



UNIVERSITY OF CAPE TOWN (UCT) FINANCE DEPARTMENT

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To: UCT's research funders/sponsors/grantors/clients

Re: UCT's Full Cost Approach to Costing and Pricing of research projects

From: Abu Adams/Director: Research Finance

The University of Cape Town's (UCT's) policy is to cost and price research and other projects using the full cost approach.

This means both the direct project costs and the indirect project support (aka overheads or indirect) costs are taken into account when preparing budget proposals and finalising contract/grant prices/fees/payments. This Full Cost (= Direct Costs + Indirect Costs to be Recovered = DC + ICR) serves as one of the points of departure for negotiations with our funders/ sponsors/ grantors/clients.

This Full Cost approach helps ensure awareness of the proper cost of the project from the outset, assists with the decision whether to go ahead with the project or not, influence the price negotiations and promotes financial sustainability and practical equity across the university.

Pricing of research projects

Pricing is a matter of negotiation between the researcher/UCT and the potential funder, based on our Full Cost approach.

Factors directly impacting the pricing exercise and its outcomes include: the nature and purpose of the research itself; the deliverables and perceived benefits; the direct and indirect costs of the project; Intellectual Property Rights (IPRs) matters; resources required to successfully complete the project; South African law and other relevant UCT policies; the nature and policies of the funder; the laws of the funder's host country; and current and preferred future relationship with the funder.

If the IPRs are to pass to the funder then per South African law the funder must pay **at the very least the Full Cost**. Pricing below Full Cost in these cases must be approved by our South African statutory body, the National Intellectual Property Management Office (NIPMO). This Office plays an oversight role (on behalf of the South African government) regarding all research contracts/agreements at publicly funded South African universities.

Pricing of projects below Full Cost for contracts where IPRs are not transferred, means that the project will be subsidised. Such subsidisation might be at the expense of current or future projects and might even negatively impact the financial sustainability of the hosting unit and/or the university. The latter risk is particularly pertinent when waivers are done without monitoring the trend and impact of such waivers over time. Hence the need for the researcher to motivate to the Dean of the hosting Faculty why a waiver is needed. It is up to the Dean to decide if s/he will allow a waiver and the extent of such a waiver.

Direct Costs (DC)

Direct Costs include costs directly incurred by the project, as well as the allocable cost of support provided to the research project by the hosting Faculty/ School/ College/Academic Department. Such allocable costs have not been taken into account in the calculation of UCT's institution wide indirect cost recovery rate (ICRR).

Indirect Costs to be Recovered (ICR)

Indirect Costs to be Recovered refer to the central costs that cannot easily or cost effectively be allocated directly to individual projects. It covers actual and contingent services provided by or available from the following central service areas:

- Finance dept.: Includes pre-award and post-award assistance to researchers and their support staff; financial admin (e.g., revenue, expenses, treasury, banking); procurement; assets; insurance; audit coordination where needed; monitoring, reporting and assurance where required; assistance with funder compliance; accounting tools, policies, controls and governance; staff training.
- Personnel (Human Resources) dept.: Includes recruitment, selection and appointments; payroll services; personnel records; performance management and other labour relations advice and services; training and development.
- IT dept.: Includes IT connectivity, communications, acquisitions, data management, training and other IT related support services.
- Library: Includes acquisition of and use of library materials, and related advisory and research support services.
- Facilities (property and services) dept.: Includes accommodation (general or specialised) space, electricity, water, climate control where needed, security, asset safeguarding, health & safety, grounds maintenance, general on campus transport, and repairs and maintenance services.
- Vice Chancellor and Registrar's Offices; includes authorisation, oversight, governance, etc. systemically or per project as required.
- Institutional Planning dept.: Includes fit with UCT's academic enterprise, planning, quality assurance, information provision and analysis at a university and/or sector wide level.
- Deputy Vice chancellor for Research: includes authorisation, oversight, governance, fit with research enterprise, etc.
- Depts. of Research and Innovation: Includes assistance with searching for funding opportunities, proposals, negotiations, IP matters, contracts and various follow –ups and liaison where required; training of staff.
- International Academic Programmes Office (IAPO): Includes servicing of international students and promoting all aspects of internationalisation at UCT, especially at a research level.
- Dept. of Communication and Marketing: includes promotion and public relations of UCT and its various research projects.
- The various governance and control structures/systems that provide assurance to all that resources are being used properly: Council, including its subcommittees such as Audit, Finance and Risk; Senate, including its subcommittees such as Research, Ethics, Quality Control.

As mentioned before, the university's ICR system currently covers only the cost of support provided by central support units (see preceding listing) and not that provided within the Faculty. Such Faculty support can be a combination of services provided by the Faculty Office units, by the dept hosting the project and/or the unit hosting such project. Such hosts are allowed to recover support costs (or a contribution thereto) from the research projects, provided it forms part of the budget. Currently each Faculty decides how much to recover of such Faculty based support costs.

ICR calculations

Norms:

Internationally indirect cost recovery is based on a percentage added either onto staff costs or onto total direct costs, the latter with some exclusions, but still including staff costs.

This method is used as the cost in trying to calculate indirect costs for each project far outweighs the benefits to be obtained. This has been standard practice for decades now throughout the world. And is a generally accepted management accounting practice.

Because the Indirect Cost Recovery Rate (ICRR)% is a (cost efficient) proxy, it is obvious that the weight and actual service/benefit provision or usage will vary per project, but will balance out overallly, for example at faculty/university level.

UCT:

We calculate the ICR for the project by applying a university wide ICRR to the Modified Total Direct Costs (MTDC) of the project: $ICR = MTDC \times ICRR$.

The method for determining the ICRR and MTDC is in compliance with the approach endorsed by Universities South Africa (USAF) forum. The latter is a body representing all South African universities. This approach is based on that of the USA's simplified Facilities and Administrative (F&A) Cost methodology and has been approved by NIPMO.

NIPMO evaluates each South African university's Full Cost/ICRR approach or methodology and provides a certificate of approval. All South African universities must submit their approach/methodology for NIPMO's approval every second year. For our current NIPMO certificate (valid for 2 years until April 2024) please refer to the following website link:

https://webcms.uct.ac.za/sites/default/files/image_tool/images/100/Research_Contracts/UCT_FC_CERT%202022.pdf

Our current ICRR as approved by NIPMO is 28% for on-campus activities and 18% for off-campus activities.

MTDC is the recovery base used by UCT to recover the indirect costs. It consists of the Total Direct Costs of the project, less:

- Bursaries;
- Subcontracting and subgrantee/consortium partner payments/costs greater than R250,000 per subcontract;
- Equipment costs greater than R250, 000 per item.

Therefore, our Full Cost of a project = Direct Costs (DC) + ICR = $DC + (MTDC \times ICRR)$.

This often means that the effective ICRR for each project will vary, with many being considerably less than the nominal 28% if bursaries, major equipment and subcontractors/subgrantees are involved.

For more details regarding our Full Costing Policy please refer to the website link:

Use of ICR

The ICR is transferred to the university's central coffers where it is used to help offset the overall support costs of the university: the overall university budgets (and hence Faculty budgets) are drawn up taking into account such offsets. The actual ICR is but a contribution to the overall support provided by the university: an assertion made by ALL universities all over the world. All universities therefore co-contribute to the various research projects conducted under their auspices: the smaller the actual ICR per project, the bigger the co-contribution from other areas.

Allocation of the project ICR to the various central support service areas

The ICR and value of the project is not directly allocable to particular indirect/support cost items because of the nature of the ICR method used, as is the case all over the world: ICRR and ICR are determined at university wide level and serves as a cost-efficient recovery proxy. Hence the following being a very rough/crude allocation for those funders who insist on such allocation. All other universities' ICR allocation per project would also be of such rough/crude nature.

Central Support Service areas – at university wide level: a rough allocation

Executive, Legal, General, Governance support	12%
Research & Innovation	15%
Finance	10%
HR	7%
ICTS	14%
Library	9%
Properties & Services	33%
Total	100%