European Union
European Regional
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INTERREG IVA Programme

Guidance Note on the adoption of 'indirect costs developed on a flat-rate basis.'

G17/IIVA

1.0 Introduction

1.1 On 6 May 2009, Regulation (EC) 1080/2006 on the European Regional Development Fund (ERDF) was amended by Regulation (EC) 397/2009. One of the key changes enacted by the amendment related to the simplification of the management, administration and control of operations that receive ERDF grant. More specifically, as a result of a European Court of Auditors recommendation, the amendment seeks to simplify the basis of calculation of eligible costs, making greater use of lump-sum, flat rate or unit cost payments instead of reimbursement of 'real costs'.

Prior to this amendment, an operation wishing to recover indirect costs/overheads such as rent, electricity etc. was required to apportion individual invoices, and have them verified as 'real costs', this system was deemed labour intensive, and led to complexity, particularly in instances where there were several fund providers, each funding portions of costs. The amended procedure would allow an operation the choice to claim indirect costs on a flat-rate (% of direct costs) the methodology for which is outlined in this guidance note, or on a real cost basis, procedures for which can be found in G6/IIVA Guidance on Eligibility of Expenditure. .

1.2 Key Articles within Regulation (EC) 397/2009 include:

"Art 1 (3) In the case of grants the following costs shall be expenditure eligible for a contribution from the ERDF, provided that they are incurred in accordance with the national rules, including accountancy rules, and under the specific conditions provided for below:

(i) indirect costs, declared on a flat-rate basis, of up to 20% of the direct costs of an operation;
(ii) flat rate costs calculated by application of standard scales of unit cost as defined by the Member State;
(iii) lump sums to cover all or part of the costs of an operation. (not to exceed €50,000)

The costs referred to in points (i), (ii), and (iii) above shall be established in advance on the basis of a fair, equitable and verifiable calculation."

1.3 In our role as the 'Managing Authority' for the PEACE III and INTERREG IVA EU Structural Funds Programmes, Special EU Programmes Body (SEUPB) has been granted Member State approval for the adoption of Article 1(3) (i) above.

2.0 Methodology

2.1 Definition of direct costs by which to apply the flat rate

Direct Labour has been determined the most appropriate direct cost driver by which to apply the flat rate. Whilst it is certainly possible to argue that other funding drivers may also be appropriate, such as capital expenditure, the consistency of the direct labour basis ensures a fair and equitable treatment for all categories of organisation in receipt of Programme funding as direct labour is directly indicative of the proportion of overheads that are used (i.e. overheads are generally required to support staff in role).

Eligible Direct Labour costs will consist of Gross salary, employer's pension and employer's national insurance or PRSI contributions only. Eligible indirect costs will be highlighted as a percentage of these direct labour costs and be applied to the direct labour element of funding applications for each applicant.

3.0 Definition of eligible indirect costs / overheads

3.1 For the purposes of this proposal, indirect costs have been defined as:

- Service personnel costs (e.g.. core finance/HR staff or the use of recruitment consultants);
- Costs of rent and rates
- Costs of electricity (heat and light), thermal, gas energy, water);
- Costs of postal, telephone, internet and other communication services;
- Costs of office supplies and stationeries (e.g.. pens, paper, folders, cartridges, CDs, etc);
- Costs of property insurance;
- Costs of guarding the premises; and
- Costs of cleaning, disinfection etc.

These costs cannot therefore be included or funded within direct costs. Capital expenditure has been specifically excluded for this proposal and can therefore only be claimed on a real cost basis.

4.0 Application and Verification of the Methodology

4.1 Application of methodology

Organisations can claim indirect costs/overheads (as defined on page 3) at a flat rate of 20% of the approved operation's direct labour costs.

20% of the direct labour costs detailed in each funding application will be highlighted as the indirect costs/overheads total.

Those operations already in receipt of a Letter of Offer (LoO) but who have **not yet** claimed for any indirect costs/overheads (as defined on page 3) can still claim on a flat rate basis providing that JTS have agreed any necessary budget re-profiling and issued an addendum to the existing LoO in **advance** of any claim.

All partner organisations within an operation must apply the same methodology to overheads i.e. it is not acceptable for the Lead Partner to apply the flat rate whilst a project partner organisation claims overheads on a real cost basis.

4.2 Verification of methodology

20% of the direct labour costs claimed in each claim period should be included in a separate claim line as “overheads”.

20% of the **eligible** direct labour costs in each claim period will be paid as “overheads”.

If the value of direct labour costs **verified** is less than the value of direct labour costs claimed, the value of the “overheads” paid will be reduced accordingly.

<u>Example:</u>

Q1 2010 Claim – Direct Labour Costs = £100k
Overheads = £20k (100 x 20%)

Verification visit conducted finds that £5K of direct labour costs could not be verified as eligible expenditure therefore;

Q1 2010 Payment – Direct Labour Costs = £95k
Overheads = £19k (95 x 20%)

This guidance note is approved by the Department of Finance in Ireland and the Department of Finance and Personnel in Northern Ireland.

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