

Building Better Opportunities



Hourly rate calculations

Summary of changes

- ✓ May 2018 version 1 issued.
- ✓ This will be integrated into section 8 of the GDEF following future reviews.

Contents

Hourly rate calculations

1. How to apply this calculation.....	3
2. Additional considerations.....	4
3. Alternative working patterns	5
4. Existing staff (12 months or more on the project).....	6
5. New staff (less than 12 months on the project)	8

Annex S - 1720 calculator for existing staff

Annex T - 1720 calculator for new staff

Please refer to section 11 of the GDEF for evidence and retention guidance.

Simplified cost option for staff that only work a proportion of their employed hours on Building Better Opportunities (BBO).

Please ensure that you fully review this document before completing the accompanying spreadsheets.

All grant holders will need to implement the hourly rate calculations as set out in this document from 01 April 2018. **This must be included in the Q2:2018 claim onwards.**

European guidance tells us:

“Article 68(2) CPR introduces a new rule to facilitate the use of hourly unit costs for calculating staff costs (18) related to the implementation of an operation:

$$\text{Hourly staff cost} = \frac{\text{latest documented gross annual employment costs}}{1720}$$

The 1720 hours is a standard annual ‘working time’ that can be used directly, without there being a requirement for the Member State to perform any calculation.

However the numerator, the latest documented annual staff costs, has to be justified.”¹

¹http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/simpl_cost_en.pdf

1. How to apply this calculation

There has been some debate regarding how the *latest documented gross annual employment cost* is determined, evidenced and how often it should be re-calculated. As a result we have determined two methodologies. Which of these you use to calculate hourly rates will depend on whether a member of staff is ‘existing’ or ‘new’ in post at the point of calculation and the evidence available. Please read the below to determine which part of this guidance is applicable for each of your staff whose costs are claimed at an hourly rate.

We have developed spreadsheets to reflect the two methodologies. One for existing staff (Annex S) and one for new staff (Annex T). Each of these annexes allows you to calculate the hourly rate for both full-time and part-time employees. Due to the different information required, you can include multiple staff on the ‘new’ staff spreadsheet (Annex T), however, for the ‘existing’ staff spreadsheet (Annex S) you will need to generate a new tab for each post holder.

Once agreed, the hourly rates will be fixed until at least the following April. Please note, that we would not expect an annual pay rise for an existing post to result in a new calculation of hourly rates.

Once you have identified the method you need to use to establish the gross annual employment cost for each of your staff please refer to the specific guidance below.

The 1720 calculation is a standardised simplified cost option which will benefit some organisations within partnerships more than others. The benefit of using the 1720 methodology is that it cannot be questioned.

Existing staff

As the majority of our grants have now been delivering for over 12 months most calculations will fit under this category. For these staff you will have 12 months of payroll records. This will provide a reference period that demonstrates the gross annual cost of employment.

For the approval of rates in April 2018 please use payroll records from April 2017 - March 2018.

New staff

For the purpose of the 1720 calculation, all staff are considered to be new at the start of the project until the point that there is a 12 month reference period when the 'existing' staff calculation could be applied. In the event that additional or replacement staff are recruited during the course of the project or where there are changes to the hours or job role of an existing staff member, this methodology will need to be applied. This is irrespective of how long the individual has been working for the organisation and relates to how long the person has been in post on the BBO project. If an existing member of staff is appointed to a new role within the project, this will be also be considered new.

For such posts you will need to provide evidence of salary (for example in a letter of appointment or documented on a payslip), documented employers' pension contributions and employers' National Insurance (NI) amounts based on NI tables.

Part-time staff

The 1720 calculation is based on the assumption that staff work full-time (with an allowance for leave factored into the figure). For staff that work part-time the calculation will need to be adjusted. The cost of employment must be factored up to a full-time equivalent before dividing by 1720. For this the weekly full-time contracted hours of the organisation must be known. Annexes S and T will automatically calculate the hourly rate(s) when completed with the required information.

2. Additional considerations

Employers' NI allowance

If any of the organisations in your partnership are eligible for employers' NI allowance, which will see £3,000 deducted from an organisation's annual employers' NI payments², this will also need to be accounted for.

It will be your responsibility to confirm and document whether each partner is in receipt of an employers' NI allowance, and a suitable amount must be deducted from the gross annual employment cost of each staff member. Depending on the size of the organisation the impact of this allowance will vary. For small organisations employing

² <https://www.gov.uk/claim-employment-allowance>

only a few staff it may result in no employers' NI being paid during the course of a year, whereas for large organisations it will only result in a small amount for each employee.

Where the employers' NI allowance is applicable, we suggest that the £3,000 is divided by the total number of employees in the organisation for which it pays NI at the time of the calculation. This will give you an annual amount per employee to be deducted from each employees documented gross annual employment cost. Please ensure this process is fully documented.

Rounding

When the hourly rate is calculated it must be rounded to the nearest two decimal places (for example £15.566 would be rounded to £15.57). Annexes S and T will do this automatically.

3. Alternative working patterns

There will be some occasions where an individual's working patterns do not fit with the options outlined in this guidance. These will need to be discussed on a case by case basis with your funding officer. However, the main ones that we have encountered to date include the following:

Minimum hour contracts

The hourly rate must be calculated as a part-time staff member using the minimum number of hours employment as the employees weekly working hours. Where no evidence of a flat month is available for 'existing' employees, they must be treated as part-time 'new' employees.

Zero hour contracts

The cost should be claimed at the rate of pay that is on the employee's contract. No additional on-costs can be claimed for these roles.

Multiple rates of pay

Where the role is salaried, these posts must be treated as 'part-time new' staff. The salary used in the calculation of employers' NI and pension contributions must relate to the individual's annual rate of pay for their contract that includes BBO work. NI tables and pension supplier evidence must be used to calculate on-costs based on this figure. Due variety of different scenarios please discuss multiple rates of pay with your funding officer.

Working across multiple BBO projects

Please discuss with your funding officer directly - the response varies depending on factors such as whether there are multiple LEP areas, categories of region or leads involved.

4. Existing staff (12 months or more on the project)

1. Establish the gross annual employment cost for the previous 12 months. Please document in the spreadsheet (Annex S) provided:
 - a. Use payroll/payslip records to document the basic salary, taxable incentives (such as car allowance), employers' NI and employers' pension contribution for each month.
 - b. There may be some months where the employee does not receive their standard rate of pay. For example as a result of overtime payments, bonuses or back pay. If this additional cost cannot be taken into consideration then the month should be substituted with another month where the employers' NI and employers' pension contributions were made on a flat rate of pay.
 - i. Overtime must be excluded.
 - ii. If a bonus is included please speak to your funding officer. In some circumstances bonuses can be included in this calculation if it is referenced as part of an employee's remuneration in their contract of employment - a copy of the contract must be supplied.
 - iii. Back pay can only be included *if* it relates to hours worked in the 12 month period that is being looked at.

Explanatory notes must be included in the spreadsheet. Any costs associated with an employer's NI allowance (See 2. Additional Considerations above) must be deducted. Please demonstrate the calculation used.

2. Establish full-time equivalent:

- a. For **full-time** staff please go to **point 3**
- b. For **part-time** staff on completing the data in Annex S, the gross annual employment cost will be factored up to establish the full time equivalent cost. To complete Annex S you need to input the total hours per week the employee works for the organisation and the total hours for a full-time employee. The spreadsheet will then automatically apply the following formula:

$$\text{full time equivalent annual employment cost} = \left(\frac{\text{gross annual employment cost}}{\text{hours worked per week by employee}} \right) \times \text{total hours per week of full time employee}$$

3. Calculate the hourly rate:

- a. On completing the data in Annex S, the total annual employment cost will be divided by 1720 to produce the hourly rate.
- b. We need you to show how the calculation has been applied, and your completed Annex S will be our evidence of this.
- c. Annex S must be reviewed by the lead organisation for all partners and then sent to your funding officer for approval.

4. Evidence to be sent to the Fund/retained:

- a. Grant holders are not required to submit 12 months of payroll or payslip information to support the approval of the 1720 calculation. However, grant holders must be able to produce this information if requested by the Fund (or the Managing Authority/ESF) at a later date and the Article 125 verification team expect to see the full 12 months of evidence.
- b. The Fund requires evidence to support this calculation in the form of the *oldest* and *most recent flat rate* payroll or payslip information of the 12 month period that has been used to form the basis of the calculation.
- c. The payroll/payslip information should clearly demonstrate the amount of employers' pension contribution and employers' NI that has been paid.
- d. Once an hourly rate has been agreed payslips will not be required as part of the evidence for this staff cost, however, the grant holder should retain these for the future re-calculation of hourly rates and for audit purposes.

5. New staff (less than 12 months on the project)

1. Establish the latest gross annual employment cost. Please document in the Annex T spreadsheet:

- a. Establish the basic annual salary shown for example on the latest pay award letter, contract of employment, payroll or payslip showing annual salary. This can also be done by multiplying the gross pay on employee's first full month pay by 12 months.
- b. This information should also show any taxable incentives such as a car allowance included in the employee's contract.
- c. The employer's NI will then need to be calculated. A payslip should show the National Insurance Category letter. This determines how much employers pay towards their employees' NI. Amounts are calculated using basic pay through various thresholds for the appropriate tax year shown here: [National Insurance rates and categories - GOV.UK](#). You must use these tables to calculate the employer's NI and be able to demonstrate this calculation, ensuring the date of the calculation is recorded. Please ensure any taxable incentives are included within you're NI calculation. This calculator may be helpful: [HM Revenue & Customs: Class1NICs-1](#).
- d. Any costs associated with an employers' NI allowance must be deducted (See 2. Additional Considerations above). Please demonstrate the calculation used.

- e. For the employers' pension contribution we need evidence to confirm rates of contribution, for example a copy of the employers' pension scheme documentation, contract of employment or HR policies documenting how much the employer will contribute.
- f. For **part-time** staff ensure that employers' NI and pension contributions are calculated using the employee's annual salary (as opposed to a full-time equivalent)

2. Establish full-time equivalent:

- a. For **full-time** staff please go to **point 3**.
- b. For **part-time** staff on completing the data in Annex T, the gross annual employment cost will be factored up to establish the full time equivalent cost. To complete Annex T you need to input the total hours per week the employee works for the organisation and the total hours for a full-time employee. The spreadsheet will then automatically apply the following formula:

$$\text{full time equivalent annual employment cost} = \left(\frac{\text{gross annual employment cost}}{\text{hours worked per week by employee}} \right) \times \text{total hours per week of full time employee}$$

3. Calculate the hourly rate:

- a. Once this data has been completed within the spreadsheet, the total annual employment cost will be divided by 1720 to produce the hourly rate.

- b. We need you to show how the calculation has been applied, and your completed Annex T will be our evidence of this.
- a. Annex T must be reviewed by the lead organisation for all partners and then sent to your funding officer for approval.

4. Evidence to be sent to the Fund/retained:

- a. Grant holders are required to send evidence demonstrating the basic salary, taxable incentives, employer's NI and employer's pension.
- b. This information should clearly demonstrate the details included within the spreadsheet and include the calculation for employer's NI.
- c. Once an hourly rate has been agreed payslips will not be required as part of the evidence for this staff cost, however, the grant holder should retain these for the future re-calculation of hourly rates and for audit purposes.