

Passing on overhead costs to research projects

Summary

One of the spearheads of VU Amsterdam is to increase the income of the sources of funding other than the government contribution. This is prompted by the adjustment and the realisation that VU Amsterdam has a relatively small share of this type of income compared to other universities. Increasing this income, especially through the commitment to LLO, is also an important starting point in the upcoming Strategic Plan.

It has been established that the current way of charging on overhead can lead to a negative incentive to start these types of projects and initiatives. The recharging regularly leads to a negative financial result, as a result of which the projects either do not go ahead or are not applied for.

It is therefore proposed here to replace the system of 'overhead charging' with a system of 'overhead coverage'. The reasoning is based on the contribution that the project makes to the coverage of the overhead costs instead of the costs that it generates. This should ensure that the start and acquisition of these types of projects and initiatives is stimulated and not slowed down.

The following percentages are proposed:

Cluster 1 Second money stream projects (NWO, KNAW, SGF, ZWK)					A/G	Beta
	From	To	Projects vs. total	Subcluster	New % Overhead	New % Overhead
Direct costs	€ -	€ 350.000	55%	1A	2%	2%
Direct costs	€ 350.001	€ 850.000	35%	1B	2%	3%
Direct costs	€ 850.001	€ 999.999.999	10%	1C	2%	4%

Cluster 2 Third money stream public projects with subsidy coverage based on percentage (EU, NIH, Templeton,...)

Various percentages are possible here, determined by the subsidy scheme itself.

Cluster 3 First and Third money stream Public projects "other"					A/G	Beta
	From	To	Projects vs. total	Subcluster	New % Overhead	New % Overhead
Direct costs	€ -	€ 200.000	55%	3A	10%	20%
Direct costs	€ 201.001	€ 850.000	32%	3B	10%	20%
Direct costs	€ 850.001	€ 999.999.999	13%	3C	10%	20%

Cluster 4 Third money stream projects "private" (results of the research remain exclusive with the client)

The full overhead costs must land on the project. Costs may vary. For the time being, the existing calculation rules must be followed.

This memorandum will be further contextualised and substantiated. This is done by first outlining the current situation and the reason for it, then the problem and then the solution is worked out. The new overhead system will come into effect on 1-5-2025. Projects that were applied for before that time but are awarded after 1-5-25 will be converted to the new system. Where this leads to a deficit, the department will cover that difference with a personal contribution. Already active, ongoing projects will not be adjusted!

Current situation

History

From 2015 to 2021, the overhead (hereinafter referred to as OH) on research projects was determined in two different ways. The first was a percentage of gross wage costs. The second was a percentage of the income received. At the time, the latter system had the major disadvantage that in the first year of a project, high OH benefits were received and then nothing

at all for three to four years. These benefits then had to be spread out in the background in the accounts over the remaining years. An administratively cumbersome and error-prone system that was then carried out by both PC and BC.

At the request of the then financial director, the KDM system was taken as the starting point for the amount of the OH. The starting point was to pass on all project-related costs at the deepest possible level and thus to have them land on the project. With this system, VU Amsterdam would be better able to apply for full coverage on the 3rd flow of funds for private projects. In addition, the insight into the structure and the amount of the OH among project managers had to lead to more awareness of the actual costs. This should lead to a more conservative budget that takes into account the desire for limited personal contributions for the faculties.

The structure of the current overhead costs is the same for all faculties, with only some Science departments also applying a lab surcharge. Because 2nd flow of money projects from the subsidy schemes do not have OH coverage, it has been decided to cover almost all of these costs through the VUSAM-I instrument. In the case of 3rd funding for public projects, partial coverage is anticipated and therefore only the central KDM costs are covered by VUSAM-I. For the 3rd flow of funds for private projects, no costs are covered by VUSAM-I due to the public/private rules. The picture below visually shows how the current system works.

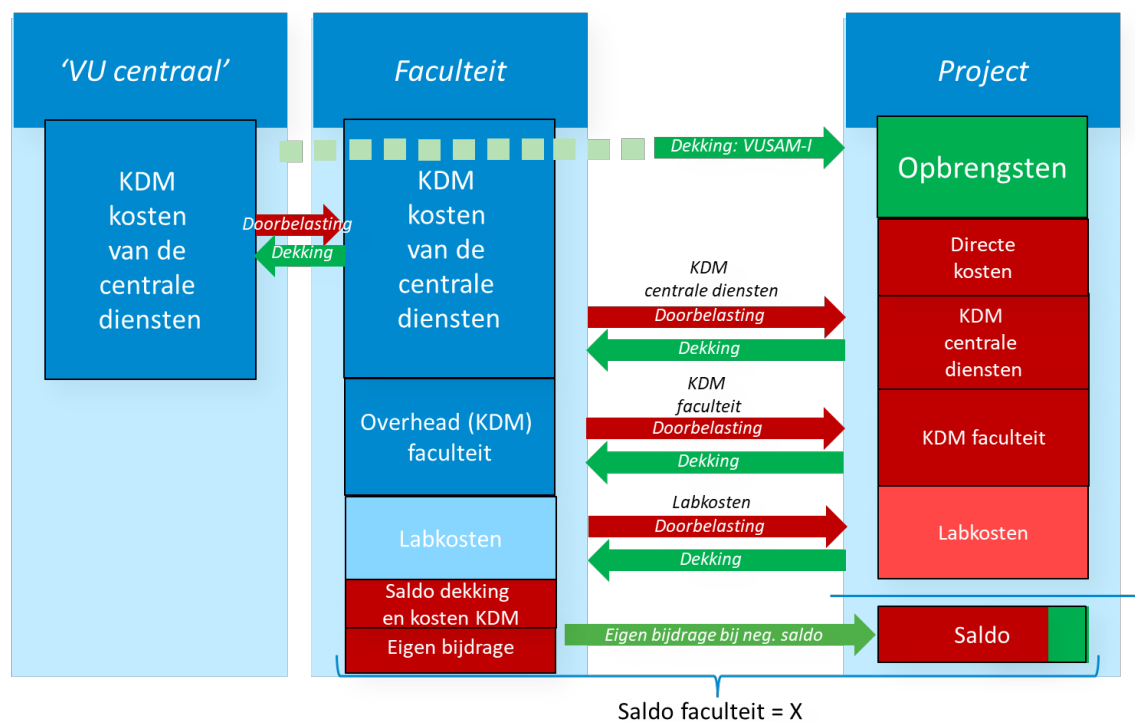


Figure 1: visual representation of the effect of the KDM on projects

The figure shows that all overcharging of projects takes place within the faculty. Overhead costs are charged on projects. Faculty overhead is also part of this. The recharging provides cover for these costs. If a negative result is then obtained, a contribution will be made by the faculty. That is a burden for the faculty and a return on the project. The balance of both determines the result of the faculty.

The numbers that go with it are the following:

Table 1: Amounts associated with the recharging of KDM

	Overhead	Interne dekking 2° GS	Interne dekking 3° GS publiek	Interne dekking 3° GS privaat
KDM centraal	22.160	22.160	11.080	0
Facultaire overhead AG/BETA	8.100	8.100	0	0
Wachtgeld / transitievergoeding	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

Table 2: Structure of total overhead per FTE per year per 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
<i>IVM (2980)</i>			
<i>Athena (2940)</i>			
<i>Wiskunde (2840)</i>			
BETA - lab laag	€ 1.000,00	€ 21.680,00	€ 34.260,00
<i>Informatica (2820)</i>			
<i>Gezondheidswetenschappen (2943)</i>			
BETA - lab hoog	€ 1.000,00	€ 35.180,00	€ 61.260,00
<i>Natuur- & Sterrenkunde (2860)</i>			
<i>Scheikunde en Farm. Wetensch. (2880)</i>			
<i>MCB en E&H (2950 en 2930)</i>			
<i>Neurowetenschappen (2960)</i>			
<i>Aardwetenschappen (2920)</i>			
<i>Ecologische Wetenschappen (2970)</i>			
<i>Bedrijfsvoering (TC's)</i>			
<i>Onderwijs</i>			

As of 1-1-24, after three years, a recalibration of the charging of overhead costs on the projects has taken place. Both the new KDM calculation and a revised calculation for faculty overhead have been recalibrated. This resulted in a 45% increase in overhead per FTE.

Table 3: KDM overhead per FTE after indexation 1-1-24

Dienst	Activiteit	Begroting 2024 FTE WP op project	Begroting 2021 FTE WP op project	Vershil FTE WP op project	In %
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. financiële 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 / transitievergoeding		€ 1.000	€ 1.000	€ -	0%
Totaal standaard overheadtarief		€ 31.260	€ 21.600	€ 9.660	45%

Problem definition

After the recalibration, the current system has started to lead to noticeable problems, especially at Beta. The fact that this is especially noticeable at Beta is caused by the high costs of the laboratories that are passed on to projects as a surcharge on top of the increased overhead costs. Beta distinguishes between departments without a lab allowance, a lab low allowance and a lab high allowance. In particular, the overhead in combination with the lab high surcharge results in more internal overhead costs for each type of subsidy scheme than available overhead coverage from the subsidy provider.

This fact creates a negative incentive for applications for projects, because high personal contributions are required to be able to carry out the project with a neutral result. Personal contributions that are only available to a limited extent due to the cutbacks. In addition, the overhead costs create an unfavourable (and unfair) (competitive) position compared to other universities that do not pass on all overhead costs on projects. There are signs that the number of applications is declining and the fear is that this will continue in the coming years as a result of the adjustment and the subsequent desire to limit the personal contributions. As the number of projects decreases, overhead coverage also decreases. As a result, the burden on VU Amsterdam increases, the overhead has to be allocated over fewer projects, which actually increases the problem. Moreover, this is at odds with the desired approach from the Executive Board to focus on an increase in the number of 2nd/3rd flow of money projects. With Beta, this problem has clearly occurred due to the high lab costs. However, it is a problem that is experienced more widely at VU Amsterdam. Therefore, the solution direction is looking at an adjustment of the system for the entire VU.

Solution direction

The solution is sought in a change in the Overhead system. The starting point is no longer that all KDM costs are passed on (whether or not compensated with a VUSAM-I contribution), but that the overhead allocated to the project can also be borne by that project.

Visually, it looks like this:

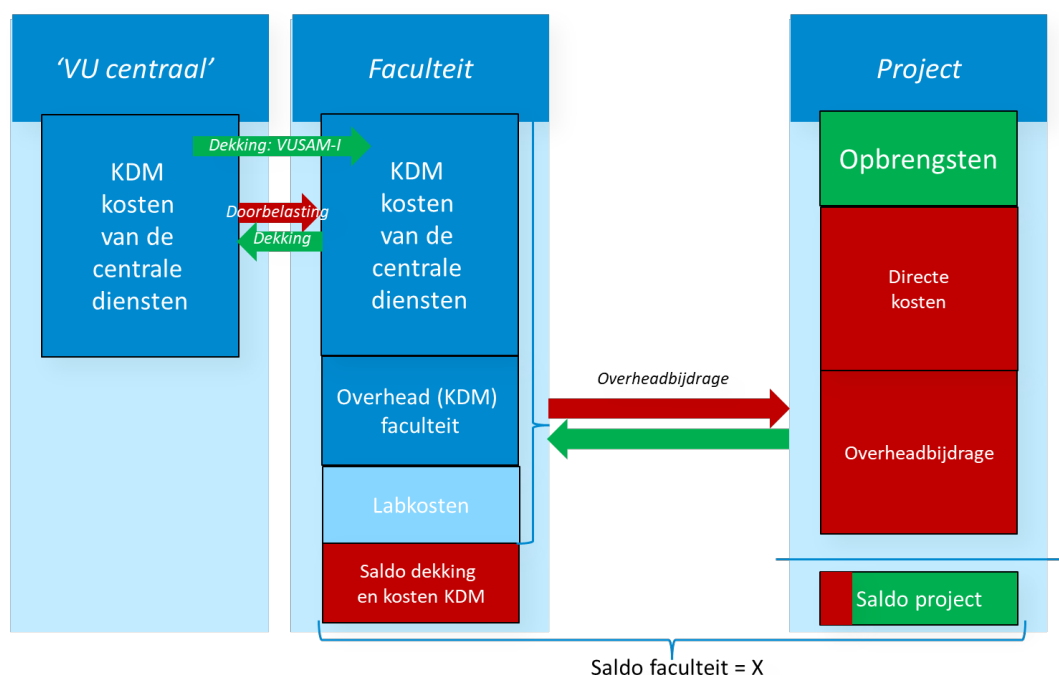


Figure 2: adapted system KDM charging on projects

The project's overhead contribution provides cover for the overhead cover for the faculty (for recharged KDM costs of VU-Central, its own overhead and possibly lab costs). In this case, too, the results of the faculty and the projects jointly determine the result of the faculty.

In order to develop this solution to the problem described above, the total subsidy landscape must be carefully examined. This landscape consists of a diversity of schemes, all with their own set of conditions and coverage options.

Roughly speaking, four clusters can be defined;

Table 4: clusters of (ongoing) projects and total current grant amount

Cluster	Money stream	Description	Total subsidy	Amount of projects	% in subsidy	% in amount of projects
1	2 ^e GS	NWO/KNAW, (VENI/VIDI/VICI) +SGF +ZWK; all without subsidy coverage for overhead but with spending room through higher coverage of personnel costs.	€ 223.476.400	533	45%	45%
2	3 ^e GS publiek	Subsidies with subsidy coverage for overhead based on a percentage of direct costs (including European Union, NIH, Templeton)	€ 159.886.817	228	32%	19%
3	1e GS en 3e GS publiek	1. Subsidies with available space for overhead coverage, because internal personnel costs are lower than the external compensation 2. Projects where the maximum subsidy consists of 1 on 1 coverage (or less than that) of the direct, internal costs and there is therefore no overhead coverage or spending space or even a deficit at the start.	€ 95.892.760	367	19%	31%
4	3 ^e GS privaat	Private projects where ownership of research remains with the client. These projects must at all times include full overhead coverage to prevent a mix of public and private funds (by preventing an own contribution).	€ 15.946.041	69	3%	6%
Total			€ 495.202.018	1197	100%	100%

Before the new OH proposals are further elaborated on at cluster level below, a number of general principles are important:

1. There are no such things as free projects. Every project has costs in management, for housing, use of facilities, etc. and is therefore burdened with overhead.

2. The total size of the overhead costs is not directly affected by more or fewer projects.
3. Charging more overhead than there is coverage on a project leads to personal contributions, extra administrative actions and a negative incentive to apply for projects.
4. Costs that do not apply to a project should also not be charged on that project.
5. The proposal must be as simple as possible. As few calculation rules as possible and as easy to implement and explain as possible.

Alpha/Gamma versus Beta

When working out possible solutions, it soon became apparent that the same percentages cannot be used in all clusters (see Appendix 1). This is mainly due to the fact that Beta also wants to cover the lab costs with the total package of overhead solutions. For A/G, these are virtually non-existent and the higher percentages of Beta would lead to a sharp increase in central overhead revenues. This in turn could lead to a negative incentive to apply for projects. For this reason, a split has been made between the faculties concerned.

Percentage of direct expenses

The reason that in almost all clusters a solution is chosen by means of a percentage of the direct costs is to prevent an exchange between personnel and equipment. By taxing all costs, it is not possible to "shop" there.

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

Overhead was never levied on 2nd flow of money projects, because no NWO/KNAW scheme has overhead coverage. NWO is of the opinion that this is already handled via the 1st flow of funds by means of a fixed rate fee. This is only partly true, the estimate of concern control is that this only covers 1/3 of the actual costs (*based on agreement on funding scientific research*). In the current system, all costs are therefore covered by the VUSAM-I benefits, except for the illness/redundancy pay costs (1000 per FTE p/y).

In order to reduce the overhead on clusters 2 and 3, it is desirable to also levy OH on the NWO projects. Assuming that the OH revenues at the faculty level must remain at least the same as the current revenues. This room is usually also available in this cluster because of the external coverage of personnel costs that is higher than the internal personnel costs. For Beta, it is a necessity to compensate for the decline in revenues from the other clusters. This does not actually apply to A/G and they could abandon it, as evidenced by the figures in Appendix 2.

Cluster 2: Third money stream public projects with subsidy coverage based on percentage (EU, NIH, Templeton,...)

The proposal for this cluster is the most obvious option, namely to charge OH internally what is reimbursed externally. This allows you to get the maximum OH coverage to the department without overburdening a project with more costs than it can bear. However, for the Science departments that currently do not have a lab allowance or lab low allowance, this means that they will lose a piece of free spending space that they do have in the current system.

If the project leader wants to budget more costs than the subsidy provider reimburses, this will only be possible in consultation with the head of department, because this must then be covered by a personal contribution.

Cluster 3: First and Third money stream Public projects "other"

The elaboration in terms of solution and automation for this cluster is no different from that of cluster 1. However, because more than 200 different subsidy providers are represented in this cluster, it is much more complex to calculate an optimal bandwidth and OH percentage. There are also projects here where no available space can be created and where no OH coverage is

present in the conditions. The proposal is to treat projects with and without coverage options identically within this cluster. It is impossible to interpret all the different schemes. By eliminating overhead everywhere, it becomes clear that a free project does not exist.

Cluster 4: Third money stream projects "private"

There is a distinction between a public third-party flow of funds and a private third-party flow of funds. A project is considered private if there are educational and research activities funded by external parties, with the aim of using the research results only for their own policy/purposes.

Since 2021, the 'policy rule on investing with public funds in private activities' has been in force. If publicly funded lecturers are deployed in a private activity of the government-funded university, this activity falls under that policy rule. Even if a cost-covering rate has been charged for the private activity. This also applies if publicly funded spaces are used for private activity.

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

The proposal is to take a critical look at the actual use of the various components of the overhead that is charged and the lab space in private projects. If there is no lab use or other components are not applicable to the project, this surcharge should not be applied to that project and vice versa. This will mainly be the case with the faculties with lab space. To this end, there will have to be two calculation rules for private projects, one with and one without lab costs. The project leader is responsible for determining whether or not lab use is used. The department head and the director of operations can always approve or reject the choice of the project leader from their position in the PCS workflow.

In collaboration with Finance, FGB and Beta have drawn up a percentage that can be substantiated in the annual report in the event of any public/private audits.

Appendix 1: New overhead percentages per faculty and per cluster

Cluster 1 Second money stream projects (NWO, KNAW, SGF, ZWK)					A/G	Beta
	From	To	Projects vs. total	Subcluster	New % Overhead	New % Overhead
Direct costs	€ -	€ 350.000	55%	1A	2%	2%
Direct costs	€ 350.001	€ 850.000	35%	1B	2%	3%
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Cluster 2 Third money stream public projects with subsidy coverage based on percentage (EU, NIH, Templeton,...)

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Cluster 4 Third money stream projects "private" (results of the research remain exclusive with the client)

The full overhead costs must land on the project. Costs may vary. For the time being, the existing calculation rules must be followed.

Appendix 2: Overview of the delta of the revenues of current overhead versus new system

Sum of Delta new and old overhead system						
	Third money stream projects "Private"	Third money stream projects with subsidy coverage based on percentage	First and Third money stream Public projects "other"	Second money stream projects (NWO, KNAW, SGF, ZWK)	Total	
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
Total	€ -	€ 3.554.545	€ -1.020.632	€ 3.380.424	€	5.914.337

The above amounts are calculated on the basis of the entire current active project portfolio (what if the new system were applied to all projects tomorrow). The reality is that only projects per 1-5-25 are budgeted with the new system. Also, the average duration of projects is about four years, so the last column must be divided by four to estimate the average annual effect. A minus outcome means that the new system generates less overhead for the faculty in relation to the old system.