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Finance Policy: Indirect Cost Recovery Rate (ICRR) with Regard to Third-Stream Income

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SU Policies are available at www.sun.ac.za/policies

¹ Policy Owner: Head(s) of Responsibility Centre(s) in which the policy functions.

² Policy Curator: Administrative head of the division responsible for the implementation and maintenance of the policy



**POLICY IN RESPECT OF THE INDIRECT COST RECOVERY RATE (ICRR) WITH REGARD TO THIRD-
STREAM INCOME AT STELLENBOSCH UNIVERSITY (SU)**

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| Statement of policy | |
| Purpose | Indirect Cost Recovery on Third-stream Income |
| Type of document | Policy |
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1. CONTEXT OF THE INDIRECT COST RECOVERY RATE (ICRR)

On 19 January 2004, Stellenbosch University (SU) put a system in place to recover overheads in relation to third-stream income by way of a surcharge. Since SU is largely dependent on outside funds to undertake competitive teaching, research and community interaction, academics are encouraged to obtain outside funds to promote SU's core activities. However, certain indirect costs are associated with teaching, research and community interaction projects that are funded from outside funds, and the motivation for the ICRR is therefore to recover these indirect costs in order to manage the University as a financially sustainable enterprise. Indirect costs include the costs of the following services (among others): legal services, financial services, human resources services, research management services, information technology services, access to library material, support in intellectual property matters, etc.

Another aspect contributing to the need for indirect cost recovery is the national legislation with regard to intellectual property, i.e. the Intellectual Property Rights from Publicly Financed Research and Development Act, No. 51 of 2008 (hereafter 'the IPR Act'). This Act requires that, under certain circumstances, institutions that receive public funding have to recover the full cost of contract research. The requirements with regard to full cost are explained in the SU Policy for Costing and Pricing of Research and Research-related Contracts (hereafter 'the Full Cost Policy'), which should be read in conjunction with this document and whereby the ICRR is recovered as a component of full cost.

In connection with the abovementioned legislation, a new national approach has been approved for the calculation of the ICRR for all public higher education institutions in South Africa. This approach was approved by the National Intellectual Property Management Office (NIPMO); an office that was established in terms of the IPR Act specifically to implement this very Act. Since 2003 SU has therefore been calculating the ICRR in a more accurate and nuanced manner than in the past, based on actual information from its financial statements. As a result the ICRR should be adjusted more often to reflect the actual indirect cost in relation to third-stream income. The ICRR now also includes the spatial and facility management costs in relation to third-stream income, which was not the case previously.

The calculation of the full cost related to research projects is compulsory, as prescribed by SU's Full Cost Policy. The aforementioned policy does however make provision to set an alternative price (other than the calculated full cost), except where the IPR Act requires that the full cost of a research contract be recovered. The recovery of full cost contributes to a more sustainable approach in the implementation of projects that are funded by external entities.

2. ICRR POLICY TERMS

An ICRR is applied to all gross third-stream income. In this context, gross third-stream income includes the following:

- Research and research-related contracts
- Diverse research, i.e. research without a contract
- Consulting services
- Sponsorships
- All other product and service sales (including short courses and conferences)

The ICRR is applicable to all environments within SU, both academic and non-academic. This includes environments the University is associated with and that make use of SU's services.

Environments retain the right to place additional levies on third-stream funding for activities that do not make a sufficient direct contribution to SU's core activities. In addition to the recovery of indirect costs, a faculty could for example, place an additional levy on research contracts that do not produce sufficient academic outputs.

There are however specific exceptions with regard to the application of the ICRR to certain funding sources and/or appropriations, which are discussed below:

(A) Government subsidies and other government funding

Government funding in the form of a government subsidy or earmarked allocation is first-stream income and is therefore not subject to the ICRR. All other government funding, like any other third-stream income, is subject to the ICRR.

(B) Seconded posts in the context of research contract management

Funds that are earmarked for seconded posts are subject to indirect cost at a rate of 10%. A seconded post refers to a person who is appointed by an outside institution and is then seconded to SU. In these instances the outside institution pays the remuneration component to the staff member via SU.

(C) Merit-based prizes

No ICRR is levied against any merit-based prizes such as the Oppenheimer Prize.

(D) Refunds on travel and accommodation costs

If another institution is responsible for a staff member's travel and accommodation costs, but the University provisionally covers the costs until a refund is made, this refund is exempt from the ICRR. However, if the travel and accommodation costs form part of a research agreement, the costs will not be exempt from the ICRR.

(E) Donations

Bona fide donations made via the University's donations office are exempt from the ICRR.

(F) Bursary income

When the research grant includes a bursary amount, this amount is exempt from the ICRR and should be indicated separately on the funder's invoice (account 5387). All other bursary funding not related to a research contract is also exempt from the ICRR.

(G) Sport

Membership fees of registered SU students for sport clubs are exempt from the ICRR.

(H) Students' printing fees (computer user areas) and textbook sales via the Student Fees Division

Students' printing fees and textbook sales via the Student Fees Division are exempt from the ICRR.

(I) Flow through funds

In instances where the University receives funds as part of a consortium and a portion of those funds flow out directly to other institutions, this portion is regarded as flow through funds. The income therefore does not accrue to the University and SU only acts as an agent. However, the payment of funds to a subcontractor who does not belong to a consortium are not flow through funds. Flow through funds are not exempt from the ICRR, but it is possible to apply for a reduction or exemption from the ICRR through process set out in **Addendum B**. Approval for the exemption or reduction must be obtained before the final signing of the contract. The amount that is not paid to other institutions, and is managed within an SU cost centre, will be subject to the full ICRR.

(J) Equipment

The ICRR is also applicable to funds for equipment that forms part of the direct costs of the budget for a third-stream income project (for example a research contract or short course). In cases where one item of equipment

exceeds the amount of R 1 million (or where different equipment for one research contract are purchased with a value exceeding R1 million), only the first R 1 million will be subject to the ICRR. The rest will be exempt from the ICRR. A piece of equipment could include the purchase of smaller parts of equipment that make up one large piece of equipment, as well as the accompanying installation costs for large equipment.

(K) Limitations to the ICRR based on funding institutions' policies

Some funding agencies place limits on indirect cost recovery. Such provisions are currently acknowledged by SU for those funding agencies indicated on the institutional list (**Addendum C**). In highly exceptional cases, where other funding institutions' official policies place a limit on the recovery of indirect costs for projects funded by them, a formal application for the reduction of the ICRR needs to be submitted following the process in **Addendum B**.

(L) Research chairs

A research chair is held by leading researchers and/or academics with a demonstrated international reputation in their respective research and/or teaching fields. A research chair is viewed as one of the highest levels of academic accolades that a University can bestow upon an academic. In the case of a research chair, the purpose of the chair is to strengthen and improve the research and innovation capacity of the public university, through delivering high quality postgraduate students and research and innovation outputs.

The salary component of all the C1 appointments to the chair is subject to a 10% indirect cost recovery rate. The residual funding of the research chair contract [like running costs and salary costs (e.g. C2 and C3 personnel)], will be subjected to the normal ICRR. Equipment (J) and Bursaries (F) will be handled as described in this Policy.

(M) Short courses

The standard indirect cost recovery rate is applicable to all external income received from short courses.

(N) Conferences

The standard indirect cost recovery rate is applicable to all conference income. Conference fees must be calculated on a full cost basis. Faculties and departments have the option to make use of SUNCOM to make conference arrangements on their behalf.

(O) Consultation work with no academic footprint

The standard indirect cost recovery rate is applicable to all consultation work with no academic footprint. This type of consultation work must be budgeted at full cost (at least) and must make provision for additional departmental and faculty levies, as per the faculty's prerogative.

3. INSTITUTIONAL APPORTIONMENT OF THE ICRR ON GROSS THIRD-STREAM INCOME

The ICRR is apportioned to the environments where the costs were incurred. **Addendum A** provides an explanation of the apportionment applicable to all third-stream income.

4. FULL COST

The ICRR is a standard line item in a full cost budget. No exemption will be granted when a project has to be calculated at full cost as a result of a specific intellectual property transaction. For more information on the Full Cost Policy, consult <http://www.sun.ac.za/english/research-innovation/Research-Development/policies-guidelines>.

5. SU POLICY IN RESPECT OF THE COMMERCIAL EXPLOITATION OF INTELLECTUAL PROPERTY

The ICRR Policy must be read in conjunction with the SU Policy in respect of the Commercial Exploitation of Intellectual Property.

ADDENDUM A: Institutional apportionment of the ICRR on gross third-stream income

The ICRR applies to the following costs and is apportioned as follows:

1. The support and institutional expenditure funded by the first- and second-stream income amounts to 72% of the ICRR. This is apportioned to the main budget where it is indicated as an income line item and divided according to the appropriate budget apportionment model.

The expenditure mentioned above include the following costs, among others:

- Human resources services
- Overarching financial services
- Information technology and communication services and support
- Legal services
- Communication and liaison services
- Library services
- Postgraduate and International Office
- Overarching research support services
- Research grants to subcommittees A, B and C
- Bank costs and audit fees
- All insurance (e.g. accountability, assets and transit), excluding building insurance
- Campus health services
- Maties Sport and sports fields
- InnovUS (support-related operational costs)

2. Costs that form part of the ICRR, but were initially covered by the faculties/centres of responsibility and have to be recovered from the client/funder, amount to 27% of the surcharge and must be apportioned directly to the environment (academic and non-academic) where the third-stream income is earned.

Costs that are initially covered by the environments include the following:

- Facility management and planning services
- Building maintenance
- Security services
- Building insurance
- Municipal services, e.g. water, electricity, property tax, etc.

3. The support costs of the Vice-Rector (Research, Innovation and Postgraduate studies) that form part of the ICRR and are funded directly from the ICRR apportionment, amount to 1% of the ICRR and must be apportioned directly to a central research fund. This fund may be used in support of research and research-related activities at the discretion of the Vice-Rector (Research, Innovation and Postgraduate studies).

ADDENDUM B: Approval process for reduction of or exemption from the ICRR

The process for the approval of any deviations from the ICRR will only be valid if such deviation falls into one of the categories in the Policy where a reduction of or exemption from the ICRR will be considered. In such cases, the process is as follows:

A complete application must be sent to the Accountant: Financial Planning & Budgeting, who will refer it to the Senior Director: Research and Innovation and the Chief Director: Finance. If the application complies with all the measures below, the application will be submitted for consideration to the Vice-Rector (Research, Innovation and Postgraduate studies) and the Chief Operating Officer.

The lead researcher or project coordinator must include the following information in the application:

- A brief summary of the (research) contract, the strategic importance thereof for the environment concerned and for the University, as well as the contract amount. This summary should also indicate clearly what academic outputs (research publications, postgraduate students, etc.) or other relevant outputs would arise from the contract.
- A copy of the complete costing of the project
- Proof of the funder's official policy (if available) that describes the funder's terms regarding indirect cost levies
- A full motivation by the relevant dean confirming the following:
 - o that the specific funder is pursuing a long-term relationship with SU that will produce exceptional academic outputs;
 - o that the contract is in SU's strategic interest;
 - o that proof of statutory provisions that limit the levies have been submitted; and
 - o that the environment is prepared to forfeit the income share of the ICRR.

The Vice-Rector (Research, Innovation and Postgraduate studies) and the Chief Operating Officer will only consider such a reduction of or exemption from the ICRR in appropriate circumstances.

ADDENDUM C: Funding agencies currently enjoying a reduced ICRR level

The following table will only be adjusted on approval from the Vice-Rector (Research, Innovation and Postgraduate studies) and the Chief Operating Officer.

| INSTITUTION | INSTITUTION'S REQUIREMENTS | VIEW OF SU |
|---|---|---|
| Funding from South African government institutions | | |
| All National Research Foundation (NRF) programmes (excluding THRIP) | 0% | 0% |
| NRF/National Laser Centre | 0% | 0% |
| Research foundations and trusts | | |
| Welcome Trust | 0% | 0% |
| Research institutes | | |
| National Institutes of Health (NIH) | 8% of total direct costs, excluding equipment | 8% of total direct costs, excluding equipment |
| Large national parastatals | | |
| ESKOM TESP | 2% | 2% |
| ESKOM BRAD | 2% | 2% |