



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

Statement of policy	
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Owner of policy ¹	Chief Operating Officer
Protector of policy	Chief Director: Finance
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¹ The Chief Operating Officer will initially accept responsibility as policy owner at the institutional level.

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1. CONTEXT OF THE INDIRECT COST RECOVERY RATE (ICRR)

On 19 January 2004, Stellenbosch University (SU) put a system into operation 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 and thereby to promote the core activities of SU. However, teaching, research and community interaction projects that are funded from outside funds are associated with certain indirect costs, and the motivation for the ICRR therefore is to recover these indirect costs and thereby 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 matters regarding intellectual property, etcetera.

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

With reference to the abovementioned legislation, a new national approach has been approved with regard to 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 Act. In future, SU therefore will calculate the ICRR in a more accurate and nuanced manner than in the past, on the basis of actual information from its financial statements. The ICRR therefore can also be adjusted more often to reflect the actual indirect cost in relation to third-stream income. A specific rate therefore will be valid for at most two years after its date of coming into force for all new contracts that are entered into or other third-stream income received (but it also can be revised more often). The ICRR will in future also include 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 will be compulsory, as already determined by the SU Full Cost Policy. The aforementioned policy also makes provision for an alternative price to be set, however (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 relation to the execution of projects that are funded by external entities.

2. PROVISIONS OF THE ICRR POLICY

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

- Research and research-related contracts
- Diverse research, that is research for which no contract exists
- 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 also includes environments with which the University is associated 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 the core activities of SU. 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.

However, there are specific exceptions with regard to the application of the ICRR on certain funding sources and/or applications, which are discussed below:

(A) GOVERNMENT SUBSIDIES AND OTHER GOVERNMENT FUNDING

Government funding in the form of a government subsidy or earmarked allocation by the government is first-stream income, and therefore is not subject to ICRR. All other government funding, just 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 exempt from the ICRR. A seconded post is when a person is appointed by an outside institution and is then seconded to SU. In such a case, the outside institution pays the remuneration component to the member of staff via SU.

(C) MERIT-BASED PRIZES

No ICRR will be levied on any merit-based prizes, such as the Oppenheimer Prize.

(D) REPAYMENT OF TRAVEL AND ACCOMMODATION COSTS

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

(E) DONATIONS

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

(F) BURSARY INCOME

If the research allocation includes a bursary amount, this bursary amount is exempt from the ICRR, and has to be indicated separately on the invoice to the funder (account 5387). All other bursary funding that is not related to a research contract is also exempt from the ICRR.

(G) SPORT

The membership fees received by sport clubs are exempt from the ICRR.

(H) STUDENTS' PRINTING FEES (COMPUTER-USER AREAS) AND TEXTBOOK SALES VIA THE STUDENT FEES DIVISION

Printing fees of students and textbook sales via the Student Fees Division are exempt from the ICRR.

(I) THROUGH-FLOW FUNDS

In cases in which the University receives funds as part of a consortium and a portion of those funds flow out directly to other institutions, such portion is regarded as through-flow funds. The income therefore does not accrue to the University, and SU acts only as an agent. However, the payment of funds to a subcontractor that does not belong to a consortium is not through-flow funds. Through-flow funds are not exempt from the ICRR, but it is possible to apply for a reduction of or exemption from the ICRR by means of the process set out in **Addendum B**. Approval for the exemption or reduction must be obtained before the contract is finally signed. The amount that is not paid over to other institutions, however, but is managed within an SU cost point, 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 exceptional cases, where equipment forms an intrinsic part of the budget, an application for exemption from or reduction of the ICRR on the equipment component can be done. This application is done by way of the process set out in **Addendum B**.

(K) LIMITING OF THE ICRR IN TERMS OF THE POLICY OF FUNDING INSTITUTIONS

Some funding agencies place limits on indirect cost recovery. Where such funding agencies appear on the institutional list (**Addendum C**), such a provision is currently acknowledged by SU. In highly exceptional cases, where other funding institutions place a limit on the recovery of indirect costs with regard to projects that are funded by them in terms of their official policy, a formal application for the reduction of the ICRR needs to be made in terms of the process in **Addendum B**.

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

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

4. FULL COST

The ICRR is a standard line item that needs to be brought into calculation 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://www0.sun.ac.za/research/research-contracts/financial-information/preparing-a-budget-full-cost.html>.

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 amounts to 17% of turnover (21% of direct costs). It refers to the following costs and is divided as follows:

1. The support and institutional expenditure funded by the first- and second-stream income amounts to 12,2%. Consequently, 12,2/17 (12,2 percentage points, or 72% of the ICRR) must be apportioned to the main budget, where it will appear as an income line in the main budget and will be divided according to the appropriate budget apportionment model.

The expenditure referred to above includes 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 allocations to subcommittees A, B and C
- Bank costs, audit fees
- All insurance (among others accountability, assets, transit), excluding building insurance
- Campus health services
- Maties Sport and sport fields
- InnovUS (support-related operating costs)

2. The costs that form part of the ICRR, but that are already covered by the faculties/centres of responsibility and have to be recovered from the client/funder amount to 4,6%. Consequently, 4,6/17 (4,6 percentage points, or 27% of the surcharge) must be apportioned directly to the environment (both academic and non-academic) where the third-stream income is earned. This portion is apportioned directly to the environments that generate the income (cost point linked to the dean or the head of the centre of responsibility in the Rector's Management Team (RMT) under whom the department/division falls in which the income is generated) before the rest of the ICRR is divided.

The costs that are already covered by the environments comprise the following:

- Facility management and planning services
- Maintenance of buildings
- Security services
- Insurance of buildings
- Cost of municipal services, such as water, electricity, property tax, etcetera

3. The support costs of the Vice-Rector (Research and Innovation) that comprise part of the ICRR and are funded directly from the ICRR apportionment amount to 0,2%. Consequently, 0,2/17 (0,2 percentage points, or 1% of the ICRR) must be apportioned directly to a central research fund, which may be used in support of research and research-related activities at the discretion of the Vice-Rector (Research and Innovation).

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 in one of the categories in the policy for which application may be made expressly for a reduction of or exemption from the ICRR. In such appropriate cases, the process is as follows:

A complete application must be sent to the Senior Accountant: Financial Services, who will refer it to the Senior Director: Research and Innovation and the Director: Financial Services. If all the measures below are complied with in full, the application will be submitted for consideration to the Vice-Rector (Research and Innovation) and the Chief Operating Officer.

The chief researcher or coordinator of the project must provide the following information and include it in the application:

- A brief summary of the (research) contract, the strategic importance therefore for the environment concerned and for the University, as well as the contract amount concerned. This summary should also indicate clearly what academic outputs (research publications, postgraduate students) or other appropriate outputs would arise from the contract.
- A copy of the complete costing for the project
- Proof of the official policy (if available) of the funder concerned that includes a description of the provisions of that funder with regard to indirect cost levies
- A full motivation by the dean or line manager concerned in which the following are confirmed:
 - o that the funder concerned is pursuing a long-term relationship with SU what will produce exceptional academic outputs;
 - o that the contract is in the strategic interests of SU;
 - o that proof has been provided of statutory provisions that limit the levies; and
 - o that the environment is prepared to forfeit the income share of the levy.

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

ADDENDUM C: FUNDING AGENCIES FOR WHICH THE ICRR CURRENTLY IS FIXED AT A REDUCED LEVEL

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

INSTITUTION	REQUIREMENTS OF INSTITUTION	VIEW OF SU
Funding from South African government institutions		
Technology and Human Resources for Industry Programme (THRIP)	10% of total budget (hence industry amount + THRIP amount)	The ICRR is in fact recovered from the industry portion of the income, but not from the NRF portion.
All programmes of the National Research Foundation (NRF) (excluding THRIP)	0%	0%
NRF/National Laser Centre	0%	0%
Research foundations and trusts		
Wellcome 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 and international companies		
ESKOM TESP	2%	2%
ESKOM BRAD	2%	2%