

## CASE STUDY<sup>1</sup>

### Overheads / Administration Costs

#### INTER-ch'ti project

The whole Reijssel city employs in total 100 full-time people (NB: one full-time staff works 152 hours per month). The costs for administration costs are calculated centrally for the whole city.

Among the 100 full-time staff, 4 are fully involved in the INTER-ch'ti project. They occupy 50m<sup>2</sup> of the 1000m<sup>2</sup> of the building of the Reijssel city.

The total cost for the City for 6 months from **1 January 2008 to 30 June 2008** is the following:

Type of costs	Costs in EUR
Fax	1,200
Stamps	800
Internet	4,000
Telephone	5,000
Paper	500
Catering	25,000
Electricity	8,500
Water	700
Heating	13,000
Copier	300
Office cleaning	10,000
Security services	20,000
Furniture	14,000
Leasing cars	32,000
Lawyer advice	10,000
Training	2,000
<b>Total Costs</b>	<b>147,000</b>

The Reijssel city calculated the **monthly overhead** for INTER-ch'ti project as follows:

$$\frac{\text{EUR } 147,000}{100 \text{ people}} \times 4 \text{ people working on the project} = \text{EUR } 980$$

6 months

#### **Question 1**

**A/** Assuming that all types of costs are in principle eligible, could this calculation method be accepted?

**B/** Could other pro-rata methods be used? If yes, which one and what would be the result?

#### **Question 2**

On 30 April 2008, one staff working on the INTER-ch'ti project leaves the organisation. What should be done regarding the calculation of the costs?

What would be the results of the calculation, assuming that all types of costs are in principle eligible?

#### **Question 3**

Is the amount of EUR 980 calculated by the Reijssel city fully eligible?

<sup>1</sup> The information provided here gives some practical advice on recurring issues in the financial management of projects. It does not of course substitute the INTERREG IVC Programme Manual or any EC or national regulation or the advice of the first level controller.

## Solutions

### Question 1

A/ The method is acceptable

Cost per month per people working for project	Cost per semester per people working for project
EUR 980.00	EUR 5880.00

B/ Other pro-rata methods

- **Surface**

EUR 147 000 / 1 000m<sup>2</sup> = EUR 147 per m<sup>2</sup>

As the project has 50m<sup>2</sup> = EUR 147 x 50m<sup>2</sup> = EUR **7 350 for the reporting period**

Monthly 7 350/6 = EUR **1 225**

Cost per month for Surface for project	Cost per semester for Surface for project
EUR 1,225.00	EUR 7,350.00

- **Hours worked**

Total hours worked for the whole city = (100 people x 152 hours x 6 months) = 91,200 hours

Total hours worked for the project = (4 people x 152 hours x 6 months) = 3,648 hours

3,648 hours / 91,200 hours = 4% of the total hours of the city are dedicated to the project

(EUR 147,000 x 4%) / 6 months = EUR **980.00 per month (EUR 5,880.00 for the reporting period)**

Cost per month for hours worked on project	Cost per semester for hours worked on project
EUR 980.00	EUR 5,880.00

- **Comparison of costs**

Method	Cost per month in EUR	Cost for reporting period in EUR
Pro rata of people working	980.00	5,880.00
Pro rata surface	1,225.00	7,350.00
Pro rata hours worked	980.00	5,880.00

### Question 2

- **Update of the method of the Reijssel City**

EUR 147,000 / 6 months = EUR 24,500 per month

Monthly amount from January to April = (EUR 24,500/100 people x 4) = EUR **980 per month**

Monthly amount from May to June = (EUR 24,500 / 99 people x 3) = EUR **742.35 per month**

Result over the period =

(4 months x EUR 980) + (2 months x EUR 742.35) = 3,920 + 1,484.7 = EUR **5,404.70 for the reporting period**

- **Update of the method of hours worked**

Total hours worked for the whole city = (100 people x 152 hours x 4 months) + (99 people x 152 hours x 2 months) = 60,800 hours – 30,096 hours = 90,896 hours

Total hours worked for the project = (4 people x 152 hours x 4 months) + (3 people x 152 hours x 2 months) = 2,423 hours + 912 hours = 3,335 hours

3,335 hours / 90,896 hours = 3,67% of the total hours of the city are dedicated to the project

(EUR 147,000 x 3,67%) / 6 months = EUR 899.15 (EUR 5,394.90 for the reporting period).

- **Comparison of costs**

Method	Cost per month	Cost for reporting period
Pro rata of people working	From Jan to April = 980.00 From May to June = 742.35	5,404.70
Pro rata surface	1,225.00	7,350.00
Pro rata hours worked	899.15	5,394.40

### Question 3

The amount of EUR 980 is not fully eligible. Some costs should be withdrawn if not project related (catering, security services, leasing cars, lawyer advice, training).

It should also be checked whether some costs are not already claimed as direct costs (such as stamps, internet, telephone...).

Some costs might be ineligible generally (lawyer advice?). Article 49 of R.1828/2006 states that “legal consultancy fees, notarial fees, costs of technical and financial experts, and accountancy and audit costs, if they are *directly linked to the co-financed operation and are necessary for its preparation of implementation* or, in the case of accounting and audit costs, if they relate to requirements imposed by the managing authority” are charges and costs that shall be eligible. However, “finances, financial penalties and expenditure on legal disputes shall not be eligible”.

Some costs might have to be reported rather as direct costs. For example if a person in the legal department was involved in checking the partnership agreement, and you want to declare these costs, then they should be declared as direct staff costs on the basis of the actual cost and time spent. Similarly, training costs if directly linked to the project should rather be reported directly under external expertise.

	Type of costs	Costs
	Fax	1,200
	Stamps	800
	Internet	4,000
	Telephone	5,000
	Paper	500
?	Catering	25,000
	Electricity	8,500
	Water	700
	Heating	13,000
	Copier	300
	Office cleaning	10,000
?	Security services	20,000
?	Furniture	14,000
?	Leasing cars	32,000
?	Lawyer advice	10,000
?	Training	2,000
	<b>Total Costs</b>	<b>147,000</b>
?	<b>Total costs eligible for the project (if not claimed as direct costs)</b>	<b>44 000</b>
?	<b>Other costs requiring further investigation</b>	<b>103 000</b>

In any case, all administration costs must be supported by the original invoices, payment proofs, calculation method for the allocation of certain share to the project etc.

For further details please also refer to the programme manual, Section 2.4.2.2 and Annex 8b “Fact sheet on administration costs”.