

# ESF THEMATIC NETWORK ON SIMPLIFICATION

## REPORT ON SCO PRACTICES

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

### References:

<b>Member State / Region</b>	<b>Finland</b>
<b>Reference number (TN's map of SCO practices)</b>	<b>3</b>

### Contact details:

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<b>Type of SCO reported</b> <i>(Please choose one of these types of SCO: flat rate financing, standard scale of unit costs, lump sum).</i>	<b>FLAT RATE</b>
<b>Type of activities covered by the SCO</b> <i>(Please indicate what type of activities is targeted by the SCO).</i>	<b>ALL ACTIVITIES (EXCEPT TECHNICAL SUPPORT, OPERATIONS NOT INCLUDING STAFF COSTS AND OPERATIONS INCLUDING LABOUR POLICY INSTRUMENTS)</b>

### A. PROJECT DESCRIPTION

<b>A1. Description of the type of operation</b> <i>(Please describe in brief what types of operations are covered by SCO)</i>
All kinds of ESF projects (except technical support, operations not including staff costs and operations including labour policy instruments).
<b>A2. Definition of outputs/results</b> <i>(Please give a short definition of outputs and/or results)</i>

Varies depending of the activity and project content. Flat rate –cost option is not output/result based.
<b>A3. Beneficiaries</b> <i>(please indicate the types of beneficiaries involved in the operations covered by SCO)</i>
Educational and research institutions, municipalities and joint municipal authorities, foundations, NGOs, social partners, companies, other organisations (all kinds of beneficiaries included in the OP).
<b>A4. Target group(s)</b> <i>(Please list target groups within projects covered by SCO)</i>
All kinds of target groups included in the OP.

## **B. METHODOLOGY AND CALCULATION METHOD**

<b>B.1 Methodology</b> <i>(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)</i>
Fair, equitable and verifiable method.
<b>B.2 Calculation Methods</b> <i>(please describe how the calculations have been made)</i>
<p>Calculation method was established in the programming period 2007-13 and was approved by the EC (separately by DG EMPL and DG REGIO).</p> <p>Method was based on statistical analysis of historical data of ESF and ERDF projects in the programming period 2007-13. A representative sample of the historical data of ESF and EARD funded projects was established by using Monetary Unit Sampling method with the confidence level of 95 percent. ESF and ERDF projects were examined separately. A total of 59 ESF projects and 59 ERDF were studied. The size of the ESF population was 774 projects and 124.373.844 Euros. The ESF sample represented eight (8) percent of the total quantity of ESF projects and 17 percent of the total financial input (Euros) associated with the projects. The size of the ERDF population was 499 projects and 115.717.221 Euros. The sample represented twelve (12) percent of the quantity of ERDF projects and 26 percent of the total financial input (Euros) associated with the projects.</p> <p>The total flat rate percentage for each project in the sample was calculated as indirect costs per direct staff costs multiplied by 100. The total flat rate percentage was calculated as the average of the flat rate percentage of each project in the sample.</p> <p>The results in the survey revealed no correlation between project size and the calculated flat rate percentage. According to the survey, when the Euro amount of the project increases, the ratio between the indirect costs and the direct costs does not change. As a general rule, the variance in the</p>

flat rate percentage between projects seemed to be fairly moderate and small enough to allow the application of one percentage per fund no matter which priority or programme section is in question. This was also justified for the simplification and efficiency of the calculation model.

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

SF database “EURA 2007” and project accounting data and other project documentation from the IBs.

## **C. IMPLEMENTATION OF SCO**

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

Implementation rules and conditions have been set out in the national eligibility act. The main conditions are:

- Flat rate –option must be used as the main rule instead of real costs.
- Costs of the project are divided into 1) **staff costs which are the basis for the flat rate calculation** 2) **other eligible direct costs not taken into account in the flat rate calculation and** 3) **indirect costs which are covered by the flat rate (17 % in the ESF and 24 % in the ERDF).**
- **Staff costs** for the project personnel are calculated as direct salary costs covering also statutory supplement staff expenses. The staff working in the project has to have written job description. Full-time employees cannot have other tasks than those to do with the project. A part-time employee has to have a follow-up of his/her total working time on daily basis. Staff costs that are included in the outsourced services are not included in the scope of the flat rate calculation.
- Following **other direct costs** are eligible but they are not included in the flat rate calculation (there is an exhaustive list of direct costs in the national eligibility act):
  - outsourced services (staff costs that are included in the outsourced services are paid as invoiced by the service provider and thus are not included in the scope of the staff costs that are the basis for flat rate calculation)
  - rental costs of premises for participant groups
  - small material and immaterial purchases for participant groups (ESF) / investments and purchases related to the content of the project (ERDF)
  - marketing and communication that is directly linked with the project
  - auditing costs of the project
- **All other costs are considered as indirect costs and are covered by the 17 % flat rate in the ESF and 24 % flat rate in the ERDF.** They include for example **travel costs**, acquisition of equipment for the project staff and other office costs, financial management services and other shared support services and costs of the project steering committee.

#### **D. AUDIT TRAIL**

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

- The beneficiary reports electronically in the SF information system “EURA 2014” the direct staff costs and other direct costs of the project in the project application and in the payment claims. EURA 2014 system calculates the 17 % (ESF) / 24 % (ERDF) flat rate share automatically to the application and payment claim based on the reported direct staff costs.
- The IBs perform desk-based checks to every payment claim to verify the direct costs to make sure that they are eligible and that they don't include any costs that are already covered by the flat rate share. EURA 2014 system calculates the 17 % (ESF) / 24 % (ERDF) flat rate share automatically to the payment decision based on the verified eligible direct staff cost.
- The IBs perform also on-the-spot checks were the correct application of flat rate –option is verified among other subjects of inspection. On-the-spot checks are documented electronically to the EURA 2014 system.
- All the project documents (application, project decisions, payment claims, monitoring and final reports, management verifications etc.) are created and stored electronically in the EURA 2014 database, which functions as an electronic archive and controls the audit trail.

#### **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).*

The AA was consulted several times during the preparation of the flat rate scheme in the programming period 2007-13. The AA was also asked to give an official statement of the flat rate scheme before Finland made the proposition to the EC in the programming period 2007-13, which the AA did give.

#### **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).*

Based on comments from some of the Finnish IBs:

- In general the flat rate –option has speeded up the payment process, especially if the project budget has been clearly defined and the

project costs have been sufficiently accurately defined in the approved project plan.

- Flat rate has also made the process more reasonable and has enabled the IBs and beneficiaries to focus more on the project content and results.
- The beneficiaries, IBs and other stakeholders are usually pretty satisfied with the flat rate model compared to real costs.
- However, some beneficiaries, especially universities, research institutions and universities of applied sciences still consider the flat rate share to be too low. To some extent, this might have affected to the number of applications from these organizations.

## **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.)*

- It was quite burdensome for the MA to establish the calculation method for the first time, although we used a contractor for the calculation. We had to make several modifications to the calculation method during the process, because it was all new to us. The process took quite a long time. That is one of the reasons why we decided to use the same methodology for the 2014-20 programming period and also because the model was already known by the beneficiaries and the IBs.
- The MA has been satisfied with the decision to calculate the flat rate share only based on direct staff costs (as opposed to all direct costs). This was also originally recommended by our AA. This way we didn't have to take into account separately the impact of outsourced services / public procurement on the calculation methodology.

Based on comments from some of the Finnish IBs:

- Although the flat rate option has simplified the payment process the implementation is not without questions: The IB usually has to discuss beforehand with every beneficiary which salaries can be included in the project staff costs. The beneficiaries tend to offer all pay-offs to be included, but we do accept only those which are essential to project. And in checking one has to be quite explicit with the costs that are included and also with working hours. But in general the model works quite well.

## **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).*

- It is important that the project budget is sufficiently clearly defined and especially the project staff costs are accurately defined in the project plan before it is approved by the IB.
- For the programming period 2014-20 we have allowed the use of 15 % flat rate for the projects with high travel costs. The 15 % flat rate option is otherwise exactly similar to 17 % (ESF) / 24 % (ERDF) option, but in the 15 % flat rate option the travel costs of the project are considered as direct costs and are reimbursed for the beneficiary based on real costs. In the ESF it is also possible to use 40 % flat rate, but this option has not been used in many projects so far.

## **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.).*

Legal acts, guidance for beneficiaries etc. (in Finnish and in Swedish):

<http://www.rakenerahastot.fi/>