

## Methodology for unit costs of staff costs: standard hourly rates

Reusing an existing EU/national policies simplified cost option (SCO) method works similarly to an off-the-shelf method, i.e., the programme does not have to develop the methodology from scratch. Such SCOs can be developed by one programme and applied in another programme ('copy-paste' method). Basic principles of the copy-paste method are to re-use the method entirely and to apply it to similar types of projects.

In order to be able to copy-paste a methodology, the concerned SCO should be in use at the moment of the publication of a call for proposals. Also, in case adjustments in the original method are foreseen (e.g., of the values, change in the % of the flat rate, etc.), they should be mirrored accordingly in the programme that copy-pasted the method.

Estonia-Latvia programme copy-pastes the Baltic Sea Region Programme (BSR) methodology without any alterations similarly to the Central Baltic Programme. The BSR approach that has been verified by the BSR audit authority.

BSR covers 11 countries and Central Baltic covers 4 Member States, both include Estonia and Latvia. Thus, 3 Interreg programmes have overlapping geography and both Member States Estonia and Latvia are part of the Central Baltic and BSR programmes.

### **Background**

For the 2021-2027 period, the Commission proposed more harmonisation as regards the implementation of the SCOs among the Funds.

Based on the experience of cross-border cooperation during the 2014-2020 period in Interreg programmes, where there has been no sufficient simplification for programme authorities and beneficiaries, Estonia-Latvia programme establishes SCOs to enable regions to cooperate in the most effective and simple way.

Experience shows that projects who are using SCOs contribute to more correct use of the Funds, and more extensive use of SCOs would have a positive impact on the level of error rate.

Using SCOs means also that the human resources and administrative effort involved in management of the programme and projects can focus more on the achievement of policy objectives instead of concentrating on collecting and verifying financial documents. In addition to decreasing the workload of financial controllers, it decreases the programme consultants' workload as regards giving advice to the beneficiaries on project implementation and reporting. It will also facilitate access of small beneficiaries to the funds/programme, increase efficiency of the management, and enable applicants to focus more on the results of their respective projects.

According to the basic principles of the preparation of the methodology for establishing SCOs, the unit costs must be calculated as follows:

- It must be fair: the calculation has to be reasonable, i.e. based on reality, not excessive or extreme.
- It must be equitable: the main notion underlying the term 'equitable' is that it does not favour some beneficiaries or operations over others. The calculation of the standard scales of unit cost, lump sum or flat rate has to ensure equal treatment of beneficiaries and/or operations. Any differences in the amounts or rates should be based on objective justifications, i.e. objective features of the beneficiaries or operations.

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- It must be verifiable: the determination of standard scales of unit costs should be based on documentary evidence which can be verified. The managing authority has to be able to demonstrate the basis on which the simplified cost option has been established. It is a key issue to ensure compliance with the principle of sound financial management.

According to the Article 53 (3) of the CPR the amounts for the forms of grants referred to under points (b), (c) and (d) of paragraph 1, shall be established in accordance with the rules for application of corresponding unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation.

The programme has justified the similarity of projects. The copy-paste approach implies that:

- the concerned SCO should be still in use at the moment of the publication of a call for proposals);
- in case adjustments in the original method are foreseen (e.g., of the values, change in the % of the flat rate, etc.), they should be mirrored accordingly in the programme that copy-pasted the method.

**Type of projects covered**

BSR and EE-LV programmes are European territorial cooperation goal (Interreg) programmes and support cooperation across borders and follow the same regulation framework. The cross-border cooperation strand aims to tackle common challenges identified jointly in the border regions, and to exploit the untapped growth potential in border areas.

Both programmes fund projects of a similar set-up. The projects are similar in duration, around 3 years, in the fact that partnerships must be international, the budgets sizes are similar, and the application form and implementation tools are similar.

All projects and types of partners should benefit from this standard hourly rate.

Criteria	Estonia-Latvia programme		BSR	
	Core projects	Projects of limited financial volume	Core projects	Small projects
Budget	Up to €1 000 000	Up to €70 000	No limitation (must be proportionate to activities)	Up to €500 000
Project duration	No set limit, but typically 24-36 months	Up to 24 months	Up to 36 months	Up to 24 months
Application	Standard Application	Standard Application	Standard Application	Simplified Application Form
Reporting	Full reporting form, wide use of SCOs	Full reporting form, wide use of SCOs	Full reporting form, wide use of SCOs	Shorter reporting forms, wide use of SCOs
Partnership	At least one Estonian and one Latvian partner	Target groups of both countries must be involved.	At least three	At least three organisations from three

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			organisations from three Programme countries	Programme countries
Cost categories	<p>SCOs:</p> <ul style="list-style-type: none"> <li>• staff costs (hourly rate);</li> <li>• office and administrative costs (15% flat rate);</li> <li>• travel and accommodation (10% flat rate).</li> </ul> <p>Real cost:</p> <ul style="list-style-type: none"> <li>• external expertise and services;</li> <li>• equipment;</li> <li>• infrastructure and works.</li> </ul>	<p>SCOs:</p> <ul style="list-style-type: none"> <li>• staff costs (hourly rate);</li> <li>• office and administrative costs (15% flat rate);</li> <li>• travel and accommodation (10% flat rate).</li> </ul> <p>Real cost:</p> <ul style="list-style-type: none"> <li>• external expertise and services;</li> <li>• equipment.</li> </ul>	<p>SCOs:</p> <ul style="list-style-type: none"> <li>• staff costs (hourly rate),</li> <li>• office and administrative costs (15% flat rate);</li> <li>• travel and accommodation (15% flat rate).</li> </ul> <p>Real cost:</p> <ul style="list-style-type: none"> <li>• external expertise and services;</li> <li>• equipment;</li> <li>• infrastructure and works.</li> </ul>	Staff costs (hourly rate), other remaining costs (40% of the staff costs).
Key characteristics of a project	Cross-border character, cooperation nature of the projects: joint development, joint implementation, joint staffing, joint financing			
Weight of staff costs (hourly rate) and similarity of activities	Wage levels of project staff are compatible and very similar in two Interreg programmes. If functional groups were used, provide a description of functional groups and activities/responsibilities covered by each group to allow concluding on similarity			

**Types of partners covered**

The whole Estonia-Latvia programme area is covered by the BSR programme geography, and therefore the partners are partly identical and certainly similar.

The use of SCOs covers employees of all types of partners who work for the project: private companies, NGOs, regional and national state institutions, municipalities, planning regions, development centres, education and R&D institutions, and other public bodies.

Programme	Types of partners according to the IP 2021-2027
BSR	Public authorities at local, regional and national levels, business support organisations, sectoral agencies, advisory centres and boards, infrastructure and service providers, NGOs, higher education and research institutions as well as education and training centres
EE-LV programme	Private companies, NGOs, regional and national state institutions, municipalities, planning regions, development centres, local tourism development organisations, relevant umbrellas, R&D institutions, and other public bodies.

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Conclusion: both Interreg programmes provide support to similar types of partners, i.e., similar beneficiaries are eligible for co-financing according to programmes' eligibility rules.

### Categories of costs covered by single standard hourly rate

The staff costs of standard hourly rates cover all salary payments related to the activities of the project(s) and any other costs directly linked to salary payments incurred and paid by the employer, such as employment taxes and social security including pensions.

### Amount for the SCO

A unified single standard hourly rate for staff costs is defined for each country:

- Estonia €29;
- Latvia €24.

The use of the hourly rate for staff costs is mandatory and will be applied to all partners of all projects. The single hourly rate is standard for each employee who works for a project, regardless of the position.

### Basis of the calculation methodology

The option to use simplified cost options from other EU programmes or Member states' schemes is introduced in the Common Provisions Regulation:

- Article 53 (1b) of the EC Regulation of the 2021/1060 foresees that, the grant is provided as unit cost;
- Article 53 (3a) of the EC Regulation of the 2021/1060 foresees that, the grant is based on a fair, equitable and verifiable calculation method;
- Article 53 (3a (i)) of the EC Regulation of the 2021/1060 foresees that the grant is established based on an expert judgement.

### Justification for the method selected

The unit costs (hourly rates) for staff costs lowers the administrative burden for project partners and programme authorities. During the management verifications the risk of errors in documentation and in the calculations reduces.

The main problem with staff cost is that there are many different calculation methods, most findings and errors, verification is most complicated and time consuming.

The Managing Authority and Joint Secretariat analysed different simplified cost options to match the structure and activities of the future project types best and at the same time achieve maximum simplification.

There have been different projects in the programming period 2014-2020 and the use of the staff costs varied from 2-81%. Due to the big difference the 20% flat rate is not suitable for project partners.

The unit costs method is provided in Regulations for programmes to not re-develop its own methodology, but to make use of what is available and already approved by the Union policies or Member States. Basic principles of the copy-pasting from the Union policies are:

- the method is re-used entirely and not only its result;

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- the method is applied to similar types of projects.

As already existing simplified cost options provided by EC or Member State are not suitable for the Estonia-Latvia programme, the Managing Authority decided to use an expert judgement to analyse the approaches of the Interreg BSR and Interreg Central Baltic. The selection of these programmes is based on the overlap of the programme areas and target groups.

The BSR 2021-2027 programme worked out the methodology for standard hourly rate and has an added value to harmonise and simplify the programme rules for applicants in the region. Interreg BSR 2021-2027 standard hourly rates are calculated based on documentary evidence of real gross employment costs reported by partners in 2015 to 2020, including Estonian and Latvian project partners.

According to the Article 53 (3a (i)) of the Common Provisions Regulation grant provided to project partners may take the form of unit cost that is established based on a fair, equitable and verifiable calculation method based on statistical data, other objective information or **an expert judgement**.

The expert judgement is based on a specific set of criteria and/or expertise that has been acquired in a specific knowledge area, application, or product area etc. The Common Provisions Regulation does not define the expert judgement necessary for this exercise. It is up to the Managing Authority to specify the requirements for a judgement to qualify as expert and the Managing Authority of the Estonia-Latvia Programme defines the main characteristics that are specific to experts as follows:

- specific knowledge of the EU Cohesion Policy and European Territorial Cooperation (Interreg) context;
- experience and expertise in the management tasks of the Estonia-Latvia programme;
- knowledge of other Interreg programme simplified cost option implementation;
- expertise in different simplified cost option implementation possibilities and analysis.

The staff of the Managing Authority of the Estonia-Latvia programme has skills, expertise and knowledge in a European Territorial Cooperation including Interreg programmes area. Thus, this expert judgement is provided by the staff of the Managing Authority.

The Managing Authority has analysed the “Methodology for standard hourly rates Interreg Baltic Sea Region” of the BSR. The BSR has documented:

- the description of the calculation method, including key steps of the calculation;
- the sources of the data used for the analysis and the calculations, including an assessment of the relevance of the data to the envisaged operations, and an assessment of the quality of the data;
- the calculation itself to determine the value of the simplified cost option.

The Programmes supports cooperation projects across borders and are consistent with the five Priorities of the EU and its policy objectives, such as more competitive and smarter Europe, a greener, low-carbon transitioning towards a net zero carbon economy, a more connected Europe by enhancing mobility, a more social and inclusive Europe, Europe closer to citizens by fostering the sustainable and integrated development of all types of territories. A scope of the both programme projects is similar: cross-border cooperation.

### **Source of data used to calculate the standard scale of unit costs**

Methodology for standard hourly rates of the BSR is presented as the annex of this document.



BSR\_Methodology  
hourly rates\_FINAL.pc

BSR 2021-2027 standard hourly rates are calculated based on documentary evidence of real gross employment costs reported by beneficiaries in 2015 to 2020. The hourly rate was calculated based on the real cost incurred by the projects.

The BSR applied the most common statistical method of the sample calculation. Estonian and Latvian partners' data have been taken into account and analysed. To eliminate the extreme values, the BSR calculated the standard hourly rate per country using median. The hourly rates per country reflects the staff costs level in the programming period 2014-2020. The new rates are used in the 2021-2027 programming period and therefore indexation is applied because the expected implementation of projects would be in the years 2023-2029.

### **Checks during management verifications**

The total number of hours reported per month cannot exceed average monthly working hours.

Project partners must keep time records for the number of hours declared. In the absence of reliable time records of the hours worked on the action, the Joint Secretariat may accept alternative evidence, such as different time recording systems, if they offer an adequate level of assurance.

There is a clear distinction between the cost categories to which the flat rate is applied:

- clear distinction between staff who are reimbursed in the frames of unit costs of standard hourly rates under staff cost category and external experts, who are reimbursed on the basis of real costs under external expertise cost category.
- clear distinction between the travel and accommodation costs of the staff, which is on the basis of flat rate, and travel costs of external experts etc, which is reimbursed as real costs and falls under external expertise.

The management verifications to reimburse the staff costs and ensure the absence of double financing include:

- the number of working hours;
- the amount declared is justified by the timesheets and employment document(s);
- the sum is calculated as: number of units x unit cost;
- confirmation that other reported project expenditure is not already covered by the unit cost.

The controllers must not verify the real costs that form the expenditure reported based on this SCO.

### Handling potential findings

Consequently, findings regarding application of standard scales of unit costs can be related to:

- lack of supporting documents to justify inputs/outputs, or inputs/outputs only partially documented, depending on the definition of the input/output and in line with the subsidy contract;
- failure in the delivery of the input/output;
- the calculations are not correctly used.



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In the event of an irregularity being detected, the correction should reflect the difference between the correct and wrong application of the unit cost.

### Audit of SCOs is carried out on two stages

- verification of the correct establishment of the copy-paste method for the SCO;
- verification of the correct application of the established rate(s) and amount(s).

As the Estonia-Latvia programme copy-pastes the BSR methodology, which has been verified by the BSR audit authority, the verification of the correct establishment of the calculation method is already done by the BSR audit authority.

Audits of projects cover expenditure declared to the Commission in each accounting year on the basis of a sample. The Estonia-Latvia programme audit authority verifies the correct application of the rate(s) and amount(s).

### **Conflict of interests**

The conflict of interests is avoided due to the separation of tasks between the Monitoring Committee, the Managing Authority and the Joint Secretariat:

- the Monitoring Committee is independent body that is responsible for the strategic decision making on programme level;
- the Monitoring Committee approves the use of the SCOs and the overall methodological approach;
- the Managing Authority is responsible for the establishment of the programme specific SCOs and carries the tasks out independently as a team of experts;
- the Managing Authority is not involved in the daily work with the projects, as regards the tasks of project partners, controllers and the Joint Secretariat.

### **Adjustment method of the calculation methodology**

Programme will use the single hourly rate for the whole 2021-2027 period. If and when the BSR methodology is updated in the future, the Estonia-Latvia programme will make the exact same updates in use of methodology.