



Delivery mechanisms for the AKIS strategies

AKIS-in-Practice! 2.11

Application of flat rates for indirect costs in Finland



Keywords/Tags



Simplification



Flat rate



Indirect cost



Direct costs



Staff costs



EIP



Farmer



Potential users



AKIS coordination bodies



Managing authorities of the CAP strategic Plans



Paying agencies, auditors, and certifying bodies



RATIONALE



The use of simplified cost options can streamline administrative processes by reducing bureaucratic burdens both for beneficiaries and for Managing Authorities.

In the 2014-2020 programming period, under Finland's Rural Development Program, flat rate was applied for the implementation of the Knowledge transfer and information (M01), Basic services and village renewal in rural areas (M07), Cooperation (M16) and LAGs running costs and animation (sub)measures. The flat rate basis was the direct staff costs. The following costs were financed as flat rate costs:

- Office costs.
- Travel costs for project staff (FR 24 %).
- Participation fees for project staff in training and seminars.
- Occupational health costs for project staff.
- Premises and machinery allocated to project staff as well as the cost of equipment.
- Serving costs.
- Cost of the project steering group.

Two options were available to applicants: 1) travel costs were reimbursed on a real costs basis and the flat rate was 15%. This was popular in remote regions where travel costs were high; 2) travel costs were included in the 24 % flat rate. Concerning the Knowledge transfer and information (M01), Basic services and village renewal in rural areas (M07) and Cooperation (M16) measures, flat rate was used by 74,3% of the projects. All EIP projects applied flat rate, out of which 88% of them used the 24% option, while 12% used the 15% option. The positive experience, the very few problems and the popularity based on major simplification justify the use of flat rate in the implementation of the CAP Strategic Plan 2021-2027.

SOLUTION



In the 2021-2027 programming period 19% and 40% flat rate is allowed through the CAP Strategic Plan. The legal basis for both options is the Common Provisions Regulation (CPR). The modification in the flat rate value compared to the previous period (15% and 24%) was based on an external study ordered by the Finnish Ministry of Agriculture and Forestry to KPMG Ltd. The aim of the study was to elaborate methods and models of simplified cost options including flat rate and other options as well. The revision of the 15% and 24% flat rate model was also part of the study. Based on this study 19% and 40% flat rate model was selected by the Ministry. The study suggested to use not more than two alternatives, to keep it simple for the beneficiaries. This recommendation was agreed by the Ministry and the Paying Agency as well. The 19% flat rate is based on (EU) 1060/2021 Art. 53 and Art. 54.

Flat rate is used to cover indirect costs of an operation. According to Art. 54 indirect costs can be financed up to 25% of eligible direct cost, provided that the rate is calculated in accordance with point (a) of Article 53(3). So, a fair, equitable and verifiable calculation method is used based on (i) statistical data, other objective information or an expert judgement; (ii) the verified historical data of individual beneficiaries; (iii) the application of the usual cost accounting practices of individual beneficiaries.

The 40% flat rate is based on (EU) 1060/2021 Art. 56, which says that a flat rate of up to 40 % of eligible direct staff costs may be used to cover the remaining eligible costs of an operation. The Member State shall not be required to perform a calculation to determine the applicable rate.

A new element introduced in the 2021-2027 period is that 5,000 euro preparation support can be applied by e.g. formulating EIP Operational Groups on a lump sum base. It is used for partner search and for preparing the application. Also new rule that the percentage for covering holiday pay, holiday compensation and employer's social security contributions is standard, 39 % in all cases.





The calculations are based on the application and payment data related to development and farms projects that ended in the 2014–2020 programming period as well as the financial statements of farms according to industry classification from Statistics Finland's database, including supported project beneficiaries.

Other data included information collected through various surveys, such as the employer's incidental costs, the collective agreements to be complied with, and the working time used for preparing the projects.

The study included the analysis of the composition of the direct and indirect costs as well as the detailed comparison of different flat rate options with conclusions. The models are based on the actual costs of the development projects. The final decision on the models to be applied was made by the Ministry.

Calculation steps and method for Model 1: 19% flat rate

1. Step 1: The ratio of other business costs to total company costs was calculated based on data from Statistics Finland for the years 2012-2020. The calculation used the company financial statements according to industry classification. The result on average is 18.85% (rounded to 19%).

2. Step 2: The same ratio was calculated considering the 2017-2020 financial statements of supported beneficiaries. The result on average is 23.82% (rounded to 24%).

3. Step 3: With a flat rate, the indirect costs of the project are to be compensated, for example, for the project staff travel costs and participation fees for trainings/seminars and project share of the premises, machines and equipment in daily use of the company.

4. Step 4: Calculation of the amount of indirect costs (€) from the salary costs of completed development projects using a flat rate of 24% (see Step 2 of the calculation). The euro amount of indirect costs was €30,080,602. (Salaries €125,335,841 * 24%).

Two different options were used to calculate the flat rate percentage, which gives the flat rate share in euros the same amount as in step 4 of the calculation.

1. In alternative 1, the flat rate base includes salaries, bonuses, purchasing services, rents, other direct expenses and other expenses. The flat rate is 17.5% (rounded to 18%)
2. In alternative 2, the flat rate base includes salaries, fees and purchasing services. The flat rate 18.5% (rounded 19%).

Version b) was selected by the Ministry.

In the case of the 19% flat rate, the flat rate base is the staff costs (including holiday pay, holiday compensation and employer's social security contributions) and the services procurement costs. The flat rate covers the indirect costs such as:

- Project staff travel costs.
- Premises costs.
- Machine and equipment costs.
- Software costs.
- Office expenses.
- Education expenses.
- Occupational health costs.
- Project catering costs

Indirect costs are regulated in national legislation.

This option is suitable for measures 1 (training and information transfer) and 16 (collaboration) of development projects in situations where the share of salary costs is small and purchasing services play a significant role. This option is also suitable for measure 7 of development projects (development of rural services and villages).

There is no such calculation for Model 2: 40 % flat rate. However, calculations above showed that the median share of personnel costs of development projects in the total costs of the project is 58.9 %. The use of flat rate 40 % option is advocated if the project does not have a significant amount of service purchase, other direct costs or travel costs. It is suitable for measures 1 (training and information transfer) and 16 (cooperation) of development projects, where personnel costs are on average slightly more than 60% of the total costs of the project. This option is not suitable for measure 7 of the development projects (development of rural services and villages), where the average wage costs are significantly lower than measures 1 and 16.

The administration of the 40% flat rate model is very simple. The flat rate base is the staff costs (including holiday pay, holiday compensation and employer's social security contributions). The flat rate cost covers all costs other than staff costs.

Applicants can choose between the real cost based and the two flat rate-based methods.

The granting authority makes the decision on the cost model for the entire project implementation period.

IT-system calculates automatically the percentage for covering holiday pay, holiday compensation and employer's social security contributions and the share of chosen flat rate (Fig. 1)

Figure 1: Finnish IT-system

Kustannukset	Summa
Palkat	100 000,00 €
Palkkojen laskennallinen osuus	39 000,00 €
Ostopalvelut	€
Muut välittömät kulut	€
Laskennalliset yleiskustannukset, 19%	26 410,00 €
Vastikkeeton työ	€
Kustannukset yhteensä	165 410,00 €
Hankkeen tulot (vähennetään)	€
Kustannukset yhteensä vähennettynä tuloilla	165 410,00 €

PRACTICAL IMPLICATIONS FOR REPLICABILITY



- Verification that the project has not started before initiation. For example, binding contracts cannot be made before the project starts, or salary expenses cannot be paid until the project has started. This can be checked from pay slips.
- Accurate definition of direct and indirect costs - prevention of double funding.
- The correctness of the public procurement procedure in the flat rate 40% model. In the flat rate 40% model, public procurement is included in indirect costs. Indirect costs are calculated, which are meant to cover the organization's other costs (e.g. premises costs and travel costs). Purchasing services, which include public procurement, are also indirect. In the flat rate 40% model, indirect costs are not intended to be examined during the subsidy payment phase, but in the case of public procurements, it must be checked that they have been handled in accordance with regulations.

BENEFITS



- Main benefit is the significantly reduced administrative burden. There is no need to submit and control receipts and accounting documents for flat rate indirect costs. The focus of project implementation is much more on the results.

FURTHER SOURCES OF INFORMATION



- Finland – CAP Strategic Plan.



Finland



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