

## Methodology for flat rate calculation

### The "FLAT RATE" method for establishment of indirect costs

For the purpose of accurate establishment of indirect costs, it is necessary for the applicant/project promoter and the eligible partner to make a list of all types of indirect costs, that could according to the project proposal be incurred. All ineligible expenditures should be removed from the list. It is necessary to submit methodology for each organization involved in the project separately (i.e. applicant/project promoter, eligible partner from Slovakia and from Donor States).

**Indirect costs** are all eligible costs that cannot be identified by the project promoter and/or the 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. They may not include any eligible direct costs. Indirect costs of the project shall be identified according to one of the following methods:

- a) based on actual indirect costs for those project promoters and project partners that have an analytical accounting system to identify their indirect costs as indicated above;
- b) a project promoter and project partners may opt for a flat rate of up to 10% 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 or project partner.

When applying flat rate indirect costs the project promoter and eligible partners shall provide reasonable and accurate methodology for calculation of indirect costs. Project promoters and/or project partners that have identified their indirect costs in a manner comparable to letter a) under the sixth or seventh Framework Programme of the European Commission cannot make use of the methods described in letter b).

The chosen method shall be kept unchanged during the whole implementation of the project.

### Example:

The applicant/project promoter or the project partner intends to include the indirect costs into relevant project expenditures and use them to establish the flat rate method. Established direct costs of the project, excluding direct costs for subcontracting and costs of resources made available by third parties which are not used on the premises of the project promoter/project partner, are proposed in the applicant's/project promoter's budget as follows:

Activities	Personnel costs	€20,000
	Travel expenditures and travel insurance	€5,000
	Daily allowances/scholarships	€15,000
	Refreshment	€2,000
	Rental of conference premises and classrooms	€1,000
	Purchase of office supplies and aids	€500
	Purchase of study materials, aids, publications	€500
	Publishing of common study materials, aids, publications	€500
	Purchase of low-value tangible assets and low-value intangible assets including technical equipment of classrooms	€2,000
	Other	
Project Management	Cost of staff (wages related to the project implementation)	€1,800

(max 10 % of Project Activities)	Purchase of low-value tangible assets and low-value intangible assets	€700
	Travel expenditures and travel insurance	€700
	Daily allowances/scholarships	€450
	Project audit	€1,000
	Expenses on public procurement	-
	Other	-
Publicity	Information materials	€400
(max 3 % of Project Activities)	Webpage	€300
	Information seminars	€600
	Other	-
TOTAL Direct costs (Activities + Project Management + Publicity)		€52,450

Indirect costs are generally eligible up to the 10% of €52,450.00 i.e. €5,245.00. This is also the maximum to be applied when using the flat rate method.

The project has identified the following indirect costs:

Costs	Eligibility	Indirect costs	Included in the calculation	Costs for 1 year	Explanation
Space rental	yes	yes	yes	€ 45,000	eligible costs
Electricity	yes	yes	yes	€ 25,000	eligible costs
Water and sewer rates	yes	yes	yes	€ 22,000	eligible costs
Personnel not directly related to the project	yes	yes	yes	€ 81,000	eligible costs
Consumables	yes	yes	yes	€ 8,000	eligible costs
Phone charges	yes	yes	yes	€ 19,000	eligible costs
Postal charges	yes	yes	yes	€ 3,000	eligible costs
Fines and penalties	no	no	no	-	ineligible costs
Late fees	no	no	no	-	ineligible costs
TOTAL				€ 203,000	

When calculating **indirect costs**, we can apply one of the following methods, depending on which method reflects the type of the indirect costs most appropriately:

1. the ratio of the number of people working on the project/people working in the organization or unit,

2. the ratio of the number of working hours spent on the project/the total sum of working hours in the organization or unit,
3. the ratio of the work (office) space used by the project personnel/ratio of the work(office) space of the organization or unit.

When calculating the indirect costs, the applicant/project promoter or partner is obliged to use one of the described methods, or a combination of these methods. It is possible to use a different method for each type of indirect costs and it is applicant's/project promoter's or partner's responsibility to use such method that will allow a fair apportionment of the given type of indirect costs. For example:

- when calculating the proportion of space rental, the third method is the most appropriate,
- in case of higher amounts related to the organization's overheads such as heating/lightning bills etc., it is necessary to calculate these costs against real bills and adjust them for actual work (office) space used for the project,
- administrative personnel costs are based on the amount of hours of work devoted to the project,
- when calculating the relevant internet costs, the first or the second method can be used.

It is necessary to assess, which method is most relevant to the particular type of indirect costs. The method of calculation usually depends on the type of the organization. When we decide, which method is the most suitable, we should take into consideration that the amount of indirect costs in a project should be set down fairly.

When establishing the method of defining the indirect costs, the baseline of these costs should be chosen adequately. The notion of a baseline represents an accounting document (invoice) for electricity or rent, paycheck etc. It is not possible to choose a baseline, which increases the apportionment of indirect costs.

This method of calculation results in a number, which represents a certain amount of money. When summarizing the total amount of indirect costs, we may eventually get to the calculation of flat rate.

### ***An example of calculation based on the used work (office) space***

The applicant/project promoter or partner implements the project in offices, where other activities, non-related to the project, are carried out. The project uses 300 m<sup>2</sup> out of the total of 5000 m<sup>2</sup> space of the building.

The calculation of indirect overheads such as electricity, heating or space rental can be apportioned on the basis of work (office) space used for the project.

The percentage of work (office) space used for the project should be calculated by this formula:

$\text{work space (office) used for the project / total space of the office or building} * 100$ $= \% \text{ of work (office) space in use}$
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$$300/5000*100= 6\%$$

This example demonstrates that a project that uses this work (office) space could claim 6% of costs for heating, electricity (etc.) as indirect costs incurred for project purposes.

### ***An example of calculation based on the space used for a certain period of time***

In case that the project does not run for a full year, but, for instance, only for 40 weeks in a year, during which the work (office) space is used, the aforementioned method of calculation should be combined with the percentage of time this space is used for the project purposes.

period of time during which the work (office) space is used / total period of time during which the work (office) space can be used \* 100 = % of time the space is used

$$40/50 * 100 = 80\%$$

The project uses 6% of the total space for 80% of time available. The next step of calculation is then as follows:

% of work (office) space in use \* % of time the space is used = percentage of apportionment

$$6\% * 80\% = 4.8\%$$

This means that the applicant/project promoter or partner is allowed to claim 4.8% of relevant indirect costs (heating, electricity, space rental etc.) for the period of time, during which the project is implemented.

Some projects do not use the office space just for the project purposes. The applicant/project promoter or partner may use this space for project purposes only for several hours per week and for the rest of the time this space is used for other purposes, non-related to the project. In this case, the method of calculation is the same as the method based on the use of space for a certain period of time, but it is necessary to adjust the time units from weeks to hours.

The office space is used for project purposes for 20 hours per week out of 40 hours per week. It is necessary to calculate the intensity of space usage. The calculation is as follows:

time of space usage in hours per week/the total number of hours per week \* % of apportionment from the previous calculation

$$20/40 * 4.8\% = 2.4\%$$

This means that the applicant/project promoter or partner is allowed to claim 2.4% of indirect costs for the period of time, during which the project is implemented.

Similar method is used, when the office space is used for the project purposes by several tenants or persons, but not all of these tenants/persons contribute to the project implementation. In this case, the calculation must be adjusted in such a way, that the project grant will fund only that share of costs, which is related to the project.

#### **Result:**

The aforementioned facts show us that:

Space rental	2.4% of €45,000 = €1,080
Electricity	2.4% of €25,000 = €600
Water and sewer rates	2.4% of €22,000 = €528

Consumables	2.4% of €8,000 = €192
Phone charges	2.4% of €19,000 = €456
Postal charges	2.4% of €3,000 = €72

#### **Other indirect costs**

The aforementioned method cannot be applied to salaries for personnel indirectly contributing to the project, because these employees are not related to work (office) space. For this type of costs, the method based on the number of employees is more appropriate, for example:

The total number of organization's employees is 100.

The total number of employees directly contributing to the project activities (activities and project management) is 3.2 of **full-time equivalent**.

This means that the applicant/project promoter or partner is allowed to claim 3.2% of total personnel costs for staff indirectly involved in the project (human resources staff, top management), i.e.

3.2% of €81,000 = €2,592.

#### **The summary of actual indirect costs:**

Space rental	€1,080
Electricity	€600
Water and sewer rates	€528
Consumables	€192
Phone charges	€456
Postal charges	€72
Personnel not directly related to the project	€2,592
<b>TOTAL</b>	<b>€5,520</b>

The amount of total direct costs excluding direct costs for subcontracting and third-party costs unrelated to the project promoter's or partner's purposes equals: €52,450

The total amount of calculated indirect costs equals: €5,520

€5,520 out of €52,450 represents 10,52%.

**The amount of indirect costs calculated by the "flat rate" method, which could be used by the applicant/project promoter or partner for the calculation of overheads in the example, represents 10,52% of direct costs. According to the rules of EEA Scholarship Programme Slovakia, the eligible amount of indirect costs cannot exceed 10% of direct costs, which means that indirect costs even using the flat rate method can be claimed in the proportion of 10% of direct costs at maximum.**

If the flat rate method is used to identify the amount of overheads, the aforementioned calculations can be used only for preliminary determination of indirect costs. In case that the amount of indirect costs was already established, no further audit or inspection is necessary.

**The selected method/methods of calculation of indirect costs of the project (for each organization - applicant/project promoter, eligible partner from Slovakia, eligible partner from Donor states separately) must be explained in a declaration and sent to the Programme Operator via e-mail, before signing of the project contract.** In case that the "flat rate" method was already established and approved by the Programme Operator (SAIA, n. o.), there is no need for additional calculations/evidence. All relevant direct costs are reported and the established % of claimed indirect costs always depends on direct costs included in every interim project report during the implementation of the project.

The flat rate of indirect costs and the maximum amount of indirect costs will be defined in the project contract or in the grant offer letter.

In order to be able to define and claim indirect costs using the flat rate method the applicant/project promoter (on behalf of all involved organizations in a project) is obliged to submit to the Programme Operator (SAIA, n. o.) the following documents before the signing of the contract:

- declaration regarding the calculation and method of establishment of indirect costs, including the list of items, which were included into the calculation of indirect costs.

In case of "on-the-spot" verification, the project promoter/partner is obliged, in accordance with the General Terms and Conditions of the Project contract, to submit to the eligible person all relevant accounting documents, which were used to establish the flat rate method. The application of the flat rate method cannot result in deliberate increase of direct or indirect costs.