



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

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Welsh European Funding Office

European structural funds programmes 2007-2013

## Guidance

# Indirect cost guidance note

Version: 5

Date: July 2010

## Indirect cost guidance note

This guidance supersedes previous guidance on the treatment of Overheads. In order to avoid any ambiguity this guidance note makes reference to “indirect costs” instead of “overheads, to align with ERDF Regulation (EC) No 1080/2006 (as amended by Regulation (EC) No 397/2009) and ESF Regulation (EC) No 1081/2006 (as amended by Regulation (EC) No 396/2009).

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## Section 1

## ERDF and ESF Flat Rate Guidance Note Indirect Costs

- 1) Indirect costs are those costs which cannot be connected directly to the implementation of a project and where it is difficult to attribute expenditure. Indirect costs may include:
  - Staff and personnel costs not directly related to the project e.g. HR, Finance and ICT. This would **not** include specific staff that spend an element of their time on a project that can be readily identified and recorded. The costs for such staff should be included as Staff Costs and be supported by timesheets.
  - Equipment and premises costs where these are not used wholly for Structural Fund activity
  - Telephone and postage costs
  - Electricity, gas and water
  - Insurance
  
- 2) Where ERDF or ESF has been awarded as a grant and beneficiaries have chosen the flat rate option, EU regulations allow indirect costs to be claimed on a flat rate basis providing they account for no more than 20% of the direct costs of a project. Whilst this option has been available for ESF projects since the start of the 2007-2013 programme, it is has only become permissible for ERDF projects since May 2009. It is not possible for projects that have already been approved to exercise this option retrospectively.
  
- 3) The scope to claim for indirect costs on a flat rate basis has been introduced to simplify ERDF and ESF arrangements. Experience from the 2000-2006 programmes has shown that the justification of indirect costs has constituted a high level of risk and a disproportionate administrative burden for Structural Funds projects. Beneficiaries are therefore strongly encouraged to take up the offer of using a flat rate as this will reduce this risk and greatly simplify the administration of indirect costs. For the 2007-2013 programmes indirect costs can only be claimed on either a flat rate basis or based on actual costs. Beneficiaries are encouraged to use the flat rate option wherever possible. In the event that a flat rate is adopted full records of expenditure on indirect costs will not be necessary. However, project sponsors will need to keep full records of all direct costs which are charged to the project.
  
- 4) The flat rate percentage to be applied will vary from project to project but will be within the overall ceiling of 20% of direct costs declared. The objective is to simplify administration and reduce risk for Sponsors, **not to increase direct or indirect costs.**
  
- 5) Applications for Structural Funds support will be required to provide a robust estimate of both the direct and indirect costs of the project. These costs will be categorised in the delivery profile during the WEFO online application process.

The resulting estimates will be assessed as part of the overall project appraisal process and for projects that are approved a flat rate percentage for indirect costs will be agreed for each Beneficiary which will then form the basis of claims for expenditure. Once the estimates are agreed a percentage for the flat rate will be determined and allocated to the project. This rate will be included in the project grant offer letter.

- 6) Some costs, for example electricity, may be indirect in some projects but direct in others. Clearly if the project is directly billed for their electricity it is a direct cost whereas if the project shares a small part of an office the cost of electricity is likely to be indirect. For the purposes of the flat rate calculation once the category is decided, i.e. electricity is direct for the project, this is fixed for the life of the project. In some rare cases a cost may have both direct and indirect elements; in such cases the Beneficiary will have to choose whether this will be shown as wholly direct or wholly indirect. All costs must be determined as either direct or indirect and no single cost category (i.e. electricity) can appear in both categories.
- 7) WEFO will review the information contained in the delivery profile and, where appropriate, also review historic information relating to previous projects undertaken by the Beneficiary in order to ensure the estimates contained in the project proposal are consistent with historic actuals. In addition the WEFO appraisal team may ask for further management information (management accounts or financial accounts) in order to arrive at a flat rate percentage for that Beneficiary. This would be the rate used for all subsequent project applications from that Beneficiary provided the direct costs categories for new projects and the types of projects do not differ from those used in the original assessment of the flat rate percentage.

### Example

Estimated costs from project application:

#### Estimated Direct costs

Estimated staff costs	£
Salaries	157,000
NI contributions	25,630
Superannuation	21,765
Estimated participant costs	
Travel costs	10,420
Childcare	12,075
Estimated other direct costs	
Rent - premises	5,450
Hire / lease of equipment	2,025
Maintenance costs	4,510
Metered Electricity	3,215
<b>Total direct costs</b>	<b>242,090</b>

## Estimated Indirect costs

\*proportion of cost attributable to Structural Funds project

	£*
Indirect staff & other personnel costs	15,217
Premises & equipment	17,115
Telephone & postage	455
Water, gas	1,053
Insurance	2,176
<b>Total indirect costs</b>	<b>36,016</b>

## Flat rate indirect cost calculation

Total indirect costs		36,016
Total direct costs	÷	242,090
	×	100
	=	14.87%

In this example the flat rate percentage to be used for indirect costs will be 14.87 (i.e. it is within the 20% ceiling of direct costs)

- 8) **Beneficiaries must declare expenditure on the basis of actual direct costs supported by invoices or other appropriate accounting documentation and indirect costs at the agreed flat rate percentage of declared direct expenditure.** The actual amount of direct costs will serve as the basis for the calculation of indirect costs this will affect the amount of indirect costs that can be claimed.
- 9) There will be no need to either justify the individual indirect costs claimed or to keep copies of invoices or other documents for European Structural Funds purposes, to support the indirect costs claimed.
- 10) Where a project **generates revenue the revenue generated will be deducted** from total expenditure declared before the grant payment is calculated.

## Example

How indirect costs are claimed using the flat rate percentage

### Direct costs declared in Structural Funds claim:

Actual staff costs	£
Salaries	156,000
NI contributions	25,200
Superannuation	21,412
Actual participant costs	
Travel costs	10,021
Childcare	9,375
Actual other direct costs	
Rent - premises	6,000
Hire / lease of equipment	1,850
Maintenance	4,085
Metered Electricity	3,963
<b>Total direct costs</b>	<b>237,906</b>

Indirect costs to be claimed:

Flat rate calculation:

	£
Total direct costs	237,906
Flat rate percentage agreed at application	14.87%
Indirect cost to be claimed	= 35,376

**Total amount claimed:** 237,906 + 35,376 = 273,282

- 11) Where a rate is calculated on a project with several joint sponsors, as delivery organisations, a rate will be determined for each organisation based on their estimated costs. As the final direct cost mix between delivery organisations will almost always vary from the initial estimate, the lead sponsor would face the risk of under or over claiming the indirect costs due to be paid to the delivery organisations (see example below).

### Initial Calculation

	Direct Costs	Indirect Costs	All Figures £ Rate applied
Organisation A	1,200,000	97700	<b>8.14%</b>
Organisation B	1,700,000	340,000	<b>20.00% *</b>
Organisation C	912,000	80000	<b>8.77%</b>
	3,812,000	517700	
<b>Average Rate</b>			<b>13.58%</b>

**\* limited to 20% maximum**

## Final Position

	Direct Costs	Rate applied	Amount claimed at closure & repayable to partners by Lead Sponsor
Organisation A	900,348	<b>8.14%</b>	73,303
Organisation B	1,667,234	<b>20.00%</b>	333,447
Organisation C	745,341	<b>8.77%</b>	65,381
Total	3,312,923		472,131

- 12) For interim payments lead sponsors can either claim for indirect costs based on the percentages agreed for each delivery organisation or, for administrative purposes, may choose to claim the average rate agreed for the project. In order to comply with the spirit of the Commission Regulations (EC) No 397/2009 and (EC) No 396/2009 the rate **must not exceed 20% of direct costs** for each delivery organisation within a project. If a Project Sponsor chooses to pay the average rate during the implementation of the operation they will need to adjust the final payment to the final claim of each project to reflect the actual direct cost mix between partners. This calculation will be based on the summary final position relating to the direct costs for each delivery organisation as shown above.
- 13) Where Sponsors are procuring all of the delivery activity from service providers they cannot use the flat rate. However where project Sponsors are only procuring an element of delivery or in the case of joint sponsors where one of the joint sponsors may procure their element (full or partial) of delivery, WEFO will need to factor this into the calculation of the flat rate applied to the overall project.

## Section 2

### ERDF and ESF Non Flat Rate Guidance Note Indirect Costs

#### Indirect Costs

1. This note clarifies the basis on which indirect costs can be attributed to Structural Funds projects and provides some examples. Beneficiaries are encouraged to use the flat rate option wherever possible. In the event that a flat rate is adopted full records of expenditure on indirect costs will not be necessary. However, project sponsors will need to keep full records of all direct costs which are charged to the project.
2. Both EC and internal audits on early expenditure in the 2000-2006 programmes, highlighted that ineligible costs were included in the calculation of indirect costs for Structural Funds projects. The purpose of this note is to provide a framework in which project applicants and WEFO can determine the eligibility of indirect calculations and acceptable apportionment methods. Section 3 concentrates on the FE and HE apportionment methodologies.
3. Where Sponsors have procured services but are using the indirect costs of the service provider as match funding the Sponsor must ensure that full records of overheads are kept by the supplier and that they are in full accordance with this guidance.

#### The Regulation and Eligibility Rules

4. The national eligibility rules states that
 

“Indirect costs are considered eligible expenditure provided that they are based on **real costs which relate to the implementation of the project** and are allocated pro rata to the project according to a duly justified fair and equitable method.”
5. Indirect costs may include the cost of employing staff not directly engaged on the project 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. Where actual cost is shared with organisational non-project costs, then apportionment is permissible providing:
  - a The source cost is eligible for Structural Funds support and fully auditable (receipts, bills etc)
  - b The cost is clearly relevant
  - c The cost can be reasonably apportioned to arrive at a figure that reflects as far as is practicable, the true cost incurred by the project applicant in carrying out the project.



## Indirect Costs calculation (including apportionment)

6. In order to calculate indirect costs the applicant will need to **identify & list all the indirect costs that can be specifically related to the 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 can be reasonably attributable to the project.
7. Ineligible items, if any, should then be removed from this list. This list should then be reviewed by WEFO to ensure that all cost headings are eligible & reasonable.

## Apportionment

8. 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 whilst administrative staff costs are based on the hours devoted to the project by the staff concerned.
9. Telephone bills & rental charges etc. require a methodology based on actual telephone use by the project. Costs that are far removed from project delivery should be excluded from any calculation. Where their actual cost and direct relevance is not evidenced, they should be removed from any claim calculation.
10. Any single method of apportionment, unless providing the above, is not acceptable 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.
11. The method of calculating the indirect 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**.
12. The applicant, therefore, needs to apply an apportionment methodology to the list of costs (previously agreed by WEFO), to the list of acceptable indirect costs so that the Structural Funds grant contributes towards these general costs in a fair and equitable way.
13. Basic examples of how to structure the indirect costs and apportion them to a project are included in **Annex A**.
14. In summary, therefore, it is important to ensure that all indirect costs are actual, auditable & relate to the implementation of the project.
15. In practice, therefore, this means Beneficiaries must:

- a. Not allocate budget indirect costs instead of actual costs;
  - b. Not base hourly indirect costs on timetabled hours instead of actual hours worked;
  - c. Not use theoretical charges for certain indirect costs (e.g. 15% central admin charges);
  - d. Not include items in the indirect calculation that are ineligible; and
  - e. Not use theoretical rent or rates instead of actual payment
16. **Please Note that grant can only be paid in relation to eligible expenditure. Sponsors are responsible for maintaining adequate records to fully document all expenditure, and to make these records available to WEFO and auditors as required. Grant that has been used for ineligible activities will have to be re-paid. Sponsors should, therefore, consult WEFO if they are in any doubt about eligible expenditure.**

## Annex A

### Apportionment methods

1. **Please note** that any apportionment methodologies utilised must be explained in the project business plan and agreed with WEFO **before** the project is approved.

### Apportioning project delivery staff salary costs

2. 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.

3. **Step 1**

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

Example

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

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

4. **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

5. **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

## 6. 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:

ERDF or ESF hours are:

20 hrs per week x 24 weeks	480 hours
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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 annual adjustment is required which must be evidenced.*

## Apportioning costs based on space or area used

7. This apportionment technique is based upon costing a space for a period of time. There are many indirect costs that are best apportioned on the basis of space used. These include rent, rates, heating, power etc.
8. If a space is used only by the project all year, the apportionment can be based on Step 1 only.
9. If a space is used only by the project for part of the year, apportionment should be based on Steps 1 & 2.
10. 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

11. 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.

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

#### Example

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

12. 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

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

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

13. 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

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

14. 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

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.

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

15. 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

The above project uses 25% of the space available (step 1) for 48% of the time available (step 3), therefore, the apportionment figure is:

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

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

16. An applicant can use budget figures to estimate the total project cost of the above items to be included in their project application.
17. However, on a quarterly or annual basis as actual bills and invoices for these services are received & paid (i.e. the actual indirect costs incurred during the period that have been agreed by WEFO as eligible) an adjustment must be made to ensure an accurate & fair share of the costs have been contributed by

the Structural Funds project. This must be backed up for audit purposes by the original invoices.

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

## **Conclusion**

19. Where costs are shared across a number of projects, projects must adopt a reasonable method for apportioning costs, keeping clear evidence to show how the costs for the project have been apportioned.
20. The method identified in the example above may not always be suitable. If the project chooses to apply a more complicated apportionment method they need to clear this with WEFO first. WEFO will require full information on the method to make an informed decision.

## Section 3

### ERDF and ESF Non Flat Rate Indirect Costs in the Further and Higher Education Sectors in Wales

1. This section explains how the general instruction on the calculation of indirect costs given in Section 1 of this guidance should be applied in the Further Education (FE) and Higher Education (HE) sectors in Wales. It includes explanation of how indirect costs may be calculated using the FE/HE Institution's accounting systems.
2. Where Sponsors have procured services but are using the indirect costs of the service provider as match funding the Sponsor must ensure that full records of indirect costs are kept by the supplier and that they are in full accordance with this guidance.
3. This section should be followed when developing new projects with FE and HE Institutions, unless a flat rate is the chosen method. It will also be used to ensure compliance when reviewing project claims and as a basis for monitoring existing and closed projects in this sector. In order to aid simplification of the process and reduce risk to funding, FE and HE Institutions are recommended to adopt the flat rate method for indirect costs (see Section 1). In the event that a flat rate is adopted full records of expenditure on indirect costs will not be necessary. However, project sponsors will need to keep full records of all direct costs which are charged to the project.
4. Applicants for grant must, therefore, ensure that only eligible costs are included in the calculation of grant and that any indirect costs claimed relate only to the resources actually consumed by the project in question. The methodology described in this note for handling projects in the FE and HE sectors will, if followed accurately, give confidence that indirect costs were being calculated correctly and in line with Commission requirements. **However the onus is on the institution receiving or applying for Structural Funds support to demonstrate that its calculations and the records kept, satisfy the regulatory requirements and that it is maintaining a satisfactory audit trail.**

#### Calculation of Indirect Costs

5. The principles upon which the methodology for calculating indirect costs must be based are set out as follows :-
  - a. All academic costs are captured directly. Non-academic staff costs should be captured directly wherever possible.
  - b. Indirect costs should normally be calculated by straightforward apportionment based on a suitable proxy for actual consumption by the project – e.g. a share of the heating bill derived from the proportion of space occupied by the project.



- c. Only where indirect costs cannot be calculated in this manner a formula based approach using the FE/HE Institution's accounting systems may be used.
  - d. Only indirect costs that can be shown to relate to the delivery of the project may be included.
6. However, the methodology used to calculate indirect costs for ERDF projects differs to an extent from that used for ESF because of the likelihood of ERDF projects having different resource consumption characteristics. This does not prevent a pooling of indirect costs but it does mean that a single indirect cost pool in an Institution for both ESF and ERDF would not be acceptable. It is for the Institution concerned to demonstrate that the cost pooling it is using properly reflects the actual consumption of the project for which it is claiming grant.
7. The methodology comprises the following five steps:-
  - Step 1. Identification by the Institution of a 'menu' of eligible cost headings.
  - Step 2. Identification of those eligible costs that can be charged directly to the project.
  - Step 3. Identification of eligible indirect costs and apportionment using simple proxies for actual consumption (e.g. cost per square metre etc).
  - Step 4. Identification of those remaining eligible indirect costs that cannot be captured as in step 3, the pooling of such costs and the apportionment of these to projects using hours spent on the project as a proportion of the Institution's total academic, support staff and direct staff hours. FE/HE Institutions must then produce an explanatory note for each cost heading remaining in the indirect cost pool to show that the activity can be reasonably linked to the project.
  - Step 5. Monitoring of the continuing relevance of the content of the agreed cost pools to actual project consumption and the adjustment of the content of pools and recalculation of indirect costs in line with actual results at year end.
8. An illustration of each step in the methodology is given in **Annex A** to this section. The illustration is based on a two year ERDF project that involves HEI staff who work off site. Annex B gives an example of a monitoring sheet..

### Step 1 - Identification of Eligible Costs

9. Eligible expenditure is expenditure defrayed to meet the costs of resources consumed by the project and in respect of which grant may be paid. Such costs may be direct or indirect. Not all costs incurred by projects are necessarily eligible for grant.
10. The cost centre and account code structure within the HE sector's costing system is an appropriate way of identifying eligible costs, by type and function, provided that a suitably detailed audit trail for project costs is also prepared and

made clear. This needs to be done at the inception of projects and updated appropriately during the lifetime of the projects for which grant is claimed.

11. A list of eligible costs should be prepared based on the account codes in the accounting system. This list must indicate which items are potentially eligible for inclusion in project costs and whether these should be treated as direct or indirect (general) costs.
12. The list of cost centres should be similarly segregated with entries in a column indicating whether each of the cost centres listed will generate eligible or ineligible expenditure and whether this will be charged directly or indirectly. Ineligible costs such as **Residences and Catering, Research Grants and Trading activities etc must be excluded from any calculation of grant.**

## Step 2 - Identification of Direct Costs - Annex A(ii)

13. Direct costs are the costs that arise from the delivery of a project and which are eligible for ERDF & ESF support, which are captured directly. Examples include:-
  - a. Staff costs for those academic and non-academic staff directly engaged in the delivery of the project;
  - b. Consumables for which records of actual consumption by the project can be maintained;
  - c. Rents, heating, lighting, telephone etc where these costs can be charged discretely to projects.
14. **All direct costs must be actual not estimates or forecasts.** Staff costs must be supported by evidence of the hours worked by the individuals concerned. **It is for the Institution to ensure appropriate records are maintained to substantiate these costs.**
15. Individual timesheets are not necessary for those staff wholly engaged on projects part funded with Structural Funds but records must be kept to show the individual was working full time on the project. The cost of those spending less than full time on the project should be evidenced by time sheets or similar records. Ideally all staff engaged in the delivery of projects will be costed directly, but as a minimum **all academic staff engaged in project delivery must be costed directly.**
16. Note that standard full time hours in the HE sector are 226 days per year, 7 hours per day or 1582 hours per Full Time Equivalent (FTE). If Universities have evidence to support a different standard hours calculation this must be agreed with WEFO at the start of the project.
17. Non-pay costs identified as eligible and direct should be attributed to the specific project that has generated the consumption.

### Step 3 - Identification of indirect costs - Annex B(ii)

18. Indirect costs are actual costs that are eligible for support, that arise from the delivery of a project but which cannot be captured directly. This will be because, although the nature of the resource consumed by the project is clear, the exact amount cannot be distinguished and must be derived by apportionment. Examples, across account codes and cost centres used in HEIs include:
  - a. Cleaning, security and personnel services where these are relevant to the project.
  - b. Facilities such as finance departments, library and IT support services that are similarly relevant to the project or provide the project with services.
  - c. Rent, heating, lighting and other accommodation costs not charged directly to the project or recovered elsewhere.
19. Where costs have been treated and accounted for as direct costs they must be excluded from any apportionment of indirect costs.
20. It is expected that **indirect costs will normally be** calculated by straightforward apportionment based on a suitable proxy for actual consumption by the project - for example a share of the heating bill derived from the proportion of floor space occupied by the project.
21. In this third step the Institution must distinguish between those indirect costs that can be apportioned using suitable proxies and those that need to be handled using a formula based approach.

### Step 4 - Apportionment of indirect costs using cost pools - Annex A(ii)

22. Once direct costs and those indirect costs that can be apportioned simply to specific projects have been identified (steps 2 and 3 above) any remaining indirect costs arising from project eligible activity may be apportioned on the basis of indirect cost pools. These pools are used to calculate an indirect rate per hour/Full Time Equivalent (FTE) which is then applied to the project and multiplied by the actual number of Academic and hours/FTEs in the project.
23. The calculation of such indirect pools must exclude:
  - a. Staff costs and any non-pay that have already been charged directly to ERDF or ESF projects;
  - b. The charge for buildings depreciation funded from the release of deferred capital grants to income.
  - c. Amounts that have been apportioned to ineligible cost centres.
  - d. The Cost of Capital and Infrastructure adjustments

- e. Any items that are ineligible for grant support for ESF or ERDF projects.
- f. Any items that have been apportioned using the straightforward proxies described in step 3 above.
- g. **Any items which cannot be evidenced as relating to the project.**

24. In pooling indirect costs, care must be taken **to ensure that costs relate to actual consumption of resources by the projects concerned**. It is acceptable to pool the indirect costs of a number of projects but the projects must share the same resource consumption characteristics and the assumptions behind this must be evidenced. If FE/HE Institutions wish to use a shared pool they must provide suitable evidence to support the assumption that the projects share the same resource consumption characteristics.
25. Institutions must ensure that, for example, if a project was to be delivered off site then the costs related to the Institution's estate would not be included in the costs pool. The illustration of this step shows how the indirect expenditure is pooled and then converted into an indirect rate per FTE/hour. A key advantage of this approach is that there will be an audit trail for all the staff hours data used in the calculation. This greatly strengthens the acceptability of this apportionment method and brings it into line with EC recommended practice.
26. The approach used in the illustration:
  - a. For the FE/HE Institution as a whole, take the data for the relevant project period and exclude both ineligible costs and ineligible activities (cost centres).
  - b. The directly incurred costs for the project should then be identified and removed.
  - c. Identification of those indirect costs that could be apportioned using a straightforward proxy for actual consumption (in this case arriving at a price per metre of space occupied by the project).
  - d. The remaining cost pool reflects the total University cost pool. The next stage is to remove all costs in the cost pool which do not relate to the specific project(s). For the costs left in the pool after this stage the **FE/HE Institution must produce an explanatory note for each cost heading remaining in the indirect cost pool to show that the activity can be reasonably linked to the project.**
  - e. The resulting indirect costs pool is then **divided by the total academic staff FTEs in the FE/HE Institution plus support staff direct delivery staff FTEs** to give an 'indirect cost rate' per FTE.
  - f. To arrive at an indirect cost rate per hour (the preferred approach) the staff FTE can be multiplied by 1650 (1 FTE = 7.5 hrs (per day) x 5 (days per week) x 44 (weeks)) to give the total hours of Academic Staff, support staff and Direct Delivery Staff, then divide the pooled amount by the number of total hours.

- g. The total cost of the project would then comprise the sum of the direct cost, the apportioned indirect costs plus the indirect costs generated by the hours actually spent on the project delivery.

### **Step 5 - Monitoring the continuing relevance of the indirect costs pools to actual project consumption - Annex B**

- 27. FE/HE Institutions receiving grant must set up a process to check at least twice during each year of the life of the project/projects that their actual resource consumption characteristics, based on cash (defined in terms of cost headings), remains in line with the assumptions made when Step 4 was first undertaken. **A full reconciliation to cash spent on each indirect cost** will be required and any material changes as a result of that reconciliation reported to WEFO and reflected as necessary in a revised grant offer.
- 28. This is vital to demonstrate that the approach taken to the apportionment of indirect costs recognises the need to relate such costs to the actual consumption of resources by the projects concerned. In short it shows that the fundamental requirements of the EC's regulation and the national rules in this area are understood and that, despite the complexity of the FE/HE Institutions' business, there is clear recognition of the need to ensure any assumptions made about indirect costs consumption at the outset are tested against actual consumption and appropriate adjustments made, reflected as necessary in the grant paid.
- 29. An example check list for this step is included in the illustration at Annex B.

## Annex A(i) Summary

### Working example

#### Summary of costs over the project life

	FTE	£	£
<b>1. Directly Incurred Costs</b>			
Staff costs			862,120
Consumables for which records of actual consumption can be maintained			90,500
<b>2. Indirect apportioned costs</b>			68,820
<b>3. Pooled Indirect costs</b>	17.0		406,922
<b>Total costs charged to project</b>			<u>1,428,362</u>

}

**Annex A(ii) - Step 2 Direct Costs**

Project starts on 1 April 2008

	Grade	Annual Gross Salary £	FTE per annum	Hours per annum (based on 1650 hrs)	Year 1 - 1/4/08 - 31/03/09 £	Year 2 - 1/4/09 - 31/03/10 £	TOTAL COST PER PROJECT £
<b>Directly Incurred Costs (Time sheet required)</b>							
Project Director							
Project Co-ordinator							
Commercial manager	PL 9	54,344	1.6	2,640	86,950	86,950	173,901
Commercial assistant	APTC 35	36,786	1	1,650	36,786	36,786	73,572
Graduate Assistants	APTC 35	36,786	1	1,650	36,786	36,786	73,572
Clerical Assistant	APTC 27	29,516	1	1,650	29,516	29,516	59,032
Academic staff	APTC 7	16,374	10	9,075	163,740	163,740	327,480
KTP co-ordinator	APTC 7	16,374	0.6	990	9,824	9,824	19,649
KTS staff	SL 5	41,626	1	1,650	41,626	41,626	83,252
Total FTEs per annum on project	APTC 30	32,289	0.8	1,320	25,831	25,831	51,662
			17	20,625	431,060	431,060	862,120

**Consumables for which records of actual consumption can be maintained**

Consumables	3,000	1,500	4,500
Travel	3,000	1,500	4,500
Equipment	10,000	5,000	15,000
Adv/promotional	9,000	3,000	12,000
Fees	34,000	16,000	50,000
Audit	1,500	3,000	4,500
<b>Total direct costs for project</b>	<b>60,500</b>	<b>30,000</b>	<b>90,500</b>
<b>Total costs</b>			<b>952,620</b>

## Annex A(ii) - Step 3 Apportionment of indirect costs using proxies

Apportionment will require a method relevant to each cost. All costs charged to projects are calculated against real costs.

### Premises and related:

	£
Heating	5,000
Lighting	5,000
Rent	15,000
Rates	25,220
Cleaning	1,600
	<u>51,820</u>

### Apportioned consumables

	£
IT communications	2,000
Vehicle expenses	5,000
Equipment rentals	10,000
	<u>17,000</u>
Total	<u>68,820</u>



## Annex A(ii) - Step 4 Apportionment of indirect costs using cost pools

Calculations below are based on actual HEI data

CALCULATION OF UNIVERSITY DIRECT FTEs/LABOUR HOURS	
<b>Academic Departments</b>	<b>Staff Nos</b>
Academic Staff	518
Support Staff	55
<b>Research Grants &amp; Contracts, and Other</b>	
Academic Staff	51
Support Staff	24
	<hr/>
	648
<b>Add:</b>	
Support Staff charged direct to ERDF funded Projects	12.37
	<hr/>
<b>TOTAL University Direct FTE</b>	<b>660.37</b>
	<hr/>
<b>Standard Hours</b>	<b>1,582</b>
	<hr/>
<b>TOTAL University Direct Labour Hours</b>	<b>1,044,705</b>
	<hr/>

**THIS IS AN EXAMPLE****Annex A(ii) - Apportionment of indirect costs using cost pools****ERDF project Indirect Costing - pooled costs over the life of the project****Indirect Costs**

	£	
Breakdown of eligible costs	x	
Relating to the project supported by	x	
Note explaining link to the project (these	x	
Costs can be grouped together in the summary	x	
	x	
	x	
	x	
	x	
<b>Indirect expenditure</b>	<b><u>15,807,000</u></b>	= Indirect Cost Pool

**Project period pooled costs**

			£	
Indirect Cost Pool			<u>15,807,000</u>	
Total hours on project	17 FTE's	x	1582 hours	=26,894 hrs
FTE's on Project	<u>26,894</u>	X	15,807,000	
Total FTE's	1,044,705			
Total Pooled indirect costs	£406,922			

## Annex B - Step 5 Monitoring actual consumption

**Project name and reference:**

Indirect Cost Pool Elements	Activity Description	Likely to be Consumed by project? Y/N
Academic Departments Support Staff		<input type="text"/>
Indirect Non-Pay		<input type="text"/>
Library		<input type="text"/>
Other Postage, Training Unit, Research Committee, VC's Office		<input type="text"/>
ISS		<input type="text"/>
Premises and related Estates costs including maintenance (excluding Long Term Maintenance), and Utility Costs		<input type="text"/>
Equipment		<input type="text"/>
Cleaning & Portering		<input type="text"/>
Resources Division (not Estates) Finance		<input type="text"/>
Personnel		<input type="text"/>

Annex B – Step 5 continued

Other central support staff (Enterprise &  
Commercialisation, Strategic Purchasing, Project  
Management)

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Checklist completed by (signature & date): \_\_\_\_\_

Review date & initials \_\_\_\_\_

Review date & initials \_\_\_\_\_