



Supplementary information on salary costs

Following the recent instruction note on the hourly rate calculations circulated to you in connection with the request for the next periodic report we have prepared some additional guidance on how to calculate the hourly rate primarily for staff working part time on a project.

In light of the strict financial control from the European Union and the severe consequences which programmes like the Interreg IV B North Sea Region program can face where the error rate for the programme is above 2 %, all stakeholders must do their utmost to reduce the occurrence of errors.

One of the sources of error which has been found by recent second level control inspections is the calculation of staff costs (salary costs). In the absence of specific EU- and program rules for this calculation, the projects have to refer to existing national rules. However, there are examples of concrete rules not being available in this respect.

As indicated in the first instruction note on the hourly rate calculation, and to avoid further consequences for the whole program, the project partners are advised to keep the calculation of hourly rates as simple and unambiguous as possible. The following guidance is a recommendation on how to do this.

This note seeks to clarify step by step the correct methodology for calculating the hourly rate, i.e. how to calculate the two elements needed for setting the hourly rate:

$$\text{Hourly rate} = \frac{\text{Salary (real cost only, see fact sheet 2)}}{\text{Total annual working hours}}$$

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The numerator (salary calculation):

- **Step 1:** The full real (actual) salary cost including any compulsory employer contributions (e.g. insurance and pension) derived from national regulation. It is said explicitly in **Fact Sheet No 2** that only real and defrayed costs can be included. This means that the beneficiary can never charge more to the programme than what is reflected on the payslips of the employees.
- **Step 2:** If the employee contract includes additional cost items, these may be included in the salary calculation if this is allowed according to national legislation. E.g. bonus payments, childcare payments and company cars. In some of the countries it is a requirement that there is a strong justification for cost items as the ones mentioned here. Any additional cost items should be relevant to the project and proportionate to the role and responsibilities of each individual in the delivery of the project.

The denominator (Working hours calculation):

- **Step 3:** Identify the total number of working days per year
- **Step 4:** Establish what can be deducted from this annual total before calculating the hourly rate. Please be careful here as this is the area where the second level control has detected problems. As a general rule, it is not possible to deduct more than the days stated below under step 5.
- **Step 5:** In general it is possible to deduct the **annual leave** and the **bank holidays**, i.e. official public holidays. How many days this is depends on legislation in the country concerned. It is vital that the First Level Controller also checks this as part of the management verification process
- **Step 6:** **Sick leave and/or maternity payments** can be proportionately charged to the project on the basis of actual sick leave (no statistical estimation) **but only** if this is allowed according to national legislation. Beware that in some countries charging sick leave to the project for staff working part time on a project is not allowed. Please note that for some member states, it is also a requirement that the need to make these payments is written into an employment contract.
- **Step 7:** **Other** so-called **non-productive hours** for meetings, general training, breaks, team building days etc. can only be deducted in the denominator where this is explicitly allowed according to national regulations. It is not possible to make deductions using statistical estimation.

Which hours can be charged to the project:

- The hours exclusively spent on the delivery of the project.
- The hours spent on the project by the contracted project staff. The hours have to be documented by way of time sheets in line with Fact Sheet No 2.
- Administrative staff such as accounting assistants contributing to the project can also charge their hours directly to the project **provided** their contribution is not also included in the calculation of overhead costs. This is to avoid double funding. Their Hours also need to be documented by time sheets.

Apportioning *project delivery* staff salary costs – an example

This general example shows how to calculate the cost of staff who do not spend all their time on one project.¹

Step 1

Calculate the number of days a full time (or part time proportionally) member of staff will work in a whole year.

Working days are 5 days per week x 52 weeks per year	260
less public holidays	-9
less annual leave	-25
Total working days =	226

N.B. Therefore there is no allocation for any down time or sickness.

Step 2

From this you can calculate the number of hours worked in a year:

Total working hours per year (based on the usual organisation contractual working day) are 226 days x 7 hrs per day = 1582 hrs per year²

Step 3

From this if you divide the total salary cost for the total hours worked it will give you the hourly rate:

Example

Total salary cost for the year is £19,976 (including the employer's obligatory contributions to insurance & pension for the project period)

£19,976 divided by 1582 hours = £12.62 per hour

¹ For project staff working full time on a project the full salary can be charged to the project. Please note that in some countries, it is a requirement that the *signed* employment contract or an addendum to this reflects this fact.

² The number of working hours differs between the member states and Norway. In this example a working day of 7 hours has been used. You will need to use the number of standard hours in the beneficiary organisation / the individual employment contract.

Step 4

You then multiply this hourly rate by the actual project hours worked (as evidenced by timesheets) to give the individual's total cost for your project. A calculation to show the apportionment of the actual salary costs for the individual on the project is below:

ERDF hours are:

20 hrs per week x 24 weeks 480 hours

Total ERDF hours 480 hours

The individual's cost to the project is

$480 \times \pounds 12.62 = \pounds 6,057.60$ can be charged to the project in this period in this example.

N.B. The staff time of 480 hours would have to be evidenced by timesheets fulfilling the programme's requirements for timesheets. The description of the activities carried out on the project must be sufficiently detailed in the time sheet to allow for a management verification by the First Level Controller. It is also important that the time sheets are dated and signed by both the project staff member and the line manager. Please see Fact Sheet no 2 for further information.

In **conclusion**, the guidance provided in this note is bound to be very general in nature. This is because the rules and also the calculation of the hourly rate in some respects differ significantly between the seven countries participating in the programme. It is therefore very important that both the project manager and the First Level Controller check with national authorities which specific rules apply in their specific country.