

# **Guidance on a Simplified Cost Method for Field Office Costs of NGO FPA Partners**

## **(2019)**

The attention of ECHO NGO Partners is drawn to the fact that the grant agreements currently in use by ECHO are premised by default on the reimbursement of costs actually incurred; any use of a cost allocation method relying on a pro rata approach (that is, where shared costs are not allocated based on actual use but based on an apportionment key) is only possible under the conditions set out below:

### **I. Regulatory framework**

1. On 16 June 2016, the Commission adopted Decision C(2016) 3634 reviewing the rules governing the reimbursement of office costs on the basis of a simplified allocation method ('the Decision')<sup>1</sup>.

2. The Decision authorises Organisations to declare field office(s)-related costs (country, area and regional offices<sup>2</sup>) (see Annex) as eligible direct costs using a simplified allocation method, provided that the allocation method is:

- a) compliant with the Organisation's usual accounting and management practices, applied in a consistent manner regardless of the source of funding; and
- b) based on an objective, fair and reliable allocation method which may rely on one or several distribution keys<sup>3</sup>, for example:
  - *pro rata* the number of staff assigned to the action (as compared with the total number of staff in the office or the entire infrastructure where the office(s) is/are located, *pro rata* the time spent on the action (as compared with the total availability time of the office);
  - *pro rata* the weight of the EU contribution to the action (as compared with the total funding of the projects implemented through the office in the relevant reference period<sup>4</sup>); and

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<sup>1</sup> Commission Decision replacing and repealing Commission Decision C(2015)3174 on the reimbursement of office costs on the basis of a simplified allocation method.

<sup>2</sup> To the extent that the office(s) concerned directly take(s) part in the implementation of operational activities.

<sup>3</sup> To the extent that the various keys used are themselves objective, fair and reliable, and have been relied on, when determining the allocation method, in a manner that has been properly justified and documented in the Organisation's usual accounting and management practices. The allocation method must be applied consistently and coherently by the Organisation across the board and in the same manner in respect of all donors authorising the use of such a method.

<sup>4</sup> Which is the period under which the office costs concerned shall be incurred in an eligible manner in accordance with the applicable contractual provisions.

- *pro rata* the space occupied for the purpose of the action (as compared with the total space available in the office or the entire infrastructure where the office(s) is/are located

3. ECHO Partners willing to benefit from the above-mentioned simplified allocation method are to identify the related costs in the financial part of the Single Form<sup>5</sup>, while also requesting the insertion of a special condition, as explained further below.

4. Implementing Partners of the ECHO Partner may use their own simplified allocation methods provided the latter comply with the requirements, criteria and conditions referred to in the present Guidance.

## **II. Contractual provisions**

5. Partners are to request the insertion of the following special condition, using Section 13 of the Single Form to that effect:

*"6.2.1. By derogation from Article 8.2(h) of the General Conditions, the Humanitarian Organisation may declare, as eligible direct costs, the portion of the capitalised and operating costs of field office which corresponds to the duration of the action and the rate of office use for the purposes of the action, determined by the Organisation on the basis of a simplified allocation method, provided that the allocation method is:*

- a) compliant with the Organisation's usual accounting and management practices and applied in a consistent manner regardless of the source of funding, and*
- b) based on one or several objective, fair and reliable allocation keys.*

*The Humanitarian Organisation shall keep adequate records and documentation to prove that the method used complies with the conditions set out above under points a) and b).*

*Implementing Partners of the Humanitarian Organisation may use their own simplified allocation methods provided the latter comply with the conditions set out above under points a) and b)."*

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<sup>5</sup> Through adding a dedicated entry concerning 'field office related costs subject to simplification allocation method' in the budget of the proposed Action.

### III. Checks and controls by the Commission

6. Partners can choose between an *ex ante* approval or a system based on (potential) *ex post* checks and controls by the Commission.

a) *Ex ante* approval<sup>6</sup>

8. The Commission may establish *ex ante* compliance of the Organisation's allocation method for the costs of the field office with the above-mentioned conditions upon request from the entity.

9. The approval of the Organisation's cost accounting practices shall be based on:

- i) a description prepared by the Organisation of the allocation method it uses to determine office costs in accordance with the Organisation's usual cost accounting and management practices, and
- ii) evidence that Organisation's allocation method satisfies the conditions set out in the special condition under points a) and b).

10. Evidence shall take the form of a report stating that the Organisation's allocation method used to determine office costs complies with the conditions set out in the special condition under points a) and b). Such report can be drafted or commissioned by the European Commission, an independent audit function in the Organisation or an independent external auditor who is a registered member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC) and who is certified to perform (statutory) audits.

11. If the Commission approves the Organisation's allocation method, the Commission will not challenge *ex post* the office costs declared, provided that the allocation method used complies with those *ex ante* approved.

12. ECHO Partners can rely towards ECHO on any *ex-ante* approval made by other Commission departments (such as DG DEVCO and DG NEAR). Similarly, ECHO Partners will be able to rely towards any other Commission departments<sup>7</sup> on any *ex ante* approval made by ECHO.

13. Any change to the allocation method shall be notified to the Commission and may lead to a reassessment of its compliance with the conditions set out in the special condition under points a) and b).

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<sup>6</sup> *Ex ante* approval is not available to entities acting as Implementing Partners, as this approval is to take place in the context of the Framework Partnership existing with the entity concerned. However, where the Implementing Partner concerned is or has been a FPA Partner, it may have already had its simplified allocation method approved *ex ante* in accordance with Commission Decision C(2016) 3634 and the present Guidance.

<sup>7</sup> Including with respect to Commission's Authorising Officers in EU Delegations.

b) *Ex post* checks and controls

14. In case no *ex ante* approval has been given, the Commission may verify and challenge *ex post* the office costs declared by the Organisation in application of the simplified allocation method (e.g. on the occasion of audits).

## **ANNEX**

### **Office costs**

As defined in the Organisation's policy, categories of office costs may include:

- a) costs of staff, including administration and management staff, directly assigned to the operations of the field office. The tasks listed in the description of the Action in the Single Form, undertaken by staff assigned to the project office will be directly attributable to the implementation of the Action;
- b) travel and subsistence costs for staff and other persons directly assigned to the operations of the field office;
- c) depreciation costs, rental costs or lease of equipment and assets composing the project office;
- d) costs of maintenance and repair contracts specifically awarded for the operations of the project office;
- e) costs of consumables and supplies specifically purchased for the operations of the project office;
- f) costs of IT and telecommunication services specifically purchased for the operations of the project office;
- g) costs of energy and water specifically supplied for the operations of the project office;
- h) costs of facility management contracts including security fees and insurance costs specifically awarded for the operations of the project office.

Where the Organisation's policy contains categories of office cost distinct from those outlined above, the Organisation is to contact ECHO with a view of determining whether the said category(ies) may be included.