

Innovate UK

APPLICANT GUIDANCE

Your Project Costs: Smart

October 2015

Introduction

This document is intended for use with your Smart Application Competition Guidance. It covers the following:

1. Eligible project costs: What you can claim for your project
2. Costs which are not eligible for funding
3. Smart Project finance forms
4. Additional guidance for start-up companies and new sole traders

1. Eligible project costs: What you can claim for your project

There are a range of costs that Innovate UK is prepared to support as your eligible project costs. These are described in the table below.

The estimates of the costs that you use to complete your finance forms must be the total costs for your project and will include costs for all activities that are involved in your project.

Please Note: If you wish to include revenue generation activities as part of your development cycle, then to comply with the EU state aid requirements, any revenue that is generated by your project must be used to offset your project costs against which grant can be claimed.

Eligible Costs

For a cost within your project to be eligible for funding it must:

- **be incurred and paid between your project start and end dates.**
- **meet the eligibility criteria in the categories listed below.**

Innovate UK pays your grant on the basis of actual eligible costs with an audit trail supported by accounting records. Eligible costs must be incurred and paid between your project start and end dates.

Labour Costs	<p>You may claim the labour costs of all individuals working directly on your project.</p> <p>Please note: If your application is successful, all labour costs must be supported by accounting records (including timesheets and payroll records for example) that show the actual hours worked by individuals and paid by the organisation.</p> <p>In completing your application, your finance form must list the total man-days worked by all personnel working directly on your project and briefly describe their role.</p>
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The costs that you can include in your labour costs (based upon your payroll records) are: gross salary, employer's NI, company pension contribution, life insurance or other non-discretionary package costs.

Please note: Any discretionary bonuses or performance related payments of any kind are not eligible.

Where an employee is part time, their labour costs should be entered as full time equivalent.

Your eligible labour costs will be salary amounts actually incurred and paid. You cannot, therefore, include any form of in-kind/goodwill contribution by staff, or costs relating to profit related pay, dividends, shares, share options, royalties or similar remuneration methods. For example, companies that pay a Director a salary of £7k and use dividend payments for the remainder of the remuneration package (for personal tax liability reasons) can only include a daily labour rate based on the £7k salary.

The total number of working days per year for the organisation is based on full time working days per year less standard holiday allowance. **Sick days, waiting time, training days and non-productive time are not eligible as part of the calculation.**

Project Management

The costs of project management are eligible and should be included within your Labour calculation. In cases where your project management is sub-contracted, a strong case should be made for the necessity and benefits of this approach.

Micro companies only

In some micro companies a Director may be running the business in addition to working on a project, receiving income only in the form of dividends. However, dividends are not eligible costs or an accepted form of remuneration for State aid purposes.

If you are a Director of a micro company, not currently on the company payroll and working directly on the project, you have not previously been able to claim for your labour. Innovate UK is aligning its policy with that of the European Commission which allows your labour to be included as eligible costs subject to the following conditions:

1. Labour costs must be calculated using a maximum of:
 - 8 hours per day
 - 5 days and up to 40 hours per week
 - £22 per hour.
2. All costs arising as a result of using the above calculation must be paid to the Director through the business payroll and subject to Income Tax and National Insurance at source
3. Time worked on the project must be supported by timesheets, payroll and project records giving a good audit trail

If your application is successful:

- the total amount of time and cost will be reviewed before approval

	<p>and</p> <ul style="list-style-type: none"> the terms and conditions of the grant will include compliance with the above provisions <p>Sole Traders & members of Unlimited Partnerships not operating a payroll If you are a sole trader or a member of an unlimited partnership with no employees and so not operating a PAYE scheme, you will be paying income tax and national insurance on business income. If this is the case, you can claim for your time spent working on the project using the method detailed above for Directors of micro companies. The same rules apply for the rate, hours and accounting records, and the terms and conditions will be included in your offer letter should you be successful.</p>
<p>Administration Support Costs</p>	<p>As a business we understand that in undertaking a project you may incur additional support staff costs associated with your administration functions. In order to assist you with making a claim for such costs we require that the costs you wish to claim are both directly attributable and incremental to the project you are undertaking.</p> <p>In order to support you with this claim, there are 3 methods of application available:</p> <ol style="list-style-type: none"> 20% of Labour Costs Administration Support Calculator Specialist Rate <p><u>Option 1:</u> This is by far the simplest mechanism to make a claim. All you need to do is select the “Administration Support Costs” tab and select “20% of labour costs” from the drop down menu (please note that you must have completed the labour costs tab to enable this to function to calculate the resultant figure). If you select this option there is no need to provide any further supporting documentation or calculations.</p> <p><u>Option 2:</u> Where you wish to support your claim by the use of your own financial data (this must be based upon your latest set of audited accounts) we have provided you with calculations within the Project Finance form to enable a monetary administration cost calculation to be computed. Please select “Administration Support Costs Calculator” from the drop down menu and refer to the Administration Support Costs Guidance to assist and guide you through the completion of the calculator. Please note this will be subject to a review to assess the appropriateness of your claim if your grant application is successful.</p> <p><u>Option 3:</u> Based on the nature of the some types of business activity, some applicants will have an agreed specialist rate which has been through a detailed and comprehensive review by Innovate UK. If your application has such a rate please select the “Specialist Rate” tab and input the rate that has been previously agreed. Please note that though a specialist rate has been agreed this may be subject to challenge at any time and the applicant should not presume that the rate applied will not be subject to further review.</p>
<p>Materials Consumed</p>	<p>The costs of materials to be consumed directly on your project are eligible</p>

	<p>costs, providing that they are purchased from third parties. If material has a residual/resale value at the end of your project, costs should be reduced accordingly.</p> <p>Software that you have purchased specifically for use during your project should be included in materials.</p> <p>However if you already own software which will be used in the project, only additional costs incurred & paid between the start and end of your project will be eligible. Examples of costs that may be eligible are those related to the preparation of disks, manuals, installation, training or customisation. Costs should be split between their component parts and allocated to the appropriate cost category.</p>
Capital usage	<p>Capital usage refers to an asset utilised by your planned project, which has a useful life of more than one year, is stand-alone, distinct and moveable.</p> <p>You should provide details of capital equipment and tools to be bought or consumed on your project. You should calculate a 'usage' value by taking the purchase cost (or net present value at the start of your project, if the equipment is already owned) less it's expected residual value at the end of your project. This value is then multiplied by the percentage that your project will be utilising the equipment. This final value represents the eligible cost to your project.</p>
Sub-contracts, Consultancy Fees (including Fees for Trial and Testing)	<p>Sub Contract costs relate to work carried out by third party organisations. You may sub contract work that is essential to the success of your project where it would not be cost-effective to develop in-house skills for your project.</p> <p>Sub contract services supplied by associated companies should exclude any profit element and be charged at cost.</p> <p>You should name the subcontractor and describe what the subcontractor will be doing and where the work will be undertaken. We will look at the size of this contribution when assessing eligibility and level of support.</p> <p>Innovate UK seeks to promote growth within UK, where subcontractors are cited outside UK please provide rational/justification for such action and as to why a UK alternative is not suitable.</p>
Travel and Subsistence	<p>You should only include reasonable costs that are justified and will be incurred exclusively for the progression of your research project. Details and purpose for the expenditure, including number of staff attending, must be given.</p> <p>Please ensure all trips are costed at "economy travel" only.</p>

Other Costs

Other Costs can be used for eligible costs which are not included in the above sections. Each type of cost that you include in this section should be described in the application form as to what it is, why it is eligible and so included in the costs of the project.

Examples may include:

- **Training Costs** – These costs are eligible for support where they are specific to and necessary for your project. Innovate UK may consider support for management training specific to your project but will not support ongoing training.
- **Preparation of Technical Report(s)** – For example, where the main objective of your project is the support of standards or technology transfer. You should demonstrate how this report is above and beyond what would normally be produced through good project management.
- **Market Assessment** – There is some scope for support of market assessments studies in order to more fully understand the applicability of your projects results to the intended market and to help steer your project towards exploitable ends. Market research as a promotional tool is ineligible.
- **Licensing in New Technologies** – Exceptionally, Innovate UK may consider support where it makes sense to do so, for example, to avoid “reinventing the wheel”. Where imported technology makes up a large part of your project (where technology is valued at more than £100,000) then it will be expected that there is development of that technology as part of your project.
- **Patent filing costs for NEW IP** generated by your project are only allowable for SMEs and limited to £7,500 per project. These should not include legal costs relating to the filing or trademark related expenditure as these are deemed to be marketing/exploitation costs.
- Regulatory compliance costs are eligible if necessary to carry out your project.

2. Costs which are not eligible for funding

The following costs are ineligible and should be excluded from any part of your project costs and any overhead calculations:

- Recoverable VAT;
- Interest charges, bad debts, profits, advertising, entertaining;
- Hire purchase interest and any associated service charges;
- Production, R&D costs not related to the project, quality control/assurance, engineering, distribution, supply chain or selling costs or activities;
- Advertising and marketing costs or activities;
- Entertainment and hospitality costs;
- Profit earned by a subsidiary or by an associate undertaking work sub-contracted out under your project;
- Inflation and contingency allowances;

- The value of existing assets such as IPR (not developed as part of this project), data, software programmes and other exploitable assets that any of the collaborators contribute towards your project;
- Project audit or legal costs. The legal costs of setting up your project or the collaboration and costs associated in conducting audits, accountant’s reports or making grant claims;
- Sick days, waiting time and non-productive time;
- Bonuses, awards, profit related pay, company car expenses and any discretionary benefits to staff.
- Project audit fees

3. Smart Project finance forms

How to complete your Smart finance forms

The finance forms are Excel spreadsheets and must not be altered in any way in order that we can process them within our systems to calculate your grant. The spreadsheets contain formulae that will assist you with your own calculations and which also check and confirm when you have completed each individual section.

There are two types of Smart finance form

- A simple one page sheet for Proof of Market applications which require a short but comprehensive breakdown of your eligible project costs for a proof of market project.
- A form for Proof of Concept and Development of Prototype applications. This form has a tab for each category of project cost, in line with the table below.

Excel Worksheet Tab	Description and Guidance
Guidance and Form Status	This worksheet is designed to assist you in showing the status of the completion of the form. As you complete each form, it will calculate the status. When all sub headings are showing as “Complete”, the Major Heading will also show as “Complete” and you are ready to submit your form.
Labour Costs	See eligible costs section above
Administration Support Costs	See eligible costs section above
Material Costs	See eligible costs section above
Capital Usage	See eligible costs section above
Sub Contract Costs	See eligible costs section above
Travel & Subsistence Costs	See eligible costs section above
Other Costs	See eligible costs section above
Project Costs Summary	The costs entered throughout your spreadsheet are automatically picked up in this worksheet.

	<p>Using these costs you should estimate how your costs will be spent across the financial year(s) of your project.</p> <p>Provide the amount of grant assistance sought from Innovate UK. This figure should not include any amounts sought from other sources.</p>
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4. Additional Guidance for Start-up companies and new Sole Traders

Eligible costs for start-up companies and new sole traders are based on the standard cost headings with the same rules of eligible and ineligible costs that are set out for all other business participants in the sections above. The following guidance is intended to assist you if you do not have a trading history on which to base your calculations.

4.1 Labour rate calculation

Sole Traders and members of Unlimited Partnerships

Labour costs are normally calculated on the basis of salary paid through a business payroll scheme. For sole traders and members of unlimited partnerships **not operating a payroll**, and where you do not have sufficient trading history to state your actual direct labour rate (excluding overhead and profit), the maximum labour rate you can claim is set out in the Labour Costs section of eligible costs above. You will need to keep project records to show the hours worked directly on the project and how your labour claimed has been taxed as business income. .

4.2 Administration Support Costs

Please see separate guidance on administration support costs.