



Staff Costs and Overheads – SCO Approach in Wales

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Staff Costs and Overheads – SCO Approach in Wales

This presentation will cover the following;

- Staff Costs and Overheads definitions in 2007 – 2013
- How these costs were evidenced
- How these costs were calculated
- Problems with this approach
- Staff Costs definitions in 2014 – 2020
- Indirect Costs definitions in 2014 – 2020
- Indirect Costs – how these will covered
- How the Simplified Cost Options will be applied
- Advantages of the new approach
- Concerns of the new approach
- Provision for special circumstances
- Worked example

Staff Costs and Overheads definitions in 2007 - 2013

Staff Costs – Definition

Expenditure incurred for staff time used to deliver projects

Example – Annual salary, national insurance, pension contributions, employer's contributions for NI and pension, any other contractual payments included in the employee contract

Overheads – Definition

Expenditure incurred on costs necessary to deliver the project other than staff costs

Example - office rental, telephone charges, ICT charges, utility bills, building maintenance costs, cleaning services etc

Management Overheads – Definition

Expenditure incurred for staff time in managing project delivery staff

How these costs were evidenced

Staff Costs – Evidence

Time sheets / Pay Roll printouts / Pay Slips / Bank Statements

Overheads – Evidence

Invoices for items purchased

Office rental agreements

Utility Bills

Bank Statements

Management Overheads – Evidence

Time sheets / Pay Roll printouts / Pay Slips / Bank Statements

Staff Organisation Charts to show how they manage the project

EVIDENCE OF DEFRAIMENT REQUIRED FOR ALL COSTS!

How these costs were calculated

Staff Costs

Member of staff delivering one project –

100% of total staff costs (salary + employers costs + other costs)

Member of staff working on project and non-project activities

% allocated to the project based on time sheets and calculation applied to total staff costs

Done on a monthly basis because the allocation can and does change

Monthly amounts added to produce total amount for the claim

How these costs were calculated

Overheads

One office used for the delivery of one project –

100% of invoices, utility bills, service charges etc

One office with four work stations but only one work station used for the delivery of the project -

25 % of costs apportioned to project based on invoices, utility bills, service charges etc

Done on a monthly basis because % can and does change

Monthly amounts added to produce total claim amount

Management Overheads –

A formula that justifies % apportionment to project activity applied to manager's costs on a monthly basis

Monthly amounts added to produce total claim amount

Problems with this approach

- Complicated evidence requirements – a lot of information plus apportionment % calculations done a monthly basis
- Time consuming for applicants and claim processing staff – one claim was > 2,000 pages of documentation!!
- No hourly rates allowed - examples found of overcompensation when project staff worked more than contracted hours
- All expenditure and claims based on financial amounts therefore had to be reconciled at €0.01 – 100% checks done for all claims
- Staff costs – public authorities in Wales had difficulties reconciling expenditure to bank statements when audited
- Staff costs – some concerns about payslip information being used as evidence particularly for management overheads
- Project sponsors delivering several projects at the same time had difficulties explaining internal accounting systems at audits

Staff Costs definitions in 2014 - 2020

Staff Costs – Direct Costs

Actual amount of expenditure incurred for staff delivering one or more EU funded projects

Staff Costs – one project 100% of total costs to the EU project

Staff Costs – more than one project % allocated pro-rata to each EU project

Notes

Evidence of defrayment is required

Evidence to demonstrate that no more than 100% of total cost is charged in aggregate to all EU projects based on actual productive hours worked on each project evidenced by time sheets

Evidence that staff are working only on EU funded projects

If any element of non-EU funded activity then staff costs cannot be split using % apportionment for just the EU project activity

Staff Costs definitions in 2014 - 2020

Staff Costs – Simplified Cost Option / Unit Cost Hourly Rate

€ per hour =
$$\frac{\text{latest documented annual gross employment costs}}{\text{standardised annual productive hours}}$$

May include an element for management supervision costs in addition to the costs of staff doing direct project delivery

Notes

Unit Cost Hourly Rate determined before project is approved

Determined annually for projects that run over a number of years

Staff Costs evidenced by Time Sheets at claim stage – not costs

Claim inspection visits verify Calculation Methodology and second check on Time Sheets

NO EVIDENCE OF DEFRAIMENT REQUIRED

Staff Costs definitions in 2014 - 2020

Latest documented annual gross employment costs

Annual salary of the employee

plus all additional statutory contributions from the employer such as National Insurance and pension contributions

plus any other contracted payments such as a car user allowance

Notes

Evidenced before the project is approved

For new employees - By a copy of the employment contract that sets out terms of employment and expected salary scale

For existing staff – Based on actual costs for the previous year not forecasts for the next year

May be updated annually but agreed in advance as part of a project re-evaluation process

Staff Costs definitions in 2014 - 2020

Standardised annual productive hours

Two options for this value –

- 1) A fixed value of **1,720 hours**
- 2) Determined from number of contracted hours and deduct number of hours for Public Holidays and Annual Leave

Notes

Fixed value can be used without documentary evidence

Calculated hours option used for project staff on part time contracts

Evidenced before the project is approved either by

Copy of the employment contract that shows expected number of hours per week for new appointees, or,

Evidence of actual staff hours worked in previous year for staff already employed

Indirect Costs definition in 2014 - 2020

Indirect Costs

All types or categories of expenditure that cannot be accurately quantified and specifically identified to one or more EU funded projects

Example

An office contains 4 work stations one of which is used for the EU project and the rest are used by the project sponsor for other work

In 2007 – 2013 the rent, rates, electricity, gas, broadband and telephone bills would have been apportioned so that 25% of those costs was included as eligible costs to the project

These costs would have been described as Overheads

There is no concept of “Overheads” in the new programmes

This will be dealt with in a new way using the Simplified Cost Option

Indirect Costs – how these will be covered

Indirect Costs (under the new definition) are costs that cannot be reimbursed to the project sponsor

The project sponsor can claim an additional amount calculated as a Flat Rate fixed percentage of Staff Costs

Staff Costs can be on the basis of the Direct Cost method or on the SCO Unit Cost Hourly Rate method or on a combination of the two

This additional amount to be claimed is intended to cover all Indirect Costs and any staff time spent on non-project activities

For EAFRD and EMFF the only Flat Rate option available is set at **15% of Staff Costs** *

No evidence of expenditure is necessary to show what this money has been spent on

(* Article 68(1b) of EU Regulation 1303/2013 refers)

How the Simplified Cost Option will be applied

2014 – 2020 Rural Programmes (EAFRD & EMFF) in Wales
Simplified Cost Option approach is compulsory for CLLD

All LAGS and FLAGS can only use SCO approach

Staff Costs can be approved using the Direct Cost approach

Total employment costs are approved as € amounts and evidenced on the usual defrayment basis

Or

Staff Costs can be approved using Simplified Cost Option / Unit Cost Hourly Rate and evidenced by time sheets

Or

Staff Costs can be approved using both methods applied to different staff in the same project

How the Simplified Cost Option will be applied

Staff Costs – Simplified Cost Option / Unit Cost Hourly Rate

€ per hour =
$$\frac{\text{latest documented annual gross employment costs}}{\text{standardised annual productive hours}}$$

This calculation is done for each Pay Band or Staff Grade employed on the project

There could be two or three different SCO Hourly Rates in a project

The SCO / Unit Cost Hourly Rate may include an additional amount to cover direct management costs if this can be evidenced

For example, one manager is supervising 4 staff [all delivering EU funded projects] 12% of manager's costs could be added to calculate the Unit Cost Hourly Rate

(This is for illustration purposes only – actual % to be justified)

How the Simplified Cost Option will be applied

(Staff Costs Direct Costs) +
(Simplified Cost Option Number of Hours x Hourly Rate) =
Total Staff Costs

Total Staff Costs x 15% = **Flat Rate Amount**

Total Staff Costs + Flat Rate Amount = **Total Expenditure**

Direct Costs are approved as financial values (€)

SCO are approved as Number of Hours (Hours)

Total number of hours approved cannot be exceeded

Advantages of the new approach - 1

- LAGs and FLAGs have a choice between managing staff costs on the basis of either Direct Cost (evidence of defrayment) or SCO Hourly Rate (time sheets only)
- Could reduce administration costs for LAGs and FLAGs
- Could reduce administration costs for MAs and Paying Agencies
- Would reduce complexity and so reduce audit risks for errors
- Does not require all costs to be evidenced
- New definition of Indirect Costs that replaces Overheads means that administrative burden to evidence often small amounts is removed completely
- Cannot apportion costs between EU funded and non-EU funded activities which discourages project sponsors from trying to include small amounts of costs using complicated formulae

Advantages of the new approach - 2

- No requirement to evidence every € used in project delivery
- No requirement to do post-payment checks on how funding paid as 15% Flat Rate has been used
- No requirement to check what has actually been paid to a member of staff [and any associated employers costs]
- All the evidence needed is provided at application stage and is considered before the project is approved
- Projects that run over several years will require an annual review of the SCO Unit Cost Hourly Rate
- Once the SCO approach has been agreed the project sponsor cannot change to Direct Costs approach (or vice versa)

Advantages of the new approach - 3

Finally,

Some very straightforward claims might have only two lines

1) Staff Costs in hours

A figure for a number of hours of delivery in the claim period, say three months, supported by one time sheet per member of staff for each month

2) 15% Flat Rate amount

Calculated from the total financial value of Staff Costs

Claim verification would be a check that the time sheets had two signatures and that the number of hours being claimed was correct

If the project had staff on differently Hourly Rates there would be one Staff Cost line per Hourly Rate

Concerns about the new approach – 1

- Resistance to change from previous claim basis
- Doubts that administrative effort will be reduced
- Possibility of being disadvantaged from actual payments made because of long term sickness absence, pay increase impact, potential increases in NI pension etc.
- Unit cost re-evaluation have a time lapse before approval and claim
- Possibility that not all additional costs of delivery will be recoverable because of the 15% Flat Rate limit
- Questions about specific employee contract items that are not standard – are these eligible as staff costs or not and therefore have to be covered by the 15% Flat Rate

Provision for special circumstances

Can be included in the number of productive hours

- Staff on maternity or paternity leave
- Staff doing training necessary for the delivery of the project

Cannot be included in the number of productive hours

- Staff not at work because of sickness absence
- Staff doing personal development training or similar courses
- Staff undertaking civic duties such as jury service

Worked Example

An organisation has a standard contract of employment based on a 40 hour week

A member of staff is employed on a basic salary of €20,000 per annum

That member of staff is employed full time on one project

Step 1 Calculate annual gross employment costs

€20,000 salary

plus Employer's tax and National Insurance contributions

plus 2% employers pension contribution

$€20,000 + €1,662 + €400 = \mathbf{€22,062}$

Step 2 Calculate SCO Unit Cost Hourly Rate

$€22,062 / 1,720 = \mathbf{€12.83}$

Worked Example

Step 3 Determine how many hours in the year will be spent on delivering the project

Total number of hours to be delivered = 1,600

Step 4 Calculate total payment due on Simplified Cost Option basis

$1,600 \times \text{€}12.83 = \text{€}20,528$

Step 5 Calculate 15% Flat Rate addition

$\text{€}20,528 \times 15\% = \text{€}3,079$ (rounded)

Total project value €23,607

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Thank you

Any Questions?

SCO – Unit Costs Example

Average cost of Shellfish Pots - as at 14 March 2014						
Supplier	Contact No	Parlour Pot (26" Top entry)	Whelk Pot (moulded manufactured)	Whelk Pot (lay down)	Prawn Pot (Roscoff style)	Prawn Pot (Panel style)
ABC Pots	01234 222333	£49			£36	
Best Pots	01234 222333	£50				£18
Colt Engineering	01234 222333	£46	£42		£40	£26
Windforce Pot Supplies	01234 222333	£55			£42	
John Davies	01234 222333		£45			
Cornish Pot Supplies	01234 222333				£40	
Iain McGregor	01234 222333				£38	
Billy's Whelk Pots	01234 222333		£40	£8		
James and Sons	01234 222333			£10		
South West Creel Pots					£44	
Average cost		£50	£42	£9	£40	£22
Notes:						
All prices ex VAT						
Pot only cost - no allowance for rope						
Prawn Pots - Roscoff style used mainly in Wales - confirmed by WFA						
Whelk pots - based on commercially manufactured. Home made can cost as little as £10						

SCO – Unit Costs Example

Pot Type	Standard Price	Grant Amount for new pot	Grant Amount for repaired pot
Parlour Pot	£50.00	£40.00	£10.00
Whelk Pot (moulded)	£42.00	£33.60	£8.40
Whelk Pot (laid down or Self manufactured)	£9.00	£7.20	£1.80
Prawn Pot (Roscoff / Payne style)	£40.00	£32.00	£8.00
Prawn Pot (Panel style)	£22.00	£17.60	£4.40