

INDIRECT COSTS IN PROJECTS (OVERHEADS)

Within the programme one option will be available for the Project Promoters in terms of budgeting for and claiming indirect costs and overheads according to article 7.4.1 of the Regulation on the implementation of the EEA and Norwegian Financial Mechanism 2009-2014 (hereinafter referred to as Regulation).

Indirect costs in projects (overheads) will be based on flat rate method.

The option cannot be changed during the implementation phase of the project or mixed with other methodologies for indirect costs calculation.

Whenever the flat rate option is chosen, a full audit trail of all the expenditure which has been used to establish the flat rate will need to be retained for the full record retention period of the programme.

When establishing the rate it will be necessary to demonstrate that no direct costs are included in the indirect costs being apportioned. The different categories of expenditure should be clearly stated in the project contract.

The rate will be directly applicable to the project's direct eligible costs, excluding its direct eligible costs for subcontracting and the costs of resources made available by third parties, who are not used on the premises of the Project Promoter and therefore, the value will vary in relation to these direct costs. The flat rate is a maximum of 20% and is established prior to the start of the project (in the project proposal) and will be determined in the project contract.

The costs used to establish the rate can be based on historic costs or if it is not available on market prices.

Direct costs in accordance with the Regulation are those expenditures which are identified by the Project Promoter and/or the project partner, in accordance with their accounting principles and usual internal rules, as specific expenditures directly linked to the implementation of the project and which can therefore be booked to it directly. The following list of direct costs is exhaustive, meaning that no other costs can be classified as direct costs.

1. The cost of staff assigned to the project - actual salaries, social security charges and other statutory costs included in the remuneration (provided that this corresponds to the Project Promoter's and project partner's usual policy on remuneration). The corresponding salary costs of staff of national administrations are eligible to the extent that they relate to the cost of activities which the relevant public authority would not carry out if the project concerned were not undertaken.
2. Travel and subsistence allowances for staff taking part in the project provided that they are in line with the Project Promoter's and project partner's usual practices on travel costs and do not exceed the relevant national scales.
3. Costs of new or second hand equipment provided that it is depreciated in accordance with generally accepted accounting principles applicable to the Project Promoter and generally accepted for items of the same kind. Only the portion of the depreciation corresponding to the duration of the project and the rate of actual use for purposes of the project may be taken into account by the Programme Operator, except where the nature and/or the context of its use justifies different treatment by the Programme Operator.
4. Purchase of land and real estate under the conditions set in Article 7.5 of the Regulation.
5. Costs of consumables and supplies provided that they are identifiable and assigned to the project.

6. Costs entailed by other contracts awarded by a Project Promoter for the purposes of carrying out the project provided that the awarding complies with the applicable rules on public procurement and this Regulation.
7. Costs arising directly from requirements imposed by the project contract for each project – e.g. dissemination of information, specific evaluation of the action, audits, translations, reproduction, including the costs of any financial services (especially the cost of financial guarantees).

Indirect costs are all eligible costs that cannot be identified by the Project Promoter and/or Project Partner as being directly attributed to the project but which can be identified and justified by its accounting system as being incurred in direct relationship with the eligible direct costs attributed to the project.

Overheads are indirect costs which can include the cost of employing staff not directly engaged on the project and non staff costs e.g. heating, lighting, other accommodation costs and the cost of central services in large or complex organizations, where these are relevant to and can be fairly apportioned to the project.

The overheads budget line may include cost items such as:

- office costs, i.e. electricity, gas, heating, water, cleaning, office supplies, office rent, rates;
- administrative costs, i.e. telephone, fax, internet, mailing, copying, stationery, and office supplies related to project activities;
- other administration expenditure absolutely necessary for the successful completion of the project e.g. labour costs of supporting employees, top management costs not directly engaged on the project; commonly used assets etc.

This list is not exhaustive, but at the same time its items represent the most usual types of indirect costs.

FLAT RATE METHOD

In order to calculate overheads the applicant will need to identify and list all the overhead cost types that can be specifically related to the project activity. Ineligible items, if any, should then be removed from this list.

Example:

Project A employs 100 staff, 20 of which work full time on the project. The project wishes to include the cost of relevant overheads and use the flat rate method. Identified direct costs for the project, excluding its direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the Project Promoter are as follows:

Salaries:	€ 360 000
Fees:	€ 2 000
Durable equipment:	€ 3 000
Travel and subsistence:	€ 10 000
Total:	€ 375 000

Overheads using the flat rate method will be capped at 20 % of € 375 000, i.e. € 75 000.

The project has identified the following costs as potential overheads:

Cost Heading	Eligible within the programme	Overhead	Include in calculation	Cost per annum	Rationale
rent	Yes	Yes	Yes	€ 15 000	eligible shared cost
electricity	Yes	Yes	Yes	€ 3 000	eligible shared cost
rates	Yes	Yes	Yes	€ 1 000	eligible shared cost
supporting employing staff not directly engaged on the project	Yes	Yes	Yes	€ 80 000	eligible shared cost
consumables	Yes	no	no	€ 1 000	direct cost and should be evidenced as a direct actual cost
finances and penalties	no	-	no	-	not eligible
late payment charges	no	-	no	-	not eligible

On this basis the item Consumables will be added to the direct costs. Revised total direct costs excluding its direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the Project Promoter to the project are now € 376 000.

Fair Apportionment

When calculating indirect costs, one of the following methods, depending on which can best reflect the kind of cost, can be applied:

- the ratio of the number of people working for the project/number of people working in the organization or unit,
- the ratio of the number of hours worked on the project/number of hours worked in total in the organization or unit,
- the ratio of the surface used by the personnel working for the project/surface of the organization or unit.¹

The applicant must make use of one of the formulas described above. For different kinds of indirect costs different formula is appropriate and it is the role of the applicant to use the one which will calculate the fair apportionment of the given kind of indirect costs. For instance, when calculating the fair apportionment of rent, the third formula shall be used. 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. When calculating the appropriate costs on internet, the first or second formula can be appropriate.

It is not possible to assign relevant formula to each kind of indirect costs. It largely depends on the type of the organization. Therefore, one shall always have in mind that the amount of indirect costs attributed the project must represent a **fair** apportionment.

When trying to find what the fair apportionment is, the baseline must be selected adequately. The baseline means the bill (invoice) for electricity or rent, pay check for labour and so on. It is not allowed to purposefully select a baseline which will increase the indirect costs apportionment. For instance, when calculating the telephone indirect costs, only the costs on the given telephone can be used as the baseline, not the entire phone costs of the unit (organization).

¹ IPA Adriatic Programme Management and Control Manual, p. 50

Once you have used the formula, you will always get a number, which represents the amount of money. When summing up all the indirect costs you may proceed to the calculation of the flat rate.

Example of apportionment method based on space or area used

The Project Promoter implements a project sharing an office with other no-project activities; it uses a space of 1.000 sq. metres out of a total of 5.000 sq. metres in the building.

The calculation of indirect overheads, for instance power, heating, rent, can be apportioned on the basis of space or area used.

The percentage of available space used by the project should be calculated by this formula:

$$\begin{aligned}\text{project space/total space} * 100 &= \% \text{ space used} \\ 1.000/5.000 * 100 &= 20\%\end{aligned}$$

General spaces (such as corridors, toilets, canteens, general admin space, etc.) shall not be included in the total available space.

Accordingly, a project using this space all year would claim 20 % of the heating, power etc. within the project as incurred for project purpose.

Example of apportionment method based on space or area used for a period of time

Moreover, in case the project doesn't run for a full year, but for instance for 40 weeks out of 50 weeks the building is opened for a year, the method above should be combined with also the percentage of time this space is used by the project.

$$\begin{aligned}\text{time the space is used/time available} * 100 &= \% \text{ of time the space is used} \\ 40/50 * 100 &= 80\%\end{aligned}$$

The project uses 20% of the space available for 80% of the time available. Therefore the final apportionment figure is calculated as follows:

$$\begin{aligned}\% \text{ of space used} * \% \text{ of time the space is used} &= \text{apportionment percentage} \\ 20\% * 80\% &= 16\%\end{aligned}$$

Accordingly, the project would claim 16% of the relevant cost (the heating, power etc) for the period in question.

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 the example of [apportionment method based on space or area used for a period of time](#) but it needs to be worked out in hours not weeks.

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 NFM only contributes a fair and equitable proportion to the total actual costs incurred.

Results of the example:

If 16% of the space is eligible it therefore follows that 16 % of other premises costs would be eligible. This can therefore be applied to the following:

Rent	16 % of € 15 000 = € 2 400
Electricity	16 % of € 3 000 = € 480
Rates	16 % of € 1 000 = € 160

Other overheads

It is not appropriate to apply this percentage (16 % - based on space or area used) to the cost of the supporting employing staff not directly engaged on the project as these are not “space” related. For these costs it is more appropriate to use headcount, for example:

Total number of employees is 100.

Total number of employees working solely on the project is 20.

Therefore **20 %** of the staff works solely on the project.

It therefore follows that 20 % of the following costs can be applied:

Supporting employing staff not directly engaged in the project (HR, top management)

20 % of € 80 000 = € 16 000

Summary

From the calculation above it can be seen that the overheads have been apportioned as follows:

Rent	€ 2 400
Electricity	€ 480
Rates	€ 160
Supporting employing staff not directly engaged in the project	€ 16 000
Total	€ 19 040

Revised total direct costs of the project excluding its direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the Project Promoter to the project

€ 376 000

Total overheads (apportioned) € 19 040

€ 19 040 out of € 376 000 as a percentage is 5,06 %.

The overhead flat rate which can be applied to the project is 5,06 %

Where the flat rate methodology is used, these equations are only used to establish the rate ex-ante to the project. No further audit or monitoring is required once the rate has been established.

The chosen apportionment method/s must be explained in a statement to be attached to the Project Proposal. Once the flat rate will be agreed no further evidence/calculation is required for claims. The project claims all relevant direct costs in the usual manner and the agreed percentage is applied to the direct costs included in each claim through the lifetime of the project.

FLAT RATE VERIFICATION

Basically, the applicant shall calculate the indirect costs in the application form. The application form calculates the percentage automatically. This shall be done before the project contract is signed.

The method of calculating the indirect costs, its flat rate and its maximum amount shall be determined in the project contract.

When choosing flat rate method for indirect costs following documents shall be provided as an attachment of the project proposal:

- Calculation statement of the chosen apportionment method/s and list of the costs items that have been included in the calculation of the direct costs that can affect the level of overheads in order to demonstrate that the flat rates do not exceed 20% of them.

In the case of on-the-spot visit or checks, the relevant accounting documents supporting the calculation method should be made available for the Programme Operator and/or Assessor and/or Auditor.

Application of the flat rate method cannot lead to deliberately increased eligible direct and indirect costs. The amount of eligible direct and indirect costs shall be therefore thoroughly assessed during the selection process.

Sources:

Regulation on the implementation of the Norwegian Financial Mechanism/EEA Financial Mechanism 2009 - 2014

IPA Adriatic Programme Management and Control Manual, p. 49 – 52

ERDF Supplementary Guidance – Flat rate overheads

ERDF User Manual, Chapter 2: Eligibility Rules, p. 25 - 32