



## **Dual Support Reform Implementation Joint Research Council/Arts and Humanities Research Board Project**

### **FREQUENTLY ASKED QUESTIONS ON FULL ECONOMIC COSTS (FEC)**

The questions, drawn from the eight regional seminars held in October 2004, plus the work of the joint Research Council/AHRB Grants Convergence Group, are structured according to the following headings:

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A separate list of questions on the peer review of FEC grants is under development.

## Funding arrangements and timing

### ***Q1. Why are these changes being made?***

The changes are part of the Government's wish to put university funding on a more sustainable footing, to address the under-investment in infrastructure that was demonstrated by the Transparency Review. The basic funding model is that Research Councils/AHRB will pay a proportion of FEC.

### ***Q2. Are additional funds available for these changes?***

Yes. An additional £120M from 2005/06 and £200M from 2007/08 has been made available to Research Councils/AHRB. Additional funds have also been provided to Funding Councils to increase QR.

### ***Q3. Why will Research Councils/AHRB pay only a proportion of full economic costs?***

The Government has asked RCs/AHRB to maintain the current volume of research they support. With the additional funding to be provided, RCs/AHRB will be able to pay only a proportion of FEC, with the balance of support from Funding Councils or other sources. In the 2004 10 year Framework the Government signalled an intention to move towards payment of 100% FEC by RCs/AHRB, by the end of the decade.

### ***Q4. Who will decide what portion of full economic costs...and when?***

The Government will announce by the end of 2004 the exact percentage to be paid by Research Councils.

### ***Q5. How will the standard % FEC figure be determined?***

It is being modelled on the basis of what proportion of FEC can be sustained by the additional funds being provided, without changing the volume of research supported.

### ***Q6. How will the additional funding be made available?***

£120M available in 2005/06 will be distributed by single payments to universities in July 2005, made by ESRC on behalf of all Research Councils and AHRB. The payments will be based on RC/AHRB grants income in 2003/04. The purpose of this interim funding is to provide better support for existing research, not to increase the volume funded. The RCs/AHRB expect to be able to notify universities, by the end of 2004, the amount each will receive.

In subsequent years, the first call on additional funding will be to support FEC grants; any residue will be paid out in support of continuing pre-FEC grants.

***Q7. What is the timetable for these changes?***

The key milestones for implementation of changes to Research Council arrangements for grants are:

- June 2005: New proposal forms available
- 31 July 2005: Last date for submission of pre-FEC proposals
- 1 September 2005: Earliest date for submission of FEC proposals
- 31 March 2006: Last date for announcement of pre-FEC grants.

***Q8. Will there be changes to the closing dates of grant rounds?***

For NERC the small grants closing date will be moved from 1 September 2005 to 15 September. No other changes are expected.

***Q9. How will pre FEC proposals that have not been announced at 31 March 2006 be transferred across to FEC?***

They will be returned to the Research Organisation for re-costing on an FEC basis.

***Q10. Should Research Organisations accelerate submission of proposals before the August close-down or wait until 1 September 2005?***

Research Councils' advice is for no change in behaviour concerning timing of proposals in relation to the implementation of FEC.

***Q11. How will non-university research organisations be affected?***

Research Councils will apply the same funding arrangements to all organisations that are eligible for their support. Non-university organisations will not be expected to use the Transparent Approach to Costing (TRAC) methodology, but Research Councils will require a validation process to ensure that non-university costing methodologies are robust. For Research Council Institutes, validation will be by the host Research Council.

***Q12. What about FEC for grants that currently do not attract overheads eg fellowships?***

Fellowships are covered by the FEC changes. The funding elements on fellowships will be analogous to those proposed for research grants. Estates and indirect costs will be payable.

***Q13. What happens with existing grants that are due to carry on running some time into the future?***

There will be no change to existing grants. All pre-FEC grants will be allowed to run their course. However if a review point comes up this may be an opportunity to move the grant onto an FEC basis.

## Proposals

### ***Q14. Will Research Councils use common forms and procedures?***

As far as possible, yes. The data requirements for FEC have been worked out on a cross-Council basis, with the expectation that Councils will apply a common approach.

### ***Q15. How does this fit in with electronic proposal forms?***

Six Councils are committed to using the Je-S electronic proposal form by the time FEC arrangements are introduced. MRC has its own electronic form already in use. RCs/AHRB are also committed to electronic submission in 2005.

### ***Q16. In a RC/AHRB proposal what is the structure of costs that can be applied for?***

Proposals will show the total (100%) FEC of the research proposed broken down according to the three summary fund headings defined by TRAC (Directly Incurred, Directly Allocated and Indirect Costs), and their constituent subheadings, and to a fourth (Exceptions) to be introduced by the RCs/AHRB.

### ***Q17. Can Research Organisations apply for less than standard % FEC (eg. if getting additional funds from elsewhere)***

No. The proposal form will ask for 100% FEC and automatically identify the % FEC that Councils will contribute.

### ***Q18. What will the new proposal form look like?***

An illustrative research grant proposal form is available at <https://researchcouncils.intranets.com/> plus a summary of requirements. This highlights the main changes and includes explanatory notes on each change. It must be stressed that the actual forms are unlikely to resemble this illustration.

### ***Q19. Will the case for support change?***

Not in essence, but there will be a need to include justification for all Directly Incurred/Exceptions costs and the amount of investigator time included, plus some DA costs. Guidance on the completion of the form and case for support will be provided in due course.

## Costing

### ***Q20. Will there be any inadmissible costs?***

All costs that contribute to the full economic costs of a project should be included.

### ***Q21. What is the distinction between Directly Incurred and Directly Allocated costs?***

Directly Incurred costs (DI) are those costs that are explicitly identifiable as arising from the conduct of the research, are charged on the basis of the cash amount spent and are verifiable

and auditable from the accounting records. Directly Allocated costs (DA) are shared costs based on estimates, and do not represent actual costs on a project-by-project basis.

***Q22. Can Research Organisations still apply for pooled staff effort such as technicians or secretaries? Are they DI or DA?***

Yes. Pooled staff effort is usually taken to include staff who are specific to a project even though only a proportion of their time is allocated to it, plus support staff in the category 'departmental technical and administrative services'.

Where staff are specific to a project, they can be DI if their costs can be charged as actuals and underpinned by an auditable record; otherwise they will be DA. Departmental technical and administrative services should be listed under Other Directly Allocated costs.

***Q23. If the usage of a facility can be accurately attributed to specific projects, could it be a directly incurred cost rather than a directly allocated cost?***

It could be directly incurred if you can identify usage by each project and have a means of charging costs based on actual usage. The records must be auditable. The alternative approach is to allocate costs to projects based on a charge-out rate, in which case the figures are estimates and should be shown as 'Other Directly Allocated' costs.

***Q24. Will the costs of recruitment and dissemination be included?***

Recruitment costs can be included in DI provided they occur after the announced start date of the grant. The costs of dissemination are not included; these costs should be covered in indirect costs.

***Q25. Will the indirect and estate costs rates used by each organisation become public knowledge?***

No. RCs/AHRB will ask for costs, not the rates they are based on.

***Q26. How will project partner funding, e.g. with industry, be calculated?***

Project partner contributions in cash should be seen as additional to the RCs'/AHRB % contribution, **provided the RO is not making a return of more than 100% FEC**; in-kind contributions are not considered to be part of the FEC of a project.

***Q27. How will collaborative schemes involving other sponsors be affected?***

Collaborative schemes managed by the RCs/AHRB will be funded at the standard proportion of FEC. The arrangements for those schemes managed by other organisations are still under discussion.

***Q28. If a reduction is recommended in resources on a project, how will the proposal be re-costed?***

RCs/AHRB will introduce a procedure to enable the RO to re-calculate estates and indirect costs, if research staff resources are changed. There will be a 10 working day period in

which to do this. The request will be made to the administrative group by whom the proposal was submitted.

***Q29. Why can't Councils do this re-calculation themselves?***

The proposal will ask for costs for estates and indirect costs, not the underlying rates used. The RO is therefore best placed to re-calculate the figures.

**Directly Incurred costs**

***Q30. Can we use the salary bandings for RAs, or should we use spine points?***

As RAs are directly incurred costs and will be charged as actuals, spine points should be used.

***Q31. What staff increments can be included?***

Full employment costs should be charged for staff, whether DI or DA, including national insurance and superannuation and increments where appropriate.

***Q32. Where equipment has been funded by a RC/AHRB grant, how should usage be charged out on other grants?***

A relevant share of equipment costs can be charged to each grant using the equipment. This will include both running and capital costs. Where RCs/AHRB have already funded the capital costs, double counting should be avoided due to a set of specific adjustments that have to be made to the estates charges when they are calculated, as set out in the TRAC manual.

**Directly Allocated costs: Investigators**

***Q33. Will investigator salaries be funded?***

Yes. Directly Allocated costs should include the cost of the time investigators expect to give to the conduct and management of the project, calculated in accordance with the guidance given in the TRAC manual. Investigator salaries can also be directly incurred costs. The costs of an RA who is a co-investigator must be shown as Directly Incurred.

***Q34. Why is investigator time normally directly allocated rather than directly incurred?***

Directly allocated costs are based on estimates rather than actuals. As Investigator time will usually be an estimate, it will come under DA. Investigators will not be required by the RCs/AHRB to complete timesheets.

***Q35. How do we ensure that we are not overcharging academic staff's time?***

RCs/AHRB will not fund more than 100% of an investigator's salary (i.e. a maximum of 37.5 hours a week, 44 weeks pa). Councils accept the need for flexibility in relation to individuals because of the difficulties of estimating both time and the likelihood of success of

applications. They will seek assurance that at organisation level the costs paid for investigators are in balance with the total time attributed to grants.

***Q36. Why have Councils gone for a 37.5 hour week when academics often work far longer than this in reality?***

This figure is in accordance with TRAC and has been chosen for costing purposes. If a higher figure had been chosen then ROs would have been required to ensure that academics worked this time in order to ensure full cost recovery.

***Q37. If an investigator spends double the amount of time originally estimated on the proposal, how does the Research Organisation recover the costs?***

Investigators' costs on grants will be paid on the estimates shown on the grant announcement – no more, no less.

***Q38. Investigator time on the project is averaged over the length of the grant, but if some is for writing up at the end where is this estimated?***

This should be rolled into the average time.

***Q39. Should we use average band values or actual values for salaries?***

Research Organisations can choose either method, as long as they are consistent within the organisation. TRAC gives details.

***Q40. Will peer reviewers see investigators' salaries?***

Peer reviewers will see all costs, which will include a salary figure, but they will not know how it has been calculated (i.e. actual, banding, average or pool).

**Directly Allocated costs: Estates costs**

***Q41. What do Estates costs pay for?***

Estates costs cover those costs related to buildings and premises, including maintenance, utilities costs, cleaning, security and safety.

***Q42. Could estate costs be charged on an actual rather than FTE basis?***

Estates costs are based on estimates. There is no expectation that Research Organisations should try to record actual costs - it would not be a cost-effective approach. However, TRAC does offer the option of charging on the basis of space occupied as an alternative to FTE.

***Q43. Is there a requirement for justification of estates costs in a proposal? For instance a high cost facility would have high estates costs.***

No justification is required for estates or indirect costs, as the TRAC methods are designed to ensure that, overall, estates costs charged to projects are a fair and reasonable reflection of the costs incurred.

## Directly Allocated costs: Other Directly Allocated

### ***Q44. What costs would fall under “Other Directly Allocated”?***

Other Directly Allocated is envisaged to include costs of shared resources, such as, pooled staff and departmental technical services, central and distributed computing services, and charge-out rates for shared equipment and major research facilities.

## Indirect Costs

### ***Q45. What do Indirect Costs pay for?***

Indirect costs cover the costs of RO administrative services, including personnel, finance, library, together with some departmental services.

### ***Q46. How is redundancy pay covered?***

Redundancy costs are covered by the cost of capital employed (COCE) element that is included within Indirect costs.

### ***Q47. Do indirect cost rates apply to technicians?***

No. The FTE used as the denominator for indirect costs is based on research staff on the project. Technicians are not regarded as research staff. TRAC provides details.

### ***Q48. The cost of writing up final reports can be included but what about the cost of preparing the proposal?***

These costs should be taken into account in the indirect cost calculations, as part of research support activities.

## Exceptions

### ***Q49. Will there be any exceptions to % FEC?***

Yes. Project studentships (tied students for NERC) will be exceptions, together with equipment above a threshold level – Councils will pay % FEC up to the threshold for equipment, and 100% FEC above it.

***Q50. Why are project studentships an exception?***

Postgraduate training is not currently included in the move to FEC, so those Councils that fund project studentships will fund them as exceptions. Where project studentship costs are paid on the grant, 100% of stipend and fees will be included, but these students must not be counted in FTE for calculating the estates and indirect costs on the application form.

***Q51. Is the suggested equipment threshold for single items or the total of the equipment heading?***

For the total of the heading.

***Q52. How will large surveys be treated?***

ESRC surveys will be treated in the same way as equipment, with a threshold above which FEC will be paid in full at 100%.

## Management of FEC grants

***Q53. What about grant transfers?***

It will be possible to transfer FEC grants in the same way as under existing arrangements. Grants will not be re-costed on account of transfers. The balance of unspent DI and exceptions, plus a pro-rata share of DA and indirect costs will be available for transfer following financial reconciliation of the grant.

***Q54. Will virement of funds be possible?***

Virement will be permitted only with Directly Incurred/Exceptions costs. Existing restrictions on virement of savings on the purchase of equipment will continue.

***Q55. Will it be possible to start a grant (eg with investigator resource) before an RA starts?***

Yes, but the commencement of profiled payments will remain unchanged. (e.g. profiled payments will not start until an RA is in post).

***Q56. What will happen where a project has substantial change in the use of funds over its lifetime? For example, extra or fewer RAs used.***

As now, RCs/AHRB will give investigators flexibility to use grant funds according to the needs of the project. At the end of a grant, the final expenditure statement will reconcile actual expenditure under the directly incurred and exceptions headings against payments made. Major variations in Directly Incurred and exceptions costs should be explained in the final report. Directly Allocated and Indirect costs will normally be paid as awarded.

***Q57. What information will Research Organisations be asked to provide at the end of grant reconciliation?***

Directly Incurred and exceptions expenditure will be reconciled against actual payments made. Directly allocated and Indirect costs will be met as awarded (unless the grant has been affected by transfer, early termination or financial sanction).

***Q58. Will cash limits continue?***

Research Councils will retain the principle of cash limits. They have agreed to maintain a dialogue with universities over the index used to cover inflation.

***Q59. Why do RCs/AHRB use the GDP deflator as the basis of indexation in cash limits?***

The GDP deflator is a known standard and reflects the level of indexation that RCs/AHRB are likely to receive. They are therefore applying to ROs the same financial discipline that applies to Councils themselves.

## General

***Q60. Will value-limited schemes continue?***

All Research Councils have schemes where there are limits on how much can be sought. The expectation is that these will continue. Each Council will be considering the appropriateness of the limits applied in relation to FEC.

***Q61. Will there be any changes to research grant terms and conditions?***

Yes. Councils plan to publish terms and conditions for comment in December 2004 and issue the conditions that will apply under FEC in March 2005.

***Q62. Where joint applications are made with another Research Organisation will there be the capacity to show different estates and indirect cost rates?***

Yes. Each RO seeking funds should prepare its own costing, which can form the basis of either its own application or be a contribution to a single application submitted on behalf of a number of ROs. This will depend on the RC being applied to.

***Q63. How does FEC work for research that takes place abroad?***

Where a Research Organisation receives a grant which is mainly conducted abroad, indirect costs can be included, but not estates charges. There should be no reduction in costs for temporary or short-term absence.

***Q64. Locally employed staff overseas – how are they affected?***

These arrangements are not affected by FEC. RCs/AHRB will not pay estates and indirect costs for overseas ROs.

## Monitoring of implementation of FEC

### ***Q65. What sort of monitoring will RCs/AHRB apply?***

Councils will monitor a range of factors to check the nature of grant applications (e.g. impact on PI time requested), and also whether there is an impact on the volume of research funded.

### ***Q66. Will RCs/AHRB be monitoring estates rates, given that there will be a variety of rates in use?***

No. This is an aspect of the TRAC methodology that falls to the Funding Councils to monitor. The quality assurance process currently underway will indicate the state of preparedness of universities to implement TRAC in 2005. A benchmarking process is also being undertaken to enable universities to compare their rates. This will be used to provide an average rate which may be used as a default for those organisations not able to implement TRAC robustly enough. Differences in estates charges are a fact of life in an FEC environment. Costs will vary between universities, due to a range of factors, not just geography.

## Additional information

More detailed information on the dual support changes is available from a variety of sources:

- a) <http://www.ost.gov.uk/research/dualsupport.htm> OST (Office of Science and Technology) web site for background to the changes, policy decisions and top level FAQ list.
- b) <http://www.jcpsg.ac.uk/transpar/index.htm> JCPSG (Joint Costing and Pricing Steering Group) web site for background to the TRAC methodology and issues for research organisations in the implementation of TRAC, including details of available training courses on TRAC. An FAQ list concerned with FEC issues from the research organisation perspective will be included.
- c) <https://researchcouncils.intranets.com/> Research Administration Programme (responsible for the joint RC/AHRB dual support reform project) web site for more information on the Research Council's joint project, including emerging guidance documentation.

[ann.durniat@pparc.ac.uk](mailto:ann.durniat@pparc.ac.uk)

Project Manager

DSR joint RC/AHRB project

November 2004