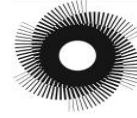




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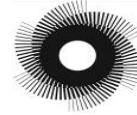


East of England Development Agency

GUIDANCE NOTE ON CLAIMING ERDF OVERHEADS



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Version Control

Version	Date	Author(s)	Comments
1	January 2009	Martin Haindl	

Authorisation

Approved by	Approval Date
Andy Luff	Jan 09



Overheads are eligible expenditure provided that they are based on real costs which relate to the implementation of an ERDF project and are allocated pro rata to the operation according to a duly justified fair and equitable method.

Overheads may include the cost of employing staff **not** directly engaged on the project e.g. finance or HR staff and non staff costs e.g. heating, lighting and other accommodation costs, where these are relevant to and can be fairly apportioned to the project. All project costs should be actual, evidenced, and fully justifiable. Where actual cost is shared with organisational non-project costs, then apportionment is permissible providing:

- a The source cost is eligible for ERDF support and fully auditable (receipts, bills etc)
- b The cost is clearly relevant - additionally incurred or shared by the project (heating, lighting, rent, rates etc)
- c The cost can be realistically apportioned to arrive at a figure that reflects the true cost incurred by the project applicant in carrying out the ERDF project.

Direct Costs

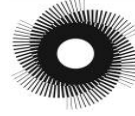
Direct costs are the costs that arise from the delivery of an ERDF project and which are eligible for ERDF support, which are captured directly and do not need apportioning. Examples include:-

- a Consumables for which records of actual consumption by the project can be maintained i.e. stationary.
- b Rents, heating, lighting etc where these costs are charged solely to projects.

All direct costs must be actual not estimates or forecasts.

Overheads Calculation for Indirect Costs (including apportionment)

In order to calculate overheads the applicant will need to identify & list all the overhead costs that can be specifically related to the ERDF project activity. These costs should be included with sufficient detail to allow costs to be monitored throughout the project life. Eligible costs of a project shall be the costs that are directly attributable to the project.



Ineligible items, if any, should then be removed from this list. This list should then be reviewed by the Secretariat/Executive to ensure that all cost headings are eligible & reasonable.

Apportionment

From the above it follows that apportionment will require a method relevant to each cost, so that, for example, the major costs such as heating bills, lighting etc, are calculated against real bills and are apportioned by reference to the actual room space used for the project, and administrative staff costs are based on the hours devoted to the project by the staff concerned..

Telephone bills & rental charges etc. require a methodology based on actual telephone use by the project. Costs that are far removed from project delivery and already covered centrally should be excluded from any calculation. Where their actual cost and relevance is not evidenced, they should be removed from any claim calculation.

Any single method of apportionment, unless providing the above, is not acceptable to ERDF requirements, as identified in recent audit findings, especially where such a single method creates an averaging of central costs for every project, i.e. not relevant to each project specifically, or based upon on the level of, say, project salary costs.

The method of calculating the overhead costs in proportion to the salary costs of an organisation by taking the total organisation costs and attributing them to the project per £1 of salary paid is **not an acceptable calculation method**.

The applicant therefore needs to apply an apportionment methodology to the list of costs (previously agreed by the RDA or Article 42 body), to the list of acceptable overhead costs so that the ERDF contributes towards these general costs in a fair and equitable way.

Basic examples of how to structure the overhead costs and apportion them to a project are included in **Annex A**

In summary therefore it is important to ensure that all overheads are actual, auditable & directly attributable to the project.

In practice therefore this means:

- a Not to allocate budget overheads instead of actual costs;
- b Not to base hourly overhead costs on timetabled hours instead of actual hours worked;



- c Not to use theoretical charges for certain overheads (e.g. 15% central admin charges);
- d Not to include items in the overhead calculation that are ineligible; and
- e Not to use theoretical rent or rates instead of actual payment

Please Note that ERDF grant can only be paid in relation to eligible expenditure. Applicants are responsible for maintaining adequate records to fully document all expenditure, and to make these records available to the Secretariat and auditors as required. ERDF grant that has been used for ineligible activities will have to be repaid. Applicants should therefore consult the Secretariat/Executive if they are in any doubt about eligible expenditure.

Calculating overheads in the HE sector

HEIs use of the Transparent Approach to Costing (TRAC) may be used to calculate overheads, although it should be noted that TRAC covers organisational costs but does not ensure the included items are relevant to the project. This has been found to be non-compliant by previous EC audits because Applicants for ERDF grant must ensure that any overhead costs claimed relate only to the resources actually consumed by the ERDF projects in question.

Therefore, if possible, overheads should normally be calculated by straightforward apportionment based on a suitable proxy for actual consumption by the project.. However, where overheads cannot be calculated in this manner, TRAC may be used, *providing that the HEI concerned can demonstrate that the cost pooling it is using properly reflects the actual consumption of the ERDF projects for which it is claiming grant.*

For more in depth guidance on using the TRAC system for claiming overheads, please contact the ERDF Monitoring Team.



APPORTIONMENT METHODS

ANNEX A

Please note that any apportionment methodologies utilised must be explained in the project application and agreed with the Secretariat/Executive or Action Plan Partnership before the project is approved.

Apportioning staff salary costs

It should be noted that salaries for staff working directly on the project should be claimed in a separate category to overheads, however as in most cases they require apportionment, the methodology below applies.

This apportionment technique is necessary for calculating the cost of staff that do not spend all their time on one project. It can be used for all staff, but it is shown here only for those staff that deliver the project. The following formula should be used to calculate the actual hourly rate for each individual involved with the project.

Step 1

Calculate the number of days a full time (or part time proportionally) member of staff will work in a whole year.

Example 1

Working days are 5 days per week x 52 weeks per year	260
less public holidays	-9
less annual leave	-25
Total working days =	226

N.B. Therefore there is no allocation for any down time or sickness.

Step 2

From this you can calculate the number of hours worked in a year:

Example

Total working hours per year (based on the usual organisation contractual working day) are
226 days x 7 hrs per day = 1582 hrs per year

Step 3

From this if you divide the total cost for the period by the actual hours worked it will give you the hourly rate:



Example

Total salary cost for the year is £19,976 (including employers NI contributions & superannuation or pension costs for the project period)
£19,976 divided by 1582 hours = £12.62 per hour

Step 4

You then multiply this hourly rate by the actual project hours worked (**as evidenced by timesheets**) to give the individuals total cost for the European project. A calculation to show the apportionment of the actual salary costs for the individual on the project is below:

Example 2

ERDF hours are:

20 hrs per week x 24 weeks (capacity building) 480 hours

Total ERDF hours 480 hours

The individuals cost to the project is

$480 \times £12.62 = £6,057.60$ can be charged to the project

N.B. The staff time of 480 hours would have to be evidenced by timesheets that cover the agreed full time hours of that staff member for the total period claimed. This is to ensure no over-recovery of staff time as a result of staff working on multiple projects. Should this occur an adjustment each year should occur & be evidenced.

Apportioning costs based on space or area used

This apportionment technique is based upon costing a space for a period of time. There are many overheads that are best apportioned on the basis of space used. These include rent, rates, heating, power etc.

If a space is used only by the project all year, the apportionment can be based on Step 1 only.

If a space is used only by the project for part of the year, apportionment should be based on Step 1 & 2.

If a space is shared by the project and other activity during the life of the project, apportionment should be based on Steps 1 & 3.



Step 1

Calculate the percentage of available space used by the project. When working out a building's total available space exclude general spaces such as corridors, toilets, canteens, general admin space, etc. The costs for these spaces will be split automatically by the apportionment technique.

$$\text{The formula is: } \frac{\text{project space}}{\text{total space}} \times 100 = \% \text{ used}$$

Example 3

Step 1

European project uses 1000 sq. feet out of a total of 4000 sq. feet in the building.

$$\frac{1000}{4000} \times 100 = 25\%$$

A project that has sole use of this space all year would pay 25% of rent, heating etc.

Step 2

For projects that don't run for a full year you must also calculate the percentage of time this space is used by the project. If the space is used solely by the project this percentage can be worked out using weeks.

The formula is:

$$\frac{\text{time the space is used}}{\text{total time available}} \times 100 = \text{percentage of time the space is used}$$

Example 4

A European project runs for 40 weeks out of the 50 weeks the building is open in a year.

$$\frac{40}{50} \times 100 = 80\%$$

Using the two percentage figures the apportionment figure can be worked out for projects that have sole use of a space for a part of the year.

The formula is:

$$\text{percentage of space used} \times \text{percentage of time the space is used} = \text{apportionment percentage}$$



Example 5

The above project uses 25% of the space available (step 1) for 80% of the time available (step 2). Therefore the apportionment figure is:

$$25\% \times 80\% = 20\%$$

So the project would pay 20% of rent, heating etc.

Step 3

Some projects do not have sole use of the space. They may use it for a number of hours per week and for the rest of the time it is used for other activities. The formula is the same as the formula explained in step 2 but it needs to be worked out in hours not weeks.

The formula is:

$$\frac{\text{time the space is used}}{\text{total time available}} \times 100 = \text{percentage of time the space is used}$$

Example 6

European project runs in a room for 21 hours a week out of a possible 35 hours (the rest of the week the room is used for other activity). The project runs for 40 weeks out of the 50 weeks the building is open a year.

The hours the room is available: 35 hrs per week x 50 weeks per year = 1750

The hours the room is used by the project: 21 hrs x 40 weeks = 840 hours.

The percentage of available time the room is used = $\frac{840}{1750} \times 100 = 48\%$

Using the two percentage figures (the one from step 1 and the one above) the apportionment figure can be worked out for projects that do not have sole use of a space.

The formula is:

$$\text{percentage of space used} \times \text{percentage of time the space is used} = \text{apportionment percentage}$$

Example 7

The above project uses 25% of the space available (step 1) for 48% of the time available (step 2) therefore the apportionment figure is:



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$$25\% \times 48\% = 12\%$$

So this project would pay 12% of rent, heating etc.

A project can use budget figures to estimate the total project cost of the above items to be included in their ERDF application.

However on a quarterly or annual basis as actual bills and invoices for these services are received & paid (i.e. the actual overhead costs incurred during the period that have been agreed by the Executive as eligible) an adjustment should be made to ensure an accurate & fair share of the costs have been contributed by the ERDF project. This should be backed up for audit purposes by the original invoices.

Similarly if extra users (or fewer) were accommodated in the premises used by the ERDF project, these calculations would need to be adjusted accordingly to ensure ERDF only contributes a fair & equitable proportion to the total actual costs incurred.

Conclusion

Where costs are shared across a number of projects, projects should adopt a reasonable method for apportioning costs, keeping clear evidence to show how the costs for the project have been apportioned.

The method identified in the examples above may not always be suitable. If the project chooses to apply a more complicated apportionment method they should clear this with the Secretariat/Executive first. The Secretariat/Executive will require full information on the method to make an informed decision.

January 2009