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How to Calculate Employer Personnel Costs in FP6

Introduction

While large organisations and many service companies have developed systems for recording hours and calculation of personnel costs, many others, particularly small SME's, have not. Many small organisations are concerned only with total salary costs per month, quarter or annually and the effect on overall profit and cash flow, rather than the cost per hour or per day for each individual member of staff.

Without a system of calculating the hourly cost, the calculation of personnel costs for FP6 projects, even where hours have been correctly and efficiently recorded, will not be correctly calculated or recovered. (see "Recording Hours Guidelines" leaflet http://www.finance-helpdesk.org/front/ShowCategory.aspx?ItemID=621),

1. Costs within Employers' Costs

Employers' costs include, by definition, gross salaries and benefits (social and other benefits, as defined within each State and/or by the accounting procedures of the organisation) and other employers' costs. Social benefits would normally include employers' pension contributions, disability insurance, National Insurance, provision of meals, travel to and from work costs, etc.

2. Actual cost per employee not average per department.

Unlike FP5, and it seems probably also FP7, average salaries per department may not be used in the final financial reporting for the project. Periodic financial reports average costs can be used, but in the end there needs to be an adjustment for the whole of the project period to actual costs, per member of staff, based on her/his salary cost and not an average for the company, department, or any other grouping.

3. Financial Guidelines and Regulations Defining Eligible Costs

These require that all **provisions** must be excluded from costs. Accordingly, provisions for holiday not paid, provisions for sickness days not paid, provisions for pensions (e.g. budgetary pensions, normally self financed by organization – normally non-profit or higher education establishments) and provisions for severance pay (even if required by law with certain States) are not eligible costs until payment has been made. In our opinion, payment of a premium to an external insurance company or independent organization, to cover the employers' costs for severance pay and pensions etc can be included as employers' eligible costs. Similarly, where holiday pay is paid on a regular basis annually and charged to a provision for holiday pay, employers may be able to justify this as eligible costs.

4. Bonuses

Where these cover a period not within the project period or bonuses are paid after completion of the project, they are not, in our opinion, eligible costs. Likewise, the bonuses for payments for participation within the EU project are not usually eligible costs. Where bonuses are standard and relate to a period outside the reporting period but within the project period, adjustment of the value to the reporting period is required.

5. Hourly rate

Where personnel work part of their time on the project, the hourly rate needs to be calculated. In this case, we suggest that the annual employer's costs, as defined above, will be divided by the number of productive hours (EU projects and non-EU projects, but excluding vacations, sickness, maternity leave, army service etc.). This will give the average hourly rate for the year.

The number of hours within a given project as reported within the "time sheets", as suggested within "Recording Hours Guidelines" leaflet http://www.finance-helpdesk.org/front/ShowCategory.aspx?ItemID=621, can then be evaluated according to the hourly rate as outlined above, in order to calculate the cost of personnel, per person, for that project.

6. Overtime.

Overtime may require special treatment. Overtime should generally be avoided for EU projects, but in certain circumstances, notably Hi-tech SMEs, overtime is a general rule, rather than an exception. For staff working all of their time on the project, the overtime costs will automatically be included. However where staff work only part of their time on a specific FP6 project, the employer can not contend that the overtime is attributable **only** to that project. At best the overtime can be averaged between the FP6 project and other work. The Financial Guidelines suggest that for staff working part of their time on the project, the higher overtime rate should not be applied.

Frequently the overtime rate paid is at higher than the standard employer's costs. If the basis of calculation above is used to calculate the average rate per hour, the average overtime rate will be included within the cost. There is an opinion (see above) that the higher rate for overtime should be excluded and if this is followed, then while the overtime hours at normal rates will be included, the additional higher rate will need to be excluded within the calculation (on an annual basis if the average system outlined above is used or per hour). Our view is that this is unreasonable, and if within the organisation's normal accounting procedures the overtime rate is averaged between projects per member of staff, this higher rate should also apply to FP6 projects.

Within FP5, the maximum hours expected for an employee working 40 hours per a week, was 1,680 per annum of productive time. While this standard has now been abandoned, Project Officers would be surprised to see a substantial variance from this figure and any difference may need to be explained to the auditors and/or Project Officers.

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