

Reporting administration costs – information for Sub-Project-Participants

Version 09.09.2010

Eligibility of administration costs

Administration costs are eligible if they:

- Are related to activities scheduled in the application form (direct and demonstrable connection of bodies concerned, subject matter, time, place of the operation) and show a direct link to the project's activities
- Are necessary for the implementation of the operation (adequacy of amount)
- Have not already been financed from other EU-funds
- Have not already been included in other budget lines or cost items
- Have actually been incurred / paid out
- Have occurred after the date of the initial funding decision by the Monitoring Committee
- Have occurred before the finalisation date of the operation fixed in the approved application form
- Are recorded in the Regional Partners' accounts
- Are identifiable and verifiable
- Are backed by original supporting documents
- Are not in contradiction with specific eligibility criteria.

Administration costs are only applicable for personnel employed by the Sub-Project Participant's institution listed in the application form. Administration costs linked to services provided by external experts must be included in the budget line "External expertise and services".

Administration cost items

Administration costs may include cost items such as:

- stationery
- photocopying
- mailing

- telephone, fax and Internet
- heating, electricity
- office furniture, maintenance
- office rent
- other administration expenditure absolutely necessary for the successful completion of the project and clearly resulting from project implementation

These costs may be direct or indirect general costs. While direct general costs can be identified as belonging directly to the project and easily proven by payment receipt or bank statement, indirect general costs (overheads related to the project activities) are calculated on a pro-rata basis. **No lump sums, overall estimations or arbitrary keys are allowed!**

If there have been problems with the reporting of administration costs in the past, it often resulted from partners trying to stretch the above-mentioned principles into grey areas. The reported administration costs have been artificially inflated through the inclusion of overhead cost categories which lacked a clear project link. **In case of doubt, it can only be advised to exclude the cost categories in question from the calculation to avoid problems later on.**

Documents needed for verification

For **each above listed item** that will be included in the reporting of administration costs a **proof of payment** has to be provided to the First Level Controller to verify that the costs have actually been incurred by the Sub-Project Participant! For most items a cash receipt or bank statement are sufficient. In case of office rent a rental agreement has to be provided.

Calculation methods of indirect administrative cost

Indirect administrative costs can be reported according to a duly justified, fair and equitable method that should remain the same during the whole implementation period. **It is strongly recommended that the Sub-Project Participants agree the allocation key with their financial controller (First Level Controller) to avoid losing of funds!**

The allocation of the organisation's eligible administration costs to the project could be done on the basis of the following keys (depending on which key best reflects the type of cost):

- the ratio "number of people working for the project / number of people working in the organisation or department" or

- the ratio “number of hours worked on the project / number of hours worked in total in the organisation or department”
- the ratio “surface used by the personnel working for the project/surface of the organisation or department”

Based on the payment proof of cost items, the amount allocated to the project will be calculated.

Example 1: Reporting administration costs using the allocation key “number of people working for the project / number of people working in the organisation or department”

Employees in whole institution: 30

Employees working for the project: 2

Ratio number of people working for the project / number of people working in the organisation or department:

$$2 / 30 = 0,067$$

Monthly administrative costs in the whole institution:

Costs item	Expenditure (per month)
Office rent	3.000,00 €
Telephone, fax and Internet	400,00 €
Heating, electricity	750,00 €
Stationery	30,00 €
....	...
Total	4.180,00 €

Calculation of allocation of indirect administrative costs to the project:

$$4.180,00 \text{ €} \times 0,067 = \mathbf{280,06 \text{ €}}$$

Documents needed for verification:

- rental contract
- proof of payment for office rent
- proof of payment for institution’s telephone, fax and internet bill
- proof of payment for institution’s heating and electricity
- proof of payment for institution’s stationery
- proof of number of institution’s contracted employees

- proof of number of employees working for the project
- description of the method used for calculation

Example 2: Reporting administration costs using the allocation key “number of hours worked on the project / number of hours worked in total in the organisation or department”.

Number of hours monthly worked in total in the institution: 3.200

Number of hours monthly worked for the project: 80

Ratio “number of hours worked on the project / number of hours worked in total in the organisation or department”

$$80 / 3.200 = 0,025$$

Costs item	Expenditure (per month)
Office rent	4.573,00 €
Telephone, fax and Internet	350,00 €
Heating, electricity	455,00 €
Mailing	250,00 €
Photocopying	35,00 €
...	...
Total	5.663,00 €

Calculation of allocation of indirect administrative costs to the project:

$$5.663,00 \text{ €} \times 0,025 = \mathbf{141,58 \text{ €}}$$

Documents needed for verification:

- rental contract
- proof of payment for office rent
- proof of payment for institution’s telephone, fax and internet bill
- proof of payment for institution’s heating and electricity
- proof of payment for institution’s mailing costs
- proof of payment for institution’s photocopying costs
- proof of number of hours worked by the institution’s contracted employees
- proof of number of hours worked for the project (based on monthly time sheets)
- description of the method used for calculation





Further details can also be found in the fact sheet on administration costs in annex 8b) of the INTERREG IVC manual:




Annex 8b) Fact Sheet on administration costs

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.

What the manual says:

“Administration costs may include cost items such as **stationery, photocopying, telephone, fax and internet, heating electricity, office furniture, maintenance, office rent**. Administration costs may be direct or indirect costs. Direct administration costs belong directly to the project while indirect administration costs (overheads related to the project activities) are calculated on a pro-rata base.
INTERREG IVC Programme Manual, Section 2.4.2.2 Administration costs

Common errors:	The right way:
<u>Calculation & Documentation</u>	
<ul style="list-style-type: none"> Administration costs are not based on real costs, but on lump sums. No invoices, no paid out expenditure are traceable, as a single fixed amount is applied (e.g. 10% of the partner's budget). 	 Administration costs must be calculated on the basis of actual costs and capable of verification . For both direct and indirect costs, it must be possible for an auditor to verify the respective expenditure on a basis of invoices and expenditure born directly by the project institution!
<ul style="list-style-type: none"> The method for calculating the administration costs is not traceable (e.g. the percentage of office rent / heating costs / telephone costs allocated to the project is not clear). 	 All calculations must be properly documented and self-explanatory! The allocation of the organisation's eligible administration costs to the project could be done e.g. on the basis of the following keys (depending on which key best reflects the type of cost): <ul style="list-style-type: none"> the ratio “number of people working for the project / number of people working in the organisation or department” or the ratio “number of hours worked on the project / number of hours worked in total in the organisation or department” or the ratio “surface used by the personnel working for the project/surface of the organisation or department”. <p>DO NOT USE LUMP SUMS, OVERALL ESTIMATIONS OR ARBITRARY KEYS!</p>
<u>Ineligible items</u>	
<ul style="list-style-type: none"> Administration costs include non-project related costs, e.g. a project includes in the administration costs (partially) the costs for the construction or maintenance of a car park or the installation of an office alarm system, although these items have no direct link to the project and are not directly necessary for the implementation of the project. 	 All administration costs (direct or indirect) reported must have a direct link to the project and must be absolutely necessary for the implementation of the project (such as the cost items listed in the programme manual and above)! Do not artificially inflate the administration cost budget through the inclusion of overhead cost categories which lack a clear project link. In case of doubt it can only be advised to exclude the cost categories in question from the calculation to avoid problems later on.
<ul style="list-style-type: none"> Some administration costs are in general ineligible: general legal consultancy 	 Certain administration costs which are in general not eligible can be reported and are

<p>fees, notarial fees, costs of technical and financial experts, accountancy and general audit costs when they lack a direct link to the project.</p>	<p>eligible if they are directly linked to the project, e.g. the audit of the project (see Regulation (EC) No 1828/2006 Article 49 c).</p>
<p><u>In-equitable calculation method</u></p>	
<ul style="list-style-type: none"> Administration costs are reported twice. Once as direct administration costs with 100% (i.e. total telephone costs for an employee working exclusively for the project) and as indirect costs (overheads) (i.e. x% of the total institution's telephone costs (overhead costs related to the project's activities)). This double funding is of course not eligible. 	<p> The calculation of indirect administration costs should be done on the basis of the actual costs according to a duly justified, fair and equitable method that should remain the same during the whole implementation period and cannot include the already directly reported administration costs!</p>
<ul style="list-style-type: none"> Applying an unreasonable pro rata base, e.g. 80% of staff costs are reported as administration costs. 	<p> It is clearly stated in the programme manual that the calculation of administration costs has to be according to a duly justified, fair and equitable method!</p>
<ul style="list-style-type: none"> Methods used in other European or national funding programmes (eg. declaration on the basis of a lump sum / flat rate) are applied in order to report administration costs under INTERREG IVC. 	<p> It is important to distinguish between the rules applicable in other programmes and the ones specific to INTERREG IVC. Differences might exist resulting from different funding objectives and legal bases. In INTERREG IVC, the calculation of indirect administration costs can only be done on the basis of the actual costs according to a duly justified, fair and equitable method! The allocation key must be verifiable.</p>

Useful references:

- INTERREG IVC Programme Manual (i.e. Section 2.4.2.2 Administration costs);
- Annex 5 of the Programme Manual, INTERREG IVC control report, Checklist question n° 7. Administration expenditure, n° 15 Other eligibility considerations
- Regulation (EC) no. 1828/2006; Regulation (EC) no. 1080/2006; Regulation (EC) no. 1083/2006