



## Costs relating to European Structural funds 2014 -2020

All costs relating to any activity funded by either ESF or ERDF must be eligible. It is important that organisations in receipt of European Structural Funds are aware of the guidance around the eligibility of costs which can be found within the ['Eligibility rules and conditions for support from the European Structural Funds 2014-2020'](#).

There are a number of factors that will lead to a cost being classed as eligible or ineligible. Some costs are always ineligible and others are only eligible under certain conditions. The ability to demonstrate a direct link of a cost to project activity may also influence whether it is deemed as eligible or not e.g. whether it is deemed as a 'direct' or 'indirect' cost.

It is important to remember that all costs claimed must be in line with those agreed in your original funding agreement with WEFO, Intermediate Body or Lead beneficiary.

### ELIGIBLE COSTS

All costs which go into to make your total project cost must be eligible costs, this is regardless of whether they are classed as 'direct' or 'indirect'; or whether or not they are part of your match funding contribution.

To be eligible a cost must be incurred and paid within the lifetime of your project. In some cases, it may be possible to gain retrospective approval of costs but these would be considered on a case by case basis. You should also seek the guidance and approval of WEFO, Intermediate Body or Lead beneficiary before incurring any costs outside the lifetime of your project.

All projects must apply the 'real costs' rule, meaning that with the exception of depreciation and third party contributions in kind, all costs must be the actual costs incurred and paid by the project. All costs must be supported by a full clear audit trail.

All costs must be considered **necessary** to the running of your project and provide clear value for money. Audit trails must be supplied to demonstrate how this is ensured.

All costs being claimed must use your usual accounting practices, you must not change your usual accounting policies and practices simply because your project is partly funded with European funds.

All costs incurred must include a full audit train from being incurred to being defrayed (leaving your bank account).

The '[Eligibility rules and conditions for support from the European Structural Funds 2014-2020](#)' provide clear guidance on which costs are deemed as eligible and ineligible and it is important that projects always refer to the most up to date version of this guidance.

## **INELIGIBLE COSTS**

Organisations must understand it is their responsibility to ensure that all costs being claimed are eligible. If, through a verification or audit check, it is identified that ineligible expenditure has been claimed, your total project cost will be reduced by the amount of the ineligible expenditure. So if your total project award is £100,000 but you accidentally claim £20,000 of ineligible costs, your project's award will effectively be reduced to £80,000.

If you are unsure about the eligibility of your costs, please refer to your grant award letter or contract, WEFO, your Intermediate Body or Lead beneficiary. Alternatively, please contact the 3-SET team.

## **DIRECT AND INDIRECT COSTS**

In order to profile your project and claim your costs, all costs must be split into two categories: direct and indirect.

### Direct costs

A direct cost relates specifically to the actual delivery of your EU funded project. It is easy to identify and does not require any apportionment methodology or the splitting between a number of different activities.

Examples of direct costs could be –

- Staff working directly on the project
- Participant costs
- Publicity relating directly to the project

### Indirect costs

An eligible cost that the project benefits from in some way but where the value of the cost is difficult to identify the specific amount that can be linked to your project.

Examples of indirect costs could be –

- Rent for a building shared between a number of projects
- Utilities bills for a building shared between a number of projects
- Shared photocopying or mail costs where the specific project activity cannot be clearly identified
- Core organisation costs such as payroll where specific time spent on direct project activity cannot be clearly identified through the use of tools such as timesheets.

A cost heading cannot fall into both categories of cost.

Unfortunately, there is no definitive list as to what would constitute a direct or indirect cost and there will always be costs that are not as easy to categorise as others, so the following logic should be used as a guide.

#	Question	Answer
1	Is the cost directly attributable, <b>in full</b> , to <b>one WEFO operation</b> (WEFO Online 'case ID') and where a direct link to the operation's eligible activities can be demonstrated or is self-evident?	<b>YES</b> = Direct cost <b>NO</b> = Go to 2
2	Is the cost directly attributable, <b>in part</b> , to <b>one WEFO operation</b> - where a direct link to the operation's eligible activities can be demonstrated or is self-evident - and the precise amount attributable to the specific operation can easily be established?	<b>YES</b> = Direct cost (situation 1 above) <b>NO</b> = Go to 3
3	Is the cost directly attributable to a <b>group of WEFO operations</b> , where a direct link to the corresponding operations' eligible activities can be demonstrated or is self-evident (i.e. the benefits accrue <b>exclusively</b> to the group of WEFO operations) but the precise amount attributable to the each operation cannot easily be established?	<b>YES</b> = Direct cost (situation 2 above) <b>NO</b> = Go to 4
4	Is the cost directly attributable to an all-Wales scheme/ group of related projects where the project(s) in West Wales and the Valleys region is supported by WEFO but the East Region is wholly funded by national funds (or vice versa)?	<b>YES</b> = Direct cost (situation 3 above) <b>NO</b> = Go to 5
5	All other costs	<b>= Indirect cost</b> reimbursed via a flat-rate (simplified cost)

The above table is taken directly from the WEFO ['Eligibility rules and conditions for support from the European Structural Funds 2014-2020'](#) so is directed at those organisations operating as lead or joint beneficiaries working directly with WEFO. The same logic in the table can be applied to any project that is in receipt of European Structural Funds from any other lead beneficiary or Intermediate body.

## SIMPLIFIED COSTS

Simplified costs in Wales are made up of either flat rates or unit costs. They can sometimes be referred to as SCOs or Simplified Cost Options. Simplified costs have been introduced into the 2014 -2020 programmes as a better way of calculating projects' costs when compared to 'real cost' recovery. They should reduce the likelihood of error and administrative and audit burden on projects.

Guidance has been produced to explain simplified costs by WEFO and it can be found [here](#), this document gives a broad overview of all simplified cost options made available by the European Commission. It is important to note that not all of these options are available to ESF projects in Wales, so when planning your project, please also refer to the 'Eligibility rules and conditions for support for European Structural Funds 2014-2020' to ensure you are following the rules that are applicable to your project.

Simplified costs mean that all eligible costs are reclaimed using a predefined methodology based on a fixed percentage of some other costs. Simplified costs are the only method available for calculating indirect costs.

All projects must establish which simplified cost option they are going to use in advance of any activity starting. Once a simplified cost option has been established it cannot be changed, so it is essential that the most appropriate option is chosen.

Simplified cost options do not waive the obligation to fully observe all applicable EU and national rules such as publicity, public procurement, equal opportunities, sustainable environment, state aid etc.

Some of the key feature of simplified costs are:

Rules & Conditions	Simplified costs	Real costs
Each cost item must be individually coded to the EU project or separated in your accounting system	X	√
You must provide us with a list of individual costs incurred and paid	X	√
You must be able to provide proof of payment for each payment, such as a bank statement	X	√
You must retain receipted invoices, or equivalent accounting documents, for each individual payment	X	√
You must retain expenditure documents (invoice/ proof of payments) until we notify you that they can be destroyed, potentially for up to 10 years	X	√
We, and possibly the EC, will audit and verify on the costs you have incurred and paid	X	√
Each cost incurred and paid must comply with the 'real costs' rules (EC and Wales rules) set out in this document	X	√
We and the EU institutions retain the right to examine your general accounting records for statistical, methodological or fraud-prevention and detection purposes.	√	√

It is important to understand that some costs within a project will be reimbursed using 'real cost' rules while others may use the simplified costs methods.

### Flat rate financing

This means that the costs which fall under the indirect cost heading will be recovered based on an agreed percentage of the direct costs of a project. The following two agreed flat rate methods are available.

#### Flat rate 15% for indirect costs

This rate is available to all ESF projects and means that any indirect costs will be reimbursed at the agreed rate of 15% of the direct staff salary costs (salary, employer NI and employer pension).

Direct staff salary costs of project £50,000 – this will be evidenced using real cost rules  
Other direct project costs £100,000 – this will be evidenced using real cost rules  
Indirect cost calculated at 15% of direct staff salary costs- £7,500 – this will be evidenced using simplified costs rules

### **Flat rate 25% for indirect costs (Research, development and innovation projects only)**

This rate is available to all qualifying research, development and innovation projects and means that any indirect costs will be reimbursed at the agreed rate of 25% of the direct costs.

Direct costs of project £100,000 – this will be evidence using real cost rules  
Indirect cost calculated at 25% - £25,000 – this will be evidenced using simplified costs rules

There are some exceptions to what can be included in the direct costs calculation when using the 25% option. They are –

- Costs of sub-contracting
- Costs of resources which are made available by third parties which are not used at the beneficiaries' premises
- Financial support to third parties

The final flat rate available to ESF projects is 40% for direct and indirect costs. This flat rate differs from the previous options as all eligible costs (both direct and indirect) are calculated on 40% of the eligible direct staff costs which are claimed.

Eligible direct staff costs - £60,000 - this will be evidenced using real cost rules  
All other eligible project costs calculated at 40% - £24,000 - this will be evidenced using simplified costs rules

### **Unit costs for project staff costs**

A fixed hourly rate for staff would be established in a project's funding award letter and the rate would be used when submitted claims. The key benefit of this option is that throughout the project, payroll and financial records, including bank statements, relating to staff salaries will not be examined.

### **Unit costs and lump sums**

Some projects can also utilise a combination of unit costs and lump sums which are determined exclusively by performance of activities or achievement of outputs or results.

For projects to use this option it must be possible to readily identify and define:

- The expected quantities of certain activity, outputs or results that would represent the successful delivery of a project; and
- The scale of unit costs for those quantities.

Specific guidance around this option can be found [here](#).

Key information to remember when deciding on a simplified cost option

- The simplified cost option must be agreed in advance of any project activity starting
- The option cannot be changed once activity has started even if the project is financially at a loss
- Any indirect costs which are procured must be declared and evidenced in line with procurement regulations
- Projects which are implemented exclusively through procurement cannot chose to be reimbursed by a simplified cost option, all costs will be reimbursed through the real costs option

