Fact Sheet 8 - Shared costs

	Valid from	Valid to	Main changes
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Version 1	27.04.15	09.06.15	

Core message: This Fact Sheet explains how costs paid by one beneficiary on behalf of the whole partnership can be divided amongst the beneficiaries. It is essential that these arrangements are agreed in advance and properly documented to avoid control and audit problems (this is a regulatory requirement). It is also essential to understand that shared costs, just like all other expenditure, must be based on documented real costs.

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Background

In a cooperation project it is expected that tasks will be distributed throughout the partnership. This often gives rise to situations where one partner pays the costs for an activity that is delivered for the benefit of the whole partnership. Project management and administration is the obvious example but there are many types of costs that might be paid in this way, e.g. a common project website, project conferences etc.

There are various ways of organising how these costs are split and paid for by different beneficiaries. The programme does **not** regulate which method each project uses. There are, however, some minimum standards for transparency and eligibility and these are covered in this fact sheet. It is worth bearing in mind that shared costs can become a source of disagreement between partners and can at times trigger unexpected challenges e.g. with the tax authorities. It is, therefore, important to set down all agreements on paper and check with all relevant national authorities.

Starting point for shared costs

If shared costs are used, the project Partnership Agreement (see Fact Sheet 14) must state the *maximum* amount that every beneficiary will have to pay for shared costs and the types of costs that will be covered. It is not possible for any partner to claim shared costs from the rest of the partnership without this written agreement.

There are different models for how to address shared costs. The proposals below seek to address the main problem: Ensuring that every beneficiary always has a full audit trail including shared costs and that it is always possible to reconcile the amount claimed by every beneficiary with the amount certified by the first level controllers. It is possible to use different models for different types of cost within the project – provided once more that all arrangements are set out clearly and in full in the partnership agreement.

Model 1 – Sharing tasks but not costs:

- Distribute tasks and costs throughout the partnership. The easiest method is to look at all the shared tasks and approximate costs as part of the application procedure and then ensure that these tasks are evenly distributed throughout the partnership. For example, Beneficiary 1 pays for a workshop venue, Beneficiary 2 covers the design of a leaflet, Beneficiary 3 covers the travel costs of an external expert etc.
  <u>Advantages:</u> No extra paperwork and easy to write into partnership agreement. Can be easily adjusted throughout the project.
  <u>Disadvantages:</u> Requires a very evenly balanced partnership where all partners are willing to take a role in the common tasks. This is not always realistic. Works best with relatively small costs.

Model 2 – Splitting up larger invoices:

- If there are more extensive contracts, ask the supplier to spilt the invoice and charge each beneficiary's share of the costs directly. The Lead Beneficiary should ensure that the final total amount is correct. The contracting beneficiary should ensure that any tendering requirements have been fulfilled and that evidence of this is supplied to all paying beneficiaries. For example, the project awards a contract for project management. The Lead Beneficiary organises the tender and signs the contract. The contractor sends separate invoices to each of the paying beneficiaries for their share.
  <u>Advantages:</u> Easy to write into partnership agreement and manage.
  <u>Disadvantages:</u> Limited to costs for external suppliers.

Model 3 – Internal reimbursements:

- Reimbursements within the project. A beneficiary incurs costs and then divides these proportionally between the beneficiaries. The beneficiary then requests repayment of the amount concerned. The original invoice stays with the paying beneficiary. Accounting evidence for the contributing beneficiaries is the request for reimbursement.
  <u>Advantages:</u> Transparent, flexible and easily verifiable. This method does not complicate the calculation of ERDF payments for each partner.
  <u>Disadvantages:</u> Some national tax authorities insist that a request for repayment should be treated as an invoice and that VAT should be added to the amount requested. VAT (or any other tax or fee) added to payments between partners is never eligible. Partners considering this method must therefore consult their national tax authorities and will not be able to use this method if authorities insist on payment of VAT.

Model 4 – Costs paid by and reimbursed to Lead Beneficiary:

Some shared costs are not invoiced. The most common example is the internal staff hours of the Lead Beneficiary and the associated office and administration costs. Provided there is a written agreement, a share of these can still be claimed from other beneficiaries. Only the Lead Beneficiary can receive reimbursement in this way! This must be approached as follows:

Example

- The Lead Beneficiary (LB) has internal staff costs of €400,000 and an additional €100,000, which should be shared proportionally between all 5 beneficiaries in the partnership (according to amounts set out in the Partnership Agreement).
- The LB enters the full amount (own costs + full amount that will be shared) in its budget. Meaning that the LB staff budget will be €500,000
- It is agreed in the Partnership Agreement that the beneficiaries will each pay 1/5 of the budgeted amount to be shared i.e. €20,000.
- When reporting, the LB reports all costs, including those that will be shared in the regular statement of expenditure table.
- In the separate shared costs table, the LB includes the amounts per budget line which need to be paid by other beneficiaries in the reporting period. For example, in the reporting period the LB has paid €50,000 of costs that will be shared. In the shared costs table they will enter €40,000 (€50,000 – 1/5 of the shared costs, which is the LB's share) (See below).
- When the LB receives payment from the programme, it will withhold €5,000 from the amount to be transferred to each beneficiary to cover their share of the shared costs.[1]
- **NOTE:** The amount paid by the beneficiaries for shared costs can never exceed the amount agreed in the Partnership Agreement.
- **NOTE:** Only the Lead Beneficiary can recover costs in this way

D.2 - Project budget – overview per beneficiary / per budget line

Beneficiary	Staff costs	Office and admin.	Travel and accommodat	External expertise	Equipment	Infrastruc-ture	TOTAL BUDGET	(Net revenue)	TOTAL ELIGIBLE BUDGET
LB	*500.000*	*75.000*	*20.000*	*350.000*	*300.000*		*1.245.000*	*(50.000)*	*1.195.000*
PP2	*20.000*	*3.000*					*23.000*		*23.000*
PP3	*300.000*	*45.000*	*15.000*		*20.000*		*380.000*		*380.000*
PP4	-	-	*35.000*				*35.000*		*35.000*
PP5	*10.000*	*1.500*					*11.500*		*11.500*
Total	***830.000***	***124.500***	***70.000***	***350.000***	***320.000***	**-**	***1.694.500***	***(50.000)***	***1.644.500***

Shared cost amount related to the remaining partnership

D.2.1 - Shared costs to be claimed from other beneficiaries

Beneficiary	Staff costs	Office and admin.	Travel and accommodat	External expertise	Equipment	Infrastruc-ture	TOTAL
LB	*40.000*	*6.000*					*46.000*
Total	***40.000***	***6.000***	**-**	**-**	**-**	**-**	***46.000***

[1] European Territorial Cooperation regulation 1299/2013 §13.3

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Shared costs are real cost based

Many partnerships express shared costs at project start as a percentage of each partner's budget (e.g. all partners will pay 5% of their project budget for project management). It is essential, however, that any fixed rate payments are later justified against real cost calculations and adjustments/refunds are made if necessary. For example, if all partners pay 5% for shared costs but final project accounts state that only 3.5% was actually spent on shared activities, the difference must be refunded. Office and administration (overhead) costs arising from staff time used on shared activities must be calculated in the same way as for the rest of the project (see Fact Sheet 3).

Irregularities in shared costs

As with all other costs, responsibility for the correctness of a cost (and ultimately liability in the event that repayment is required) lies with the beneficiary originally incurring the cost. If the beneficiary incurring the cost is responsible for an irregularity, it will be liable for the full amount regardless of cost sharing arrangements.

References

- Commission Delegated Regulation (EU) no 481/2014 Articles 1-7
- Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European Territorial Cooperation Goal (ETC-Regulation)
- Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 (the CPR Regulation) Articles 65-71
- Regulation (EU) No 1301/2013 of the European Parliament and of the council of 17 December 2013 (the ERDF regulation)