

Cost Eligibility Guidelines

Updated December 2022

This document provides high level guidelines only, recognizing that each project is unique, and that Canada's Ocean Supercluster ('OSC' or 'Supercluster') will work with prospective projects and OSC Members ('Members') to provide additional clarity or specificity when needed.

OSC Program Funding Overview

The OSC provides funding to projects (both Technology Leadership Projects and Innovation Ecosystem Projects) by reimbursing Funded Eligible Project Costs incurred by Members. There is no maximum or minimum funding per cost category and the project consortium has the flexibility when preparing the project budget to designate which costs OSC will reimburse, as long as they are Funded Eligible Project Costs.

Funding requested from OSC within the Technology Leadership program must be matched by Industry Member contributions ("Industry Match") according to the project co-funding rate or program reimbursement rate. This means that if OSC is asked to provide \$2 million in funding and the program co-funding rate is 50%, Industry Members must provide \$2 million in funding as well (\$4 million in total eligible project costs).

Other contributions to Technology Leadership Projects from Associate Members, government programs, universities, and research institutions are not eligible Industry Match. While these costs should be included in the overall budget, they are not included in the amount that determines how much OSC can reimburse to project participants.

The total Canadian government assistance for any project, including federal, provincial/territorial and municipal, cannot exceed 100% of eligible project costs incurred and paid. Tax Incentives and Tax Credits, such as SRED, do not reduce the Industry Match to the project; however, any amounts received during the project term are required to be reported for purposes of OSC monitoring stacking of its overall portfolio of projects.

Eligible Project Costs

Eligible Project Costs
(Cash Costs & In-kind)

Ineligible Costs

1. Funded Eligible Project
Costs (Cash)

2. Unfunded Eligible Project Costs
(Cash + In-kind)

Eligible Project Costs include cash costs incurred for the project and In-kind contributions made to the project on or after the date of the letter of award which are incremental, reasonable and directly relate to achieving the outcomes of the project as defined in the project Statement of Work.

In-Kind Contributions

In-kind contributions to projects are defined as cash-equivalent goods or services that replace an incremental expense that would have to be purchased if not provided by the Member. In-kind contributions must be relevant and central to the activities and objectives of the project and must be Eligible Project Costs. ***Please note:*** all wages incurred by project participants are considered cash costs and not in-kind contributions.

Please see OSC's *In-Kind Contributions to Projects* for guidance, further detail and examples pertaining to contributions of this nature.

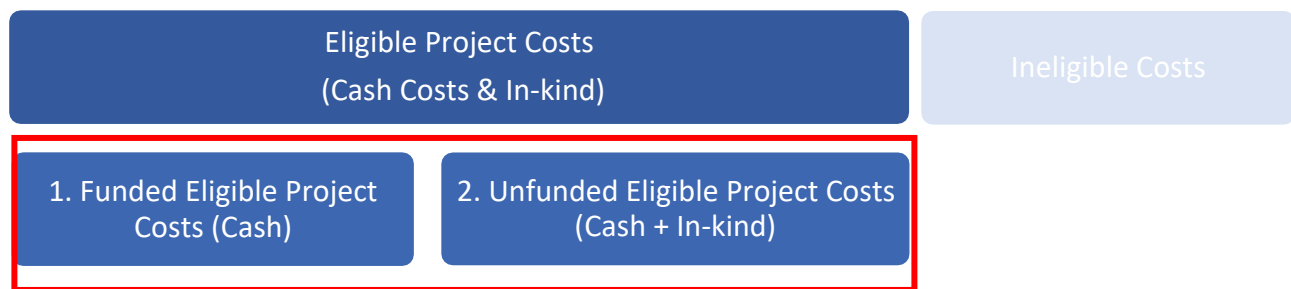
Cash Costs

Cash Costs are Eligible Project Costs that a Member pays for as part of the project. They are incremental in nature and not a shared resource. Cash costs must be incurred and paid to be eligible for reimbursement and must be supported by specific and separable receipts, invoices or timesheets. The project consortium is required to track and report on all Eligible Project Costs as detailed below; however, the OSC will only fund (by way of reimbursement) Funded Eligible Project Costs.

Funded Eligible and Unfunded Eligible

There are two sub-types of Eligible Project Costs that are considered cash costs and In-kind contributions: 1) Funded Eligible Project Costs; 2) Unfunded Eligible Project Costs. The main difference between the two sub-types is a separation of which Eligible Project Costs are reimbursable by the OSC and which are not.

Where the Member or project participant does not wish to seek reimbursement from the OSC or is not eligible to seek reimbursement from the OSC, all reported project costs incurred or paid for must still be Eligible Project Costs as defined below (including sub-types) even though they are not matched or directly reimbursable by the OSC.



1. Funded Eligible Project Costs

Funded Eligible Project Costs are cash costs incurred by a Member which are reimbursable by the OSC to the Member or project participant.

Funded Eligible Project Costs include:

- a) portion of actual gross wages, salaries or contracts incurred which can be specifically identified and measured as having been performed on carrying out project activities. The gross wage can include all non-discretionary benefits the employer must pay (e.g. CPP, EI, provincial workplace injury insurance). Examples include:
 - Proportion of wages, salaries and non-discretionary benefits incurred for employees for time spent directly on project activities as identified in the Project Statement of Work.
 - Wages, salaries and non-discretionary benefits incurred for employees dedicated to the project, including project managers and project coordinators would be considered eligible project costs.
 - Proportion of wages, salaries and non-discretionary benefits incurred for employees for time spent directly on project activities required as per the project agreement (TLPA,

- AOSPPA or IEPA). Such activities may include time spent directly on preparing materials for and attending steering committee meetings, compiling OSC reconciliation and reporting forms, or preparing changes to any schedules as per the change management provisions of the project agreement.
- Please refer to Appendix A for Guidance on Non-Discretionary Benefit Costs.
- b) Subcontractor costs are eligible provided they cover costs for work that is essential to the project and where the expertise does not exist among the partners. These costs must be accounted for at Fair Market Value and must be reasonable and in line with industry norms and practices. Please note that:
- A project partner or employees of a project partner cannot be a sub-contractor or consultant to another project partner as it relates to undertaking project activities. All project partners must undertake any and all labour incurred by their employees on project activities as a direct labor costs and be included as wages and salaries.
 - Attention will be made to the total amount of sub-contracts or consultancy in relation to total project costs when assessing eligibility and level of support.
- c) costs related to equipment, facilities and supplies, including purchase, rental, operation and maintenance costs;
- d) user fees such as service fees and subscription/license fees directly related to the project are eligible project costs. Examples of user fees include:
- costs to access scholarly research to advance the project
 - costs related to specialized software required in the execution of the project;
- e) materials and supplies consumed by the project;
- f) incremental room or facility rentals that are for the exclusive use of the project;
- g) costs related to rent facilities to support conferences and related telecommunication expenses;
- h) travel costs, including meal and accommodation costs in accordance with the OSC Ultimate Recipient Travel Policy;
- i) dissemination costs (publication costs and other such activities);
- j) other direct project costs which can be specifically identified and measured as incurred in the performance of the project activities such as market studies, insurance and shipping costs;
- k) capital expenditures, that are linked to the objectives of the project, vital for the success of research, development, demonstration or commercialization of the project, and not otherwise available as a shared resource. Pre-approval by the OSC is required if an individual capital expenditure or a purchase of integrated assets that depend on one another to function exceeds \$1 million; and

- l) foreign costs: on an exceptional basis, the Supercluster may authorize expenditures incurred outside of Canada if they are necessary for the success of the project and could not otherwise be undertaken in Canada. The approval of the Supercluster is required in advance for any project costs to be incurred outside of Canada, with a few exceptions. Please see the Supercluster's Foreign Cost Guidance for further details. The Supercluster should be consulted when it is not clear whether an expense is a foreign cost.

Effective February 1, 2023: OSC will not reimburse funded eligible costs that were paid more than 6 months prior to the claim/reconciliation being submitted.

2. Unfunded Eligible Project Costs

Within the Technology Leadership Program, Unfunded Eligible Project Costs are not directly reimbursable by the OSC, but when paid for (or contributed In-kind) by an Industry Member, these costs count as Industry Match. This means that the OSC can match the Industry Contribution towards Unfunded Eligible Project Costs by reimbursing Funded Eligible Project Costs higher.

Within the Innovation Ecosystem Program, Unfunded Eligible Project Costs are not directly reimbursable by the OSC.

Unfunded Eligible Project Costs include:

- a) Eligible In-kind contributions
- b) salaries, gross wages or contracts in excess of \$300,000 per individual per year;
- c) expenses related to the construction, purchase of a building or land, if the Minister approves such costs as Unfunded Eligible Project Costs in advance;
- d) cash payments to federal entities (i.e. National Research Council);
- e) foreign costs that are not considered Funded Eligible Project Costs under OSC's Foreign Costs Guidelines and that do not exceed 0.5% of a project's eligible cash and in-kind contributions to the project.

Ineligible costs include those costs that are not considered Eligible Project Costs.

A. Eligible Project Costs
(In-Kind & Cash Costs)

B. Ineligible Costs

1. Funded Eligible Project
Costs (Cash)

2. Unfunded Eligible Project
Costs (Cash + In-kind)

Ineligible Costs Include:

- a) costs incurred prior to the date of the letter of award;
- b) costs unrelated to the statement of work, project-specific IP development or achieving the objectives of the project;
- c) cash costs that do not have appropriate documentation to support (i.e. invoice and receipt);
- d) costs incurred to execute the project agreement, including legal costs incurred during contract negotiations with participants and OSC;
- e) The costs of routine administration and operations, and any allocations of overhead;
- f) Wages, salary and non-discretionary benefits incurred for Senior leadership from participating organizations who provide oversight, are generally considered ineligible as the activities performed by these individuals do not directly relate to project activities. Projects would have to demonstrate how the activities these individuals are performing are incremental to the Project and statement of work in the project agreement.
- g) fines and penalties;
- h) honoraria, gifts, donations, entertainment expenses and alcoholic beverages;
- i) provisions for contingencies;
- j) losses on investments, other projects, contracts, bad debts or expenses for the collection charges;
- k) federal and provincial income taxes, goods and services taxes, excess profit taxes or surtaxes and/or special expenses in connection with those taxes;
- l) non-incremental costs including depreciation or amortization, excess facilities, vacant or unused space;
- m) amortization of unrealized appreciation of assets;
- n) dues and memberships;
- o) discretionary severance or separation packages;
- p) discretionary benefits (e.g. health & dental benefit premiums, retirement packages or bonuses, etc.)
- q) extraordinary or abnormal fees for professional advice unless Supercluster is obtained prior to

- r) incurring the cost;
- s) costs for which any project consortium member organization is eligible for a rebate or tax credit from federal, provincial, territorial or municipal government sources;
- t) legal, accounting and consulting fees in connection with litigation or financial reorganization.

Documentation Required to Substantiate Eligible Project Costs

OSC Members submitting a claim or reconciliation will complete OSC's Detailed Claim and Reconciliation Form, as well as certain attestations. OSC's Project Finance team will work directly with Members to ensure they submit the needed attestations given their project circumstances.

As per the terms in all project agreements, claims/reconciliations are due within 20 days of each reporting period end.

Effective January 1, 2023, all Members with active projects must submit an updated project forecast using OSC's Project Forecast Template along with their project claim/reconciliation. Any project whose claim/reconciliation demonstrates a variance greater than 15%, as between the actual and forecasted OSC spend/contribution, will be notified by the OSC. Variances in excess of 15%, which are not resolved within 30 days from the date of the notice, represent funding that may be permanently reallocated by the OSC in its sole and absolute discretion.

In order for any project cost to be considered an Eligible Project Costs, it must be supported by appropriate documentation. For Eligible Project Costs that are considered cash costs, supporting documentation would be a receipt, and invoice or a timesheet/payroll record that supports the cost incurred by the Member.

When reporting/claiming Eligible Project Costs to the OSC, only receipts and invoices over \$500 (and wages and salary documentation noted below) must be provided; however, all supporting documentation, including underlying timesheets and payroll records, must be maintained by the Member and available should OSC require the documents at a later date.

When reporting/claiming wages and salaries to the OSC as Eligible Project Costs, only the following details need to be provided:

- Employee name or employee number, job title, hourly rate, hours billed to the project, associated non-discretionary benefit costs (CPP, EI, provincial workplace injury insurance) prorated to the hours worked on the project and description of work performed.

Effective March 1, 2023:

- all claims/reconciliations received later than 10 days past due (30 days after the reporting period end date), will be considered a nil claim/reconciliation and Members must wait until the next reporting period to submit another. As an example, for monthly claims due on March 20th , 2023 or quarterly claims due on April 20th , if they are received later than March 30th, 2023 or April 30th , 2023, respectively, they will be considered nil and Members must wait until the next reporting period to end before submitting another claim/reconciliation.
- two consecutive missed claims will result in a nil claim being recognized for both reporting periods, which will be updated as such in the actual to forecast variance analysis. As mentioned above, any forecast to actual variances in excess of 15%, which are not resolved within 30 days from the date of the notice, may be permanently reallocated by the OSC in its sole and absolute discretion.

APPENDIX A

Guidance on Non-discretionary Benefit Costs

Non-discretionary benefit costs that are considered eligible project costs are the employer portion of Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums and provincial Workers Compensation Benefits (WCB). These costs need to be pro-rated to the actual hours worked on the project by each employee during the claim period.

Two options for computing eligible benefit costs are provided below.

Option 1: If the employer benefit cost per employee is readily available from payroll records, the simplest method is to pro-rate the employer benefit cost per employee to the hours worked on the project in the claim period.

Example: Claim period is three (3) months. Assume 3/12 of annualized 2080 hours (i.e. 40 per week) equals a total of 520 hours eligible for the claim period. If an employee has worked 200 hours on the project during the claim period then:

- *Claim 200/520 hrs of the employer benefit cost for CPP, EI and WCP for that period.*

Option 2: If the employer benefit cost per employee is not readily available, another acceptable option would be to calculate the annual employer cost per employee and convert that into a \$/hr rate for Canada Pension Plan, Employment Insurance and Workers Compensation, and apply that rate to hours worked on the project in the claim period.

Calculate the employer benefit cost per employee and then divide this cost by total annual hours (2080 hours for a 40/hr work week) to arrive at an hourly rate. Multiply the hourly rate by total number of hours the employee has worked on the project during the claim period. (e.g. CPP Benefit Cost for X employee / Annual Hrs * Hours worked on project)

Example CPP Calculation: An employee earning \$50,000 worked 200 hours on the project during a 3 month claim period. Basic exemption for CPP is \$3,500, therefore, maximum contributory earnings is \$46,500.

*CPP employer benefit cost = \$46,500 * 5.25% = \$2441.25*

CPP eligible cost/hour = \$2,441.25/2080 = \$1.17

*CPP eligible cost for claim = \$1.17 * 200 hours = \$234*



Federal Canada Pension Plan and Employment Insurance premium rates are available on the Canada Revenue Agency website. Provincial worker's compensation rates are employer specific. The OSC recognizes that accounting systems are often different, and these systems can track costs in different ways. Please reach out to the Project Finance team at projectfinance@oceansupercluster.ca to discuss any other method you would like to use to apply this allocation.