

SCO/FNLC rules in 2021-2027

Marco Lopriore, Expert EIPA



EIPA

European
Institute of
Public
Administration

No Audit of (all) real costs !

Example 11

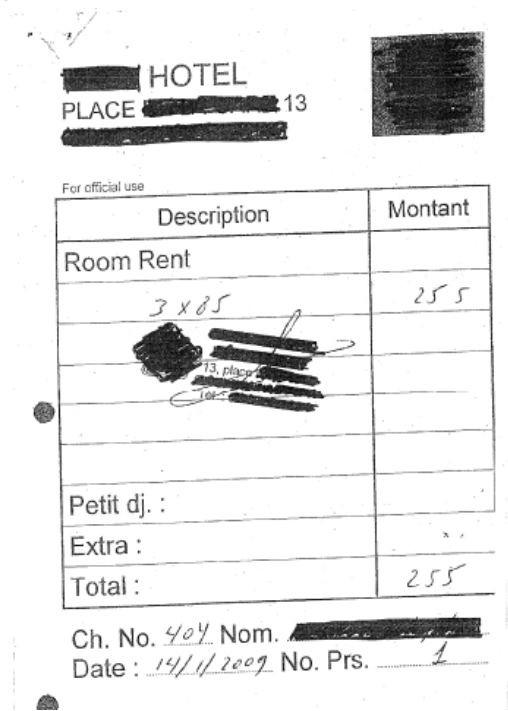
Falsified hotel invoice

Facts: A beneficiary submitted a hotel invoice to justify attendance at a meeting.

Red flag: The hotel belongs to a large group where all operations are computerised: clients' registration, invoicing, etc. The invoice was hand-written, had no number, did not indicate the currency and did not show any information related to the payment.

Reaction: The invoice was cross-checked with the hotel, which confirmed that it did not issue such invoices and that it did not know this client.

Outcome: The reimbursement was refused to the beneficiary. Taking into account the low amount at stake, no further action was carried out.



Lump sums



Unit costs



Flat-rates



Art 53: Forms of grants (combination)

- **Real costs:**
 - costs actually incurred, identifiable and verifiable, recorded including VAT
- **Unit costs**
 - a fixed amount per unit determined ex ante. Ex: for personnel costs.
- **Lump sum**
 - a global amount to cover one or several cost categories. Ex: Phase 1 of SME instrument
- **Flat rate**
 - a % to be calculated on the eligible costs. Ex: 25% flat rate for indirect costs
- **FNLC**
 - a payment triggered by the achievement of a milestone or target. Ex: per ton of CO2 reduction

Flat rates overview for grants



Basis	Flat-rate	Costs covered (or calculated)	Special provisions	Calculation
Direct costs	Up to 7% (art 54)	Indirect costs	7% does not need calculation	Off-the-shelf
Direct Staff Costs	Up to 15% (art 54)	Indirect costs	15% does not need calculation	Off-the-shelf
Direct Costs	Up to 25% (art 54)	Indirect costs	Requires methodology	FEV Method
Direct Costs	Roll-over 2014-2020 rate	Indirect costs	For similar operations	
Direct staff costs	Up to 40% (art 56)	Remaining costs (all other costs other than DSC)	ERDF/ESF+/JTF/home funds: Salaries/allowances paid to trainees not in flat rate + incompatible with 20% Art 55.1	Off-the-shelf
All other costs excluding direct staff costs	Up to 20% (art 55.1)	Direct staff costs	But if costs incl PP above EU thresholds then FEV method	Off-the-shelf

Example: audit of some real costs

- Your project is about training: you pay 10 000 EUR for a trainer and you have to rent a space (5000 EUR) to do the training of young unemployed. How are these costs covered:
- a) when you use the 40% flat rate ?
 - DSC: 10 000 EUR
 - Rent is part of the 40% rate and cannot be claimed separately
 - $DSC * 40\% = 4000$ EUR
 - Total cost= 10 000 EUR + 4000 EUR = 14 000 EUR
- b) when you use the 15% flat rate?
 - DSC: 10 000 EUR
 - Indirect costs: $10\ 000 * 15\% = 1500$
 - Rent not part of 15% rate but are claimed as other direct costs
 - Other direct costs: 5000 EUR
 - Total costs: 10 000 + 1500 + 5000= 16 500 EUR

Determining hourly rates for direct staff costs



Unit cost for hourly rates for Direct Staff Costs in grants (art 55.2)

Nominator	Denominator
Latest documented annual gross employment costs	1720 hours for persons working full time
Latest documented annual gross employment costs	Corresponding pro-rata of 1720 hours, for persons working part-time
Latest documented monthly gross employment costs	Average monthly working time of the person concerned



Example: verification of proper method and use of the prorata 1720 hours rule

- An ERDF project has an expert with total hours equating to **40% of a FTE (1.0) post**
- The annual gross employment costs for the expert working **0.4 of a FTE post are EUR 12,000**
- Question: what is the hourly rate by following Art 55.2 a) CPR and using the 1720 pro-rata method?

Did you apply correctly the pro-rata rule?

Solution A

- Increase the current annual gross employment costs to a FTE (1.0) on a pro-rata basis and then dividing that salary by 1720 to determine the hourly rate
- FTE annual gross employment costs = $(1.0 / 0.4) \times \text{EUR } 12,000$
- $2.5 \times \text{EUR } 12,000 = \text{EUR } 30,000$ FTE (1.0) annual gross employment costs
- $\text{EUR } 30,000$ divided by 1720 = $\text{EUR } 17.44$ (hourly rate)

Hourly rates



Did you claim hours in excess of 1720 hours?

Special provisions

total number of hours declared per person for a given year or month shall **not exceed the number of hours used for the calculation of that hourly rate** (art 55.3)

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** (art 55.4)

Gold-plating and Hourly rates

Know Your
Hourly
Rate



	Special provisions
Timesheets	Staff costs related to individuals who work on part-time assignment on the operation may be calculated as a fixed percentage of the gross employment costs , in line with a fixed percentage of time worked on the operation per month, with no obligation to establish a separate working time registration system . The employer shall issue a document for employees setting out that fixed percentage (art 55.5)

Verification of supporting evidence/documents for outputs: declared amount reflect actual outputs?

HOURS WORKED



HOURLY RATE
EUR/hour



Time records



Methodology FEV to calculate
average staff costs

1720 hours rule FT
or prorata

OWN HOURS

**NB: you cannot claim more than the
hours used in the denominator**

SCO Gold-plating and supporting evidence

Case: Dutch hourly staff cost calculation

Manager X has a work week of 36 hours (which according to social partners work agreement is a full time). Gross monthly salary is €2.625 monthly.

On top they charge flat-rate of 32% for social security and holiday allowance ($32\% * €2.625 = €840$);

total monthly gross salary becomes ($2.625 + 840 = €3.465$)

and annually $3465 * 12 = €41.580$

Using 1720 rule the hourly rate becomes

$41.580 / 1.720 = €24,17/\text{hour}$

Lumpsums: no audit of real costs and underlying financial documents

~~Nondelivery leads to 100% correction~~

Period	Increase maximum level	Costs covered
2007-2013	max €50.000	Covering all or certain categories of eligible costs established in advance
2014-2020	max €100.000 of public contribution (per operation)	
2021-2027	No ceiling = no specific article ; only reference is Art 53.3	

~~Correction if intermediate payments not justified by final delivery~~

Mandatory use SCO in grants



- **2014 - 2020:** SCO mandatory projects $\leq 50\,000$ € ESF/public support but not if State Aid (art 14.4 ESF)
- **2021 - 2027:** SCO mandatory if ERDF/ESF+/JTF and AMIF/ISF/BMVI projects $\leq 200\,000$ € total cost unless State Aid
- **MA/PMC can exempt R&I projects** (art 53.2 CPR)
- **Operations fully procured may be implemented with the use of SCOs**

Exercise: which project complies with art 53.2 CPR on mandatory SCO use?

Project A	€	Reimbursement method chosen
Direct staff costs	100.000	Real costs
Indirect costs	15.000	Flat rate 15%
Other direct costs	75.000	Real costs
Total costs	190.000	

Project B	€	Reimbursement method chosen
Direct staff costs	100.000	Real costs
Indirect costs	15.000	Flat rate 15%
Other direct costs	90.000	Real costs
Total costs	205.000	

Audit approach: SCO Methodologies for grants (art 53.3)

- FEV method based on statistical data/expert judgment, verified historic data, accounting practices of individual beneficiaries
- Draft budgets case by case where TC not exceeding EUR 200 000
- EU policies or national schemes in similar operations (requirement of “similar beneficiaries” waived)
- Off-the-shelf solutions



New risks: inclusion of costs in DC but already covered by IC

Direct costs: costs directly related to an individual activity

- direct staff costs
- other direct costs

Indirect costs: costs which are not connected directly to an individual activity of the entity (typical administrative/staff expenditure, such as: management costs, recruitment expenses, costs for the accountant or the cleaner, telephone, water or electricity expenses, and so on)

New risks: inclusion of costs not allowed under State Aid



If State Aid (art 107 TFEU) you must comply with SA:

- Categories of costs covered by SCO must be eligible under both ESI and SA rules
- Maximum aid intensities of SA must be respected
- Compliance with SA should be checked when SCO method is established

SGEI and SCO French Court of Auditors Report 2021

- SGEI in ESF:
- But SCO should NOT be leading to overcompensation

L'autorité de gestion, en l'occurrence la DGEFP, devrait être en capacité de démontrer que la méthode de calcul de la compensation versée aux structures de l'insertion par l'activité économique permet d'éviter toute surcompensation. Elle rencontre toutefois des difficultés pour y parvenir, de même que pour établir une méthode de calcul de coûts simplifiés validée par la Commission européenne, qui serait pourtant utile aux petites structures. À défaut, elle se contente, lors du contrôle de service fait, de s'assurer que le montant des ressources n'excède pas celui des dépenses exposées par les structures contrôlées.

Il importe de démontrer sans tarder que les structures de l'insertion par l'activité économique, notamment les ateliers et chantiers d'insertion, principaux bénéficiaires, peuvent remplir l'ensemble des critères constitutifs d'un SIEG.

Dans son rapport public thématique de janvier 2019 sur l'insertion des chômeurs par l'activité économique¹⁴, la Cour mettait en évidence des risques de non-conformité dans le cofinancement, par les crédits du FSE, des structures de l'insertion par l'activité économique. En septembre 2019, le *Pacte ambition IAE*, présenté par le Conseil de l'inclusion dans l'emploi au Président de la République, après une large concertation des réseaux de l'insertion par l'activité économique, soulignait la nécessité de finaliser les travaux sur les barèmes de coût standard unitaire, entamés en 2016, et de sécuriser ces structures au regard de la réglementation des aides d'État pour bénéficier de la qualité de SIEG.

Enfin, dans la mesure où le secteur de l'emploi donne lieu régulièrement à de nouvelles mesures, y compris au bénéfice du secteur de l'économie sociale et solidaire, la Cour souligne l'intérêt de recourir, préalablement à l'adoption des mesures et de manière plus systématique, à la procédure de pré-notification de celles-ci auprès de la Commission européenne (DG Concurrence). C'est d'ailleurs ce que propose désormais la section 3 du Code de bonnes pratiques pour la conduite des procédures de contrôle des aides d'État¹⁵ (2018/C 253/05) : menée en liaison avec le SGAE, cette procédure ouvre la possibilité pour le ministère à l'origine de la mesure proposée « d'examiner de manière informelle et en toute confidentialité les aspects juridiques et économique d'un projet de mesure avant sa notification formelle ».

Declared amounts do not reflect actual outputs

SCO and corrections in SSUC Example from Italy

Experience foreseen by project	MV check on the reality of project	Correction in SSUC
Training exp at least 10 y (staff A)	Training exp above 5 but below 10 (staff B)	15%
Training exp at least 10 y (staff A)	Training exp below 5 y (staff C)	30%
Training exp at least 5 y (staff B)	Training exp below 5 (staff C)	15%

SCO issues

- Identify SCO for each Priority or measure
- Innovative actions often REAL COSTS
- Make it compulsory to use SCO: “ not a la carte”
- Applying 40% when you have salaries and allowances of participants
- Defining what is a DSC: use the 3 P model
- Which costs in DSC: gross salary, social security contributions paid by company, home-work reimbursements, company share of “cheques-repas”
- Externals outsourced trainers in DSC: caring for materials or travel costs
- Non-exhaustive list of IC

Appendix 1 Annex V

A. Summary of the main elements

Priority	Fund	Specific objective	Category of region	Estimated proportion of the total financial allocation within the priority to which the SCO will be applied in %	Type(s) of operation covered		Indicator triggering reimbursement		Unit of measurement for the indicator triggering reimbursement	Type of SCO (standard scale of unit costs, lump sums or flat rates)	Amount (in EUR) or percentage (in case of flat rates) of the SCO
					Code ¹	Description	Code ²	Description			

B. Details by type of operation (to be completed for every type of operation)

Did the managing authority receive support from an external company to set out the simplified costs below?

If so, please specify which external company: Yes/No – Name of external company

1. Description of the operation type including the timeline for implementation ¹	
2. Specific objective(s)	
3. Indicator triggering reimbursement ²	
4. Unit of measurement for the indicator triggering reimbursement	
5. Standard scale of unit cost, lump sum or flat rate	
6. Amount per unit of measurement or percentage (for flat rates) of the SCO	

7. Categories of costs covered by the unit cost, lump sum or flat rate	
8. Do these categories of costs cover all eligible expenditure for the operation? (Y/N)	
9. Adjustment(s) method ¹	
<p>10. Verification of the achievement of the units</p> <ul style="list-style-type: none"> - describe what document(s)/system will be used to verify the achievement of the units delivered - describe what will be checked and by whom during management verifications - describe what arrangements will be made to collect and store relevant data/documents 	

11. Possible perverse incentives, mitigating measures ¹ and the estimated level of risk (high/medium/low)	
12. Total amount (national and Union) expected to be reimbursed by the Commission on this basis	

C. Calculation of the standard scale of unit costs, lump sums or flat rates

1. Source of data used to calculate the standard scale of unit costs, lump sums or flat rates (who produced, collected and recorded the data; where the data are stored; cut-off dates; validation, etc.).

2. Please specify why the proposed method and calculation based on Article 94(2) is relevant to the type of operation.

3. Please specify how the calculations were made, in particular including any assumptions made in terms of quality or quantities. Where relevant, statistical evidence and benchmarks should be used and, if requested, provided in a format that is usable by the Commission.

4. Please explain how you have ensured that only eligible expenditure was included in the calculation of the standard scale of unit cost, lump sum or flat rate.

5. Assessment of the audit authority(ies) of the calculation methodology and amounts and the arrangements to ensure the verification, quality, collection and storage of data.

ANY QUESTIONS?

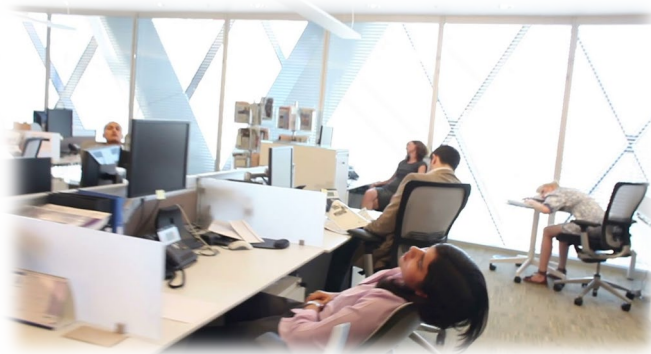
Marco Lopriore, *Expert*

ESF, Structural Policy, SME

Tel. +31 43 3296 316

Fax +31 43 3296 296

E-mail: m.lopriore@eipa.eu



EIPA

European
Institute of
Public
Administration

