€ 612	€ 260	43%
Fte-tarief WP op project		**€ 22.160**	**€ 15.600**	**€ 6.560**	**42%**
Facultaire overhead		€ 8.100	€ 5.000	€ 3.100	62%
Wachtgeld / tranisitievergoeding		€ 1.000	€ 1.000	€ -	0%
Totaal standaard overheadtarief		***€ 31.260***	***€ 21.600***	***€ 9.660***	***45%***

Problem Statement

The current system of charging overhead to projects has started to lead to noticeable problems at the Beta faculty. Especially after the recalibration. That this is especially noticeable at Beta is caused by the high costs of the laboratories, which are passed on to projects as an extra surcharge, on top of the increased overhead costs. Beta distinguishes this surcharge between departments without labs, departments with very little lab research and lab heavy departments. Especially the overhead combined with the surcharge for lab heavy departments creates more internal overhead costs for each type of grant than available overhead reimbursement from the grantor.

This fact creates a negative incentive on applying to these grants, as high own contributions are required to carry out these projects with a financial neutral result. Own contributions are cut in many departments within Beta duelimited budget availability (budget cuts). In addition to the own contributions needed, overhead costs create an unfavorable (and unfair) (competitive) position compared to other universities that do not charge all overhead costs to projects. It has become noticeable that the number of applications is declining and the fear is that this will continue in the coming years as a result of the readjustment and subsequent need to limit own contributions. As the number of projects declines, overhead coverage for the faculties (and thereby the VU) also declines (while the costs remaining relatively stable). This increases the burden on the VU, causing the overhead to be allocated tothe fewer projects remaining, thereby worsening the problem and increasing. Moreover, this is at odds with the desired approach of the Executive Board to increase the number of 2nd and 3rd money stream funding. In Beta, as a result of the high lab costs, this problem has clearly occurred. However, it is a problem experienced more broadly at VU. Therefore, the solution looks at adjusting the system for the entire VU.

Solution direction

The solution is sought in a change in the overhead system. This is no longer based on the premise that all KDM costs are passed on (whether or not offset by a VUSAM-I contribution), but that the overhead allocated to the project can actually also be borne by that project.

Visually, this looks like this:

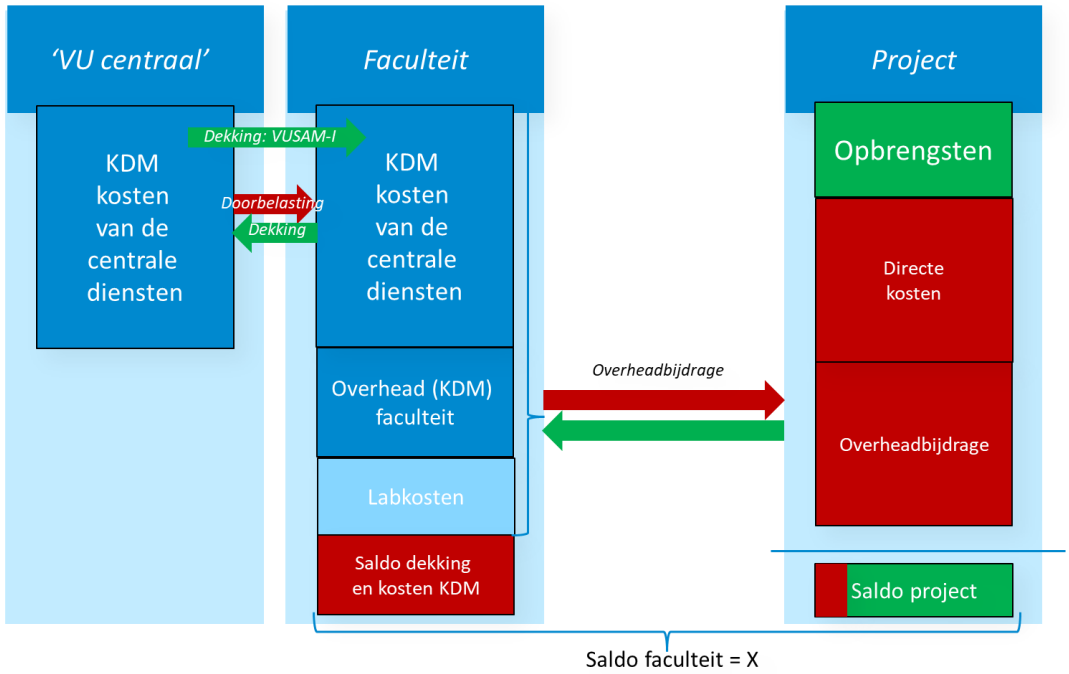

Figure2 : modified system KDM chargeback on projects

The overhead contribution of the project provides overhead coverage for faculty (for recharged KDM costs from VU-Central, its own overhead and possibly lab costs). Again, the results of faculty and the projects jointly determine the faculty's result.

To arrive at an elaboration of this solution to the problem described above, the overall grant landscape must be carefully examined. This landscape consists of a diversity of grants, all with their own set of conditions and overhead reimbursement options.

Roughly speaking, four clusters can be defined;

Table4 : clusters of (ongoing) projects and total current grant amount

Cluster	Geldstroom	Omschrijving	Totale subsidie	Aantal projecten	% in subsidie	% in aantal projecten
1	2e GS	NWO/KNAW vernieuwingsimpuls (VENI/VIDI/VICI) + tabelvergoedingen +SGF +ZWK; alle zonder subsidiedekking voor OH maar met bestedingsruimte door hogere dekking van personele lasten.	€ 223.476.400	533	45%	45%
2	3e GS publiek	Subsidies met een subsidiedekking voor OH o.b.v. een percentage over de directe lasten (o.a. Europese Unie, NIH, Templeton)	€ 159.886.817	228	32%	19%
3	1e GS en 3e GS publiek	1. Subsidies met beschikbare ruimte voor OH dekking, doordat interne personele lasten lager zijn dan de externe vergoeding 2. Projecten waar de maximale subsidie bestaat uit 1 op 1 dekking (of minder dan dat) van de directe, interne kosten en er dus geen OH dekking, dan wel bestedingsruimte is of zelfs een tekort bij aanvang.	€ 95.892.760	367	19%	31%
4	3e GS privaat	Private projecten waar eigendom van onderzoek bij opdrachtgever blijft. Deze projecten dienen te allen tijden een volledige OH dekking te bevatten om een vermenging tussen publieke en private gelden te voorkomen (door het voorkomen van een EB).	€ 15.946.041	69	3%	6%
		Totalen	**€ 495.202.018**	**1197**	**100%**	**100%**

Before detailing the new OH proposals at the cluster level below, there are some general principles of interest:

1. Free projects do not exist. Every project has costs in management, for housing, use of facilities, etc., and is therefore charged overhead.
2. The total amount of overhead costs is not directly affected by the number of projects.
3. Charging more overhead than there is reimbursement on a project leads to own contributions, additional administration and a negative incentive to apply for these projects
4. Costs that are not related to a project should also not be charged to that project.
5. The proposal should be as simple as possible. As few calculation rules as possible and as easy to implement and explain as possible.

Alfa/Gamma versus Beta

In working out solution options, it quickly became apparent that equal percentages could not be used in all clusters (see Appendix 1). This is mainly due to the fact that Beta also wishes to cover lab costs with the total overhead solution package. For Alpha/Gamma these are virtually absent and Beta's higher percentages would lead to a sharp increase in central overhead revenues. This in turn could lead to a negative incentive on applying for these grants. For this reason, a split has been made between the respective faculties.

Percentage over direct charges

The reason that almost all clusters opt for a solution by means of a percentage over the direct costs is to prevent exchanges between personnel and equipment. By taxing all costs it is not possible to "shop around" there.

Cluster 1: 2nd money stream projects (NWO, KNAW, SGF, ZWK)

No overhead was ever charged to 2nd money stream projects because no NWO/KNAW grant has overhead reimbursement. NWO believes this is already handled through the 1st money stream funds, through a fixed fee to universities. This is only partly true; concern control estimates that this covers only 1/3 of the actual costs (*based on the Scientific Research Funding Agreement*). In the current system all costs are therefore covered by the VUSAM-I benefits, except for the sickness/retirement costs (1000,- per FTE p/y).

To reduce overhead on cluster 2 and 3, it is desirable to charge OH to NWO projects as well. Assuming that OH revenues at the faculty level should remain at least similar to current revenues. This room is typically also there in this cluster because of the external (NWO) funding of personnel costs, which is higher than the internal personnel charges. For Beta, it is a necessity to compensate for the decline in revenues in the other clusters. For A/G, this does not actually apply and they could forgo it, judging from the figures in Appendix 2.

Cluster 2: 3rd money stream projects with overhead reimbursement (EU, NIH, Templeton,...)

The proposal for this cluster is the most obvious option, which is to charge internally the amount of OH that is reimbursed externally. By doing this, you get maximum OH coverage to the department without overburdening a project with more costs than it can bear. However, for Beta departments that currently do not have a lab surcharge or a low lab surcharge, this does mean that they lose a part of “free” spending space that they have under the current system.

If the project leader wants to budget for more costs than the grantor will reimburse, this will only be possible in consultation with the department head, as this will then have to be covered by the department through an own contribution.

Cluster 3: 3rd money stream Public projects other

The elaboration in terms of solution and automation is no different for this cluster than that of cluster 1. However, because more than 200 different grantors are represented in this cluster, it is much more complex to calculate an optimal bandwidth and OH percentage(s). There are also projects here where no available space can be created and no OH reimbursement is present in the terms and conditions. The proposal is to treat projects with and without reimbursement from the grantor identically within this cluster. It is impractical to interpret all the different arrangements. Charging overhead everywhere does make it clear that a free project does not exist.

Cluster 4: 3rd money stream Private projects.

There is a distinction between a public third-party grant and funding from a private party. A project is considered private if it involves teaching and research activities funded by external parties, with the aim of using the research results only for one's own policy/purposes.

Since 2021, the "policy rule on investing with public funds in private activities" applies. When publicly funded lecturers are deployed on a private activity of the funded university, this activity falls under that policy rule. Even if a cost-covering rate is charged for the private activity. This also applies if publicly funded rooms are used for the private activity.

In the current OH system, therefore, all overhead charges based on KDM + any lab surcharges are entered as OH on the project. This is based on fixed costs per FTE per year. However, the wish is to be able to work with a percentage over the direct costs for private projects as well. However, it has not yet been possible to calculate this sufficiently. This is not a problem prohibiting the policy explained in this memo, because the existing (calculation) rules for privately funded projects suffice until the percentage is known.

It does suggest that privately funded projects should critically look at actual costs incurred. Thus, looking critically at the use of the various components of overhead that should be charged to the company funding these projects. If, for example, there is no lab used for the research, or when other components do not apply to the project, this should not be charged to that specific project and the grantor, and vice versa. This will be especially true for faculties with labs. This will require two calculation rules for private projects, one with and one without lab costs. The

project manager is responsible for determining whether or not lab use is appropriate. The department head and director of operations can always approve or disapprove the project leader's choice from their position in the PCS workflow.

A percentage will be drawn up in collaboration with Finance, FGB and Beta to be substantiated at the time of the annual work in the event of any public/private audits.

Appendix 1: New overhead percentages by faculty and cluster

Cluster 1	2e Geldstroom projecten (NWO, KNAW, SGF, ZWK)					A/G	Beta
	Van		Tot		Projecten t.o.v. totaal	Subcluster	Voorstel % Overhead	Voorstel % Overhead
Directe lasten	€	-	€	350.000	55%	1A	2%	2%
Directe lasten	€	350.001	€	850.000	35%	1B	2%	3%
Directe lasten	€	850.001	€	999.999.999	10%	1C	2%	4%

Cluster 2	3e Geldstroom projecten met subsidiedekking (EU, NIH, Templeton,...)
Hier zijn verschillende percentages mogelijk ingegeven door de subsidieregeling zelf.	

Cluster 3	3e GS Publiek projecten overig					A/G	Beta
	Van		Tot		Projecten t.o.v. totaal	Subcluster	Voorstel % Overhead	Voorstel % Overhead
Directe lasten	€	-	€	200.000	55%	3A	10%	20%
Directe lasten	€	201.001	€	850.000	32%	3B	10%	20%
Directe lasten	€	850.001	€	999.999.999	13%	3C	10%	20%

Cluster 4	3e Geldstroom Privaat projecten
De volledig overheadlasten moeten op het project landen. Kosten kunnen varieren.	

Appendix 2: Summary delta of revenues current overhead versus new system

Som van Delta nieuw en oud	Kolomlabels									
Rijlabels	3e GS Privaat		3e GS publiek met % dekking		1e GS en 3e GS publiek overig (en NGRF)		2e GS (NWO, KNAW, SGF, ZWK)		Eindtotaal	
BETA	€	-	€	-1.531.484	€	-871.290	€	2.518.769	€	115.995
FGB	€	-	€	3.111.257	€	483.485	€	351.177	€	3.945.919
FGW	€	-	€	494.587	€	-9.200	€	116.987	€	602.374
FRT			€	56.954	€	-42.304	€	21.440	€	36.090
FSW	€	-	€	1.083.075	€	-169.209	€	108.013	€	1.021.879
RCH	€	-	€	142.335	€	-141.051	€	80.573	€	81.857
SBE	€	-	€	197.820	€	-271.063	€	183.466	€	110.223
Eindtotaal	**€**	**-**	**€**	**3.554.545**	**€**	**-1.020.632**	**€**	**3.380.424**	**€**	**5.914.337**

The above amounts are calculated based on the entire current active project portfolio (what if the new system were applied to all projects tomorrow). The reality is that only projects as of 1-5-25 are budgeted with the new system. Also, the average duration of projects is about four years and so the last column must be divided by four to estimate the average annual impact.