



Simplified Cost Options - basics

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Simplified cost options are...

- *...an innovative way of reimbursing grants and repayable assistance under the ESI Funds*
- *Instead of reimbursing 'real costs', they allow reimbursing expenditure according to predefined methods based on process, outputs or results*
- *Flat rate financing, standard scales of unit costs, and lump sums*

When to use SCOs

- *If you want to focus on results and outputs*
 - *Real costs are difficult to demonstrate or verify*
 - *Reliable data on financial and quantitative implementation is available*
 - *Risk that documents are not properly kept*
 - *Standardised operations*
 - *SCO methodology already exist*
- And if the operation is not fully procured*



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Simplified Cost Options

Standard scales of unit costs
Art.67 (b) CPR

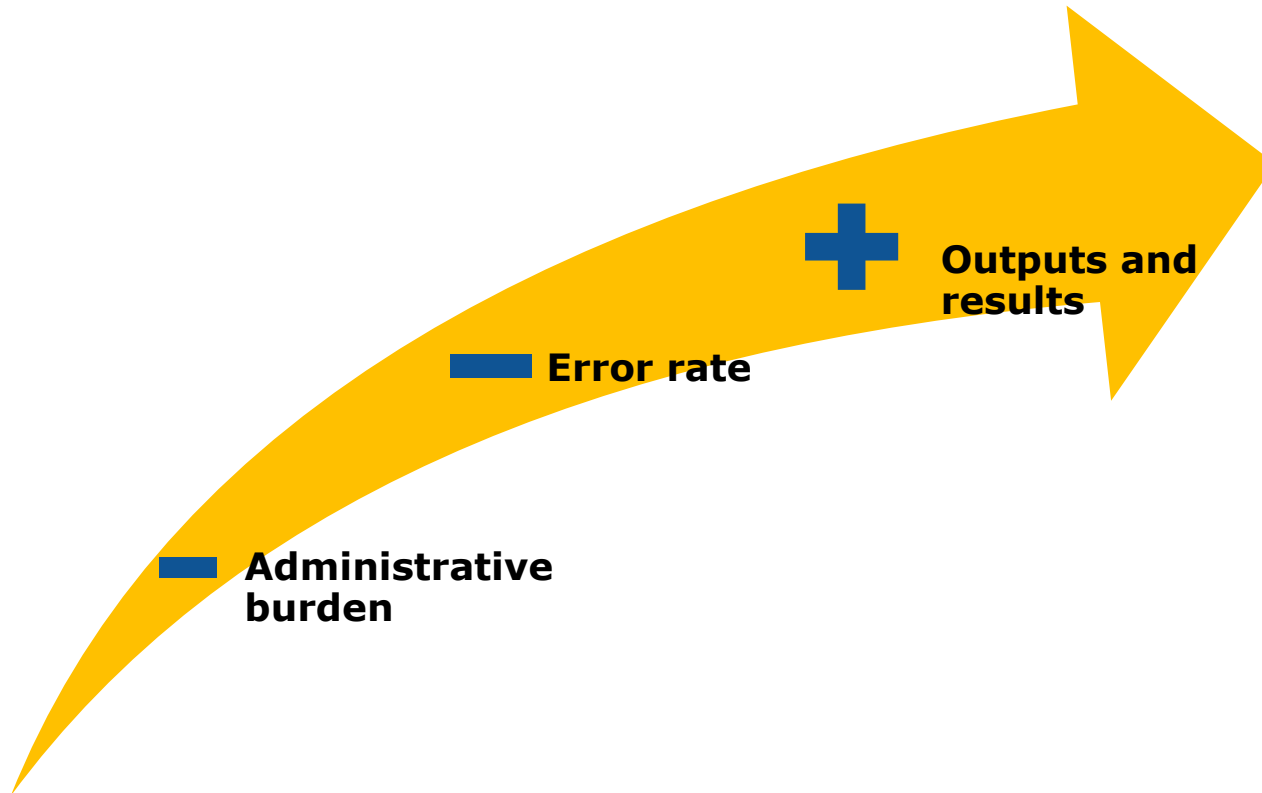
Lump sums
Art.67(c) CPR

Flat rate financing
Art. 67(d) CPR

Financing not linked to costs
to be defined in a DA
Art. 67(e) CPR

New

Why should you use SCOs?



Advantages of Flat Rates

- *Reduce admin burden*
- *Reduce error rate*

But..

- *Need to keep records for certain categories of costs*
- *Need to strictly define your direct and indirect costs*
- *No focus on outputs or results*

Advantages of Lump Sums

- *Can cover all the costs of an operation*
- *Minimum of records to be kept (methodology and proof of output)*
- *Error rate reduced*
- *Focus on outputs/results*
- *Suited to operation with irregular or single output*

But..

- *You have to design the methodology*

Advantages of Unit Costs

- *Can cover all the costs of an operation*
- *Minimum of records to be kept (methodology and proof of output)*
- *Error rate reduced*
- *Focus on outputs/results*
- *Suited to operation with repetitive and regular outputs*

But..

- *You have to design the methodology*

Types of Standard Scale of Unit Costs

- ❑ **Process = participant training hour**
 - ❑ Participant record
 - ❑ Timesheets
 - ❑ Risk for inflation of training hours
 - ❑ Less dynamic for participant
- ❑ **Output = training module or diploma**
 - ❑ Participant record
 - ❑ Proof of obtaining module/diploma
- ❑ **Result = Gaining a job after completion of training**
 - ❑ Proof of employment (and completion of training)

Ex-ante evaluation

Fair, Equitable and Verifiable method



Use of existing EU schemes

(for similar type of operation and beneficiary)



Use of existing own national schemes

(for similar type of operation and beneficiary)



Use of specific rates and methods from the CPR and Fund specific regulations



On the basis of a Draft budget
<100.000 EUR of public support



Omnibus changes



Lump sums: removal of the upper limit of 100.000 Euro

The fair, equitable and verifiable calculation method may be based on Art. 67(5)(a): (i) statistical data, other objective information or **on an expert judgement**

Staff costs: New Art 68a(1) added: Flat rate of **up to 20%** of the direct costs other than staff costs (no need to perform any calculation)

“Remaining” eligible costs (other than direct staff costs): flat rate of up to 40% of eligible direct staff costs

Categories of costs

Direct costs:

Costs which are directly related to an individual activity of the entity, where the link with this individual activity can be demonstrated

➤ ***direct staff costs***

Costs deriving from an agreement between employer and employee or service contract for external staff

➤ ***other direct costs***

Indirect costs

Costs which are not or cannot be connected directly to an individual activity of the entity.

Typical administrative/staff expenditure like:

- *management costs*
- *recruitment expenses*
- *costs for the accountant, cleaner...*
- *telephone, water or electricity expenses...*

Good (and not so good) SCO practices & lessons learned

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I. The decision making process



Good practices:

- Involve all relevant parties very early in the process
- Explain pros and (potential) cons to all stakeholders
- Share proposals and decisions
- Address preconceptions and support change in mindset
- Ensure real simplification for all parties (including final beneficiaries)
- Start from the actions (contents) not from the costs
- MA coordinates the process but also relies on partners
- Consult with the EC upfront (in a constructive way)



Not so good practices:

- Approach SCOs just as an 'administrative exercise'
- Work in silos
- Pretend to set up the SCO system in no time (without any plan)
- Lack of awareness and knowledge
- Adapt the actions to SCO (whereas it should be the opposite)

II. When and why use SCOs



Good practices:

- Start from the actions which are:
 - Large, in terms of budget covered (big target)
 - Repetitive and stable in terms of conditions
 - Particularly complicated to control (burdensome /error prone)
- SCO by default: all/most operations and costs covered, whenever possible
- Understand that the advantages of SCOs go far beyond the reduction of administrative costs



Not so good practices:

- Invest too much time/work in setting up SCOs to cover specific costs with limited impact in terms of simplification (reduction of administrative costs and burden)

II. When and why use SCOs

Identification of actions most suitable for SCOs

Assessment of the interventions based on two key variables



Feasibility

- The operation is not fully/mostly procured (except under art 14.1)
- The actions can be expressed in standard terms
- Representative and consistent data is available (from reliable sources)
- Timing and workload are acceptable/sustainable



Relevance (Impact)

- % of OP budget covered
- Administrative cost and burden
- Risk of errors

III. Setting up of the SCO system

(calculations and conditions)



Good practices:

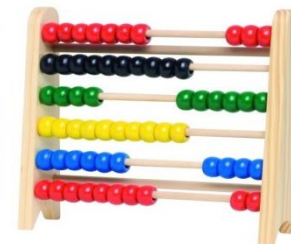
- See SCOs as the best possible approximation of actual costs
- Start from a clear definition of the object of the calculation
- Adopt balanced approaches to data collection and elaboration
- Use what they have (e.g. historical data, admin. data, national law)
-or what is already available (i.e. off-the-shelf options)
- Are prepared to use any calculation method / type of SCO
- Keep the system as simple and to the point as possible
- Make SCOs mandatory for all beneficiaries
- “Secure” the system through Delegated Acts (art. 14.1 ESF)



Not so good practices:

- Aim to reach the perfect approximation of actual cost (and inevitably fail)
- Set up calculations without a clear idea (definition) of the action
- Set up very complicated SCOs: too many rates/amounts
- Impose too many (complicated) conditions and exceptions
- Customise off-the-shelf options

III. Setting up of the SCO system (calculations and conditions)



Calculation methods

- Methods based on **historical data** (i.e. using historical data from the Managing Authority database) are generally preferred
- **Market research** and **benchmark analyses** have been used more rarely and usually in the following situations:
 - residual use: when no historical data are available (i.e. innovative actions or relevant changes in the main features of ‘traditional’ actions or previous operations have been already covered by SCO)
 - ‘indirect use’: not used directly to determine the calculation method itself, but rather to validate it (i.e. counterfactual analysis).

III. Setting up of the SCO system

Process-based or result-based approach?

Process-based approach:

- Requires a clear and measurable identification of the process
- Risk of concentrating on the quantitative aspects of the process

VS.

Results-based approach:

- Focuses on effectiveness
- Certain amount of economic risk for beneficiaries
- Significant risk of "creaming" participants

Possible adjustments

"Enhance the Process"

"Mitigate the impacts"

"Specify the outcomes"

Combine the two approaches

IV. Management & control and audit



Good practices:

- Ensure consistency throughout the system (acts, documents, procedures and tools)
- Use IT systems to support the use of SCO
- Avoid/abandon unnecessary administrative customs and traditions
- Partnership between MA and AA and ex-ante assessment of SCOs
- Develop their own solutions/proposals, based on knowledge (and common sense)



Not so good practices:

- Believe that the 'SCO story' ends with the calculation method
- Require final beneficiaries to provide unnecessary documents
- or even to provide documentary evidence of real costs
- Provide unclear/incomplete (or even inconsistent) instructions
- Formal and distant relationships between MA and AA
- Demand for more EC rules on each specific aspect

V. Conclusions and lessons learned



Hurdles limiting the use of SCO

- Legal uncertainty
- Incidence of (fully) procured operations (ERDF specific)
- Lack of legal harmonization with national rules
- Other EC rules (e.g. State Aid, Public procurement)
- Too high workload required to define the SCO system
- Possible difficulties in setting up 'new' collaboration and communication schemes between
 - the Authorities (i.e. MAs/AAs/CAs-PAs)
 - the Authorities and the beneficiaries

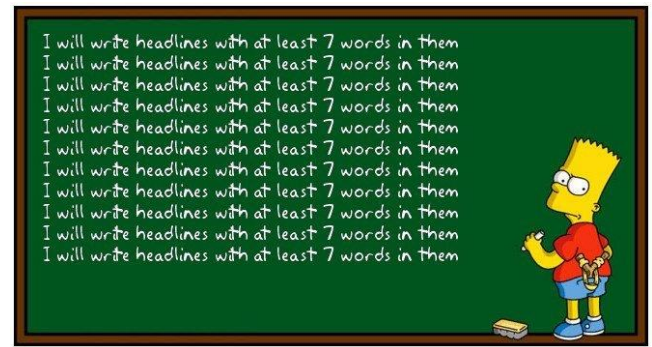
Main (perceived) risks



- **Calculation methodology is not adequate**
 - Quantitative risk (data are not sufficiently representative)
 - Qualitative risk (e.g. Reliability of data/data source)

- **Implementation phase**
 - Risks of different interpretations on the definitions of processes, results and conditions on which SCO are based
 - Information and documents required by the MA from the beneficiaries to provide evidence of processes and results are inadequate/insufficient
 - Information and documents required by the MA from the beneficiaries are inadequate/insufficient to ensure compliance with rules and conditions not directly related to SCO (e.g. Public Procurement, State Aid, Social Security and Tax Laws ...)

Lessons learned



How to improve the uptake of SCO

(Recommendations for the Authorities)

- Invest in sharing knowledge, experiences, doubts and solutions at the national level (with other authorities), but mostly at the transnational level
- Promote overcoming national constraints and harmonizing national/local rules
- Strengthen the dialogue and collaboration with the EC
- Invest more in the SCO system. The calculation of SSUC to cover more costs requires further work beyond just flat rates, but in most cases, it is worth the investment.
- Enhance Change management processes
- Adopt/strengthen a partnership approach (i.e. involve all stakeholders up front, set up committees, working groups and also training sessions involving auditors, policy makers, beneficiaries and all potential stakeholders)

A few examples.....

Examples: From a real cost system...

Costs fully justified on a real costs basis

Training costs for 7 certified trainees

Direct costs = 6.000 €

1. Personnel cost	5.000
Internal personnel – remuneration	3.500
Int. pers. - transport home/work	200
Internal personnel – travel costs	300
External personnel – remuneration	1.000
External personnel - travel costs	0
2. Product develop and consumption	1 000
Non depreciable consumption goods	200
Publicity	150
Organisation costs	650
Other costs	0

Indirect costs = 1 000 €

Personnel costs (management)	350
Equipment and immovable goods (depreciation)	25
Internal administration, accountancy, management	120
General doc. and publicity for courses & structure	65
Office supplies	110
Telephone, post, fax	20
Taxes and insurance	150
Movable material (depreciation)	85
Immovable goods	0
External accountancy costs	75
Other costs	0

Total costs : 6.000 + 1.000 = 7.000€

...to a calculated flat rate for indirect costs

Costs fully partly justified on a real costs basis

Training costs for 7 certified trainees

Direct costs = 6.000 €

1. Personnel cost	5.000
Internal personnel – remuneration	3.500
Int. pers. - transport home/work	200
Internal personnel – travel costs	300
External personnel – remuneration	1.000
External personnel - travel costs	0
2. Product develop and consumption	1 000
Non depreciable consumption goods	200
Publicity	150
Organisation costs	650
Other costs	0

Total costs : 6.000 + 1.020 = 7.020€

Indirect costs

**Analysis of historical data
(calculation method to be
justified):**

**indirect costs = 17% of direct
costs**

6.000 x 17% = 1.020€

...to a calculated flat rate for indirect costs

Costs fully partly justified on a real costs basis

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Internal personnel – travel costs	300
External personnel – remuneration	1.000
External personnel - travel costs	0
2. Product develop and consumption	1 000
Non depreciable consumption goods	200
Publicity	150
Organisation costs	650
Other costs	0

Total costs : 6.000 + 675 = 6.675€

Indirect costs

Use of article 68(b)

indirect costs = 15% of direct staff costs

4.500 x 15% = 675€

.....to a flat rate of 40% of the direct staff costs

Costs fully partly justified on a real costs basis

Training costs for 7 certified trainees

Direct staff costs = 4.500 €

1. Personnel cost	5.000
Internal personnel – remuneration	3.500
<i>Int. pers. – transport home/work</i>	<i>200</i>
<i>Internal personnel – travel costs</i>	<i>300</i>
External personnel – remuneration	1.000
<i>External personnel – travel costs</i>	<i>0</i>

Other costs =

Up to 40% of the direct staff costs

4.500€ x 40% = 1.800€

Total costs: 4.500 + 1.800 = 6.300 €

From a real cost system...

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Movable material (depreciation)	85
Immovable goods	0
External accountancy costs	75
Other costs	0

Total costs : 6.000 + 1.000 = 7.000€

... to standard scales of unit costs

Costs fully justified on a ~~real-costs~~-calculated basis

Training costs for 7 certified trainees

Unit cost

A training costs **1,000€** per person completing the training

Output foreseen

7 people will follow the training = a total of 7 persons completing the training

Maximum expenditure

7 persons x 1,000€ = **7,000€**

Output achieved

1 trainee dropped-out at the middle of the course = **6 persons trained**

Expenditure declared

6 persons trained x 1,000€ = **6,000€**

From a real cost system...

Costs fully justified on a real costs basis

Training costs for 7 certified trainees

Direct costs = 6.000 €

1. Personnel cost	5.000
Internal personnel – remuneration	3.500
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Total costs : 6.000 + 1.000 = 7.000€

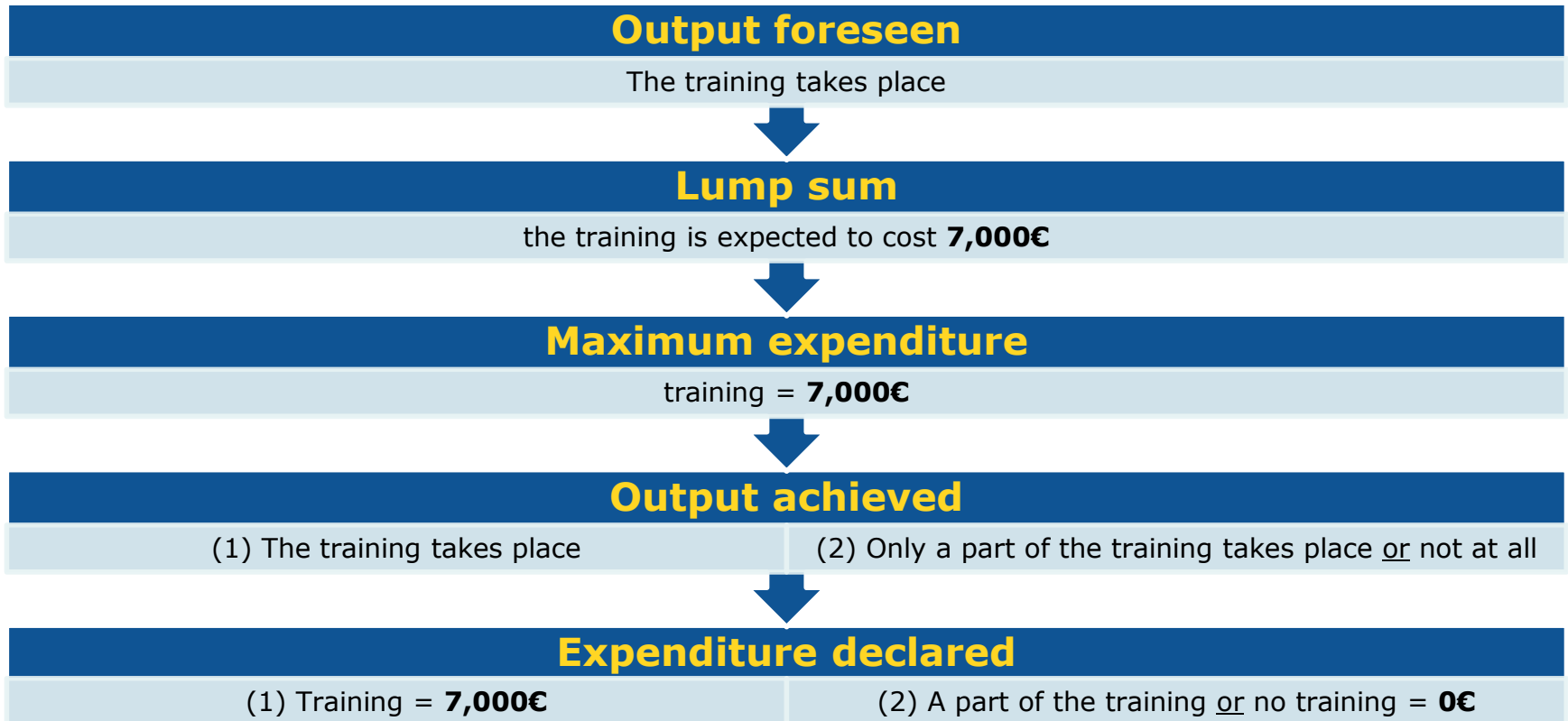
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Movable material (depreciation)	85
Immovable goods	0
External accountancy costs	75
Other costs	0

...to a lump sum

Costs fully justified on a ~~real costs~~-calculated basis

Training costs for 7 certified trainees



For more information on SCOs

- Guidance Note on Simplified Cost Options – EGESIF_14-0017
- ESF page: <http://www.ec.europa.eu/esf/sco>
- Contact: EMPL-SCO-JAP@ec.europa.eu



European
Commission

Thank you!