

INTERREG-IPA CBC Hungary-Serbia

Eligibility Rules of Expenditures

*Approved by the Joint Monitoring Committee
on 25 February 2016*

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1. GENERAL PRINCIPLES AND REGULATORY FRAMEWORK

1.1. Preamble

These rules of eligibility are applicable for all projects implemented under the INTERREG - IPA CBC Hungary-Serbia 2014-2020. Exemptions for projects implemented under Technical Assistance will be mentioned in the respective section of the text. Detailed rules of eligibility of Technical Assistance are elaborated in a separate document.

1.2. Regulatory framework and hierarchy of rules

Legal framework

The regulatory framework applicable to the financial management of INTERREG - IPA CBC Hungary-Serbia projects is based, as for any other EU-funded project, on the following two regulations:

- Regulation (EU, Euratom) No 966/2012 (Financial Regulation) of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002;
- Commission Delegated¹ Regulation (EU) No 1268/2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

Furthermore, being a Programme co-financed from the European Regional Development Fund (ERDF) and Instrument for Pre-accession Assistance (IPA II), the following regulations are also applicable:

- Regulation (EU) No 1303/2013 on common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and on general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (Common Provisions Regulation);
- Regulation (EU) No 1299/2013 on specific provisions for the support from the European Regional Development Fund to the European Territorial Cooperation goal (ETC regulation);
- Regulation (EU) No 231/2014 on establishing an Instrument for pre-Accession Assistance;
- Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014;
- Regulation (EU) No 236/2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action;

¹ A Delegated Act (regulation, decision) is a non-legislative act from the European Commission giving specific provisions on the implementation of regulations of the European Parliament and of the Council.

- Implementing acts and delegated acts adopted in accordance with the aforementioned regulations;
- Regulation (EU) No 481/2014 supplementing Regulation (EU) No 1299/2013 of the European Parliament and of the Council with regard to specific rules on eligibility of expenditure for cooperation programmes;
- Other regulations and directives applicable to the implementation of projects co-funded by the IPA and ERDF.

Further guidance on matters of relevance for the project financial management and control of expenditure can be found in the following guidelines issued by the European Commission and available on: http://ec.europa.eu/regional_policy/en/information/legislation/guidance.

Hierarchy of rules

A clear definition of the hierarchy of eligibility rules applicable to projects funded within the European Territorial Cooperation objective of the Cohesion Policy 2014-2020 is defined by article 18 of Regulation (EU) No. 1299/2013 as follows:

1. EU rules:

- Regulation (EU) No 1303/2013 (Common Provisions Regulation) where Articles 6 and 65 to 71 give specific provisions on applicable law as well as on eligibility of expenditure, and Article 120 defining maximum 85% co-financing rate for ETC;
- Regulation (EU) No 1301/2013 (ERDF regulation) where Article 3 gives specific provisions on the eligibility of activities under the ERDF;
- Regulation (EU) No 1299/2013 (ETC regulation) where Articles 18 to 20 give specific provisions on eligibility of expenditure applicable to programmes of the European Territorial Cooperation goal;
- Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014
- Commission Delegated Regulation (EU) No 481/2014 containing specific rules on eligibility of expenditure for cooperation programmes.
- The Commission Delegated Regulation (EU) No. 480/2014 Act (DA) – common provisions

2. Programme rules: additional rules on eligibility of expenditure set up by the JMC for the cooperation programme as a whole.

3. National (including institutional) eligibility rules: which apply only for matters not covered by rules laid down in the abovementioned EU and programme rules.

It is the responsibility of Beneficiaries to follow the updates of the above listed documents and apply the ones in force.

2. ELIGIBILITY OF EXPENDITURE

2.1. General eligibility requirements

Expenditure is eligible for funding when it is in accordance with the regulatory framework above and fulfils the following requirements:

- it relates to costs of implementing a project as approved by the Joint Monitoring Committee
- it is incurred in the Programme area; (20 % eligibility rule – 1299/2013 Art 20)
- it is compliant with national and EU rules, in particular with regard to the provisions of the Practical Guide to contract procedures for EC external actions (PraG) with its standard documents and templates in the annexes to it;
- it is essential for the achievement of the project objectives/outputs and it would not be incurred if the project is not carried out;
- it is included in the approved project budget (to be annexed to the Subsidy Contract for Community Funding);
- it is not financed by other EU funds or other financial contributions from third parties, except national contributions to the Programme co-financing;
- it complies with the principle of real costs except for costs calculated as flat rates and lump sums;
- it complies with the principle of sound financial management as set out in chapter 7 of the Financial Regulation, (EU, Euratom) No 966/2012, that builds on the three principles of economy, efficiency and effectiveness;

Tip:

As provided under chapter 7 of the Financial Regulation, Regulation (EU, Euratom), No 966/2012 the principle of sound financial management builds on the following three principles:

- The principle of economy requires that the resources used by the beneficiary in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price;
- The principle of efficiency concerns the best relationship between resources employed and results achieved;
- The principle of effectiveness concerns the attainment of the specific objectives set and the achievement of the intended results.

- it has been actually incurred and paid by the Lead Beneficiary or its Beneficiary(ies) within the eligibility period of the project, and it can be verified on the basis of original invoices or other accounting documents of equivalent nature;
- expenditures have to be validated by an authorised national control body specified in the Subsidy Contract.

Avoiding double financing

Project related costs are financed by the following resources:

- Programme (EU) co-financing
- national contributions which may be available in the form of
 - own resources (public or private)
 - third party financial contribution (public or private)

The sum of these resources must equal to the amount of project related expenditure (as detailed in the project budget); the involvement of other EU or third party resources will result in the reduction of the Programme financing. Otherwise, it is considered as double financing² and is forbidden.

Division of expenditures of a certain activity within two or more (subsidised) projects is only possible if proper distribution key, well-founded calculation method and proper justification are available and the expenditure relates to infrastructure/works. In case of division of expenditures – if possible – these pieces of information have to be included into the Application.

List of projects, being implemented with using national and/or EU funds in the implementation period, has to be submitted as part of the first Beneficiary Report. In case of change the list has to be updated.

Documentation

According to Article 140 (3) CPR the documents shall be kept either in the form of the originals or certified true copies of the originals, or on commonly accepted data carriers including electronic versions of original documents or documents existing in electronic version only.

In case the original documents were created on paper, the paper form shall be kept. In case of electronic documents the electronic version is to be archived.

Normally, original paper invoices and documents with equivalent probative value should be submitted to the FLC for control. E-invoices are only acceptable for control if the invoice includes the two items below,

- Project ID
- Project acronym

In cases when recording these two pieces of information is not possible (e.g. travel services, like flights, trains), E-invoices are exempt from the abovementioned obligation.

If one invoice is reported to more programmes, the Beneficiary must indicate on the invoice each project from which that activity is financed.

The division of expenditure must be explained as described above.

² Related to double funding see also the section on staff and office/administration flat rate.

Expenditure supported by national or regional subsidies

The national or regional funds or subvention, which do not relate directly to the project or to its approved activities, do not influence the amount of the validated eligible expenditures. This project or its parts does not have to be classified as subject to this normative financing and is not to be declared in the relevant reports.

2.2. Time-wise eligibility of expenditure

Generally, the period of eligibility starts with 1st January 2014 for the Beneficiaries from Hungary and 6th May 2015 (date of submission of the Draft Co-operation Programme to the European Commission) for the Beneficiaries from the Republic of Serbia. The eligibility period ends with 31th December 2023 the latest. This rule does not apply to projects of Technical Assistance, because their expenditures are eligible and have to be also paid by 31st December 2023.

Expenditure of the project is eligible from the date set in the Application Form (start date). This date cannot be earlier than the date of submission (registration) of the Application Form. Expenditures incurred before the submission of the Application are eligible only if they are directly related to the preparation of the project, in which case they are regarded as preparation costs.

The latest possible date for the payment of expenditures incurred within the project is 30 calendar days after the last date of eligibility period. However, the payment is not allowed after the final date of eligibility which is 31st December 2023.

2.3. Preparation costs

The eligibility period of the preparation costs starts with the dates mentioned in chapter 2.2 and lasts until the start date of the project implementation period.

Eligible preparation costs (if relevant) – approved by the JMC – can be reimbursed only upon approval of the 1st Project Report.

Preparation costs must be included in the budget.

The following types of expenditures are eligible as preparation cost:

- technical plans
- costs of permits
- purchase of land
- studies, statistics, databases and researches
- project meetings and travel costs
- translation and interpretation costs

PraG procurement rules must be applied for preparation costs, too.

2.4. Geographic relevance

As a basic principle, the Programme supports cooperation between Beneficiaries located in the Programme area. As a general rule, eligible expenditure shall be incurred in the Programme area.

The Managing Authority may accept that all or part of an operation is implemented outside the Programme area, provided that all the following conditions are satisfied:

- a) the operation is for the benefit of the Programme area;
- b) the total amount allocated under the cross-border cooperation programme to operations located outside the Programme area does not exceed 20 % of the support from the Union at Programme level;
- c) the obligations of the managing and audit authorities in relation to management, control and audit concerning the operation are fulfilled by the cross-border cooperation programme authorities or they enter into agreements with authorities in the Member State or third country in which the operation is implemented.

For operations concerning technical assistance, promotional activities and capacity-building, expenditure may be incurred outside the Programme area provided that the conditions in points a) and c) are fulfilled.

The following two cases fall under this exception:

- Activities carried out (and expenditure incurred) by Beneficiaries - as listed in the latest approved Application Form - located in EU regions outside the Programme area;
- Activities carried out (and expenditure incurred) in EU regions outside the Programme area by Beneficiaries located in the Programme area. Such expenditure (related to e.g. missions, study visits and events) is eligible only in exceptional and duly justified cases and must be either explicitly foreseen in the approved Application Form or, if not, they have been previously authorised by the MAJS.

2.5. Non-eligible expenditure

The following costs are not eligible:

- a) Fines, financial penalties and expenditure on legal disputes and litigation;
- b) Costs of gifts, except those not exceeding 50,00 EUR per gift if related to promotion, communication, publicity or information;
- c) Costs related to fluctuation of foreign exchange rate;
- d) Interest on debt;
- e) Value Added Tax (VAT) except where it is non-recoverable under national VAT legislation;
- f) Customs and import duties, or any other charges;
- g) Bank charges, unless a separate bank account is opened for the project;
- h) Conversion costs, charges and exchange losses, as well as other purely financial expenses, except for charges for transnational financial transactions
- i) Costs for alcoholic beverages;

- j) Fees between Beneficiaries of the same project for services and work carried out within the project;
- k) Purchase, rent or leasing of real estate³ (except office rental for project purposes);
- l) Leasing of vehicles and equipment (it is not applicable for TA projects)
- m) Used equipment
- n) Tips;
- o) Costs of guarantees and similar charges, unless that the guarantees are required by national or Community legislation
- p) Contributions in kind (e.g. free use of room, equipment or other facilities, unpaid voluntary work, generally any contribution without money flow).
- q) Benefits apart from salary (cafeteria) which do not appear on payslips

Furthermore the following expenditures are not eligible:

- Any costs incurred after the implementation period of the project, as defined in the Subsidy Contract for Community Funding;
- Commissions and dividend, profit payment,
- Purchase of business share and stock exchange share,
- Expenses of private consumption,
- Cost of subcontracted activities increasing the cost of the operation without adding proportionate value to it;
- Cost of activities subcontracted by Beneficiaries to other Beneficiary(ies) of the same project;
- Cost of subcontracts in which the payment is defined as a percentage of the total cost of the operation unless such payment is justified by the LB or Beneficiaries with reference to the actual value of the work or services provided (e.g. success fee);
- Cost of any services, purchase of goods, construction works or movable assets, not directly related to the project;
- Any expenditures not directly associated with the Lead Beneficiary/Beneficiary (ies);
- Any form of double financing: expenditure which is already supported by a Community, or other international or national grant.

Expenses not included in the list above are not automatically eligible.

³ Exceptions can be made in well justified cases on a case by case basis by the JMC, e.g. for flood prevention

3. REVENUES

As a general principle, eligible expenditure of a project (and consequently the IPA contribution to it) shall be reduced according to the net revenue generated by the project during its implementation and during the 3 years reference period appropriate to the sector or subsector applicable to the operation.

Net revenues are:

Cash in-flows directly paid by users for the goods or services provided by the project, such as charges borne directly by users for the use of infrastructure, sale or rent of land or buildings, or payments for services	Minus	Any operating costs and replacement costs of short-life equipment incurred during the corresponding period
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Please note that operating cost-savings generated by the project shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies (see CPR art 61(1)).

In case of revenue-generating projects which generate net revenue after their completion, applicants have to calculate the expected net revenues using the method provided in article 61(3) paragraph b) of the Common Provisions Regulation and as further detailed in Articles 15 to 19 of the Delegated Regulation (EU) No 480/2014.

Where it is objectively not possible to determine the revenue in advance based on that method, the net revenue generated within three years of the completion of an operation, or by the deadline for the submission of documents for Programme closure, whichever is the earlier, shall be deducted from the expenditure declared to the Commission (see CPR art 61 (6)).

Net revenues have to be deducted from the project total eligible expenditure fully or on a pro-rata basis and shall consequently reduce the IPA contribution to it.

Interest realised by advance payment is not considered as revenue.

Revenues generated by the project are monitored and treated by the MA/JS and the FLC throughout the project lifetime, as explained below.

- a) Revenues foreseen at project application stage
For projects which calculated the expected net revenues during the application stage and included the related amount in the Application Form, the IPA contribution to the project is already determined with consideration to the corresponding net revenue generated.
- b) Revenues generated during project implementation
For control purposes, each Beneficiary is responsible for keeping account and documenting all revenues generated as a result of project activities. The eligible expenditure shall be reduced by the net revenues which must be stated when reporting. Beneficiaries have

to provide their national controllers with information on the revenues generated in the reporting period and to support this with accounting documents or documents of equivalent nature.

c) Revenues generated after project closure

Net revenues not foreseen and/or not deducted at the application stage which are occurring after project closure have to be reported to the MA/JS. The corresponding IPA contribution has to be either withheld from the last instalment to the project or reimbursed to the MA. This obligation applies for three years following the date of closure of the project.

4. SPECIFIC COST CATEGORY PROVISIONS

4.1. Staff

Definition

Expenditure on staff costs consists of the gross employment costs of staff employed by the Beneficiary institution for implementing the project. Staff can be either already employed by the Beneficiary or contracted specifically for the project.

Forms of reimbursement

Staff costs of the Beneficiary organisation can be reimbursed by the Programme on the basis of:

- **Real costs**, where the Beneficiary must document that expenditure has been incurred and paid (as provided for in the following sections)
- **Flat rate**: 20% of direct costs other than staff costs in case the Beneficiary's project part does not contain infrastructure and works activities and 10% if the project contains infrastructure and works activities.

In case of projects implementing activities of strategic importance described in the Call for Proposals staff cost must be planned on the basis of real costs.

4.1.1. Real costs

The following options may be applied for the settlement of the costs related to the individual employees and reimbursed as real costs:

- a) **Full-time in the project** (employee who works 100 % of the working time on a project, regardless of the number of hours he/she was hired for);
- b) **Part-time in the project** (person who works additionally in other projects or fulfils non-project related duties in the company):
 - i. Part-time with a fixed percentage of time per month dedicated to the project
 - ii. Part-time with a flexible number of hours worked per month on the project
- c) **Contracted for project purposes on an hourly basis**

It is highly recommended that the chosen option for the settlement of costs related to the individual employees is maintained during the whole project implementation. Justified changes are, however, possible in the following cases:

1. between full time employment and part time employment with a fixed percentage
2. different percentage in the option part time employment with fixed percentage
3. replacement of an employee

It is not allowed to change between part time with fixed percentage and part time with a flexible number of hours.

Expenditure is limited to:

a) Salary payments:

Payments have to be based on an employment document (employment contract or any other equivalent legal agreement that permit the identification of the employment relationship with the Beneficiary's organisation) or by legislation relating to responsibilities specified in the job description of the staff member concerned.

b) Any other costs directly linked to salary payments:

incurred and paid by the employer (such as employment taxes and social security including pensions) as long as they are:

- Fixed in an employment document or by legislation;
- In accordance with the legislation referred to in the employment document and with standard practices in the country and/or institution where the individual staff member is working;
- Not recoverable by the employer.

Payments to natural persons working for the Beneficiary under a contract other than an employment/work contract may be assimilated to salary payments. Based on the decision of the National Authorities such costs are eligible if all the following conditions and the national regulations are respected:

- The person works under the Beneficiary's instructions and, unless otherwise agreed with the Beneficiary, on the Beneficiary's premises;
- The result of the work carried out belongs to the Beneficiary.

The following general requirements apply to staff costs determined on a real cost basis:

- Salaries, other payments are only eligible if foreseen in the legislation, company's internal regulation, collective wage agreements or in a Works Council agreement and they are in line with the employment policy of the Beneficiary organisation (ad hoc regulations applicable only to the project are not allowed).
- Unjustified ad-hoc salary increases or bonuses for project purposes are not eligible.
- Where foreseen by the employment document, overtime is eligible, provided it is in compliance with the national legislation and the standard practice of the Beneficiary.
- The reimbursable personnel costs must be proportional to the qualification of the human resources involved, to the amount of work dedicated and shall correspond to market prices and those usual at the organisation.
- Staff costs must be calculated individually for each staff member assigned to the project.
- The remuneration of civil servants is an eligible cost, only if it is related to the project activities and not related to their usual day-to-day management tasks and statutory responsibilities.

Documentation for reimbursement of salary payments and other costs linked to salary payments

The following documents must be provided to the controller for each employee:

- employment contract or an appointment decision/contract considered as an employment document;
- job description providing information on responsibilities related to the project (if not included in the employment document);
- documentation of the monthly gross staff costs;
- proofs of payments;
- salary contributions (social contributions, PIT advance, etc.): declaration that there are no outstanding debts related to ancillary wage costs or proof that salary contributions are paid.

4.1.1.1. Full-time-employment

For individuals employed by the Beneficiary to work full-time on the project, the total gross employment costs incurred by the employer are to be considered as eligible as far as they are in line with the general provisions on eligibility (chapter 2) and the additional eligibility requirements for staff costs (please see 4.1.1.).

Documents for the audit trail

- See the necessary documents in point 4.1.1.

! No time-sheets or other additional documents need to be submitted

4.1.1.2. Part-time employment with fixed percentage of time per month dedicated to the project

For individuals employed by the Beneficiary to work part of their time on the project according to a fixed percentage of time per month, the reimbursement of staff costs shall be calculated by applying the percentage stipulated in the employment contract (and/or an official assignment of the employee to the project) to the monthly gross employment cost.

The proportion of the engagement in the project has to be indicated in the Application.

Additional documents for the audit trail

The following additional documents have to be provided to the controller for each employee:

- The employment document and/or the official assignment to the project, signed by both the employer (delegated person) and the employee at the beginning of the assignment, containing the following information (if not incl. in the employment document and/or job description):
 - the percentage of the employee's working time on the project;
 - in the case that the employee is involved in other EU and/or national co-funded projects, name and funding reference of the concerned project(s) as well as the percentage of the employee's working time on each co-funded project;

- description of the main tasks to be performed by the employee within the duration of the assignment to the project, making reference to the outputs and deliverables as foreseen in the Application Form.

The employment document and/or the official assignment to the project must be reviewed in case of changes in the assignment (e.g. shift of tasks or change in the percentage of time worked in the project).

- Periodic staff project-report containing a summary description of the tasks carried out and the outputs achieved by the employee in the project reporting period. The periodic staff report must be signed both by the employee and her/his supervisor.

! No time-sheets need to be submitted

4.1.1.3. Part-time employment with a flexible number of hours worked on the project per month

For individuals employed by the Beneficiary to work part-time on the project with a flexible number of hours per month, the reimbursement of staff costs shall be calculated on the basis of actual number of hours worked on the project in the given month, resulting from the time-record of the total time worked by the employee (e.g. time-sheets).

Costs to be claimed in the project are then calculated multiplying the hourly rate by the number of hours actually worked on the project. The method for calculating the hourly rate is:

dividing the monthly gross employment cost by the monthly working time fixed in the employment document expressed in hours

Additional documents for the audit trail

Additional the following documents have to be provided to the controller for each employee:

- Monthly Data gathered from work time recordings, e.g. time sheets, providing information as well as on the number of hours spent per month on the project incl. activities and on the hours with no project relevance.

4.1.1.4. Staff contracted for project purposes on an hourly basis

For individuals employed by the Beneficiary on an hourly basis, staff costs shall be regarded as eligible as long as they are in line with the general provisions on eligibility (chapter 2.1) and the additional eligibility requirements provided for staff costs determined on a real-cost basis. They shall be calculated multiplying the number of hours actually worked on the project by the hourly rate agreed in the employment document.

Additional documents for the audit trail

Additional the following document has to be provided to the controller for each employee:

- Employment document or an appointment decision/contract considered as an employment document including the hourly rate

- Monthly data gathered from work time recordings, e.g. time sheets, containing the number of hours spent on project related activities and the number of total working hours in the given month.

4.1.2. Flat rate

Staff costs are calculated as a flat rate of direct costs other than the staff costs.

- Direct costs are all costs that can be attributed directly to the project and are identified by the Beneficiary organisation as such, in accordance with accounting principles and internal rules of the organisation. It means all costs apart from administrative costs are indirect costs.
- Direct costs that form the basis for calculation of staff costs must be incurred and paid by the Beneficiary organisation as real costs.
- Direct costs that form the basis for calculation of staff costs must not include any office and administration costs, because flat rate option is used on the office and administration budget line.
- In case of flat rate option 'Travel and accommodation' budget line must not contain any expenditures.

The value of the flat rate is:

- 20% if the Beneficiary's project part does not contain expenditures on infrastructure and works budget line;
- 10% if the Beneficiary's project part contains infrastructure and investment activities.

In either case, the total amount of staff costs must not exceed 100 000 EUR in Beneficiary's budget.

Each Beneficiary must choose a reimbursement option in the budget part of the Application Form. Please note that different Beneficiary in a same project may choose different options for reimbursing staff costs.

The option of flat rate chosen by a Lead Beneficiary and/or Beneficiary(ies) when submitting the Application Form **cannot be changed during project contracting and/or implementation!**

Audit trail

By applying the flat rate option, Beneficiaries do not need to document that the expenditure has been incurred and paid, or that the flat rate corresponds to the reality.

Real cost options

a) Staff employed full-time (100%) on the project

- Full cost can be charged
- Periodic staff report → NO
- Time-sheet..... → NO

b) Staff employed part-time on the project

b.a. Fixed % of time per month

- Cost calculated according to fixed % as in employment document
- Periodic staff report..... → YES
- Time-sheet → NO

b.b. Flexible number of hours per month

- Cost calculated according to No. of hours worked on the project
- Hourly rate: monthly gross empl. cost/contractual hours
- Periodic staff report..... → NO
- Proof of the latest annual gross employment costs → NO
- Time-sheet → YES

c) Staff contracted for the project on an hourly basis

- Costs calculated according to No. of hours worked on the project
- Hourly rate = as agreed in employment document
- Periodic staff report → NO
- Time-sheet..... → YES

Flat rate option

% of direct costs excl. staff costs

- % in general:.....20%
- % if infrastructure and works are planned in Beneficiary's budget:.....10%
- Documentation of direct costs..... → YES
- Documentation of staff costs..... → NO
- Periodic staff report..... → NO
- Time-sheet..... → NO

4.2. Office and administration

Definition

Office and administration expenditure covers operating and administrative expenses of the Beneficiary organisation necessary for the implementation of the project.

Office and administration costs of a project are to be calculated at a flat rate of 15 % of the budget line staff costs but it must not exceed the 10% of total budget of the given Beneficiary.

The limitation of Office and administration costs to 10% of the Beneficiary's total budget does not apply to the projects for Technical Assistance.

Expenditure included under this cost category:

Office and administrative expenditure shall be limited to the following elements:

- a) Office rent;
- b) Insurance and taxes related to the buildings where the staff is located and to the equipment of the office (e.g. fire safety, theft insurances);
- c) Overhead costs: expenditures such as heating, electricity, lighting, service charges, etc. can be considered as overheads.
- d) Real costs – costs of stationery (like paper, pencils), equipment and other supplies of small value (toner), costs of copying are eligible as real cost. Telephone, fax, postage costs are also eligible as real cost;
- e) Office equipment (purchase of computers, office furniture etc.) shall be eligible in duly justified cases, if related to the project management and if necessary for the implementation of the project. In case of TA budget the office equipment is eligible under Equipment budget line.
- f) Archives;
- g) Maintenance, cleaning and repairs;
- h) Security;
- i) IT systems (operating/administrative IT services of general nature, linked to the implementation of the project);
- j) Communication (e.g. telephone, fax, internet, postal services, business cards);
- k) Costs of project bank account – charges for transnational financial transactions, bank service charges (account fee, bank statement) in case of projects where a separate bank account has to be opened for the project;

The above list is exhaustive.

Cost items accounted under the office and administration cost category cannot be reimbursed under any other cost category.

Forms of reimbursement

Office and administration expenditure incurred by the Beneficiary shall be reimbursed by the Programme according to a flat rate of 15 % of eligible direct staff costs.

Office and administration expenditure has to be calculated as flat rate regardless of the form of reimbursement applied under the staff cost category. Beneficiaries do not need to document that the expenditure has been incurred and paid or that the flat rate corresponds to the reality. The controllers do not have to control if the amount refers to the principle of economy, efficiency and effectiveness – there is no specific audit trail necessary. Accordingly, no documentation on office/administration costs is required to be provided to the controller, nor shall the FLC check anything (incl. double financing) beyond the calculation of the flat rate based on the direct costs.

If direct staff costs used as calculation basis for determining office and administration expenditure is found to be ineligible, the determined office and administration costs must be recalculated and reduced accordingly.

Documentation:

- Certified staff costs in order to calculate the “office and administration – flat rate”

4.3. Travel and accommodation

Definition

Expenditure on travel and accommodation costs of staff of Beneficiary organisations for missions necessary for the project implementation (e.g. participation in project meetings, project site visits, meetings with the Programme bodies, seminars, conferences, etc.).

Travel and accommodation costs shall be limited to following elements:

- a) Travel costs:
- b) Accommodation costs
- c) Visa costs
- d) Daily allowances

The above list is exhaustive. Moreover, any element listed in points a) to c) which is covered by a daily allowance shall not be reimbursed in addition to the daily allowance.

Forms of reimbursement

Travel and accommodation costs of the staff of the Beneficiary organisation shall be reimbursed by the Programme on a real cost basis.

In case choosing flat rate option for reimbursement of staff cost, 'Travel and accommodation' budget line must not contain any expenditure.

Additional eligibility requirements:

- a) Travel and accommodation costs must be clearly linked to the project and be essential for its effective implementation.
- b) Travel and accommodation costs must be definitely borne by the Beneficiary. Direct payment of costs by a staff member of the Beneficiary must be supported by a proof of reimbursement from the employer.
- c) All costs have to comply with the principle of sound financial management: only the most cost-efficient means of transportation shall be used; no business or first-class tickets for air transport are eligible (irrespective of the fact that this may be allowed by the internal rules of the Beneficiary institution); business-or first class train tickets are allowed if they are the most economic travel option when booking the ticket (proved for example by screen shots of booking web pages); local transfers with taxi shall be regarded as eligible only in case they represent the most efficient travel solution.
- d) Travel and accommodation costs incurred outside the Programme area are eligible only if they were authorised by the JS (unless already foreseen in the approved Application Form).
- e) Travel and accommodation costs of external experts and service providers can be reimbursed only under the external expertise and services cost category.

- f) The reimbursement of daily allowances must be reduced in those cases in which concerned costs have been partially covered by third parties according to the institution's internal rules (e.g. lunch or dinner paid by the organisers of a meeting/event).

Documents for the audit trail:

The following documents must be provided to the controller:

- a) Authorisation of mission of the employee(s) travelling, bearing information on the destination and the start and end date of the mission;
- b) Proof of expenditure and of mission (e.g. invoice of travel agent, flight or train ticket, boarding pass);
- c) Documentation related to the reimbursement of costs borne by the employee either based on daily allowance or on real costs, according to the Beneficiary organisation's internal rules. When claiming reimbursement on a real cost basis, all documents proving the incurred costs must be included (e.g., bus or metro tickets, invoices for meals);
- d) In case of travel by car (either employee's car or company car), mileage calculation sheet with statement of the distance covered, the cost per unit according to national or institutional rules and total cost;
- e) Other supporting documents (e.g. invitation, agenda; mission permit, mission report, accounting documents of per diem; summary table for low cost items);
- f) Proof of payment of costs directly paid by the Beneficiary and/or proof of reimbursement to the employee (e.g. extract from a reliable accounting system of the Beneficiary, bank statement).

In the case of travel and accommodation costs outside the Programme area, the reporting and audit trail shall be organised following the general principle that the cost is to be accounted according to where the cost incurred. The following applies:

- a) Costs referring to the travel of staff of Beneficiaries located in the programme area from their seat to destinations outside the Programme area (e.g. flight or train tickets) as well as costs of daily allowances shall not be accounted under the 20% geographical flexibility rule;
- b) Costs referring to local transports, meals and accommodations outside the Programme area shall be accounted under the 20% geographical flexibility rule irrespective to the location of the Beneficiary;
- c) Travel and accommodation costs incurred by Beneficiaries located outside the Programme area shall be accounted under the 20% geographical flexibility rule irrespective whether the mission occurred inside or outside the Programme area.
- d) Travel and accommodation costs incurred outside the (Union part of the) Programme area and related to promotional activities and capacity-building should not be monitored against the 20% ceiling.

4.4. External expertise and services

Definition

External expertise and services are provided by a public or private body or a natural person outside of the Beneficiary organisation. External expertise and services cover costs paid on the basis of contracts or written agreements and according to the invoices or requests for reimbursement to external experts and service providers sub-contracted to carry out certain tasks or activities directly linked to the implementation of the project.

Expenditure on external expertise and service costs shall be limited to the following elements:

- a) Studies or surveys (e.g. evaluations, strategies, concept notes, design plans, handbooks);
- b) Training (e.g. venue and trainers);
- c) Translation;
- d) IT systems and website development, maintenance, modifications and updates;
- e) Promotion, communication, publicity or information;
- f) Financial management;
- g) Services related to the organisation and implementation of events or meetings (including rent, catering or interpretation);
- h) Participation in events (e.g. registration fees);
- i) Legal consultancy and notarial services, technical and financial expertise, other consultancy and accountancy services, cost of permissions;
- j) Intellectual property rights;
- k) Verification under Article 125(4)(a) of Regulation (EU) No 1303/2013 and Article 23(4) of Regulation (EU) No 1299/2013 (first level control);
- l) Certification and audit costs on Programme level under Articles 126 and 127 of Regulation (EU) No 1303/2013;
- m) Provision of guarantees by a bank or other financial institution where required by the Union or national law or in a programming document adopted by the Joint Monitoring Committee;
- n) Travel and accommodation for external experts, speakers, chairpersons of meetings and service providers;
- o) Technical plans and permits;
- p) Other specific expertise and services needed for the project.

Forms of reimbursement

External expertise and service costs shall be reimbursed by the Programme on a real cost basis.

Additional eligibility requirements

- External expertise and services must clearly link to the project and be essential for its effective implementation.

- Eligibility of costs for external expertise and services is subject to the full respect of PraG (PRocurement And Grants for European Union external actions – A Practical Guide) according to the thresholds, and for the entities as defined in the document.
- Where applicable, deliverables and outputs produced by experts/service providers must respect the relevant publicity requirements.
- Sub-contracting between Beneficiaries within the same project is not allowed.

Documentation for the audit trail

- Evidence of the selection procedure, in line with PraG procurement rules and national regulations, depending on the amount contracted:
 - **Below the threshold of direct purchase:** no specific proof of the market price is required, direct purchase is allowed.
 - **Single tender:** above the threshold of direct purchase but **below 10 000 EUR** gross amount Beneficiaries need to have at least one independent offer requested. The value and the complexity of the service must be reflected in the specification/breakdown of the documentation of request for price offer, as well as in the respective offer. Beneficiaries must use the tender dossier provided by the Programme and available on the Programme website.
 - **Single tender: above 10 000 EUR** gross amount and below the threshold of competitive negotiated procedure Beneficiaries must publish the tender on the website of the respective Beneficiary and must provide a weblink to the tender that will be available on the Programme website for at least two weeks. This aims at ensuring a transparent procedure and sound knowledge and sufficient information on the relevant market allowing for a sound comparison of offers in terms of price and/or quality and a profound assessment of the adequacy of the price to be paid. Consequently, the value and the complexity of the service should be reflected in the specification/breakdown of the documentation of request for price offer, as well as in the respective offer. Beneficiaries must use the tender dossier provided by the Programme and available on the Programme website.
 - **Above the threshold of single tender** procedure the respective procedure must be applied in line with PraG procurement rules.
- In case of projects for Technical Assistance the TA Beneficiaries must follow the PraG procurement rules. Contract or written agreement laying down the services to be provided with a clear reference to the project and the Programme. For experts paid on the basis of a daily/hourly fee, the daily/hourly rate together with the number of days/hours contracted and the total amount of the contract must be provided.
- Invoice or request for reimbursement providing all relevant information in line with the applicable accountancy rules as well as references to the project and the Programme and a detailed description of the services provided in line with the contents of the contract. For experts paid on the basis of a daily/hourly fee, the invoice must include a clear quantification of the days/hours charged, price per unit and total price.
- Deliverables produced (e.g. studies, promotional materials) or, where applicable, documentation of the delivery (e.g. in case of events: agenda, list of participants, photo-documentation, etc.).
- Document proving the completion of the service.

- In case of studies a declaration by the author that the study (as a whole or any part of it) was not financed by other Programme
- Proof of payment (e.g. bank statement, extract from a reliable accounting system of the Beneficiary).

4.5. Equipment

Definition and eligibility requirements

Equipment expenditure refers to equipment purchased or rented by a Beneficiary other than those covered by the cost category “office and administration expenditure” (except for management equipment purchased from TA budget) and necessary for the implementation of the project.

Expenditure for equipment shall be limited to the following elements:

- a) IT hardware and software (clear project relevance is necessary);
- b) Furniture and fittings;
- c) Laboratory equipment;
- d) Machines and instruments,
- e) Tools or devices;
- f) Other specific equipment needed for the project.

Equipment must be clearly linked to the project and be essential for its effective implementation. All equipment items have to be clearly described in the Application Form.

Costs for equipment shall be distinguished as follows:

1. Equipment for general (office) use as computers, office furniture, etc. which is used for the daily work of the project staff – these pieces of equipment are not eligible under the ‘Equipment’ budget line but under ‘Office and administration’ budget line.
2. Thematic equipment directly linked to (or forming part of) the project outputs or deliverables, which will be used by Beneficiaries and target groups in line with project objectives. Thematic equipment may either form part of – or be independent from – the works budget line⁴ and, in any case, it must accomplish Programme requirements for investments in order to be considered as eligible.

Examples:

- **Equipment for general (office) use** could be a laptop to be used by a staff member of the Beneficiary appointed as project manager. This type of equipment must be financed in the frame of the office and administration flat rate along with stationary and small office tools that are used for the everyday work of that project manager.
- **Thematic equipment** could be a thermal camera used for monitoring energy losses of a building, purchased by the Beneficiary in relation to the refurbishment of a public building aimed at improving its energy efficiency. In this case the thermal camera belongs to the **“equipment”** budget line. Other building installations purchased for the refurbishment as e.g. heating equipment such as a boiler belong to the **“infrastructure and works”** budget line.

⁴ Equipment forming part of an infrastructure/work realized within the project shall be reported under the “equipment” budget line when it cannot be categorized under the “infrastructure and works” budget line, i.e. it does not belong to the items listed in Annex II of the Directive 2014/24/EU of the European Parliament and of the Council of 26.02.2014.

Specific eligibility requirements

In addition to the general provisions on eligibility (see section 2.1.) the following applies:

- a) Equipment must be clearly linked to the project and be essential for its effective implementation.
- b) All equipment items have to be clearly described in the Application Form or if not the case, must be agreed by the MAJS according to the modification rules.
- c) Eligibility of costs for equipment is subject to the full respect of PraG procurement rules.
- d) The procurement of equipment must comply with the basic principles of transparency, sustainable development, non-discrimination and equal treatment.
- e) Equipment expenditure cannot refer to items already financed by other subsidies (e.g. EU, national or regional) and must not be already depreciated.
- f) Where applicable, if the equipment purchased forms a deliverable or an output of the project, the relevant publicity requirements must be respected.
- g) Contractual advances in accordance with normal commercial law and practice, stipulated in a contract between the Beneficiary and the supplier, supported by receipted invoices (e.g. advance payment for the purchase of a piece of equipment) are eligible but depend on later confirmation that the equipment has been properly and timely delivered.
- h) Equipment cannot be purchased, rented from another Beneficiary within the project and cannot be leased.

Eligibility requirements for thematic equipment:

- i) In case of "thematic equipment" the full purchase cost is eligible;
- j) Thematic equipment for which the exclusive use in the project cannot be demonstrated shall be charged pro-rata on the basis of a transparent method set in place by the Beneficiary for allocating the share of use in the project.

Rules of origin

In principle, products supplied under a procurement contract must originate from an eligible country. However, these products can originate from any origin (full untying) if their value is below the threshold of the competitive negotiated procedure - 100 000 EUR. For the list of eligible countries please see chapter 2.3.1 and Annex A2a of PRAG. This provision for full untying below the threshold of the competitive negotiated procedure must be stated in the contract notice.

Where the contract is divided into lots, the rule applies per lot (only applicable to lots of less than 100 000 EUR). The division into lots must be legitimate. This rule must not lead to artificially subdividing contracts into smaller lots to circumvent the threshold of 100 000 EUR.

Documentation for the audit trail

The following documents must be provided to the controller:

- a) Evidence of the selection procedure, in line with EU, Programme or national (including institutional) public procurement rules, depending on the amount contracted and the type of Beneficiary.
- b) For expenditures where direct purchase is allowed by PraG procurement rules:
 - **Below the threshold of direct purchase:** no specific proof of the market price is required, direct purchase is allowed.
 - **Single tender:** above the threshold of direct purchase but **below 10 000 EUR** gross amount Beneficiaries need to have at least one independent offer requested. The value and the complexity of the service must be reflected in the specification/breakdown of the documentation of request for price offer, as well as in the respective offer. Beneficiaries must use the tender dossier provided by the Programme and available on the Programme website.
 - **Single tender: above 10 000 EUR** gross amount and below the threshold of competitive negotiated procedure Beneficiaries must publish the tender on the website of the respective Beneficiary and must provide a weblink to the tender that will be available on the Programme website for at least two weeks. This aims at ensuring a transparent procedure and a sound knowledge and sufficient information on the relevant market allowing for a sound comparison of offers in terms of price and/or quality and a profound assessment of the adequacy of the price to be paid. Consequently, the value and the complexity of the service should be reflected in the specification/breakdown of the documentation of request for price offer, as well as in the respective offer. Beneficiaries must use the tender dossier provided by the Programme and available on the Programme website
 - **Above the threshold of single tender** procedure the respective procedure must be applied in line with PraG procurement rules.

In case of TA projects the TA Beneficiaries must follow the PraG procurement rules.

- c) In case of thematic equipment contract or written agreement including adequate technical specifications and sufficiently detailed financial information about the purchase of equipment, with a clear reference to the project and the Programme.
- d) Invoice (or a supporting document having equivalent probative value to invoices, in case of depreciation) providing all relevant information in line with the applicable accountancy rules, documentation of inventory and, where applicable, references to the project and the Programme.
- e) Proof of payment (e.g. bank statement, extract from a reliable accounting system of the Beneficiary)
- f) Proof of origin, if applicable.
- g) Other supporting documents (e.g. documents of book-keeping, proof of receipt, documents of guarantees, photo documentation).

4.6. Infrastructure and works

Definition

Expenditure for the financing of works (“...means the outcome of building or civil engineering works taken as a whole which is sufficient in itself to fulfil an economic or technical function”; Directive 2014/24/EU of the European Parliament and of the Council of 26.02.2014) refers to costs incurred by the Beneficiary for the execution of an infrastructure. Works expenditure may refer either to an object (e.g. building) that will be set up *ex-novo* or to the adaptation of an already existing infrastructure.

Works expenditure shall be limited to elements listed in annex II of the Directive 2014/24/EU.

Costs of feasibility studies, environmental impact assessments, architectural/engineering activities and any other expertise needed for the realisation of the infrastructure and not defined in the aforementioned Directive, shall be allocated under “Staff” or “External expertise and services” cost category (depending whether carried out internally by the Beneficiary or with the support of external suppliers, respectively).

This cost category also includes costs for purchase of land, which must not exceed the 10% of total budget of the given Beneficiary.

Forms of reimbursement

Works expenditure shall be reimbursed by the Programme on a real cost basis.

Specific eligibility requirements

- Works must clearly link to the project and be essential for its effective implementation.
- Works have to be duly described in the Application Form or, if not the case, must have been agreed by the MA/JS or JMC beforehand in order to be considered as eligible.
- Full cost for realising infrastructure and works within the project is eligible, i.e. no depreciation is necessary;
- Eligibility of costs for works is subject to the full respect of EU, Programme and national (including institutional) public procurement rules.
- The procurement of works must comply with the basic principles of transparency, non-discrimination and equal treatment.
- Furthermore, and depending on the nature of the intervention linked to the works to be carried out, all compulsory requirements set by Community and national legislation on environmental policies or other relevant policies released by national/regional/local authorities (e.g. building permit), must be fulfilled. In particular, any requirement deriving from the different Directives in force must be strictly observed.
- The land and/or buildings where the works will be carried out must be in the ownership or long term use of the Beneficiary for at least 10 years.
- Infrastructure and works expenditure cannot refer to items financed by other subsidies (e.g. EU, national or regional) and must not be already depreciated.

- In the case of works being part of a larger infrastructural investment, the part realised by the INTERREG-IPA CBC Hungary-Serbia project must be clearly and unequivocally identifiable.
- The relevant publicity requirements must be respected.
- Requirements concerning durability, including ownership and maintenance, as specified in Article 71 of Regulation (EU) No. 1303/2013 and further detailed in the Programme publicity rules apply to infrastructure realised by the project.
- Contractual advances in accordance with normal commercial law and practice, stipulated in a contract between the Beneficiary and the provider, supported by received invoices (e.g. advance payment for the company selected for construction works) are eligible but depend on later confirmation that infrastructure and works have been properly and timely executed;
- The existence of infrastructure and works realised by the project and their clear identification to the project must be verified on-the-spot by controllers for each realised item.

Documentation for the audit trail

The following documents must be available for the audit trail:

- Legal documents specifying the ownership or permission to use of land and/or buildings where the works will be carried out must be available in form of annexes to the Application Form.
- Plans that enable a proper cost calculation (available draft plans if applicable, if not, a sufficient description of the works, in case of renovations a short technical specification of the works).
- In case of income generating infrastructure a proper cost-benefit analysis.
- Where applicable, necessary permits for the execution of the works, issued by the national/regional/local relevant authorities must be available at latest by IPA contracting.
- Feasibility study related to the investment.
- Evidence of the appropriate selection procedure, in line with EU, Programme or national (including institutional) public procurement rules, depending on the nature of the concerned works and of the contracted amount.
- Contract or written agreement laying down the supplies and/or services to be provided with a clear reference to the project and the Programme.
- Invoice providing all relevant information in line with the applicable accountancy rules as well as references to the project and the Programme and a detailed description of the works carried out in line with the content of the contract.
- Proof of payment (e.g. bank statement, extract from a reliable accounting system of the Beneficiary).
- If applicable, after the finalisation of the works but at latest with the final Beneficiary Report the usage permit issued by the relevant authority.
- Construction log.
- Photo documentation of the works.
- Documents of registration.
- Supporting documents for land purchase (e.g. pre-contract or decision of the relevant government office by the submission of the Application; contract, land registration sheets by the submission of the final Project Report).