

ESF THEMATIC NETWORK ON SIMPLIFICATION REPORT ON SCO PRACTICES

(Draft for the 6th Meeting of the Thematic Network - The Hague – 8-9 June, 2017)

References:

Member State / Region	Czech Republic
Reference number (TN's map of SCO practices)	8 – data filled in only for OP Employment (two other ESF OPs in CZ have used the same approach)

Contact details:

Name of the Institution	Ministry of Labour and Social Affairs of the Czech Republic
Address	Na Poříčním právu 1, Praha 2, 128 01
Name of contact person	Věra Palowská
Telephone	+420 950 195 761
Email	vera.palowska@ mpsv.cz

Type of SCO reported <i>(Please choose one of these types of SCO: flat rate financing, standard scale of unit costs, lump sum).</i>	FLAT RATE FOR FINANCING INDIRECT COSTS (MAX. 25 % OF DIRECT COSTS), ARTICLE 68 (1)(A) CPR
Type of activities covered by the SCO <i>(Please indicate what type of activities is targeted by the SCO).</i>	<ul style="list-style-type: none"> • typically activities that are not directly focused on the target groups or on outputs used by target groups, • expenditures, which are hard to declare • activities, which are covered by flat rate for regulatory purposes

A. PROJECT DESCRIPTION**A1. Description of the type of operation** *(Please describe in brief what types of operations are covered by SCO)*

All types of operations with direct costs below 500 mil. CZK; except for operations in the priority axis technical assistance and except for operations managed by the Labour Office in the field of active employment policy.

The areas for using the flat rate for indirect costs can be summarized as follows:

Professional training of employees, projects for support of social dialogue, projects for job-seekers and other socially excluded groups on labour market, projects on social integration, on training of social workers, transformation of social services, projects on equal opportunities, childcare facilities, social innovation and transnational cooperation, training of civil servants

A2. Definition of outputs/results *(Please give a short definition of outputs and/or results)*

Outputs/results are connected with the direct costs. They differ based on the content of the projects.

A3. Beneficiaries *(please indicate the types of beneficiaries involved in the operations covered by SCO)*

NGOs, private companies, sole traders, public entities, schools, municipalities

A4. Target group(s) *(Please list target groups within projects covered by SCO)*

Virtually all the target groups

B. METHODOLOGY AND CALCULATION METHOD

B.1 Methodology *(please indicate which methodology/ies has/have been used: Fair, equitable and verifiable method / use of existing EU schemes for similar types of operation and beneficiary / Use of existing own national schemes for similar types of operations and beneficiaries / use of rates and specific methods enshrined in the regulation or in a delegated act / use of a draft budget /combination of methodologies).*

Please indicate if the concerned SCO has been covered by Art. 14(1) ESF)

We have used fair, equitable and verifiable method.

Flat rate for indirect costs is not covered by article 14(1) ESF, it is based on article 68 (1) a) CPR.

B.2 Calculation Methods *(please describe how the calculations have been made)*

Calculation was done on a sample of projects from the previous programming period 2007-2013. The flat rates for indirect costs used in 2007-2013 in CZ ESF OPs (and approved by EC in 2008) were used as a basis which was updated for period 2014-2020. The main changes included shifting certain

staff costs from direct to indirect (and thus using the maximum rate of 25 %) and adjusting the limits for reduction of the flat rates (due to size of direct costs or due to high levels of external services).

B.3 Data source *(please indicate the type of data used and the data source)*

Historical data from similar projects in programming period 2007-2013.

C. IMPLEMENTATION OF SCO

(Please describe in brief what implementation rules and conditions have been set out)

Indirect costs are mainly project administration and management costs and other overheads. They are paid as a flat rate on the basis of real costs actually incurred and paid. Rates for indirect costs specified in calls of proposals are as follows:

- direct costs up to 0,37 mil. EUR – flat rate for indirect costs 25 % is applied,
- direct costs above 0,37 mil. EUR and up to 1,5 mil. EUR – flat rate for indirect costs 20 % is applied,
- direct costs above 1,5 mil. EUR and up to 3,7 mil. EUR – flat rate for indirect costs 15 % is applied,
- direct costs above 3,7 mil. EUR and up to 18,5 mil. EUR – flat rate for indirect costs 10 % is applied.
- direct cost above 18,5 mil. EUR (500 mil. CZK) – flat rate for indirect cost is not applied.

Aspect of external services are taken into account: if external services represent more than 90 % of direct costs, then the rate of indirect cost is reduced to 20 % of the basic rate, if external services are above 60 % and below 90 % of direct costs, then the rate of indirect cost is reduced to 60 % of the basic rate. If external services represent up to 60 % of direct costs then the basic rates for indirect costs mentioned above apply.

D. AUDIT TRAIL

(Please provide a brief description of the audit trail for the concerned SCO, including documents, key contents/conditions and procedures)

As regards documentation for setting the rates of indirect costs, we have analysis, calculations and also supporting documents for each project in the sample.

As regards the level of beneficiaries, indirect costs are being payed based on eligible direct costs. The administrative verifications and on-the-spot controls hence concentrate on direct costs and their eligibility and also whether indirect costs are not being declared as direct. Indirect costs as such are not subject of verifications.

E. ASSESSMENT BY THE AUDIT AUTHORITY(IES) INCLUDING EVENTUAL EX ANTE ASSESSMENT

(If relevant, please explain how the audit authority has been involved in preparation and assessment of the SCO).

According to the Czech Single methodological framework the National Coordination Authority (NCA) and the Paying and Certifying Authority (PCA) are to be consulted with the managing documentation of the operational programme and all its revisions. This documentation includes also rules for applicant and beneficiaries, which include also rules for projects with direct and indirect costs. Given the procedures in the Czech Single methodological framework, the Audit Authority has not specifically assessed the draft of the indirect costs, but it was consulted with the rules for beneficiaries, including rules for projects with direct and indirect costs.

F. IMPACT OR ADDED VALUE FOR THE MA, BENEFICIARIES AND OTHER STAKEHOLDERS

(Please explain how you have perceived impact/added value of the SCO for the MA, beneficiaries and other stakeholders).

1. Indirect costs (up to 25 % of direct costs) are not declared and do not need to be justified by the beneficiary and checked by the MA
2. Reduction of administrative burden – typical indirect costs represent small expenditure with excessive documentation of their eligibility
3. Covering costs by the flat rate ensures their limitation – more resources remain available for direct work with the target groups and for generating outputs for the target groups.
4. Verifications carried out by the MA are more focused on outputs/results achieved instead of being concentrated on collecting and verifying financial documents for costs that do not generate outputs for the target groups.

G. SPECIFIC ISSUES FACED WITHIN CALCULATION AND IMPLEMENTATION OF THE SCO

(Please indicate any issues/problems/challenges you have experienced when setting out or implementing the SCO, i.e. high workload, state aid, public procurement, national legislation, revenues etc.)

We experienced resistance of some beneficiaries as they in some cases had complained about the rates as being too restrictive. Our experience so far however does not suggest that using flat rate for indirect cost would limit the absorption capacity of beneficiaries.

H. LESSONS LEARNED AND POINTERS

(Please indicate any unforeseen practical implications that have emerged and any key lessons you have learned from the development and implementation of the concerned SCO practice).

In addition to setting out the rules for beneficiaries before calls for proposals are launched, it is absolutely necessary to establish the "interpretative practice" for implementation period of projects. In this particular case it is necessary to distinguish between direct and indirect costs as the beneficiaries tend to be very creative and are motivated to declare maximum of the costs as direct costs. The MA must be prepared to apply the

rules to situations that are not foreseen in advance. Any change in the list of indirect costs for the period 2014-2020 (compared to 2007-2013) creates new situations that need to be interpreted and decided by the MA. The MA however cannot predict the view of audits on these cases.

I. ANNEXES OR LINKS TO ONLINE DOCUMENTS

(Please list documents or links to online documents like complete methodology, calculation methods, documents submitted to the Commission, guidance for MAs and beneficiaries, calls for proposals, audit trail, legal acts etc.).

General implementation rules for applicants and beneficiaries: <https://www.esfcr.cz/pravidla-pro-zadatele-a-prijemce-opz/-/dokument/797767>

Specific implementation rules for applicants and beneficiaries: <https://www.esfcr.cz/pravidla-pro-zadatele-a-prijemce-opz/-/dokument/797817>

(include detailed list of indirect costs, rates of indirect cost, etc.)

Calls for proposals:

<https://www.esfcr.cz/prehled-vyzev-opz>