

# Building Better Opportunities



Hourly rate calculations

## About this guide

This is just one section in a series of guidance documents that make up the Guide to delivering European funding (the 'Guide'). These documents are designed to support you to manage your Building Better Opportunities grant and should be used in conjunction with guidance produced by the Managing Authority and European Commission and does not replace it. This is guidance only and cannot cover all scenarios that grant holders will encounter.

This version of hourly rate calculations replaces all those we have previously published.

This will be integrated into section eight of the Guide following future reviews.

For the full contents visit our website [here](#)

## Summary of changes

June 2019 - for v2.0 the following changes have been made:

- ✓ Branding has been updated to reflect our name change from the Big Lottery Fund to The National Lottery Community Fund.
- ✓ Information on accounting for pay rises has been included and as a result the split in methodology between 'new' and 'existing' staff has been removed.
- ✓ Annex S has been retired.

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## Annex T - 1720 calculator

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

## Hourly rate calculations

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 spreadsheet.**

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.”<sup>1</sup>*

<sup>1</sup>[http://ec.europa.eu/regional\\_policy/sources/thefunds/fin\\_inst/pdf/simpl\\_cost\\_en.pdf](http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/simpl_cost_en.pdf)

## 1. How to apply this calculation

Most projects have already established an hourly rate using either the ‘existing’ (Annex S) or ‘new’ (Annex T) methods outlined in our previous guidance. Pay rises could not be taken into account therefore the hourly rate could not be adjusted to reflect a change. Following feedback from Grant Holders the Managing Authority has since decided to allow pay rises to be considered, effective from Q4 2018:

*Where the salary of an individual working on ESF changes, the 1720 hourly rate calculation should be amended to reflect the current salary and considered the latest documented salary cost. This can be evidenced using the latest wage slip that reflects the change and a letter (or other acceptable form of evidence) from HR confirming the change in salary. This will ensure that The National Lottery Community Fund grant holders will base their 1720 calculation on current pay rates and will not subsidise salaries, which is contrary to Charity Commission rules. Grant Holders would need to ensure that evidence is available for audit purposes and should seek agreement from The National Lottery Community Fund where there is a need to recalculate the 1720 calculation to ensure that changes are necessary.*

Please note, it is optional for grant holders to change hourly rates due to pay rises.

### Changing the hourly rate when there has been an increase in salary:

Firstly, permission must be sought from your Funding Officer. This will be done by submitting an Annex D listing the staff members who have had a pay rise. Only the names of the staff members need to be on the Annex D, not the new calculations.

If staff members have not received a pay rise, it is not necessary to re-calculate the hourly rate from the approved 2018 rate, unless informed to do so by The National Lottery Community Fund.

Annex S will no longer be needed for any re-calculating of the hourly rate because:

- Those who are classed as ‘existing’ (working on BBO for more than 12 months) who have not had a change in salary or contracted hours already have an Annex S approved hourly rate. If there is a change in salary, employer pension contribution or contracted hours, their hourly rate will be re-calculated using an Annex T.
- Those who are classed as ‘new’ who have had their hourly rate calculated using an Annex T will either keep the hourly rate that was approved in 2018 if there is no change to their salary, employers’ pension contribution or contracted hours. If there is a change in salary, employers’ pension contribution or contracted hours, the new rate will be calculated using an Annex T.

### 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. Annex 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 allows a £3,000 deduction from an organisation’s annual employers’ NI payments, it will 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 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). Annex 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.

#### 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' 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. As there are several variables to consider, please consult your funding officer to agree the best way to account for multiple pay rates.

#### 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.

### Changes to salary

If the hourly rate which was previously approved by The National Lottery Community Fund needs to be re-calculated because of an increase in salary, change to the employers' pension contribution or change to contracted hours, ***the Grant Holder will be responsible for the re-calculation of the new rate. Your funding officer will not 'authorise' the rates for new staff joining the project or where there is a change to pay, pension or contract. However, permission to make a change must be approved by your funding officer.***

Evidence that the grant holder will need to have available for confirmation of the hourly rate:

- Letter to confirm the increase in salary and the date effective from, and increase in employer pension contribution if applicable
- Latest payslip showing the new salary
- Payroll information to show Employer NIC and pension
- Annex T to demonstrate how the hourly rate has been calculated
- Confirmation of how the NI Allowance if applicable has been calculated

Grant holders should also indicate on the approved staff list, any member of staff that has received a pay rise in the quarter of the return being submitted.

The new hourly rate can now be set until there is a further change in salary or contracted hours, and permission is granted to make a change.

## 4. Methodology

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 can use these tables to calculate the employer's NI or double check the Employers' NI contribution on the payslip or payroll report is the usual rate to be used for the calculation. Please ensure any taxable incentives are included within you're NI calculation. This calculator may be helpful: [HM Revenue & Customs: Class1NICs-1](#).
  - d. 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.