

POLICY FOR COSTING AND PRICING OF RESEARCH AND RESEARCH RELATED CONTRACTS

All externally funded research and research-related projects are costed by taking into account both direct and indirect costs, i.e. the full cost of the project.	
Purpose	<ul style="list-style-type: none"> • Ensure a consistent approach is adopted in the costing of projects. • Ensure full cost principles are taken into account and consistently considered when pricing projects. • Assist in ensuring the research enterprise remains sustainable. • Ensure compliance with the relevant legislation.
Scope	This Policy applies to all Research Related Funding Projects supported by external funds; to all Employees as defined by this policy; and when University Resources are used for the purposes of Research.
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INDEX

1.	GENERAL PRINCIPLES	3
2.	PRINCIPLES AND PROCESSES WHEN IP IS ASSIGNED OR EXCLUSIVELY LICENSED TO FUND PROVIDER UNDER BELOW FULL COST TERMS	4
3.	PRINCIPLES AND PROCESSES WHEN PROJECTS ARE PRICED ABOVE FULL COST	5
4.	PRINCIPLES AND PROCESSES RELATED TO THE MANAGEMENT OF GENERAL OPERATING BUDGET (GOB) STAFFS' SALARIES BUDGETED FOR ON A PROJECT	5
5.	INDIRECT COST RECOVERY RATE REVIEW	5
6.	DEFINITIONS	6
	ANNEXURE A – BACKGROUND	9

1. GENERAL PRINCIPLES

- 1.1. This Policy applies to all Research Related Funding Projects supported by external funds, to all Employees as defined by this policy and when University Resources are used for the purposes of Research.
- 1.2. The University of Cape Town adopts a transparent methodology for costing research and research related projects based on the Universities South Africa (USA) recommended Expenditure Apportionment method as endorsed by the National Intellectual Property Management Office (NIPMO). This method apportion the university's non - faculty support costs between research and other activities, taking into account the ratio between research Direct Costs and total University costs.
- 1.3. There are three components of the Full Cost of any Project:
 - All Direct Costs associated with the Project, including all costs that are not included in the university overhead.
 - Time of all University Members involved, calculated using the Median Cost to Company (CtC) per annum (or the Rate-for-the- Job as determined by the Remuneration Review). The Median CtC is for the particular class of researcher (Professor, Associate Professor, Senior Lecturer, Lecturer etc.).
 - The Indirect Cost Recovery Rate (ICRR) as applied to the Modified Total Direct Cost (MTDC) .
- 1.4. The Full Cost of all Projects must be determined, using UCT's standard costing template before determining the price.
- 1.5. The price of a Project does not necessarily equate to the cost. For example, Projects funded by major international competitive schemes (e.g. NIH, Bill and Belinda Gates Foundation etc.) and national schemes (e.g. NRF, Sarchi Chairs, MRC SHIP etc.) are priced in accordance with the funding rules of the relevant scheme.
- 1.6. On a case by case basis, the dean (or designee) may approve a reduction or complete waiver of Indirect Cost given sufficient justification and where there is no claim to the IP from the funds provider. Instances recognized to fall within this category include, but are not limited to:
 - Selected start-up projects where it is anticipated that the collaboration will result in future growth of external funding.
 - Cases wherein Indirect Cost is an eligible category of cost-share.
 - Cases wherein the benefit to the University outweighs the loss of Indirect Cost. For example, the project represents an important university outreach effort or a mandated activity that the university would otherwise be paying for.
 - Cases wherein a large percentage of the project budget involves student assistantships and materials and supplies that support student activities.

1.7. Projects that require the assignment or an exclusive license to the Intellectual Property generated to the fund provider must under all circumstances strive to be done at Full Cost plus a margin. (See Section 3). If such conditions are required for a Project to be done at below Full Cost NIPMO's approval must be sought (See Section 2).

2. PRINCIPLES AND PROCESSES WHEN IP IS ASSIGNED OR EXCLUSIVELY LICENSED TO FUND PROVIDER UNDER BELOW FULL COST TERMS

2.1. The assignment or an exclusive license to the Intellectual Property of a Project at below Full Cost requires NIPMO's approval, save those Projects that comply with the all the conditions stipulated under 2.2.

2.2. NIPMO upfront approval is not required for clinical trials which met the following four conditions:

- For IP transactions (including royalty-free non-exclusive licenses, offshore exclusive licenses, or local and offshore assignments) on IP generated following a clinical trial (phases 1 to 3); and
- Wherein the clinical trial is for specific infectious diseases which include HIV/Aids, Tuberculosis, Malaria and neglected diseases¹, which neglected diseases are. Buruli ulcer disease, Chagas disease, Dengue, Dracunculiasis (guinea-worm disease), Echinococcosis, Endemic treponematoses , Foodborne trematodiasis , Human African Trypanosomiasis (sleeping sickness), Leishmaniasis, Leprosy, Lymphatic filariasis, onchocerciasis (river blindness), Rabies, Schistosomiasis (bilharzia), Soil-transmitted helminthiasis, Taeniasis/cysticercosis, and Trachoma ; and
- The clinical trial is funded by a philanthropic organisation (or its intermediary) which funding is not on a full cost basis; and
- Wherein the objective is to make the tested drugs available at a preferential rate or at a reduced cost in developing countries²

3. PRINCIPLES AND PROCESSES WHEN PROJECTS ARE PRICED ABOVE FULL COST

3.1. If the Project is priced above Full Cost, the surplus will accrue to the research fund concerned.

¹ The World Health Organisation lists 17 types of Neglected Diseases (The Drugs for Neglected Diseases initiative - <http://www.dndi.org/diseases-projects/diseases.html>)

² List of developing countries by the International Statistical Institute: <http://www.isi-web.org/componenUcontenUarticle/5-rooUrooU81-developing>

- 3.2. The researchers can access any surplus funds in their research account in terms of UCT policy i.e. funds can be used for approved research expenditures, or taken as remuneration, after the relevant income tax deduction.
- 3.3. The intention to take the access as remuneration must be disclosed, requested and approved by the relevant dean (or designee) by the time the relevant agreement is entered into.

4. PRINCIPLES AND PROCESSES RELATED TO THE MANAGEMENT OF GENERAL OPERATING BUDGET (GOB) STAFFS' SALARIES BUDGETED FOR ON A PROJECT.

- 4.1. For a Project to be Fully Costed, all staff members' paid from the General Operating Budget (GOB) contributions to the Project must be also accounted for in the Project budget.
- 4.2. These funds may not be used for research expenditure or be paid out as additional remuneration directly from the research fund.
- 4.3. When the invoice is raised, the part covering GOB staff members' time in accordance with the budget, will be credited to the faculty's relevant Staff Cost Recovery Fund.
- 4.4. The GOB Staff Cost Recovery Fund, which is under the control of the relevant dean, and the revenue therein will, at the discretion of the dean and/or a committee appointed by the dean, be allocated to research related activities.

5. INDIRECT COST RECOVERY RATE REVIEW

In accordance with the IPR Act the Indirect Cost Recovery Rate must be reviewed every second year and submitted for approval to NIPMO.

6. DEFINITIONS

Direct Cost (DC)	<p>Direct Cost includes all costs that are either directly incurred by the project or that can be directly attributed to the project, especially at Faculty level.</p> <p>This includes the staff costs of the academic involved on the project, whether s/he is paid elsewhere.</p> <p>Support provided by the Faculty or department can be included as directly attributable costs provided the allocation method is clear and auditable, e.g. properly maintained and authorised timesheets of research finance staff working on different projects.</p>
Employees	<p>Employees means full-time and part-time faculty (of all ranks and status) and all levels of full-time and part time staff and support staff members, joint medical staff, whether such staff are on the conditions of service of UCT or the another entity and research staff.</p>
Full Cost (FC)	<p>The Full Cost of a project is the sum of the direct and indirect costs recoverable against such project.</p>
Indirect Cost (IC)	<p>Indirect Costs refer to the cost of services and benefits/advantages provided to the project via the University's central offices. It covers actual and contingent services provided or available from the:</p> <ul style="list-style-type: none"> • Finance department: includes financial admin, management, reports, accounting tools, controls and governance via the UCT finance system, including UCT wide internal and external audit services; • Personnel department: includes payroll, personnel records and services to personnel; • IT department: includes IT connectivity, communications and support by the university; • Library: includes use of library materials and services; • Facilities (property and services departments): includes accommodation – space, electricity, water, security, maintenance services; • Registrar and VC's Offices: includes authorisation, oversight, governance, etc.; • Institutional Planning department: includes, planning & quality assurance; • Deputy Vice chancellor for Research: includes, authorisation, oversight, governance, etc.; • Departments of Research and Research Contracts and Intellectual Property: includes assistance with proposals, negotiations, contracts, intellectual property, technology transfer, database maintenance etc. • International Academic Programmes Office (IAPO): includes

	<p>servicing of international postgraduate students;</p> <ul style="list-style-type: none"> • Department of Communication and Marketing: includes promotion and public relations of UCT and its various projects.
Indirect Cost Recovery method used at UCT	<ul style="list-style-type: none"> • UCT uses the Universities South Africa recommended Expenditure Apportionment method endorsed by our statutory National Intellectual Property Management Office (NIPMO). • This method apportion the university's non - faculty support costs between research and other activities, taking into account the ratio between Research Direct Costs and Total University Costs. • It does not recover the support provided by the academic department or faculty office because of the current difficulty in calculating such support with sufficient confidence as to its reliability. Where feasible, such costs should be included with the direct costs of the project.
Indirect cost recovery rate (ICRR)	ICRR is the rate to be applied to the MTDC when calculating the indirect cost to be recovered and is 26% for on-campus activities and 18% for off-campus activities.
Modified Total Direct Costs (MTDC)	<p>MTDC is the recovery base used by UCT to recover the indirect costs. It consists of the total direct costs of the project, less:</p> <ul style="list-style-type: none"> • Bursaries; • Subcontracting and subgrantee/consortium partner payments/costs greater than R250,000 per subcontract; • Equipment costs greater than R250, 000 per item.
Intellectual Property	<p>“Intellectual Property” means any creation of the mind that is capable of being protected against unauthorized use by any other person, whether in terms of South African law, or foreign Intellectual Property law, and includes any rights in such creation, but excludes copyrighted works such as a thesis, dissertation, article, handbook, or any other work, in the ordinary course of business, which is associated with conventional academic work. For the avoidance of doubt, Intellectual Property is inclusive of (without limitation):</p> <ul style="list-style-type: none"> • Inventions, discoveries and other developments of a technical nature, whether or not these may be the subject of legal protection in terms of the legislation governing patents, copyright and registered designs; • Works subject to copyright protection; • UCT's name, badge and other trademarks; • Tangible research property arising from research activities (e.g. prototypes, drawings and diagrams, biological organisms and material, reagents, integrated circuit chips, software and data);

Off-campus	Off-Campus defined as research that is conducted in space not owned by the University and not otherwise paid for by the University from University funds and the total direct costs incurred off-campus is greater than those incurred on-campus. For space used for off-campus research, an external source (typically, a research sponsor) provides funding, either paying directly for space, or reimbursing the University for its costs in renting or leasing the space, or otherwise directly providing space for research at no charge to the University.
Project	Project means a research or research related project with funding provided through an agreement with the university, whether the agreement would be considered a grant, contract, consultancy agreement, or whether the agreement takes any other form.
University Resources	University Resources include, but are not limited to, university infrastructure, personnel (including students) and support services.

Annexure A

BACKGROUND

A considerable body of evidence indicates the indirect costs of university research are real and substantial. The principles of indirect cost recovery are applied all over the world and are governed by legislation in many countries, including South Africa.

The **US system** (governed by a set of rules published by the Office of Management and Budget) is based on the principle that the federal government reimburses universities the full costs associated with any research that is carried out for it, but still on a cost sharing basis. This system has its origins in the aftermath of the Second World War, when the principle on which defence contracts were based was transferred into civil research.

The overhead rates (aka Facilities and Administration rates) of institutions are determined by two federal 'cognizant agencies' (the Department of Health and Human Services, and the Office of Naval Research in the Department of Defense) and vary across the United States from less than 40 to more than 70 per cent.

A recent study, which included the data of 163 universities, found the following:

Average of All Institutions	48.2
Average for Private Universities	55.4
Average for Public Universities	46.5

In the late 1990s, the United Kingdom introduced the TRAC (Transparent Approach to Costing) system, allowing all institutions to understand what their various activities cost and what income they receive for them. In 2010 the Research Councils (UK RCUK) and Universities UK (UUK) appointed a Task Group to consider the financial sustainability of research undertaken in universities and other institutions of higher education in the United Kingdom.

To quote from the executive summary:

“HEIs are complex organisations and we have concluded that the task of following and trying to control each ‘pound sterling’ that flows into an institution and how this is attributed to the costs of a particular research project is unrealistic, impractical and futile. But we find it troubling that evidence at a national level from annual TRAC (Transparent Approach to Costing) returns over several years suggests that the income which HEIs receive to carry out research is not fully covering the costs of undertaking this research.”

The report translates the overhead per institution (or TRAC group) as a monetary value per Full Time Equivalent Researcher ((£/FTE researcher), which translate to the following percentage overhead recovery on total research income:

TRAC Group	Average research income £M	Overhead percentage on total income %
A	205	35.9
B	52	42.5
C	19	57.3

In a 2009 report, the Association of Universities and Colleges of Canada documents several studies that have been conducted in Canada to assess the indirect costs of research: 1982 Canadian Association of University Business Officers Report - Of the 14 universities that carried out more than 60 percent of the sponsored research, the indirect costs of research represented 50% of the total direct costs of research (not including faculty salaries).

A 1996 report commissioned by CAUBO, the Association of Universities and Colleges of Canada and Industry Canada put the institutional costs of research at an average of 54% of direct costs.

The Advisory Committee on Science and Technology found indirect costs should be funded at 40% of direct costs with an intention of increasing this to 45% of direct costs.

In December 2008, the RSA Government promulgated Act No. 51 of 2008: Intellectual Property Rights from Publicly Financed Research and Development Act, 2008, followed by its Regulations (August 2010), hereinafter referred to as the "Act". The Act requires of each HEI to develop a full cost model to budgeting and to apply it accordingly.

Section 15 (4) (a) & 15 (4) (b) of the Act read as follows:

4 (a) *Any research and development undertaken at an institution and funded by a private entity or organisation on a full cost basis shall not be deemed to be publicly financed research and development and the provisions of this Act shall not apply thereto.*

(b) *For the purposes of paragraph (a) "full cost" means the full cost of undertaking research and development as determined in accordance with international financial reporting standards, and includes all applicable direct and indirect cost as may be prescribed.*

Section 16 (1) of the regulations reads as follows:

(1) For the purposes of section 15(4) of the Act, full cost will be determined as follows:

(a) Each institution must every 2 years, submit to NIPMO for approval, formulae for calculation of its applicable direct costs and indirect costs of undertaking research and development and matrices substantially in the format set out in Form IP9 or such other format as may be provided by NIPMO in guidelines, together with an explanatory note in respect of how such factors have been arrived at.

(b) The formulae referred to in paragraph (a) must include the basic applicable direct costs of undertaking the research and development determined in terms of the institution's financial and related policies and in accordance with generally accepted accounting practices.

(d) The indirect cost percentage may vary from organizational units or faculties within an institution and the institution must justify any variations.

(e) The Advisory Board must constitute a committee of independent experts to whom NIPMO shall refer for consideration the formulae and matrices submitted by the institutions.

(g) On approval of an institution's formula and matrices, NIPMO or such other agency accredited by NIPMO in terms of guidelines to be issued by NIPMO, must issue such institution with a certificate confirming NIPMO's acceptance of the institution's costing model.

At a meeting held at UCT in 2011 the Executive Directors of Finance and the DVCs of Research of all the major universities agreed to a single approach to cost recovery, i.e. all universities will use the same approach/model to determine their overhead recovery rates.

A Task Team from the Finance Executive Forum (FEF) developed an approach that complies with the regulations of the IPR Act and that can be used by Universities as a basis for the calculation of indirect costs. This approach was submitted via the FEF to Higher Education South Africa (HESA), who submitted it to the National Intellectual Property Management Office (NIPMO) on behalf of all the Universities.