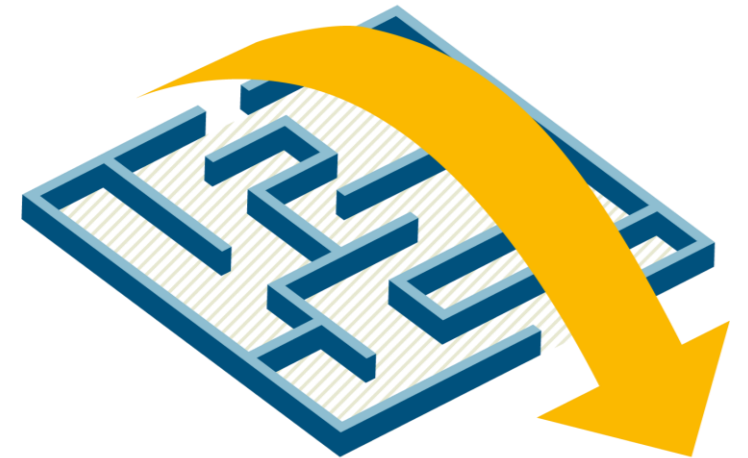# SCOs and verifications of SCOs in 2021-2027

Controllers' workshop

19 October 2022 I Malmö, Sweden

Iuliia Kauk, Interact

Forms of reimbursement in Interreg

Real costs

Simplified cost options

Unit cost

Lump sum

Flat rate

Unit costs

- calculation of all or part of costs of a specific cost category
- calculated by applying a standard unit cost fixed in advance
- applied to easily identifiable quantities

Example:

Unit cost for organisation of events per participant/ per day

Number of participants * EUR 50

Lump sum

- calculation of all or part of costs of the project

- subject to achievement of pre-defined outputs/activities

- single payment, binary approach

- payment only if the output is delivered (no compromise)

Example:

Preparation costs for approved projects

Project approval = EUR 10 000 (ERDF)

Flat rate

- calculation of costs of a specific cost category(ies)
- calculated by applying a percentage fixed in advance
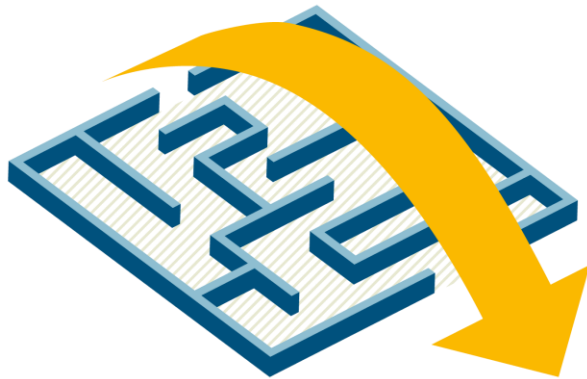- percentage applies to one/several cost categories

Example:

15% of eligible direct staff costs for office and administration costs

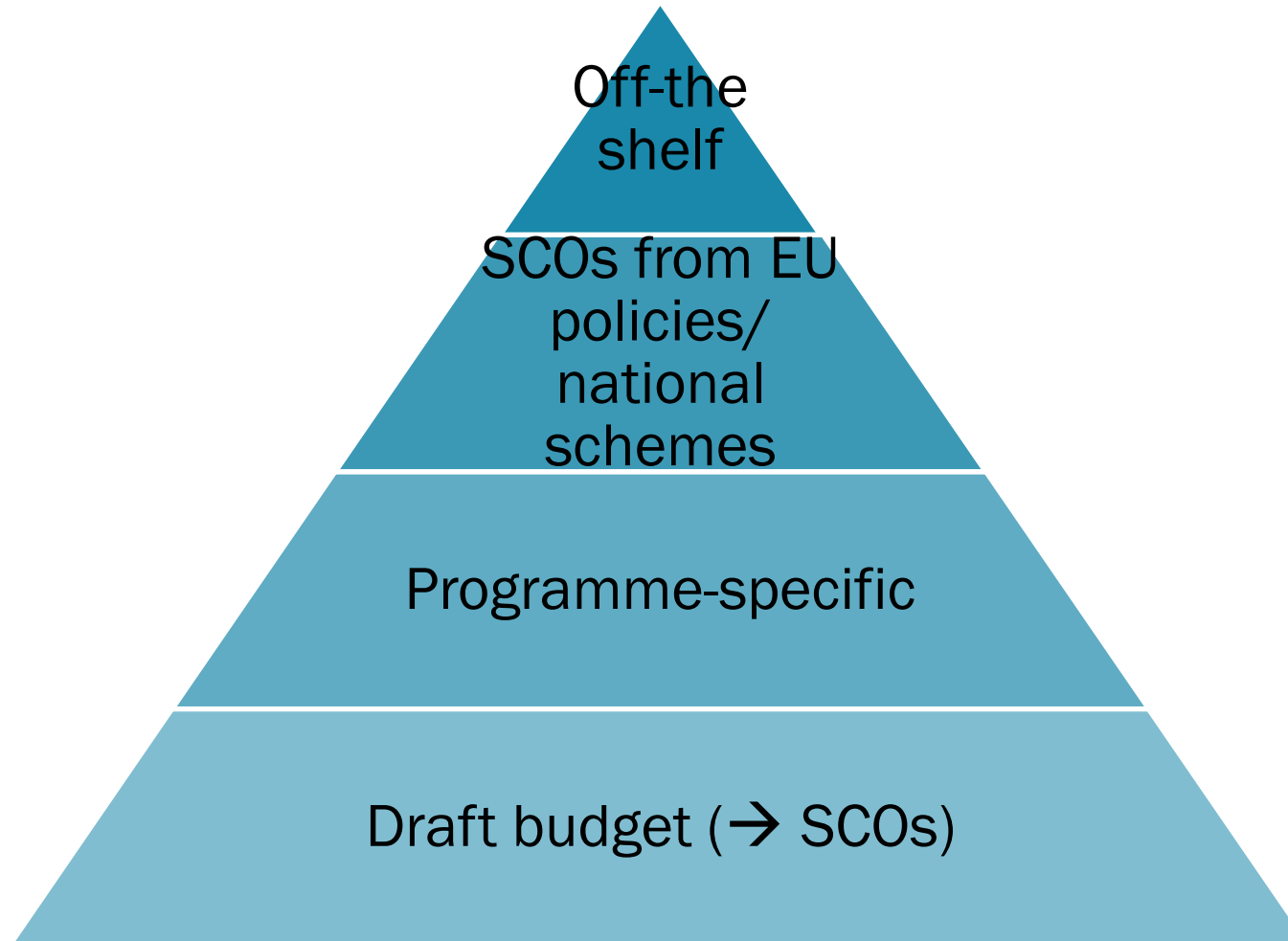**Staff costs * 15% = Office and administrative costs**

SCOs – legal framework

2021-2027 programming period

5 methods to establish SCOs – Article 53(3) CPR

Off-the shelf

SCOs from EU policies/ national schemes

Programme-specific

Draft budget (→ SCOs)

Off-the-shelf SCOs from the Regulations

6 flat rates:

- *up* to 20% flat rate for staff costs on all other than staff costs direct costs

  – "own" Interreg flat rate; CPR (Article 55(1)) ≠ Interreg (Article 39(3)(c))

- *up* to 15% flat rate for office and administration costs (on direct staff costs)

- NEW: *up* to 7% flat rate for office and administrative costs (on all direct costs)

- up to 25% for office and administrative costs (on eligible direct costs of an operation) – *methodology required!*

- NEW: *up* to 15% flat rate for travel & accommodation (on direct staff costs)

- *up* to 40% flat rate for everything (on direct staff costs)

Off-the-shelf SCOs from the Regulations

2 unit costs:

- 1720h method – latest documented annual gross employment cost divided by 1720h (for 100% employment, full time):

  – pro-rata application and extrapolation possible (for part-time);

  – total number of hours reported per year cannot exceed 1720h.

- Hourly rate – latest documented monthly gross employment costs divided by average monthly working hours:

  – total number of hours reported per month cannot exceed average monthly working hours.

Legal references

SCOs from Union policies and national schemes
Article 53(3) CPR, points (c) and (d)

(c) – Union policies = SCOs from EC's delegated acts (i.e., SCOs from directly managed programmes, like Horizon Europe);

(d) - for a MS to use a method that itself was developed for national schemes (within MS, not from one MS to another MS).

- for similar types of operations;

- method should be in place at the moment of your call for proposals;

- if any adjustments in the original method, it should be mirrored in the copy-pasted;

- method should be re-used entirely and not only its result (not only amount, % but what is eligible, scope, etc.);

- MA to justify "similarity" of types of operations (similar ≠ equal);

- if method is discontinued, it is not possible to copy-paste it!

Programme-specific SCOs

- Possibility is open to any type/ specific objective

- Recommended to work in close cooperation with your AA and to have
  the methodology approved by the AA ex-ante (before implementing in
  projects – no legal obligation for AA to do the ex-ante assessment!)

- Allocate appropriate time (time-consuming process, depending on
  availability of programme historical data)

- 4 cornerstones of your methodology (quality & reliability of data,
  consistency & objectivity of calculation, consistency in project/
  programme life cycle, documentation)!

Management verifications of SCOs – main principles

Practical implications

Checking SCOs – main principle

What to check

- correct application of the calculation method & that other reported project expenditure is not already covered by SCO (management verifications (controllers/MA) & audits);

- correct establishment of the calculation method (i.e., methodology - audits).

Checking SCOs – main principle

What NOT to check

- the real costs underlying the expenditure reported based on SCOs!

- *Example:*

  Flat rate administration costs

  *actual expenditure of beneficiary linked to administration costs, e.g., invoices/payments for office rent, office supplies, phone, internet, utilities **are not checked.***

Checking SCOs - details

Flat rate

- verification of the 'basis costs' to which the flat rate is applied

- verification that the correct % of the flat rate is applied

- verification that other reported project expenditure is not already covered by the flat rate

- *Example:*

   SCO flat rate of 15% of staff costs to calculate administrative costs →
   verification of the eligible staff costs and that 15% of those are
   reported under office and administrative costs.

Checking SCOs - details

Unit costs

- verification of the number of units delivered

- verification that the amount declared is justified by the quantities (correct multiplication)

- verification that other reported project expenditure is not already covered by the unit cost

- *Example:*

  30€ per participant per day in a project event (=unit), justified with a participant list → verification of the number of participants in the participants list, correct multiplication of unit (e.g., 15 x 30€ = 450€)

Checking SCOs - details

Lump sums

- verification of the relevant inputs/outputs

- verification that the criteria for the payment of the lump sum are fulfilled

- verification that other reported project expenditure is not already covered by the lump sum

- *Example:*

  10.000€ for final conference → verification that the final conference took place

Checking SCOs – typical situations

- Costs reported to the programme under an SCO do not match the actual expenditure registered in the bookkeeping system of the beneficiary.

- SCOs do not equal real costs! It's a proxy of real costs!

    - *This is a direct and accepted consequence of the use of SCOs. It's not a problem! (over-/ undercompensation of costs actually incurred and paid by the beneficiaries).*

    - *Actual amounts in the bookkeeping system of a beneficiary linked to the SCOs are not relevant for the verification of the SCOs – should not be checked by the controllers!*

Checking SCOs – typical situations

- Is a beneficiary required to provide any evidence that the amount received for an SCO was actually spent on expenses covered by the SCO? Can or should controllers/auditors request such evidence?

  - NO! Verification of expenditures declared under the SCO should be limited to the verification of the existence of the relevant cost category, the calculation method, and its correct application.

Control & audit - conclusions

Points of attention

- Double-financing: no costs covered by SCO included in other cost categories and not reported as real costs (e.g., heating costs for office premises (covered by the flat rate for office and administrative costs) reported under other cost categories, e.g., external expertise); covering different categories of costs, different projects forming a part of an operation; successive phases of an operation.

- Flat rates: clean basis costs.

Double-financing – mitigating measures

- For SCOs:

  - checking whether costs covered by flat rates are not reported under other cost categories (exhaustive lists per cost category are in IR);

  - no real costs and SCOs in the same cost category (exceptions in point (e) Article 53(1) CPR);

    - where real costs and SCOs are used, checking if costs included in an SCO are not reported as real costs in other cost categories;

  - for staff costs – no matter real costs or SCOs – quality assessment!

    - hourly rate – setting max ceiling (hours) of working hours per year/ period.

Double-financing – mitigating measures

Across projects – e.g.:

- reporting 100% of working time in timesheets;

- self-declarations (e.g., fixed percentage method);

- no possibility to insert an invoice twice in the accounting system (real costs).

For other cases, programme's approach for checking double-financing between projects – as for real costs! – should be used (capacity of controllers to check other projects/ projects from other Interreg/ other programmes?)

Staff cost options

Management verifications

Real costs

The most extensive and "heavy" verifications as compared to other options!

The accounting system of the beneficiary is part of the usual verification work!

TO CHECK:

- employment/ work contract;
- job description;
- **payslips** or other documents of equivalent probative value;
- data from the working time registration system for **part-time assignments** (e.g., timesheets, providing information on the number of hours spent on the project per month);
- **proof of payment** of salaries and the employer's contribution (and other compulsory payments).

NOT TO CHECK:

- For full-time employment – no verifications of data from working time registration system!

Fixed percentage method (real costs)

How does it work?

- real costs method (not an SCO!) to calculate staff costs;

- applied to calculate staff costs in case of a part-time assignment of a staff member to a project;

- % of the assignment has to reflect an employee's project-related tasks, responsibilities and functions performed in the project;

- % should be fixed individually for each employee + **in advance!**

- % should be fixed in the document setting out the % of working time of the employee spent on the project per month: in the employment document/contract directly or as appendum in a specific task assignment document (document should cover fixed % per month and list of main tasks and/or outputs to be delivered).

Factsheet with more information

Calculation of the staff costs using fixed % method

- Fixed percentage of the gross employment cost, in line with the % of time worked on the project per month.

> Staff costs of an employee = Total monthly salary (incl. employer's social contributions and other compulsory payments) * Fixed %
> e.g., Staff costs = EUR 6 000 * 80% = EUR 4 800

- Calculation should be based on a monthly approach, in line with the wording of the Regulation (Article 55(5) CPR).

- Task assignment document should be available, up-to-date, and include % of working time on the project per month and a proportionate description of tasks.

Factsheet Fixed percentage method

Task assignment template – proposed for harmonisation to HIT*

Annex 1 – Task assignment template

For information for the project partner:

- *This template can be used for the task assignment and is an example of the minimum requirements which should be covered if the fixed percentage method is used (if not part of an employment document/contract or another document). It has to be submitted for verification of staff cost expenditure to the relevant control body.*

- *In case of changes to the tasks and responsibilities of an employee, the task assignment document can be reviewed and amended (the percentage cannot change every month and should apply as a minimum for one full reporting period).*

Project Information

Project name	*Please indicate*
Project acronym/ ID	*Please indicate*
Name of project partner	*Please indicate*
Name of employee	*Please indicate*
Applicable from	*Please indicate*
Version N°:	*Please indicate*

With this task assignment, I confirm that [*Name employee*] works on the above-mentioned project.

In case I am involved in other EU funded projects, I [*Name employee*] confirm that there is no double financing, as not more than 100% of my working time will be reported.

[*Name employee*] carries out the following tasks in the frame of the implementation of the project:

- [*specify task*]
- [*specify task*]
- [...]

[*Name employee*] will dedicate [%] of his/her working time per month to carry out the tasks as described above.

[name of employer]   [name of employee]

_____   _____

Employer's signature   Employee's signature

*Part of HIT package for 2021-2027

Factsheet Fixed percentage method

Fixed percentage – practical implications

- Issued for each staff member (not a group), per project.

- In principle, the document setting out the fixed percentage has to be issued the latest before the submission of the first progress report for management verifications.

- Fixed percentage should be fixed as a minimum for at least one reporting period -> should not change every month! -> amendment of the task assignment template if a separate document will be needed.

- Fixed % can change only in justified cases (provided there are changes in the tasks and responsibilities of an employee.

- No additional documents (e.g., periodic staff reports, etc.) should be required for verification -> gold plating!

Fixed percentage (real costs method)

TO CHECK:

- employment/ work document;

- task assignment (a document setting out the percentage of working time on the project per month - could be also specified in the employment document - with job description (task assignment) providing information on tasks and responsibilities of an employee related to the project);

- payslips OR other documents of equivalent probative value (where the gross salary, employer's social contributions are clearly identifiable),

- proof of payment of salaries and the employer's contributions.

NOT TO CHECK:

- No registration of the working time (e.g., timesheets) and should not be provided to controllers even if kept by the institution!

- NO additional periodic staff reports!! -> gold plating!

Only % is checked (in justified cases could change over the project lifetime); hours worked on the project per month do not matter and should not be checked!

Flat rate – up to 20% of all other direct costs

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TO CHECK:

- **existence of cost category** – beneficiary has staff by, e.g., checking registration at the social insurance agency or annual payroll account (at least one) – could be one-time check (even dropped by some programmes!);

- **"basis" costs** – other direct costs of an operation (= not other flat rates!)
  - e. g., if travel and accommodation and office and admin – flat rates, direct costs of an operation – external expertise and services, equipment, infrastructure

- **correct calculation** (% of other direct costs in line with SC/AF);

- no staff costs are reported in other cost categories (**no double-financing**).

NOT TO CHECK:

- underlying expenditure under staff costs;

- timesheets;

- payslips, proof of payment of salaries and the employer's contributions;

- employment/ work documents.

Unit cost (functional groups)

TO CHECK:

- allocation of an employee to a **correct functional group**;

- proof that the person **is employed** by the employer (one-time check with the first-time costs are reported, per employee)
  - *e.g., employment contract or appointment decision (for seconded staff – secondment agreement)*

- **timesheets** for persons working not 100% on the project without any details, keywords on activities performed (for full-time employees maybe some more elegant solution could be found – extrapolate unit costs to calculate unit cost per month -> verification of that);

- correct **calculation** (number of hours * unit rate);

- **no infringement in the ceiling** of the annual hours worked (e.g., if 1720h method is used - max 1720h per year/ pro-rata for part-time, any daily thresholds).

NOT TO CHECK:

- indirect salary costs;

- payslips and proof of payment of salaries and the employer's contributions.

1720 hours method/ hourly rate – off-the-shelf unit costs

TO CHECK:

- **employment/ work contract + job description;**

- total number of hours declared per person for a given year/ month does not exceed the number of hours used for the calculations of that hourly rate;

- payslip(s) or other documents of equivalent probative value (12-month/annual – **latest documented gross employment costs**) - when establishing the hourly rate or when changing it. Once it has been confirmed, those supporting documents are no longer needed!

  – latest annual gross employment costs need to be documented (accounts, payroll reports, etc). They do not have to be audited ex-ante but have to be auditable.

- data from the working time registration system (e.g., **timesheets**).

NOT TO CHECK:

- payslips – after the hourly rate is confirmed;

- proof of payment of salaries and the employer's contribution.

Example of the timesheet (HIT, fact sheet Staff costs)

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Annex 1 - Example of a timesheet template for _hourly_ _rate calculation methods!_

1. Timesheets can be used as a tool to record time spent on carrying out project activities by staff members assigned to work part-time on the project (and full-time staff, in the case of unit costs).

2. Timesheet must cover 100% of the actual working time of the staff member.

3. An overall description of the work carried out by the staff member on the project in the month concerned should be provided.

4. Working time should be recorded for every month worked on the project throughout the entire duration of the project.

5. Only time recorded in timesheets is eligible and can be reported by the partner organisation.

6. Estimations of hours worked are not accepted.

7. The total amount of hours worked (annually or monthly) cannot exceed the number of hours used for the basis calculation.

Minimum requirements in a timesheet
Project name: ....
Project acronym/ID: ....____
Name of project partner: ....
Name of employee: ....
Month / Year ....

Date	Project work description	Number of hours worked	Other activities[16] (number of hours)	Total
TOTAL				actual 100% working time[17]

I hereby confirm that the project work as stated above is correct and true:

(Signature of project employee)

I hereby confirm that the project work as stated above is correct and true:

(Signature of project employee)

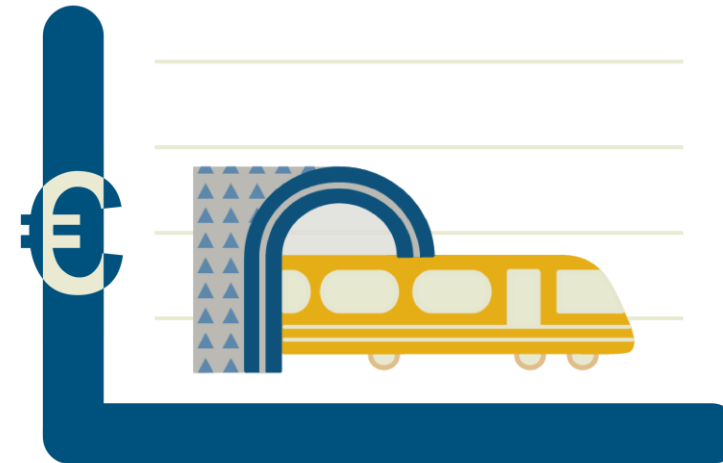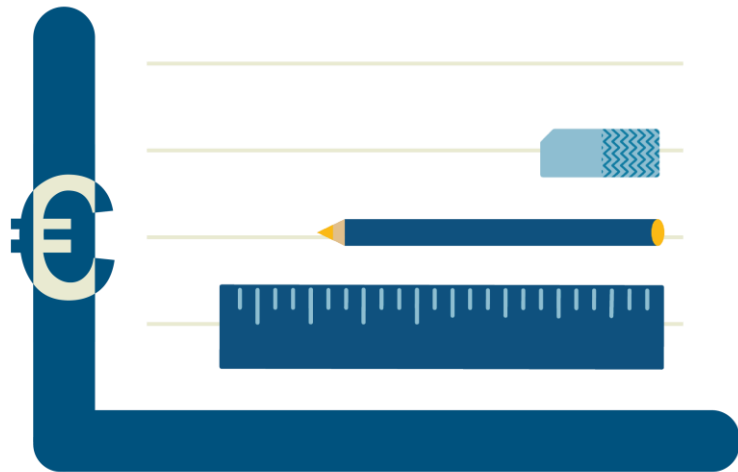[15] This timesheet template is limited to hourly rate calculation methods.
[16] Other activities include general training not related to the project.
[17] Actual working time does not include sick leave and holidays, because these are already included in the calculation.

Office and administration & Travel and accommodation

Management verifications

Flat rate – up to 15% of the eligible staff costs for both

EC's Checklist – Assessments/audits of the Simplified Cost Options (SCO):

For **flat-rate financing** verify the <u>eligibility of the actual costs incurred and paid to which the rate is applied</u> <u>*[i.e., basis costs]*</u> and ensure that these are in accordance with the applicable methodology.

1) In particular, in relation to the costs constituting the basis of calculation check that:

- a) The expenditure has been correctly allocated to the category(ies) of basis costs.
- b) There is no ineligible expenditure included in the basis costs.
- c) There is no double declaration of the same cost items (i.e., that the basis cost or any other real cost do not include any cost item that normally falls under the flat rate).

2) Confirm the correctness of the calculation (the amount of SCO declared equals the established flat rate multiplied by the amount of eligible basis costs).
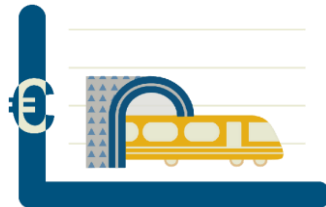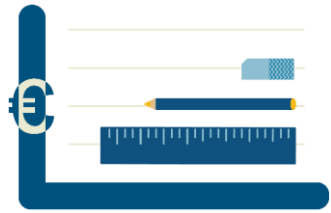
Flat rate – up to 15% of the eligible staff costs for both

To check:

- "basis" costs – eligible staff costs:

    – verification of the staff costs is based on the reimbursement method of staff costs (can be anything);

    – if a flat rate for staff costs is used, verification of "basis" costs – other direct costs of a project;

- correct calculation (% of other direct costs in line with SC/AF);

- no office and administration costs (Article 40 IR) and no travel and accommodation costs (Article 41 IR) are reported in other cost categories.
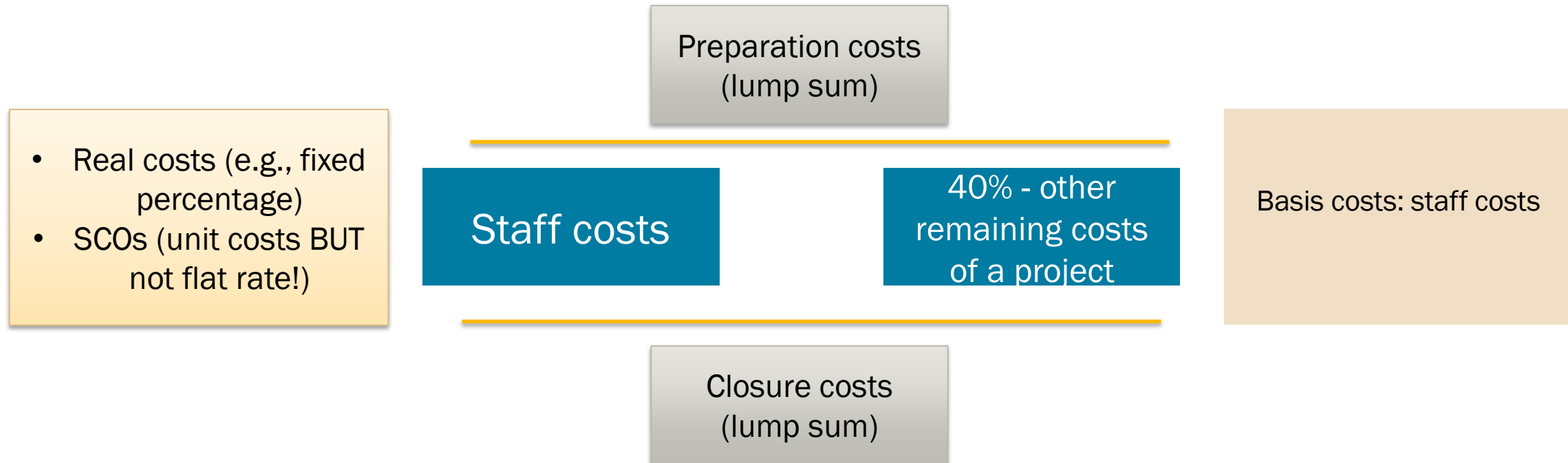
40% flat rate

Article 56 CPR

40% flat rate - combinations

Article 56(1) CPR
A flat rate of up **to 40 % of eligible direct staff costs** may be used in order to cover **the remaining eligible costs of an operation**.

Article 53(3) CRP
e) a combination of the forms referred to in points (a) to (d), provided that each form covers different categories of costs or where they are used for different projects forming a part of an operation or for **successive phases of an operation.**

Preparation costs
(lump sum)

- Real costs (e.g., fixed percentage)
- SCOs (unit costs BUT not flat rate!)

Staff costs

40% - other remaining costs of a project

Basis costs: staff costs

Closure costs
(lump sum)

Flat rate – up to 40% of eligible direct staff costs for remaining eligible costs of an operation

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TO CHECK:

- "basis" costs – eligible staff costs:
  - verification of the staff costs is based on the reimbursement method of staff costs (could be unit costs or fixed % or **real costs);**
  - double-financing – staff costs cover only staff costs (as only 2 cost categories);
- correct calculation of up to 40% flat rate.

NOT TO CHECK:

- underlying expenditure covered by the 40% flat rate!
- costs hidden under FR correspond to 40% of the staff costs!!!! – quality assessment and value for money – checked by the MA/JS at the assessment stage (ultimate question to answer: are the outputs/ activities promised by the project worth the X amount of the total project budget?)

40% flat rate ≠ a free pass on programme rules

Programme rules (as well as EU rules) are still there and applicable when SCOs are used, project partners must comply with them.

BUT

- Neither MA/JS nor controllers are checking this (only staff costs);
  - it's only relevant for organization's internal checks which normally happen anyway before any control.

Quality case-by-case assessment & value for money!

- Same principles for staff-heavy real costs projects;
- approach to quality of outputs – same for real costs and SCOs;
  - with real costs – each deliverable is seen as a separate item in the list of expenditures (easy to be removed as amount X from the list if irregular);
  - SCOs – bigger picture, quality of output (in case of irregularities, the item is removed and all costs linked to it, *including staff costs*).

Draft budget method

Calculation method to establish SCOs – Article 53(3)(b) CPR

Draft budget

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A draft budget is a calculation method to establish an SCO but NOT an SCO itself!

Applicant submits a draft budget to the programme

– can include SCOs (e.g., 15% for office and admin, 15% for travel)

JS/MA assesses draft budget proposal (case-by-case), transforms it into SCO(s) with subsidy contract

– establishing payment triggers

SCOs are used during the project implementation

– expenditure is reimbursed according to payment triggers;
– verification of SCOs!!! Not initial amounts in the draft budget!

E.g., a lump sum(s) established using draft budget method

To check:

- milestones - payments;

- delivery of the pre-agreed output(s)/ results;

- verification if the criteria for the payment of the lump sum are fulfilled;

- verification that expenditures covered by the lump sum are not reported

  under other cost categories.
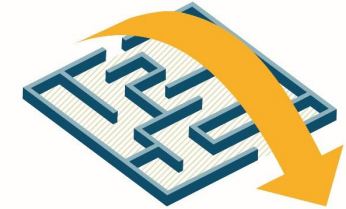
Briefing note on the draft budget method*

link

- for applicants and programme management;

- based on several practical examples of the use of the method to date;

- for small projects (SPF) and small-scale projects;

- draft budget method in the project life cycle;

- roles and responsibilities;

- guiding principles, recommendations, and points of attention.

*Article 53(3)(b) CPR

# Briefing note on the draft budget method

Points to note:

- Method to establish SCOs for projects with diverse (unique) activities where other SCOs are not suitable;

- Work upfront by the MA/JS/SPF beneficiary (reference costs, cost catalogue, update, eligibility rules, guidance, contracts);

- Assessment of each application (common approach for all);

- Transformation to SCOs (establishing amounts + milestones, where relevant!);

- Keep it lean and simple – projects' value vs admin burden!

Questions

Additional material

- [SCOs explained – online course](#)

- [All you need to know about SCOs in 2021-2027](#)

- [Legal references SCOs](#)

- [Fixed percentage method – factsheet](#)

- [Application, control and audit of SCOs](#)

- [Matrix of SCOs combinations](#)

- Join Interreg online community on SCOs – contact sco@interact-eu.net
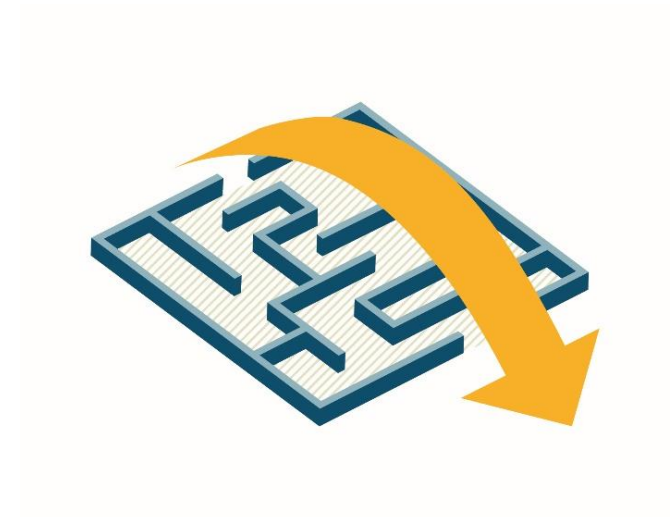
Cooperation works

All materials will be available on:

www.interact-eu.net