Apportionment: Working out shared costs

What is apportionment?
Is your organisation only running a single European-funded project, and doing nothing else? If the answer is ‘yes’, you need not worry about apportionment. In reality, however, there are very few such organisations, and most are likely to be delivering more than one project, and getting funding from a range of sources. If your European-funded project or contract will be only part of what you do, or if all of your organisation’s activity is European-funded but in more than one project, then you need to know about apportionment.

Apportionment means sharing out any relevant costs properly and fairly between European-funded and other projects, or between two or more different European-funded projects, being delivered by one organisation. Whichever situation applies to you, you must:

- choose an approved method for apportioning eligible costs
- apply the method/s you choose consistently
- have a written explanation for the method/s you choose.

Two types of costs to a project -

Direct costs are those directly attributable to the project. This includes staff working directly on the project; invoices to the project; costs for beneficiaries on the project. These can just be displayed as whole costs and claimed in the normal way. If some staff undertake work across more than one project then they would need to timesheet their activity and only charge the cost of the time actually spent on the project.

In-Direct costs are those costs which cannot be connected directly to the implementation of a project and where it is difficult to attribute expenditure as they are shared across an organisation. These include staff and personnel costs not directly related to the project (e.g. HR, finance and ICT); equipment and premises costs where these are not used wholly for Structural Funds activity; telephone and postage costs; electricity, gas and water as well as insurance. These costs need to be apportioned to the project in some way.

Apportionment methods you can use

1. Costs can be apportioned on the basis of staff hours

For example:
- number of staff hours worked on European-funded project = 150 per week
- total number of staff hours worked = 450 per week
- costs apportioned to European-funded project = 150/450 or 1/3 or 0.333
• 0.333 or 1/3 of all eligible indirect costs being apportioned by this method would be charged to the project
• e.g. quarterly telephone costs for project = £120
  (Total cost £360 Project cost = 150/450 staff hours pw = £360/3 or 0.333x£360 = £120)

But remember:
• the number of hours staff work each week on the project and on other activities must be verifiable, with a complete audit trail
• receipts and invoices must be available to verify all actual costs incurred.

Using staff hours as the method of apportionment for overheads or salaries etc. will be appropriate for organisations where staff time is spent on work related to the European-funded project as well as on other work undertaken by the organisation.

2. Costs can be apportioned on the basis of space occupied

For example:
• space occupied by European-funded project = 120 sq m
• total space occupied by organisation = 600 sq m
• costs apportioned to European-funded project = 120/600 or 1/5
• 0.2 or 1/5 of all eligible costs being apportioned by this method would be charged to the project
• e.g. Council tax is £2,000 (Council tax = £10,000, Project council tax = 120/600 sqm = £10,000/5 or 0.2 x £10,000 = £2,000)

But remember:
• the records you keep must show that building use by the project is in accordance with the fraction or % you claim
• this method of apportionment is useful to share out costs incurred from rent, council tax, heating and lighting and other eligible premises related costs.

Typical methods of apportionment
• for salaries - actual hours spent working on project/total hours paid for
• for premises - actual space used by project/total space paid for
• for insurance - value of project items insured/total value of items insured
• for overheads (e.g. heating/lighting, postage/stationery) - project training hours/total training hours (for training organisations only delivering training) or actual space used by project/total space paid for.

Apportionment methods you cannot use
• any method based on the organisation’s turnover
• any method based on number of project beneficiaries in relation to total beneficiaries
• any method based on total project staff costs in relation to total organisation staff costs
• any method based on a notional figure i.e. one not based on specified and actual numeric relationships between project and organisational activity.
Using Flat Rate Apportionment
To reduce risk and bureaucracy within the 2007-2013 programme WEFO have strongly encouraged project sponsors to use the flat rate methodology for the administration of indirect costs for ESF and ERDF projects. For the 2007-2013 programmes indirect costs can only be claimed on either a flat rate basis or based on actual costs.

The flat rate percentage to be applied will vary from project to project but will be within the overall ceiling of 20% of direct costs declared. The objective is to simplify administration and reduce risk, not to increase direct or indirect costs.

From using one of the above methodologies to calculate the indirect costs attributable to the project it is then a simple calculation to work out the flat rate percentage.

**Example:**

\[
\begin{align*}
\text{Total indirect costs} & \quad 36,016 \\
\text{Total direct costs} & \div 242,090 \\
& \times 100 \\
& = 14.87\%
\end{align*}
\]

In this example the flat rate percentage to be used for indirect costs will be 14.87% (i.e. it is within the 20% ceiling of direct costs).

When putting together a financial claim, organisations simply apply the flat rate percentage, in this example 14.87%, against the total direct costs being claimed. So if the total direct costs for a quarter equalled £10,000 then an additional £1,487 (10,000 x 14.87%) would be claimed for indirect costs making a total claim of £11,487.

Organisations must declare expenditure on the basis of actual direct costs supported by invoices or other appropriate accounting documentation and indirect costs at the agreed flat rate percentage of declared direct expenditure. The actual amount of direct costs will serve as the basis for the calculation of indirect costs this will affect the amount of indirect costs that can be claimed.

And finally, to avoid problems, make sure that:
- apportionment methods are based on the actual activity/ies of the project in relation to the activity/ies of the whole organisation
- all costs are properly broken down in both applications and claims
- all costs for which you claim are verifiable, with a complete audit trail
- if you want to use a method of apportionment that is particularly complex or unusual, discuss this in advance with WEFO.
- total staff hours and support hours as well as support role costs should be verifiable
- all project staff hours and project costs should be verifiable
- where possible, you should use timesheets and cost in each staff member by hour, the flat rate method should only be used for those staff/organisations for whom this is impractical
- staff directly costed to the project should never form part of support costs
Further information

- For further information refer to the WEFO Indirect cost guidance note which can be found at [http://wefo.wales.gov.uk/developing/guidance](http://wefo.wales.gov.uk/developing/guidance)
- Alternatively you can seek guidance from 3-SET or your project contact at either WEFO or your project sponsor.