

## THE INDIRECT COST RECOVERY RATE (ICRR) ON THIRD STREAM INCOME: INTERIM INFORMATION TO FACULTIES

### BACKGROUND

Stellenbosch University (SU) acknowledges the fact that third stream income contributes enormously to the university's core business of research, teaching and learning and community interaction. The point of departure of this information document is the **protection** and **promotion** of the third stream income of SU. Included in the cost of projects that are funded by external sources is an indirect cost component, which needs to be recovered in order to ensure the financial sustainability of the SU. In addition, the national Intellectual Property Rights (IPR) legislation requires that from 2010 institutions receiving public funding must recover the full cost of contract research under certain circumstances. This requirement, in addition to the financial sustainability imperative, affected the Higher Education sector as a whole. During 2011 and 2012 South African public universities therefore collaborated and reached consensus on a method by which to calculate the indirect cost that relates to third stream income.

At the end of 2012, the Rector's management team appointed a consultation team (consisting of representatives of Finance, DRD, InnovUS, and a number of Vice Deans: Research) that investigated the method for the calculation of the indirect cost recovery rate (ICRR) in depth and developed a final proposal for the implementation of this new approach at SU.

### RATIONALE BEHIND THE ICRR CALCULATION

The purpose of the ICRR is to recoup the indirect costs that relate to third stream activities (including research, short courses, etc.) from the client or funder. The calculation of the ICRR basically consists of two parts, namely:

1. A determination of the proportion of the SU support costs that relate to third stream activities.
2. The expression of these support costs (that relate to third stream activities) as a percentage of the total expenses of the university that relates to third stream activities.

The ICRR calculation is based on the Higher Education South Africa (HESA) approach, but it also takes into account the unique environment of SU. Thus SU will from now on calculate the ICRR on a more accurate and nuanced manner than in the past, based on the actual information derived from its financial statements. Therefore, the ICRR will be revised more regularly to reflect the actual indirect cost related to third stream income. The ICRR will also henceforth include the space- and facility costs related to third stream income, which was not formerly the case.

### WHAT IS THE ICRR?

The new ICRR (which can be compared with the current 12% levy) amounts to **17%**. This means that 17% will be subtracted from the invoice amount to recover the indirect cost related to the project. This also means that **21%** of the direct cost should be added to the direct cost of the budget in order to budget accurately for the indirect cost.

It is important that personnel accurately budget for the indirect cost recovery to ensure that they have sufficient funding available for the project or short course. An example of the ICRR calculation on income (invoice amount) as well as direct cost is as follows:

<b>Budget</b>	
Direct cost of the budget (must be available in the cost centre to complete the work)	R 83
Indirect cost (what SU will recover in the form of the ICRR)	R 17
<b>Total Cost</b> (let's assume this is also the amount that the client will pay for the project)	<b>R100</b>
ICRR on income (in this example the income = total cost): 17/100	17%
ICRR on direct cost: 17/83	21%

## WHAT DOES THE ICRR CONSIST OF?

1. Support- and institutional expenses that are funded by the first- and second stream income. These include among others the following costs: Human Resource services, Overhead Financial services, Information technology- and communication services, Legal services, Communication and Liaison services, Library services, Research support, Insurance (i.a. liability, assets, transit, but excludes building insurance), and support in respect of the commercialisation of IP.
2. The costs that form part of the ICRR, but that are already carried by the faculties / responsible centres, and that have to be recovered from the client. These include among others the following costs: Facility management and planning services, Maintenance of buildings, Security services Buildings and content insurance, Cost of municipal services (e.g. water, electricity, property tax).
3. The support cost of the Vice Rector (Research and Innovation) that forms part of the ICRR and that is invested for the promotion of third stream income.

## PRINCIPLES

1. The ICRR is applicable on all third stream income that includes among others the following: research- and research related contracts, diverse research, consultation services, sponsorships, all other sales of products and services (short courses and conferences included).
2. Full cost calculations must henceforth be done for the budgets of all third stream activities even though a different price may be negotiated. It is important for the financial sustainability of SU, but it's also a mechanism to prove to the clients or funders what the actual costs of the project will be.
3. Contract research that has no or inadequate academic footprint may be taxed with an additional 5% faculty levy (on a sliding-scale, at the discretion of the faculty) to promote contract research with a sufficient academic footprint.
4. In exceptional cases, where the full ICRR may not be recovered from the client or funder (due to the official policy of the funder), there must be a formal application for a decrease or exemption of the ICRR. The authorisation process will be included in the new ICRR policy.

## TOOLS

- A user friendly full cost template will be available to assist personnel with the preparation of full cost budgets.
- Presentations on the ICRR will be held at the faculties. Public forums will also be held on the 21st and 23<sup>rd</sup> of May 2013 between 1h and 2h in the Auditorium of the Library. Personnel from the various divisions that were involved in the ICRR proposal (DRD, Finance, InnovUS and Faculties) will be present to answer questions.