

Northern Ireland

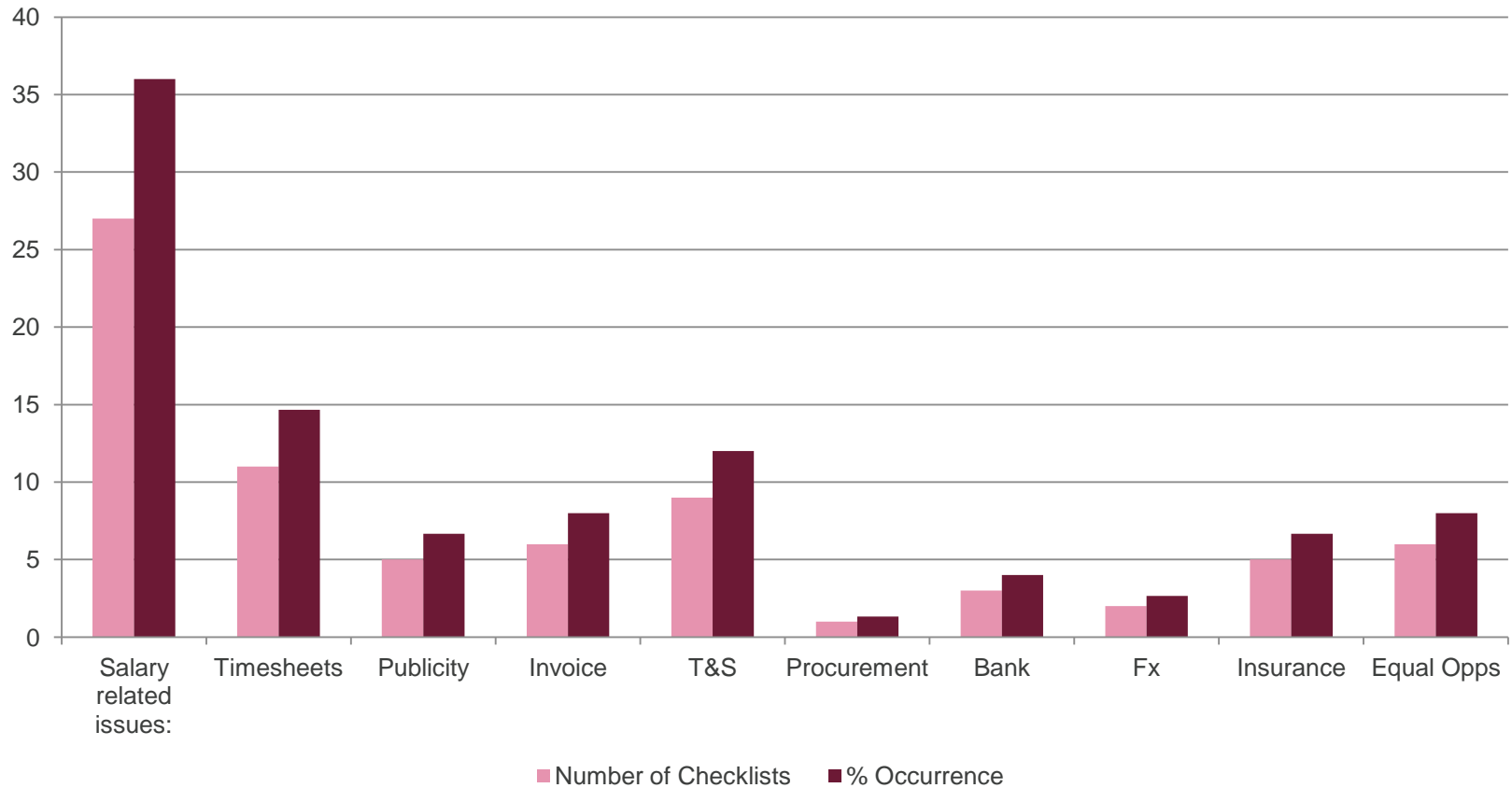
Development of a Unit Cost for R&D



Why did we decide to simplify?

- Complexity of Current Programme and impact on error rates;
- Disproportionate effort in verifying high volume-low value transactions;
- Complex salary cost framework;
- Audit Burden on beneficiaries – disincentive effect;
- Issues with certain cost categories which were very difficult/impossible to verify/justify (drawings, dividends, overheads etc.);

Analysis of Article 13 detected errors (2007-2013)



Northern Ireland Investment for Growth & Jobs Programme (2014-2020)

Thematic Objective/ Priority axis	ERDF	Investment priorities	Activities
TO1 - Research, Development and Innovation	€125m 41%	1 (b): promoting business investment in R&I, developing links and synergies between enterprises, research and development centres and the higher education sector.	R&D Grant Scheme.
TO3- SME Competitiveness	€123 40%	3 (d) Supporting the capacity of SMEs to engage in growth in regional, national and international markets, and in innovation processes.	Financial Instruments; and Micro and Small Enterprise Growth Programmes for purpose of job creation.
TO4 - Low Carbon – Renewable Energy	€46m 15%	4(a): promoting the production and distribution of energy derived from renewable sources.	Strengthening of Energy distribution systems to enable NI to achieve 40% of energy through renewable sources by 2020.
Technical Assistance	€12m 4%		Actions that support the efficient management and administration of the Programme.

SCO Analysis

Scheme Options	Implemented Through	SCO Options
Grant for Research & Development	Intermediate Body grant scheme for SME and large companies	<ul style="list-style-type: none"> •Unit Costs for R&D hour •Off-the-shelf cost options •Overhead simplification
Financial Instruments	Intermediate Body Publicly procured fund managers	N/A
Enterprise Start and Development Initiatives	Intermediate Body Local Authorities who will publicly procure services	N/A
Technical Assistance	Managing Authority directly and Intermediate Body / Audit Authority / Certifying Authority / Member State	Where salary costs are proposed then off-the-shelf options will be considered

Analysis of the Scheme – relevant factors

- Significant element of the Programme (49% of total eligible in current).
- Grant expenditure.
- High volume, low value transactions.
- Labour costs represent c49% of eligible costs in current programme.
- Overhead costs also present a significant audit burden.
- > 3 years historical data available for analysis.
- Significant reduction in audit burden possible at all levels.

Options Considered

- Consideration of off-the-shelf labour and indirect cost options
 - Gross salary divided by 1720
 - Existing national or comparable EU schemes or rates
 - 15% of labour costs to cover overhead costs

- Consideration of historical data analysis options
 - Development of a unit cost for an R&D hour
 - Development of an overhead flat rate up to 20% of direct costs

- Consideration of lump sum options

- Preferred Approach - Unit cost to cover labour and uplift by 15% to cover overhead costs without need for further justification.

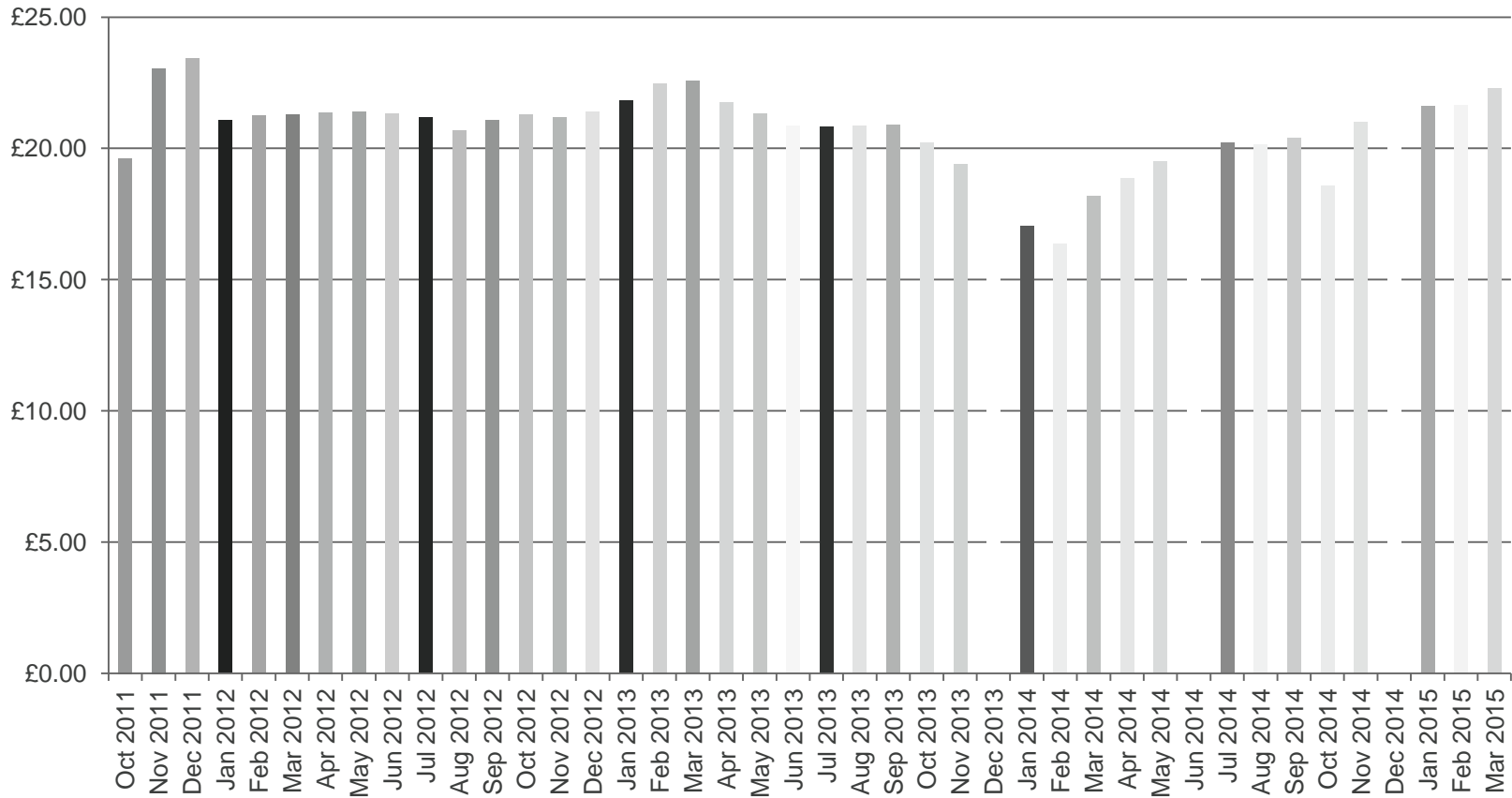
Historical Analysis

- Focus on 5 SMART sectors identified for the new IGJ Programme.
- Data from companies in these 5 sectors analysed.
- 5738 hourly rates analysed.
- Examined the data in a number of groupings for example:
 - Sector
 - Size of company
 - Turnover
 - Sales per employee
 - Export %
 - Gross Profit

Historical Analysis (2)

- Standard Deviation significantly high across all groupings which suggested lack of correlation within groupings.
- A single unit cost was as valid as a range of unit costs.
- A single unit cost would reduce scope for subjectivity.
- Steering Group accepted that a single unit cost was logical - high-end research staff costs are dictated / controlled by the market.

Average Hourly Rate by Month



The Proposed Unit Cost

- Total labour expenditure - £25,761,523.87
- Actual hours worked – 1,220,533.32
- Average - £21.11
- Applying the off-the-shelf overhead rate of 15% - £24.27
- For ultimate simplification this was rounded down to **£24.00.**

Compatibility with Regulations

- **Fair**- based on verified historical data and analysis can be reviewed
- **Equitable** – a single rate, doesn't favour selective beneficiaries
- **Verifiable** – Number of hours challenged through technical appraisal process and verified to timesheets during implementation

Verification of Labour Costs - Comparison

Current

Cost Category/Driver	Verification Requirements
BASIC TAXABLE GROSS	Payslip
EMPLOYER STATUTORY COSTS	HMRC Records/Bank Statements
EMPLOYER COSTS Example: Pension, Car Allowance, Healthcare.	Contract /Payslip/ Bank statements
TOTAL PAID ANNUAL LEAVE	Contract / T&Cs
CONTRACTED WORKING DAYS	Contract / T&Cs
CONTRACTED HOURS	Contract / T&Cs
HOURS WORKED	Timesheets

New

Cost Category/Driver	Verification Requirements
HOURS WORKED	Timesheet
EXISTENCE	Payroll (sample basis only)

Verification of overheads on real cost basis

All costs need to be validated and apportioned using an appropriate methodology.

Cost Description	Cost Breakdown	Cost	Validated through
Overhead Costs	Personnel costs (management)	350	Timesheets and payroll
	Equipment (depreciation)	25	Invoices and accounts
	Internal administration	120	Timesheets and payroll
	Publicity for courses & structure	65	Invoices and accounts
	Office supplies	110	Invoices, stock records
	Telephone, post, fax	20	Invoices, user logs etc.
	Taxes and insurance	150	Invoices
	Movable material (depreciation)	85	Accounting records
	External accountancy costs	75	Tender docs and invoices
TOTAL		1,000	

Verification of overheads using Unit Cost

- None required!!



FINAL CONSIDERATIONS

- Consider at an early stage in the development of Programme content to help ensure transparency, fairness and equity.
- SCOs reduce the audit trail but are not record-less – you must retain the historical data used to establish the rate or unit cost.
- Should get buy-in from national audit bodies prior to implementation.
- EC will not approve unit costs - rely on the Audit Authority opinion. However, good to seek their views.
- Simplification for companies that Invest NI deal with in administering the scheme.
- A lot of work up front for Programme Authorities but hopefully worth it!

