

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	Poland
Reference number (TN's map of SCO practices)	6

Contact details:

Name of the Institution	Ministry of Economic Development
Address	Plac Trzech Krzyży 3/5, Warszawa 00-507, Poland
Name of contact person	Anna Karolina Walenkiewicz
Telephone	+48 22 273 7981
Email	anna.walenkiewicz@mr.gov.pl

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 FINANCING
Type of activities covered by the SCO <i>(Please indicate what type of activities is targeted by the SCO).</i>	INDIRECT COSTS

A. PROJECT DESCRIPTION

A1. Description of the type of operation <i>(Please describe in brief what types of operations are covered by SCO)</i>
Flat rate financing for indirect costs covers <u>all operations financed by the ESF in Poland</u> in financial period 2014-2020 (i.e. national OP – Knowledge Education Development, and 16 Regional Operational Programmes). There is no possibility to claim indirect costs on the basis of real cost. Either there is a flat rate financing for indirect costs, or there is no indirect costs at all within an ESF operation. The only exception are projects implemented as financial instruments – in such cases instead of indirect costs, management costs are eligible.

<p>A2. Definition of outputs/results <i>(Please give a short definition of outputs and/or results)</i></p> <p>In case of indirect costs, they are claimed proportionally to direct costs incurred within the project with the use of agreed flat rate. If the project is not implemented and does not achieve agreed targets, indirect costs are not eligible.</p>
<p>A3. Beneficiaries <i>(please indicate the types of beneficiaries involved in the operations covered by SCO)</i></p> <p>All types of beneficiaries implementing ESF operations, e.g. NGOs, private companies, self-government units, state budgetary units.</p>
<p>A4. Target group(s) <i>(Please list target groups within projects covered by SCO)</i></p> <p>Application of flat rate for indirect costs does not depend on target groups. All types of projects (and therefore all types of target groups) are covered by the SCO.</p>

B. METHODOLOGY AND CALCULATION METHOD

<p>B.1 Methodology <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).</i> <i>Please indicate if the concerned SCO has been covered by Art. 14(1) ESF)</i></p> <p>Methodology for flat rate for indirect costs was applied according to Art. 67(5) a) ii) – with the use of a fair, equitable and verifiable method based on the verified historical data of individual beneficiaries. The SCO has not been covered by Art. 14(1) EFS Regulation.</p>
<p>B.2 Calculation Methods <i>(please describe how the calculations have been made)</i></p> <p>Ministry of Economic Development analysed budgets of 2157 ESF projects from 2007-2013 financial perspective. The analysis of data was presented in the report: <i>Analysis of indirect costs and management costs within projects under Human Capital OP 2007-2013</i> (PL: <i>Raport z analizy kosztów pośrednich i kosztów zarządzania w projektach PO KL 2007-2013</i>). The link to the report can be found in Part I.</p>

All financial data concerning management and administration of projects was analysed (a.o. staff costs, info-promo costs, purchase of equipment, collaterals) and put together in one Excel sheet. The idea was to calculate 5 flat rates depending on the value of the project (the higher the value of the project, the lower the flat rate) with the use of the collected data.

However, as there was a common understanding that in case of partnership projects, management and administrative costs are higher, there was a need to verify whether flat rates should depend on the project's implementation mode (single beneficiary, partnership projects). It turned out that the mode of project's implementation does not differentiate the level of management and administrative costs (what was surprising, the more partners implementing the project, the lower management and administrative costs). Therefore, this aspect was not taken into account while setting the final flat rates.

Special attention was also given in the analysis to the influence of outsourcing at the level of administrative costs in operations. In the previous financial perspective outsourcing was deducted from the basis of direct costs (due to the EC remarks). However, it made the system of calculating the rates very complicated and burdensome. Therefore, the level management and administrative costs was verified within the projects with outsourced activities. The comparison of data between projects with outsourced activities and without outsourced activities showed that there were slight differences in the level of management and administrative costs (in the projects with the lowest total cost the management and administrative costs in projects without outsourced activities were 5,03 p.p. higher than in projects with outsourced activities). Therefore, the final flat rates were reduced by the amount of correction resulting from this analysis.

Finally, the level of flat rates was rounded down, so that there was no risk that it would be assumed as overestimated by the EC auditors.

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

Financial data analysed were taken from budgets of 2157 ESF projects from 2007-2013 financial perspective.

C. IMPLEMENTATION OF SCO

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

Below mentioned implementation rules and conditions are set in the national *Guidelines on eligibility in projects financed by the ESF, ERDF and Cohesion Fund 2014-2020*.

Indirect costs cover all administrative costs connected with the project's implementation. The catalogue of indirect costs is open. It covers among others:

- a) staff costs – coordination and other staff costs directly involved in management, monitoring, accounting, carrying out administrative tasks,
- b) renting of premises connected with project's administration,
- c) banking services,
- d) purchasing of equipment for staff connected with project's administration,
- e) electricity, heating, gas, water, sewage disposal connected with project's administration,
- f) postal service, telephone, Internet, courier services connected with project's administration,
- g) copying documents connected with project's administration,
- h) office supplies connected with project's administration,
- i) property insurance,
- j) costs of security,
- k) costs of cleaning of premises,
- l) costs of collaterals for advance payments.

There is no cross-financing within indirect costs.

No indirect costs can be included within direct costs. Therefore, during assessment of a project application it is crucial to verify whether within direct costs there are no costs which constitute indirect costs. Moreover, at the stage of project's implementation, an institution before approving payment claims verify whether in the statement of incurred eligible expenditure there are no expenditures that constitute indirect costs.

There are the following flat rates applicable for indirect costs:

- 25% of direct costs – in case of projects with direct costs up to 830 000 PLN (app. 207 500 EUR¹)
- 20% of direct costs – in case of projects with direct costs between 830 000 PLN (app. 207 500 EUR) and 1 740 000 (app. 435 000 EUR)
- 15% of direct costs – in case of projects with direct costs between 1 740 000 PLN (app. 435 000 EUR) and 4 550 000 PLN (app. 1 137 500 EUR)
- 10% of direct costs – in case of projects with direct costs above 4 550 000 PLN (app. 1 137 500 EUR).

with an exception that in case of projects implemented by the public employment services (PES), flat rates are applied according to the national act on employment promotion, i.e. 3% of direct costs.

In case there is a standard scale of unit costs within a project, which comprises indirect costs, the basis for calculation for a flat rate for indirect costs is reduced.

The flat rate applicable to a given project is indicated in the financing agreement. There is also a provision that the intermediate body can reduce the flat rate in case of material breach of the financing agreement in project's management.

¹ for the use in this material 1 EUR equals to 4 PLN.

D. AUDIT TRAIL

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

In case of flat rate for indirect costs, there is no need to provide any financial documents to claim indirect costs eligible. Flat rates – according to CPR – are treated as incurred expenditure if the direct costs (which are the basis for calculating a flat rate) are eligible and claimed within a payment claim by a beneficiary. An intermediate body verifies in the payment claim whether the flat rate was applied according to the financing agreement and whether the amount of direct costs was indicated correctly.

All financial corrections on direct costs influence (lower) the amount of indirect costs.

During on the spot check, the verification is limited to direct costs i.e. implementation of activities, progress in achieving targets, documentation of the project, etc.

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 Audit Authority has not been involved neither in preparation nor assessment of the flat rates for 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).

For the Managing Authority:

- positive: transparency of indirect costs, less irregularities, possibility to focus on results within projects
- negative: enormous workload connected with analysis of financial data, problems in explaining the change of approach among control units (tendency to check invoices and other equivalent documents);

For the institutions involved in ESF management:

- positive: less administrative burden – less documents to be verified, less irregularities within management costs
- negative: problems in understanding the change of approach among controllers (tendency to check invoices and other equivalent documents);

For the beneficiaries implementing ESF projects:

- positive: possibility to focus on results within the project
- negative: flat rates for indirect costs are too low (beneficiaries often treat it as their income)

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.)

At the stage of calculation the SCO the main challenge was to analyse data from 2 157 ESF projects (see p. B.2.).

At the stage of implementation, the main problem is connected with application of flat rates in state budgetary units. Many accountants claim that it is not possible to apply flat rates in projects due to restraints resulting from the national accounting law. However, the analysis of legislative provisions shows that there are no obstacles in Polish law to apply SCOs. The only problem is the practice that accountants are used to. Therefore, there is a need for a change in attitude to financial management of an ESF project.

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 indispensable to analyse the fact of outsourcing activities in order to have the system simple and transparent for the beneficiaries.

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.).

Methodology for calculating flat rates (in Polish):

https://www.efs.2007-2013.gov.pl/analizyraportypodsumowania/documents/raport_2014.05.19_final.pdf

Guidelines on eligibility in projects financed by the ESF, ERDF and Cohesion Fund 2014-2020 (chapter 6.6 and 8.4 refers to indirect costs) (in Polish):

https://www.funduszeuropejskie.gov.pl/media/27633/Wytyczne_w_zakresie_kwalifikowalnosci.pdf