Innovation Loans Project Finance Guidance

Costs guidance for non-academic organisations

If you are a non-academic organisation claiming funds from Innovate UK you must complete your projects finances section and include all your eligible project costs.

This document will give you guidance on what information you must provide and what are eligible costs.

The finances section asks you to submit information about your:
• project costs
• project location
• organisation
• funding.

In certifying your organisation status please pay particular attention to organisation ownership. Make sure you follow the [company accounts guidance on GOV.UK](#) when establishing your organisation size. This is a change from the EU definition unless you are applying under State aid.

If State aid applies to your organisation then you will follow the [EU definition for company size on the European Commission website.](#)

1. Your Project Costs

In this section you must list your eligible costs for each category.

1.1 Labour costs

This section asks for details of employed staff working directly on the project. All listed staff should be on your payroll and subject to PAYE. If you are a micro company, sole trader or partnership not running PAYE go to the guidance below.

We need to establish the day rate for staff. This is calculated by the number of working days per year less bank holidays and your organisation's annual leave entitlement.

We also need to understand the length of time your organisation is working on the project. This is not necessarily the length of the total project as your organisation's involvement may only be for a defined period of time.

You can include direct staff in this tab (such as engineers, scientists and project managers) as well as any indirect back office staff who are directly supporting the project activities (such as budgeting, project reporting and recruiting). When making grant claims against labour costs, actual costs claimed must be supported with timesheets of those individuals who have worked on the project.

The gross employee costs should be calculated based on your PAYE records. They should include gross salary, National Insurance (NI), company pension contribution, life insurance or other non-discretionary package costs.

Ineligible labour costs include:

• use of blended labour rates inclusive of overheads
• discretionary bonuses or performance related payments of any kind
• time spent not working directly on the project (for example sick, non-productive time or training days)
• dividend payments
• forecasted pay increases.

If an employee is part-time you should enter their costs as full-time equivalent. You should enter the number of staff at each grade. If you are unable to specify personnel at the stage of application, we will accept an average grade based on the band or job family.

Actual claims will need supporting documentation (for example timesheets) of the individuals allocated to the project.

The form will calculate the day rate that will be applied to the number of days your staff are allocated to the project.

Micro companies, sole traders and partnerships not operating a PAYE scheme
If you do not currently operate a company PAYE scheme and are working directly on the project, you can include your labour as an eligible cost. This should be in line with the European Commission policy and is subject to the following conditions:

• your labour costs must be calculated using a maximum of eight hours per day, five days – up to 40 hours – per week and £22 per hour
• your costs must be recorded through the business accounts
• your project time must be supported by timesheets and project records.

Any grant awarded must comply with these provisions.

1.2 Overheads

We understand that organisations calculate overheads in different ways.

This section offers three options for overhead costs:

1. No overheads. You can select this option if you are not incurring or claiming grant for your overheads

2. The 20% of labour costs option allows you to claim 20% of your labour costs as overhead. This includes both direct and indirect overhead. Selecting this option allows us to review a successful grant application much faster as no further documentation is needed from you

3. The calculate overheads option asks you to complete calculations for claiming direct and indirect overheads. Any value claimed under this method will need to be reviewed by our project finance team if your application is successful. This is so we can assess the appropriateness of the overhead value you are claiming.

Full overhead recovery or full absorption costing is not eligible.

> **Once the overhead is calculated and approved it cannot be exceeded at any time throughout the project life.**

For option three you must download and complete the overhead calculation spreadsheet from the overheads costs section of the application form.

The spreadsheet has two sections to fill:

• indirect (administration) overheads
• direct overheads.

Once each section is completed the 'Total overheads' will calculate your total amount.

Indirect (administration) overhead

Selecting the indirect (administration) overheads link will take you to a template you'll need to complete to calculate these costs.

We class indirect overheads as those costs associated with back office functions (such as finance, HR, administration staff) whose primary function is to support the running of a business enterprise. Typically these costs are not directly related to a particular product or service production.

Indirect overhead costs are eligible for inclusion if they are incurred directly as a result of undertaking the project. They must be additional, which means over and above your business as usual costs.

Where you have already identified specific 'indirect' individuals working directly on the project, these should have been captured in the labour costs (tab 4) together with their attributable overhead.

We consider both historic and forecast information in our credit evaluation. It's about understanding how you will grow the business through innovation to get to profitability - and telling that story in a credible way.

We have provided cost categories in the template. The list below provides our definition for each category:

- Board and senior management – The proportion of salary costs (including employer's NI) of the board and senior management of the company. This should be where they are engaged in strategic or administrative tasks. Do not include those working directly on the project or who are customer facing or operational.
- Administrative staff – The salary costs (including employer's NI) of main administrative staff, such as receptionists and central administration. Do not include administrative staff employed to support sales, marketing, account management and profit generating departments.
- Human resources staff – The salary costs (including employer's NI) of human resource staff.
- Employed estates staff – The salary costs (including employer's NI) of employed cleaning, maintenance, security and other estates staff.
- Finance department staff – The salary costs (including employer's NI) of main finance department staff, such as payroll, accounts payable and receivable. Do not include staff employed to support sales, marketing or account management activities.
- Administrative support temporary/agency staff costs – This should include fees paid for the provision of temporary staff in administration or support services as listed above. Do not include any staff that are operational, such as marketing, sales, engineering, quality assurance, research and development and supply chain.
- General office IT services – Include general IT services used across the whole organisation. Do not include IT costs where they relate purely to non-eligible staff or manufacturing, production or fee earning activities.
- General postage – Include postage and courier expenses for general administration needs. Do not include product delivery or any postage costs incurred through promotion, sales, marketing customer relationship or accounts management.
- Office supplies, printing and stationery costs – General office stationery and supplies such as paper, business cards, corporate stationery, office equipment for support/ admin staff listed above. Do not include specific costs associated with sales, marketing, product delivery, product literature or reports.
- Security and safety costs – Include costs associated with site and staff safety and security including signage and health and safety costs.
- Building maintenance: administration office facilities only – Include general repair and maintenance costs of administration facilities. Do not include repair and maintenance of manufacturing/production facilities and exceptional items such as new works or extensions which are not eligible for inclusion in this section.

- Building rental: administration office facilities only – Where office space is leased include the rental costs. Do not include rental costs relating to manufacturing or production facilities, or the cost of any deposits or penalties.
- Contracted site services: administration office facilities only – Costs of contracted services relating to administration facilities such as cleaning of offices. Do not include contracted service costs related to manufacturing or production facilities.
- Site property taxes: administration offices facilities only – Property taxes and charges relating to office space. Do not include manufacturing or production facility property taxes and charges.
- Utilities: administration office facilities only – Electricity, gas, water, waste disposal, telecoms costs relating to administration office facilities.

The following is a step by step guide to help you fill in the relevant details to make your costs claim for indirect overhead.

Column A
Starting with your latest set of audited accounts please input your details against the relevant cost category in column A. If you are a new company or this information is unavailable, please use internal management accounts or forecast data.

Note that for the administration support staff costs section, the costs included here must be based upon PAYE (gross salary, NI, company pension contribution, life insurance). They should exclude discretionary package costs such as bonuses, awards, PRP and dividends. In addition please exclude any members working directly on the project who are customer facing or those engaged in operational/production areas.

Column B
In this column you should detail the proportion of the costs outlined in column A that represent core administration activity. You should follow the definitions and eligibility criteria outlined in the cost categories table above. You can use a percentage.

Column C
In column C please state what percentage of these costs you would assess as being additional and directly attributable administration activity to the project you are undertaking. By additional we mean over and above business as usual.

Column D
Based upon the details you've given in the previous columns, column D will automatically calculate the costs you've stated as being attributable to this project.

Column E

In column E you will need to provide some description of the cost constituents.

Once you have filled in this data you will see a percentage calculation (column F). This calculates what you consider as being eligible indirect overhead costs for your project (D) as a proportion of the annual audited figures (A). To save you time we use this calculated percentage and apply it to the remainder cost categories you have completed.

Any administration costs that are ineligible in this section but which directly relate to the project (for example based on invoices), should be claimed as direct costs within other sections of the finance form.

Completion of the indirect overheads template will calculate an annual total which will be proportioned for the length of time you are working on the project. You will see a per annum, per month and a per project cost. The per project costs will form your total indirect overheads as a monetary value.

Once you have filled out your indirect overheads information choose the 'return to the overheads section' to take you back to the main overheads section. Here you will see a summary of your indirect overhead.

Direct overhead

Selecting the direct overheads link will take you to a template you'll need to complete to calculate these costs.

We understand that in undertaking a project you may incur associated costs with those staff working directly on the project. We refer to these as direct overheads.

Typical costs in this area could include:

- direct staff provision of laptops (non-capital only)
- desks
- office (such as occupancy, facilities and utilities)
- IT infrastructure and systems.
- This section is provided in free format for you to list out such costs.

Direct overhead costs must be directly attributable to the project you are undertaking and should not represent a full recovery methodology inclusive of redundant, spare capacity time or cost.

You should detail the costs and include a description of each item together with the methodology or basis of apportionment used. This should include the calculations that support the claimable costs. This will help us to validate these costs if your project is successful.

If your costs have been subject to an independent audit verification we may ask you to provide this report to support our financial eligibility reviews.

Please note that costs associated with laboratories or workshops should be included within the other costs section of the application form.

Once you have completed the direct overhead you should select 'return to the overheads section'. You will return to the main overhead tab where you will see a summary of your overhead claim for both direct and indirect overheads.

1.3 Materials costs

The costs of materials to be used directly on your project are eligible costs if they are purchased from third parties. If the material has a residual or resale value at the end of your project, costs should be reduced accordingly.

If you are using materials supplied by associated companies or subcontracted from other consortium members, these must be listed at cost excluding any profit element or margin.

Software that you have bought specifically for use during your project should be included in this tab. If you or a consortium partner already own software that will be used in the project you may only claim the additional costs incurred and paid between the start and end of your project.

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.

1.4 Capital usage

You can claim the usage costs of capital assets providing they meet the following criteria:

• they have a useful life of at least one year
• they are stand alone, clearly definable and moveable
• they conform to your organisation's capitalisation policy.

Please calculate the usage value for all equipment and tools bought for use on your project with the following calculation:

• original purchase price (excluding VAT) divided by depreciation period in months (as per your current capitalisation policy) = monthly depreciation charge
• project capital usage cost = (monthly depreciation charge x number of project months) x percentage of time used on project.

Worked example

An enterprise has a capital item with an original purchase price of £305,000. Their accounting policy states the cost would be depreciated over four years. This item is to be used on the project for 15 months for 15% of the time only. The calculation for the direct project-related costs of this item would be:

£305,000 divided by 48 months equals £6,354. Therefore, the cost to the project should be £6,354 multiplied by 15 project months. Applying 15% utilisation would equal £14,296.

1.5 Subcontract costs

You can claim costs relating to work carried out by third-party organisations that are not part of your project team. The work must:

• be essential to the success of your project
• involve expertise that does not exist within the project team
• involve skills that it is not practical to develop in-house for your project.

You should name the subcontractor (where known) and describe what the subcontractor will be doing and where the work will be undertaken.

Any work supplied by associated companies should be charged at cost. Where subcontractors are non-UK based, please justify why you are unable to use a UK alternative.

There may be exceptional circumstances where a partner can also be a subcontractor within a project. In these circumstances we would need a full explanation as to why this option has been chosen over claiming the costs within the relevant partner organisation's own application.

Subcontract services supplied by partner companies should exclude any profit element and be charged at cost. Where a partner is also a subcontractor within a project, it is important that a company in receipt of the project funding stays within state aid limits.

This does not include independent auditor or accounting reports (IARs) which are required as part of IUK terms and conditions for project assurance and compliance. IARs and accounting services are an ineligible cost and therefore are unable to be claimed under any cost category.

1.6 Travel and subsistence costs

You can claim reasonable travel and subsistence costs for those individuals identified in the labour tab. Costs must be necessary and incurred exclusively for the progression of your project. Travel costs must be at economy travel only.

You should provide details and the purpose for the expenditure, including the number of staff involved.

1.7 Other costs

This category can be used for any direct project costs which are not covered in the other categories. Examples of other costs include:

Workshop or laboratory usage charge outs
Costs relating to workshops or laboratories that can be identified specifically as directly attributable to the project can be claimed in this section.

You should provide details of how the workshop or laboratory charge out rates are calculated per hour or day. This can include specific labour (such as staff permanently in place to maintain and run the workshop or laboratory and not considered project specific), rent, rates, maintenance and equipment calibration costs. These should form the overall costs together with the available operational hours to inform the hourly/daily charge out rates. Each workshop or laboratory will need to be supported with actual usage data to claim costs.

Training costs
These costs are eligible where they are specific to and necessary for your project. We may consider support for management training specific to your project but will not support ongoing training.

Preparation of technical reports
Project costs related to technical reports may be eligible for example where the main aim of your project is the support of standards or technology transfer. You should show how this report is above and beyond what good project management would produce.

As mentioned above in 1.5 Subcontracting, IARs and associated accounting costs are ineligible.

Market assessment
There is some scope for support of market assessment studies to help understand how your project results are applicable to the intended market. Market research as a promotional tool is ineligible.

Licensing in new technologies

We may consider support where we deem it makes sense to do so, for example, to avoid 'reinventing the wheel'. If imported technology makes up a large part of your project (which is technology valued at more than £100,000) then we expect the development of that technology as part of your project.

Patent filing costs for new intellectual property (IP)

IP costs generated by your project are eligible. This cost is allowable for SMEs up to a limit of £7,500 per partner. These should not include legal costs relating to the filing of trademark related expenditure as these are considered to be marketing/exploitation costs and therefore ineligible.

Regulatory compliance costs are eligible if necessary to carry out your project.

2. Project location

You will need to state the postcode where most of the project work will take place.

3. Your organisation

You must complete this section with:

- the size of your organisation to determine the level of funding you are eligible for
- your turnover from the last financial year
- the number of full time employees at your organisation.

In certifying your organisation status please pay particular attention to organisation ownership. Make sure you follow the [company accounts guidance on GOV.UK](#) when establishing your organisation size. This is a change from the EU definition unless you are applying under State aid.

If State aid applies to your organisation then you will follow the [EU definition for company size on the European Commission website.](#)

4. Your funding

You will be asked:

- if you are requesting funding
- if so, to select the percentage of funding you are requesting, based on your organisation size and project research category
- if you have received any other public sector funding for this project and to provide details if the answer is yes.

Before you complete the 'your funding' section, you must have:

1. completed all finance sections.
2. marked all the sections as complete.

The lead applicant must also have chosen the research category and marked it as complete. This can be found in the Project details of your application.

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