



**European Economic Area Financial Mechanism 2009-2014**

**Commission for Citizenship and Gender Equality –CIG**

***PT07: Mainstreaming Gender Equality and Promoting Work-Life Balance***

**Methodology on the calculation of the flat rate to be applied to indirect eligible costs (overheads), in line with Article 7.4.1(b) and Article 7.13.4 of the Regulation**

In accordance with Article 7.4.1(b) of the Regulation, a Project Promoter and project partners may opt for a flat rate of up to 20% of its total direct eligible 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.

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.

The flat rate proposed by the project promoters and their partners shall be accepted up to a maximum of 20% and since this rate is considered reasonable.

The clearance of this reasonableness is analyzed taking into consideration the following aspects:

1. Total Direct Costs;
2. Total Indirect Costs;
3. Fair Apportionment of the amount of indirect costs attributed the project.

## 1. Total Direct Costs

In accordance with article 7.3.1. of the Regulation, **Direct costs**, 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. In particular, the following direct expenditures are eligible provided that they satisfy the criteria set out in Article 7.2 of the Regulation.

- a) **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.
- b) **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.
- c) **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.
- d) **Purchase of land and real estate** under the conditions set in Article 7.5 of the Regulation.
- e) **Costs of consumables and supplies** provided that they are identifiable and assigned to the project.
- f) **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.

- g) **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).

## 2. Total Indirect Costs

**Indirect costs** (article 7.4 of the Regulation) 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:

- a) **Office costs**, i.e. electricity, gas, heating, water, cleaning, office supplies, office rent, rates;
- b) **Administrative costs**, i.e. telephone, fax, internet, mailing, copying, stationery, and office supplies related to project activities;
- c) **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.

---

### 3. Fair Apportionment of the amount of indirect costs attributed the project

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

#### ***I) Apportionment method based on number of people working solely for the project***

number of people working solely for the project/number of people working in the organization or unit \* 100 = % number people working solely for the project

**Note:** This formula shall be used only if the people work a full time for the project (100%)

#### ***II) Apportionment method based on number of people working solely for the project for a period of time***

time the people work solely for the project (days/weeks) / full year (days/weeks) \* 100 = % of time people work solely for the project

**Apportionment percentage = %** number people working solely for the project \* % of time people work solely for the project

**Note:** This formula shall be used if the time of the project is less than a full year

#### ***III) Apportionment method based on number of hours worked on the project***

number of hours worked on the project/number of hours worked in total in the organization or unit \* 100 = % number of hours worked on the project

**Note:** This formula shall be used if the people work a part time for the project

#### ***IV) Apportionment method based on space or area used***

surface<sup>1</sup> used by the personnel working for the project/surface of the organization or unit \* 100 = % space used

***V) Apportionment method based on space or area used for a period of time***

time the space is used (days/weeks/hours) / time available (days/weeks/hours) \* 100 = % of time the space is used

**Apportionment percentage** = % of space used \* % of time the space is used

**Note:** This formula shall be used if the time of the project is less than a full year

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 formula above number IV) 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 formula above number I) or number III) can be appropriate.

If the human resources assigned to the project are not a full-time but a part-time, the formula above number II) is more 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.**

<sup>1</sup> General spaces (such as corridors, toilets, canteens, general admin space, etc) shall not be included in the total available surface

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 purpose fully 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.

## **FLAT RATE METHOD**

### **1<sup>st</sup> Step**

Identification of the direct eligible 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.

**A = Total of the direct eligible costs**

### **2<sup>nd</sup> Step**

Identification of the **maximum flat rate**, i.e. **20% of its total direct eligible 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.

**B = Value of the Maximum flat rate (20%)**

$$B = \text{Total of the direct eligible costs} * 20\%$$

### **3<sup>rd</sup> Step**

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.

**C = Total Overhead Costs**

### **4<sup>th</sup> Step**

Calculation of the fair apportionment of the amount of indirect costs by using the formulas identified above as examples (point 3). 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. It can be used other formulas since they are appropriate.

**D = Total Overheads apportioned (see apportionment methodology)**

### **5<sup>th</sup> Step**

Calculation of the overhead flat rate which can be applied to the project = D/A

**E = Overhead flat rate (%)**

$$E = \text{Total Overheads (apportioned)} / \text{Total of the direct eligible costs}$$

### **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.**

In the **Annex I** is presented an application form to calculate the percentage automatically.

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 contract:

- 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 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 before the project contract.

**Annex I**

<b>INDIRECT COSTS IN PROJECTS (OVERHEADS) - FLAT RATE METHODOLOGY</b>		
<b>1. Total Direct Costs</b>		
	<b>Project Costs</b>	
a) The cost of staff assigned to the project	0,00 €	
b) Travel and subsistence allowances for staff taking part in the project	0,00 €	
c) Costs of new or second hand equipment	0,00 €	
d) Purchase of land and real estate	0,00 €	
e) Costs of consumables and supplies	0,00 €	
f) Costs entailed by other contracts awarded	0,00 €	
g) Costs arising directly from requirements imposed by the project contract	0,00 €	
<b>A = Total of the direct eligible costs</b>	<b>0,00 €</b>	
<b>B = Value of the Maximum flat rate (20%* A)</b>	<b>0,00 €</b>	



2. Total Indirect Costs	Annual Costs	Overheads		
		Method base		AppORTIONED
		Type *	%	AppORTIONED
<b>a) Office costs</b>	<b>0,00 €</b>			<b>0,00 €</b>
electricity	0,00 €			0,00 €
gas	0,00 €			0,00 €
heating	0,00 €			0,00 €
water	0,00 €			0,00 €
cleaning	0,00 €			0,00 €
office rent	0,00 €			0,00 €
rates	0,00 €			0,00 €
...	0,00 €			0,00 €
<b>b) Administrative costs</b>	<b>0,00 €</b>			<b>0,00 €</b>
telephone	0,00 €			0,00 €
fax	0,00 €			0,00 €
internet	0,00 €			0,00 €
mailing	0,00 €			0,00 €
copying	0,00 €			0,00 €
stationery	0,00 €			0,00 €
office supplies	0,00 €			0,00 €
...	0,00 €			0,00 €
<b>c) Other administration expenditure</b>	<b>0,00 €</b>			<b>0,00 €</b>
labour costs of supporting employees	0,00 €			0,00 €
top management costs not directly engaged on the project	0,00 €			0,00 €
commonly used assets	0,00 €			0,00 €
...	0,00 €			0,00 €
<b>C = Total Overhead Costs</b>	<b>0,00 €</b>			
<b>D = Total Overheads (apportioned)</b>				<b>0,00 €</b>
<b>E = Overhead flat rate = D/A (%)</b>	<b>#DIV/0!</b>			

\* - Choose one of the following types of apportionment method

Types of apportionment method (formulas)			
<b><i>I) Apportionment method based on number of people working solely for the project</i></b>			
number of people working solely for the project/number of people working in the organization or unit * 100 = % number people working solely for the project			
<b>Note:</b> This formula shall be used only if the people work a full time for the project (100%)			
<b><i>II) Apportionment method based on number of people working solely for the project for a period of time</i></b>			
time the people work solely for the project (days/weeks) / full year (days/weeks) * 100 = % of time .....people work solely for the project			
<b>Apportionment percentage = %number people working solely for the project * % of time people work solely for the project</b>			
<b>Note:</b> This formula shall be used if the time of the project is less than a full year			
<b><i>III) Apportionment method based on number of hours worked on the project</i></b>			
number of hours worked on the project/number of hours worked in total in the organization or unit * 100 = % number of hours worked on the project			
<b>Note:</b> This formula shall be used if the people work a part time for the project			
<b><i>IV) Apportionment method based on space or area used</i></b>			
Surface <sup>(1)</sup> used by the personnel working for the project/surface of the organization or unit * 100 = % space used			
<b><i>V) Apportionment method based on space or area used for a period of time</i></b>			
time the space is used (days/weeks/hours) / time available (days/weeks/hours) * 100 = = % of time the space is used			
<b>Apportionment percentage = % of space used* % of time the space is used</b>			
<b>Note:</b> This formula shall be used if the time of the project is less than a full year			
<b><i>VI) Other Apportionment method (specify)</i></b>			

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