



Webinar on designing & implementing **SCOs & FNLC** in 2021-2027

Meeting with Member States– online, 23/02/2021

Chair:

Erich UNTERWURZACHER, Director of Directorate F – Better Implementation, Closure and Programme Implementation III, Directorate-General for Regional and Urban Policy

Charlie GRANT, Head of Better Implementation & Closure Unit, Directorate-General for Regional and Urban Policy

Rationale and content

Key objective

- Discuss in detail the SCOs & FNLC provisions of the new CPR
- Provide practical information on submission of SCOs/FNLC schemes under articles 88 & 89 of the new CPR

Contents

- Key regulatory requirements and practical examples on designing, implementing an auditing SCOs
- Provisions and preliminary experiences on developing FNLC schemes

Agenda

Welcome + General introduction

I. Design and implementation of SCOs + Q&A session

II. Audit of SCOs + Q&A session

III. Financing not Linked to Costs (FNLC) + Q&A session

Wrap-up & conclusions

Please submit questions in the **Q&A window** during each Q&A session only

Housekeeping rules

Default settings (unless speaking)

- Cameras switched off
- Microphones muted

If you want to ask a question

- Questions should be asked during the Q&A sessions only
- Write your question in the **Q&A window**

The webinar will be recorded

- Presentations and recording will be shared after the webinar and available on Info REGIO

Further questions after the webinar

- Questions could be sent after the webinar via official channels

Set up & approval of SCO's in 2021-2027

Directorate-General for Regional and Urban Policy:

Melina SOUMELA, Unit F.1 Better Implementation and Closure

CONTENTS

- SCOs in the post 2020: the structure
- Set up & approval of SCOs under Article 88 new CPR
- Appendix 1: what SCOs?
- Part B: an example

SCO articles in CPR – the structure

Article 46(c),(d),(e)

- Forms of Union contribution to programmes

Article 88

- Union contribution based on unit costs, lump sums and flat rates

Appendix 1-Annex V

- Union contribution based on unit costs, lump sums & flat rates

Articles 48-51

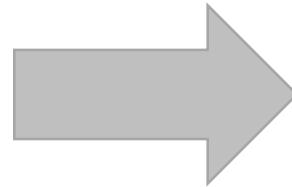
- Forms of support by Member States

SCOs/FNLC in 2021-2027: the structure

EU contribution to programmes: EC-MS

Article 46: The Union contribution may take any of the following forms:

- (a) financing not linked to costs in accordance with Article 89
- (b) reimbursement of support provided to beneficiaries in line with Ch.2 &3 of Title V
- (c) unit costs in accordance with Article 88
- (d) lump sums in accordance with Article 88
- (e) flat-rate financing in accordance with Article 88 or Article 30(5)
- (f) a combination of points (a) to (e).



Member State support: MA-BE

Article 48: Grants provided by Member States may take any of the following:

- a) reimbursement of eligible costs actually incurred by a beneficiary and paid.
- b) unit costs;
- c) lump sums;
- d) flat-rate financing;
- e) a combination of the forms in points (a) to (d).
- f) financing not linked to costs (*must be covered by a reimbursement of the Union contribution in line with Art.89*)

- When use is made of Article 88/89 Member States must reimburse beneficiaries
- Member States may chose the form of reimbursement to their beneficiaries

Article 88 – relationship between COM - MS

EU contribution to programmes **based on SCOs** may be established:

In a **programme** (Article 88.2)

MS initiative

MS develops method – AA assessment

Use of specific template

COM decision

In a **delegated act** (Article 88.4)

COM trigger

COM develops method

No specific template

DA adopted

MS specific

Setup of SCOs under Art.88 draft CPR: the process

Member State decides to use Article 88

Member States establishes methodology using FEV method, draft budget, rules from EU policies or national schemes

Audit Authority assesses methodology

Member State submits to EC Appendix 1 + AA assessment

COM decision approves programme – sets out SCO amounts & rates

Article 88 – WHY to use



Reduction of administrative burden



Approval of methodology by COM



Legal certainty for ALL involved players



Limitation of scope of management verifications & audits



Less errors

Approval of SCOs in a programme: effects

SCO methods, amounts, rates become mandatory as mode of reimbursement between COM-Member States

- for the **priority/types of operations** as specified in Appendix 1 & approved in COM decision
- Does not concern mode of reimbursement between MA-BE (art.48)
- Changes to methods, amounts, rates require programme amendment

Legal certainty : limitation of scope of management verifications/audits

- Commission audits or Member States management verifications and audits **shall exclusively** aim at verifying that the conditions for reimbursement have been fulfilled i.e. the elements included in Appendix I to Annex V to CPR, as approved by the Commission.
- The **limitation of scope** regarding management verifications and audits **extends** to the relationship between the MA and beneficiaries and irrespective of the mode of reimbursement of beneficiaries.

What about SCO schemes implemented before approval in a programme ?

- It is always possible to implement SCO schemes at national level – no requirement of COM approval
- So long as SCOs are not approved by the COM, the MS does not benefit from the legal certainty.



Questions submitted before the webinar –

(general questions on article 88)

1. degree of “binding nature” of the SCO methodology once approved for the purpose of the OP
2. Is it possible to start using SCO methodology nationally, if the SCO methodology has not yet been included/accepted in the Annex V of OP?
3. Once the SCO is approved (e.g. unit costs for project management), is it possible that it does not apply to the same type/nature of operation/expenditure within several priority axes of a given OP?

WHAT to submit to COM



Appendix 1 and AA assessment.



Appendix 1 must:

- Be **duly completed**: all parts A,B,C filled in
- Part B: If several **SCOs covering different categories of costs**: fields **1.3 - 1.11** to be filled in **for each indicator**.



AA assessment:

- Must be **clear & positive** (point C5 of Appendix 1)
- be part of the SCO schemes submitted with the programme

Appendix 1 – SCOs **TO BE** included



Appendix 1 should include **only SCOs** for reimbursement by **COM to MS**.



SCOs in Appendix 1 **may be the same** as SCOs applied at the level of the beneficiary.



For the **ESF**

- SCOs approved by Delegated Act 2015/2195 for a specific MS
- New SCOs (COM to MS level)

Appendix 1 - SCOs **NOT** to be included

SCOs defined by the MA to reimburse BE (articles 48-51)

- Template used for SCO according to Art. 88 not to be used for SCO methodologies based on Article 48

SCOs included in a delegated act

- Exception for EMPL: Delegated Act 2015/2195

Off the shelf SCOs from CPR

Appendix 1 – Part B

1.1 Types of operations

- Operations **clearly described** - all elements mentioned (ie eligible activities, beneficiaries, expected outputs, duration)
- Information **should allow to conclude** that the types of operation:
 - fall within the scope of the Fund concerned
 - indicate a contribution to the achievement of the objectives of the programme
 - give sufficient assurance that they are not physically completed/ fully implemented

1.3 Indicators

- Indicators that will trigger reimbursement
- indicator name should correspond to the unit of measurement
- Example: participation in exhibitions

1.4 Unit of measurement

- Clear mention of the unit of measurement
- Should correspond to the types of operations define in 1.1
- Example: number of exhibitions attained

1.5 SCO

- SSUC- Lump sum- flat rate

1.6 Amount per unit of measurement

- It should correspond to the equivalent field under part A

Appendix 1 – Part B

1.7 Categories of costs covered

- Clear description of categories of costs covered

1.8 Do they cover all eligible expenditure

- Yes/No
- if not all categories covered describe which categories of costs are claimed on top of the SCO for these operations
- Pay attention to avoidance of double financing

1.9 Adjustment method

- Describe clearly the adjustment method/ include information on the conditions and timing of its application
- Explain where it is based (national legislation or other)

1.11 Perverse initiatives/mitigating measures/risks

- major risks of using this simplified cost option instead of applying real costs
- Clearly identify risks/measures taken

1.12 Total amount (national and EU) expected to be reimbursed

- total amount expected to be reimbursed by COM should correspond to the relevant amount under part A

Questions submitted before the webinar

(appendix 1)

1. As no delegated act Article 88(4) exists, should the managing authority fill Annex V concerning every simplified cost option it would like to use to reimburse expenditure by Commission?
2. minimum amount of EUR to be covered by the specific SCO methodology in order to be included in the Annex V of OP?
3. Is it possible to fill in Appendix 1 with SCO methods that are planned to be applied between MA and beneficiary?
4. Is it acceptable to indicate in appendix 1 Annex V CPR SCOs implemented in accordance with Article 48 CPR, incl. off-the-shelf options or the EU level SCOs from the EC delegated act ?
5. Can the same template as used for SCO according to Art. 88 be used also for the SCO methodology according to Article 48?
6. Which categories of sco have to be submitted with the operational programme? How to distinct these sco from other sco?

Maps of SCOs in 2021-2027

Key outcomes

Luca SANTIN, Thematic Expert, Transnational Network of ERDF/CF SCO practitioners, Italy

Preparations of SCOs for 2021-2027



Mapping of SCOs proposals under art. 88 CPR launched in 2020 by the [ERDF/CF Transnational Network \(TN\) on SCOs](#)



Template based on Annex V – Appendix 1 (parts B and C)



Key steps of the process:

Preliminary data collection

Peer-review

Revision and update of SCO maps



Latest update (Dec. 2020): 162 ERDF SCO proposals from 21 Member States



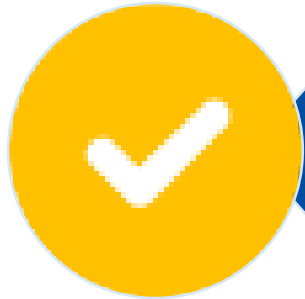
Further updates are possible (more time needed to add/develop proposals)

Key outcomes from the SCO maps



Types of operations covered (most frequent):

- All types (29% of practices)
- SMEs growth and competitiveness (25%)
- R&D (16%)
- Energy efficiency & Renewable energy (9%)
- Environmental protection (8%)



Type of SCOs used:

- Unit costs (46%)
- Flat Rate (31%)
- Lump Sum (20%)
- n.a. (3%)



Cost categories covered (most frequent):

- All costs of the operation (34% of practices)
- Indirect costs (18%)
- Staff /Direct staff costs (17%)
- Direct costs (12%)

Assessment / audit: where are we at?

- ✓ **Ex ante assessment of SCO proposals:** carried out for 10% of proposals
- ✓ **Audited:** SCO methodologies were audited for an additional 9% of proposals
- ✓ **Off-the-shelf:** around 11% of SCOs are based on options available in the Regulation
- ✓ **In progress:** for 7% of proposals the assessment is not yet finalised
- ✓ **The majority of SCO methodologies** to be potentially adopted under art. 88 CPR has **neither been assessed nor subject to audit** (61% of proposals)

A few preliminary conclusions

- ✓ Vast majority of Member States is finalising proposals under art. 88, including unit costs and lump sums covering all costs (max. simplification)
- ✓ (Still) there is some 'unexpressed potential' (e.g. see the [SCO Maps for 2014-2020](#))
- ✓ Most SCO proposals are input/process based: lower 'risk' but higher administrative costs and burden
- ✓ Remarkable progresses in collaboration between MA and AA around SCOs (also thanks to good examples shared by Member States and efforts/support by EC and TN) but for the majority of proposals the assessment has not started, yet
- ✓ Finalising/adding new proposals requires some 'extra effort' for Member States and EC



Example of SCOs schemes under article 88 CPR – LT experience in using Annex V (Appendix 1)

SCO methodologies under Article 88 CPR (Annex V)

Provided for EC:

- Standard scales of unit costs for installation of solar power plants.
- Standard scales of unit costs for change of boilers in households.
- Standard scales of unit costs for acquisition of solar power plants on geographically remote plots of land from third parties.
- Standard scales of unit costs for participation in international exhibitions.
- Standard scales of unit costs for job creation.

In the preparation stage:

- Standard scales of unit costs for energy savings.
- Standard scales of unit costs for psychosocial rehabilitation and reintegration of persons addicted to psychoactive substances.
- Standard scales of unit costs for social care and nursing of people at home.



Why unit costs?



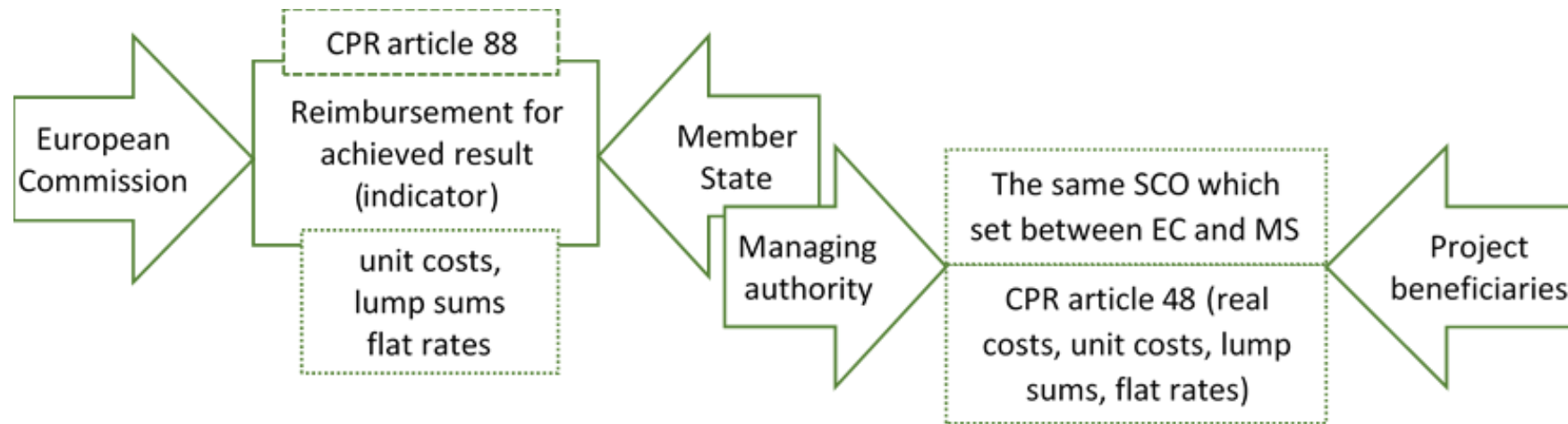
Types of operations and indicators for SCOs

SCO	Priority	Type of operation (1.1)	Indicator name (1.3)/ Unit of measurement for indicator (1.4)	Categories of costs covered
SSUC for installation of solar power plants	Priority 2 „ A Greener Lithuania"	To promote the production of electricity from RES and the introduction of energy storage solutions in households (ERDF/CF).	Capacity of solar power plants installed for household electricity needs/ kW.	Equipment and installation costs
SSUC for change of boilers in households	Priority 2 „ A Greener Lithuania"	To increase energy efficiency in households not connected to district heating networks. To promote thermal energy production from RES in households (ERDF/CF).	Capacity of RES heat plants installed in households / kW.	Acquisition and installation costs of new generation biofuel pellet boilers or heat pumps
SSUC for acquisition of solar power plants on geographically remote plots of land from third parties	Priority 2 „ A Greener Lithuania"	To promote the production of electricity from renewable energy sources (ERDF/CF).	Capacity of purchased solar power plant for household electricity needs / kW.	Equipment costs
SSUC for participation in international exhibitions	Priority 1 "Smarter Lithuania"	To strengthen the growth and competitiveness of SMEs (ERDF).	Participation of economic entities in international exhibitions / Number of international exhibitions, pcs.	All costs of participation in exhibition abroad
SSUC for job creation	Priority 4 „More Socially Responsible Lithuania"	Active labor market policy measures (support for job creation) (ESF).	Jobs created or adapted / Number of jobs created or adapted per participant, pcs.	Job creation / adaptation costs

Calculation of SCOs

SCO	Method for calculation
SSUC for installation of solar power plants	Market price research (suppliers' survey)
SSUC for change of boilers in households	Market price research (suppliers' survey)
SSUC for acquisition of solar power plants on geographically remote plots of land from third parties	Market price research (suppliers' survey)
SSUC for participation in international exhibitions	Historical data analysis, analysis of national legislation and EU schemes
SSUC for job creation	Historical data analysis and analysis of national legislation (The Law on Employment of the Republic of Lithuania)

Reimbursement scheme



How to start?

- **Preparation of Program for the EU funds' investments in 2021–2027 for consideration with EC.**
- **Discussions between the MA and Ministries identifying which operations could use SCOs under Article 88 of the CPR.**
- **Designing SCO oriented to result.**
- **Alignment of the SCO methodology with the authorities responsible for the activity implementation.**
- **The preparation of Annex V.**
- **Ex ante evaluation of Annex V (SCO methodologies) by national AA.**
- **Submission of Annex V for EC.**

Recommendations and issues

Recommendations:

1. Strong communication and collaboration between different authorities.
2. Informal and (or) formal collaboration between MA and AA.
3. To work clearer on the strategy (what programs will be financed, what SCOs could be used).
4. First, to apply what has been safely used in the previous period.
5. To unify the vision and understanding of all institutions regarding the SCO under Art.88 usage.
6. If a new SCO methodology is being developed, it is very important to have a good self-assessment of the whole process.

Issues:

1. The change in the mindset of the Ministries.
2. When developing new methodologies based on historical project data for a new period, ways need to be found to calculate costs that were not funded in the previous period but should be included in the new SCO.
3. For some types of operations establishing SCOs could take more time/efforts.

Replies to questions received from Members States before the webinar

Directorate-General for Regional and Urban Policy:

Melina SOUMELA, Unit F.1 Better Implementation and Closure

Raluca CHETRARU, Unit F.1 Better Implementation and Closure

CONTENTS

- Developing SCO methodologies
- Payment applications & SCOs
- Other regulatory changes in the post 2020: forms of support by Member States (articles 48 - 51 new CPR)
- Mandatory use of SCOs
- SCOs & public procurement
- SCOs & State aid
- Other questions

... Developing SCO methodologies



Recommendation: do not use Appendix 1 for single operations

Methodologies approved by EC in a programme can be used to reimburse beneficiaries. No need for new methodologies

Methods should be reliable proxies of real costs

Draft budget/expert judgment

Draft budget can be used to define SCOs for parts of an operation. Number of indicators used determines how many times you fill in Appendix 1

Expert judgment: well documented, coherent. Reliability & compatibility of expert judgment should be demonstrated

Combination of methods

A SCO established by DA can be used by a MA developing method **in line with Art.48**

Different categories of costs should be covered

Double financing should be avoided

Adjustment/update

Adjustment methods enshrined in methodology – Art.88

Automatic adjustment mechanisms recommended

Adjustment methods should be reliable and well documented.

Data used

No minimum data number requirement for SCO calculations

For **methods established long ago** = risk of using outdated data not relevant anymore for the development of calculation methods - no reliable proxy of actual costs .

Questions submitted before the webinar

(methodology)

1. Using the calculation method of the Draft budget, is it necessary to insert each lump sum in the Annex V of OP, or should the overall Draft budget approach be harmonised with the EC?
2. Should the MA collect official "suppliers" of data or requested to use statistical, historical or other relevant data (sources). Is MA obliged to collect data and evaluate them in respect to the possibility of submitting updated or new SCOs or for the need of future possibilities for updating Annex V?
3. Can there be an overlap of some SCO methodologies within the same program/priority axis or call? How to approach the combination of SCO in case of SCO adopted by delegated act within the meaning of Article 88 and the SCO methodology established and approved by the MA and assessed by AA within the meaning of Article 48?
4. We understand that if AA and EC confirms the methodology for SCO under article 88, it can be directly used also under article 48 (for payments to beneficiaries). Or separate methodology should be prepared? Please confirm
5. Is it possible that, for defining SCO under article 88 of CPR, data from operations in 2007-2013 is used and adopted by official inflation rates? The same inflation rate will then be used for adoption of SCO under article 88.

Payment Applications & SCOs (Art.85)

Use of APPENDIX 1	Article CPR/level	Annex XIX – payment application table	
		Column (B) <i>eligible expenditure incurred by beneficiaries and paid (Article 85(3)(a) & 85(4)(c))</i>	Column (B) bis <i>Total amount of Union contribution (Article 85(4)(a) & (b))</i>
YES/NO	COM - MS	MA-BE	COM -MS
N	46(b)	<ul style="list-style-type: none"> • real costs (48)(1)(a) • SCOs – Article 48 (1) (b),(c), (d) 	N.A
Y	<ul style="list-style-type: none"> • 46 (a) • 46 (c),(d),(e) 	N.A	<ul style="list-style-type: none"> • FNLC (Art.89) • SCOs (Art.88)

Questions submitted before the webinar

(payment applications)

1. Template for payment applications - Article 85(3):
 - Column B, corresponding to level Member State - beneficiaries, is the column in which the "real costs" under article 48 (a) and simplified costs options under article 48 (b), (c) and (d) should be declared.
 - Column B bis, corresponding to level Commission - Member State, is the column in which simplified costs options and financing not linked to costs under article 46, 88 and 89 should be declared.
2. Could Commission indicate to what type of costs article 85 (3) (a) and article 46 (b) refer exactly and in which column the costs under 46 (b) should be declared?
3. We can have different modes of reimbursement between the two levels. But do both amounts have to appear in the application for payment?
4. should the data relating to payments to beneficiaries be recorded and stored in the program' single information system in order to satisfying the requirements of article 87-5-b? is it confirmed that these data will not be auditable by EC or MS audits (in accordance with article 88-3 paragraph 3) even though they are in the same IS of the program.
5. Presentation of private means in payment requests

Forms of support by Member States: novelties

Article 48 Calculation methods

- Use of existing EU schemes or own national schemes for similar types of operation (no similarity with beneficiaries)
- Draft budget: where total cost of the operation does not exceed EUR 200 000

Article 49 Indirect costs

- 7% of eligible direct costs – no calculation method
- Indirect costs calculated as a flat rate of up to 25% of eligible direct costs: re-use of method already calculated in line with FEV method for similar operation

Article 50 Flat rate for staff costs

- Possibility to use off-the-shelf flat rate of 20% if the direct costs include public works or **supply** or **service** contracts above the threshold defined in the public procurement directives only if calculation based on FEV methodology

Article 50 Unit cost for establishing an hourly rate

- New way of calculating an hourly rate: latest monthly gross employment costs / average monthly working time

Mandatory use of SCOs



Operations with total cost up to EUR 200 000, except for operations for which the support constitutes state aid (Article 48.1 new CPR)

Questions submitted before the webinar

1. Shall we include into the total costs the VAT paid by the beneficiary in the course of purchase of equipment or other items even if this input VAT is later deducted/recovered (as an ineligible expenditure in the project)?
2. Shall we include in one "operation" only those costs (eligible and possibly ineligible ones) that relate to the supported project and are defined in the financial plan submitted in the application of the support?
3. When should the compliance with the mandatory use of SCOs be checked?
4. Mandatory use of SCOs if operation fully procured and total cost up to EUR 200 000?

SCOs and public procurement : **novelties**



Operations fully procured may be implemented with the use of SCOs



When the direct costs of an operation include public works or supply or service contracts, which exceed the PP directives threshold, possibility to use the off-the-shelf flat rate of up to 20% to calculate direct staff costs only if calculation based on FEV methodology

SCOs and public procurement : verifications

Underlying financial or **public procurement documents** shall not be requested to check the amounts (expenditure) incurred by the beneficiary and paid

- *For both SCOs subject to article 88 CPR (COM - MS) & SCOs subject to article 48 CPR (MS – beneficiary)*

Public procurement documentation will only be checked in relation to the **basis costs (declared as real costs) in the case of flat rates**

Public procurement rules must be respected even if underlying financial or public procurement documents are not subject to verifications

Questions submitted before the webinar

(SCOs and public procurement)

1. Is it sufficient to abstractly examine the compliance with public procurement rules, if applicable, on the basis of the procurement system prescribed by the beneficiary and by means of a self-declaration in the application and in the documents for reimbursement?
2. Can it be confirmed that there will be no specific rules to verify compliance with public procurement beside the use of simplified cost options, i.e. to check that procurement rules are in any case complied with?
3. Can public procurement covered by a SCO be the subject of a thematic audit? Otherwise, can a system audit on this subject take into account operations implemented by SCO in its sampling? In this context, what correction methodology applies considering that the EC decision of 14 May 2019 (relating to financial corrections of irregularities relating to public procurement) do not apply to SCO?

SCOs and state aid



If funding constitutes State aid (cf. article 107 TFEU), the calculation and implementation of SCOs must comply with State aid rules

Categories of costs for which SCOs are setup must be eligible under both ESIF and State aid rules

Maximum aid intensities set out in State aid rules must be respected



Compliance with State aid rules should be checked when the SCOs methodology is established and aid intensity is calculated

Questions submitted before the webinar

(SCOs and State aid)

1. Is the use of SCOs mandatory, if *de minimis* and state aid (GBER) are combined in one operation the total cost of which does not exceed EUR 200.000?
2. Is correct the conclusion that MAs or AAs are not obliged to do the control or audit of compliance with the state aid rules if the state aid rules are taken into consideration in the methodology on SCOs setting? Is it necessary to have the SCOs methodology verified by the AA in such a case?
3. In case the state aid rules is not taken into consideration in the process of setting the SCOs methodology, my understanding is that the MAs should control the compliance with state aid rules before the decision on the EU funds provision is issued and the amount set based on the SCOs methodology (e.g. amount per unit multiplied by the number of units, the lump sum or the amount of costs, which should be reimbursed based on FR) is considered to be the amount of eligible costs, to which the relevant state aid intensity is applied. Is this understanding correct?

Other questions submitted before the webinar (1)

1. How to deal with the case when the VAT is part of eligible costs used for the calculation of the SCOs (e.g. lump sum or unit costs) and in the course of the project implementation or during the sustainability period the beneficiary changes its status from the VAT point of view and becomes the VAT payer with the right of the VAT deduction (i.e. the VAT becomes ineligible)?
2. Regarding flat rate, what sort of good practices had been identified relating to reckoning basis cost and calculated costs, in order to fulfil the requirement that calculated costs shall always be paid together with basis costs?

Other questions submitted before the webinar (2)

3. Art. 48.1 second subparagraph allows that the managing authority exempts operations from the mandatory use of SCO in the case of research and innovation. The monitoring committee has to give its prior approval. As regards the future funding period, when does the monitoring committee has to approve and which monitoring committee (of funding period 2014-2020 or 2021-2027)?
4. How to ensure that expenses to be covered by simplified cost options and other expenses can be clearly distinguished (especially indirect costs/administrative personnel costs to be distinguished from other personnel costs). Which criteria are appropriate for such a distinction?

Q & A session

*Please write your questions in the **Q&A window***

Moderation:

Luca SANTIN, Thematic Expert, Transnational Network of ERDF/CF SCO practitioners, Italy



Webinar on designing & implementing SCOs & FNLC in 2021-2027

Assessment/Audits SCOs

*23rd of February 2021
DG Regional and Urban Policy
Directorate C*

Audits for off the shelf



No methodology necessary



No justification of percent if within the set limits



Verifications of conditions for reimbursement

- ✓ Calculation basis (real costs to which the flat rate applies)
- ✓ Fulfilment of requirements (the correct percentage is applied/the rules for the hourly rate are observed)
- ✓ No double declaration

Audits for SCOs and FNLC



Art. 48/New CPR

- Methodology
- Verification of application of the Methodology



Art. 88/New CPR




- No further audits of Methodology (assessment performed ex-ante)
- Verification of application of the Methodology



Art. 89/New CPR

- Audits focus only on conditions for reimbursement or achievement of results

Overview of assessment/audits

SCO	Off the shelf	Art. 48	Art 88
Methodology	No	Ex-ante or during implementation	Ex-ante (+EC approval)
Application			

AA assessment for SCOs Art. 88

Article 88 (2) draft CPR and Annex V Table C. Q.5.

Assessment of the audit authority(ies) of the calculation methodology and amounts and the arrangements to ensure the verification, quality, collection and storage of data.

=> Provide a **clear positive conclusion** in Annex V

AA assessment for SCOs Art. 88



Verification of individual methods/amounts established by MA

- ✓ fair, equitable and verifiable calculation method
- ✓ draft budget
- ✓ methodology applied under another EU policy
- ✓ methodology applied under another national policy



Verification of the correct deliverables/amounts

Tools available for assessment/audits of SCOs

Checklist

- ✓ Ex-ante assessment (art. 88)
- ✓ System audits (methodology – art. 48 and application –art 48+88)
- ✓ Operation audits (application of methodology – art. 48 /conditions for reimbursement in case of off-the-shelf)

Template for AA conclusion (for Annex V)

Questions submitted before the webinar

(Assessment)

1. Are all SCOs foreseen for the funding period 2021-2027 to be approved and certified by the audit authority (or only those to be submitted with the operational programme)?
2. Given the voluntary nature of the SCO and the non-binding nature of the ex-ante assessment of the SCO methodology based on the Art. 48 by the AA, is it possible to set up an obligation on the MA to use this tool?
3. Is it possible to jointly execute the ex-ante assessment of the SCO methodology (outside Annex V) based on Article 48, with the EC representatives/auditors?
4. Where is the border line between the SCO methodology and other supporting documents? Should the AA ex ante assessment also concern the broader context of the operation?

Questions submitted before the webinar

(Audits 1)

1. What is the scope of AA's role in the preparation and approval of bespoke SCOs (unit costs, flat rates etc.) and in giving security and reassurance to project partners before incurring costs?
2. If we decide to apply the SCOs under the Article 88 for reimbursement between EC and MS, can we apply any funding scheme domestically and this means that it will be no longer audited by the Audit Authority?
3. The SCO/FNLC Appendices of the Programme Template still create doubts. What we understand is that these are linked to the relation between programmes and Commission, but they provide security for projects to use SCOs. We would like more information exactly on how it works.

Questions submitted before the webinar

(Audits 2)

1. If a project result is achieved using SCOs, but there are certain/technical weaknesses in the procurement procedure, shall the expenditure of SCOs be fully eligible for declaration to the EC?
2. How can the MA certify that the entire project implementation process is working, if the compliance of the process with the regulatory framework is not checked, as audits will only verify the results achieved by SCOs?
3. Can the Commission present an updated checklist of how audits will be carried out?

Q & A session

*Please write your questions in the **Q&A window***

Moderation:

Luca SANTIN, Thematic Expert, Transnational Network of ERDF/CF SCO practitioners, Italy

Financing Not Linked to Costs (FNLC)

Directorate-General for Regional and Urban Policy:

Melina SOUMELA, Unit F.1 Better Implementation and Closure

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- FNLC in the post 2020: the structure
- Set up & approval of FNLC under Article 89 new CPR
- Appendix 2: FNLC elements to submit to COM
- FNLC in line with Article 89: an example

FNLC articles in CPR – the structure

Article 46a

- Forms of Union contribution to programmes

Article 89

- Union contribution based on FNLC

Appendix 2-Annex V

- Union contribution based on FNLC

Articles 48 (1)(f)

- Forms of support by Member States

Article 89 - COM-MS

EU contribution to programmes based on FNLC may be established:

In a **programme** (Article 89.1)

MS initiative

MS develops proposal

Use of specific template

COM decision

MS specific

In a **delegated act** (Article 89.4)

COM trigger

COM adopts amounts/conditions

No specific template

DA adopted

Any MS

Setup of FNLC under Art.89 draft CPR: the process

Member State decides to use Article 89

Member State establishes FNLC scheme based on elements of Article 89(1)

NO mandatory assessment by Audit authority BUT recommended

Member State submits to EC Appendix 2

COM decision approving programme – sets out all elements of 89(1)

WHAT to submit to COM for FNLC



Appendix 2 duly completed – all parts filled in



No mandatory submission of AA ex ante assessment with Appendix 2 - no part C as in Appendix 1



No mandatory involvement ex ante of AA but recommended

Elements to submit to COM- Art.89 (1) - Appendix 2

- ✓ Priority concerned, type of operations, total amount
- ✓ Conditions to be fulfilled/results to be achieved & deadline
- ✓ Units of measurement
- ✓ Intermediate deliverables & related amounts for reimbursement by COM
- ✓ Arrangements for verification of intermediate deliverables & fulfilment of conditions/results achieved

Commission approval: basic principles



- Recital 26: when FNLC is used actions, deliverables, conditions linked to concrete investments
- FNLC scheme linked to implementation of specific projects in a programme



- Respect of sound financial management
- Appropriateness of amounts linked to fulfilment of conditions/results to be achieved



- Member State proposal must be substantiated
- Flexibility for definition of deliverables/conditions
- financing conditions/results & amounts based on methodologies

Approval of FNLC in a programme: effects

FNLC schemes become mandatory as mode of reimbursement between COM-Member States

- for the **priority/types of operations** as specified in Appendix 2 & approved in COM decision
- Does not concern mode of reimbursement between MA-BE (art.48)

Legal certainty : limitation of scope of management verifications/audits

- Commission audits or Member States management verifications and audits shall **exclusively** aim at verifying that the conditions for reimbursement have been fulfilled i.e. the elements included in Appendix 2 to Annex V to CPR, as approved by the Commission.
- The **limitation of scope** regarding management verifications and audits **extends** to the relationship between the MA and beneficiaries and irrespective of the mode of reimbursement of beneficiaries.

Changes to FNLC elements require programme amendment

- Whatever affects the FNLC scheme as included in Appendix 2 & approved
- Milestones, implementation steps, amounts, timeline, methods.

FNLC: an example

- ✓ Types of operations: energy efficiency in buildings
- ✓ Total amount for the FNLC scheme: XXX €
- ✓ Condition to be fulfilled: decrease of primary energy consumption of public buildings by XX kWh/year (with a detailed definition)
- ✓ Unit of measurement of conditions to be fulfilled: kWh/year
- ✓ Intermediate deliverables: milestones & corresponding amounts (payment profile): XX tones CO2 reduction corresponding to X% of ERDF contribution

Questions submitted before the webinar (FNLC)

1. What would be the possibilities and procedure to change FNLC approved milestones/implementation steps that trigger the payment. It will be extremely important that the flexibility to redesign the operation would be maintained in the new scheme.
2. What is the possibility for member state to redesign or modify the methodology to calculate the total amount of FNLC.
3. In case of an operation that last throughout the period, would it be possible to build-up a pilot FNLC for shorter period, for example 1 or 2 years and if its working then to implement for the whole period
4. Recital 26 states: “deliverables and conditions agreed should be related to concrete investments” What is the meaning of “should be related to concrete investments” does it mean that in the case of FNLC is necessary to have a proxy of real costs?
5. Amounts in a COM decision: does it mean the cost of an activity, a proxy of the real cost, a symbolic value of the importance of a certain result or condition that are intended to be achieved? Could the value be dependent of the difficulty in achieving a certain result?
6. What is the role of AAs? will it be necessary or not to include the AA assessment when an MS submits its proposal? Will auditors be verifying sources used & calculation methods before submission?



REPUBLIC OF ESTONIA
STATE SHARED SERVICE CENTRE

Financing not linked to costs – first steps in Estonia

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Starting point



FNLC: only the tip of an iceberg

- MS+COM: milestones, results & price + payment & certifying procedures;
- National level:
 - Deciding on type of project financing (FNLC, SCOs, costs, mixed);
 - Pre-financing and risk-taking;
 - State and beneficiary level accounting:
 - Budget planning not straightforward;
 - Flexibility issues
 - Costs and revenues may differ significantly (amounts, periods);



Questions and hesitations (... but, if)

- Need for changing/ not needing the agreed milestones (intermediate deliverables) in order to achieve the results;
- Possibility for 1-2 year piloting FNLC;
- Extent of audits;
- Agreeing with COM on price tag:
 - Sound financial management (priorities, principles, methods);
 - Reasonable steps of payments



Principles for deciding to use FNLC if..



Main conclusion:

Business-like approach - concentrating on results from beginning on all levels



Q & A session

*Please write your questions in the **Q&A window***

Moderation:

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