



Llywodraeth Cymru  
Welsh Government

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# Welsh Government Rural Communities – Rural Development Programme 2014-2020

## SIMPLIFIED COST OPTIONS

### Guidance Notes

Mae'r ddogfen yma hefyd ar gael yn Gymraeg  
This document is also available in Welsh



Cronfa Amaethyddol Ewrop ar  
gyfer Datblygu Gwledig  
Ewrop yn Buddsoddi mewn Ardaloedd Gwledig  
European Agricultural Fund for  
Rural Development  
Europe Investing in Rural Areas



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## **COSTS IN THE 2007 - 2013 PROGRAMMES**

In the 2007 - 2013 programme costs were described and defined as follows:

### **Actual Costs**

1. Costs that are actual amounts incurred for goods and / or services necessary for the delivery of only one project:
  - Example - purchase of a piece of equipment.
  - Evidenced by - invoices and bank statements.
  
2. Costs that are estimated amounts determined by an apportionment method that have been incurred and which relate to the delivery of a project:
  - Example - staff costs where the person works on more than one project.
  - Evidenced by - an apportionment method applied to details from time sheets, payroll or pay slips and bank statements.

### **Overheads**

3. Costs that are usually derived amounts determined by an apportionment method incurred by the project sponsor which support the delivery of the project:
  - Example - premises costs such as rent, rates, utility cost, telephone charges, and cleaning services
  - Evidenced by - an apportionment method applied to details from invoices or bills and bank statements.

### **Management Overheads**

4. Costs that are usually derived amounts determined by an apportionment method incurred by the project sponsor which support the management of the delivery of the project:
  - Example - staff costs for personnel in the finance team that process claims or staff costs related to the management of the organisation in a general sense
  - Evidenced by - an apportionment method applied to details from time sheets, payroll or pay slips and bank statements.

## **COSTS IN THE 2014 - 2020 PROGRAMMES**

In the 2014 - 2020 programme costs are described and defined as follows:

## **Direct Costs**

5. Costs that are actual amounts which can be accurately quantified and specifically identified to only one project:
  - Example - electricity that is individually metered for an office which is used exclusively for the project. The cost can be accurately quantified and is allocated to only one project.
  - Evidenced by - invoices and bank statements.
6. Direct Costs are not defined costs such as rent, rates, electricity, gas, broadband, telephone bills or other particular costs. It is any cost that can be accurately measured in some way with the result that a quantifiable amount can be specifically identified to the one project. Travel and subsistence costs are examples of Direct Costs.  
Direct Costs - also described as Actual Costs - must be claimed on a defrayed expenditure basis supported by the usual documentary evidence.

## **Indirect Costs**

7. Costs that are amounts which cannot be accurately quantified and specifically identified to only one project:
  - Example - An office contains 4 desks, one of which is used for the project. The rent, rates, electricity, gas, broadband and telephone bills are all apportioned so that 25% of those costs are included as eligible costs to the project.
8. Indirect Costs are all types or categories of expenditure that cannot be accurately quantified and specifically identified to only one project.

Indirect Costs cannot be used as a way of claiming expenditure for a project. This must be covered by the Simplified Cost Option - Flat Rate (see below).

## **Exception to the Direct Cost definition**

9. Costs incurred for a single EU funded project would be dealt with as a Direct Cost but there is no intention to penalise a beneficiary who runs more than one EU funded project.  
Therefore, costs incurred that benefit more than one EU funded project (but do not benefit any non EU funded activity) can be treated as Direct Costs and can be allocated as a pro-rata amount to the projects that they relate to.
10. The evidence to show that the full costs will be contained in projects that are wholly EU funded must be provided at application stage. The allocation methodology must be agreed before the project starts.

Evidence of how the allocation method has been applied must be submitted along with the usual supporting documentation such as time sheets, payroll information, bank statements and other similar documents.

The key audit considerations are evidence to demonstrate that no more than 100% of the cost is charged in aggregate and suitable evidence that the benefits relate exclusively to EU funded projects and not to the beneficiary's non-EU work.

If there is any element of non-EU funded benefit then the entire cost is considered to be an Indirect Cost.

## **SIMPLIFIED COST OPTIONS**

11. Two types of Simplified Cost Options are currently offered for the Welsh Government Rural Communities: Rural Development Programme 2014-2020- European Agriculture Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF):

- Unit Cost
- Flat Rate

### **Unit Cost**

12. The project sponsor will be paid a fixed amount for each unit. Those units could be for an activity to be delivered (for example, staff time based on an hourly rate) or could be for an output to be delivered (for example, each training place provided). The project is approved on the basis of the maximum number of units that can be claimed. The total project cost is calculated from the maximum number of units multiplied by the Unit Cost. For EAFRD and EMFF the most usual Unit Cost will be for staff time based on an hourly rate. The methodology of calculating the Unit Cost value for staff time based on an hourly rate is set out in the EC Regulations:

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

### **Latest documented annual gross employment costs**

13. These costs are the 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.
14. The Unit Cost value (£ per hour) must be evidenced and calculated before the project is approved. Evidence to be provided should include job description; post grading assessment (if applicable); salary scales; employment contract. Other

information might be included if a recruitment exercise is to be undertaken. Evidence could also include prior year payroll details if existing staff are allocated to the project.

### **Standardised annual productive hours**

15. There are two options to determine this value:

1. A fixed value of **1,720 hours** can be used without the need for documentary evidence and prior approval.
2. Determine the number of productive hours in a year by taking the number of contracted hours and deducting the number of hours for public holidays and annual leave entitlements.

16. For the second option this must be evidenced before the project is approved. Evidence to be provided could be either a copy of the employment contract that sets out the terms of the employment and the expected number of hours to be worked for new appointees, or the actual staff hours worked in the previous year if existing staff are allocated to the project. For part time contracts calculation of the number of productive hours can be done using either the actual number of contracted hours or the number of full time hours that the contract is based on.

### **Flat Rate**

17. The project sponsor will be paid an additional amount, which is calculated as a fixed percentage of certain other costs. For EAFRD and EMFF the only Flat Rate option available is set at 15% of staff costs.

18. This amount will not be subject to future audit scrutiny. Audit will be based on the evidence and methodology for the determination of the staff costs before the project is approved.

The 15% Flat Rate option is set out in Article 68(1b) of EU Regulation 1303/2013.

### **APPLICATION OF DIRECT COSTS AND SIMPLIFIED COSTS IN A PROJECT**

19. For a given category of costs in a project only one method can be used - either Direct Cost or Simplified Cost.

The costs associated with the employment of people in the delivery of a project can be defined under one of the following two categories:

- Staff costs such as salary, pension and any direct allowances.
- Human Resources costs such as redundancy, long term sickness absence pay, maternity or paternity pay.

Staff costs may be determined using either the Direct Cost method (evidenced by payroll information reconciled to bank statements) or the Simplified Cost Option method (evidenced by timesheets).

Human Resources costs can only be determined by Direct Costs (because there are no productive hours to record on timesheets).

A project sponsor may use either method in separate projects.

A project sponsor may use a different method in separate projects that are running concurrently.

20. The determination of the calculation of any Simplified Cost Option Unit Cost must be approved by the Financial Appraisal Manager, Scheme Management Unit before the project can be approved. (Rural Programmes Finance Team for Technical Assistance projects)

## WORKED EXAMPLES

### Simplified Cost Option - Unit Cost - Staff Hourly Rates – Example 1

#### Background information

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 an operation (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 + £1,660 + £400 = **£22,060**

Step 2 Calculate fixed hourly rate:

£22,062 / 1,720 = **£12.83**

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

52 weeks @ 40 hours per week = 2,080 hours maximum available

Less 5 weeks holiday (5 @ 40 hours = 200 hours)

Less 8 Bank Holidays (8 @ 8 hours = 64 hours)

Total number of hours to be delivered = **1,816**

Step 4 Calculate total payment due on Simplified Cost basis:

1,816 x £12.83 = **£23,299**

#### Notes

The staff time is evidenced through timesheets.

Claims are submitted for the total number of project hours worked in that period (employer's tax and National Insurance contributions are shown for illustrative purposes only at 8.3% but the actual figures will differ).

### Simplified Cost Option - Unit Cost - Staff Hourly Rates – Example 2

#### Background information

An organisation has a standard contract of employment based on a 37 hour week.

A member of staff is employed on an hourly rate of £7.68 an hour.

That member of staff is employed on a 21 hour per week contract.

Step 1 Calculate annual gross employment costs:

$£7.68 \times 37 \times 52 = £14,776$  annual equivalent salary plus  
Employer's tax and National Insurance contributions plus  
2% employers pension contribution

$£14,776 + £1,226 + £296 = \mathbf{£16,298}$

Step 2 Calculate fixed hourly rate:

$£16,298 / 1,720 = \mathbf{£9.48}$

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

52 weeks @ 21 hours per week = 1,092 hours maximum available  
Less 5 weeks holiday (5 @ 21 hours = 105 hours)

Less 8 Bank Holidays (8 @ 4.2 hours = 33.6 hours)

Total number of hours to be delivered = **953.4**

Step 4 Calculate total payment due on Simplified Cost basis:

$953.4 \times £9.48 = \mathbf{£9,038}$

## Notes

The staff time is evidenced through timesheets.

Claims are submitted for the total number of project hours worked in that period (employer's tax and National Insurance contributions are shown for illustrative purposes only at 8.3% but the actual figures will differ).