

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	Hungary
Reference number (TN's map of SCO practices)	5

Contact details:

Name of the Institution	Ministry of Human Capacities, Hungary
Address	1054 Budapest, Akadémia utca 3.
Name of contact person	Marietta Szabó
Telephone	+36 (1) 7955-609
Email	marietta.szabo@emmi.gov.hu

<u>Type of SCO reported</u>	FLAT RATE FINANCING
<u>Type of activities covered by the SCO</u> <i>(Please indicate what type of activities is targeted by the SCO).</i>	<p>The following costs can be paid as calculated costs according to this flat rate financing method:</p> <ul style="list-style-type: none">• cost of publicity,• rental fee,• amortisation,• documentation fee,• filing fee,• archivation fee,• accounting fee,• communication,

	<ul style="list-style-type: none"> • postal fee, • banking, • utilities, • project management, • project preparation, • public procurement fee, audit by chartered accountant.
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A. PROJECT DESCRIPTION

<p>A1. Description of the type of operation <i>(Please describe in brief what types of operations are covered by SCO)</i></p> <p>The aim was to make a flat rate financing methodology which is applicable to calls any calls supported by ESF resources in our OP.</p>
<p>A2. Definition of outputs/results <i>(Please give a short definition of outputs and/or results)</i></p> <p>As typical to flat rate financing, the calculated costs are to be financed in line with other (“basis”) costs. This type of financing is not output or result based.</p>
<p>A3. Beneficiaries <i>(please indicate the types of beneficiaries involved in the operations covered by SCO)</i></p> <p>The methodology can be used in all types of ESF projects within the Operational Program, there are no specific beneficiary types targeted.</p>
<p>A4. Target group(s) <i>(Please list target groups within projects covered by SCO)</i></p> <p>The methodology can be used in all types of ESF projects within the Operational Program, there are no specific target groups who could benefit more from the use of this type of 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</i></p>
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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)

The methodology has been defined by using a fair, equitable and verifiable method according to Art. 67.(5).(a)and (i) of the CPR. Statistical data and other objective information are considered and applied in the methodology.

The methodology based simplified cost option has not been covered by a Delegated Act adopted under Art. 14(1) ESF.

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

272/2014 (XI.5.) Government Decree (hereafter as Government Decree) sets percentage limits for certain costs compared to all eligible costs in the projects. These costs are considered indirect costs as they are necessary for the implementation of the projects but do not relate directly to the product, outcome or result of the project. As a result of the methodology, the aim to be achieved was that all these indirect costs with a percentage limit set to all eligible costs of the project could be paid to the Beneficiary on a flat rate basis.

In order to attain the objective, it was necessary to analyze which of the indirect costs enlisted in the Government Decree are relevant and typical in a project supported by ESF.

Type of cost	% of eligible cost set to all eligible costs of the project
project preparation	5
public procurement fee	1
project management	2,5
cost of publicity	0,5
audit by chartered accountant	0,5

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General expenses (overhead, communication, banking, postal fee, documentation fee, filing fee, rental fee, amortisation)	1
Ratio to all eligible costs (%)	10,5
Ratio to other costs (%)	89,5

Three of the above costs are eligible only in specific cases in ESF projects, while the rest are typical costs in all type of ESF calls. Of the three, if project preparation is relevant in the call, all types are beneficiaries will plan with that. There may be some calls where preparation is not necessary, thus it is not eligible. Public Procedures fee is relevant only for some types of beneficiaries, and the call is to be considered heterogeneous in this sense. Similarly audit by chartered accountant is relevant only for some of the beneficiaries because audit is compulsory and thus eligible only in projects above 150 Million HUF support.

In order to clearly identify eligible indirect costs in the given call, the following variants were established. X denotes the costs that can be considered eligible in the given call.

	A	B	C	D	E	F	G	H
project preparation	x	x	x					x
public procurement fee	x				x	x		x
project management	x	x	x	X	x	x	x	x
cost of publicity	x	x	x	X	x	x	x	x

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audit by chartered accountant	x	x			x		x	
General expenses (overhead, communication, banking, postal fee, documentation fee, filing fee, rental fee, amortization)	x	x	x	X	x	x	x	x
Ratio to all eligible costs (%)	10,5	9,5	9	4	5,5	5	4,5	10
Ratio to other costs (%)	89,5	90,5	91	96	94,5	95	95,5	90
Flat rate Calculated costs to other costs	11,731843 %	10,497237 %	9,890109%	4,166666%	5,820105%	5,263157%	4,712041%	11,111111 %

When the MA prepares the call, they have to decide which variant is applicable. If public procurement fee and audit by chartered

accountant fee would be eligible only for some of the beneficiaries, the MA has to choose a variant in which these costs are not financed in flat rate but in real costs.

In the methodology real data of projects from the 2007-2013 programming period were also examined. The team selected 51 calls (1138 projects).

The selection criteria were the following:

- the calls contain similar development goals than those of the 2014-2020 programming period.
- the absorption of the call is above 95%,
- the projects are not involved in irregularity.

The examination of these projects strengthened that the above flat rate measures are realistic. The team also examined the impact of public procurement on indirect costs. According to the calculation indirect costs that were publicly procured were not significantly or at all higher than other costs.

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

A combination of data has been used:

- historical data from similar projects in programming period 2007 - 2013;
- objective data: the limitation set in Government Decree on indirect costs

C. IMPLEMENTATION OF SCO *(Please describe in brief what implementation rules and conditions have been set out).*

The following rules were set:

- 1: Calculated costs are considered as 'paid' in due proportion to other ('direct') costs: if 45 % of the other costs are paid by the beneficiary, 45 % of the calculated costs are paid as well.
- 2: Any reduction of other costs (i.e. following a financial correction) will affect proportionally the amount accepted by the flat rate financing.
- 3: No redeployment is permitted between calculated and other cost categories during the implementation of the project.
- 4: If the project is implemented in a consortium, the flat rate is to be kept on project level.

Practically it means the following (example):

In EFOP-1.5.2, the following cost categories were included in the calculated costs:

- project preparation
- project management
- cost of publicity
- general expenses (overhead, communication, banking, postal fee, documentation fee, filing fee, rental fee, amortisation)

The ratio of these costs to other costs, ie. the percentage flat rate is 9.890109% (VARIANT C).

The total budget of a consortium is HUF 109,890,109. The total cost based on real costs is HUF 100,000,000. At the consortium level HUF 9,890,109 can be paid in flat rate financing.

The two partners in the consortium planned the budget as follows:

The Head of the Consortium planned the following costs that will be paid in flat rate:

Project preparation: HUF 3,700,000;

Cost of publicity: HUF 190.109

The Consortium Partner has calculated the following costs on a flat rate basis:

Project management: HUF 5,000,000;

General expenses: HUF 1.000.000

The flat rate percentage per partner is shown in the table below:

	Real costs:	Costs based on flat rate financing:	Total:	Flat rate percentage:
Head of the Consortium	68.000.000 HUF	3.890.109 HUF	71.890.109 HUF	5,720748%
Consortium Partner	32.000.000 HUF	6.000.000 HUF	38.000.000 HUF	18,750000%
<i>Total:</i>	<i>100.000.000</i> HUF	<i>9.890.109</i> HUF	<i>109.890.109</i> HUF	<i>9,890109%</i>

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

Calculated costs are to be paid in line with other ('direct') costs. No documents are needed for justification of calculated costs.

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 National Coordination Authority and the Directorate-General for European Funds in Hungary (national audit authority) made ex-ante assessment. Both bodies accepted the methodology, the calculation method and the results.

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).*

The MA started to apply the methodology 5 months ago, so it is too early to make an impact assessment. What the MA expects is that the verification process will be simpler.

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.)*

The guidance for applicants, beneficiaries and MA colleagues must be detailed, and illustrated with examples.

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).*

The development of the methodology required 6 to 8 weeks not including the consultations with the audit and coordinating authorities. It is crucial to set the rules for application in a detailed guide both for the MA and the applicants. If the guidance is not detailed enough, or if the phrasing is not accurate, it would cause implementation and audit problems in the future.

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.).*

The calculation method, guidance and documentation are available only in Hungarian. Should anyone interested, feel free to get in touch with us. Contact detail is above.