INTERACT

EUROPEAN UNION

Q&A: Simplified cost options in Interreg programmes

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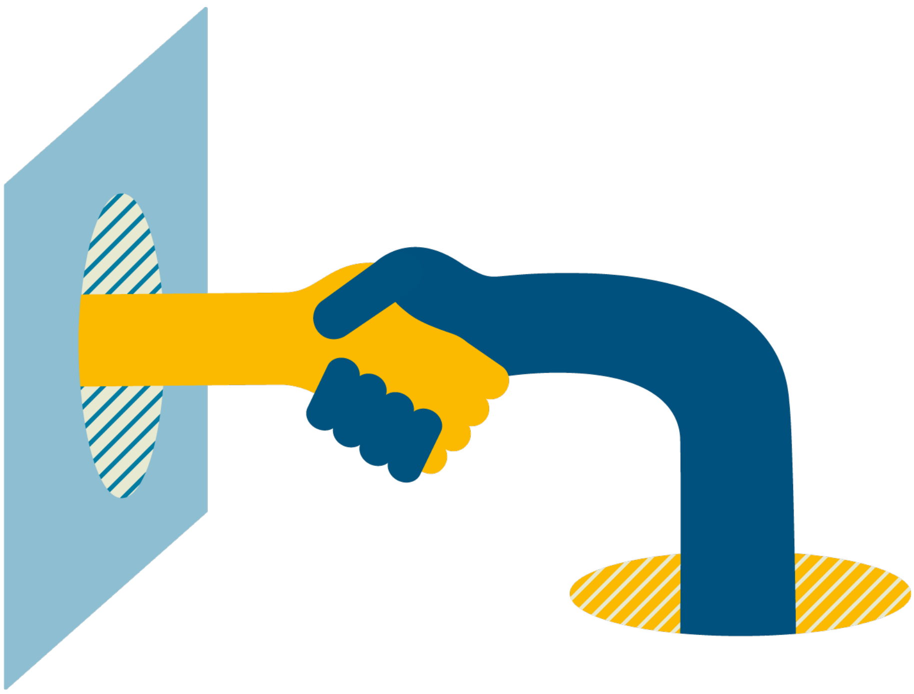
Application, control and audit
Use of simplified cost options for staff costs



European Regional Development Fund

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Answers to questions presented in this Q&A document have been drafted by the Interact programme in close consultation with the AA/MA(JS) working group on simplified cost options. This is by no means a legally binding document. It reflects the views of its authors, and must not, under any circumstances, be interpreted as stating an official position of the European Commission.

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Introduction

In the 2014-2020 programming period, Interreg programmes use simplified cost options to a much greater extent than in the past. SCOs are one of the measures used to 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, standard scale of unit costs and lump sums are defined ex-ante based on calculations that involve averages, analysis of historical/statistical data and other methods. Eligible costs within projects[1] are calculated by applying a fixed percentage (flat rate) to other cost category(ies), or a fixed price (standard unit cost or lump sum) is paid subject to reaching specific inputs/outputs agreed in advance.

By definition, therefore, simplified cost options can overcompensate or undercompensate the costs actually incurred and paid by the 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 the costs.

The aim of this document is to:

- build a common understanding with regard to application, verifications[2] and audits[3] of simplified cost options in Interreg projects;
- provide answers to the most frequently-asked questions concerning verifications and audits of simplified cost options;
- foster trust and confidence in those involved in verifications and audits with using simplified cost options.

Apart from simplified cost options defined ex-ante by the programme authorities, the regulatory framework of the 2014-2020 period also introduces some specific simplified cost options to allow a less burdensome calculation of costs based on the real costs borne by the beneficiaries. In particular, this includes standardised calculation methods to determine the cost of staff working part-time on a project.

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1 'Project' means the Interreg project implemented by a group of beneficiaries. An Interreg project is always an 'operation' as defined in Article 2(9) CPR, covering a 'group of projects' and has typically at least two beneficiaries.

2 As defined in point (a) of the first subparagraph of Article 125(4) of the Common Provisions Regulation and being a responsibility of the managing authority (and of the controllers under Article 23(4) of the ETC Regulation).

3 As defined in Article 127 of the Common Provisions Regulation and being a responsibility of the audit authority (and of the national auditor in the group of auditors under Article 25 of the ETC Regulation).

This publication has been revised following the updated Common Provisions Regulation (EU) No 1303/2013 with the Omnibus Regulation (EU, Euratom) 2018/1046 on 2 August 2018, and the updated Delegated Regulation (EU) 481/2014 with Delegated Regulation (EU) 2019/693 on 07 February 2019.

Method

The document is an outcome of joint work by a task force on further harmonisation and clarification of 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 services.

Answers to questions presented in this document are meant to provide advice on the practical application of the provisions in the 2014-2020 regulatory framework concerning simplified cost options in Interreg programmes – with the main focus on verifications and audits. In particular, this document aims to support the work of bodies responsible for verifications and audits, by giving clear directions on what to check when simplified cost options are used. The European Commission services were consulted on all answers..

The EU legislation and guidance referred to in this document includes [4]:

- Common Provisions Regulation (EU) No 1303/2013 (hereinafter referred to as 'CPR') and its update through Omnibus Regulation (EU, Euratom) 2018/1046;
- ETC Regulation (EU) No 1299/2013 (hereinafter referred to as 'ETC');
- Commission Delegated Regulation on eligibility of expenditure in cooperation programmes (EU) 481/2014 (hereinafter referred to as 'DA 481') and its update through Delegated Regulation (EU) 2019/693; European Commission Guidance on Simplified Cost Options.

In addition, reference is made to the following Interact material[5,6]:

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

The document is structured along three main sections:

1. General questions on simplified cost options

This section includes advice on how verifications/audits should be performed for different types of simplified cost options. It provides additional details on how the rules

[4] http://ec.europa.eu/regional_policy/en/information/legislation

[5] http://www.interact-eu.net/library?field_fields_of_expertise_tid=10

[6] Please note that some of these documents were published some time ago. This means that some information within them is no longer valid due to updates after its publication.

of public procurement should be observed when simplified cost options are used, and lists the main areas prone to irregularities that require special attention. 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 cost category regarding audit trail requirements.

3. Novelties following updates in the CPR through the Omnibus Regulation

Some elements regarding SCOs were simply updated, while others are new. This section provides an overview of the changes.

The document follows the wording of Interact’s HIT. For simplification reasons, the terms “control”/”controller” are used. This has to be understood in reference to Article 125 CPR. The same applies to “audit”/”auditors”, in reference to Article 127 CPR.

1. GENERAL QUESTIONS ON SIMPLIFIED COST OPTIONS

1. How should controls be performed in the case of simplified cost options?

The work done by controllers when verifying expenditure reported as real costs is different to what they do when checking expenditure calculated and reported based on simplified cost options. The main principle of simplified cost options is that the controllers should not verify the real costs that underlay the expenditure reported based on simplified cost options. To illustrate with an example: for flat rates, only items of expenditure that form the 'basis costs' are subject to verifications. The beneficiary is not obliged to report or prove any expenditure that falls into categories subject to the flat rate (i.e., expenditure in the flat rate).

Other important differences concerning verifications of real costs and simplified cost options are presented in the table below. Additional explanations in relation to the verifications of specific SCOs follow in subsequent answers.

In all cases, a principle condition applies, regardless of whether expenditure is reported as real costs or based on simplified cost options; the relevant cost category has to exist. To use an example in the frame of simplified costs options, staff costs can only be calculated (and reported) based on SCOs if actual staff are working for the beneficiary. Controllers must check the existence of all cost categories in relation to a project, including costs calculated based on simplified cost options, in order to verify the legality and reality of the expenditure.

<table>
<tr><th colspan="2">Focal points of verification</th></tr>
<tr><th>Real costs[7]</th><th>Simplified cost options</th></tr>
<tr><td>Verification of items of expenditure incurred and paid</td><td>Verification of the correct application by the beneficiary of the established simplified cost option ('SCO'):

Flat rate
• verification 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, for example, a 20% flat rate for staff costs applied on all other direct costs or a 40% flat rate for all other costs applied on direct staff costs.
• verification that other reported project expenditure is not already covered by the flat rate

Standard scale of unit costs
• verification of the inputs/outputs of the project
• verification that the amount declared is justified by the quantities
• verification that other reported project expenditure is not already covered by the standard scale of unit costs

Lump sums
• verification of the inputs/outputs of the project
• 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</td></tr>
</table>

[7] 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.

Verification based on supporting documents provided by the beneficiary for each reported expenditure[8]	Verification based on the established simplified cost option and agreements between the beneficiary and the MA. Checking that relevant (legal) documents include the necessary references: for example, in the subsidy contract for lump sums for preparation costs, or in the application form for 20% staff costs, etc.

The verification and audits of simplified cost options focus on checking:
- correct establishment of the calculation method (audits), and
- correct application of the calculation method (management verifications & audits)

Audit of the calculation method for simplified cost options

In addition to checking the correct application of the simplified cost option, auditors may verify that the methodology used by the managing authority for establishing the SCO is correct. Whereas the verification of real costs is generally carried out at the beneficiary level, simplified cost options require that audits are performed at the programme level, in addition to verifications at beneficiary level. The audits at programme level mainly concern the calculation method that the programme authorities used in order to establish the simplified cost option. In practice, this means that the auditors will verify whether or not the simplified cost option was set up in compliance with the requirements for calculation methods specified in Article 67(5) CPR and relevant provisions defined by the programme authorities for such simplified cost option.

The task of the auditor will include checking that:

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

[8] The accounting system of the beneficiaries are part of the usual verification work. It is important to keep in mind that applying SCOs means the amounts in the accounting system might not match (real expenditure at beneficiary level and reimbursement by the programme). This is a logical consequence and not a mistake.

In the case of the 'off-the-shelf' options (for example, flat rates for staff costs, administration costs), the audit should only focus on the definition of categories of costs. Thus, there is no requirement that programme authorities develop any calculation method or provide justifications/evidence to determine the applicable rate, because it is already provided for by the Regulations.

Verification of simplified cost options

Verification of the correct application of flat rates

When a flat rate is used in a project, the task of a controller is to verify whether or not the flat rate option has been correctly applied to the basis costs. For this, 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.

Verification of the 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 whether or not 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 documented, thus verifiable;
- 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, not their actual cost.

Verification of the correct application of lump sums

The verification consists of checking whether the agreed steps of the project have been completed and that the inputs/outputs have been delivered in line with the conditions set by the programme authorities (the inputs/outputs therefore need to be documented).

The actual costs borne by the beneficiary in relation to the delivered input/outputs will not be checked; therefore, there is no obligation to present any supporting documents to prove these.

2. Costs reported to the programme under a simplified cost option 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 the calculation methods established in the regulations and according to EU-, national- and programme rules.

In cases where costs are calculated based on simplified cost options, the expenditure reported might differ from the actual costs registered in the accounting system of the beneficiary. This is a direct and accepted consequence of the use of simplified cost options.

For example, staff costs of employees working part-time on the project with a varied number of hours per month will be declared following application of the correct calculation method for an hourly rate as defined in the regulations. In consequence, the staff cost eligible for reimbursement might be different from the real 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 in 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?

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 jointly decided by all Member States participating in the monitoring committee, thus they should apply to the cooperation programme as a whole, irrespective of the location of the beneficiary. In exceptional cases, if the Member States agree to any difference in the treatment of the beneficiaries within one programme, these must be duly justified and published in the relevant programme document(s). For example, if a specific simplified cost option for the calculation of staff costs in ETC has been established in one of the participating Member States, the exclusive application to project partners from this Member State has to be agreed by all participating Member States, and published accordingly.

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

The programme rules may differ from what is applied in a Member State which is outside the Union part of the programme area and not part of the programme monitoring committee. However, the programme's 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. Any exception from this approach should be decided by the relevant Member States of the programme, duly justified and published in the relevant programme document(s).

In addition, it is good practice to include a clause in a Memorandum of Understanding between the Member State concerned and the programme, to confirm the programme approach.

1.1. Public procurement

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

Two general remarks on the issue of public procurement and simplified cost options. First, it is not possible to use simplified cost options in order to finance costs of an operation or project forming a part of an operation that is exclusively covered by public procurement[9]. Second, public procurement is one of the EU's fundamental policies, and as such the relevant procedures have to be complied with for all project implementation, independently of real costs or simplified costs options.

If the public procurement within a project is limited to certain categories of costs, simplified cost options can be used. In such a case, the underlying costs of the public

[9] Article 67(4) CPR

procurement procedures will not be checked. To give an example, administration costs in a programme are reimbursed as a flat rate of 15% of the claimed staff costs (in accordance with Article 68, CPR); in this case, the costs paid on the basis of that flat rate are not verified against the applicable public procurement procedure, for instance, for the contracting of the office supply company or the phone provider.

1.2. 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 programme (systemic error)

They include the following:

- the method used by the programme authorities in order to establish the simplified cost option does not meet regulatory requirements;
- the results of the calculation method 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 the 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, methodology to be re-established, etc.).

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

They include the following:

Flat rates	Standard scales of unit costs / lump sums
• incorrect flat rate percentage has been used, or there is an error in the calculation; • ineligible costs are included in the categories of costs that form the basis for calculation of the flat rate; • 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; • the 'basis costs' are reduced without a proportional reduction in 'calculated' eligible costs.	• lack of supporting documents to justify inputs/outputs, or inputs/outputs only partially documented, depending on the definition of the input/output and in line with the subsidy contract. • failure in the delivery of the input/output • the results of the calculation are not correctly used

For flat rates and standard scale of unit costs, in the event of an irregularity being detected, the correction should reflect the difference between the correct and wrong application of the rate or unit cost. For lump sums, in a situation where the inputs/outputs triggering the payment are not justified, a full correction of the lump sum should be applied. See also Questions 12 and 23.

7. How to treat complaints from beneficiaries?

If a complaint is brought forward about the actual costs which triggered the simplified costs (i.e., actual costs incurred by the beneficiary versus eligible amount calculated based on a simplified cost option), or about the simplified costs option method itself (i.e., the costs/data forming the basis to calculate the simplified cost option), in the spirit of cooperation, the complaint could be treated according to the programme's established complaints procedure.

It is noteworthy that there is no regulatory requirement for a dedicated complaints procedure for simplified costs options. It should also be kept in mind that usually the Member States participating in a cooperation programme have agreed to the established simplified costs option to be applicable to their beneficiaries.

1.3. Flat rates

8. 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 controllers/auditors request such evidence?

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

As the concept of flat rate compensation is rather new to some controllers and audit authorities, there might be a tendency to doubt the reality of costs or even to doubt the rate set by the Regulation or at programme level as too high. In such cases, controllers should be reminded that it is in the nature of simplified cost options (including flat rates) to potentially not reflect the exact reality of the costs actually incurred and paid by the beneficiary. As stated in EGESIF_14-0017: ‘It is inherent in such fixed rates that they, by definition, ‘overcompensate’ or ‘undercompensate’ the costs incurred for the supported operation’.

9. When a programme uses the up to 20% flat rate for staff costs, can it set different rates for different beneficiaries? If so, is any justification necessary?

In accordance with the principle of equal treatment, it is expected that all beneficiaries in the same situation will be treated the same way within the same project. However, programme authorities can set different rates for different beneficiaries where this is objectively justifiable. For example, a programme authority could 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 this can be objectively justified and documented. In other words, the managing authority must be able to prove that the principle of equal treatment and equitable calculation method have been respected (equal treatment of beneficiaries in the same situation). See also Question 3. Programmes offering the beneficiaries the option of selecting the applicable flat rate (from a maximum established by the Programme) themselves should consider this carefully, as it might lead to more lengthy procedures and far less simplification.

1.4. Lump sums

10. When a lump sum is used in a project, should controllers verify it, or should it only be the joint secretariat/managing authority who verifies the correct application of the lump sum?

Both options are possible. For instance, programme authorities may decide that they do not require a controller to verify the preparation costs lump sum. Instead, the programme's managing authority may carry out the required control, in line with Article 23(4) ETC. Alternatively, programme authorities may decide to leave the controls with the controllers. In both cases, the control consists in checking whether the agreed steps of the project have been completed and the inputs/outputs have been delivered in line with the set conditions.

The actual costs borne by the beneficiary in relation to the delivered inputs/outputs will not be checked; therefore, there is no obligation to present any supporting documents to prove these.

11. Is it possible to use a lump sum for expenditure related to the 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, the programme authorities must decide on the amount of the lump sum based on a robust calculation methodology. Also, the programme has to clearly define which activities fall under the closure of the project and which are still part of the project's implementation.

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

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 paid to clearly defining the conditions (e.g., how the reimbursement of costs can be affected if the conditions have not been fulfilled) in the subsidy contract.

If only one input/output to be financed via a lump sum is indicated, and that input/output is not delivered, no payment must be made. However, if a number of milestones as intermediary steps for the input/output are defined, it is possible to transform those into smaller lump sums, so that partial payments can be made, according to the delivery of these milestones.

2. QUESTIONS RELATED TO THE STAFF COSTS[10] 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 the 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 (e.g., employment taxes, social security, etc.).

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

All types of simplified cost options (i.e., 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 68a CPR:

> *"Direct 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. Member States shall not be required to perform a calculation to determine the applicable rate provided that the direct costs of the operation do not include public works contracts which exceed in value the threshold set out in point (a) of Article 4 of Directive 2014/24/EU."*

Article 68a(2, 4) CPR:

> *"2. 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 for persons working full time, or by a corresponding pro-rata of 1720 hours, for persons working part-time.*
> *4. Where annual gross employment costs are not available, they may be derived from the available documented gross employment costs or from the contract for employment, duly adjusted for a 12-month period."*

[10] The terminology "real cost approach for staff costs" has been used by Interact to refer to the staff costs where the calculation method is provided for in the regulatory provisions and the amount of the SCO is calculated based on real gross employment costs (i.e., Article 68a(2-4) CPR and Article 3(6) DA 481). For the purposes of clear distinction between the different declaration methods, the terminology "real cost approach" will not be used in this document and will be replaced by reference to the applicable provisions.

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.

2.1. Calculation methods

13. When should an individual (lead or partner) 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 cases where the beneficiary opts for the calculation methods provided for in Article 68a(2, 4) CPR and Article 3(5)-3(7) of DA 481, the decision on the staff costs declaration method has to be based on how staff members are involved in the project (full-time, part-time fixed, part-time flexible number of hours). Moreover, the type of 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 or flexible number of hours) on the project. The method to be applied has to be fixed at the beginning of the person’s involvement in the project (and not in retrospect, at the end of the reporting period). Still, in the event of necessary amendments to the employment document, changes to the selected method (e.g., from a fixed percentage to an hourly rate) can be justified.

In programmes which 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 their choice in the application form. It is important to highlight that the principle decision (real cost approach or simplified cost options) applies to the beneficiary as a whole; i.e., for all staff members involved in the project’s implementation. This also means that within the same project, different beneficiaries can choose different options (e.g., one beneficiary applies a real cost approach while another beneficiary uses a flat rate).

In the event of beneficiaries choosing a flat rate for staff costs, this choice will apply for the entire duration of the project.

Please also see Question 14.

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

As pointed out above, when choosing a simplified cost option, the choice applies for the entire duration of the project.

For other methods, the starting point for choosing the applicable staff costs method is based on how employees are involved in the project (full-time, part-time with fixed percentage, part-time with flexible hours, on hourly basis) and on their employment document.

The method needs to be properly documented, 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, thus a different staff cost method will apply; e.g., an employee is no longer working fully but only partly on the project. Thus, if the employee's tasks and the employment document change in relation to the project, changes of the method are possible. Justification of any such changes must be available.

15. 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 opts for real costs and another beneficiary uses a flat rate.

The programme authorities 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 hourly rates or fixed percentages to all other beneficiaries.

16. Is it obligatory to use the same staff cost calculation method for an employee involved in several projects financed by the same programme? Is this also required for staff working in several projects financed by different programmes?

From the verification perspective, each project constitutes a single entity, thus the costs will be verified independently. The starting point for choosing the staff costs method has always to be based on how the person is involved in an individual project. Therefore, different staff costs methods may be applicable, depending on the different projects. It is not excluded that the working arrangements would allow use of the same method in several projects (e.g., for a person working part-time with fixed 25% on 4 different projects, 4*25% is possible).

2.2. Supporting documents

One of the main purposes of applying simplified cost options is to reduce the administrative burden related to the administration of Interreg programmes. This includes not only simplifications at the stage of calculating eligible expenditure, but also when verifying (for programme authorities) and reporting (for beneficiaries) 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 supporting documents, for when staff costs are established by the application of simplified cost options or by real costs (in accordance with Articles 67 and 68a CPR and Article 3 DA 481. For example, 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.

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 for staff costs is applied.

		Part time					
	Full time	Fixed %	Hourly rate: 1720 hours/year[11]	Hourly rate: monthly data	Hourly rate set in the employment document	Declaration based on application of the flat rate of up to 20% of direct costs	Declaration based on application of another standard scale of unit costs
Employment/work contract or an appointment decision/contract considered an employment document[12]	✓	✓	✓	✓	✓	✗	✓
Job description providing information on responsibilities related to the project	✓	✓	✓	✓	✓	✗	✓
Payslips or other documents of equivalent probative value	✓	✓	✗ ✓[13]	✓	✓	✗	✗
Data from the working time registration system; e.g., timesheets, providing information on the number of hours spent per month on the project	✗	✗	✓	✓	✓	✗	✓
Proof of payment of salaries and the employer's contribution	✓	✓	✗	✓	✓	✗	✗

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[11] For the verification of the calculated hourly rate, the payslip(s) or other documents of equivalent probative value have to be provided, either when establishing the hourly rate or when changing it. Once it has been confirmed, those supporting documents are no longer needed.
NB: The **annual gross employment costs** can be based on the real salary of a specific employee or the average of the employment costs of a larger aggregate of employees; for example, those of the same grade or some similar measures which correlate roughly to salary level. Hence, the payroll is not the only document to support the result of the amount placed in the numerator to get a unit cost for the working hour for the employees of an entity.
Indeed, the latest annual gross employment costs **needs to be documented** and this can be done through accounts, payroll reports, etc. They do not have to be audited ex-ante but have to be auditable.

[12] 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).

[13] For the calculation of the hourly rate, a verification of payslips (12 months) is necessary when establishing the amount and whenever the rate is updated. Once established, no payslips are needed for management verifications.

17. What is a proof of payment? Can payslips be considered sufficient evidence to justify the payment of staff costs, or must any other proof of payment be provided (e.g., proof of payment of a salary to an employee, proof of payment of a contribution to a social security fund)? 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 declared following the methods provided for in Article 3(5)-3(7) of DA 481. No proof of payment is required when a flat rate or a standard scale of unit costs is used (see overview in Question 16).

For staff costs declared following the methods provided for in Article 3(5)-3(7) of DA 481, payslips provide evidence of the expenditure incurred and paid (to allow calculation of the 'gross employment costs'. Proof of payment must be provided to justify the actual payment of the salaries and the employer's contribution. For example, extracts from a reliable accounting system of the beneficiary organisation are considered sufficient proof of payment. In such cases, the controllers shall verify the reliability of the accounting system; e.g. booked amounts are automatically debited 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 proof of payment has not changed compared to the 2007-2013 period. Please also see Question 24 of "55 Questions and answers: Eligibility of expenditure in cooperation programmes" by Interact.

18. When are staff costs considered "paid"? 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 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 according to the regulation.

As regards simplified cost options in the form of flat rates or standard scale of unit costs, 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, not on payments made by the beneficiaries.

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

Holiday payments are one of the cost items under the staff costs category of expenditure. They are eligible expenditure.

In cases where the staff costs are based on calculation methods provided for in Article 68a(2) CPR and Article 3(5) and 3(7) of DA 481, 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 the project, as indicated in the application form. In consequence, programmes taking 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 other words, they may accept only part of this cost, proportionate to the duration of the project. The verifications and audit shall follow the rules of the relevant programme.

2.3. Flat rate for staff costs

20. Are any documents necessary to justify the relevance of staff costs calculated on the basis of a flat rate; e.g., evidence that the beneficiary has at least one employee, 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 a flat rate, as this is contradictory to the underlying concept of simplification. The programme authorities receive 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 the beneficiary receiving the flat rate support has at least one person employed in the organisation.

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 because it is already provided for by the Regulations.

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

According to the Regulation, a flat rate of up to 20% of direct costs other than staff costs of a project can be used in order to calculate the eligible staff costs. This provision allows direct use of the maximum flat rate without the need for the programme authorities to justify it based on any calculation method. Therefore, the use of the maximum flat rate as defined in in the Regulation is regular and cannot be judged as overcompensation.

22. 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 do not consider the flat rate proportional?

Such a practice is not in line with the regulations. Please see the answer to Question 1, which provides detailed information on the scope of verification by controllers and auditors.

Verification of the achievement of project inputs/outputs in line with predefined terms of agreement between the programme and the beneficiary is necessary when unit costs or 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 inputs/outputs are delivered. A binary approach applies, unless otherwise set out in the subsidy contract. Please see Questions 6, 12 and 20.

With regard to standard scale of unit costs, there is an arithmetic link between quantities delivered and the payment; i.e., when quantities decrease, the costs decrease arithmetically. The controllers will verify the units delivered.

23. 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 the Regulation, staff costs of a beneficiary in a project may be calculated as a flat rate of up to 20% of direct costs (other than staff costs of the beneficiary in a project). The use of this flat rate is thus directly linked to individual projects and it is eligible based on 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 a flat rate for staff costs from taking part in more than one EU project.

2.4. Hourly rate based on 1720 hours/year

24. Does the hourly rate of Article 68a(2, 4) CPR 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?

Where 1720 hours is used to allow calculation of the staff costs in accordance with Article 68a(2, 4) CPR or 3(6) DA 481, thus based on the latest documented gross employment costs, then it is not necessary to specify the amount of the hourly rate before the start of the project. What is crucial is that the amount of the hourly rate must be calculated using the 'latest documented annual gross employment costs' of each staff member (i.e., the real salary of a staff member). It is recommended that the latest documented annual gross employment costs cover a 12-month period preceding the end of the reporting period (which could be the exact 12 months preceding the reporting period, 12 months preceding the subsidy contract, or the 12 months of the previous calendar year). It is also possible to extrapolate employment costs for a 12-month period derived from the available documented gross employment costs (Article 68a(4) CPR). Please see Question 25 for more information.

In consequence, each programme may choose that the hourly rate is either fixed for the entire project duration or with organised updates, or its amount 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.

25. 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 the 1720h method? Similarly, is it possible to calculate the hourly rate for persons employed on a limited contract (e.g., 80% instead of 100%)?

If the annual data on gross employment costs does not exist but only data on salary levels for 3 or 4 months, this can be extrapolated for 12 months in order to comply with the requirement that gross employment costs are annual. In doing so, the programme authorities should take care to ensure that the extrapolation take into account any particular specificities in that Member State/organisation concerning staff costs – for example, additional holiday pay or a so- called '13th month' or equivalent arrangements.

A pro-rata application of the 1720h calculation method for staff employed for less than 100%, is also possible. Both cases are covered in the updated CPR, Article 68a(2) and (4).

26. For beneficiaries using the hourly rate according to Article 68a(2, 4) of CPR, 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 is known?

The verification of this calculation method is limited to checking the latest annual gross employment cost used and the hours worked for the project (provided through timesheets covering 100% of the working time). There is no need to do a recalculation at the end of the year, or in retrospect, in general, to reflect the actual annual gross employment costs. The method derives from the Regulation and should not be questioned. Please also see Question 20 of ”55 Questions and answers: Eligibility of expenditure in cooperation programmes” by Interact.

2.5. Direct staff costs

27. 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 direct staff costs. However, the project coordination function, project financial management, etc. may also be outsourced to organisations outside the project partnership. In this 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).

28. Is it possible to use a flat rate for administration costs (Article 68 CPR), if there is a simplified cost option applied to staff costs?

If a flat rate is applied to the staff costs category, it is still possible to use the provisions of Article 68, i.e. a flat rate, for the calculation of administration costs.

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 CPR.
A combination of the SCO options referred to in Article 67(1) CPR is possible, provided Article 67(3) CPR is respected; i.e., either:

(a) where each option covers different categories of costs, or

(b) for the same or different categories of costs
- (i) where they are used for different projects forming part of one operation, or
- (ii) where they are used for successive parts of the same operation.

Hence, where a flat rate is applied to the staff costs category, it is still possible to use a flat rate for administration costs, as in this case the same option is applied to two different categories of cost.

Please also see Question 30 of ”55 Questions and answers: Eligibility of expenditure in cooperation programmes” by Interact.

3. Omnibus Regulation (EU, Euratom) 2018/1046

29. What is new for SCOs, following the updated CPR with the Omnibus Regulation (EU, Euratom) 2018/1046[14]?

One of the major objectives in updating the general regulatory frame of the EU was to create more room for simplification. This is also reflected in the scale and scope of simplified cost options for ESIF. Details below:

- Lump sums (Article 66(1)(c), CPR): Limitation of EUR 100,000 ERDF has been removed.

- Small projects with a budget below EUR 100,000 ERDF (Article 67(2a): These types of project shall be exclusively implemented through simplified costs options, except for projects receiving State Aid (but not *de minimis* aid) or exclusively implemented through public procurement.

- A delegated act to provide more off-the-shelf options (Article 67(5a), CPR).

- Applicable simplified cost options can be based on expert judgement (Article 67(5)(a)(i), CPR).

- A draft budget established on a case-by-case basis and agreed ex-ante by the managing authority, if the ERDF does not exceed EUR 100,000 (Article 67(1)(aa), CPR). A draft budget is a calculation method where the applicant (project) proposes a draft budget of their project, which is then assessed by the MA and converted into the flat rates, unit costs or lump sums. The MA should assess each draft budget on a case-by-case basis. The project should provide detailed information on each budget line, and the methodology used to calculate the costs of each budget line. Based on the draft budget and its revision before contracting, the MA establishes SCOs for it where possible. During the project implementation, no justification of real costs from the draft budget is required (only where flat rates are used – justification for the 'basis' costs for the flat rate calculation should be provided.)

- Flat rate financing for indirect costs and rules for staff costs have been separated in two Articles: 68 and 68a:

    - Direct staff costs may still be calculated as a flat rate of up to 20% of all other direct costs, without the requirement to calculate the applicable rate, as long as the project does not include public works contracts [above the EU threshold](). This means that if a project includes investments above the EU threshold, then the off-the-shelf option is no

[14] Entry into force 02 August 2018.

longer available. If programmes wish to apply a flat rate they have to establish it in line with the required calculation method; i.e., Article 67(5)(a). The provisions of Article 19 of Regulation 1299/2013 remained unchanged, unaffected by the Omnibus, so Interreg Programmes may continue to opt for this off-the-shelf specific flat rate.

- A new off-the-shelf flat rate for up to 40% of all other costs other than staff costs has been established (Article 69, CPR).