

Simplified costs methodology for the Invest NI schemes
forming part of the Northern Ireland sustainable
competitiveness Programme

Indirect Cost Methodology (Company)

1. Overheads are indirect costs which cannot be connected directly to a project. They can include staff costs, for example the cost of employing staff not directly engaged on the project and non staff costs e.g. heating, lighting, other accommodation costs and the cost of central services where these are relevant to and can be fairly apportioned to the project.
2. Historically, for some projects overhead costs were calculated on a flat rate basis and delivered as a percentage uplift in salary costs. These costs were deemed to be ineligible on the basis that they were not vouched and approved. An amendment to the ERDF Regulations (May 2009) outlines an acceptable method for declaring overheads on a flat rate basis, subject to a ceiling of 20% of the direct costs of the project.
3. The flat rate must be established in advance of the letter of offer by a detailed methodology that may be based on an analysis of current real costs. A full audit trail of all the expenditure used to establish the flat rate must be retained for the period of the programme, currently estimated to be 2022.
4. **Where the flat rate methodology is used no further audit or monitoring of overhead costs is required, once the rate has been established. Audit activity will be restricted to direct costs and the original supporting documentation for the direct costs on which the overhead contribution has been calculated.**
5. When establishing the flat rate, Invest NI will demonstrate that no direct costs or ineligible costs have been included in the overhead costs. Standard appraisal procedures require that all revenue/receipts are taken into account when calculating the grant requirement in accordance with the Managing Public Money regime. A list of those costs deemed to be direct costs (and therefore excluded from the overhead calculation) are presented below:-

Direct Cost Categories

- Wages, Salaries and other reasonable costs arising from the contract of employment eg increases in grade or salary scales and/or sick or maternity pay
- Consumables
- Equipment Depreciation*
- Project Specific Training
- Subcontracting
- Publicity & Technology Transfer activities (research related)
- Professional Fees

*(no depreciation can be claimed in respect of property/goods which have benefited from national/European grants at the time of their purchase, ie there must be no double funding)

The above list is by way of an example and is not exhaustive.

Ineligible costs in respect of ERDF are presented in the “Northern Ireland Rules on the Eligibility of Expenditure for the 2007-2013 Structural Funds Programmes” Guidance Note 5.

6. In order to calculate overheads the applicant will need to identify and list all overhead cost categories that are specifically related to the ERDF project.
7. The Invest NI Executive will review the list to ensure that the costs are eligible and reasonable. Ineligible categories, (eg those costs that could be attributed to direct costs or ineligible costs as presented in the DFP Guidance), will be removed from the list.
8. **This will be done on an ex-ante basis in the case of the flat rate methodology, or throughout the project life where the “real cost” methodology is used.**
9. Typical examples of company overheads and Invest NI’s proposed treatment is listed in the table overleaf:

An example of Company Overheads and Invest NI's proposed Treatment.

(This not a definitive list and should be used as Guidance Only)

OVERHEADS	Eligibility Rules
Admin Salaries	Eligible - Apportioned to project
Global Non-Executive Director Costs	Ineligible – Direct Cost - where applicable
Additional Bonus & Dividends	Ineligible
Cafeteria Expenses	Ineligible
Office Furniture and Fittings	Ineligible – Direct Cost
Staff Recruitment	Eligible – Project related
Professional Consultants	Ineligible – Direct Cost - where applicable
Electricity & Water	Eligible – Apportioned to project
Repairs	Must relate to equipment used on the project
Flight Costs	Ineligible - Direct Cost
Conference & Trade Show Costs	Ineligible – Direct Cost
Trade Mission Costs	Ineligible
Accom. & Subsistence Costs	Ineligible – Direct Cost
Business Development Entertainment Costs	Ineligible
Advertising & Marketing Costs	Ineligible – Direct Cost – where applicable
Motor & Travel Costs	Ineligible – Direct Cost – where applicable
Car Hire	Ineligible
Mobile Phone Costs	Eligible - Apportioned to project
Telephone & Web-ex Costs	Eligible – Apportioned to project
Computer Consumables	Eligible – Apportioned to project
Internet Access Costs	Eligible – Apportioned to project
Rent	Eligible – Apportioned to project
Rates & Service Charges	Eligible – Apportioned to project
Insurance & Assurance	Eligible – Apportioned to project
Professional Fees	In-eligible – Direct Cost
Subscriptions	Ineligible – Direct Cost
Staff Costs	In-eligible – Direct Cost
Printing, Postage & Stationary	Eligible – Apportioned to project
Cleaning & Maintenance Costs	Eligible – Apportioned to project
General Expenses	Ineligible
Operating Lease Costs	Ineligible
Depreciation	Ineligible – Direct Cost.
Production Variances	Ineligible
Amortisation of Goodwill	Ineligible
Amortisation of Deferred R&D Expenditure	Ineligible
General Bank Charges	Ineligible

Apportionment Methodology in respect of Real Costs and Flat Rates

- Heating, Lighting, Rent, Rates etc will be calculated against the most recent Audited Accounts, real bills and/or other probative documents and apportioned by the space used by the project or headcount which ever is deemed to be most relevant.
 - Telephone Bills, IT Facilities, HR Dept, Finance Dept, etc will be supported by Audited Accounts and apportioned by headcount.
 - Office Supplies and General Operating Expenses eg Cleaning, Security etc will be supported by Audited Accounts and/or other probative documents and apportioned by headcount.
10. From the above, it is clear that apportionment will require a method relevant to each cost category, so that, for example, the major costs such as heating bills, lighting etc, are calculated against real bills and are apportioned by reference to the actual room space used for the project, and indirect staff costs are based on the hours devoted to the project by the staff concerned.
11. In summary therefore it is important to ensure that all overheads are auditable and attributable to the project.

In practice this means:

- a Not to allocate budget overheads instead of actual costs;**
- b Not to base hourly overhead costs on timetabled hours instead of actual hours worked;**
- c Not to use theoretical charges for certain overheads (e.g. 15% central admin charges);**
- d Not to include items in the overhead calculation that are ineligible; and**
- e Not to use theoretical rent or rates instead of actual payment**

APPORTIONMENT METHODS

The apportionment methodologies used must be explained and evidenced as part of the appraisal process.

1. Apportionment of Staff Salary Costs working part time on the project

The apportionment methodology is necessary for calculating the cost of staff that do not spend all their time on the project. The following formula should be used to calculate the actual hourly rate for each individual involved with the project.

Step 1

Calculate the number of days a full time (or part time proportionally a part time) member of staff will work in a whole year.

Example 1

Working days are 5 days per week x 52 weeks per year	260
less public holidays	-9
less annual leave	-25
Total working days =	226

N.B. Therefore there is no allocation for any down time or sickness.

Step 2

From this you can calculate the number of hours worked in a year:

Example

Total working hours per year (based on the usual organisation contractual working day) are
226 days x 7 hrs per day = 1582 hrs per year

Step 3

From this if you divide the total cost for the year by the actual hours worked it will give you the hourly rate:

Example

Total salary cost for the year is £19,976 (including employers NI contributions & superannuation or pension costs for the year) £19,976 divided by 1582 hours = £12.62 per hour

Step 4

You then multiply this hourly rate by the actual project hours worked (as evidenced by timesheets) to give the individual total cost for the ERDF project. A calculation to show the apportionment of the actual salary costs for the individual on the project is set out below:

Example 2

ERDF hours are:

20 hrs per week x 24 weeks (capacity building)	480 hours
Total ERDF hours	480 hours

The individual cost to the project is

$$480 \times \text{£}12.62 = \text{£}6,057.60 \text{ can be charged to the project}$$

N.B. The staff time of 480 hours would have to be evidenced by timesheets that cover the agreed full time hours of that staff member for the total period claimed. This is to ensure no over-recovery of staff time as a result of staff working on multiple projects. Should this occur an adjustment each year should be carried out and evidenced.

2. Apportioning costs based on space or area used

This apportionment technique is based upon costing a space for a period of time. There are many overheads that are best apportioned on the basis of space used. These include rent, rates, heating, power etc.

If a space is used only by the project all year, the apportionment can be based on Step 1 only. If a space is used only by the project for part of the year, apportionment should be based on Step 1 & 2. If a space is shared by the project and other activity during the life of the project, apportionment should be based on Steps 1 & 3.

Step 1

Calculate the percentage of available space used by the project. When working out a building's total available space exclude general spaces such as corridors, toilets, canteens, general admin space, etc. The costs for these spaces will be split automatically by the apportionment technique.

The formula is:
$$\frac{\text{project space}}{\text{total space}} \times 100 = \% \text{ used}$$

Example 3

Step 1

A European project uses 1000 sq. feet out of a total of 4000 sq. feet in the building.

$$\frac{1000}{4000} \times 100 = 25\%$$

A project that has sole use of this space all year would pay 25% of rent, heating etc.

Step 2

For projects that don't run for a full year you must also calculate the percentage of time this space is used by the project. If the space is used solely by the project this percentage can be worked out using weeks.

The formula is:

$$\frac{\text{time the space is used}}{\text{total time available}} \times 100 = \text{percentage of time the space is used}$$

Example 4

A European project runs for 40 weeks out of the 50 weeks the building is open in a year.

$$\frac{40}{50} \times 100 = 80\%$$

Using the two percentage figures the apportionment figure can be worked out for projects that have sole use of a space for a part of the year.

The formula is:

$$\text{percentage of space used} \times \text{percentage of time the space is used} = \text{apportionment percentage}$$

Example 5

The above project uses 25% of the space available (step 1) for 80% of the time available (step 2). Therefore the apportionment figure is:

$$25\% \times 80\% = 20\%$$

So the project would pay 20% of rent, heating etc.

Step 3

Some projects do not have sole use of the space. They may use it for a number of hours per week and for the rest of the time it is used for other activities. The formula is the same as the formula explained in step 2 but it needs to be worked out in hours not weeks.

The formula is:

$\frac{\text{time the space is used}}{\text{total time available}} \times 100 = \text{percentage of time the space is used}$

Example 6

A European project runs in a room for 21 hours a week out of a possible 35 hours (the rest of the week the room is used for other activity). The project runs for 40 weeks out of the 50 weeks the building is open a year.

The hours the room is available: 35 hrs per week x 50 weeks per year = 1750

The hours the room is used by the project: 21 hrs x 40 weeks = 840 hours.

The percentage of available time the room is used = $\frac{840}{1750} \times 100 = 48\%$

Using the two percentage figures (the one from step 1 and the one above) the apportionment figure can be worked out for projects that do not have sole use of a space.

The formula is:

$\text{percentage of space used} \times \text{percentage of time the space is used} = \text{apportionment percentage}$

Example 7

The above project uses 25% of the space available (step 1) for 48% of the time available (step 2) therefore the apportionment figure is:

25% x 48% = 12%

So this project would pay 12% of rent, heating etc.

It should be noted that this is not a comprehensive list of apportionment methods. The apportionment method used will be relevant to the type of costs being apportioned.

Conclusion

Where costs are shared across a number of projects, projects will adopt a reasonable method for apportioning costs, keeping clear evidence to show how the costs for the project have been apportioned.

The method identified in the examples above may not always be suitable, if the project chooses to apply a more complicated apportionment method it will be approved at the relevant Invest NI delegated authority. Invest NI will ensure that full information required to make an informed decision is retained.