

# Guidelines

## Eligible Costs for Project Grants



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**CallaghanInnovation**

BUSINESS TECHNOLOGY SUCCESS

## Contents

1. Introduction .....	3
1.1. Purpose .....	3
2. Definition .....	3
3. Eligible R&D Project Costs .....	4
3.1. Internal Labour costs.....	5
3.1.1. Salary and Wage .....	5
3.1.2. Overheads .....	6
3.2. External Labour Costs.....	6
3.3. Materials and consumables costs and entered .....	7
3.4. Depreciation of New Capital Items.....	7
3.5. Residual Value .....	8
4. Exclusions .....	9

## 1. Introduction

Callaghan Innovation manages the Business Research and Development (R&D) Grants scheme on behalf of Government. The objective of these grants is to increase investment by New Zealand businesses in research and development to support long term economic growth.

To enable the assessment of proposals for Business R&D Grants, each application decision and allocation is assessed and reviewed.

The Project Grant is designed to:

- > Develop recipients in to stable and substantial Research and Development (R&D) performers
- > Develop recipients' R&D expertise and understanding aimed at development of new or substantially improved devices, products, processes, systems or services.

### 1.1. Purpose

This document provides guidance on calculating project costs for Research and Development (R&D) Project funding.

These costs are:

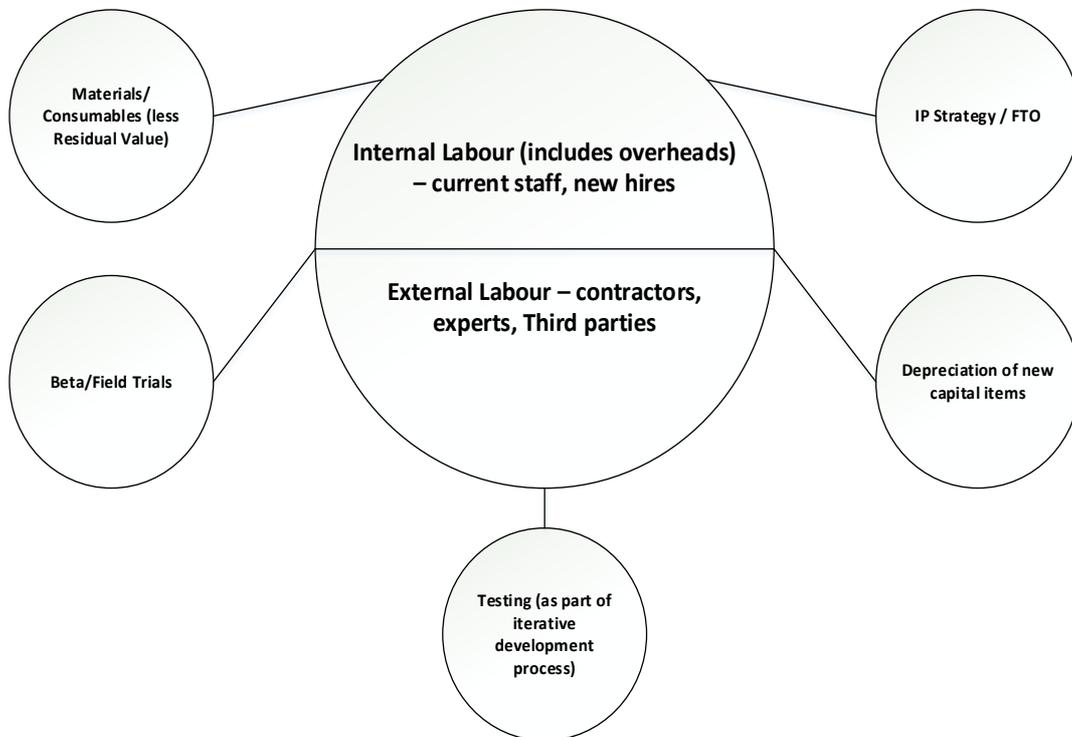
- > Entered into the Project Costing Template
- > The Project Costing Template is downloaded from the Project application in the IMS portal.

## 2. Definition

Eligible Research and Development (R&D) for R&D Project Grants is defined below:

- > Research;
  - Original and planned investigation
  - Undertaken with the prospect of gaining new scientific or technical knowledge and understanding
- > Development;
  - The application of research findings or other knowledge to plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

## PROJECT COST BREAKDOWN



### 3. Eligible R&D Project Costs

The Research and Development (R&D) Project Grant supports costs that are directly related to an R&D project as described in the Definition.

#### ELIGIBLE R&D PROJECT COSTS

Eligible R&D Project Costs can include:

- > Internal labour costs
- > External labour costs
- > Materials and consumables
- > Depreciation
- > Lease of new capital items less any residual value created in the R&D project
- > (The estimation of any costs must not include contingency overruns).

All details of cost calculations should be kept as these may be reviewed by Callaghan Innovation.

### 3.1. Internal Labour costs

Internal Labour costs can be accessed by referring to the Project Cost Template spreadsheet:

- > Internal Labour tab.

When referring to the eligible hourly rate for staff, it comprises the total of:

- > Salary and wage costs
- > Overheads.

#### 3.1.1. Salary and Wage

The eligible hourly rate applies throughout the life of the contract and cannot be changed without written approval from Callaghan Innovation.

When claiming the hourly salary and wage cost:

- > It must be the rate must be the actual salary or wage paid to the staff.

GRANT TYPE	SUMMARY DESCRIPTION
<b>Salaried employees</b>	<ul style="list-style-type: none"> <li>&gt; Divide the yearly salary by 1,752 hours (this is the maximum number of chargeable hours per year, allowing for statutory holidays, annual leave and sick leave).</li> </ul>
<b>Waged employees</b>	<ul style="list-style-type: none"> <li>&gt; Use the employees hourly rate (the maximum number of hours accepted is 1752).</li> </ul>
<b>New employees (Not yet employed)</b>	<ul style="list-style-type: none"> <li>&gt; Can be included at the rate budgeted (If it is different from actual paid it will need to be discussed with the Callaghan Innovation Account Manager).</li> </ul>
<b>Shareholders (Who own 5% or more of the business)</b>	<ul style="list-style-type: none"> <li>&gt; The hour rate is limited to the lesser of:               <ul style="list-style-type: none"> <li>- \$60 per hour plus overheads</li> <li>- Or the current shareholder direct actual payments.</li> </ul> </li> </ul>
<b>Start-ups</b>	<ul style="list-style-type: none"> <li>&gt; Available for those that are making the transition from 'sweat equity' to paying a salary or wage</li> <li>&gt; A claim of \$30 per hour (equates to a salary of \$52,560)</li> <li>&gt; Must be able to demonstrate an ability to continue these payments after the grant ends.</li> <li>&gt; If required it can be discussed with the Account Manager.</li> </ul>

### 3.1.2. Overheads

Callaghan Innovation applies a fixed overhead rate of 20% on internal labour costs.

This is to take account of the following business costs.

#### OVERHEADS

Over heads are the indirect costs or fixed expenses of operating a business:

- > Costs **not** directly related to the manufacture and sale of a product or delivery of a service
- > Examples include;
  - Depreciation on existing capital items
  - Insurance
  - Office rent
  - Office cleaning
  - Phone
  - Accounting fees
- > It excludes;
  - Travel
  - Consultants
  - Overseas costs.

### 3.2. External Labour Costs

External Labour Costs can be accessed by referring to the Project Cost Template spreadsheet:

- > External Labour tab

#### EXTERNAL LABOUR COSTS CALCULATION DETAILS

LABOUR COSTS	CALCULATIONS
<b>Contractors</b>	Hourly rate contractor: <ul style="list-style-type: none"> <li>&gt; Enter the rate</li> <li>&gt; Enter the best estimate of the hours they will work under each objective.</li> </ul> Fixed price contract with contractor: <ul style="list-style-type: none"> <li>&gt; Split their 'fixed price' across the objectives they are working on.</li> </ul>
<b>Business which is a contractor</b>	Labour and overheads: <ul style="list-style-type: none"> <li>&gt; Calculate as if they are an internal labour cost (Actual salary/wage plus overheads)</li> <li>&gt; Discuss with the Account Manager.</li> </ul>

If the contractor's cost is a significant proportion of the total project cost there may be a requirement to provide additional information:

- > To clarify how they were selected to ensure there is no "friendly party" appointment and the appointment based on competency and merit
- > In these cases there may be a need to see the contractor's estimate for the job and their terms and conditions
- > Estimates and standard terms and conditions where:
  - The external contractor is generating intellectual property in relation to the project; and/or
  - The cost associated with the external contractor is 15% or more of the total project costs.

### 3.3. Materials and consumables costs and entered

Material and consumable details can be accessed by referring to the Project Cost Template spreadsheet:

- > Material and Consumables tab.

#### MATERIALS AND CONSUMABLES

Costs for materials and consumables:

- > Are added in to each objective
- > A descriptive name for each item or group of items is required.

Where a related business is a supplier:

- > Any materials and consumables should be charged at cost.

\*Callaghan Innovation may ask for supplier details and quotes.

### 3.4. Depreciation of New Capital Items

Depreciation of new capital items details can be accessed by referring to the Project Cost Template spreadsheet:

- > Depreciation tab.

#### DEPRECIATION

Depreciation costs of new capital purchases (or obtained under a finance lease) specific to the project:

- > Are eligible at the IRD straight line depreciation rates
- > The acquisition of the item is not eligible
- > Invoices and/or proof of purchase will be required to provide evidence of purchase.

### 3.5. Residual Value

Residual Value details can be accessed by referring to the Project Cost Template spreadsheet:

- > Materials and Consumables tab.

Research and Development (R&D) projects are funded to create new knowledge; however many projects may also create tangible items that have value beyond the R&D project; e.g. prototypes, manufacturing tools, commercially saleable products.

RESIDUAL VALUE – TANGIBLE ITEMS	
ITEM	DESCRIPTION
<b>Prototypes</b>	<ul style="list-style-type: none"> <li>&gt; Utilised by many R&amp;D projects to physically test their design solutions</li> <li>&gt; Typically minimum cost sufficient to test the solution and not to produce a pre-commercial prototype</li> <li>&gt; Simple, rudimentary prototypes possibly at reduced scale should be considered</li> <li>&gt; Key considerations for eligibility are:               <ul style="list-style-type: none"> <li>- Will the prototype be sold to an early customer</li> <li>- Retained as a company asset</li> <li>- Will valuable components be retained by the company</li> </ul> </li> <li>&gt; Where there is residual value beyond the R&amp;D project the value should be subtracted from total project costs</li> <li>&gt; Factors to consider:               <ul style="list-style-type: none"> <li>- The life of the asset and whether it generates future economic benefits for the business</li> <li>- If applicable discuss this with your Callaghan Innovation Account Manager.</li> </ul> </li> </ul>
<b>Commercially saleable products</b>	<ul style="list-style-type: none"> <li>&gt; Created in some R&amp;D projects               <ul style="list-style-type: none"> <li>o Examples include harvesting fruit when developing husbandry protocols for new fruit tree varieties and catching fish when trialling a novel commercial fishing net.</li> </ul> </li> <li>&gt; Project funding cannot subsidise commerce               <ul style="list-style-type: none"> <li>- Preferred option is to strip out the costs relating to the commercial activity and include the marginal costs of the R&amp;D activity</li> <li>- A commercial pre-production run is not eligible.</li> </ul> </li> <li>&gt; In all cases you should explain how you determined the residual value</li> <li>&gt; Where the residual value is estimated by an expert you should note their background, independence and any conflicts of interest</li> </ul>

## Manufacturing tools

- > Sometimes required to manufacture prototypes that will be tested. Examples are:
  - Press tools
  - Plastic dies
- > The cost of the die is an 'associated cost' that is necessary to complete the R&D project
- > The preference is that minimum cost, limited life (soft) dies are used.
- > Where these tools are also used for commercial production e.g. pre-production samples for test marketing their residual value should be estimated
  - In this case the residual value is the proportion of life remaining, multiplied by the cost of manufacture.
  - For example - consider a \$10,000 die which is used to make 10 prototypes for testing. The die is capable of making another 90 samples and therefore 90% of the die's cost is residual value (\$9,000).

## 4. Exclusions

Eligible Research and Development (R&D) costs generally cannot include the following costs (not an exclusive list):

### EXCLUSIONS

- > Commercialisation costs
  - Selling
  - Production/manufacturing
- > Depreciation on existing capital items (captured in overhead rate)
- > Purchase cost of new capital items (covered under depreciation)
- > Leasing costs that include capital repayments (i.e. finance leases; captured in overhead rate/depreciation)
- > Legal and compliance costs
- > Protecting Intellectual Property (Freedom to operate and IP strategy is eligible, however patent filing is not. Discuss with your Callaghan Innovation Account Manager)
- > Entertainment
- > Travel and Accommodation (travel and accommodation directly related to the R&D project may be eligible, talk to your Callaghan Innovation Account Manager).
- > Market research
- > Prospecting, exploration and mining
- > Costs and inputs into commercial pre-production runs.