Factsheet | A 40% flat rate

Interreg SCOs community

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Legal framework

A 40% flat rate to cover the remaining eligible costs of an operation was introduced in the 2014-2020 programming period (by Omnibus Regulation[1]).

In the 2021-2027 programming period, a 40% flat rate is covered in Article 56 CPR[2]:

Article 56: Flat rate financing for eligible costs other than direct staff costs concerning grants

1. 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. The Member State shall not be required to perform a calculation to determine the applicable rate.

Definition and key principles

A 40% flat rate is one of the seven off-the-shelf flat rates[3] introduced by the EC in the Regulations. This means that for these SCOs the managing authority (MA) is not required to develop a specific methodology[4]. They are the easiest to use in terms of effort and resources needed, since they can be taken directly from the Regulations (by referencing the scheme with the respective article of the Regulations) and used by the programme (hence "off-the-shelf").

Another important feature of the 40% flat rate (applicable to all off-the-shelf flat rates) is that the flat rate reads as "up to 40% of eligible direct staff costs". "Up to" means that the MA may decide on the percentage of the flat rate to cover the remaining costs of the project without developing any specific methodology or providing any justifications on the percentage chosen – it can be below 40% but not above, provided the MA meets the principle of equal treatment of beneficiaries. Further on in this factsheet, we will refer to it as "a 40% flat rate" but bear in mind that it is whichever percentage the MA fixed in the call for proposals/programme (not exceeding 40%).

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[1] Article 68b Omnibus Regulation (2018)

[2] Regulation (EU) 2021/1060 (further in the document referred to as CPR)

[3] The remaining 6 off-the-shelf flat rates are up to 20% flat rate for direct staff costs (Article 39 of the Interreg Regulation); 3 flat rates for indirect costs (Article 54 CPR – up to 15%, up to 7%, and up to 25%), up to 15% flat rate for travel and accommodation costs (Article 41 of the Interreg Regulation) and up to 20% flat rate for direct staff costs (Article 55 of the CPR) not applicable to Interreg programmes.

[4] An exception from the rule is an up to 25% flat rate for indirect costs (Article 54(c) CPR), for which the methodology needs to be developed by the MA.

In Interreg projects, if offered in the call for proposals, the 40% flat rate may be used by one project partner, while another project partner uses different reimbursement options to calculate cost categories amounts in his partner budget. In Interreg projects, the "remaining eligible costs of an operation" refers to the project partner's remaining eligible costs[5].

Composition of the budget if the 40% flat rate is used

Since the 40% flat rate covers the remaining costs of the project and is calculated on top of the eligible direct staff costs, there will be only 2 cost categories in the project that is using this particular flat rate:

- direct staff costs – basis costs for the flat rate;
- a flat rate of up to 40% - covering the remaining costs of the project.

If a 40% flat rate is used, it is not possible to have in the partner's budget, for example, any office and administrative or travel and accommodation cost categories. All other cost categories except the staff costs are covered by the 40% flat rate.

As for the direct staff costs cost category where the 40% flat rate is used, it is logical that it cannot be calculated as a flat rate itself[6] (otherwise, there will be no basis costs to calculate this flat rate). It can be reimbursed using real costs (including the fixed-percentage method[7]) or unit costs or even a lump sum.

The basis costs to calculate the 40% flat rate are eligible direct staff costs.

Other remaining costs of an operation = Eligible direct staff costs * 40%

<u>NB: It is not correct to assume that the project budget is composed of 60% for direct staff costs and 40% for the remaining costs of an operation!</u>

This means that the flat rate amount is directly linked to the eligibility of the direct staff costs: if there are any mistakes or irregularities in the staff costs category, the amount of the flat rate is proportionately reduced.

[5] This situation is possible if different reimbursement options are offered by the MA in the call for proposal. The choice is made by the project partners and should remain unchanged for the duration of the project (unless force majeure situations occur).

[6] Article 56(3) CPR

[7] Article 55(5) CPR

Combination with other SCOs

Quite often Interreg projects have 2 (or sometimes 3) distinctive phases: preparation, implementation and closure. In cases where the programme documents clearly describe that the project is composed of separate easy-identifiable phases, it is possible to use different reimbursement schemes in different phases of a project. For instance, to have preparation costs covered by the lump sum; then in the implementation phase there can be 2 cost categories – staff costs and a 40% flat rate; finally, a lump sum for closure costs covered in the closure phase of the project. Such a combination could be possible even though the definition of the flat rate says “to cover the remaining costs of the operation” since the project will have 3 separate phases of implementation: preparation, implementation and closure. SCOs and real costs can be combined if they are applied in different successive phases of the project[8].

The 40% flat rate in the project life cycle

Is it suitable for all types of projects/ beneficiaries?

Because of its nature, a 40% flat rate is not suitable for all types of projects and activities. It is not suitable for projects with investment-related activities, or projects with a high share of external expertise and services budgets, since these costs will have to be covered by the 40% flat rate. Also, in projects where lots of activities are externalised and direct staff costs do not represent a solid share of the partner’s budget, the 40% flat rate will not be the best option since it is calculated on top of the staff costs category.

However, in projects where the direct staff costs represent a significant share of the partner’s budget and where many activities are done “in-house”, it would be a good choice to use the 40% flat rate. Thus, labour-intensive, R&D, small (scale) projects with many other low-value large-volume costs than staff, small innovation projects, educational & vocational projects, and soft activities projects are best suited for the 40% flat rate.

There are no limitations to the types of beneficiaries that can use the 40% flat rate. Interreg programmes with experience in implementing the 40% flat rate shared with Interact that small NGOs, universities, research institutions, public administration and organisations that have in-house expertise are particularly interested in using the 40% flat rate (due to its simplicity and reduced administrative burden in its application).

Assessment of the project’s budget

Many programmes often fear the 40% flat rate. They claim the assessment of project budgets becomes quite complicated and resource-intensive. However, Interreg programmes that have

[8] Article 53(1), point (e) CPR provides for scenarios where SCOs can be combined with real costs (3 cases: where each form covers different categories of costs, where they are used for different projects forming a part of an operation, or where they are used for successive phases of an operation).

some experience with the 40% flat rate claim that the assessment of such projects is not so different from the assessment of projects with real costs. Also, they have no plans to produce any special manuals for the assessment of projects with the 40% flat rate.

So the question is - how to do it?

It is a matter of a fact that where the 40% flat rate is used the assessors will have a bit less information on which to do their assessment (since the project has only two cost categories and there are no extensive financial tables one could directly go to when performing the quality check). To see the bigger picture, one needs to step back and start with the objective of the quality assessment – whether the programme is willing to pay a certain amount of EUR to get a certain output/ result. The overarching questions of the assessment of projects with real costs budgets and projects with the 40% flat rate are:

- whether or not the amount per work package (if used by the programme) is in line with the role of that partner in that particular work package, and
- whether or not the combined budget of all partners for the given work package is in line with the role/ "heaviness" that particular work package plays in reaching the project's objectives.

The information on the amounts per work package, the budgets of project partners and their role in each work package is available when the 40% flat rate is used. Let's look at the example below.

Table 1. Lead partner budget with the 40% flat rate

Staff	**WP1 Management**	**WP2 Communication**	**WP3 Content**	**WP4 Content**
Project manager (lead, 1 FTE)	90.000			
Junior manager (0.5 FTE)	10.000	55.000		60.000
Scientist (1.3 FTE)			120.000	45.000
Total staff	**100.000**	**55.000**	**120.000**	**105.000**
Remaining costs – 40% flat rate	40.000	22.000	48.000	42.000
Total	**140.000 €**	**77.000 €**	**168.000 €**	**147.000 €**
Total project partner budget	**532.000 €**			

This table will give assessors a basis on which to assess the partner's budget based on the involvement of the partner in each of the work packages (which can be checked against the activities planned by that particular project partner).

Table 2. Project budget – Work packages overview

Work package overview	**Total**
WP1 Management	390.000 €
WP2 Communication	200.00 €
WP3 Content	800.000 €
WP4 Content	500.000 €
Total	**1.890.000 €**

Table 2 above tells assessors whether the budget of each of the work packages reflects the importance of the work package in the general composition of the project and the outputs/ results to be delivered.

Since there is less information available where the 40% flat rate is used, it is of utmost importance that projects provide a detailed description of the planned outputs/ results to be delivered! This will allow the projects' 'value for money' to be confirmed during the assessment stage.

To find out whether a certain amount is the right cost for the activity/ output to be delivered, it is recommended that the programme creates some kind of a repository of benchmarks and cost estimates. This can be done using information from previously-funded or similar projects, work packages and activities[9].

Requesting detailed budget breakdowns (more than for the direct staff costs), financial mock-ups or other calculations to assess whether the remaining costs of the project really represent the 40% of direct staff costs is considered gold plating - and should be avoided!

[9] Another option to check the adequacy of the overall budget for an applicant using the 40% FR could be to do the alternative calculation during the assessment process i.e. to isolate direct staff costs, increase the amount by two flat rates for a) office and administrative costs and b) for travel and accommodation costs and compare the sum with the total budget. The residual value between these two figures is all what in the budget has left for all the other costs (i.e. most likely external services and equipment) necessary to achieve the project's outputs. Then you can again match the proposed outputs with the budget – from a bit different perspective.

In the end, if for some reasons a programme considers the 40% flat rate is too high, it has to be remembered that the flat rate is “up to” 40% and the programme can reduce the percentage, if needed.

Implementation

The 40% flat rate can be relatively easily implemented if communicated clearly to project partners and if assessed in detail by the programme. The method brings a lot of simplification in the implementation phase, by focusing on the delivery of the main output of the project. It significantly reduces the project’s reporting, since the focus is placed on the activity report, while the financial reporting is limited to reporting the relevant staff costs.

Delivery of the promised outputs in the application form and subsidy contract outputs is critical in projects where the 40% flat rate is used, since the scope for project changes is rather limited. This means that any change in the project output is critical, and this will have to be tackled by applying the programme’s approach to change in the main outputs (e.g., via a written procedure or similar). The activity report plays a crucial role in the reporting process since it will form the basis for the reporting of the direct staff costs which, in turn, form the basis for the calculation of the 40% flat rate for the remaining costs in the partner progress report.

Direct staff costs need to be carefully planned from the start, and spending in this cost category requires close and continuous monitoring. Due to the nature of the 40% flat rate, any underspending of direct staff cost will automatically mean less money reimbursed for other costs.

For example, in a partner's original budget 300.000€ had been allocated to the staff cost category, and 120.000€ (40%*300.000€) to the remaining costs category. During the project implementation, only 200.000€ staff costs was reported. That means that only 80.000 € for the other costs could be reimbursed.

Management verifications

Verification of progress reports where the 40% flat rate is used has its own specific characteristics. In the table below you will see what the controllers should check and what they should not check in reports with the 40% flat rate.

Up to 40% flat rate for the remaining eligible costs of the project of eligible direct staff costs	
What to check	What not to check
The flat rate set by the MA ex-ante is part of the project partner budget (in the latest version of the application form) and is indicated in the document setting out the conditions for support (i.e., subsidy contract)	Underlying expenditures of other than direct staff costs cost categories (the expenditure has been incurred and paid)
The flat rate covers all remaining costs of the project and uses eligible direct staff costs as the basis costs	Supporting documents to make sure the amount of the flat rate was spent on expenditures other than direct staff cost categories
A correct percentage of the flat rate (as set out in the programme's rules, the application form and the document setting out the conditions for support) is applied and the calculation is correct	Evidence that the actual amount spent corresponds to the amount of the calculated flat rate
If the flat rate is changed, the new flat rate is not applied retrospectively. It is used only for new operations.	
Basis costs (direct staff costs) do not contain ineligible costs (verification of the staff costs will depend on the reimbursement method used)	Evidence that other cost categories (office and administrative costs, travel and accommodation, external expertise and services, equipment, infrastructure and works) exist
No other cost categories exist in the project (unless different projects forming a part of an operation or successive phases of an operation are used[10])	

Thus, verification of progress reports with the 40% flat rate puts an emphasis on the quality of reports, the quality of outputs/ milestones/ results reported in the activity report, and direct staff

[10] Article 53(1)(e) CPR

costs reported by the partner. The controller should not request any additional financial reports to justify activities in the activity report (they are only supported by the staff costs included in the list of expenditures). If a controller/ auditor asks for more, it is considered gold plating[11] and should be avoided.

Irregularities

The only costs that will have to be verified in progress reports where the 40% flat rate is used are direct staff costs. Verification of direct staff costs will depend on the reimbursement method used (e.g., real costs, unit costs or lump sum). Irregularities in the staff costs have a direct impact on the amount of the flat rate: they reduce the total amount of the flat rate.

Based on the activity report, a controller/ JS might realise that some activity/ costs covered by the 40% flat rate are in fact not eligible (e.g., were not approved in the application form, are ineligible as per Regulations, etc.). Because of the unique composition of the budget, irregularities that influence the staff costs can be corrected by reducing the staff costs. In other cases, for example, a correction of the flat rate could be implemented by reducing the percentage of the flat rate (if changes impacted the project's output/ result).

For instance, let's say that during the verification of the project report a controller finds out that the partner had a trip which was not initially approved in the latest version of the application form. Travel and accommodation costs cannot be corrected, as they are covered by the 40% flat rate. However, a controller can implement a correction of direct staff costs by reducing the amount of the staff costs for the day(s) travelled.

In any case, using a 40% flat rate (or an off-the-shelf flat rates) does not mean that projects can do anything they want. They should still comply with all EU-, programme- and national rules, even though many of them are not checked (the focus is on the outputs and results).

Communication to beneficiaries

The 40% flat rate offers a major simplification while still allowing beneficiaries to propose the amount of direct staff costs depending on their individual situations. The clear advantages of the 40% flat rate are:

- it reduces the administrative burden for beneficiaries (primary goal!) and for programme authorities, as they no longer have to justify costs incurred other than direct staff costs;
- it allows focus to be placed on outputs and results, and shifts the focus away from the financial reporting;

[11] A gold plating occurs when a programme/ any programme body exercises more controls/ checks that requested by the Regulations.

- it makes the processes of application, reporting and financial management simpler and leaner.

The programme needs to clearly communicate to beneficiaries the advantages of the 40% flat rate and other practical implications. Below are some ideas:

1. Budget is calculated not as a 60% vs 40% flat rate. Instead, a 40% flat rate is applied on top of the planned direct staff costs.

2. Proper planning and budgeting of direct staff costs is crucial – this defines the overall project budget. Improperly planned direct staff costs can cause severe project problems and delays (but don't artificially inflate direct staff costs – whether or not they are adequate will be confirmed at the quality assessment stage).

3. Detailed description of the project's outputs and results is a must!

4. Changes to project outputs/ results are limited (since the only variable in the project's budget is direct staff costs).

5. Flexibility in terms of delivery methods (if not part of the project outputs/ results). For example, if for some reason the project needs to change the delivery mode of some activity (initially planned as online, but the need for a workshop arises – if not part of the project's main outputs/ results), the project is free to do so if they consider it is necessary and possible (no need to get a green light from the JS/MA - thus flexibility).

6. Need for "clean direct staff costs" - errors in staff costs will lead to lower amount of the flat rate.

7. Assessment stage will confirm whether the direct staff costs are adequate for delivering the promised outputs/ results.

8. Delays in implementation will have a bigger impact on the reimbursed budget; no staff costs reported means no 40% flat rate.

9. If the direct staff cost is lower, then it triggers a reduced 40% flat rate.

10. Eligibility of expenditure rules stay and are not removed! (even though not checked).

11. Not for all – the 40% flat rate is suitable for certain types of projects/ beneficiaries.