NAME OF COMMITTEE:	ECS
DATE OF MEETING:	13 August 2018
DATE OF SUBMISSION:	23 July 2018
COMPILED BY:	Prof Corli Witthuhn
SUBMITTED BY:	Prof Corli Witthuhn
SUBJECT:	Policy On Budgeting, Cost Recovery, Levies And Benefit Sharing On Research Related And Consultancy Income

BACKGROUND

The current Policy on budgeting, cost recovery, levies and benefit sharing on research related and consultancy income, has been revised to address the following aspects:

- To entrench full cost recovery, where applicable.
- To differentiate between the types of grants and contract research
- To ensure that projects with a strong academic footprint are promoted.

Research-related and consultancy work should have an Academic Footprint, and it is important that the Academic Footprint is, from the outset, considered and specifically stated in the project proposals that are to be submitted to funders. The intention of this policy is to incentivise those researchers who secure projects with a strong Academic Footprint, as opposed to securing contract work that benefits the researcher merely in a consulting capacity, and for which case the benefits for the researcher will be substantially less.

The Policy served at the IPIC and well as the Research Committee of Senate.

RECCOMMENDATION

To approve the Policy.

UNIVERSITY OF THE FREE STATE

POLICY ON BUDGETING, COST RECOVERY, LEVIES AND BENEFIT SHARING ON RESEARCH RELATED AND CONSULTANCY INCOME

Document number	
Document name	Policy on Budgeting, Cost Recovery, Levies and Benefit Sharing on Research Related and Consultancy Income
Coordinating Executive Committee of Senate (ECS) member	Vice-Rector: Research
Contact person	Senior Director: DRD
Status	
Approved by	
Date approved	
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Date last amended	March 2018
Date for next review	
Related policies and documents	**UFS documents** • UFS Strategic Plan • UFS Intellectual Property Policy • Strategic Framework for Research Development at UFS • General Conditions of Service for Academic Staff • Private Work Policy **Legislation** • Intellectual Property Rights from Publicly Financed Research and Development Act 51 of 2008, as amended from time to time

CONTENTS

POLICY ON BUDGETING, COST RECOVERY, LEVIES AND BENEFIT SHARING ON RESEARCH RELATED AND CONSULTANCY INCOME

1. INTRODUCTION

In recent years the leadership of the University of the Free State (UFS) has committed itself to an innovative and concentrated focus on research as one of the three core functions of the UFS. The establishment of the Directorate Research Development (DRD), and a focused strategic framework for the development of research were the first steps taken in this direction.

Significant strides have been taken towards achieving the goals as laid out in the strategic framework, and most recently a formative review of the Directorate has been conducted.

A significant aspect of the UFS's mission is to undertake research, both to support its primary teaching mission and to advance the pursuit of knowledge. Income from donors, sponsors, the government and industry constitute important sources to provide funds for student bursaries, project running costs, equipment and, where possible, to provide additional funding to allow researchers and students to attend conferences and symposia, produce publications, to network with colleagues across the globe, and pursue 'blue sky' ideas which are not yet fundable. In addition, research undertaken with industry can increase economic activity and wealth in the region, the province and the country as a whole.

The UFS strives to provide an enabling environment that assists researchers in accessing external funds and in managing funds appropriately if awarded, as well as mitigating the risk to the UFS and staff when entering into agreements for the use of external funds. This enabling environment includes contracting external support, financial support and Human Resources (HR) support. In many cases, particularly for international grants and local government funding streams, the financial reporting requirements are onerous, and the UFS considers the provision of support in respect of the aforesaid as part of its responsibility towards researchers.

The UFS requires a comprehensive policy to manage and regulate research and consultancy income for the following reasons:

(a) To ensure consistency, fairness and transparency in the management of research and consultancy income across the three UFS campuses.

(b) To manage third stream resources more efficiently in order to support research and development at the UFS.

(c) To create a substantial resource base, HR capacity and infrastructure for future research.

(d) To encourage research initiative and entrepreneurship through more structured funding incentives and support.

(e) To incentivise researchers who secure research related projects that will contribute to the academic footprint of the UFS.

(f) To protect the UFS against any and all illegal and/or fraudulent uses of institutional resources, facilities and external income.

This Policy provides an outline of budgeting and costing principles that should be used for external research-related projects and consultancies.

1.1 Strategic Research Fund

In order to strategically develop research and innovation at the UFS, the UFS is desirous to establish several avenues for tactical research funding that may be used to invest in research projects and infrastructure. This funding will promote research and innovation in accordance with the UFS's Research Strategy, and will stimulate entrepreneurship and the generation of third stream income. In terms of this policy, all income that accrues to the UFS in terms of the budget and the levies contemplated herein will be diverted to this strategic research fund. The Senior Director: DRD may specify the allocation of external, research-related income that will be employed to provide the enabling environment, and the creation of strategic funds.

1.2 Income Excluded from this Policy

This policy specifically excludes non-research-related income, such as income from short learning programmes, conferences, workshops and seminars, as well as income from non-research entities. These income-generating events are covered, and otherwise addressed, in the Policy for Short Learning Programmes and the Policy for the Management of Conferences, Seminars and Workshops.

1.3 Academic Footprint

Reference to the 'Academic Footprint' of the UFS includes, but is not limited to, any benefit accruing to the UFS from a research related contract, such as bursaries, post graduate student involvement, the generation of data that may contribute to publications, international collaboration, the creation of intellectual property and the improvement of the UFS's infrastructure and equipment.

Research-related and consultancy work should have an Academic Footprint, and it is important that the Academic Footprint is, from the outset, considered and specifically stated in the project proposals that are to be submitted to funders. The intention of this policy is to incentivise those researchers who secure projects with a strong Academic Footprint, as opposed to securing contract work that benefits the researcher merely in a consulting capacity, and for which case the benefits for the researcher will be substantially less.

1.4 Deviations from this Policy

The Vice-Rector: Research may, after consultation with the Senior Director: Research, deviate from percentages prescribed in this policy or allow for a more favourable benefit sharing with researchers or their departments in a case wherein the Academic Footprint of a specific project justifies such deviation. All deviations (together with a motivation) are to be reported to the Central Researcher Committee.

2. COSTING PRINCIPLES

All research related contracts, services, consultancies and research grants will be properly costed.

Projects that are properly costed relate to the long-term sustainability of the UFS research endeavours and ensure a fair and equitable distribution of available resources.

Full cost recovery is not compulsory. Where the price charged is less than the full cost of the project, the project must result in a significant Academic Footprint to the UFS. The deficit shall be for the account of the relevant faculty, in light of the fact that the relevant faculty will also be the beneficiary of the additional benefits created as a result of the significant Academic Footprint of the project.

An indirect cost recovery levy, as determined from time to time by the Senior Director: DRD after consultation with the Senior Director: Finance, in accordance with the prescribed methodology of the National Intellectual Property Management Office (NIPMO), and approved by NIPMO, will be charged on the direct project costs, unless otherwise agreed in writing and prior to the signing of a contract.

Some of these percentages are:

- Donations – 0% ICR as this policy does not apply per #3.1
- Grants – Specified by the grantor
- Contract research, Services and Consultancy
  Full Cost – ICR @ the NIPMO-approved ICRR
  Not at full Cost – ICR @ 15% of the turnover

A project budget and the levies will be agreed upon between the principal investigator and the Senior Director: DRD after consultation with the Dean of the relevant Faculty and/or the Head of the relevant department, prior to the commencement of any project.

2.1 Full Cost and Industry Engagement

The UFS is also compelled by law to implement a full cost policy (i.e. in accordance with the provisions of the Intellectual Property Rights from Publicly Financed Research and Development Act 51 of 2008 (the IPR Act), as amended from time to time. The UFS acknowledges that section 15(4)(a) of the IPR Act provides that any research and development undertaken at an institution and funded by a private entity or organisation on a full cost basis, will not be deemed to be publicly financed research and development, and the provisions of the IPR Act shall not apply thereto.

The UFS will, where industry partners so request, engage on a full cost basis with such industry partners. Engagement on a full cost basis does not negate the UFS’s right to own or exploit intellectual property (IP).

3. TYPES OF EXTERNAL RESEARCH RELATED INCOME

Externally funded research activities at the UFS can be classified into five distinct categories:

- Donations for research.
- Research grants.
- Contract research.
- Services.
- Consultancy.

There may be overlaps between these types of activities, but generally there are typical characteristics for each type.

3.1 Donations for Research

This policy does not apply to donations, even though research may be conducted as the result of a donation. The aforesaid flows from the fact that donations are philanthropic by nature, and donor organisations normally do not require any return, save for a sound financial report at the conclusion of a project.

Conditions

In all circumstances in which donations are subject to confidentiality, ownership of the report or IP, the relevant project is not considered to constitute a donation and will be classified as a grant or research contract.

Guidelines to ascertain whether a project is a research grant, or a donation may include, but are not limited to, the following:

- Primarily provided by funders from a philanthropic or public good perspective.
- Funder does not benefit directly from the project outcomes of the donation.
- No specific research deadlines or deliverables are required.
- Financial considerations:
  - No detailed reporting requirements on how the money is spent beyond, for example, provision of the names of bursary recipients.
  - No overhead costs are generally allowed.
  - May be used to subvene salaries, depending on the donation.
- The UFS generates a Section 18A certificate in accordance with the provisions of the Income Tax Act 58 of 1962, as amended from time to time, that may be used for tax benefits by the funder.

3.2 Research Grants

Research grants are generally comprised of the following criteria:

- Primarily provided by non-industry or not-for-profit bodies such as government, Non-governmental Organisations and foundations.
- The funder does not benefit directly from the outcomes of the funding.
- The funding is provided for a specific goal or deliverable.

Financial considerations pertaining to research grants:

- Detailed financial reporting is generally required (which may include detail in respect of hours and salary rates), and there may be constraints or qualification criteria in respect of how the funds may be spent or apportioned.
- Some prescribed overhead costs are generally allowed as a portion of the total budget (normally between 7% and 10%).

- Permanent staff salary costs may in some instances not be covered (e.g. European Union grants).
- Specific costs such as student bursaries, project management fees for the principle investigator, salary subvention for the principle investigator or other associated researchers, project running costs and equipment are generally permitted.
- Profit sharing is not permitted.

3.3 Research Contracts

Research contracts can be sub-categorised into commercial research, commercial research related services, semi-commercial research and exploratory research.

3.3.1 Commercial research

Research projects classified under this category include the following:

- Primarily provided by external profit organisations, mainly industry.
- Knowledge is created, but can also be applied.
- Research with a specific idea on how the research should be conducted and very specific requirements for the expected deliverables.
- Generally does lead to research publications, subject to confidentiality provisions of the contract.
- Developing new methods, material or molecular properties.
- Client may wish to own any IP generated.

Financial considerations:

- Full Cost.
- The client does not necessarily require financial reports and the focus is on the project deliverables. Project deficits or profits are for the sole risk or benefit of the UFS. The funder usually benefits directly from the outcome of the funding, in particular with respect to IP. Funding is provided for specific deliverables to be achieved within a set deadline and budget.
- Overhead costs are generally permitted and are sourced from either levying market-related hourly rates, or from adding project management and administration fees.
- Permanent staff salary costs, project management by the principle investigator and salary subvention for the principle investigator or other associated researchers, may be recovered. Researchers are not entitled to both forms of remuneration, and salary subvention is only recommended for FEC projects.
- Student bursaries, project running costs and equipment are generally covered.
- Profit sharing is permitted in respect of commercial contracts.

3.3.2 Commercial research related services

Projects classified under this category are:

- Analytical laboratory services or commercial research related services rendered to clients (e.g. a report), where knowledge is mostly only applied).

Financial considerations:

- The same as in paragraph 3.3.1 above.

3.3.3 Semi-commercial research contracting

Research projects classified under this category have the following general characteristics:

- Usually not full cost.
- Projects are co-funded by the Technology and Human Resources for Industry Programme and/or the UFS.
- Knowledge is created.
- Nature of the work is exploratory and new knowledge has to be generated, but limited to the results required by the industry, and most often by the budget.
- May lead to the training of students and to publications.
- May lead to the creation of new IP which will fall under the ambit of the IPR Act.

3.3.4 Exploratory research contracting

Research projects classified under this category are:

- Exploratory research forms part of a researcher's own set of ideas and interests, usually no outside funds are used, and it is usually aimed at solving a basic but significant problem which would lead to the advancement of science.
- Knowledge is created.
- May lead to new IP.

3.4 Consultancy

Consulting contracts:

- In all respects, consulting contracts are materially the same as research contracts but may not require the use of UFS's facilities, infrastructure, equipment, financial systems or corporate brand.
    - In circumstances where the UFS's facilities, infrastructure, equipment, financial systems or corporate brand are not required, staff are strongly encouraged to rather conduct such consulting work in their private capacity, provided the necessary permission to conduct private work has been obtained in terms of the Private Work Policy.
- Knowledge is applied. Consulting is not based on new knowledge development or in-depth research.

- Excludes research activities, or does not generally lead to research publications or the training of students (i.e. no Academic Footprint is visible).
- Generally, no new IP is created.
- Surveys and analytical work can form part of consultancy.
- The principle investigator and associated researchers may be rewarded for time, in accordance with the UFS's prescribed salary subvention scales.
- Unless the principle investigator can prove that an Academic Footprint will be present, no profit sharing, or any other benefits are permitted.
- Projects will be costed on a full-cost basis, with a profit margin that will accrue to the UFS.

4. PROJECT COSTS

4.1 Types of Costs

According to general accounting principles, there are two types of costs arising from any project, namely, direct and indirect costs.

4.1.1 Direct costs

Direct costs include:

(a) University-funded staff costs:

Permanent staff costs, including time for student supervision; but excludes project-funded additional staff.

The full cost of a project should always include actual staff time replacement cost (cost to company). This includes time spent on student supervision as part of the project. An average personnel cost, based on the UFS's cost to company scales, will be used for calculation of staff time cost. The median personnel cost will be updated on an annual basis by the Department of Finance of the UFS. Fees above the median cost to company scales are not permissible.

Staff time replacement cost will be recovered from each project and will be allocated to the relevant department. The relevant academic department can use the funds accrued to them for operating expenses of the department, innovation and research related activities and bursaries, subject thereto that no direct salary subvention may be taken from the aforesaid funds. Salaries of additional personnel to create capacity can also be funded from this entity but must be approved by the Dean.

(b) Direct project costs:

- Project funded additional staff costs (contract appointments).
- Project management costs
    - Project management costs may be as high as 15% of the total budget and may be subdivided into allocations for administration, financial management of the project and operational project management.

- Project running costs
  - This may include laboratory and analytical costs, external services and charges, travel and subsistence costs, specific office costs, specific software costs and IP protection costs, where applicable.
- Bursaries
  - Note that an institutional levy does not apply to student bursaries, and VAT is not applicable.
- Equipment costs.
- A fixed fee, equivalent to the institutional levy, will be applied on the first R50,000 of the equipment costs. Sub-contracting costs:
  - A fixed fee, equivalent to the institutional levy will be applied on the first R50,000 of the sub-contracting costs. A service level agreement (SLA) on all sub-contracted work must be in place at the time of the signing of the project contract, even if it is another UFS staff member sub-contracting. The UFS staff members may not be sub-contracted. If the sub-contracting of any project is more than 50% of the total contract value, the Senior Director: DRD must decline the contract and it must then be considered whether the UFS should not become the sub-contractor to the agreement, instead of being the principle contractor.

4.1.2 Indirect cost recovery levy

Indirect costs, generally called overhead costs, are real costs but are difficult to determine and consequently to allocate the exact amounts. For the purposes of this policy, indirect costs include information technology (IT), legal costs pertaining to the research related contract, financial administration, human resource administration, security, water and electricity, access to libraries, insurance, maintenance, use of the UFS's brand, quality assurance and external audit fees. This indirect cost recovery levy is based on the legal requirement that all institutions are required to submit, every two years, as an ICR calculation to NIPMO for approval, per section 16(1)(a) of the IPR Act.

An indirect cost recovery levy on income from projects subject to this policy will operate as follows:

- The indirect cost recovery levy will be annually determined by the UFS Finance Department. Unless otherwise agreed between the beneficiaries, the indirect cost recovery levy will be apportioned as follows:
  - 25% of the levy to central budget.
  - 35% of the levy to DRD.
  - 25% of the levy to the relevant academic department.
  - 15% of the levy to the relevant faculty (Office of the Dean).
  - A fixed percentage on turnover is currently under consideration, such an amount to be allocated to an 'expensive equipment replacement fund'.

- The relevant academic department can use the funds accrued to them for operating expenses of the department, innovation and research related activities and bursaries, subject thereto that no direct salary subvention may be taken from these funds. No 'top up' of permanent staff remuneration or any bonuses can be paid from these funds. Salaries of additional staff to create capacity may be funded from this entity but must be approved by the Dean.
- The relevant faculty may also use the funds accrued to them according to the guidance of the faculty management committee for innovation and research related activities and bursaries, subject thereto that no direct salary subvention may be taken from these funds.

4.2 Full Cost

The full cost of a project is the sum of the direct costs and the indirect costs. A 'full cost' model comprises both direct and indirect costs. While the direct costs of a project are relatively simple to estimate, an indirect cost recovery levy is usually used to recover indirect costs.

Calculation: Direct Cost

+ Indirect Cost Recovery Levy

= Full Cost

4.3 Costing vs Pricing

The cost of a project is not necessarily the same as the price charged to the client for the project, and is dependent on the type of project, type of funding stream, reason for doing the project, etc.

Therefore, a project can be conducted for profit (i.e. price > cost), on a break even basis (i.e. price = cost), or at a financial loss (price < cost). The rationale for doing projects under these conditions stems from the potential impact of projects on the Academic Footprint of the UFS, and can be summarised as follows:

FOR PROFIT (Price > Cost)	**BREAK EVEN (Price = Cost)**	**LOSS (Price < Cost)**
Contract Research (§3.3) Consulting (§3.4)	Research Grants (§3.2) Some contract research (§3.3) Donations (§3.1)	Research Grants (§3.2) Donations (§3.1)
Client benefits. Profit margin is allowed to be made, at the discretion of the Department. Full cost recovery.	The grantor does not allow any profit to be made by the institution but impacts on the UFS's Academic Footprint.	These projects must have a clearly defined Academic Footprint. The loss-making budget must be approved in writing by both the Senior Director: DRD and the relevant Dean, whose approval must also indicate the potential impact on the Academic Footprint. The relevant Faculty will accrue actual losses incurred.

5. CONTRACTS THAT DO NOT COMPLY WITH THIS POLICY

Although the UFS has a proper contract management system (RIMS) in place, it may happen that contracts are not properly costed before approval. If a project is not fully costed and/or no contract (SLA or similar applicable agreement) is in place, the prescribed indirect cost recovery levy, as approved by NIPMO, will automatically be applied on the total project income. No financial benefits will be permitted for the researchers in this instance.

6. PERMISSIBLE DEVIATIONS FROM INDIRECT COST RECOVERY LEVY

PERMISSIBLE DEVIATION	APPLICATION OF POLICY
Funder's prescribed overhead is less than the UFS's indirect cost recovery levy.	The maximum allowable overhead that the funder is willing to pay must be used as the indirect cost recovery levy. The percentage of the Levy accruable to entities in terms of §4.1.2 will be adjusted *pro rata*.
Funder's prescribed overhead is greater than the UFS's indirect cost recovery levy.	The maximum allowable overhead can be used in the project budget, but only a prescribed percentage will be taken as the indirect cost recovery levy; if more than the prescribed percentage is used, the balance will accrue to the project as a profit.
Funder will pay only for direct project costs (i.e. he/she/it will not pay for UFS funded staff costs or indirect costs).	The researcher must apply for the waiver of the indirect cost recovery levy. The Vice-Rector: DRD may approve such deviation from the policy in writing, provided there is an Academic Footprint.
Funder will allow an overhead on certain costs only.	The researcher must apply for the waiver of the indirect cost recovery levy. The Vice-Rector: Research may approve such deviation from the Policy in writing prior to the commencement of the project, provided there is an Academic Footprint.
Funder allows for project management, but not for overheads.	The principal investigator may be remunerated in the form of project management fees, provided the budget provides for this.
All deviations must be reported to the Intellectual Property Investment Committee (IPIC) and the Finance Committee on an annual basis.	

7. BENEFIT SHARING ALTERNATIVES

Staff members may benefit in the following manner from research related and consultancy contracts:

7.1 Project Management Fees

Project management fees will apply in those cases in which the funder does not allow overheads and/or profit sharing but allows for direct cost recovery such as project management. Project management fees are the same rates as the median rates of the UFS and may not be more than 8 (EIGHT) hours per week. Also see §4.1.1 (b) on project management.

7.2 Salary Subvention

Some grants (e.g. Erasmus+) allow for salary subvention, which may be paid out to the principal investigator, or his/her research entity.

On many projects, the principal investigator makes use of other researchers (colleagues).

Salary subventions are paid at the same rate as the median rates of the UFS, and may not be more than 8 (EIGHT) hours per week.

7.3 Contribution to the Researcher's Research Entity

Once this option has been elected, the funds may not at a later stage be paid out to the researcher.

7.4 Establishing a Commercial Entity

In this regard, the IP Policy applies. A typical example is one in which the research grant may lead to an incubation project and/or spin-off company. The Senior Director: DRD and the principle investigator must agree up front in which entity the principal investigator will benefit. This flows from the consideration that, if it is the intention of both parties to develop a commercial entity, the aim should be the successful creation of a sustainable entity, wherein both parties will benefit, to the exclusion of the other 4 (FOUR) options described in this paragraph.

7.5 Profit Sharing

Certain research sponsors require only fixed deliverables, at a fixed price. In such instances, it is permissible that profit sharing may be negotiated by the principle investigator.

If approved by the Senior Director: DRD and Head of the relevant academic department, staff members are permitted to take profit sharing as a salary subvention where the full cost of a project is paid by the funder/client. No profit sharing will be permissible if a complete project budget is not presented based on the full cost principles of this policy, as all amounts must be agreed before the start of the project and must be explicitly stated on the contract approval form.

No profit sharing will be allowed to anyone other than the principle investigator. Other researchers on the project may only claim for hours worked on a specific project. Profit sharing incentivises the principal investigator to manage costs and to complete the project within the applicable time frame, to the satisfaction of the funder.

The profit on each project is shared on a 70/30 basis between the principal investigator (or the team) and the UFS.

- 50% can be taken as a salary subvention by the principal investigator (or the team).
- 20% can be put in the research capacity entity of the principal investigator (or the team).
- 30% profit share of the UFS will accrue to the strategic research.

The research capacity entity can be used for operating expenses, innovation and research related activities and bursaries, but no salary subvention may be taken from these funds. No 'top up' of permanent staff remuneration, or any bonuses, can be paid from the research capacity entity of the principal investigator. Salaries of additional personnel to create capacity can be funded from the research capacity entity of the principal investigator, subject to approval by the relevant Dean.

The 5 (FIVE) benefit sharing options above are not mutually exclusive. It is, however, required that the principle investigator and the Senior Director: DRD's 5 (FIVE) options above will negate the principal investigator's right to royalties accruing from any form of IP licensing agreement.

8 PROCEDURES

The Directorate Research Development will assist staff members with research-related agreements and budgets.

The budget should be presented to the Directorate Research Development, together with the contract to be signed between the UFS and the funder. It is not a requirement to disclose the internal budget to the funder, unless required – usually, only a fixed price will be provided to the funder.

The Senior Director: DRD will agree the indirect cost recovery levy applicable with the principal investigator and inform the Dean of the relevant faculty and the Head of the relevant department. A fixed percentage on turnover is preferable.

Once the contract is signed, a summary of the budget, including levies, will be sent to the appropriate office in the Finance Department for action.

A separate cost centre/entity must be used for each project.

No salary subvention, project management fees, or profit sharing will be paid out before the client has paid in full, approved the report (or accepted the contractual deliverables), and the Finance Department has reconciled the entity.

RIMS will apply to all contracts under this policy.