

SCOs in Interreg programmes **in 2021-2027**

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What are SCOs?

- Innovative way of reimbursing grants and repayable assistance
- Predefined (ex-ante) methods based on outputs, results, or some other costs
- Tracing every euro of co-financed expenditure to individual supporting documents is not required
- Proxy to real costs
- Imply overcompensation/ undercompensation

Types of SCOs

Lump sums

Payment(s) according to realised predefined activities/ outputs.

Binary approach. All or part of the costs of the project.

Unit costs

Realised quantities – payment(s). Easily identifiable quantities.

Calculated by applying a standard unit cost fixed in advance. A clear indicator. All or part of costs of the cost category.

Flat rates

Calculation of costs of specific cost category(ies).

3 types of costs: basis costs, flat rate, (other) cost categories. Calculated by applying fixed in advance percentage to one/ several cost categories.

Examples of SCOs

Lump sums

P2P projects (several public events); preparation/ closure costs lump sum, school visit lump sum ...

Unit costs

Hourly rate for staff costs, unit cost per participant to organise an event; consultancy services (hourly rate); unit cost per solar power plant installation in households; unit cost per boiler changed for household ...

Flat rates

Staff costs, indirect (office and administrative) costs; equipment; project management; travel and accommodation ...

5 ways to establish an SCO



a. Off-the-shelf



SCOs from CPR/ Interreg Regulation

6 flat rates

- *up to 20% flat rate to calculate staff costs (on all other than staff direct costs)*
- *up to 15% flat rate for office and administration costs (on direct staff costs)*
- *up to 7% flat rate for office and administrative costs (on all direct costs)*
- *up to 25% for office and administrative costs (on eligible direct costs of an operation) – methodology required!*
- *up to 15% flat rate for travel & accommodation (on direct staff costs)*
- *up to 40% flat rate for the remaining costs of an operation (on direct staff costs)*

a. Off-the-shelf



Examples from CPR/ Interreg Regulation

2 unit costs

- *1720h method* – dividing the latest documented annual gross employment cost by 1720h (for full-time employment):
 - pro-rata application and extrapolation is possible (for part-time employment);
- total number of hours reported per year cannot exceed 1720h (pro-rata).
- *Hourly rate* – dividing latest documented monthly gross employment costs by average monthly working hours:
 - a total number of hours reported per month cannot exceed the average monthly working hours.

a. Points of attention - Off-the-shelf



Up to X% for flat rates

A programme can decide to use any percentage but with the threshold of indicated %. No justification is needed.

Ready-made

Take and use, no need to develop your own methodology.

Simplified audit

No verification of methodology (developed by the EC, legal certainty is there), only application of it.

Limited flexibility?

Within the ceiling is flexible, but anything beyond is not possible.

Re-using SCOs

b. From other Union policies

- Developed by the EC (delegated acts)
- From EC-managed programmes (e.g., Horizon Europe, CERV, Erasmus+, Creative Europe)

c. From national schemes

- SCOs developed by a Member State (national level) – can be used in other EU-funded programmes within a specific Member State.

b & c. Points of attention - Re-using SCOs

For similar types of operations

Regulations do not define what “similar” is. Similar \neq equal. Up to the programme responsible for SCOs to justify the proper level of similarity.

National schemes

To be used within a specific MS, cannot be used in a different MS.

Simple

No need to develop a methodology (similar to off-the-shelf SCOs).

Pre-conditions

- the SCO should be used in the “reference” programme at the moment of launching a call for proposals in the “borrower” programme;
- totality of the method to be re-used (no flexibility here!);
- up-to-date method - all updates in the reference method should be mirrored in the borrower method.

d. Programme-specific SCO

Fair, equitable, and verifiable method (FEV)

FEV

Fair	Reasonable, based on reality, not excessive or extreme, no inflation of costs	Not possible: increase from an average of 2€ to 7€, without clear proof justifying it; geography can be taken into consideration: remote locations might have higher costs than a central location.
Equitable	Equal treatment for projects and project partners, no favoring; differences in treatment must be based on objective elements	Differentiated unit cost is possible, evidenced by price differences in different MS. Not possible: lower unit cost applied because the project scored less in project assessment.
Verifiable	Documentary evidence, including a description of the calculation method; data source; assessment of the relevance and quality of data used.	Explanatory fiche for ex-ante assessment by AA; decision note for the programme body approval; updated management and control system description; data file.

d. How to establish an FEV method?

Data sources	Further details
Statistical data	Objective and verifiable data from documented sources; <u>can also mean historic and/or verified data from projects at programme level.</u>
Other objective information	<ul style="list-style-type: none"> Survey, market research, draft budgets, statistical sources, programme data (of certified amounts not budgeted) – national statistical offices, Eurostat, Espon.
Expert judgement	<p>A process of evaluation, performed by carefully selected group of persons that are experts in particular subject or activity. The compatibility of expert opinions must be evaluated in order to ensure the reliability and objectivity of research results. The opinion of 1 expert might be questioned as expert judgement.</p> <p>Criteria of expert judgement; proper documentation.</p>
Verified historical data of project partners	Based on past accounting data (requires acceptable analytical accounting system). Data has to cover at least 3 years; data requires certification, reference amount to be applied (average costs over the reference period).
Usual accounting practices of project partners	Based on data from day-to-day accounting practices (independent from EU funds) in compliance with national accounting rules (requires acceptable analytical accounting system); no minimum requirement for time span of data.

d. Points of attention - Programme-specific SCOs

No limitations

Open to any type of project/ cost category

Time-consuming

Work-load shifts to the preparation phase – pays off during implementation. Allocate appropriate time and resources as it takes time!

Methodology

4 cornerstones of methodology: quality and reliability of data consistency and objectivity of calculation; consistency in project/ programme life cycle; documentation.

Documentation

Ensure proper documentation (programme documents, concept notes, descriptions, contracts with external service providers, calls for proposals) + approvals (monitoring committee, AA ex-ante assessment)

e. A draft budget method

A calculation method to establish an SCO.
Draft budget \neq SCO

Applicant submits a draft budget to the programme (with real costs; proper documentation).

Programme can include SCOs in the draft budget method (e.g., 15% for office and admin)



Programme assesses the draft budget proposal (case-by-case basis).

Programme transforms proposal into an SCO(s) – in grant agreement:

- establishing milestones to be delivered and payment triggers.



SCOs are used during the project implementation:

- expenditure is reimbursed according to payment triggers;
- control and audit of SCOs and not of initial amounts used in the draft budget proposal.

Draft budget method - example

Budget item	Cost*	SCO	Approach
Kick-off meeting	5,000	Lump sum 1 = 20,000	Milestone 1 – delivery of the report X
Data collection	10,000		
Report preparation	5,000		
Marketing campaign design	5,000	Lump sum 2 = 43,000	Milestone 2 – execution of marketing campaign and evaluation study
Marketing campaign execution	20,000		
Evaluation study	5,000		
Staff (20%)	10,000		
Office and admin (15%)	1,500		
Travel and accommodation (15%)	1,500		
Total	63,000	63,000	

e. Points of attention - draft budget method

Method to establish an SCO(s)

The objective of the method is to have an SCO(s) established!

The most effort-consuming method

Due to ex-ante work (assessment guide with a focus on equal treatment, cost benchmarks/reference points, case-by-case assessment, transformation to SCO(s), defining milestones/payment triggers), extensive documentation, individuality.

Threshold

Up to EUR 200 000 total costs (in the framework of an SPF – up to EUR 100 000 total costs)

Advantages

Allows for innovative project ideas; relatively easy implementation phase; flexibility for projects; simplification; hiding small items into an SCO(s).

Compulsory use of **SCOs** in 2021-2027

Projects with total costs < EUR 200.000 (Article 53 CPR):

- exception for research and innovation projects (no definitions provided);
- exception if State aid is involved (de minimis is not State aid);
- exception for basis costs, if flat rates are used;
- option for the draft budget as a calculation method (Article 53 CPR).

Small projects in SPF with public contribution < EUR 100.000 (Article 25, Interreg Regulation):

- exception if State aid is involved (de minimis is not State aid);
- exception for basis costs, if flat rates are used.
- option for draft budget as calculation method, explicitly anchored, < EUR 100.000 total costs.

SCOs combinations

To prevent double-financing, SCOs and real costs can be combined in the following situations:

**They cover
different
categories of
eligible costs**

**They are used
for different
projects in the
same operation**

**They are used
for successive
phases of an
operation**



SCOs combinations

		Off-the-shelf SCOs						Programme-specific SCOs				
	Combinations	20% staff costs	15% admin costs	7% admin costs	15% travel costs	Hourly rate staff costs ¹	40% all other costs	Unit cost staff	Flat rate staff	25% admin costs	Unit costs activities	Lump sum activities
Off-the-shelf SCOs	20% staff costs		Y	Y	Y**	N	N	N	N	Y	Y*	Y*
	15% admin costs	Y		N	Y	Y	N	Y	Y	N	Y*	Y*
	7% admin costs	Y	N		Y	Y	N	Y	Y	N	Y*	Y*
	15% travel costs	Y**	Y	Y		Y	N	Y	Y**	Y	Y*	Y*
	Hourly rate staff costs ¹	N	Y	Y	Y		Y	Y	N	Y	Y*	Y*
	40% all other costs	N	N	N	N	Y		Y	N	N	N	N
Programme-specific SCOs	Unit cost staff	N	Y	Y	Y	N	Y		N	Y	Y*	Y*
	Flat rate staff	N	Y	Y	Y**	N	N	N		Y**	Y*	Y*
	25% admin costs	Y	N	N	Y	Y	N	Y	Y**		Y*	Y*
	Unit costs activities	Y*	Y*	Y*	Y*	Y*	N	Y*	Y*	Y*		Y*
	Lump sum activities	Y*	Y*	Y*	Y*	Y*	N	Y*	Y*	Y*	Y*	

Y – yes, possible, N – no, not possible

* Provided there are no overlaps in costs covered (e.g., no staff costs included in the unit costs for activities)

** Yes, but ... - keep an eye on the definitions, e.g., for direct/ indirect costs, etc. Using a flat rate upon a flat rate requires very solid basis costs.

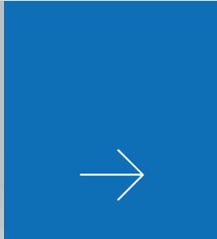
All off-the-shelf flat rates have to be read as “up to X%” (it is omitted for simplification reasons). This overview is by no means legally binding.

¹ Hourly rate staff costs refer to Article 55(2) CPR and combines 1720h method and hourly rate (dividing the latest documented monthly gross employment cost by the average monthly working time of the person).



Verification of SCOs

What and when to check?



Checking SCOs – **main principles**

What to check:



- Correct application of the calculation method (controllers' task! + AA in their audit of operations)
- Correct establishment of the calculation method (AA's role)
- Expenditure covered by SCOs are not reported under real costs (double-financing)

Checking SCOs – **main principles**

What NOT to check:

- Real costs underlying the expenditure reported based on the SCOs!
- **Example: flat rate indirect costs**
 - Actual expenditure of beneficiary linked to indirect costs, e.g., invoices/ payments for office rent, office suppliers, phone, internet are not checked!

What to provide on beneficiary side?

Depending on an SCO!

- Deliverables (lump sums, unit costs)
- Pre-agreed evidence to justify units (unit costs)
- Nothing, except correct calculation (flat rate)



Verification of SCOs – flat rates

- verification of the 'basis costs' to which the flat rate is applied
- verification that the correct % is applied
- verification that other reported project expenditure is not already covered by flat rate



Verification of flat rates - example

15% flat rate for office and administrative costs

What to verify?

- 'basis costs' = staff costs (depending on the way staff costs are reimbursed)
- correct % is applied (15%, multiplication)
- Office and administrative costs (as defined in Article 40 IR) are not reported under other cost categories (double-financing)

What not to verify?

- Underlying expenditure of office and administrative costs
- Whether they really constitute 15% of staff costs
- Public procurement of office and administrative costs



Verification of flat rates - example

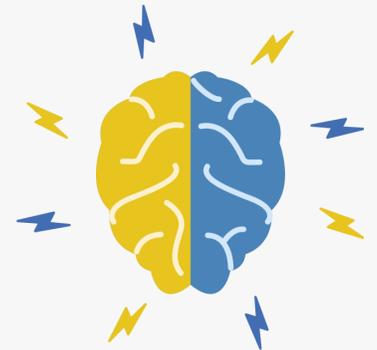
40% flat rate for the remaining cost categories of the project

What to verify?

- 'basis costs' = staff costs (depending on the way staff costs are reimbursed)
 - NB: staff costs cannot be flat rates, only unit costs/ real costs
- correct % is applied (40%, multiplication)
- 2 cost categories (staff and 40%)

What not to verify?

- Underlying expenditure of the remaining costs
- Whether they really constitute 40% of staff costs
- Public procurement under remaining costs



Verification of SCOs – **unit costs**

- verification of the number of units
- verification that the amount declared is justified by the quantities
- verification that other reported project expenditure is not already covered by the unit cost



Verification unit costs - example

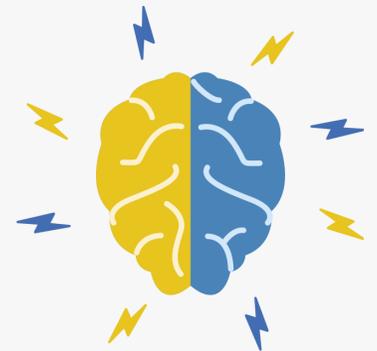
Unit cost for staff costs (1720h method/ hourly rate from Regulations)

What to verify?

- Employment/ work contract and job description;
- Payslips or other documents of equivalent probative value (accounts, payroll reports) – to verify latest documented annual gross employment cost (one-time check);
- Working time registration system (e.g., timesheets);
- Correct calculation;
- Ceiling of 1720 hours.

What not to verify?

- Payslips, after the rate is confirmed;
- Proof of payment of salaries and employer's contributions
- Indirect salary costs



Verification of SCOs – **lump sums**

- verification of the relevant deliverables/outputs
- verification that the criteria for the payment of the lump sum are fulfilled
- verification that other reported project expenditure is not already covered by the lump sum



Verification of **lump sums** - example

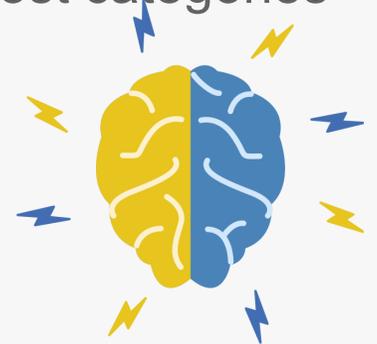
A lump sum to cover preparation/ closure costs

What to verify?

- A lump sum is approved to reimburse preparation costs acc to AF
- Amount is correct
- Pre-defined output(s) is delivered
- Costs associated with a lump sum are not reported under other cost categories

What not to verify?

- Underlying expenditure of the lump sum
- Supporting documents for the actual costs (no PP checks, etc.)
- Evidence that the actual amount corresponds to the amount of the lump sum.



Verification of SCOs – **typical situations**

- **Costs reported under a simplified cost option do not match the actual expenditure registered in the bookkeeping system of the beneficiary.**
 - This is a direct and accepted consequence of the use of simplified cost options. It's not a problem!
 - Actual amounts in the bookkeeping system of a beneficiary linked to an SCO are not relevant for the verification of the SCO!
- NB: although not checked, SCOs do not lift eligibility rules and organizational rules of a beneficiary! (procurement should be done!)

Verification of SCOs – **typical situations**

- **Is a beneficiary required to provide any evidence that the amount received for an SCO was actually spent on expenses covered by that specific SCO? Can or should controllers/auditors request such evidence?**
 - No! Verification of expenditure declared under the SCO should be limited to the verification of the existence of the relevant cost category, the calculation method and its correct application.

Verification of SCOs – typical situations

Points of attention

- No costs covered by SCOs included in other cost categories; e.g., heating costs for office premises (covered by flat rate for indirect costs) reported under external expertise (double-financing)
- Flat-rates: clean basis costs

Double financing – mitigation measures

For SCOs:

- checking whether costs covered by flat rates are not reported under other cost categories (exhaustive lists per cost category are in IR);
- no real costs and SCOs in the same cost category (exceptions in point (e) Article 53(1) CPR);
- where real costs and SCOs are used, checking if costs included in an SCO are not reported as real costs in other cost categories;
- for staff costs – no matter real costs or SCOs – quality assessment!
 - hourly rate – setting max ceiling (hours) of working hours per year/ period.

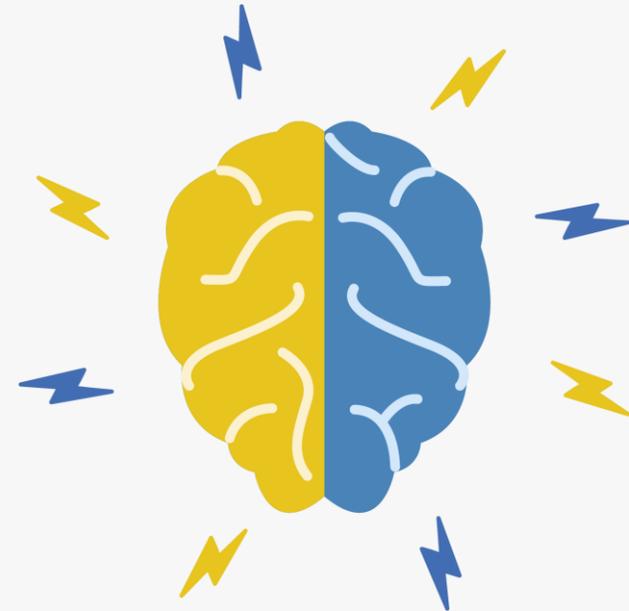
Double financing – mitigation measures

Across projects – e.g.:

- reporting 100% of working time in timesheets;
- self-declarations (e.g., fixed percentage method);
- no possibility to insert an invoice twice in the accounting system (real costs).
- For other cases, programme's approach for checking double-financing between projects – as for real costs! – should be used (capacity of controllers to check other projects/ projects from other Interreg/ other programmes?)

Verification of SCOs – Conclusions

- Change of mindset, training/explanations
- Change of mindset, training/explanations and
- Change of mindset, training/explanations!



More about SCOs

+ [2 Q&A from the EC](#)

+ [EC guidance on SCOs \(2014-2020, but main concepts applicable to 2021-2027\)](#)

+ Upcoming [factsheet on what to verify/ what not to verify for SCOs](#)
(autumn 2023)



Discussion



Cooperation **works**

All materials will be available on:

Interact website / Library