# Simplified Cost Options

*« I adore simple pleasures, they are the last refuge of complicated people »*

*(Oscar Wilde, 1893)*

*« It's easy to make things complicated, but it is complicated to make them simple »*

*(Arthur Bloch, The Law of Mayer in The Second Book of Murphy, 1980)*


So what kind of job did you create thanks to ESF ?

Thanks to ESF we hired 2 full time accountants in charge of classing and achiving in forecast of a supposed control/check

# Origin of Simplified Cost Options

- *Flat rate for indirect costs in the original ESF Regulation.*
- *Majority of errors found by ECA in structural actions expenditure due to the complexity of the rules*
- *ECA 2007 annual report: making a greater use of 'lump sum' or 'flat rate' payments instead of 'real costs'*
- *Recovery plan November 2008: ESF amendment to allow unit costs and lump sums. Provisions extended to the ERDF: ERDF applies ESF rules. Amendments adopted in 2009.*
- *Options already exist in the Financial Regulation or some other policies*

# *Simplification…but*

- ***Initial workload: time & data required to calculate the simplified cost options***
- ***Clarity of the definitions (direct or/and indirect costs for instance)***
- ***Scope of the rule: not for operations / projects that are tendered***
- ***Compatibility of National rules – matching Funds***
- ***Legal certainty vs flexibility***
- ***Speak together***

# 2007-2013 : Simplified Cost Options

***3 simplified cost options for 2007 2013:***

- ***<u>Flat rate for indirect costs</u>: indirect costs <u>calculated</u> as a % of direct costs (maximum 20%)***

  **eligible cost = direct costs + (% of direct costs)**

- ***<u>Standard scales of unit costs</u>: reimbursement calculated on the basis of delivered quantities multiplied by a unit cost***

  **Ex: eligible cost = nb of trainees x cost by trainee**

- ***<u>Lump sums (<50 kEUR)</u>: reimbursement when pre-defined terms of agreement on activities and/or outputs are completed***

  **Eligible cost = lump sum amount (if completed) or 0.**

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# 2007-2013 : Simplified Cost Options (2)

***Costs fully justified ('real costs') - Training, with a number of 21,400 hours x trainees realised (sum of the hours of training undergone by every trainee)***

**Direct costs = 113 772 €**

| | |
|---|---|
| **1. Personnel cost** | **100 763** |
| 1.1 Internal personnel – remuneration | 60 895 |
| 1.2 Int. pers. - transport home/work | 622 |
| 1.3 Internal personnel – travel costs | 104 |
| 1.4 External personnel – remuneration | 39 143 |
| 1.5 External personnel - travel costs | 0 |
| **2. Participants** | **0** |
| **3. Product develop and consumption** | **13 009** |
| 3.1 Non depreciable consumption goods | 9 056 |
| 3.5 Publicity | 3 096 |
| 3.6 Organisation costs | 857 |
| 3.7 Other costs | 0 |

**Indirect costs = 15 191 €**

| | |
|---|---|
| 3.1 Personnel costs (management) | 12 000 |
| 3.4 Equipment and immovable goods (depreciation) | 54 |
| 5.1 Internal administration, accountancy, management | 563 |
| 5.4 General doc. and publicity for courses & structure | 906 |
| 5.5 Office supplies | 856 |
| 5.8 Telephone, post, fax | 20 |
| 5.9 Taxes and insurance | 201 |
| 5.12 Movable material (depreciation) | 109 |
| 5.13 Immovable goods | 0 |
| 5.17 External accountancy costs | 536 |
| 5.18 Other costs | 0 |

# 2007-2013 : Simplified Cost Options (3)

***Flat Rate Rule Indirect costs = flat rate rule***

**Indirect costs = 13 % of direct costs**

**= 113 772 x 13% = 14 790 €**

**Indirect costs (€) = 14 790 TOTAL CERTIFIED: 128,562 €**

***Standard scale of unit costs***

**For this type of training, the standard scale of unit cost defined by the national authorities is: €6 / hour x trainee**

**The grant paid will be: €6 x 20,000(1000hx20 trainees) = € 120,000**

**Justification: Number of hours x trainees & standard scale of unit cost**

# Examples…again for understanding

**<u>Example 1</u>: For an advanced IT training of 1,000 hours provided for 20 trainees. The cost per hour has been defined in advance by the Managing authority and is set in the grant approval at € 7 per hour per trainee, the max. grant allocated to the project would be**

**<u>1,000 hours x 20 trainees x €7 /hr/trainee = € 140,000</u>**

**But if only 18 people participated in the training,**

**6 of them 900 hours,**

**5 of them 950 hours,**

**5 of them 980 hours and the remaining**

**2 1,000 hours,,**

**the number of hours x trainees will be equal to: 900x6 + 950x5 + 980x5 + 1,000x2 = 17,050 hours x trainees.**

**<u>The grant paid will be: 17,050 hours x €7 = €119,350 .</u>**

# 2007-2013 : Simplified Cost Options (4)
# An example of « lump sum »: new activity for a NGO managing a 'crêche' (childcare)

| | |
|---|---|
| 1.1 Internal personnel – remuneration | 32 000 |
| 1.2 Int. pers. - transport home/work | 600 |
| 3.1 Non depreciable consumption goods | 500 |
| 3.4 Equipment and immovable goods (depreciation) | 347 |
| 5.1 Administration, accountancy, mang. | 4 520 |
| 5.8 Telephone, post, fax | 207 |
| 5.9 Taxes and insurance | 43 |
| 5.17 External accountancy costs | 536 |
| TOTAL | 38,753 |

*Draft Buget to calculate « Lump Sum »*

***Lump sum amounting to 38,753 EUR to look after 10 additional children during one year. End of implementation: 11 additional children looked after during one year. Condition fulfilled Payment of the lump sum grant of 38,753 EUR.***

# *2007 2013: key points of SCOs*

- ***Optional***
- ***ESF and ERDF only***
- ***Only for grants (no operations or projects subject to public procurement contracts)***
- ***SCOs shall be calculated ex ante on a fair, equitable and verifiable basis.***
- ***Simplification! No audit of underlying financial documents. Amounts paid considered as paid expenditure <u>if justified by "quantities" / direct costs (flat rate).</u>***

***<u>=> a first step to focus more on outputs and results than inputs</u>***

# 2007 2013: lesson from SCOs

- ***Initial workload: time & data required to calculate the simplified cost options***
- ***Clarity of the definitions (direct or/and indirect costs for instance)***
- ***Scope of the rule: not for operations / projects that are tendered***
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# SCOs 2014 – 2020: Guiding principles

***Simplified costs = keys in terms of simplification and in terms of better focus on results***

- ***Maintain the 'acquis'***
- ***Extend the use***
- ***Harmonise the options while taking account of specificities (and the acquis)***
- ***Improve legal certainty***

***The Regulations provide for a <u>toolbox</u> of different possibilities from which you can <u>choose</u> according to your needs.***

# SCOs 2014 2020 : Reg.(UE) 1303/2013

***For all ESI Funds, grants and repayable assistance may take the following forms(art.67, Reg. UE 1303/2013):***

- **reimbursement of eligible costs actually incurred and paid, together with, where applicable, in-kind contributions and depreciation;**
- **standard scales of unit costs;**
- **lump sums not exceeding EUR 100 000 of public contribution;**
- **flat-rate financing, determined by the application of a percentage to one or several defined categories of costs.**

***Simplified costs for grants only = no operations or projects subject to public procurement contracts***

***Options: The MS may choose which form to use, except for ESF small grants (< EUR 50 000) (art.14 Reg.UE 1304/2013 ESF): compulsory use of simplified costs.***

# SCOs 2014 2020 :Trying to Calculate..

***Objective: maintain the 'acquis' ...***

***fair, equitable and verifiable calculation is maintained and specified(Art.67,p.5 Reg.UE 1303/2013). Method based on:***

- **statistical data or other objective information;**
- **the verified historical data of individual beneficiaries; or**
- **the application of the usual cost accounting practices of individual beneficiaries;**

***+ Additional possibilities to improve legal certainty and harmonisation***

# Trying to Calculate..(2)

- **methods and corresponding scales of unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation and beneficiary;**
- **methods and corresponding scales of unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary;**
- **rates established by the Common General Regulation or the Fund-specific rules (no justification required);**
- **for the ESF, unit costs, lump sums and flat rates calculated on the basis of a draft budget in the case of grants not exceeding 100.000 EUR;**

# Flat-rate financing (1)
# Reg.1303 (Art 67 1 d): examples

## Flat Rate

| | Category of costs to which the rate is applied | Rate | Rate used to calculate … | Calculation method |
|---|---|---|---|---|
| ESF Reg | Eligible direct staff costs | Up to 40% | Remaining eligible costs of an operation | No calculation |
| ETC Reg | Direct costs other than staff costs | Up to 20% | Staff costs | No calculation |
| CPR Reg | Variable (see next slide) | Variable (see next slide) | Indirect costs | Variable (see next slide) |
| | Your own system of flat rate (except for indirect costs) | | | |

# *Flat rate financing (2)*
# *to calculate indirect costs (Art 68)*

## Examples

| Category of costs to which the rate is applied | Rate | Calculation method | Remark |
|---|---|---|---|
| **Eligible direct costs** | Up to 25% | - Fair, equitable, verifiable<br>-MS schemes<br>-Draft budget* | Current system with additional calculation methods |
| **Eligible direct staff costs** | Up to 15% | No calculation | Other eligible direct costs are declared in addition |
| **Eligible direct costs** | Rate applied in EU Policies | Delegated act will specify rate & method | |

# Future simplified cost options
# Indirect costs = 15% of direct staff costs

**Direct costs = 113 772 €**

| | |
|---|---|
| **1. Personnel cost** | **100 763** |
| 1.1 Internal personnel – remuneration | 60 895 |
| 1.2 Int. pers. - transport home/work | 622 |
| 1.3 Internal personnel – travel costs | 104 |
| 1.4 External personnel – remuneration | 39 143 |
| 1.5 External personnel - travel costs | 0 |
| **2. Participants** | **0** |
| **3. Product develop and consumption** | **13 009** |
| 3.1 Non depreciable consumption goods | 9 056 |
| 3.5 Publicity | 3 096 |
| 3.6 Organisation costs | 857 |
| 3.7 Other costs | 0 |

**A. Direct staff costs =**

**60 895 + 39143 =100 038 €**

**B. Indirect costs = 15% of direct staff costs**

**= 100 038 x 15% = 15 006 €**

**C. Other direct costs = 13 735 €**

**TOTAL ELIGIBLE :**

**A + B + C = 128 779 €**

# Future of the simplified cost options all costs other than direct staff costs = 40% of direct staff costs

***Direct costs = 113 772 €***

| | |
|---|---|
| ***1. Personnel cost*** | ***100 763*** |
| *1.1 Internal personnel – remuneration* | *60 895* |
| *1.2 Int. pers. - transport home/work* | *622* |
| *1.3 Internal personnel – travel costs* | *104* |
| *1.4 External personnel – remuneration* | *39 143* |
| *1.5 External personnel - travel costs* | *0* |
| ***2. Participants*** | ***0*** |
| ***3. Product develop and consumption*** | ***13 009*** |
| *3.1 Non depreciable consumption goods* | *9 056* |
| *3.5 Publicity* | *3 096* |
| *3.6 Organisation costs* | *857* |
| *3.7 Other costs* | *0* |

**A.Direct staff costs =**

**60 895 + 39143 =100 038 €**

**B. All other eligible costs = 40% of direct staff costs**

**= 100 038 x 40% = 40 015 €**

**TOTAL ELIGIBLE :**

**A + B = 140 053 €**

# Comparison current / future 2007 / 2013 Vs 2014 / 2020

- flat rate to calculate indirect costs -> flat rate to calculate any type of costs

- increase of lump sum threshold

- more calculation methods

- lump sums / unit costs compulsory for small ESF grants

*But everything that is used now is usable in the future!*

# SCOs for EAFRD..?

Rural Development Programmes may include different measures envisaged in Reg.EU No.1305/2013. But...but some of them are excluded:

- because there is legal obligation to implement them using public procurement procedures (knowledge transfer and information actions,advisory services)

- because the system of calculation of payment is already considered in the basic act as unit costs payments related to surface(ha) or animals (livestock units)

# SCOs for EAFRD..?(2) What-...else?If is it possible or not?

**There are existing measure included in the Regulation for which there is no legal provision that hampers the use of SCOs :**

- **Art.16 - quality schemes for agricultural products and foodstuffs**
- **Art.17 - investment in physical assets**
- **Art.18 - restoring agricultural production potential damage by natural disasters**
- **Art.19 – farm and business development**

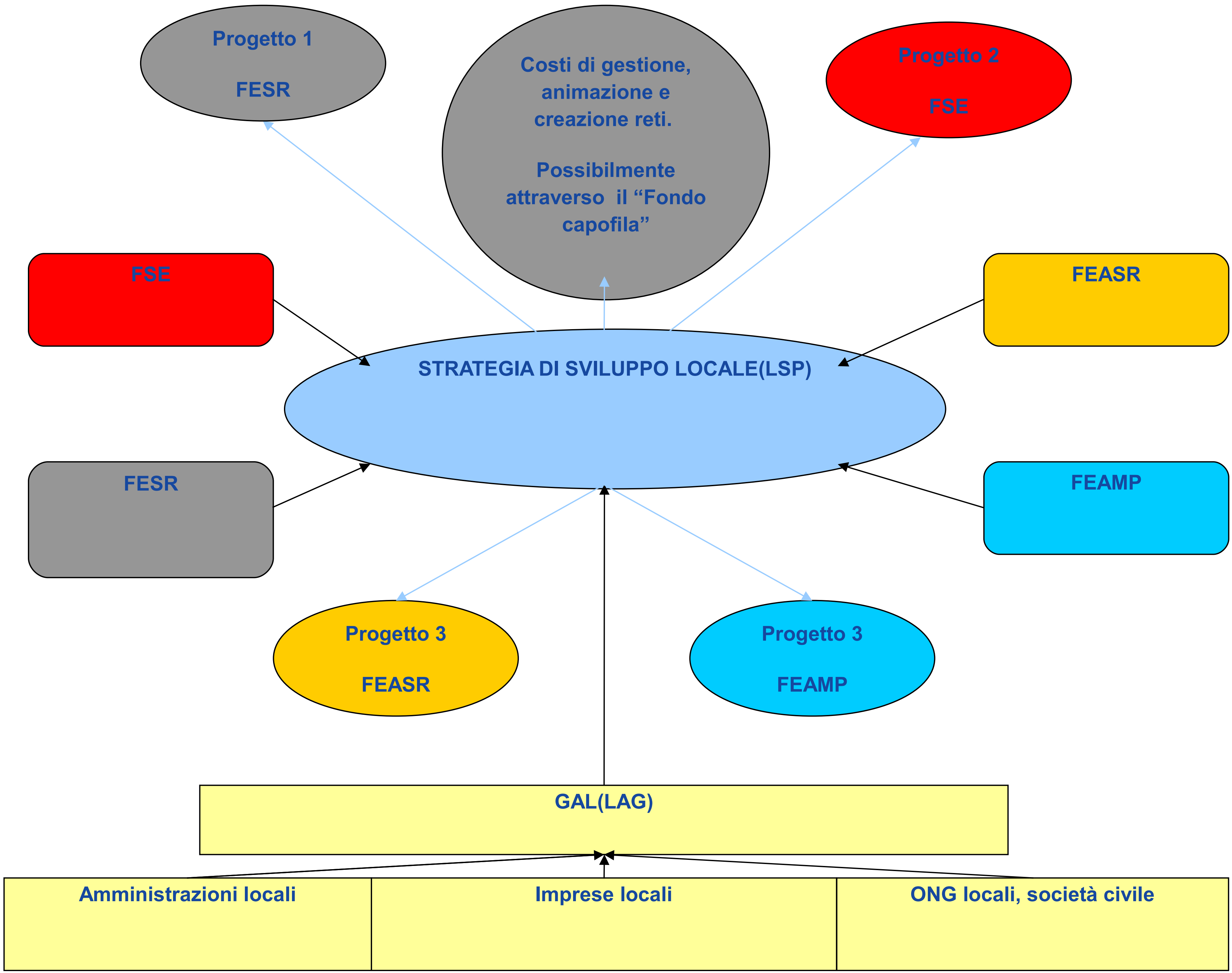
# *SCOs for EAFRD..?(3) What-...else?If is it possible or not?*

- **Art.20 - basic services and village renewal in rural areas**
- **Art.21 - investment in forest area and improvement of viability of forests**
- **Art.35 – support for LEADER local development(CLLD)**
- **Art.51 – technical assistance**

# SCOs for EAFRD..?(3) Example

- **Art.16 - quality schemes for agricultural products and foodstuffs**

**A group of farmers who have received support to cover a new participation in a recognised quality schemes wants to organize a promotion activity of these products. The MA has calculated the cost of the activity as a lump sum (e.g. 15.000 EUR / seminar min.50 participants). The group of farmers has to provide evidence of the realization of the activity and the number of participants (at least equal to 50)**



Progetto 1
FESR
Costi di gestione, animazione e creazione reti.
Possibilmente attraverso il “Fondo capofila”
Progetto 2
FSE
FSE
FEASR
STRATEGIA DI SVILUPPO LOCALE(LSP)
FESR
FEAMP
Progetto 3
FEASR
Progetto 3
FEAMP
GAL(LAG)
Amministrazioni locali
Imprese locali
ONG locali, società civile

# Conclusions

*Always keep in mind the simplification purpose. Other areas, also at national level*

*Compare the options and decide before the start of the programme!*

- type of operations,
- data availability,
- legal certainty or flexibility,

*Speak together*

*Adapt your rules*

*A lot of experience (mainly ESF)*

# Next Steps

- Guidance note on simplified cost options: update of the current note (working progress!!)

- Delegated Act Article 68 (c) CPR : definition of the flat rate for indirect costs based on existing methods and corresponding rates, applicable in Union policies for a similar type of operation and beneficiary -> need to have clear view about other EU legal frameworks

- Delegated Act Article 14.1 ESF: concerning the type of operations covered, the definitions of the standard scales of unit costs and lump sums and their maximum amounts (incl. adjustment methods) -> template proposed on Annexe JAP

# *Article 14.1 ESF: Standard scales and lump sums defined by the Commission*

**The Delegated acts should contain:**

**- Type of operations (including scope of implementation)**

**- Definition of standard scales of unit costs / lump sums**

**- maximum amounts for standard scales of unit costs / lump sums**

**- Adjustment methods**

**+ in annex arrangements to ensure quality, collection and storage of data and their verification**

# ***Last but not...least***

**Article 14.1 ESF Reg.UE n.1304/2013:** ***In order to define some standard scales and lump sums,***

*- data will have to be submitted by Member States to the Commission,*

*- together with the necessary information to justify the maximum amounts of the standard scales and lump sums.*

*- and assessment of the audit authority*

***Template to be used will be adapted from the annex on standard scales and lumps sums used for the Joint Action Plan***

# Article 14.1 ESF: MS application

- A. Contact details of the MS authority responsible for submitting data to the COM

- B & C. Main elements to be included in the DA and its annex + information on perverse incentives & their mitigation, Amounts expected to be reimbursed on the basis of UC and LS

- Anx: source of data, relevance, calculation methods, revenues, eligible expenditure, cross financing, assessment of AA.

# *Procedural issues*

**- 6 deadlines for submission of data:**

**1 April 2014, 1 October 2014 then 1 April every year until 2017 (included).**

**- 45 days for COM feed back**

**(- 45 days max for MS answer & COM assessment)**

**- Consultation of the expert group**

**- COM adopts a single DA after 6 months (in force until the end of the period)**

**- 2 months objection period for EP/Council**

# Super Case….

Example of a training session combining:

- a standard scale of unit cost for the wages of the trainers, for example € 450 / day ;

- real costs: room rented = €800 / month during 6 months

- a flat rate for the indirect costs, for example 10% of direct costs.

At the end of the training if 100 days of trainers were justified, the grant will be paid on the following basis:

Direct costs: wages of the trainers 100 days x €450 = €45,000 training room: 6 months x €800= €4,800 subtotal direct costs : €49,800

Indirect costs: 10% of direct costs = 10% x €49,800 = € 4,980

Grant to be paid: [€45,000 + €4,800] + € 4,980 = €54,780