

A crash-session on simplified cost options

Interreg IPA-CBC finance meeting
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Iuliia Kauk, Interact

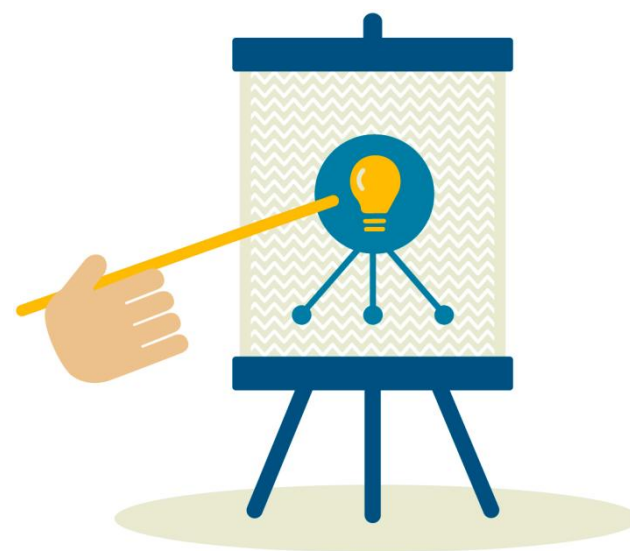
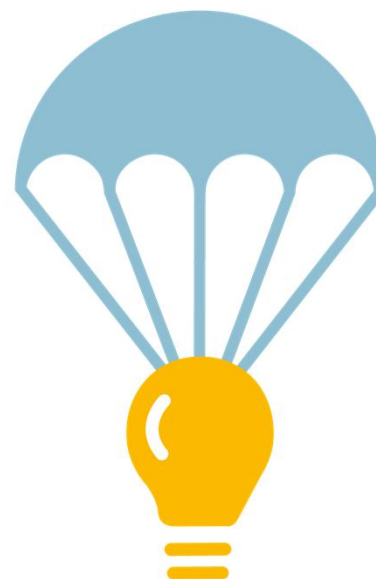


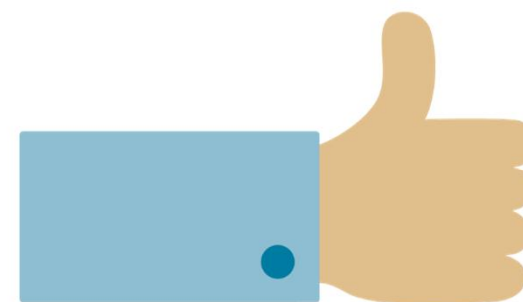
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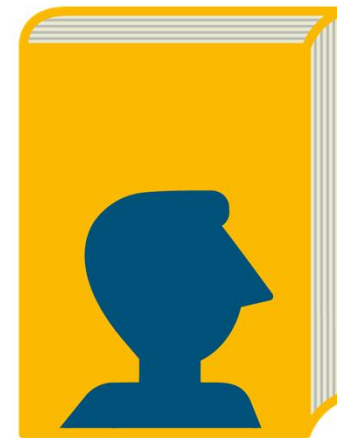
WHY to SCOs?

- Reduce administrative burden both for programmes and beneficiaries (flexibility, easier reporting, reduced bureaucracy)
- Shift to result/ output orientation
- Less time consuming
- Reducing the risk of errors (lower error rate)
- Facilitate audit and control



Standpoint - definition

- Eligible costs are calculated according to a predefined method based on outputs, results or other costs (ex-ante!).
- The tracing of every euro of co-financed expenditure to individual supporting documents is no longer required!

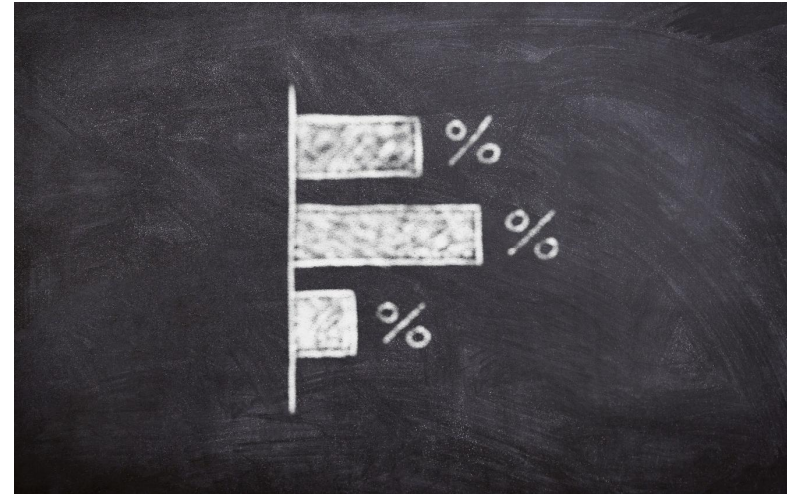


Reimbursement forms



► Real costs

- Tracing every Euro of co-financed expenditure
- Ex-post
- Based on supporting documents



► Simplified cost options

- Flat rate financing (Art. 68 CPR*)
- Standard scale of unit costs (Art. 67(b) CPR)
- Lump sum (Art. 67(c) CPR)

**with changes introduced by Omnibus Regulation*

Legal references

CPR 1303/2013 (after Omnibus, applicable from 2 August 2018*)

- Article 67: Forms of grants and repayable assistance
- Article 68(a): Staff costs concerning grants and repayable assistance
- Article 68(b): Flat rate financing for costs other than staff costs

**Former articles in CPR: 48-51*



Off-the-shelf SCOs

Indirect costs

- Up to 15% of eligible direct staff costs of an operation, flat rate
[Art. 68(b) CPR]
- Up to 25% of eligible direct costs of an operation, flat rate [Art. 68(a), CPR]*

**with underlying calculation method, or applicable in other programmes/funds*

Staff costs

- Up to 20% of direct costs of an operation^{**}, flat rate
[Art. 68a(1) CPR]

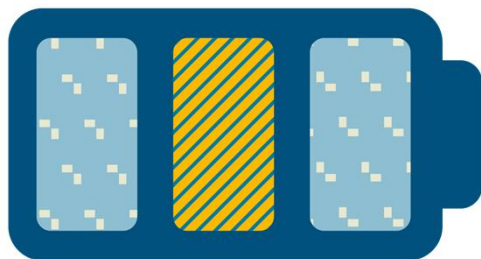
***unless operation includes contracts above the EU thresholds for works or supply or service*

All costs, other than staff costs

1. Up to 40% of eligible direct staff costs of an operation, flat rate
[Art. 68b(1) CPR]

SCOs – programming cycle

Some clarifications ...



SCOs in the programming cycle



It is advisable that the work on SCOs and testing starts ASAP but it is not a *,must'* to have all SCOs in place when the new programme starts!

Early assessment of SCO's

- How to ensure that the programme's SCO is in line with the requirement?

à Seek early approval by AA (COM does no longer do ex-ante assessment!)

- So far:

- Early assessment (audit) by AA
- Consultation process provided by AA



- Challenges:

- AAs hesitant to do early assessment/consultation process (conflict of interest, no resources, no guarantee that COM accepts) à MAs take risk to face problem during regular audit or do take up SCO's

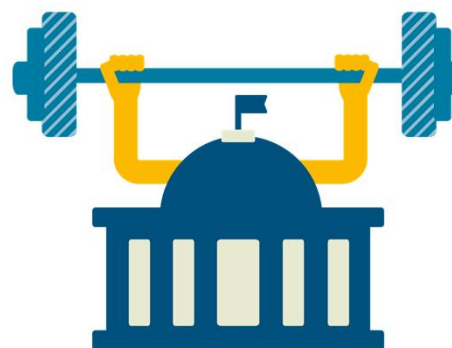
Early assessment of SCOs

Way forward, proposed by COM:

- No more consultation process, only early assessment by AA
- COM (audit unit) might accompany the national auditors in their audit work to assess SCO methodology designed by MA
- COM to propose a checklist for audit authorities to be used for the early assessment (early December)

Side note:

- [SCOs and AAs workshop, 5 December](#)



State Aid in ETC post 2020

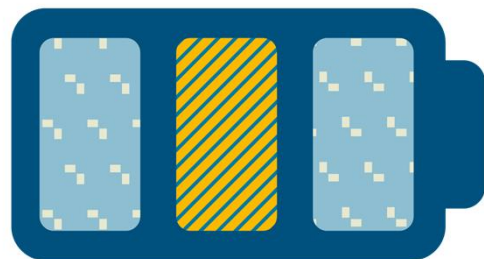
- Provided that Draft General Block Exemption Rule (GBER) is approved handling of state aid in ETC might become easier:
 - Simplification especially for small and medium sized 'undertakings' to be expected
 Art. 20 relates to aid for costs incurred by undertakings in ETC projects: proposed caps to aid intensity: 65% in general, +10% for medium sized, +15% for small undertakings)
 - Voucher for limited amounts of aid in ETC projects
 The total amount of aid under this Article (20a) granted to an undertaking per project shall not exceed EUR 20 000.

SCOs and State Aid

Legal base	Wording	Clarification
<p><u>Art. 24(6) Draft ETC Regulation (SPF!)</u> Where the public contribution to a small project does not exceed EUR 100 000 ...</p>	<p>the contribution from the ERDF [...] shall take the form of unit costs or lump sums or include flat rates, <u>except for projects for which the support constitutes State aid.</u></p>	<p>You can use SCOs in such projects but you don't have to!</p> <p>Explicit reference to SCOs in draft GBER!</p>
<p><u>Art. 48.1, Draft CPR</u> Where the total cost of an operation does not exceed EUR 200 000 ...</p>		

Roadmap to SCOs

To set up SCOs might require sort of a programming cycle...



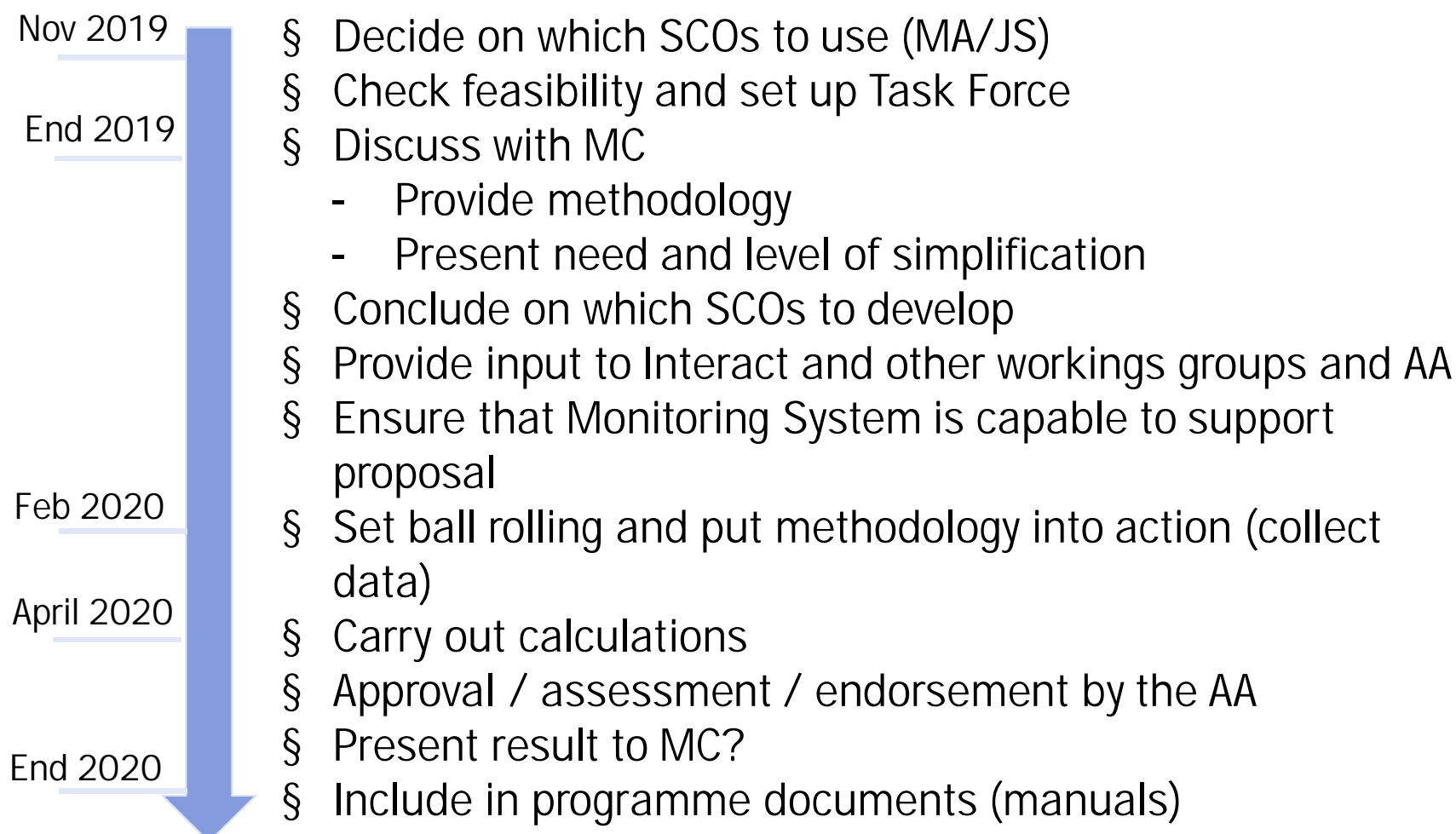
Setting up an SCO

- ... **type of operations** (small project, TA, R&D, infrastructure)/ **activities** (communication, publicity, project/ financial management, feasibility study, research ...)
- ... **costs categories** (administration costs, travel & accommodation, staff costs, external expertise and services ...)
- ... **type of project partner** (SMEs, ssociations, NGOs, universities)
- ... **linking SCOPE with a SCO** (unit cost, lump sum, flat rate financing)
- ... **calculation methodology** (off-the-shelf, copy-paste, individually at the programme level): data needed, general requirements, advantages/ risks
- ... **management verification**
- ... **documentation**
- ...implications for **state aid and public procurement**, if any
- ... **monitoring** of SCOs, including implications for monitoring system
- ... **audit trail** of SCOs



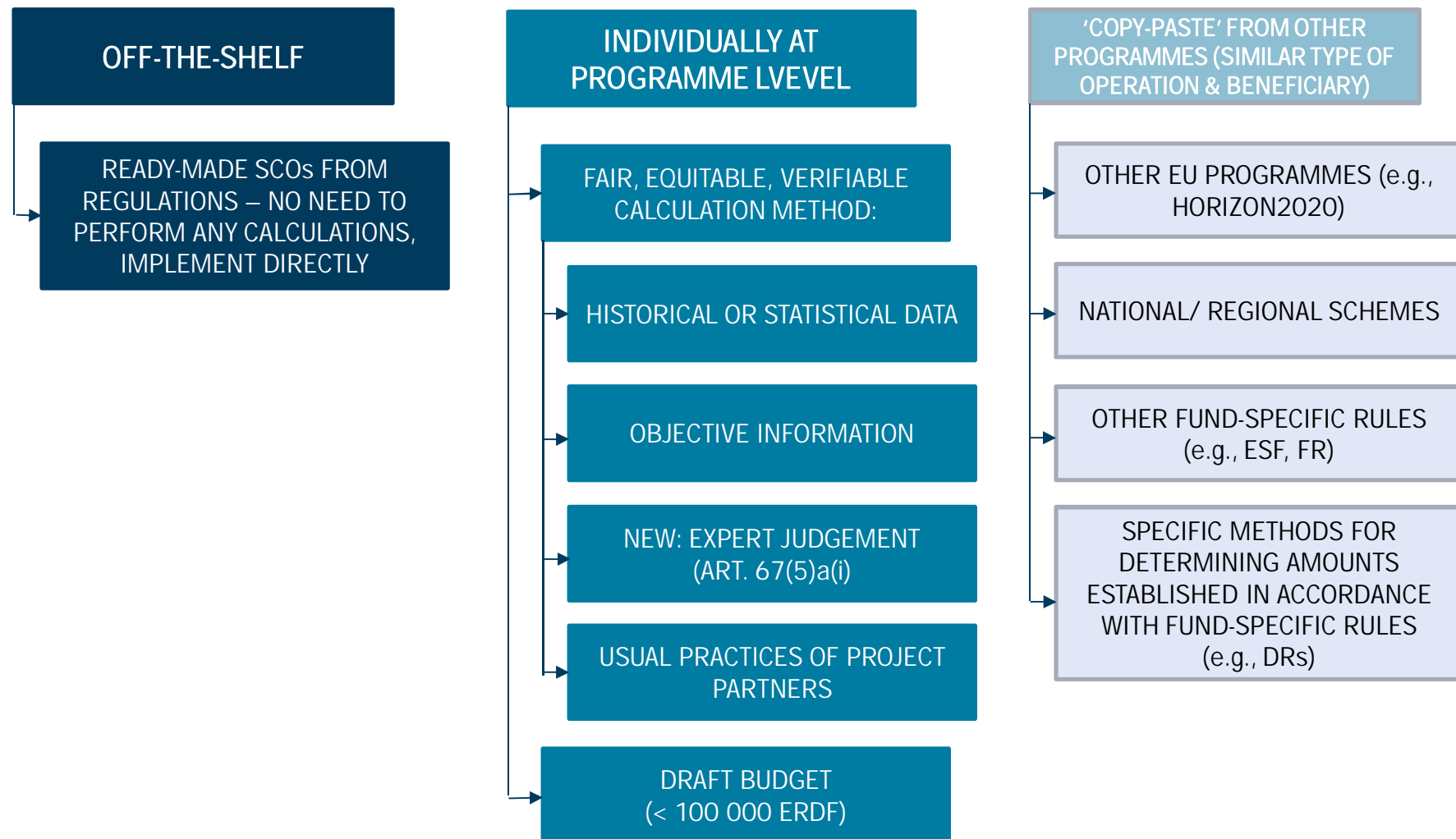
Roadmap 1 - for a programme

Group work result, Embracing SCOs; September 19-20, Tallinn



Calculation methodology

- Ex-ante: established in advanced, at the latest before the signature of the subsidy contract!



What is meant by *fair, equitable and verifiable*?

	Description*	Examples
Fair	<ul style="list-style-type: none"> • reasonable, • based on reality, • not excessive or extreme, • no inflation of costs 	<ul style="list-style-type: none"> • not possible: increase from an average of 2€ to 7€, without clear proof justifying increase, • geography can be taken into consideration: remote location might have higher costs than central location
Equitable	<ul style="list-style-type: none"> • equal treatment for projects and project partners, • differences in treatment must be based on objective elements 	<ul style="list-style-type: none"> • differentiated unit cost possible, evidenced by price differences in different MS, • not possible: lower unit cost applied because project scored less in project assessment
Verifiable	<ul style="list-style-type: none"> • documentary evidence, incl. description of calculation method, data source, • assessment of relevance and quality of data used 	<ul style="list-style-type: none"> • explanatory fiche for ex-ante assessment by AA, • decision note for MC approval, • updated MCS description • data file

* Based on EC's Guidance on Simplified Cost Options (SCOs), chapter 5, 2014

What is meant by *statistical data* & *other objective information*?

	Description*	Examples
Statistical data	<ul style="list-style-type: none"> • objective and verifiable data from documented sources, • can also mean historic and/or verified data from projects at programme level 	<ul style="list-style-type: none"> • surveys, • market research, • draft budgets (needs to be checked as reasonable and acceptable – value for money), • statistical evidence like Eurostat, ESPON
Other objective information		

* Based on EC's Guidance on Simplified Cost Options (SCOs), chapter 5, 2014

What is meant by *expert judgement*?

Not yet covered by EC guidance!

	Definitions*	Examples
Expert judgement	<ul style="list-style-type: none"> • a process of evaluation, performed by carefully selected <u>group of persons</u> that are experts in particular subject or activity, • the <u>compatibility</u> of expert opinions must be evaluated in order to ensure the reliability and objectivity of research results, • <u>the opinion of 1 expert might be questioned as expert judgement</u>, • early stage involvement is crucial, • conflict of interest needs to be addressed explicitly 	<ul style="list-style-type: none"> • technical experts, consultants • research has shown that the accuracy of the judgement does not increase significantly if more than 7 experts are involved

* Based on presentation 'Expert judgement' by Girleviciene & Kvietkauskiene (methodology of Libby & Blashfield on the selection of expert number). Check also www.projectmanagement.com

What is meant by *verified historic data* and *usual practices of project partners*?

	Description*	Examples
Verified historic data of project partners	<ul style="list-style-type: none"> • based on past accounting data (requires acceptable analytical accounting system), • data has to cover at least 3 years, • might require certification, • reference amount to be applied (average costs over the reference period) 	<ul style="list-style-type: none"> • interesting for partners involved in many projects • could cover specific costs categories (e.g., administration costs or unit costs for staff)
Usual accounting practices of project partners	<ul style="list-style-type: none"> • based on data from day-to-day accounting practices (independent from EU funds) in compliance with national accounting rules (requires acceptable analytical accounting system), • SCO based on aggregated group of items, no minimum requirement for time span of data, • might require certification 	

* Based on EC's Guidance on Simplified Cost Options (SCOs), chapter 5, 2014

What is meant by *similar type of operation & beneficiary** **?

	Description*	Examples
Similar type of operation & beneficiary	<ul style="list-style-type: none"> • applicable for SCOs used by other EU programmes/ funds or at MS level, • SCOs discontinued from one period to another excluded, • case-by-case application 	<ul style="list-style-type: none"> • H2020 • ESF • Daily rates in MS
<p>* Based on EC's Guidance on Simplified Cost Options (SCOs), chapter 5, 2014</p> <p>** proposed to limit similarities to type of operation only for post2020</p>		

Management verification – what needs to be verified in SCOs

- Soundness of the calculation method
established – MA responsibility
- Correct application of the SCO
- Verification of the 'basis costs' for flat rates
- Verification of the outputs for unit cost/ lump
sum – also criteria for payments (hours worked,
participants trained, qualification achieved,
milestones reached)
- Quality of outputs

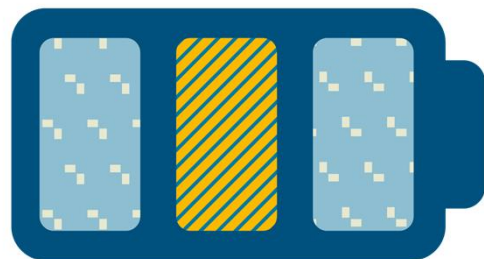


SCOs – what to verify?

Type of SCO	Managing authority level	Beneficiary level
Flat rate financing for indirect costs: Up to 25% of eligible direct costs	If the methodology is fair, equitable and verifiable method established in advance Verification of supporting documents	<ul style="list-style-type: none"> • Check of application of the methodology • No verification of the underlying actual costs for indirect costs • Classic audit of direct costs
Flat rate financing for indirect costs: Up to 15% of eligible direct staff costs	No calculation required, thus no audit of the rate applied = off-the-shelf	<ul style="list-style-type: none"> • Check of the application of the methodology • No verification of the underlying actual costs for indirect costs • Classical audit of eligible direct staff costs
Flat rate financing for non staff related costs: Up to 40% of eligible direct staff costs	No calculation required, thus no audit of the rate applied = off-the-shelf	<ul style="list-style-type: none"> • Check of the application of the methodology • No verification of the underlying actual costs for all other costs • Classical audit of eligible direct staff costs
Unit cost/ lump sum	Check of the methodology: fair, equitable and verifiable method established in advance. Verification of supporting documents.	<ul style="list-style-type: none"> • Check of the application of the methodology • No verification of the underlying actual cost • Classical audit of all other costs • Check documentation/evidence supporting outputs

Programmes examples of SCOs

SCOs examples and outcomes of group
work



Interreg Europe – Lump sum for phase 2 activities, 4th call

- Lump sum allocated to LP (€17.000/ action plan)
- Amount depends on the number of policy instruments/ action plans monitored
- Depending on measurable deliverables (clear conditions for payment)
- Calculation methodology assessed by external auditor
- Phase 2: period 1-2 years, not a closure lump sum!
- Binary approach: no delivery of outputs – no lump sum



Interreg V DE-NL – SCO for staff costs

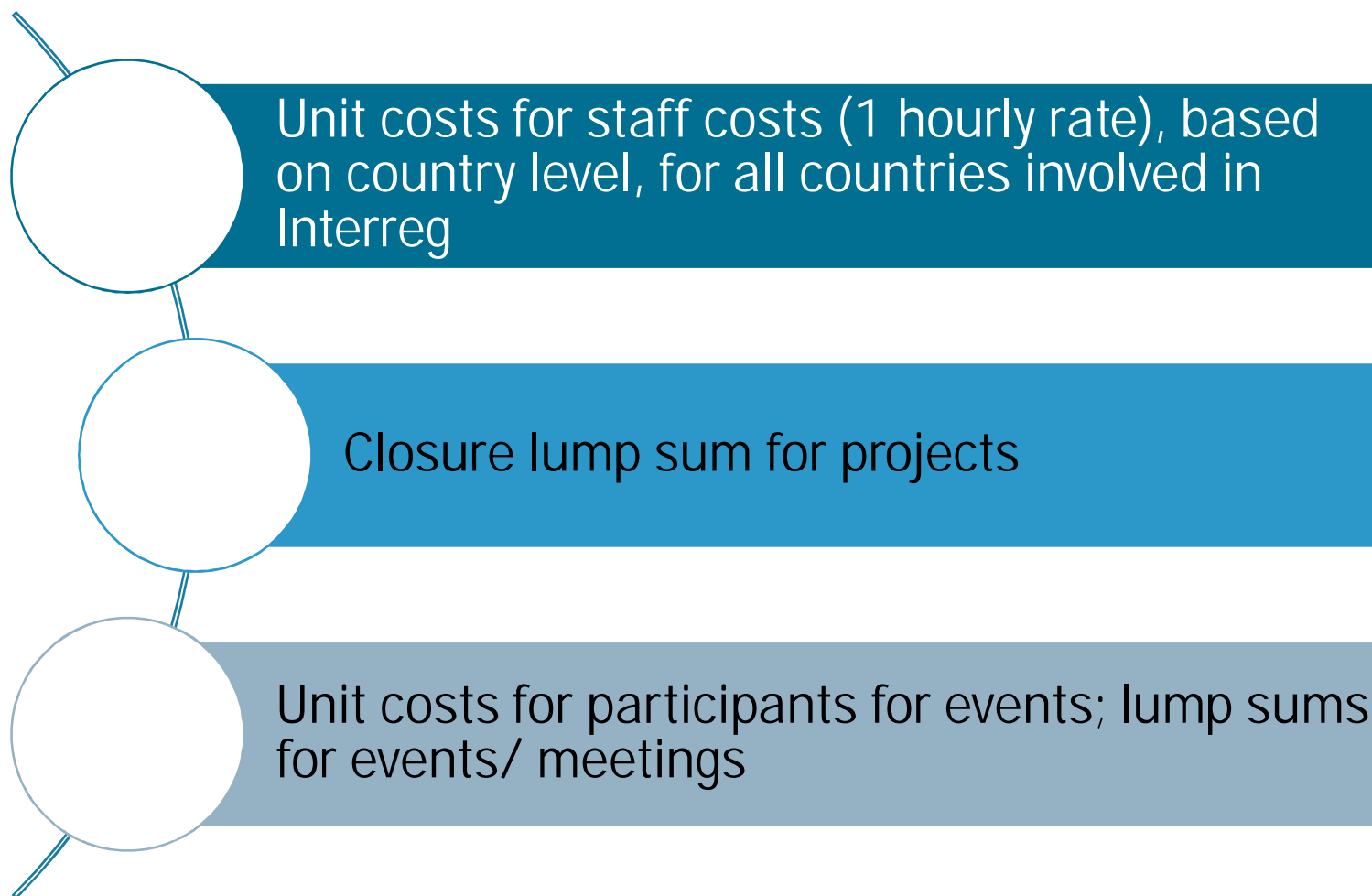
SSUC for staff costs on the basis of a representative statistical analysis

Staff with management functions Performance group 1	11,3%	€ 68 / h	9.350 € / month
Academic staff Performance group 2	27,4%	€ 51 / h	7.012 € / month
'Higher' operative staff Performance group 3	42,9%	€ 36 / h	4.950 € / month
Operative personnel Performance group 4	14,6%	€ 28 / h	3.850 € / month
Semi-skilled staff Performance group 5	4,7%	€ 15 / h	2.062 € / month

IT-Albania-Montenegro – SCOs for small projects

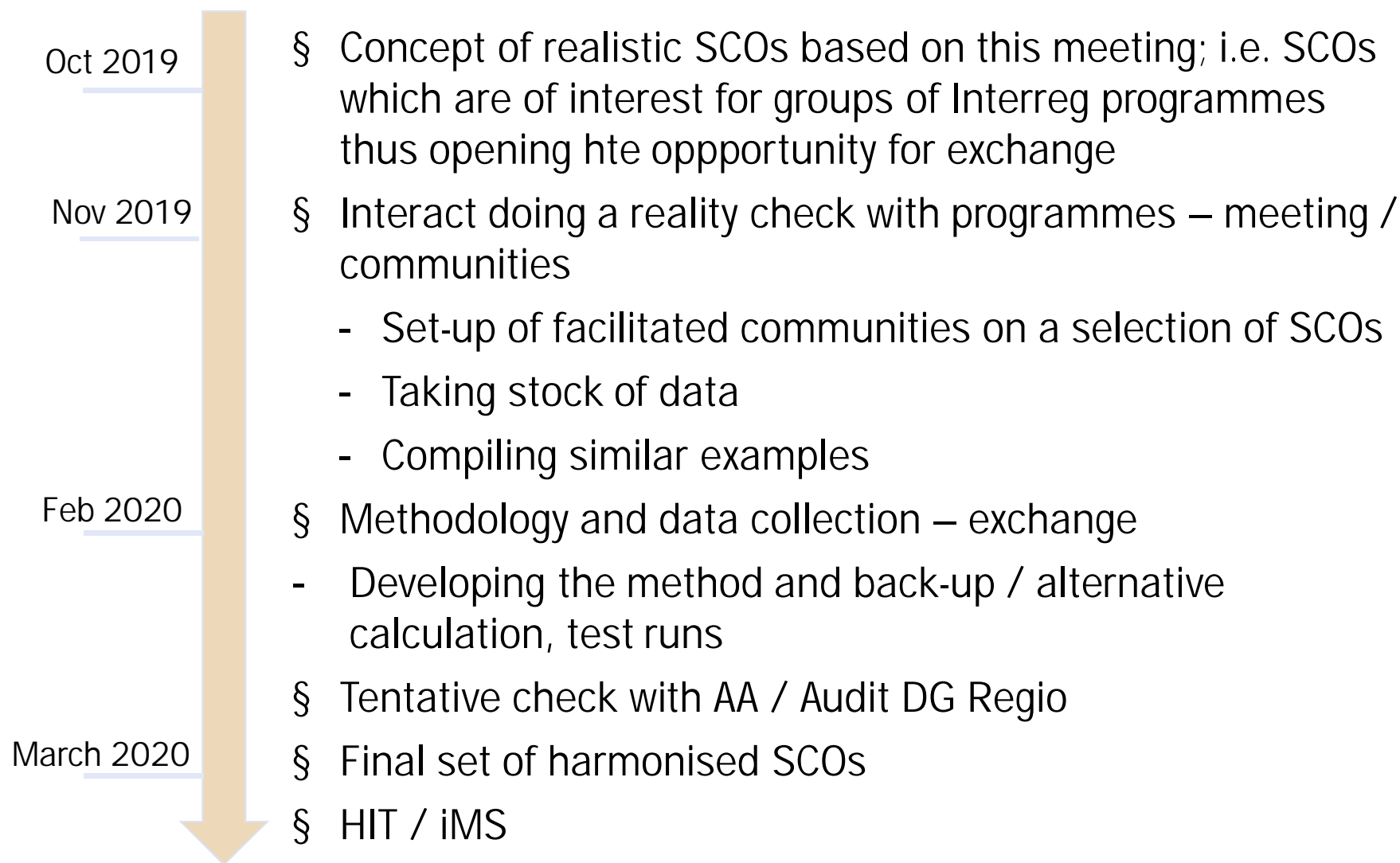
- Projects entirely made of several lump sums
- NO other costs allowed
- No reporting on real costs basis
- Maximum € 100.000/ project – pre-financing 30%
- Duration 12 months
- 3 types of lump sums:
 - 1. Preparation (€5.000; e.g., staff, travel, studies, translation, consultations, meetings ...)
 - 2. Events (min 1 day/min 40 participants/event; e.g., speakers fee, rental services, catering, promotion campaign, event follow-up ...)
 - 3. B2B missions (min 10 economic operators; e.g., catering, interpreter, rental services, logistical assistance, travel and accommodation ...)

Interact & Interreg next steps – why not Interreg-specific SCOs?



Interact support for a set of common ones

Group work result, Embracing SCOs; September 19-20, Tallinn



DIY – group work!

Objective: Develop a simplified cost model

Option 1	Option 2
Design a lump sum for closure costs	Choose a project activity yourself and design a SCO

What to cover:

- Activities/ partner/ indicator
- Relevant calculation methodology (data availability, quality)
- Advantages/ points for consideration
- Stakeholders reactions (perspectives of MA/ AA/ beneficiary)
- Monitoring of SCO/ audit trail

Lump sum for closure – group work

Aspect	Explanation
Scope	<p>Example:</p> <ul style="list-style-type: none"> § Translation of the final report § 1 month staff cost (1 PAX full time) § Update website § Final conference § FLC costs
Methods	<p>E.g. to calculate work load for final report:</p> <ul style="list-style-type: none"> § Survey among beneficiaries § Historical data § Establish basis for flat rate on WP Project Management
Payment	Acceptance of the final report triggers payment
Issues	<ul style="list-style-type: none"> § Demarcation line to implementation activities – avoidance of double financing § Definition of the project end

DIY – group work on designing SCOs

SCOs and project activities/ cost categories	Points for consideration
Staff – unit costs	Type of work (data at MS level and region), based on gross employment salary ranges
Translation – unit costs	Per page, per word; type of text; simultaneous/ consecutive
Training – unit costs	Participants, topic, time needed for finishing, preparation, material, place catering
Meeting – unit costs	Size, translation, place, catering
Travel and accommodation – flat rate	Use off-the-shelf! (up to 15% of the direct staff costs of an operation) – Article 40(5) ETC* proposal
Communication activities – unit cost/ flat rate (% of staff costs)/ lump sum	For some standard communication outputs unit costs could be identified (country level). For some mandatory publicity and visibility tasks a SCO would be feasible. Challenge: different target groups and specific project objectives.

Cooperation works

All materials will be available on:

www.interact-eu.net