SIMPLIFIED COST OPTIONS IN LEADER/CLLD

The following guidance material[1] describes in more detail some aspects of using SCOs in LEADER/CLLD. It is conceived as "hands-on" material to help actors of the LEADER/CLLD delivery chain to discuss this topic at the national or regional level. It is complementary to the general guidance on SCOs developed by the European Commission[2].

Part 5. Calculating running and animation costs using an "off the shelf" flat rate (indirect costs as up to 15% of staff costs) combined with a simplified method of establishing direct staff costs

To support running and animation costs (M 19.4) though a flat rate seems to be one of the most obvious ways to take advantage of the SCO system, similar to the lump sum for preparatory support.

The EU regulations include certain ready-made specific flat rate financing systems. Article 68(1) CPR details a number of flat rate financing systems for indirect costs for which a calculation is not needed. One of them is the flat rate of up to 15% of the direct staff costs for indirect costs (Art. 68 (1) (b) Reg. 1303/2013). This flat rate financing can be applied for expenditure incurred under the sub-measure running costs and animation.

The use of this flat rate can be further simplified if the calculation of direct staff costs is based on a well-justified methodology, for instance an hourly rate based on the latest documented annual gross employment costs (Art. 68(2) of Reg. 1303/2013).

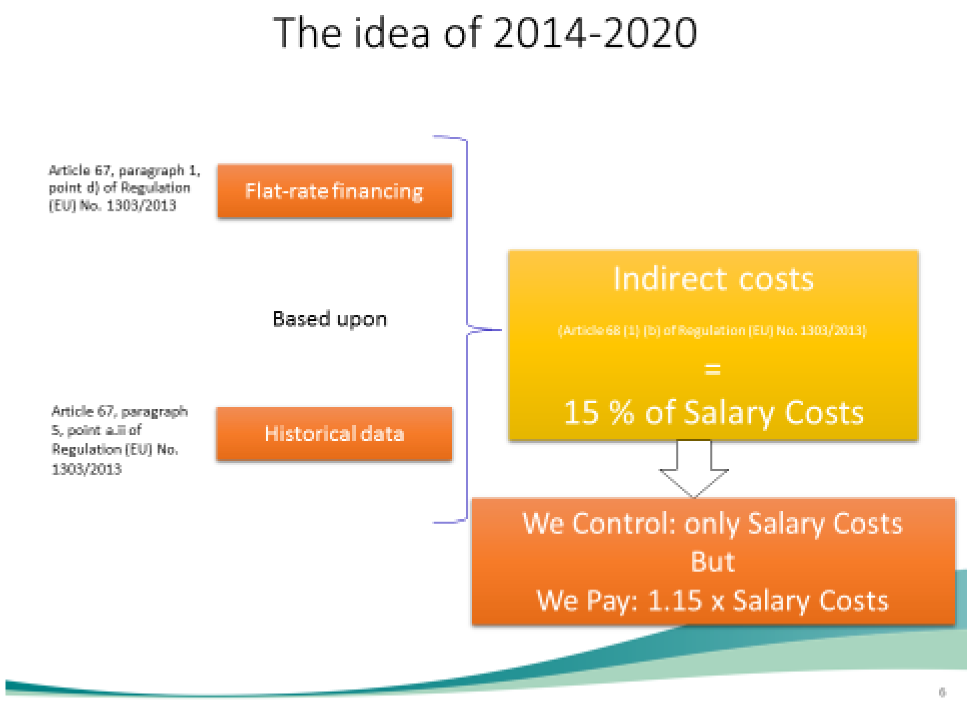
(1) Reasons to use "off the shelf" flat rate financing

- It is an easy way to introduce flat rate financing into the delivery of CLLD/LEADER and to start the experience using them. The application of this standard flat rate can be used not only for sub-measure 19.4, but also for projects which include staff costs and indirect costs.
- There is a need to limit the administrative burden as regards the support of LAG running and animation costs. The amount of non staff-related running and animation costs is relatively small in relation to the direct staff costs of a LAG (salaries), but the number of invoices is usually much higher (see picture below).
- The MA may decide to opt for the flat rate system of Article 68(1) (b) of the CPR (1303/2013): the flat rate of up to 15 % to calculate certain indirect cost is applicable only to the direct staff costs. There is no need to justify the 15 % or a lower rate.
- With a flat rate for those type of costs, individual invoices don't need any longer to be checked. The potential for errors will therefore be substantially reduced!

[1] The material is based on examples provided by Managing Authorities and on discussion held during a workshop organised on 19 January 2016 organised by the ENRD Contact Point together with the European Commission.

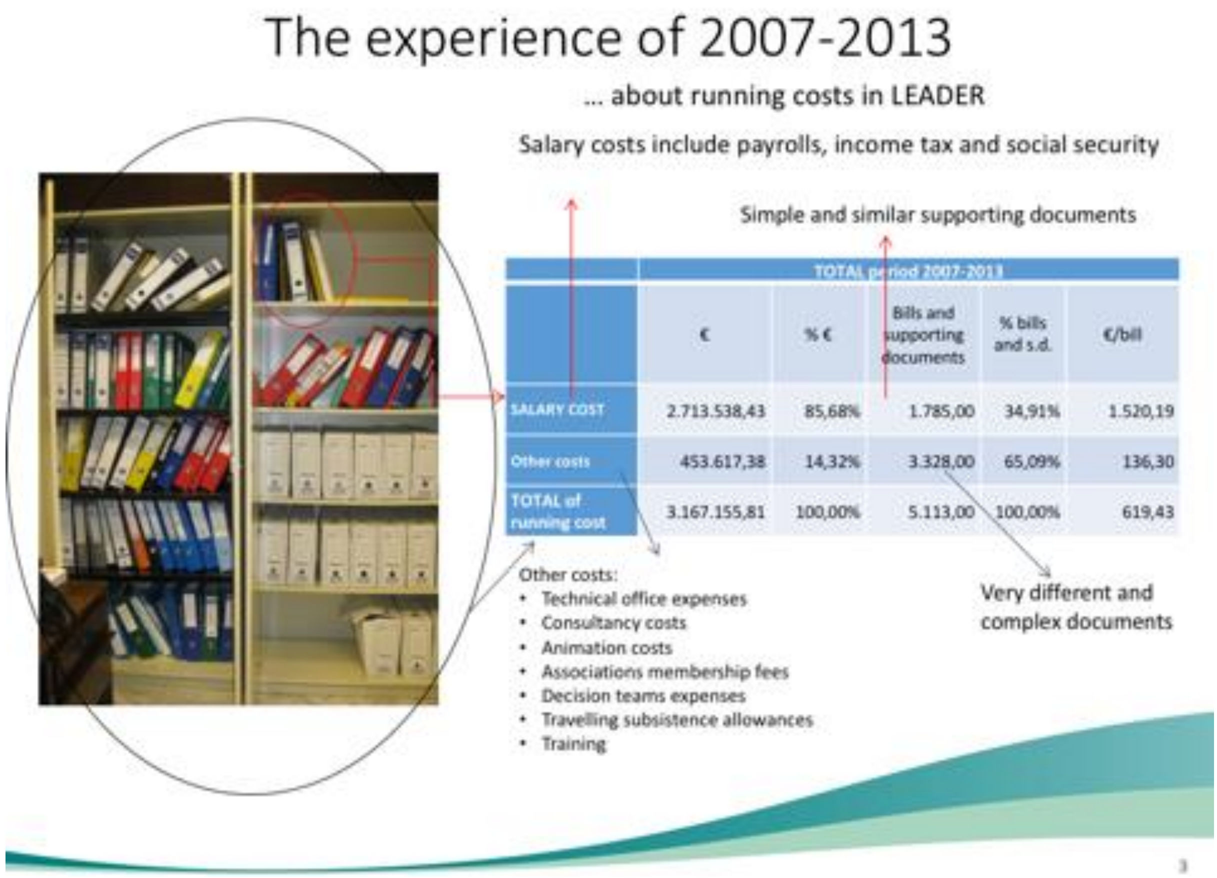
[2] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/simpl_cost_en.pdf

The basis of the approach



Source: ENRD Contact Point presentation 19.01.2016

A possible setting (example from the Region of Madrid):



Source: ENRD Contact Point presentation 19.01.2016

(2) Questions to be raised before applying the 15% flat rate

- When would be the best point in the implementation process to introduce the flat rate financing approach?
- Is the flat rate of 15% a “fair deal” for the LAGs? Think about under- and over-compensation.

Note:

- *Be aware of the fact that the flat rate is established at programme level. Its use will be mandatory.*
- *The larger the number of LAGs under a programme the greater will be their diversity of circumstance. A flat rate 15% may not be adequate to cover essential costs for LAGs with smaller budgets whilst being more than adequate for those with larger budgets.*

- Who has to be involved in the elaboration of the flat rate and what for?
  Note: important actors include: Managing Authorities, Intermediate Bodies, Paying Agencies, LAGs, experts. Don’t forget the need for a certification body, Art. 62 Reg. 1305/2013

(3) Points for consideration

- The maximum amount for running costs and animation fixed by the EU legislation is 25% of the total public budget for the strategy (Reg. 1303/2013 Art. 35(2)).
- The application of the flat rate financing has to be envisaged in the RDP.

(4) The steps to establish the flat rate

(a) Definition of direct staff costs

First, you have to define the categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts: these are the **direct staff costs**. These can be only salary related costs (including the mandatory taxes and social insurance payments) and have to be clearly defined. The proof of salary costs can be made for example through pay slips, timesheets if relevant, collective agreements to justify benefits in kind if applicable, detailed invoice of external provider.

(b) Establish the flat rate or thresholds to calculate flat rates:

- You should define the categories of eligible costs that will be calculated with the flat rate: the type of indirect costs that should be covered by the flat rate (there might be other indirect costs which you prefer to be reimbursed on the basis of real costs).

- The MA has the freedom to set the flat rate at its maximum level of 15% or less. There is no requirement to perform a calculation to determine the applicable rate!

- The risk of under-compensation might be set off by the reduction of administrative burden.

(c) Conditions for providing the support through a flat rate:

- Apart from the definition of direct staff costs and of the type of indirect costs to be covered by the flat rate, no other conditions have to be met.
- The indirect costs covered by the flat rate don’t need to be controlled.

(d) You can simplify further by introducing another SCO: standard scales of unit costs, for the calculation of direct staff costs:

Example for further simplification as regards the evidence of direct staff costs:

The Welsh MA for the EAFRD and the EMFF developed a specific unit cost method for the calculation of staff costs, under which the evidence for the work is provided only by timesheets and not through a proof of expenditure (pay roll/pay slips etc.).

Article 68(2) Reg. 1303/2013 introduces a new rule to facilitate the use of hourly unit costs for calculating staff costs related to the implementation of an operation.

This hourly rate is applicable both to projects and to the costs incurred under sub-measure 19.4.

- The hourly rate is calculated by dividing the latest documented annual gross employment costs for the person by the figure standardised annual productive hours (which have been calculated/set with the fixed value of 1720 yearly hours as set out in Art. 68 (2) Reg. 1303/2103). This hourly rate is then multiplied by the hours worked on the project in order to calculate the staff costs.
- A calculation method based on historical data of the beneficiary is not usable given that the Regulation refers to latest documented annual gross employment costs.
- Latest documented annual gross employment costs implies having a past reference period of one year (12 consecutive months). It is not possible to use the data relating to periods after the signature of the document setting out the conditions for support.
- This unit cost hourly rate has to be determined before the project is approved. In Wales, the calculation is done for each different “staff grade” employed in the project, so that there could be several hourly rates in one project.
- In the case of a project implemented over several years, the Managing Authority may choose to update the hourly staff cost once new data are available or to use the same one for the whole implementing period. This seems to be equally valid for the support to running and animation costs throughout the lifetime of the LDS. If the implementation period is particularly long, a good practice would be to set out intermediary steps when the hourly staff cost could be revised.

The most prominent simplification element for this approach is that the application of the standard scale of unit cost removes the need for complicated evidence of employment costs. This in turn simplifies the calculations of the flat rate for the allocation of indirect costs.