

INFORMATION SHEET TO STELLENBOSCH UNIVERSITY STAFF REGARDING:

COSTING AND PRICING OF RESEARCH-RELATED GRANTS AND CONTRACTS

AND

INDIRECT COST RECOVERY ON RESEARCH-RELATED GRANTS AND CONTRACTS

At the outset it is important to consider the financial sustainability of our research endeavors as a research-intensive university. To fully understand what a research project will cost the university, the Full Cost calculation will form the basis for the decision whether to (a) continue with the research project and (b) if yes, whether on a Full Cost basis or not. If Full Cost is not recovered from the funder, the project is regarded subsidised with public funding.

A further important consideration is the Intellectual Property Rights from Publicly Financed Research and Development Act, No. 51 of 2008 ("IPR Act"), which indicates that any research that is undertaken by means of external funding on a Full Cost basis, will not be subject to the concerned legislation (Refer clause 15.4 of the relevant Act), in which case the university is free to negotiate the contract terms without further regulatory approvals apart from offshore transactions. Stellenbosch University is required to submit our Costing and Pricing Model, together with our Indirect Cost Recovery Rate Calculations (ICRR) (based on an approved national methodology), to the National Intellectual Property Management Office (NIPMO), for approval every 2 years.

Within this context, this information sheet aims to provide a brief overview of the two policies which govern the costing and pricing of research-related grants and contracts.

A. General information regarding the Full Cost Budget and Price:

1. To understand what a research project will cost, a Full Cost budget is calculated to provide the basis for an informed decision based on the cost estimate and the viability of the research project in the event where the Full Cost cannot be recovered. Full Cost in this context means the break-even of a project, where there is no surplus neither any losses expected. The Full Cost will include all associated direct- and indirect costs (ICRR) of the project. If less than Full Cost is recovered, the researcher and environment must consider how they are going to co-fund the project to ensure successful completion. Each environment will have to assess their risk appetite in continuing with projects where the funding is not sufficient to cover all project costs.
2. To determine the price of the research project, several factors must be taken into consideration, such as the funder's policies in terms of allowable- and non-allowable costs, departmental- and faculty requirements, as well as the requirements of the IPR Act. As a result, the price can be equal, more, or less than the Full Cost budget.
3. Where the price is below the Full Cost of the project, the department and faculty will consider the viability of the project before approval is obtained for the research contract to continue (this approval is systematically considered through the signature of the internal declaration letter). In this instance the IPR Act is applicable, and deviations from the Full Cost (where the price is less than Full Cost) may require the contract being subject to the approval of the National Intellectual Property Management Office (NIPMO), depending on the funder's preferences regarding transfer and use of IP created under the project. The process for approval of research contract budgets below Full Cost is as follows as per the Policy:

"If the contract price is determined at less than the Full Cost, a request for such deviation from the prescribed policy must be directed by the researcher (after review by the Full Cost Accountant) to the Dean or Vice-Dean (Research) where delegated, who will consider it where applicable in consultation with the Director: Research Contracts to ensure that any deviation of the Full Cost budget, will not have an impact on the type of contract transaction. The Dean or Vice-Dean (Research) where delegated, must provide final approval for deviations from this policy. This process will occur within the signing of the internal declaration letter as part of the approval process for the research contract."

4. An additional consideration applies in the event where IP is required to be assigned to an offshore entity. Here, SU is required to satisfy the requirements of both the IPR Act and the regulations to the South African Currency and Exchanges Act 9 of 1933. The latter is through obtaining exchange control approval through the South African Reserve Bank (SARB) for such a transaction. Where contracts are funded below Full Cost, there is no guarantee that SARB will approve such a transaction. We are required to provide evidence of consideration of the valuation of the IP, and for this our IP transfer fee is included in the Contract Price. More information regarding the IP transfer fee will be provided on request by the Division for Research Development.
5. An advantage in calculating the Full Cost even where funders only permit certain allowable costs, is that there is an audit record of the co-funding that SU provides towards the project. Often funders require co-funding by SU, in which case SU will be able to provide the needed evidence to substantiate such claims.
6. Faculties and Departments have the prerogative to add additional levies when so required, which will form part of the Contract Price. However, these levies are not to be confused with Indirect Cost Recovery.
7. **All research grants and contracts are subject to the Full Cost policies, with the exception of NRF grants and certain mobility grants** (where only costs related to the mobility of personnel or students such as accommodation, airfare, and daily subsistence are funded). Therefore, all other grants such as Welcome Trust, EU, NIH, BMGF, UKRI, etc, are subject to the Full Cost Policy. Please reach out to the Full Cost accountants if in doubt.
8. Assistance with the budgeting of research projects, can be obtained via several information sources on DRD's website [Research Development \(sun.ac.za\)](https://www.sun.ac.za/research-development), as well as contacting the Full Cost accountants: Audrey Erasmus (audreyerasmus@sun.ac.za) and Chantal Hugo (chantalhugo@sun.ac.za).
9. Please also refer to the Costing and Pricing Policy: [Policies & Guidelines \(sun.ac.za\)](https://www.sun.ac.za/policies-guidelines).

B. General information regarding the ICRR:

1. Research projects funded through external funding are associated with certain indirect costs, and hence, the motivation for the ICRR is to recover these indirect costs and thereby contribute towards more financially sustainable management of the University.
2. A further aspect contributing to the need for indirect cost recovery is as already mentioned in relation to the IPR Act, which imposes a legislative requirement, under certain circumstances, for universities to recover the Full Cost (all direct and indirect costs) with regard to contract research.
3. With reference to the abovementioned legislation, a national approach was approved regarding the calculation of the ICRR for all public higher education institutions in South Africa. This approach was approved by NIPMO. The first ICRR Policy that was subject to NIPMO approval, was instituted on 30 September 2013 and replaced the previous 12% levy policy. The ICRR policy and percentage went through an institutional review process in 2018. The ICRR policy and ICRR percentage went through a second institutional review in 2022. The amended ICRR policy and ICRR percentage was approved, and the new policy is effective as of 1 January 2023. This policy will be revised in 2025.
4. The following aspects were considered when calculating the ICRR and also in reviewing the ICRR policy and ICRR percentage:
 - a. The performance of research funded by external parties creates *additional costs* for the University, which we refer to as "indirect costs" or "overheads". No provision is made for these additional costs within the funding received by universities from the state subsidy. These additional costs include covering services such as: legal services, support in managing matters regarding IP, financial services, human resources services, research support services, access to library material, laboratory and office space, insurance etc.
 - i. These "indirect costs" must be recouped by some means, to ensure that contract research is not being subsidised by the university itself. This is achieved through applying an ICRR of 20% on all income from the so-called third and fifth stream income, which relates to 25% on direct costs. Gross third and fifth stream income includes research contracts, diverse research, consultation services, routine services, short courses, and the sale of all other products and services.

- ii. The ICRR calculation and Full Cost methodology is submitted to NIPMO for approval in compliance with statutory requirements. Based on the recent submission in 2024, the following will apply from **1 January 2025**: for research contracts **where the client wishes to own/jointly own the IP or have exclusive license rights to the IP, where it is deemed Research & Development in terms of the IPR Act**, the transaction will be subject to adherence to the Full Cost policy and a **25% ICRR on income/total cost** (which relates to 33% on direct costs) will be applied. Where no IP ownership or exclusive rights are required from the funder, then the ICRR of 20% will apply as per B.4.a.i. above.

Below is an example of the ICRR calculation:

20% ICRR Calculation			Notas	25% ICRR Calculation			Notas
		% ICRR Allocation				% ICRR Allocation	
<u>20% ICRR</u>				<u>25% ICRR</u>			
Direct Cost	100,00	25% (20/80)	1	Direct Cost	100,00	33,00% (25/75)	1
Indirect Cost (20%)	25,00			Indirect Cost (25%)	33,00		
Total Cost	125,00	20% (20/100)	2	Total Cost	133,00	25% (25/100)	2
Notes:				Notas:			
1) When calculating on Direct Cost, use 25%				1) When calculating on Direct Cost, use 33%			
ie. (R100*25% = R25)				ie. (R100*33% = R33)			
2) When calculating on Total Cost, use 20%				2) When calculating on Total Cost, use 25%			
ie. (R125*20% = R25)				ie. (R133*25% = R33)			

- b. Funding that is excluded from the ICRR is funding that is earmarked for bursaries (i.e. funding was earmarked for bursaries from the outset) and undesignated donations. Please refer to the ICRR policy for more information: [Policies & Guidelines \(sun.ac.za\)](http://www.sun.ac.za/policies-guidelines).
- c. The ICRR policy allows for certain partial waivers or exemptions, but only once formal approval is obtained. For more information on the ICRR arrangements on equipment, flow-through funding, bursaries and where funders limit overheads or indirect costs recoveries, please consult the ICRR policy. The application process for partial or full waivers is available at <http://www.sun.ac.za/english/research-innovation/Research-Development/icrr>.

Enquiries about the ICRR should be directed to Ilse Griffiths (wilters@sun.ac.za).