

## Questions & Answers

### Simplified cost options in cooperation programmes: Application, control and audit *Use of simplified cost options for staff costs*

Elaborated in consultation with the European Commission

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## Contents

INTRODUCTION .....	2
Objectives .....	2
Method.....	2
GENERAL QUESTIONS ON SIMPLIFIED COST OPTIONS.....	4
Public procurement.....	7
Irregularities .....	7
Flat rates.....	8
Lump sums.....	9
QUESTIONS RELATED TO THE STAFF COSTS CATEGORY OF EXPENDITURE.....	10
Calculation methods.....	10
Supporting documents .....	12
Flat rate for staff costs .....	14
Hourly rate based on 1720 hours/year.....	15
Direct and indirect staff costs .....	16

#### Disclaimer:

Answers to questions presented in this document have been drafted by the Interact Programme in close consultation with the AA/MA(JS) working group on Simplified Cost Options. This current draft version is not yet validated by the European Commission and should therefore only be treated as a draft document. This is by no means a legally binding document.

## INTRODUCTION

### Objectives

In the period 2014-2020, simplified cost options are used in Interreg programmes to a much bigger extent than in the past. They are one of the measures to help reduce the administrative burden on both: beneficiaries and bodies involved in the management and control of the programmes.

Simplified cost options signify a departure from the requirement to trace every euro of co-financed expenditure. Contrary to the principle of real costs, flat rates or standard scale of unit costs and lump sums are defined ex-ante based on calculations that involve averages or analysis of historical/statistical data. Eligible costs of a project are calculated by applying a fixed percentage (flat rate) to some other costs, or a fixed price (standard unit cost or lump sum) is paid subject to reaching concrete outputs agreed in advance.

By definition, simplified cost options can therefore overcompensate or undercompensate the costs actually incurred by beneficiaries involved in Interreg projects. A proper understanding of this logic is crucial, especially as it requires changes to the process of verifying and auditing of the costs.

The aim of this document is to:

- build a common understanding with regard to application, control and audit of simplified cost options in Interreg projects;
- provide answers to the most frequent questions concerning control and audit of simplified cost options;
- foster trust and confidence of those involved in management verifications and auditors with using simplified cost options.

Apart from simplified cost options, the regulatory framework of 2014-2020 introduces some other measures to facilitate a less burdensome calculation of costs based on the real cost approach. In particular, this includes more standardised calculation methods to determine the cost of staff working part-time on a project (fixed percentage of the gross employment cost; hourly rate calculated by dividing the latest documented gross employment cost by 1720 hours). This document on occasion makes reference to these simplifications, in order to support their correct application, and to ensure a unified control and audit approach.

### Method

The document is an outcome of a joint work by a task force on further harmonisation and clarification of legal requirements regarding the application of simplified cost options in Interreg programmes. The task force consisted of a number of selected Interreg programmes, who provided input to this paper, and the European Commission.

Answers to questions presented in this document are meant to provide guidance on the interpretation of provisions in the regulatory framework 2014-2020 concerning simplified cost options, and on practical application of these rules in Interreg programmes – with the main focus on the areas of control and audit. In particular, this document shall support the work by auditors and bodies responsible for management verifications, by giving clear directions on what to check when simplified cost options are used. All answers were consulted with the European Commission.

The EU legislation and guidance referred to in this document include <sup>1</sup>:

- Common Provisions Regulation (EU) 1303/2013;
- ETC Regulation (EU) 1299/2013;

<sup>1</sup> [http://ec.europa.eu/regional\\_policy/en/information/legislation](http://ec.europa.eu/regional_policy/en/information/legislation)

- Commission Delegated Regulation on eligibility of expenditure in cooperation programmes (EU) 481/2014;
- European Commission Guidance on Simplified Cost Options;
- Proposal for a Regulation on the financial rules applicable to the general budget and amending Regulation (EU) 1303/2013.

In addition, reference is made to the following Interact material<sup>2</sup>:

- Fact sheets on budget lines;
- 55 Question and Answers on eligibility of expenditure in cooperation programmes;
- Matrix of costs.

The document is structured along main 2 sections:

1. General questions on simplified cost options  
This section includes guidance on how verification should be performed for different types of simplified cost options. It provides additional details on how the rules of public procurement should be observed when simplified cost options are used, and lists the main areas prone to irregularities and fraud which require a special attention by controllers and auditors. Finally, general issues concerning the use of flat rates and lump sums in Interreg projects are presented.
2. Questions related to the staff costs category of expenditure  
Special attention is given to the use of simplified measures under staff costs. This section discusses points of attention for different staff cost calculation methods and highlights specificities of this category with regard to the audit trail requirements.

<sup>2</sup> [http://www.interact-eu.net/library?field\\_fields\\_of\\_expertise\\_tid=10](http://www.interact-eu.net/library?field_fields_of_expertise_tid=10)

## GENERAL QUESTIONS ON SIMPLIFIED COST OPTIONS

### 1. How should checks by controllers/auditors be performed in the case of simplified cost options?

All costs incurred in relation to a project, including costs calculated on the basis of simplified cost options must be checked by controllers/auditors in order to verify the legality and reality of the expenditure.

However, the work by controllers and auditors shall be different when verifying expenditure reported as real costs and when checking expenditure based on simplified cost options. The main principle about simplified cost options is that the controllers and auditors should not check the real costs that underlay the expenditure calculated on the basis of simplified cost options.

Other important differences concerning control and audit of real costs and simplified cost options are presented in the table below.

Real costs <sup>3</sup>	Simplified cost options
Verification of each expenditure incurred and paid	<p>Verification of the correct application by the beneficiary of the established simplified cost option:</p> <p><i>Flat rate</i></p> <ul style="list-style-type: none"> <li>check of the 'basis costs' to which the flat rate is applied (e.g. when a flat rate of 15% of direct staff costs is used to calculate eligible indirect costs: verification of the eligible staff costs that form the basis for this calculation, or that the correct percentage is applied in case of using Article 19 of Regulation (EU) No 1299/2013)</li> </ul> <p><i>Standard scale of unit costs</i></p> <ul style="list-style-type: none"> <li>check of the inputs/outputs of the project</li> <li>check that the amount declared is justified by the quantities</li> </ul> <p><i>Lump sums</i></p> <ul style="list-style-type: none"> <li>check of the outputs of the project</li> <li>check that the criteria for the payment of the lump sum are fulfilled</li> <li>check whether other project expenditure are not applicable to the lump sum</li> </ul>
Verification based on supporting documents provided by the beneficiary for each reported expenditure	Verification based on the established simplified cost option and agreements between the beneficiary and the programme

<sup>3</sup> The notion of real costs concerns the actual expenditure incurred and paid by a beneficiary in relation to the project. Please see also Question 2 for further explanation.

The audit and management verification of simplified cost options focuses on checking:

1. Calculation method
2. Correct application of the calculation method

Different programme bodies are involved depending on the focus of the check (calculation method or its correct application) and on the simplified cost option used (flat rate, standard scale of unit costs, lump sum).

#### Audit of the calculation method for simplified cost options

Whereas the control and audit of real costs is generally carried out at the beneficiary level, simplified cost options require that certain checks are also performed at the programme level. This mainly concerns the calculation method that the programme used in order to establish the simplified cost option. In practice it means that the auditors will verify if the simplified cost option was set up on the basis of the calculation methods specified in Article 67(5) of Regulation (EU) No 1303/2013.

The task of the auditor will include checking that:

- information on the calculation method is documented and traceable,
- justification of why costs included in the calculations are determined as relevant,
- detailed description on the steps performed for establishing the simplified cost option.

In the case of the flat rates for staff costs and indirect costs referred to in Article 19 of Regulation (EU) No 1299/2013 and Article 68(1) of Regulation (EU) No 1303/2013 respectively, the audit should only focus on the definition of categories of costs. These flat rates were prescribed by the regulations as "off-the-shelf" methods, and thus there is no requirement that programmes perform any calculation to determine the applicable rate.

#### Control and audit of a correct application of flat rates

When a flat rate is used in a project, the task of a controller is to check if the flat rate option has been correctly applied. For this to happen, they should look at:

- programme rules concerning this option and agreements made with the beneficiary, in order to verify that:
  - ✓ the flat rate takes into account the right categories of cost, i.e. concerns the correct category and uses the correct category(-ies) of eligible costs on which the flat rate is based;
  - ✓ the right flat rate percentage has been used and that the calculations are correct.
- 'basis costs' on which the flat rate is calculated, in order to verify that:
  - ✓ expenditure has been correctly allocated to the category(-ies) of 'basis costs';
  - ✓ there is no ineligible expenditure included in the 'basis costs';
  - ✓ there is no double declaration of the same cost item, i.e. that the 'basis cost' or any other real costs do not include any cost item that normally falls under the flat rate;
  - ✓ the amount calculated based on the flat rate is proportionally adjusted, if the value of the 'basis costs' to which the flat rate is applied has been modified.

Based on the above, it needs to be noted that in the case of flat rates only items of expenditure which form the 'basis costs' are subject to control and audit. The beneficiary is not obliged to report or prove any expenditure that fall into categories calculated as a flat rate (i.e. expenditure included in the flat rate).

#### Control and audit of a correct application of standard scales of unit costs

When a standard scale of unit costs is used in a project, the task of the controller is to check if the standard scale has been correctly applied. This implies verifying that:

- the units delivered by the project in the sense of quantified activities, inputs or outputs concerned by the standard scale are justified;
- the amount declared equals the standard rate per unit multiplied by the actual units delivered by the project.

The beneficiary is only obliged to report and prove the number of units delivered; and not their actual cost.

#### Management verification and audit of a correct application of lump sums

Responsibilities for the management verification of the correct application of lump sums depend on whether the lump sum is used to finance project preparation costs, or it is related to the project implementation phase.

When a lump sum is used for project preparation costs, the check is performed by the programme managing authority, and not national controllers. The managing authority verifies if the conditions set to trigger payment of the lump sum have been fulfilled.

In the case of lump sums used to finance activities during the project implementation, the task of the controller is to check whether the agreed steps of the project have been completed and the outputs have been delivered in line with the set conditions.

Regardless of the phase of the project (preparation, implementation), the actual costs borne by the beneficiary in relation to the delivered outputs will not be checked; therefore there is no obligation to present any supporting documents to prove these.

#### 2. [Costs reported to the programme do not match the actual expenditure registered in the bookkeeping system of the beneficiary. How to deal with this?](#)

Any expenditure incurred in relation to the project should be reported to the programme following calculation methods prescribed in the regulations and according to the programme rules. This means that regardless of whether costs are calculated based on the real cost approach or simplified costs options, the calculation should always follow the EU rules. In reality, the expenditure claimed might differ from the actual costs registered in the accounting system of the beneficiary.

It must be noted that in the case of the real cost approach, the real cost is understood as expenditure actually incurred and paid, and reported to the programme by applying a correct calculation method. This should not be confused with the real costs (actually incurred and paid) that a beneficiary registers on its accounts. For example, staff costs of employees working part time on the project with a varied number of hours per month will be calculated based on an hourly rate defined in the regulations. In consequence the real staff cost eligible for reimbursement might be different than the cost actually borne by the beneficiary.

#### 3. [Can a Member State participating in the programme decide – based on its national rules – that it will not permit beneficiaries located on its territory to use certain simplified cost options, even though the programme rules allow them? In other words, can the rules regarding application of simplified cost options be more restrictive for beneficiaries in one Member State, compared to all other beneficiaries of the programme?](#)

In line with the hierarchy of rules principle regarding eligibility of expenditure as defined in Article 65 of Common Provisions Regulation (EU) No 1303/2013 and Article 18 of Regulation (EU) No 1299/2013, individual Member States cannot establish stricter rules in areas that are already regulated on the programme or EU levels. This means that if a simplified cost option is allowed according to the programme rules, all beneficiaries of the programme shall have an equal right to use it.

With regard to the programme rules established on top of the EU rules on eligibility of expenditure, the regulations require these rules to be decided jointly by all Member States participating in the monitoring committee and thus they should apply to the cooperation programme as a whole.

4. Where a programme finances beneficiaries located in Member States that are not part of the programme area, should rules and approaches to simplified cost options applicable in these Member States be followed?

The answer must be revisited by the working group in order to agree on one approach. Currently there are different opinions by programmes.

The programme rules may differ from what is applied in a Member State, which is outside of the programme zone and not part of the programme monitoring committee. Still, the programme financial support to beneficiaries located outside of the programme area shall follow the same set of rules on eligibility of expenditure and simplified cost options as for all other beneficiaries of the programme.

A good practice is to include a clause in a Memorandum of Understanding between the concerned Member State and the programme, which confirms that all beneficiaries are subject to the programme rules.

## Public procurement

5. Are there any differences regarding the verification of public procurement in projects consisting only of simplified cost options, and projects which costs are calculated based on both real costs and simplified cost options?

It is not possible to use simplified cost options in order to finance costs of a project/activity that is entirely covered by public procurement.

However, where only parts of the project/activity are contracted, simplified cost options can be used for the entire project/activity. As the supporting documents required for simplified cost options are not subject to the standard control, the public procurement procedures will not be checked.

## Irregularities

6. What should be understood as an irregularity when simplified cost options are used?

There are two groups of findings that could be considered irregularities, when simplified cost options are used:

1. Findings related to the methodology followed by the managing authority (systemic error)

They include the following:

- the method used by the managing authority in order to establish the simplified cost option does not meet regulatory requirements;
- the results of the calculation performed by the managing authority have not been respected while setting the simplified cost options (rates, unit costs, lump sums).

In the event of a systemic error detected by the auditor, the managing authority is obliged to react in order to limit consequences of the error, and further to establish the extent of the error and apply corrective measures (e.g. programme procedures updated, financial corrections implemented based on real costs or a flat rate correction, etc.)



## 2. Findings related to the application of the simplified cost option

They include the following:

Flat rates	Standard scales of unit costs and lump sums
<ul style="list-style-type: none"> <li>incorrect flat rate percentage has been used or there is an error in the calculation;</li> <li>ineligible costs are included in the categories of costs that form the basis for calculation of the flat rate;</li> <li>double declaration of the same cost item: as 'basis costs' (on which the flat rate is calculated) and as 'calculated' (included in the flat rate); or included in the flat rate and another budget line as real costs;</li> <li>the 'basis costs' are reduced without a proportional reduction of 'calculated' eligible costs.</li> </ul>	<ul style="list-style-type: none"> <li>lack of supporting documents to justify inputs/outputs, or inputs/outputs only partially justified.</li> </ul>

For flat rates, in the event of an irregularity detected, the correction should be made proportionally to the mistake. For standard scale of unit costs and lump sums, in a situation where the inputs/outputs triggering the payment are not justified, a full correction of the lump sum or the unit cost declared should be applied.

### 7. How to deal with audit findings in case a systemic error is detected in the methodology used to calculate a flat rate applied in a programme?

The systemic error detected by auditors must be quantified financially and all necessary corrections must be applied. Furthermore, the estimated error rate set in the programme management and control system must be corrected accordingly.

### 8. How are complaints related to simplified cost options to be treated? What is the responsibility of the Managing Authority regarding complaints on simplified cost options?

When a complaint has been made about the actual costs that triggered the simplified costs (i.e. actual costs incurred by the beneficiary versus eligible amount calculated based on a simplified cost option) and not the simplified cost option method itself, such complaints are not to be investigated by the programme.

From the programme point of view, the correct application of the simplified cost option is essential, and not the actual costs behind it. Therefore, such complaints shall be dismissed by the programme since they do not refer to the simplified costs used and thus do not concern the programme.

Any other complains should be treated according the complaint procedure of the relevant programme.

## Flat rates

### 9. Is a beneficiary required to provide any evidence that the amount received as a flat rate was actually spent on expenses of the cost category to which the flat rate applies? Can audit authorities request such evidence?

No, audit and control of expenditure declared under a simplified cost option should be limited to the verification of the calculation method and of its correct application, if relevant.



10. When a programme uses Article 19 of Regulation 1299/2013 or Article 68(1) of Regulation 1303/2013, can it set different rates for different beneficiaries? If so, is there any justification necessary?

The programme authorities can set different rates for different beneficiaries, e.g. apply a flat rate of x% to beneficiaries located in country A, and a flat rate of y% to beneficiaries located in country B. If different flat rates are used for different beneficiaries of similar types of projects, justification must be provided. In other words, the managing authority must be able to prove that the principle of equal treatment was respected (equal treatment of beneficiaries in the same situation). Please also see Question 10 of "55 Questions of answers: Eligibility of expenditure in cooperation programmes" by Interact.

## Lump sums

11. When a lump sum is used in a project, should it be verified by national controllers, or should it be only the Joint Secretariat to monitor a correct application of the lump sum?

The controllers must verify all expenditure declared by any beneficiary of the project, regardless of the reimbursement option used: real costs or any of the simplified cost options.

In the case of lump sums, national controllers shall only check if the lump sum has been correctly applied, in accordance of the rules of the programme. They should check whether the conditions set in terms of milestones/outputs for the reimbursement of costs have been fulfilled, i.e. check if the amount declared equals the completion of the (step of the) project supported through the lump sum.

Exception: For lump sums used to finance project preparation costs, no check by the national controllers should be done. The management verification of lump sums for preparation costs is performed by managing authorities. In other words, the managing authority carries out itself the function of verifying lump sums for preparation costs (in line with Article 23.1 of Regulation (EU) 1299/2013), and does not delegate this task to national controllers.

12. Is it possible to use a lump sum for expenditure related to closure of a project?

In general, it is possible to use the lump sum approach in order to cover expenditure related to closure at the end of a project. In cases where this option is applied, programme authorities must decide on the amount of the lump sum based on a robust calculation methodology. They must also take into account the possible risk of pre-financing.

13. Is it possible to reduce proportionally the payment of a lump sum?

When an output to be financed via a lump sum is not delivered, no payment shall be made. Lump sums operate on a binary approach, and there are no other choices than paying 0% or 100% of the grant. With this in mind, special attention should be made in the document setting out the conditions for support of the beneficiary in order to clearly define the outputs/milestones and how the reimbursement of costs can be affected if the conditions have not been fulfilled.

## QUESTIONS RELATED TO THE STAFF COSTS CATEGORY OF EXPENDITURE

The staff costs category of expenditure covers costs of staff members employed by the beneficiary organisation (public or private, as listed in the application form) and working full time or part time on development or implementation of the project in line with the employment document. Expenditure on staff costs consists of the gross employment costs, i.e. salary payments and any other costs directly linked to salary payments incurred and paid by the employer.

As for any other cost category, the expenditure eligible under staff costs can be calculated either on the basis of real costs or by applying one of the simplified cost options. In 2014-2020, many Interreg programmes prove to make use of the simplified methods. This is mostly because of the high error rates experienced on this category in the past. Moreover, the 2014-2020 regulatory framework encourages a wider use of simplified cost options for staff costs than it was before.

All types of simplified cost options (flat rate, standard scale of unit costs, lump sum) may be used to calculate staff costs. On top of this, there are off-the-shelf calculation methods enshrined in the regulations:

Article 19 of Regulation (EU) 1299/2013:

*“Staff costs of an operation may be calculated at a flat rate of up to 20% of direct costs other than the staff costs of that operation.”*

Article 68.2(b) of Regulation 1303/2013:

*“For the purposes of determining staff costs relating to the implementation of an operation, the hourly rate applicable may be calculated by dividing the latest documented annual gross employment costs by 1720 hours.”*

Member States participating in the programme monitoring committee decide which reimbursement methods apply to the staff costs category. This decision is communicated in the programme rules and stated in calls for proposals.

### Calculation methods

**14. When should a beneficiary decide on what method to use in order to calculate staff costs? Must the method be declared prior to the reporting period or can it be decided ex-post?**

In programmes that offer different reimbursement options (real costs, flat rate, or a standard scale of unit costs); every beneficiary must decide on the reimbursement option and indicate the choice in the application form. This also means that within the same project, different beneficiaries can choose different options (e.g. one beneficiary applies a real cost approach and other beneficiary uses a flat rate). Once each beneficiary has decided on an option, this choice will apply to all staff members of the beneficiary organisation working on the project. It will be set for the entire project duration.

In cases when a real cost approach is selected, the decision on the staff costs calculation method has to be based on how people are involved in the project. Moreover, the type of the employment document needs to be taken into consideration. Staff costs of each individual employee will be calculated depending on the person's employment document and whether the person works full time or part time (fixed percentage/flexible number of hours) on the project. The calculation method to be applied has to be fixed at the beginning of the project (and not in retrospect at the end of the reporting period). Still, on the event of necessary amendments to the employment document, changes to the selected calculation method (e.g. from a fixed percentage to an hourly rate) can be justified.

### 15. Can the staff cost calculation method selected by a beneficiary be changed during the project implementation?

Once a beneficiary has decided on whether to use a real cost approach or a simplified cost option permitted by the programme, the choice will apply for the entire duration of the project and no change is possible.

In case of the real cost approach, where staff cost of each employee working on the project depends on the employment document and on the amount of time assigned to the project, different calculation methods can be used. For persons working full time on the project, the total gross employment cost is eligible. For persons working part time on the project on a continuous basis, the staff cost can be calculated based on a fixed percentage of time to be worked on the project – the percentage must be fixed at the beginning of the project. However, in case of a change of tasks assigned to the employee and therefore resulting in a change of the employment document, the percentage can be revised. Justification of any such changes must be provided.

Where it is not possible to establish a fixed percentage, and hence the number of hours varies from month to month, staff cost shall be calculated based on an hourly rate. There are two hourly rate calculation methods prescribed in the regulations (dividing the monthly employment costs by the monthly working time or dividing the latest documented annual gross employment costs by 1720 hours). The starting point to choose the staff costs calculation method has always to be based on how people are involved in the project and on their employment document. The calculation method needs to be decided in advance and in principle it will apply for the entire duration of the project, i.e. no change is possible. However, in the event of changes to the staff employment document and/or working arrangements, adjustments might be necessary and thus a different staff cost calculation method will apply, e.g. an employee is no longer working fully but partly on the project. Thus, if the employees' tasks and the employment document change in relation to the project, changes of the calculation method are possible. Justification of any such changes must be provided.

### 16. Is it possible – within the same project and for the same category of costs – that one beneficiary chooses a simplified cost option and another beneficiary opts for real costs? For example, in the call for proposals, a programme offers two forms of reimbursement for staff costs (real costs and a flat rate); can different options be used in the same project?

Within the same project and for the same category of costs, different beneficiaries can choose different reimbursement options, e.g. on the staff cost category of expenditure, one beneficiary applies a real cost approach and other beneficiary uses a flat rate.

The monitoring committee of the programme may also decide to prescribe reimbursement options applicable to different beneficiaries at the programme level and allocate options depending on the type of beneficiary, e.g. apply a flat rate financing to universities and SMEs, and a real cost approach to all other beneficiaries.

### 17. Is it obligatory that the same staff cost calculation method is used for an employee involved in several projects financed by the same programme? Is this required for staff working for several projects financed by different programmes?

From the control and audit perspective, each project shall constitute a single entity, and thus the costs will be verified independently. The starting point to choose the staff costs calculation method has always to be based on how the person is involved in an individual project. Therefore, different staff costs calculation methods can be selected for a person working on different projects.

## Supporting documents

One of the main purposes of applying simplified cost options is to lessen the administrative burden related to the management of Interreg programmes. This includes simplifications at the stage of calculating eligible expenditure, but also when verifying the costs.

Depending on the reimbursement option, different supporting documents are required in order to justify the eligible staff costs.

The table below presents information on the necessary documents, both for when costs are established by the application of simplified cost options (flat rate or standard scale of unit costs) and when they are calculated based on real costs. With the real cost approach, no data from the time registration system is required for staff working full time on the project and staff working part-time according to a fixed percentage; which presents departure from the practice followed in the previous period 2007-2013.

Still, the biggest simplification regarding the set of documents required for the audit trail can be observed when simplified cost options are used. In particular, no documentation is necessary in situations where the flat rate according to Article 19 of Regulation (EU) 1299/2013 is applied.

	Real costs					Flat rate of up to 20% of direct costs	Standard scale of unit costs
	Full time	Part time			Hourly rate set in the employment document		
		Fixed %	Hourly rate: 1720 hours/year	Hourly rate: monthly data			
Employment/work contract or an appointment decision/contract considered as an employment document <sup>4</sup>	✓	✓	✓	✓	✓	✗	✓
Job description providing information on responsibilities related to the project	✓	✓	✓	✓	✓	✗	✓
Payslips or other documents of equivalent probative value	✓	✓	✓	✓	✓	✗	✗
Data from the working time registration system, e.g. time sheets, providing information on the number of hours spent per month on the project	✗	✗	✓	✓	✓	✗	✓
Proof of payment of salaries and the employer's contribution	✓	✓	✓	✓	✓	✗	✗

<sup>4</sup> For staff working on a fixed %, the percentage of time to be worked on the project must be set in the employment document (employment/work contract or other document of probative value).

18. What is a proof of payment? Can payslips be considered as sufficient evidence to justify the payment of staff costs, or any other proof of payment must be provided (e.g. proof of payment of a salary to an employee, proof of payment of a contribution to the social security)? If payslips were accepted, this would simplify the administrative work for beneficiaries, controllers and auditors.

Proof of payment forms part of the audit trail of staff costs calculated based on real costs. No proof of payment is required when a flat rate or a standard scale of unit costs are used.

For real costs, payslips provide evidence of the expenditure incurred. Proof of payment must be provided in order to justify the actual defrayal of the salaries and the employer's contribution. For example, extracts from a reliable accounting system of the beneficiary organisation are considered as a sufficient proof of payment. In such cases, the controllers shall check reliability of the accounting system, e.g. booked amounts are automatically transferred so that transactions are not reversible. Other examples of proof of payment include: bank account statements, bank transfer confirmations, cash receipts, etc. The requirement to present a proof of payment has not changed compared to the period 2007-2013. Please also see Question 24 of "55 Questions of answers: Eligibility of expenditure in cooperation programmes" by Interact.

19. When are staff costs considered as paid out? Is it the date of the payslip or the date of the actual payment of each individual expenditure item forming staff costs, e.g. salary, social security, etc.? If the latter was true, this would mean there could be situations when not all costs indicated on the payslip can be reported to the programme at the same time (e.g. in the reporting period January-June, social security linked to the salary payment of June is paid only in August). If payslips were accepted, this would simplify the administrative work for beneficiaries, controllers and auditors.

The concept of 'expenditure paid' concerns only staff costs financed based on real costs. In this case, expenditure must be incurred and paid by the beneficiary in order to be deemed eligible. Expenditure is considered 'paid' when the corresponding amount has been debited from the accounts of the beneficiary and transferred to the accounts of the contractor.

As regards simplified cost options, the concept of expenditure 'paid' by beneficiaries is modified. When a flat rate is used, staff costs are considered 'paid' if the direct costs that form the basis for calculation of the flat rate are "paid" by the beneficiary. In the case of standard scales of unit costs, there is also no 'paid expenditure' in the usual sense. 'Paid expenditure' is calculated on the basis of declared and certified quantities and not on payments made by the beneficiaries.

20. How to calculate eligible holiday payments? In particular, how to deal with holidays earned before the start of the project and paid during the project duration; how to deal with holiday allowances due to be paid after the end of the project?

Holiday payments are one of the cost examples under the staff costs category of expenditure.

In cases when the real cost approach is used to calculate staff costs, every individual expenditure (salary, social security, holiday, etc.) must be incurred and paid within the programme eligibility period 1 January 2014 – 31 December 2023, in order to be deemed eligible.

Currently there are different approaches among Interreg programmes with regard to the eligibility period for project expenditure. For example, some programmes consider the period for eligibility of project costs as being the same as the programme eligibility period (i.e. 1 January 2014 – 31 December 2023), provided that the cost relates directly to the project and is necessary for the development or implementation of it. Other programmes limit the eligibility period for project expenditure to the duration of this project, as indicated in the application form. In consequence, programmes following the latter approach can be more reluctant to finance holiday allowances paid after the project end date, as proof of payment will not be secured within the period of eligibility for this expenditure. Similarly, such programmes may deem holidays earned before the start date of a project as ineligible, as the cost was incurred outside the project eligibility period. In order



words, they may accept only part of this cost, proportionate to the duration of the project. The control and audit shall follow rules of the relevant programme.

As explained in Question 19 of this document, the concept of expenditure paid is different for simplified cost options. Once established by the programme, based on a calculation method according to Article 67(5) of Regulation (EU) 1303/2013, the simplified option will take into account the cost of holidays. Similarly, the off-the-shelf flat rate of Article 19 of Regulation (EU) 1299/2013 includes holidays. By applying the flat rate or a standard scale of unit costs, the beneficiary will establish the amount of eligible staff costs as a whole, without having to report on every cost item.

## Flat rate for staff costs

21. Are there any documents necessary to justify the relevance of staff costs calculated on the basis of a flat rate, e.g. evidence that at least one employee of the beneficiary organisation works on the project; proof of payment of social contributions, etc.? What kind of minimum evidence, if any, has to be provided by the beneficiary for the controller/auditor to prove the relevance of the costs?

The use of simplified costs must not trigger a check of the real staff costs against the staff costs established based on Article 19 as this is contradictory to the underlying concept of simplification. The programme receives assurance of the relevance of staff costs while assessing the project proposal. During the assessment process different criteria are looked at (e.g. project partnership, capacity of the beneficiary, management plans, joint staffing criterion, etc.) in order to make sure that no beneficiary receives the flat rate support when no staff is engaged in the project.

Programme authorities should decide on the applicable rate (up to 20%) as considered appropriate and with due respect to the principle of sound financial management. Still, there is no requirement for the programme to perform any calculation to determine the applicable rate.

22. Can the use of the maximum 20% flat rate on staff costs be judged as overcompensation?

According to Article 19 of Regulation (EU) 1299/2013, a flat rate of up to 20% of direct costs other than staff costs of a project can be used in order to establish the eligible staff costs. This provision allows directly the use of the maximum flat rate without the need for the programme authorities to justify it on the basis of any calculation method. Therefore, the use of the maximum flat rate as defined in Article 19 is regular and cannot be judged as overcompensation which could be considered as irregular and subject to financial corrections.

23. When a flat rate is used on the staff cost category, should controllers verify if the applied percentage is proportional to the project outputs? If so, are the controllers allowed to apply any reduction when they consider the flat rate being not proportional?

Such a practice is not in line with the regulations. Please see question 1 above that provides detailed information on the scope of verification by national controllers and auditors.

Verification of the achievement of project outputs in line with predefined terms of agreement between the programme and the beneficiary is necessary when lump sums are used, and not in the case of flat rates. Still, the calculation of a lump sum and its payment is not proportional to the extent to which outputs are delivered but a binary approach applies. Please see question 13 above.

With regard to standard scale of unit costs, there is a proportional link between quantities delivered and the payment, i.e. when quantities decrease, the costs decrease proportionally. The controllers will verify this. Again, this concerns standard scale of unit costs and not flat rates.

**24. When a beneficiary chooses to use the flat rate financing for its staff costs, can this beneficiary take part in more than one EU project?**

According to Article 19 of Regulation (EU) 1299/2013, staff costs of a project may be calculated at a flat rate of up to 20% of direct costs other than staff costs of the project. The use of this flat rate is thus directly linked to individual projects and it is eligible on the basis of the direct costs other than staff costs of each project, even if several projects are implemented by the same beneficiary.

Nothing in the regulatory framework prevents a beneficiary that uses Article 19 of Regulation (EU) 1299/2013 from taking part in more than one EU project.

**Hourly rate based on 1720 hours/year**

**25. Does the hourly rate of Article 68(2) of Regulation (EU) 1303/2013 have to be defined ex-ante (i.e. before the start of the project) for all relevant employees of the beneficiary working on the project? Or can the hourly rate be calculated whenever costs are reported to the programme?**

If 1720 hours is applied to the hourly rate as a standard scale of unit costs, the latest annual gross employment cost used to define the hourly rate shall be specified before the start of the project. Still, the managing authority may decide to update the hourly rate once new data are available. This update should be organised by setting out intermediary steps when the hourly staff cost could be revised.

If 1720 hours is used as a simplified way to calculate staff costs based on real costs, then it is not necessary to specify the annual gross employment cost before the start of the project. It is sufficient that the 12 months period precedes the end of the reporting period (which could be the exact 12 months preceding the reporting period, 12 months preceding the subsidy contract, or 12 months of the previous calendar year).

In consequence, each programme may choose that the hourly rate is either fixed for the entire project duration, or it is calculated at different points of the project implementation, e.g. when costs are reported to the programme. The programme's approach must be clearly communicated to potential applicants and beneficiaries in programme documents.

**26. In cases where there is no data available on the latest annual gross employment cost (e.g. new staff employed in the beneficiary organisation for the last 6 months only), is it still possible to calculate the hourly rate based on Article 68(2) of Regulation (EU) 1303/2013? Similarly, is it possible to use Article 68(2) to calculate the hourly rate for persons employed on a limited contract (e.g. 80% instead of 100%)?**

This question refers to Questions 17 and 18 of the Q&A document on eligibility by Interact. These remain outstanding questions, to which the answer has still not been provided by the EC.

The current Regulation (EU) 1303/2013 is not clear on this point. However – in the framework of the mid-term revision of the multiannual financial framework 2014-2020 – it is proposed that amendments are made to this Regulation, which would include the possibility to use a pro-rata of 1720 hours for persons employed on a limited contract: less than 100% work time.

Where data on the annual gross employment cost is not available, the available documented gross employment cost or data from the employment document can be used, duly justified for a 12-month period.

The revised version of the Regulation is expected to enter into force in 2018.



27. For employees using the hourly rate according to Article 68(2) of Regulation (EU) 1303/2013, should the calculated amount be checked against the actual costs? In other words, is there any recalculation necessary at the end of the year once the actual annual gross employment cost and the actual number of working hours is known?

The calculation method based on Article 68(2) of Regulation (EU) 1303/2013 is a simplified way to determine the eligible staff costs and the programmes/controllers should not carry out any recalculations/checks against the actual costs. The method derives from the Regulation and should not be questioned. Please also see Question 20 of "55 Questions of answers: Eligibility of expenditure in cooperation programmes" by Interact.

## Direct and indirect staff costs

28. In the case of persons involved in the management of a project (project manager, project financial manager, etc.), are these costs considered direct or indirect?

In Interreg programmes, all costs reported under the staff costs category of expenditure are considered direct costs. Indirect costs (overheads) fall under the office and administration category.

When activities related to the project management are performed by employees of the beneficiary organisations, such costs are treated as staff costs. However, the project coordination function, project financial management, etc. may also be outsourced to organisations outside the project partnership. In such a case, the cost qualifies as external expertise and services. For further information, please see the Matrix of costs (examples of costs under the external expertise and services category).

29. Is it possible to use Article 68(1) of Regulation (EU) 1303/2013 in order to calculate indirect costs, if there is a simplified cost option applied to staff costs?

If a flat rate is applied to the staff costs category according to Article 19 of Regulation (EU) 1299/2013, it is still possible to use the provisions of Article 68(1) – both point (a) and (b).

In Interreg programmes, all costs eligible under the staff costs category are treated as direct costs, including situations when they are calculated based on simplified cost options. Therefore, regardless of the form of reimbursement used on the staff cost category (real costs or a simplified cost option), the eligible direct staff costs can form the basis for calculation of a flat rate according to Article 68(1) of Regulation (EU) 1303/2013.

The combination is possible provided Article 67(3) of Regulation (EU) 1303/2013 is respected, i.e. each option covers different categories of costs. Please also see Question 30 of "55 Questions of answers: Eligibility of expenditure in cooperation programmes" by Interact.