


Simplification

The NI experience in
implementing the 2014-2020
ERDF Investment for Growth
and Jobs Programme



Introduction



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Simplification - Background

- Programme Development
- Lessons Learned
- Regulatory Changes
- Beneficiary Feedback

Programme Development

- Intervention logic – thematic concentration
- Targeted funding with maximum impact
- Smaller number of intervention types
- Increased use of Financial Instruments

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

Thematic Objective/ Priority axis	ERDF	Investment priorities	Implementation 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. Design Service
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; SME capital investment; and Micro and Small Enterprise Growth Programmes.
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.

Why Simplify?

- High error rates for low value transactions
- Complex salary framework
- Audit burden on beneficiaries
- Because we could and therefore should!

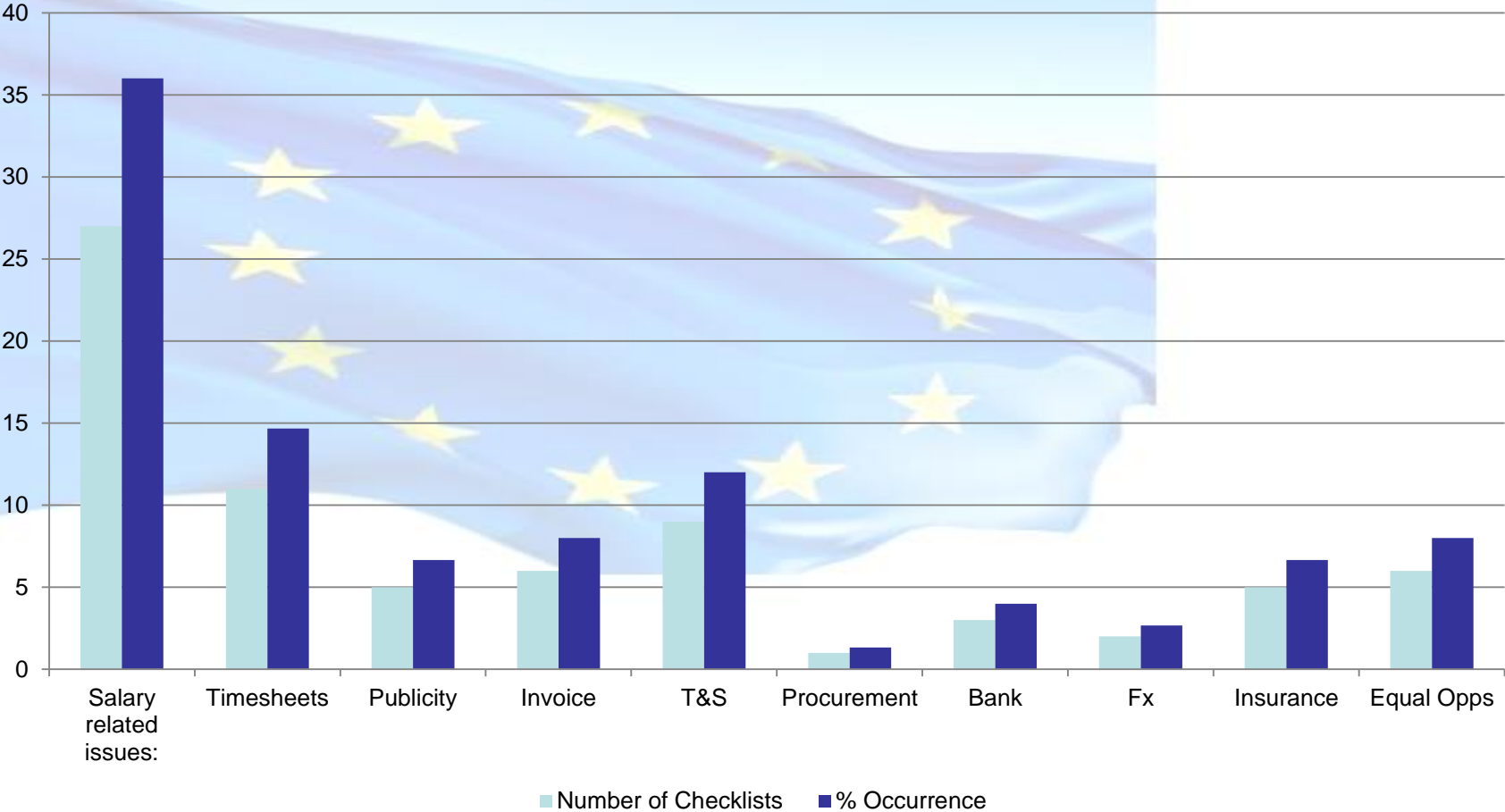
SCO Analysis

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
Design Service	Intermediate Body Service contract	N/A – procured service
SME Capital Investment	Intermediate Body Grant scheme for SMEs	N/A – invoiced costs only
Financial Instruments	Intermediate Body Fund managers	N/A – equity investment contracts and the fund managers were procured
Enterprise Start and Development Initiatives	Intermediate Body Local Authorities	N/A – restricted to procured costs.

Grant for R&D

- Significant element of the Programme
- Grant Expenditure
- Labour costs represent 49% of total cost
- Overhead costs - significant audit burden;

Analysis of Errors



Options Considered

- Off-the-shelf labour and indirect cost options
- Lump Sums
- Unit Cost

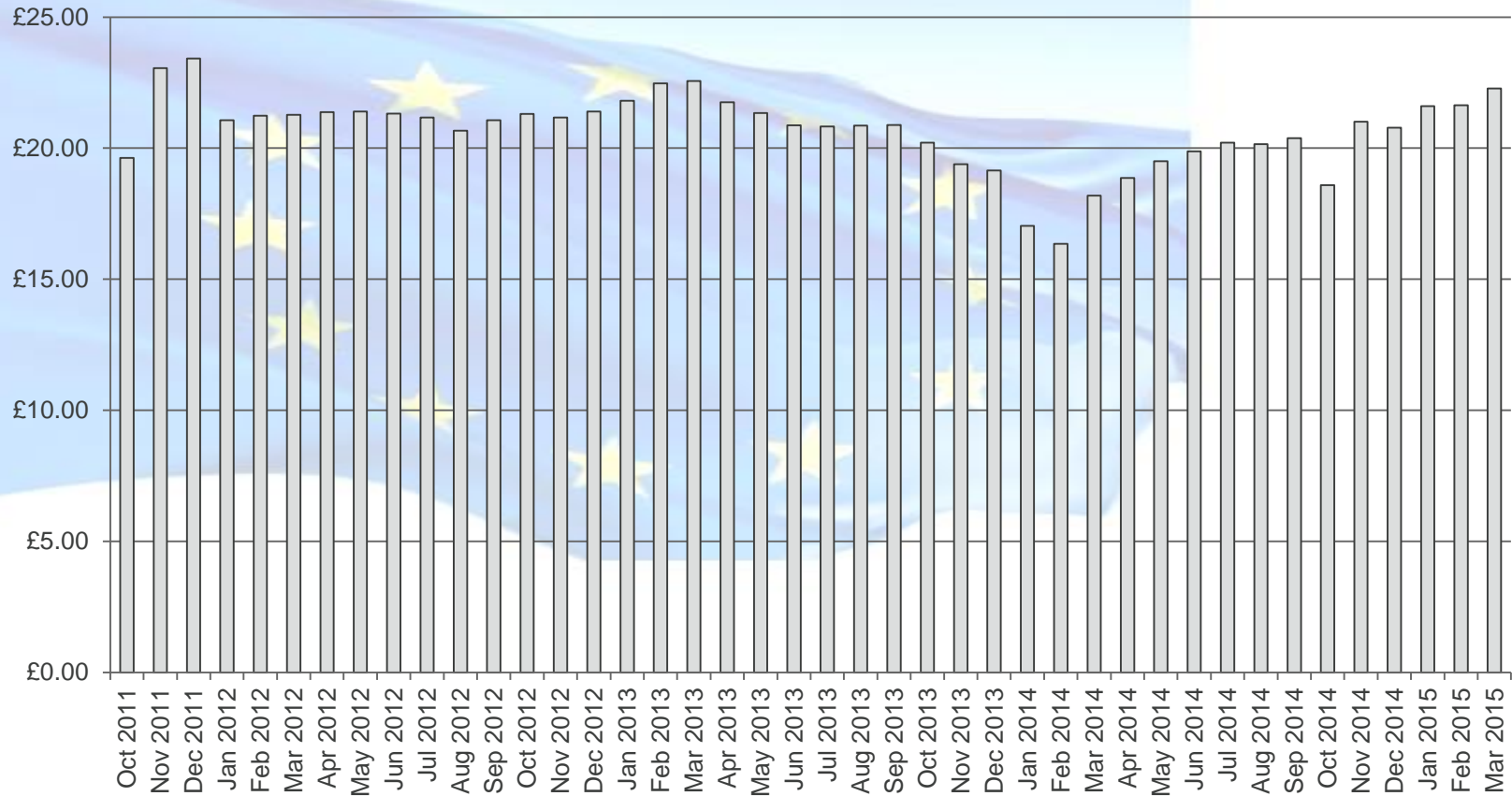
Unit Cost Development

- Steering Group 2013
- Consultants appointed 2014
- Analysed over 3000 hourly rates
- Single rate of £25.22 (£21.93 + 15%)
- Audit Authority issues
- 4 further iterations in 2014 and 2015
- Final rate agreed in October 2015

The 5 Iterations!

Labour Costs	£17.17m	£20.98m	£26.20m	£25.77m	£25.76m
Total Hours	783k	968k	1,235k	1,221k	1,221k
Average	£21.93	£21.68	£21.21	£21.11	£21.11
+ 15% o/h	£25.22	£24.93	£24.39	£24.28	£24.28
Rounded Unit Cost	£25	£24.50	£24	£24	£24

Average Hourly Rate by Month



Other Factors

- Presented proposal in 2014 to EC (Regio)
- Presented final proposal in Oct 2015
- NI Member State on board from start
- Invest NI Management – split views

Benefits – Reduction in verification of labour costs

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)

Benefits – reduction in verification of overheads

CURRENT PROCESS

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!!



Reflecting Reality.

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- The background of the slide features a stylized, wavy European Union flag with its characteristic blue field and twelve golden stars arranged in a circle. The flag is positioned behind the list of bullet points.
- Arduous lengthy process
 - Lack of clarity around the required data
 - Tardiness / ambiguity in guidance
 - No formal sign off by EC – uncertainty
 - First for ERDF - new ground

General UK views

- Stick to what we know – fear of unknown
- Unit cost methods – too complex
- Lump Sum option seen as too risky.
- More EC ‘off-the-shelf’ rates needed
- Analysis required = admin burden
- Analysis required = uncertainty
- Thresholds for lump sums etc. too low

Recommendations Regulatory Changes

- Provide more 'off the shelf' options
- Extend flat-rate options from ESF (direct labour costs +40%) to ERDF company support.
- Permit use of ETC calculation of staff costs @ 20% of all other direct costs
- Extend principles of SCO rules to EAFRD standardised costs

Recommendations

Non-Regulatory Changes

- Enhance guidance and clarify:
 - Audit intensity e.g. Horizontal
 - Amount of data needed
 - Reference periods for data
- Disseminate best practice
- Use developed methods to devise toolkits

Recommendations

Non- Regulatory cont.

- Clarify/extend the use of existing EU options:
 - E.g. - H2020 permits use of a flat rate for 'indirect' costs calculated at 25% of total eligible 'direct' costs.
 - C(2013) 8197 (H2020) also permits reimbursement of on the basis of unit costs.
 - In both cases the requirement is for similar types of beneficiary and operation – clarification on what is meant by 'similar' is required.

Recommendations

Non- Regulatory cont.

- EC should 'approve' all SCOs
- Ensure that auditors do not gold-plate requirements
- Check compatibility with State Aid (e.g. Document retention periods).