

**DRAFT Working Document
on grants and repayable
assistance calculated on the
basis of Simplified Costs:**

Flat rate financing

Standard scales of unit costs

Lump sums

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Chapter 1: Introduction

1.1. Purpose of the working document

This Working Document was prepared by the Commission services responsible for the ESI Funds [in consultation with the members of the ESF Technical Working Group and the EGESIF]. It is based on the COCOF note 09/0025/04-EN applicable to the period 2007-2013 and, where necessary, includes the new possibilities of the regulations 2014-2020.

The purpose of this Working Document is to provide technical guidance on the three kinds of simplified costs applicable to the ESI Funds and to share the best practices with the view of encouraging Member States to use simplified costs.

The Working document will benefit the public authorities, programme managers, auditors, (potential) beneficiaries and other stakeholders involved in the implementation of the ESI Funds. Use of the available options in line with this guidance will give more legal certainty to the beneficiaries, therefore reducing their financial risk.

The examples aiming at illustrating the main points of implementation are given for illustrative purposes only and do not constitute a requirement or recommendation for similar operations in the 2014-2020 programming period.

1.2. Why use simplified costs?

1.2.1. Background

In 2006 an important simplification introduced in the 2007-2013 ESF Regulation¹ allowed the Member States to declare indirect costs on a flat rate basis, up to 20% of direct costs of an operation. During the programming period 2007-2013, some additional options were introduced (standard scales of unit costs and lump sums) and the possibility to use them was extended to the ERDF. The use of flat rate financing, standard scale of unit costs and lump sums (herein after referred as "simplified costs") was welcomed by all stakeholders, including the European Court of Auditors.

For 2014-2020, the Commission proposed to maintain the 2007-2013 options. The Commission also extended these possibilities, seeking more legal certainty for national authorities and more harmonisation among the ESI Funds, as well as with other EU Funds implemented in shared management (AMIF², ISF³) or through other methods of implementation (Horizon 2020, Erasmus + for instance).

Therefore, the CPR includes options for the ESI Funds to calculate eligible expenditure of grants and repayable assistance on the basis of real costs, but also on the basis of flat rate financing, standard scales of unit costs and lump sums. The CPR builds on and extends the systems currently used for the ESF and the ERDF. Given the differences between the Funds, some additional options are also introduced within the Fund-specific regulations.

¹ Article 11.3(b) of Regulation (EU) No 1081/2006

² Asylum, Migration and Integration Fund

³ Internal Security Fund

1.2.2. Advantages of simplified costs

Where simplified costs are used, the costs are **calculated** according to a pre-defined method based on outputs, results or some other costs. **The approach of tracing every euro of co-financed expenditure to individual supporting documents is not required any more:** it is the key point of the simplified costs as it significantly **alleviates the administrative burden**. Using simplified costs means also that the human resources and administrative effort involved in the management of the ESI funds can be **more focused on the achievement of policy objectives** instead of being absorbed in accumulating and verifying financial documents. It will also facilitate access of small beneficiaries to the ESI Funds thanks to the simplification of the management.

Simplified costs also contribute to a more correct use of the Funds (**lower error rate**). For many years the European Court of Auditors has repeatedly recommended to the Commission to encourage and extend the use of simplified costs, especially as regards the ESF. In the 2012 DAS report the Court calculated that 26% of the ESF transactions were based on simplified costs and no irregularity was detected⁴.

1.3. When to use simplified costs?

Simplified costs shall be used only in the case of grants and repayable assistance. Where an operation or a project forming part of an operation is implemented exclusively through public procurement, simplified costs shall not be used (see 1.6.2 p.9).

It is recommended using simplified costs when one or more of the following circumstances exist:

- real costs are difficult to verify and to demonstrate (many small items to verify, complex apportionment keys, ...);
- reliable data exists on financial and quantitative implementation of operations (however some of the possibilities for calculation do not require these data);
- there is a risk that documents are not properly retained (by small NGOs for instance);
- the operations are standardised (however, some of the possibilities for calculation do not require standardised operations: for example, those based on an approach by operation / beneficiary);
- if Member States want ESIF management to focus more on outputs and results instead of inputs;
- SCO methods already exist for similar type of operations and beneficiaries under a nationally funded scheme or under another EU instrument.

1.4. Key differences with the 2007-2013 period

One of the principles of the proposal of the Commission was to maintain the "acquis" of 2007-2013: the options that are applicable now will also be applicable in the future if applied to similar types of operations and beneficiaries.

⁴ Annual report on the implementation of the budget, 2013/C 331/01, European Court of Auditors

However compared with the current programming period there are some key changes:

	2007- 2013	2014-2020
Funds using simplified costs	ESF and ERDF	5 ESI Funds (ESF, ERDF, EAFRD, EMMF, CF)
Form of support	Not specified	Grant and repayable assistance
Option	The use of simplified costs is optional in the case of grants.	It is optional, but mandatory for small ESF operations (below EUR 50 000 EUR of public support paid to the beneficiary), except in the case of a state aid scheme.
Calculation methods	Ex-ante calculation, based on a fair, equitable and verifiable method.	Ex-ante calculation, based on a fair, equitable and verifiable method. Additional calculation methods are introduced: <ul style="list-style-type: none"> - Use of existing EU schemes for similar type of operation and beneficiary; - Use of existing own national schemes for similar types of operations and beneficiaries; - Use of schemes / rates / standards enshrined in the regulation or in a delegated act (see for instance Art 68.1.b CPR or Art 14.2 ESF) - For ESF: use of a draft budget.
Flat rate financing	Flat rate financing is used to calculate indirect costs only.	- Flat rate financing can be used to calculate any category of costs.
Flat rate financing for indirect costs	Maximum flat rate to reimburse indirect costs = 20% of direct costs	- Maximum flat rate to reimburse indirect costs with calculation requirement = 25% of direct costs. - Maximum flat rate to reimburse indirect costs without calculation requirement = 15% of direct staff costs. - Flat rate and method adopted by delegated act for methods applicable in EU policies for a similar type of operation and beneficiary.
Threshold for lump sums	Maximum EUR 50,000	Maximum EUR 100,000 of public contribution
Unit costs		A specific calculation method of unit cost is set out for staff costs. Hourly staff cost = latest documented annual gross employment costs / 1720 hours.

1.5. Simplified costs are optional

The use of simplified cost is an option for the Member State: at beneficiary level, the managing authority may decide to make the use optional or compulsory for all or part of the beneficiaries or for all or part of the operations. In cases where the system is not compulsory for all, the scope of the simplified cost options to be applied, i.e. the category of projects, activities of beneficiaries for which they will be available, should be clearly specified and published in accordance with the general principles of transparency and equal treatment.

ESF specific

However in accordance with Article 14(4) of Regulation EU No1304/2013, the use of unit costs, lump sums or flat rate financing is compulsory for small ESF operations. These small operations are defined as "*grants and repayable assistance for which the public support does not exceed EUR 50 000*".

This amount has to be considered as the public support **to be paid to the beneficiary**, as specified in the document setting out the conditions for support to the beneficiary. It includes neither the public contribution provided by the beneficiary, if any, nor the allowances or salaries disbursed by a third party for the benefit of the participants in an operation. The public support paid to the beneficiary at closure of the operation has no influence on this rule; it is only the programmed one that matters to decide if the Article 14(4) has to be applied (see 7.2.2 p. 40).

In order to prevent any contradiction between sets of rules there are two exceptions to the application of Article 14(4) of Regulation EU No1304/2013:

- when Article 67(4) CPR is applicable: simplified costs options shall not be used;
- when operations receive support within the framework of a State aid scheme: the rules of the state aid scheme shall be applied. These rules could allow or forbid the use of simplified costs.

1.6. Applicability of simplified costs

Simplified costs under Article 67 and 68 of Regulation (EU) No 1303/2013 are applicable only in the case of grants and repayable assistance.

Pursuant to Article 67(4) the simplified costs shall not be used where an operation or a project⁵ forming part of an operation is implemented exclusively through the procurement of works, goods or services.⁶

However the implementation of an operation through public procurement procedures which result in **payments by the beneficiary to the contractor determined on pre-defined unit costs or lump sums is possible**. In fact, the invoices paid

⁵ An operation is defined as "a project, contract, action or group of projects selected by the managing authorities of the programmes concerned, or under their responsibility, contributing to the objectives of the priority or priorities to which it relates" (Article 2(9) of Regulation (EU) No 1303/2013

⁶ Operations "subject to public procurement contracts" are considered by the Commission as the operations implemented through the award of public contracts in accordance with Directive 2004/18 (including its annexes) or public contracts below the thresholds of the same Directive.

through public procurement contracts constitute real costs actually incurred and paid by the beneficiary under Article 67 (1) (a).⁷

1.6.1. The determination of the exact scope of use of the simplified costs options notably in case of public procurement

In the case where the simplified cost options are applicable to the operation, one has to determine if they can be applied to all or some parts of the operation. This depends on what the Member State considers to be an operation. In some Member States an operation consists of and is implemented through a group of projects (the definition depends on the set-up of the programmes, supported by the Funds under their respective scope of assistance). In order to assess to which projects of the operation the simplified costs options can be applied, it is necessary to define the projects constituting the operation at the lowest possible level. If the beneficiary outsources the entire implementation of all or some of the projects via public procurement contracts, the simplified cost options cannot be applied to these projects subject to public procurement contracts.

1.6.2. Outsourcing within a project implemented by the beneficiary itself

If the beneficiary implements itself a project (meaning keeping full control of the management and implementation of the project), the simplified costs options are applicable, even if some of the **categories of costs** within the project are outsourced (e.g. part of the project implementation costs like cleaning services, external expertise, purchase of furniture, etc.)⁸.

Example (ESF): A grant of EUR 20,000,000 is allocated to a public employment service ("beneficiary") to organise, during two years, the re-integration of 5,000 long term unemployed people ("the operation"): this operation will be implemented via several projects: EUR 7,000,000 of personalised support projects implemented directly by the beneficiary, trainings, implemented directly by the beneficiary for EUR 5,000,000 and outsourced via public procurement contracts for the remaining part (EUR 8,000,000). Since the beneficiary is a public entity, training institutions for the part outsourced will have to be chosen through the national (and if applicable, Union) "public contract award procedures" and the simplified cost options will not be applicable to this part of the grant. It will be applicable only to an amount of EUR 12,000,000. For the trainings that the beneficiary implements by its own means it is accepted that some of the expenditure items are outsourced and included in the simplified cost options (for example external experts, cleaning services, etc.).

Example (ERDF): A municipality receives a grant of EUR 1,000,000 for the construction of a road. For this the municipality has to award a public work contract of an estimated value of EUR 700,000. In addition the municipality incurs certain related costs of EUR 300,000 (expropriations, litigation costs, monitoring of the progress on the ground, environmental studies realised by its own staff, campaigns, tests for the reception of the road etc.). For the amount of EUR 300,000 of direct costs and insofar as these costs are eligible under the National and Union provisions, simplified costs

⁷ See joint statement by the Council and the Commission on Article 67 of the Common Provisions Regulation (CPR) (contained in COREPER/Council doc 8207/12, ADD7 REV 1) – cf. Annex 3

⁸ Last sentence of Article 67.4 of the CPR Regulation.

(e.g. indirect costs on a flat rate basis of direct costs) can apply.

In the case of flat rate financing the extent of outsourcing by the beneficiary could have an impact on the proportion of calculated costs. Therefore, Member States should assess the impact of the extent of outsourcing within operations on the proportion of calculated costs and hence the flat rate, except in the case of flat rates enshrined in the Regulation. Mitigating measures should be introduced in the methodology. If the extent of outsourced activities has a significant effect on the proportion of calculated costs, the flat rate should either be reduced proportionally to the extent of outsourcing or the flat rate should be applied only to those costs which are not outsourced (for flat rate financing based on Horizon 2020 approach it is compulsory). However, it may also be that the extent of outsourcing has no impact on the proportion of calculated costs or that this impact is insignificant. In this case mitigating measures might not be needed. The impact of outsourcing on the flat rate should however be analysed (for example on the basis of similar past measures or the past projects) and should be taken into account when establishing a methodology for the application of the flat rate financing.

EAFRD specific

Rural Development programmes may include different measures envisaged in Regulation (EU) No 1305/2013. Some of them are automatically excluded because there is legal obligation to implement them using public procurement procedures (knowledge transfer and information actions, advisory services). Others are also excluded 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). Therefore, from the existing measure menu included in the Regulation, managing authorities will be de facto constrained to the use of SCO only in certain ones.

The following list includes those measures for which there is no legal provision that hampers the use of SCO:

- [RD] art 16 - quality schemes for agricultural products and foodstuffs
- [RD] art 17 - investments in physical assets
- [RD] art 18 - restoring agricultural production potential damage by natural disasters
- [RD] art 19 - farm and business development
- [RD] art 20 - basic services and village renewal in rural areas
- [RD] art 21 - investments in forest area development and improvement of the viability of forests
- [RD] art 35 - co-operation
- [CPR] art 35 - support for LEADER local development (CLLD)
- [RD] art 51 - technical assistance

Once the possible choice has been narrowed, considerations identified throughout this guide should be taken into account in order to identify the adequate operations and the most suitable simplified cost system depending on the amount of expenditure, structure of costs, volume of invoices, etc.

1.6.3. Recommended approach for projects outsourced even where beneficiaries belong to categories that are not covered by Directive 2004/18/EC

The Commission recommends applying the approach developed above (Point 1.6.1 p.9 applied by analogy. Point 1.6.2 p.9 adhered to in all cases) for projects outsourced, even where beneficiaries belong to categories that are not covered by Directive 2004/18/EC, in order to respect the intention to restrict the simplified cost options to grants and repayable assistance.

1.6.4. National rules on eligibility of expenditure

For the programming period 2014-2020, eligibility of expenditure is determined on the basis of national rules subject to the exceptions provided for in the Fund specific regulations (Article 65.1 of Regulation (EU) 1303/2013). They shall cover the entirety of the expenditure declared under the operational programme. Moreover "the managing authority shall be responsible for managing the programme in accordance with the principle of sound financial management" (Article 125.1 of Regulation (EU) No 1303/2013) and has the possibility to apply stricter rules than those set out in the applicable European legal framework.

Therefore, managing authorities should determine and document the eligibility rules for ESI Funds operations, at the appropriate level (national, regional, local, by programme), make them available to potential beneficiaries, and indicate all relevant rules in grant decisions⁹. As part of these rules, the framework for applying article 67 of Regulation (EU) No 1303/2013 should also be set out.

⁹ For the purpose of this note "Grant decision" should be understood as a general term encompassing all legally binding forms of granting assistance to beneficiaries, which may vary according to the administrative set up of the Member States: grant decisions, grant letters, grant awards etc.

Chapter 2: Flat rate financing

In the case of flat rate financing, specific categories of eligible costs which are clearly identified in advance are calculated by applying a percentage fixed ex-ante to one or several **other** categories of eligible costs.

2.1. Defining the categories of costs

In a flat rate financing system there are two or three types of categories of costs:

- Type 1: categories of eligible costs to which the rate is applied;
- Type 2: categories of eligible costs that will be calculated with the flat rate;
- Type 3: where relevant, other categories of eligible costs: the rate is not applied to them and they are not calculated with the flat rate.

When using a flat rate financing system the managing authority shall define the categories of costs falling under each type: any category of expenditure is clearly included in one - and only one - of the three types. Note that in some cases, one type can be defined by opposition to another type (for instance indirect costs are considered as all the costs that are not direct).

The Regulation does not put any restriction to categories of eligible costs that could be used or not for flat rate financing. However the main objective of using flat rates should be simplification and reduction of the error rate. Hence, flat rates are best suited for costs that are relatively low and which verification is costly.

2.2. Specific flat-rate financing systems to calculate indirect costs detailed in the Regulations

2.2.1. Calculation methods for indirect costs

The regulations include **certain specific flat-rate financing systems**. Article 68(1) of Regulation (EU) No 1303/2013 details **some flat rate financing systems to calculate indirect costs**, applicable to:

- Paragraph a) is the general system of flat rate financing for indirect costs with a maximum rate increased to 25%. It is the continuation of the current system, the real rate to be used has to be justified according to one of the calculation methods of Article 67(5) CPR or the fund specific rules.
- Paragraph b) opens the possibility for a managing authority to use a flat rate up to **15% of direct staff costs** to calculate the indirect costs. The 15% may be used directly by the managing authority, without any justification. This system is an example of systems where there will be three categories of costs: (Type 1) direct staff costs (Type 2) indirect costs (Type 3) direct costs other than staff costs (see annex 1 p. 43 for an example).
- Paragraph c) is an application of the possibility to re-use flat rate for indirect costs schemes existing in Union policies, based on those used under Horizon 2020 and under LIFE and specified in a delegated act.

2.2.2. Definition of direct, indirect, staff costs

The use of these systems could require the managing authority to define the direct, indirect costs and the staff costs. These definitions shall comply with the general guidance given below by the Commission:

- **Direct costs** are those costs which are directly related to an individual activity of the entity, where the link with this individual activity can be demonstrated (for instance through direct time registration).
- **Indirect costs**, on the other hand, are costs which are not or cannot be connected directly to an individual activity of the entity in question. Such costs would include administrative expenses, for which it is difficult to determine precisely the amount attributable to a specific activity (administrative/staff expenditure, such as: management costs, recruitment expenses, costs for the accountant or the cleaner etc.; telephone, water or electricity expenses, and so on.).
- **Staff costs** are the costs deriving from an agreement between employer and employee or service contracts for external staff (provided that these costs are clearly identifiable). They include the total remuneration, in cash or in kind, paid to people in return for the work related to the operation. They also include taxes and employees' social security contributions as well as the employer's compulsory and voluntary social contributions. Therefore travel costs or costs of business trips are not considered to be staff costs. Allowances or salaries disbursed for the benefit of participants to ESF operations are neither considered to be staff costs.

2.2.3. Fund specific rules

ESF specific

Article 14(2) of Regulation (EU) No 1304/2013 includes an **ESF specific flat rate financing scheme. Direct staff costs may be used to calculate all the other categories of eligible costs** of the project, on the basis of a flat rate up to 40%. The 40% may be used directly by the managing authority, without any justification.

Allowances or salaries disbursed for the benefit of participants are not considered as direct staff costs. When the Commission calculated this 40% it was exclusive of this kind of costs that are in general incurred by a third party. Therefore in order to respect the spirit of the Regulation and the specific nature of these expenditure that are not incurred by the beneficiary, allowances or salaries disbursed **by a third party** for the benefit of participants may be declared separately when using the 40% system.

Chapter 3: Standard scales of unit costs

3.1. General principles

In the case of standard scales of unit cost, all or part of the eligible costs of the operation will be **calculated** on the basis of quantified activities, outputs or results multiplied by standard scale-of-unit costs established in advance. This possibility can be used for any type of project or part of project, when it is possible to define quantities related to an activity and standard scale of unit costs. Standard scales of unit costs apply typically to easily identifiable quantities.

The standard scale of unit costs can be process-based, that is aiming at covering through a best approximation the real costs for delivering the operation. It can also be outcome based.

A managing authority can set out different scales of unit costs applicable to different activities.

The payment scheme can also set out intermediary payments on the basis of declared implemented hours. But in any case the grant is paid on the basis of the physical progress of the operation, without justification of underlying real costs.

Example (ESF output based): For an advanced IT training of 1,000 hours provided for 20 trainees, the public grant may be calculated on the basis of a cost per hour of training x number of hours of trainees. The cost per hour has been defined in advance by the managing authority and is set in the grant decision.

Assuming for example that the managing authority sets the training cost at EUR 7 per hour of training per x trainee, the maximum grant allocated to the project would be capped to 1,000 hours x 20 trainees x EUR7 /hr. / trainee = EUR 140,000.

At the end of the operation the final grant will be paid on the basis of the real number of hours for each trainee (that could include some justified absences), following real participation of the trainees and delivered courses. The need for accurate timesheets detailing the training activities and certifying the real presence of trainees will continue to exist.

If finally 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 total hours x trainees will be equal to: $900 \times 6 + 950 \times 5 + 980 \times 5 + 1,000 \times 2 = 17,050$ total hours of training x trainees. The grant paid will be: 17,050 hours of training x EUR 7 = EUR 119,350.

Example (ERDF output based): The beneficiary, a regional Chamber organises an advisory service for the SMEs of the region. This service is supplied by the advisers of the regional Chamber. Based on past accounts of the "advisory" department of the Chamber, a day of advice is estimated at EUR 350 / day. The assistance will be calculated on the basis of the following formula: number of days x EUR 350. **The need for accurate timesheets detailing the advisory activity and the presence of advisors will continue to exist.**

Example (ESF result based): a job-search assistance programme lasting 6 months (hereafter "the operation") could be financed on the basis of a standard scale of unit costs (for example EUR 2,000/person) for each of the 20 participants on the operation who gets a job and retains it for a pre-established period, for example six months. Calculation of the maximum grant allocated to the operation: 20 persons x 2,000 EUR /placement = EUR 40,000.

The final EU contribution from the fund is paid on the basis of the real output of the operation: if only 17 persons were placed on the labour market and retained their jobs for the requested period, the final grant to be paid to the beneficiary is 17 x EUR 2,000 = EUR 34,000.

Example (EAFRD): Measure "Investments in forest area development and improvement of the viability of forests" (Art. 21)

A forest holder will receive support for the afforestation and maintenance of 3 hectares of forest for 7 years. The costs (afforestation and maintenance) have been defined in advance by the managing authority depending on the type of forest. This methodology shall be included in the Rural Development Programme. The costs are as follows: 2.000 EUR/ha for the establishment of the forest and for the maintenance 600 EUR/ha for the first year and 500 EUR/ha the consequent years.

Therefore the total amount of support would be:

$3\text{ha} \times 2000 \text{ EUR/ha} + 3\text{ha} \times 600 \text{ EUR/ha} + (3\text{ha} \times 500 \text{ EUR/ha}) \times 6\text{years} = \text{EUR } 16.800$

3.2. Specific case of hourly staff costs

Article 68(2) of Regulation (EU) 1303/2013 introduces a new rule to facilitate the use of hourly unit costs to calculate staff costs related to the implementation of an operation:

$$\text{Hourly staff cost} = \frac{\text{latest documented annual gross employment costs}}{1720}$$

The 1720 hours is a standard annual "working time" that can be used directly, without there being a requirement for the Member State to perform any calculation.

However the numerator, the latest documented annual staff costs, has to be justified. There are at least two possibilities for the numerator concerning the costs of the people working on the operation (and only these people):

1. The numerator is only related to the person working directly on the operation. It could be based on the real salary of this person or the average of the employment costs of a larger aggregate of employees, those of the same grade or some similar measures, which correlate roughly to salary level.
2. The numerator includes the salary of the person working directly on the operation and a part of the salaries of indirect staff (e.g. highly paid executives who generally work indirectly for the operation) that can be allocated to the operation (rules on allocation of indirect costs to an operation will apply, for instance use of a justified apportionment key). It could cover the employment costs of the cost centre or the department (that implements the operation) where salary level may vary considerably within the aggregate group of employees. It will result in a standard scale of unit cost that includes the salary of the person working on the operation and a part of the indirect salaries.

When using this possibility, the managing authorities should note that:

- "Implementation of an operation" has to be understood as covering all the steps of an operation. There is no intention to exclude some staff costs related to specific steps of an operation.
- National eligibility rules will have to specify what is covered by annual gross employment costs; taking into account the usual accounting practices (see 5.2.1.3 p.21);
- The latest annual gross employment cost has to be documented through accounts, pay roll reports, etc. This information does not have to be audited ex-ante but has to be auditable.
- Calculation method based on historical data of the beneficiary is not usable given that the Regulation refers to **latest** documented annual gross employment costs.

Example (ERDF): Certain types of projects targeted to SMEs in the field of R&D and innovation often involve personnel costs as a key element. The application of standard scales of unit cost as an option is a welcome simplification for these SMEs. The unit cost for activities is expressed in this case as an hourly rate applied to hours effectively worked by the staff. It is defined in advance in the document setting out the conditions of support that sets out the maximum amount of financial assistance as the maximum worked hours allowed multiplied by the unit cost (the calculated costs of the staff involved).

Aiming at covering through a best approximation the real costs and to take into account distinctions of regions and branches, the cost for a standard unit is defined as an hourly staff cost according to the following formula:

Hourly staff cost = gross annual salary (including legal charges) divided by average legal working hours (taking into account annual leave).

For example: Hourly staff cost = EUR 60,000 / (1980 hours – 190 hours of annual leave) = 60,000/1,790 = 33.52 EUR/hr.

The financial assistance to the operation is calculated as the hourly rate multiplied by the real and verified number of hours worked. This requires SMEs to keep all supporting documents for hours worked by staff on the project and the managing authority all the documents justifying the hourly staff cost. By principle, a reduction in the verified hours worked results in a reduction in the final amount to be paid.

Alternative example: Same as supra but the hourly staff cost is based on Article 68(2) CPR.

Hourly staff cost = latest documented gross annual salary (including legal charges) divided by 1,720 hours.

For example: Hourly rate = EUR 60,000 / 1,720 hours = 60,000/1,720 = 34.88 EUR/hr.

Chapter 4: Lump sums

4.1. General principles

In the case of lump sums, all eligible costs or part of eligible costs of an operation are calculated on the basis of a pre-established lump sum (the setting up of the lump sum should be justified), in accordance with pre-defined terms of agreement on activities and/or outputs. The grant is paid if the pre-defined terms of agreement on activities and/or outputs are completed.

The lump sum possibility is an application of the proportionality principle aiming at alleviating the administrative workload for small operations and at enhancing the access of NGOs (but not exclusively NGOs) to the ESI Funds. That is the reason why lump sums falling within the scope of Article 67(1) (c) of Regulation (EU) No 1303/2013 (EU) are restricted to amounts below EUR 100,000 of public contribution.

This amount corresponds to the public contribution **paid to or by the beneficiary** for the activity supported through the lump sum (excluding private participation if any). It does not include the allowances or salaries disbursed **by a third party** for the benefit of the participants in an operation (see 7.2.1 p.39). Even if several lump sums could be combined to cover different categories of eligible costs or different projects within the same operation the total of the lump sums shall not exceed EUR 100,000 for a given operation / beneficiary.

The lump sum arrangement could also be used in the case of grants where standard scales of unit costs are not an appropriate solution, such as, the production of a toolkit, the organisation of a small local seminar, etc.

4.2. Examples of lump sums

Example (ESF): A NGO managing child care services requires support to launch a new activity. It requests a lump sum by submitting a draft detailed budget to start the activity and run it over a period of one year. The activity would be maintained after the initial year independently. For example, the lump sum would cover expenditure related to the salary of one person in charge of looking after the children during one year, depreciation of new equipment, publicity costs linked to this new activity and indirect costs related to its management and accounting costs, water, electricity, heating, rental costs, etc.).

On the basis of a draft detailed budget and in comparison to similar operations the managing authority grants a lump sum of EUR 47,500 covering all these costs. At the end of the operation, this amount would be paid to the NGO on the basis of the output; if a conventional number of additional (10) children were looked after. It would therefore not be necessary to justify the real costs incurred related to this activity.

It means however that if only 9 children were looked after, the lump sum won't be paid.

Example (ESF): A Roma NGO requests to organise a local seminar and to produce a toolkit on the socio-economic condition of the Roma community in a region of a Member State. The grant decision will contain a draft detailed budget and the objectives of the grant, (1) the organisation of the seminar and (2) the production of a

toolkit to sensitise the employers of the region to the specific Roma problems.

Due to the size and objective of the operation (small operation with costs not easily quantifiable via standard scale of unit costs) and the nature of the beneficiary (local NGO) the managing authority decides to use the lump sum arrangement.

In order to calculate the amount of the lump sum, the managing authority will require a draft detailed budget for each of the operations: after negotiation on the draft detailed budget, the lump sum is established to: EUR 45,000 split in two projects EUR 25,000 for the seminar and EUR 20,000 for the toolkit.

If the conditions of the grant are respected (organisation of the seminar, production of the toolkit) EUR 45,000 will be paid at closure. The supporting document required to pay the grant (and then to be archived) will be the proof that the seminar was organised and the final complete toolkit. If only one of the projects (for example the seminar) is realised the grant will be reduced to this part (EUR 25,000), depending on the conditions of the grant (a conditional clause could exist according to the link between the two projects).

Example (ERDF): In order to promote local products, a group of small enterprises wishes to participate in common to a commercial fair. Due to the low cost of the operation, the managing authority decides to use the lump sum for the calculation of the public support. For this, the group of enterprises is invited to propose a budget for the costs of renting, setting up and running the stand. On the basis of this proposal, a lump sum of EUR 20.000 is established. The payment to the beneficiary will be made on the basis of a proof of participation at the fair. The agreed budget of EUR 20,000 should be kept for audits (verification of the ex-ante calculation of the lump sum).

Example (EAFRD): Measure "Quality schemes for agricultural products, and foodstuffs" (Art. 16)

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).

Chapter 5: Establishing flat rate financing, standard scales of unit costs and lump sums

Article 67(5) of Regulation (EU) 1303/2013 and the Article 14(3) of Regulation No1304/2013 introduce several methods to calculate simplified costs: some of them are based on statistical data, others on data of the beneficiaries or elements included in the regulation. Some give a lot of flexibility, others a strong legal certainty or can be established with a limited administrative burden.

These methods allow the management of grants and repayable assistance to be simplified, while maintaining an effective control of operations. Indeed, while with the real cost system the control of both the value and the quantity of project inputs is done ex-post, with the proposed provisions on standard scales of unit cost and lump sums, **the control of the value of the input is done ex-ante, through the calculation methods, and only the control of the achievements is done ex-post.**

5.1. It must be established in advance¹⁰

It is important to communicate to the beneficiaries in the document setting out the conditions for support the exact requirements to substantiate the declared expenditure and the specific output or outcome to be reached.

Therefore, simplified cost options have to be defined ex-ante and must be included for example in the call for proposals or **at the latest in the document setting out the conditions for support.** The relevant methods and conditions should be incorporated in the national eligibility rules applicable to the programme¹¹. It also means that once the standard scale of unit cost, the rate or the amount (in the case of lump sums) are established, it cannot be changed during or after the implementation of an operation to compensate for an increase in costs or underutilisation of the available budget.

5.2. A fair, equitable and verifiable calculation method¹²

5.2.1. General principles

5.2.1.1. It must be fair:

The calculation has to be reasonable, i.e. based on reality, not excessive or extreme. If a given standard scale of unit cost has in the past worked out at between EUR 1 and EUR 2 the Commission would not expect to see a scale for EUR 7. From this point of view the method used for identifying the unit cost or the flat rate or the lump sum will be of the utmost importance. The managing authority must be able to explain and to justify its choices. An "ideal" fair calculation method could adapt the rates to specific conditions or needs. For example, the execution of a project may cost more in a remote region than in a central region because of higher transport costs; this

¹⁰ Article 67(6) of Regulation 1303/2013

¹¹ Either at national or regional level or specific to the particular programme.

¹² Article 67(5) (a) of Regulation 1303/2013

element should be taken into account when deciding on a lump sum or rate to be paid for similar projects in the two regions. In any event, simplified costs should not be misused (e.g. the flat-rate rule should not lead to inflation of costs of the operation and operations should not be split in order to permit the systematic use of lump-sums).

The objective of the audit work will be to examine the basis used for establishing the rates and whether the rates finally set are indeed in line with this basis.

5.2.1.2. It must be equitable:

The main notion underlying the term "equitable" is that it does not favour some beneficiaries or operations over others. The calculation of the standard scale of unit cost, lump sum or flat rate has to ensure an equal treatment of beneficiaries and/or operations.

Examples would be differences in rates or amounts that are not justified by objective features of the beneficiaries or operations, or by express policy objectives.

Auditors will not accept calculation methods which unjustifiably discriminate against particular groups of beneficiaries or types of operations.

5.2.1.3. It must be verifiable

The determination of flat rates, standard scales of unit costs or lump sums should be based on documentary evidence, which can be verified. The managing authority has to be able to demonstrate the basis on which the simplified cost option has been based. It is a key issue to ensure compliance with the principle of sound financial management. This verification will be part of the audit trail. It will not be accepted to define "ex nihilo" standard scales of unit costs, flat rate or lump sums.

In setting the standard scales of unit costs, the lump sums or the flat rates for indirect costs the managing authority should take a documented decision (rather than an informal acceptance), and this reasoned decision should set out the basis applied.

5.2.2. Methodologies in practice

The CPR specifies several possibilities that will meet the fair, equitable and verifiable criteria:

5.2.2.1. The use of statistical data or other objective information

Statistical data or other objective information can take for instance the form of surveys, calls for proposals, benchmarking with similar types of operations... This will result generally in standard systems applicable to many operations / beneficiaries. In fact, in the Commission's experience even if many methods can be used to establish lump sums, standard scale of unit costs or flat rate financing, in advance, the most common amongst them is the statistical analysis of historical data. The Commission could also envisage that Member States work by call for proposals: a Member State would publish in advance the basis on which it is going to calculate lump sum grants and which is, again, *fair, equitable and verifiable*. This means that applicants should know the criteria on which the grant will be based, and that these criteria should be standard and apply to all applicants for the same types of projects.

For example, in the case of a call for proposals, the managing authority should be able to answer such questions as: "Is the call for proposals complete in the details needed? Are the elements needed to determine the lump sum well specified and explained in

advance? Does the managing authority check that the costs included in the draft detailed budget submitted, for example, are reasonable and acceptable in view of determining the lump sum in the grant decision?"

Another solution could be that the Member State defines a lump sum for a specific activity and calls for proposals on the basis of this amount, funding the best proposals.

5.2.2.2. The use of individual beneficiary specific data

a) The verified historical data of individual beneficiaries:

This will result in ad hoc system that is beneficiary specific. Where necessary, this data should cover only to the cost centre or department of the beneficiary that are related to the operation.

This method is based on the collection of past accounting data from the beneficiary, for actual costs incurred for the categories of eligible costs covered by the simplified costs. This, in fact, implies the existence of an acceptable analytical accounting system at beneficiary level. It furthermore implies that any ineligible/irrelevant expenditure is filtered out from any calculation supporting the simplified cost options.

When a Managing Authority decides to use this method, it should describe:

- The categories of costs covered
- The length of the series to be obtained: accounting data **over at least three years** shall be obtained so as to identify any potential exceptional circumstance which would have affected actual costs in a specific year as well as the tendencies in the cost amounts;
- The reference amount to be taken, for example the average costs over the reference period or the costs as registered over the last years;
- The adaptations, if any, to be applied to update the reference amount.

b) The application of the usual cost accounting practices of individual beneficiaries:

Usual accounting practices are practices which the beneficiary uses to account for all of its usual day to day activities and finances (which are not linked to EU support). These methods should be in compliance with national accounting rules and standards. The length of use is not critical. An accounting method is not "usual" if it has been customised for a particular operation or for EU support.

It is important to differentiate actual costs and costs determined according to the usual cost accounting practices of individual beneficiaries.

An example of personnel costs per hour spent on the action will clarify this difference:

"Costs actually incurred by the beneficiary" means costs calculated as exactly as possible, normally meaning per physical person for the time period of the operation. In practice, for hourly staff costs, use of standard hours as denominator is accepted (see for instance the 1.720 hours), but the numerator for the purpose of calculating "actual costs" is the total eligible staff costs for each particular person assigned to the action.

An hourly cost based on the beneficiary's cost accounting practices could be calculated on the basis of an average of the remuneration costs of a larger aggregate of

employees. This is normally a grade or some similar measures, which correlates roughly to salary level, but it can also be a cost centre or department (related to the operation) where salary level may vary considerably within the aggregate group of employees.

This implies that the cost amounts obtained by application of cost accounting practices generally deviate from the actual costs as any other simplified costs. They are also beneficiary specific (or even department specific) for a given operation and a given – short - period (data used relate to one year).

Therefore, to ensure that the equal treatment and that the grant does not cover ineligible costs, the grant decision authorising beneficiaries to use their cost accounting practices shall provide for minimum conditions. Those minimum conditions shall aim at ensuring that the cost accounting practices result theoretically and practically in a fair and equitable system. This implies the existence of an acceptable analytical accounting system at beneficiary level. It furthermore implies that any ineligible/irrelevant expenditure is filtered out from any calculation supporting the simplified cost options.

c) Common requirements for the use of individual beneficiary specific data

Depending on a risk assessment by the managing authority, it may be required that beneficiary specific data are certified by an external auditor or, in the case of public bodies, by competent and independent accounting officer, so as to ensure reliability of the reference data used. Certification of historical data may be made in the framework of statutory audits or contractual audits. Any certification carried out in this manner would require in-depth knowledge, by the external auditor or independent accounting officer, of the ESI Funds Regulations in respect of e.g. the audit trail, the eligibility of the underlying costs and applicable law

Where the risk of error or irregularity in the past accounting data used is deemed low¹³, the calculation method may be made on the basis of pre-data not audited ex-ante. In any case the managing authority will have to assess and validate these individual beneficiary specific data on a case-by-case approach at the latest when establishing the document setting out the conditions for support to the beneficiary.

The individual beneficiary specific methods described above require careful consideration before being implemented by managing authorities. It may be burdensome to develop these ad-hoc systems and therefore, the Managing Authorities are recommended to use this system only in cases where significant parts of the programme(s) are implemented by one beneficiary, e.g. Ministry of Education, University or Public Employment Service.

¹³ The managing authority would need to be able to demonstrate, in an objective manner, that the risk is indeed low and that the beneficiaries accounting system is reliable, complete and accurate.

5.3. Application for a similar type of operation and beneficiary of scales of unit costs, lump sums and flat rates

5.3.1. ...applicable in Union policies¹⁴

The main aim of this method is to harmonise the rules between Union Policies. The intention is to clarify that where the Commission has already developed simplified costs for a particular type of beneficiary and operation under another EU policy, the Member State/the Commission doesn't need to duplicate this effort under the ESI Funds Policies and can re-use directly the method and its results.

All the applicable EU methods could be used for similar operations and beneficiaries. Methods that have been applied in 2007-2013 but were discontinued after 2013 will not be usable. If the method is modified during the programming period then the same modification should apply to the ESI Funds projects selected after the modification.

When re-using an existing EU method the managing authority should ensure and document:

- That the totality of the method is re-used (for instance the definition of direct / indirect costs, eligible expenditure, scope) and not only its result (the rate of X %);
- That the method has to be applied to similar types of operations and beneficiaries;
- **AND** the reference to the EU policies related to the method used.

5.3.2. ...applied under schemes for grants funded entirely by the Member State¹⁵

The principle is exactly the same as for options used in Union Policies (see 5.3.1 p.24). But instead of a copy paste of Union policies methods, it is a copy paste of national methods: rates but also unit costs or lump sums used under national support schemes (such as scholarships, daily allowances) can be used without additional calculations.

All the applicable national methods could be used for similar operations and beneficiaries supported by the ESI Funds **with the condition that these methods are also in use for operations supported exclusively by national funds, outside any sort of EU support or external aid.** In other words methods used only for the purpose of the ESI Fund programme are not considered as national. Methods used for national operations and for those supported by the programme are acceptable.

In addition, national methods that were discontinued will not be usable. If the method is modified during the programming period then the same modification should apply to the ESI Funds projects selected after the modification.

¹⁴ Article 67(5)(b) of Regulation 1303/2013

¹⁵ Article 67(5)(c) of Regulation 1303/2013

Regional or other local calculation methods could also be used but have to be applied to the geographical area on which they are in use.

When re-using an existing national method the managing authority should ensure and document the same information as the one required re-using an EU method:

- the totality of the method is re-used and not only its result;
- it applies to the same geographical area or a smaller one;
- the method has to be applied to similar types of operations and beneficiaries;
- **AND**, the justification that this method is in use for operations supported exclusively by national funds.

5.3.3. How to assess if types of operations and beneficiaries are similar?

Article 67 (5) (b) and (c) provide the possibility for a Member State to re-use existing calculation methods and corresponding unit costs, lump sums and flat rates applicable to similar types of operations and beneficiaries. As a general principle, all elements of the method that could have an impact on the unit cost / lump sum / flat rate should be taken into consideration. If an operation and its beneficiary were eligible under another scheme the existing calculation method and the corresponding unit costs / flat rates / lump sums of this other scheme may be used. Beyond that case, a case by case examination is necessary.

Example (ERDF/ESF): In the area of research, a flat rate scheme supports networking of Universities on the condition that the operation concerns Universities operating in at least 3 Member States and having published at least 10 publications during the last three years. The criterion of the number of publication does not have any impact on the flat rate, but the other criteria do have an impact: research, networking, Universities of at least 3 Member States. For operations fulfilling these criteria the same method could be used.

5.4. Rates established by the CPR or the Fund-specific rules¹⁶

The CPR and the fund specific regulations specify a number of rates with the intention to provide to Member States a few "off the shelf" systems. The intention is to give the maximum of legal certainty and to reduce the initial workload or the need for available data to establish the system because there is no requirement to perform a calculation to determine the applicable rates. However such methods lack flexibility and are not adapted to all types of operations.

The one established under Article 68(1) (b) applies to the 5 ESI Funds: for operations giving rise to indirect costs, the indirect costs can be calculated as 15 % of eligible direct staff costs. This rate is a maximum rate. Member States may use this rate or lower rates without having to carry out a specific calculation.

¹⁶ Article 67(5)(d) of Regulation 1303/2013

5.5. Adaptation of flat rate for indirect costs, lump sums and standard scales of unit costs

Article 67 of Regulation (EU) 1303/2013 does not specify any provision on the adaptation of simplified costs. Therefore adaptation is not compulsory. However, the managing authority may consider it necessary to adapt the simplified costs when launching a new call for proposal or it may do so periodically in order to take account of an indexation or economic changes e.g. in energy costs, levels of salaries, etc. The Commission suggests enshrining in the methodology some automatic adaptations (based on inflation, or evolution of salaries for instance). In addition, the correctness of the results given by the methodology should be verified after a few years (3-4 years)¹⁷.

Adapted rates should apply only to projects to be implemented in the future, not retrospectively.

For any revision which is undertaken, there should be adequate supporting documentation to justify the adapted rates or amounts.

5.6. Specific methods for determining amounts established in accordance with the Fund-specific rules

Article 67(5) of the CPR defines 4 possibilities to establish simplified cost options and opens the possibility that fund specific regulations establishes additional methods (e).

ESF specific

Article 14.3 of Regulation (EU) No1304/2013 adds a specific possibility for the ESF, the calculation by reference to a draft budget in the case of grants and repayable assistance below EUR 100.000 of public support. This amount has to be considered as the public support to be paid to the beneficiary, as specified in the document setting out the conditions for support to the beneficiary (see 7.2.2 p.40). It does not include neither the public contribution provided by the beneficiary, if any, or the allowances or salaries disbursed by a third party for the benefit of the participants in an operation.

This very flexible possibility was designed in order to facilitate the implementation of the compulsory use of simplified cost options for small ESF operations. In fact this method allows calculating some simplified costs even if no general system has been created or if the operation is very specific.

The draft budget will be used to calculate the specific simplified costs related to this operation or project. This budget will be archived by the managing authority as a supporting document to justify the simplified costs used. The financial management, the management verification of the operation / project will be based only on simplified cost options, not on the budget itself.

The budget should be assessed on the same basis as it is assessed when real costs are used. In this respect, it is highly recommended that the Managing Authorities establish

¹⁷ The review may also be based on the "success" of the rate. For example, if there is insufficient or no interest in training long-term unemployed persons for a given rate, that may mean that the rate is incorrectly set (bad balance between payments for process and payment for success factors).

parameters or maximum cost levels that are used to compare at least the most important budgeted costs against these parameters. The absence of such parameters or maximum cost levels would render it difficult for any managing authority to ensure equality of treatment and the respect of sound financial management. Even if it is recommended, when assessing the budget, it will not be necessary that the Managing Authority compares the draft detailed budget proposed by the potential beneficiary with comparable operations.

The draft budget and the supporting documents demonstrating that the MA assessed the budget should be archived by the managing authority with the documents related to the Project supported. The draft budget is not part of the document between MA and the beneficiary setting out the different rules.

When supporting several times the same beneficiary it is recommended to compare the draft detailed budget with previously supported operations.

Example of draft budget use (ESF specific): A beneficiary intends to organise a seminar for 50 participants to present new implementation tools. Staffs spend time to plan and organise the event, a place is rented, some speakers come from abroad, and minutes of the event will have to be published. There are also indirect costs relating to staff (accounting costs, director, etc.) and electricity, phone bills, IT support, etc.

The draft budget is the following one:

<i>Total Direct costs</i>	<i>45000</i>	<i>Total Indirect costs</i>	<i>7000</i>
Direct Staff costs	30000	Indirect staff costs	4000
Room costs	4000	Electricity, phone, etc.	3000
Travel costs	5000		
Meals	1000		
Information / Publicity	5000		

This draft budget is discussed and agreed between the MA and the beneficiary. The calculation of the simplified cost option will be based on these data. The Managing authority could decide to calculate the grant on the basis of a unit cost, based on the number of participants to the seminar: unit cost = EUR 52.000/50 = EUR 1040 / participant. The document between the MA and the beneficiary setting out the different rules shall specify the definition of the standard scale of unit costs (what is a participant), the maximum (minimum) number of participants, how it should be justified and its unit cost (EUR 1040). The reference to Article 14.3 should also be made.

Chapter 6: The audit and control approach

6.1. The need for a common audit and control approach

From the audit and control point of view, the provisions on simplified cost options signify a departure from the principle of real costs. Flat rate financing or standard scale of unit costs and lump sums involve ex-ante approximations of costs based, for example, on averages and surveys of historical data or market prices. It is inherent in such fixed rates that they may on occasion overcompensate or "undercompensate" the costs incurred for the supported operation. Auditors and those in charge of management verifications and controls will have to focus more on outputs rather than on inputs and costs of projects.

The guidance note intends to make the Commission audit methods as transparent as possible for these new simplified costs, in order to give Member States, namely the managing authorities, certifying authorities, audit authorities, intermediate bodies and beneficiaries, confidence that they can proceed with the application of these concepts without hesitation and uncertainty.

It is equally important that the national authorities and the Commission maintain a common approach for the audit and control of flat rate financing, standard scales of unit costs and lump sums, in order to ensure uniform treatment when drawing conclusions on the legality and regularity of the declared expenditure. For this reason, Member States' authorities are encouraged to use the same approach when verifying and auditing these simplified cost options.

6.2. General approach for controlling and auditing SCOs

Where simplified costs are used, for the purposes of determining the legality and regularity of expenditure, the auditors and those in charge of management verifications and controls will not verify the real costs underlying categories of expenditure calculated by a flat rate, standard scales of unit costs or lump sums. The Commission and national authorities will check the calculation of the costs of operations and perform legality and regularity audits. Nonetheless, these audits will be carried out in a different manner, on the basis of the calculation method used to set the simplified costs and not on the basis of supporting financial documents per project.

Provided that the Member State has put in place a well-established methodology respecting the principles of sound financial management and there are no indications of fraud or abuse, the Commission will not call into question the system applied.

The audit and control methodology that will be applied in cases where flat rate financing, standard scales for unit costs and lump sums are used will consist of the following verifications:

1. Verification of the calculation method for establishing the flat rate financing, standard scales of unit costs or lump sums, which should be established on the basis of one or several of the methods specified in Article 67(5) of Regulation (EU) No1303/2013. This verification could take place at managing authority level or/and at beneficiary level (for systems based on beneficiaries own data in accordance with Article 67.5.a (ii) and (iii)). The ex-ante control and audit of calculation methods based on data of the beneficiary (historical data, usual accounting practice) present some specificities described in 5.2.2.2.c) p 23.
2. Verification of the correct application of the established method through examination of outputs/outcomes of the project in the case of unit costs and lump sums;
3. In the case of flat rate financing, verification on the basis of the "real cost" principle of categories of eligible costs to which the rate is applied (or of their calculation in case of use of other simplified cost options to calculate them) and, where relevant, of other categories of eligible costs not taken into account in the flat rate financing system.

The simplified cost options do not waive the obligation to fully observe all applicable Union and national rules, such as publicity, public procurement, equal opportunities, sustainable environment, state aids, etc. (see 1.6.2 p.9). Horizontal thematic audits on the compliance with rules applicable could analyse also procedures followed for public procurement in the case a risk assessment establishes a specific risk of irregularity, but only to verify whether the public procurement procedures have been respected, not to audit the amounts paid.

While auditing the calculation method, the Commission will focus on verifying the respect of the different conditions and will not question the reasons for selecting a specific method over another. The responsible authorities should keep adequate records of the calculation method and should be able to demonstrate the basis on which the flat rates, standard scales of unit costs or lump sums have been decided. The records kept for documenting the calculation method will be subject to the requirements of Article 140 of Regulation (EU) N° 1303/2013¹⁸ and Article 49 of Regulation (EU) No 1306/2013¹⁹.

6.3. Consequences in terms of financial management...

6.3.1. General provisions

When using a flat rate, unit cost or lump sum there is no need to justify the real costs of the categories of expenditure covered by the simplified costs.

¹⁸ Applicable to ESF, ERDF, CF and EMFF.

¹⁹ Applicable to EAFRD.

When using unit costs or lump sums:

- The basis for calculating the scale of unit costs used in the operation should be clear and refer to one or several of the ways specified in Article 67(5) of Regulation (EU) No1303/2013;
- Given that payments will be calculated on the basis of quantities/realisation of an operation, declared quantities/proof(s) of completion of the operation should be certified by the beneficiary, justified and archived in view of future verifications and audits. Verifications by intermediary bodies, managing authorities or auditors will require supporting documents to justify the quantities declared by the beneficiary– that is, **to show that the activities or the outputs claimed were in fact realised**. In particular, it means that the focus of verifications under Article 125(4) (a) of Regulation (EU) N°1303/2013²⁰ and Article 58 of Regulation (EU) No 1306/2013²¹ will move, especially for immaterial operations, from the predominance of financial verifications (justifying real costs but also giving concordant elements demonstrating that the operation took place) towards technical and physical aspects of operations, **with a particular importance to on-the-spot checks during the implementation**.

Under such conditions, the costs **calculated and reimbursed on the basis** of a **unit cost/lump sum is considered to be proved expenditure just as real costs supported by invoices**.

6.3.2. ...for a flat rate financing system

The simplification of the justification of the calculated categories of costs implies, however, **careful verification of the other categories of costs, in accordance with the grant decision**. This verification allows justifying the amount of calculated categories of costs and constitutes part of the management checks (Article 125(4) (a) of Regulation (EU) N° 1303/2013)²² and Article 59 of Regulation (EU) No 1306/2013. Any reduction of the amount accepted following these verifications for the categories of eligible costs on which the flat rate is applied (i.e. in relation to the estimated budget or following a financial correction) will impact proportionally the amount accepted for the flat-rate calculated categories.

6.3.3. ...for the certification of expenditure

The simplified cost options modify the concept of expenditure "paid" by beneficiaries that have to be certified in the statement of expenditure. Member States have still the possibility to make advance payment to the beneficiaries in addition to interim payments or final payment but the definition of what is considered as an advance payment will be different.

For instance, in the case of flat rate for indirect costs, indirect costs are considered as "paid" in due proportion of direct costs: if 50% of the direct costs are paid by the beneficiary, 50% of the indirect costs (in any event, not exceeding the 25% of the direct costs) may be considered as paid. Reciprocally, where the bulk of "indirect costs" have been front-loaded, without underlying direct costs having been incurred, they should be considered ineligible to be certified to the Commission at the time of

²⁰ Applicable to ESF, ERDF, CF and EMFF.

²¹ Applicable to EARDF.

²² Applicable to ESF, ERDF, CF and EMFF.

the declaration of related expenditure because they would be considered as an advance payment to the beneficiary.

In the cases of standard scale of unit costs and lump sums there is also no "paid expenditure" in the usual sense. "Paid expenditure" will be calculated on the basis of declared and certified quantities and not on payments made to the beneficiaries. Even if they could coincide, expenditure to be certified to the Commission is calculated on the basis of certified quantities, not payments made to the beneficiary.

For example, payments to the beneficiaries could be done on a monthly basis (1/10 of the grant each month during 9 months + final payment) without any justification of quantities, except for the final payment. Such a system should be deemed acceptable but, the monthly payments are considered as advances and must not be certified to the Commission (except in the case of State Aids under the conditions of Article 131(4) of Regulation (EU) No 1303/2013²³ and Article 63 of Regulation (EU) No 1305/2013²⁴). National authorities would have to wait for the final payment, where quantities are certified and verified, in order to declare expenditure from the operation.

6.4. Key points for the managing authority

6.4.1. ...for a flat rate financing system

Managing authority using flat rates shall pay a specific attention to the following points:

6.4.1.1. Respective definitions of the categories of expenditure

These definitions have to be clear for all the stakeholders of the system and shall ensure that there is no overlap between them. The Commission has given some broad guidelines as regards definition of direct / indirect costs, staff costs but these guidelines have to be adapted by the managing authority in the national or programme contexts.

6.4.1.2. Use of the current experience

Many OPs already use flat rates to calculate the indirect costs. For the ESF and the ERDF some of these systems have been assessed and approved by the Commission during the 2007-2013 programming period. When the new programmes use the same system and continue to support the same types of operations, on the same geographic area, then the Commission will consider the approval given for the 2007-2013 period as valid for the 2014-2020 period.

6.4.2. ...for a unit cost

When a managing authority decides to use standard scales of unit costs it will require specific attention to the following points:

²³ Applicable to ESF, ERDF, CF and EMFF.

²⁴ Applicable to EARDF.

6.4.2.1. Correlation between the realised quantities and the payments

By principle, when declared quantities decrease (in comparison with the maximum initially set out), the costs will decrease, "independently" of the underlying real cost of the operation.

However, the management system should also be able to differentiate cases where the quantitative objectives (whether they are activity based or outcome based) are not met because of external factors out of the beneficiary's control, rather than because of the beneficiary.

Example (ESF): If the payment is made on the basis of "hours x trainees", the costs should not be reduced because of the justified absence of participants, for instance due to sickness leave. Moreover, the grant decision should clarify the maximum number of authorised absences, the minimum number of training hours to be justified for a trainee to remain eligible on the operation, the type of training scheme (compulsory participation as from the start of the training, replacement of trainees who leave from the training, etc.). Such "exceptions" must of course be **clearly defined ex-ante** in the grant decision or in an act with an equivalent legal effect and be set up for all similar operations.

6.4.2.2. Justification of declared quantities

It should be also underlined that some types of standard scales of unit costs could be more difficult to justify than others. Therefore the choice on the right unit cost to be used will have an important impact in terms of simplification, administrative workload and risk of errors for the managing authority and the beneficiaries.

Example (ESF): If unit costs are set to calculate the costs for the number of people who get a job and retain it for an agreed period, the only supporting evidence required would consist of the justification of the eligibility of the person against predefined eligibility criteria, the proof of the initial employment of the person placed and his/her employment during at least 6 months. These types of scales are clearly "result" oriented and lighter to justify, but cover only one aspect of the operation.

6.4.2.3. Choice of the standard scales of unit cost

As a general principle, the choice of the standard scale(s) of unit cost should reflect the activity (-ies) of the type of operations funded. It would not be appropriate to calculate the costs of all the operations according to a given result if the funded activity is not directly linked to this result, while this result could be affected by many other external events.

A purely "result based" system of standard scales of unit cost may prove to be particularly risky. If part of the result does not depend on the outputs and quality of the operation, there is a risk to under-pay operations and beneficiaries. It is particularly relevant in the case of operations dedicated to vulnerable groups: expected results are generally low.

Any granting system based on these results would lead the beneficiary to have to choose between the following options:

- a. Refusing to implement the operation with such a granting system;
- b. Implementing the operation while knowing in advance that it will lose money unless it can find additional funding sources (risk of double funding);

Or

- c. "Creaming" the participants (choosing the most capable of reaching imposed results) or lowering the standards to reach the expected results.

Finally, the choice of standard scale of unit costs could allow the beneficiary to cover its fixed costs, compared to variable costs linked to the effective participation of trainees or persons (see 7.1 p. 38 for combination of options).

In conclusion the choice of appropriate standard scale(s) of unit costs by the managing authorities will be of the utmost importance and should take into account all potential advantages and disadvantages. **An ideal standard scale of unit cost could include the following qualities: clear and direct link with the operation, quantities easy to justify, ensure the economic balance of the operation and of the beneficiary, lower the risk of "creaming" participants.** In the case of standard scale(s) of unit costs the focus of verifications under Article 125(4) (a) of Regulation (EU) N°1303/2013²⁵ and Article 62 of Regulation (EU) No 1305/2013²⁶ will move, especially for immaterial operations, from the predominance of financial aspects to technical and physical aspects of operations, with a particular importance to on-the-spot checks during implementation.

6.4.3. ...for a lump sum

When the managing authority decides to use lump sums it will pay a specific attention to the following points:

6.4.3.1. Correlation between the realised operation and the payments

The main difference between the lump sums and the standard scales of unit cost system is that **the calculation of costs is not proportional to quantities**. In the case of standard scales of unit cost, when quantities decrease, the costs decrease proportionally. In the case of lump sums, this "proportional link" between quantities and payments does not apply. The calculation of the costs will be much more **"binary"**.

Such an approach has an important consequence: even if it is not compulsory the possibility to have several stages corresponding to different costs should be envisaged in order to escape from a "too binary" approach.

For small operations where some quantities could be defined the authorities should very probably choose standard scales of unit costs rather than lump sums.

6.4.3.2. Justification of the costs

The grant decision with the beneficiary should be drafted very carefully in order to define on which basis costs will be calculated and how they will be

²⁵ Applicable to ESF, ERDF, CF and EMFF.

²⁶ Applicable to EARDF.

reduced in case the objectives are not reached. This issue of reduction of the costs is crucial in the case of lump sums because of the potential problems that could be created by a binary approach where there are no other choices than paying 0% or 100% of the grant.

Specific attention should be given to the possibility to apply in practice the payment of the lump sum. Given that some lump sums could be totally independent from quantities, there is a risk of too general or too qualitative wordings about activities / outputs / outcomes to be implemented or reached to trigger the payment, that could lead to the impossibility to pay on transparent and fair bases. Directly linked to the problem of wording of activities / outputs / outcomes is the question of supporting documents necessary to assess them: they should also be specified in the grant decision. In the case of immaterial operations this point is of the uttermost importance in order to give guarantees that the operation was really organised.

6.4.3.3. Choice of the activities/outputs/outcomes

The choice of activities / outputs / outcomes covered by a lump sum follows the same principles as standard scales of unit cost:

- It should reflect the type of operations funded, trying to mitigate external factors that could affect the implementation of the operation;
- Purely "outcome" based lump sums are extremely risky and should not add to the risk of a "too binary" approach.

In conclusion the choice of appropriate lump sum(s) by the managing authorities should take into account all potential advantages and disadvantages, including the question to use lump sums rather than standard scale of unit costs, real costs or flat rate financing. **An ideal lump sum could include the following qualities: clear link with the operation, easy and univocal way to justify the activities / outputs / outcomes, ensure the economic balance of the operation and of the beneficiary (especially by introducing several levels of payments), lower the risk of "creaming" participants, clear distinction between grants/repayable assistance and public tendering.**

Communicating to the beneficiaries in the grant decision the exact requirements to substantiate the specific outputs or outcomes to be reached will be of the utmost importance. For example, if only part of the outputs or outcomes specified in the grant decision are reached, then no payment will be issued.

6.5. Audit and control approach

6.5.1. ...for a flat rate financing system

Audits carried out by the Commission will cover both the calculation method - to ensure that one of the calculation method of article 67(5) has been used (including fund specific methods) - and correct application of the flat rate financing system, which will involve auditing the categories of costs of the operation to which the flat rate is applied. Verifications of the calculation method will generally be carried out at the managing authority (it could depend on the methods used) or intermediary body level, whilst checking of the application of the flat rate scheme will be at beneficiary level.

National systems shall provide for a clear and non-equivocal definition of categories of costs or a pre-established list of all categories of eligible costs

on which the flat rate is based (and where relevant the other categories of eligible costs: the rate is not applied to them and they are not calculated with the flat rate).

Auditors and those in charge of management verifications and controls will verify the correct classification of costs and the absence of double declaration of costs for instance both as direct and as indirect. Only items of expenditure which are non-calculated categories of costs are subject to audit and control of the supporting financial documents (if they are not calculated through lump sum or unit cost), as the beneficiary is not obliged to report or prove categories of costs calculated on the basis of a flat rate.

National Authorities can only declare calculated costs together with the costs used to calculate them ("basis costs").

Findings which could be considered as irregularities, for instance, are:

- If the results of the calculation method have not been respected while setting the rates;
- Where a beneficiary has not observed the rates set or has declared ineligible costs not included in the categories of eligible costs established by the managing authority;
- Double declaration of the same cost item : as "basis" cost (calculated on the basis of the real cost principle, lump sum or unit cost) and as "calculated" (included in the flat-rate);
- When the "basis costs" are reduced without a proportional reduction of "calculated" eligible costs.

If auditors or controllers detect an irregularity in the categories of eligible costs to which the rate is applied, a pro rata reduction should also be applied to the calculated eligible costs, as otherwise they will exceed the flat rate set in the scheme.

6.5.2. ...for standard scales of unit costs and lump sums

Audits and controls will cover the calculation method for arriving at the standard scales of unit costs or the lump sums and the correct application of the method in the individual projects. Verifications of the calculation method will generally be carried out at the managing authority/intermediary body level, whilst the correct application of the unit cost / lump sum will be checked at beneficiary level.

In such cases, a full correction of the lump sum paid and costs declared is applied.

The main focus of the controls and audits will be to verify whether the conditions set in terms of outputs or results for the reimbursement of costs have been fulfilled. The auditor or controller will verify whether the amount declared equals the standard rate per unit of product or service multiplied by the actual units delivered or the completion of the (step of the) project supported through a lump sum. If other conditions are set in the call for proposals or in the grant decision, the auditors will also verify the fulfilment of those conditions. Auditors and controller should not accept unit costs or lump sums that have been paid and declared to the Commission in advance, without prior implementation of the corresponding part of the project.

The rates according to standard scales of unit costs or lump sums may include a component for indirect costs.

Findings which could be considered as irregularities, for instance, are:

- Disregard of the results obtained when applying the calculation method set for reimbursement of costs;
- Lack of supporting documents to justify the outputs or outputs only partially justified but paid in totality.

6.5.3. Examples

Example (ESF): Instead of using a single unit cost of EUR 7 per hour of training per x trainee, it is possible to combine this output unit cost with a result based unit cost, the number of participants gaining a qualification upon leaving.

20% of the final grant would be reimbursed on the basis of the result, considering that the success rate should be 75%.

In the example in section 3.1 p.14, the maximum grant allocated to the project was capped to 1,000 hours x 20 trainees x EUR7 /hr. / trainee = EUR 140,000.

The same capping would apply but on different assumptions:

- $20\% \times 140,000 = 28,000$ is paid for results: 75% of 20 trainees (15 trainees) should get a qualification upon leaving. The unit cost paid for every trainee getting a qualification is then $28,000 / 15 = 1,867$ EUR/person qualified.
- $80\% \times 140,000 = 112,000$ is paid for 20,000 hours x trainees, resulting in a unit cost of EUR 5.6 /hr. / trainee.

At the end of the operation the final grant will be paid on the basis of the real number of hours for each trainee and the number of trainees getting a qualification when leaving:

The calculated costs will be:

- 17,050 hours of training x EUR 5.6 = EUR 95,480 .for the output based part
- 13 participants qualified x 1,867 EUR = EUR 24,271 for the result based part.

Total costs = EUR 95,480 + EUR 24,271 = EUR 119,751

Example (ESF): A unit cost of EUR 5.000 is paid for every trainee completing training.

The training starts in January, finishes in June and 20 people are expected to attend. The amount of the grant is $20 \times 5.000 = \text{EUR } 100.000$. Every month the training provider will send an invoice corresponding to 10% of the grant: EUR 10.000 at the end of January, EUR 10.000 at the end of February, etc.

However given that no trainee has completed the training before the end of June, all these payments are considered as advances and cannot be declared to the

Commission. It's only once it is demonstrated that some people have completed the training that an amount may be certified to the Commission: for instance if 15 people have completed the training then $15 \times 5.000 = \text{EUR } 75.000$ may be certified to the Commission.

6.5.4. Applicable law

All operations financed by the ESI Funds have to comply with applicable law. The issue of implementing correctly public procurement rules within the project is not linked to the use or not of the simplified costs options. For this reason the audit of operations about the implementation of simplified costs options will focus on elements quoted under Chapter 6: of this note without considering the underlying procedures followed by a beneficiary for public contracts (NB: in the case of flat rate financing, the categories of costs justified on the basis of real costs to calculate other categories of costs are not considered as using simplified cost options). Nevertheless, **horizontal thematic audits on the compliance with rules applicable could analyse also procedures followed for public procurement in the case a risk assessment establishes a specific risk of irregularity, but only to verify whether the principles of public procurement have been respected, not to audit the amounts paid.** With regard to document retention for public contracts under simplified costs, national rules apply.

DRAFT

Chapter 7: Other provisions

7.1. Combination of options

7.1.1. General principles

Article 67(1) of Regulation (EU) 1303/2013 creates the possibility for the managing authority to choose between four options to manage grants and repayable assistance co-financed by the ESI Funds.

In accordance with Article 67(3) of Regulation (EU) 1303/2013 these options may be combined only in the following cases, in order to prevent any double financing of the same expenditure:

- (1) They must each cover different categories of eligible costs;
- Or (2) they must be used for different projects in the same operation (by definition, an operation may be a project or a group of projects);
- Or (3) they must be used for successive phases of an operation.

7.1.2. Examples of combinations

Example on case 1: Different categories of eligible costs (ESF)

Example of a training session combining:

- a standard scale of unit cost for the wages of the trainers, for example EUR 450 / day;
- real costs: room rented = EUR 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 EUR 450 = EUR 45,000
training room: 6 months x EUR 800 = EUR 4,800
subtotal direct costs : EUR 49,800

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

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

In that case different categories of costs seem to be concerned: wages of trainers, rent costs for the room, indirect costs. However, in order to verify the absence of double financing the authorities must ensure that the standard scale of unit cost does not relate to any costs linked to the renting of the room or to other indirect costs (salary of administrative staff or of the accountant for example). Reciprocally the same applies for the definition of indirect costs that should not relate to costs covered by the standard scale of unit costs or real costs of renting the room.

If there were risks of overlaps or the impossibility to demonstrate that there are no overlaps¹, the managing authority would have to choose the more appropriate option to grant the operation in order to suppress any (risk of) double financing.

Example on case 2: Funding of different projects in the same operation (ESF)

Example of an operation combining a training project for young unemployed people, followed by a seminar for potential employers of the region:

The costs related to the training could be paid on the basis of standard scales of unit costs (for example EUR 1 000 / day of training). The seminar would be paid on the basis of lump sums.

Given that there are two different projects within the same operation, there is no risk of double financing as far as each project costs are clearly separated.

From an audit point of view, in case of combination of options, in addition to the checks required for the individual types of "simplified costs" described in the previous chapters, the audit should verify that parts of an operation have not been charged using more than one type of options, thus leading to a double declaration of costs.

Example on case 3: Successive phases of an operation (ESF)

Example of an already started operation managed on the basis of real costs that the managing authority wants to continue to manage on the basis of simplified costs. Two phases will have to be clearly defined. The first phase could be calculated on the basis of real costs until a given date. The second phase, for **future** expenditure, could be calculated on the basis of a unit cost, for instance, **if the unit cost does not cover any of the previously supported expenditure.**

If such a possibility is applied it should concern all the beneficiaries in the same situation (transparency & equal treatment). It could create some administrative burden because of the necessity to modify the document setting out the conditions for support, if it was not anticipated. A detailed description of the operation must be clearly drawn up by the Member State's authorities for each phase. The operation should be divided into at least two distinct, identifiable financial and ideally physical or development stages corresponding to the phases concerned. This is to be done with the aim of ensuring transparent implementation and monitoring and to facilitate controls.

7.2. Assessing the thresholds

7.2.1. General principles

The CPR sets out one financial threshold related to the applicability of lump sums, that should not exceed EUR 100 000 of public contribution (article 67 (1) (c) CPR).

The amounts taken into account will be the ones specified in the document setting out the conditions for support (grant decision) for each operation / beneficiary (referred to in article 67(6) CPR).

The amount taken into account will be the **public contribution** as set out in the grant decision corresponding to total eligible costs of the operation/project, including any public funding by the beneficiary.

The public support or contribution paid at closure of the operation has no influence on the assessment of the threshold. It is only the programmed one, defined in the grant decision that matters.

7.2.2. Fund specific

ESF specific

Several methods set out financial thresholds related to the applicability of simplified costs or of calculation methods in the ESF regulation. It is the case for:

1. The possibility to use of a draft budget to establish SCOs on a case-by-case basis for ESF grants and repayable assistance: the public support shall not exceed EUR 100 000 (article 14 (3) ESF).
2. The mandatory use of simplified cost options for ESF grants and repayable assistance: the public support shall not exceed 50 000 EUR (article 14(4) ESF).

For the above mentioned thresholds, **the amounts taken into account will be the ones specified in the document setting out the conditions for support** (grant decision) **for each operation / project** (referred to in article (67(6) CPR). The allowances or salaries disbursed **by a third party for the benefit of the participants** in an operation are not included.

The amount taken into account is the amount of public support awarded **to** the beneficiary, as set out in the grant decision, excluding public funding **by** the beneficiary.

The public support or contribution paid to the beneficiary at closure of the operation has no influence on the assessment of the threshold. It is only the programmed one, defined in the grant decision that matters.

7.3. Compatibility of simplified cost options with state aid rules

Simplified costs options set out in Article 67 of Regulation (EU) No 1303/2013 should apply without prejudice of the State aid rules such as, in particular, those applying to schemes exempted from the notification requirement (e.g. aid granted under the General Block exemption Regulation (EC) No 800/2008 or Agricultural Block Exemption Regulation (EC) No 1857/2006). Equally, the provisions of Regulation (EC) No 1998/2006 on the "de minimis" aid have to be taken into account.

Before deciding on the application of simplified costs for projects to be implemented through State aid schemes, managing authorities should ensure the eligibility of expenditure to which simplified costs apply and the compliance to the aid ceilings and assess whether the simplified costs are appropriate for a given scheme.

7.4. Use of simplified costs in operations generating net revenue

First of all it is important to recall that simplified costs are a way to calculate the costs, the "expenditure side" of an operation, exactly as real costs. Therefore in theory the use of simplified costs should be independent of the fact whether an operation generates revenue or not. However, in order to preserve the simplification impact, the CPR introduces some specificity for an operation generating revenue that uses lump sums or standard scales of unit costs.

7.4.1. Operations generating net revenue after completion²⁷

For operations generating net revenue after completion which have used lump sums or standard scales of unit costs, net revenue does not have to be taken into account, in accordance with Article 61(7). In fact, the lump sum / standard scale of unit costs should already include the revenue (see next paragraph). There is no specificity if flat rate financing is used, i.e. paragraphs 1 to 6 of Article 61²⁸ apply.

7.4.2. Operations generating net revenue during implementation and to which paragraphs 1 to 6 of Article 61 of Regulation (EU) No 1303/2013 do not apply²⁹

For these operations, net revenue does not have to be deducted if the two cumulative conditions are fulfilled:

- The public support takes the form of lump sums or standard scales of unit costs;
- The net revenue has been taken into account ex-ante in the calculation of the lump sums or standard scales of unit costs.

If the net revenue was not taken into account ex-ante in the calculation of the lump sums or standard scales of unit costs, then the eligible expenditure co-financed by the ESI Funds will have to be reduced not later than at the final payment claim submitted by the beneficiary, pro rata of the eligible and non-eligible parts of the costs.

Where the flat rate financing is chosen, any net revenue not taken into account at the time of the approval of the operation and directly generated during the implementation of the operation has to be deducted from the eligible expenditure co-financed by the ESI Funds (having applied the flat rate) not later than at the final payment claim submitted by the beneficiary.

²⁷ Article 61 of Regulation (EU) No 1303/2013

²⁸ Paragraphs 1 to 6 of Article 61 are not applicable to operations or parts of operations supported solely by the ESF.

²⁹ Article 65(8) of Regulation (EU) 1303/2013

7.5. ERDF and ESF specific: cross-financing

7.5.1. Declaring the actions falling under Article 98(2) of Regulation (EU) No 1303/2013 in relation to the simplified cost options

Pursuant to Article 98(2) of Regulation (EU) 1303/2013, ERDF and ESF "cross-financed" actions will apply the eligibility rules of the other Fund: given that ERDF and ESF have now (nearly) the same eligibility rules as far as simplified costs are concerned, it is possible to apply simplified cost options to cross-financed actions.

Specifically for flat rate financing in case of cross-financing, two flat rates should apply to each "ESF" and "ERDF" part of the operation. The ESF and the ERDF flat rates for similar operations will be applied respectively to the ESF and the ERDF parts. Using an average of the two rates is impossible because the relative share of each part could vary during the implementation. Where no rate exists for the other fund for a similar type of operations (for example because the rule is not applied for the other fund or because there are no similar operations funded by the other Fund), the managing authority has to decide on the applicable rate according to the general legal principles established in Article 67(5) and 68 (1) of Regulation (EU) No 1303/2013.

The application of the simplified cost options still requires that Member States respect the 10% ceiling for each priority axis (by fund and category of regions where relevant). The "cross financed" amount should be recorded and monitored, operation by operation, on the basis of the data used to define the simplified cost options.

7.5.2. Examples

Example of ESF-ERDF cross-financing with SCOs

If the standard scale of EUR 6 / hour x trainee includes purchase of infrastructure for EUR 0.50 / hour, the cross-financed amount will be EUR 0.50 x number of "hours x trainee" realised. The same principle applies for lump sums: if the draft detailed budget includes some "cross financed expenditure" they will be accounted and monitored separately. For example within a EUR 20,000 lump sum funded by an ESF programme, ERDF type of expenditure represents EUR 5,000. At the end of the operation the cross-financed amount will be the amount defined ex-ante (EUR 20,000 out of which EUR 5,000 of ERDF type of expenditure) or "zero" if the grant is not paid. The binary principle of lump sums will also apply to cross-financed expenditure.

In the case of flat rate for indirect costs, the cross-financed amount will be the amount of "cross-financed direct costs", added to indirect costs calculated by the flat rate applicable to these "cross-financed direct costs". For example, within a EUR 15,000 operation funded by an ERDF programme, the "ESF type" direct costs represent EUR 3,000 and indirect costs are calculated as 10% of direct costs (EUR 300). The cross-financed amount would be EUR 3,300¹. If at the end of the operation the direct costs are reduced, the cross-financed amount would be reduced according to the same formula.

Annex 1: Examples of simplified cost options

This annex presents the example of a grant to a beneficiary that intends to **organise a seminar for 50 participants** to present new implementation tools. Staffs spend time to plan and organise the event, a place is rented, some speakers come from abroad, and minutes of the event will have to be published. There are also indirect costs relating to staff (accounting costs, director, etc.) and electricity, phone bills, IT support, etc.

The draft budget in 'real costs' is the following one and its form will be kept for all the possibilities and options to better see the differences:

<i>Total Direct costs</i>	<i>45000</i>	<i>Total Indirect costs</i>	<i>5000</i>
Direct Staff costs	30000	Indirect staff costs	4000
Room costs	4000	Electricity, phone, etc.	1000
Travel costs	5000		
Meals	1000		
Information / Publicity	5000		

This note presents successively how this project would be treated depending on the simplified cost option selected.

Possibility 1: Standard scales of unit costs (Art 67 (1) (b)):

Principle: all or part of the eligible expenditure is calculated on the basis of quantified activities, outputs or results multiplied by a unitary cost defined in advance.

For the seminar, the MS could establish a unit cost of 1.000 EUR by person attending the seminar (on the basis of one of the calculation methods of Article 67(5)).

The draft budget would become:

Maximum number of persons attending the seminar = 50
Unit cost / person attending the seminar = 1.000
Total eligible cost = $50 \times 1.000 = 50.000$.

If 48 people attend the seminar, the grant paid is: $48 \times 1.000 = 48.000$

Possibility 2: Lump sums (Art 67 (1) (c)):

Principle: all or part of eligible expenditure of an operation is reimbursed on the basis of a single pre-established amount, in accordance with pre-defined terms of agreement on activities and/or outputs (corresponding to 1 unit). The grant is paid if the pre-defined terms of agreement on activities and/or outputs are completed.

For the seminar, the MS could establish a lump sum of 50.000 for the *organisation of the seminar* (independently of the number of participants) to present new implementation tools, calculated on the basis of the calculation methods specified in Article 67(5) CPR.

The draft budget would become:

Objective of the lump sum = organising a seminar to present new implementation tools
Total eligible cost = 50.000

If the seminar is organised and new implementation tools are presented the lump sum of 50.000 is paid. If the seminar is not organised or new implementation tools not presented, nothing is paid.

Possibility 3: Flat rate financing (Art 67 (1) (d))

N.B: the amounts resulting from the calculations are artificially rounded.

General Principle: Specific categories of eligible costs which are clearly identified in advance are calculated by applying a percentage fixed ex-ante to one or several other categories of eligible costs.

When comparing flat rate financing systems, always compare all the elements of the method and not only the rates:

<ul style="list-style-type: none"> categories of eligible costs to which the flat rate is applied 	
<ul style="list-style-type: none"> the flat rate itself. 	
<ul style="list-style-type: none"> categories of eligible costs calculated with the flat rate 	
<ul style="list-style-type: none"> where relevant, categories of eligible costs to which the flat rate is not applied and that are not calculated with the flat rate 	

Option 1: General rule 'flat rate financing'

Pursuant to Art 57(1) (b) the MS designs a flat rate system where a flat rate of 47% - calculated according to one of the methods of Article 67(5) CPR - is applied to all staff costs (both direct and indirect) to calculate the other costs:

<ul style="list-style-type: none"> categories of eligible costs to which the flat rate is applied 	Staff costs = 30.000 + 4.000 = 34.000
<ul style="list-style-type: none"> the flat rate itself. 	47%
<ul style="list-style-type: none"> categories of eligible costs that will be calculated with the flat rate 	Other costs = 47% of staff costs = 47% x 34.000 = 16.000
<ul style="list-style-type: none"> categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate 	Not relevant

=> Total eligible costs = 34.000 + 16.000 = 50.000.

The draft budget has the following form:

Staff costs:	34000	Other costs = 47% staff costs	16000
Direct Staff costs	30000	(calculated)	
Indirect staff costs	4000	Total eligible costs	50000

(Generally based on real costs)

Option 2: flat rate financing for indirect costs Art 68 (a)

Pursuant to Art 68 (a) CPR, the MS designs a flat rate system where a flat rate of 15.6% - calculated according to one of the methods of Article 67(5) (a), (b)³⁰ or (c), CPR - is applied to the direct costs:

<ul style="list-style-type: none"> categories of eligible costs to which the flat rate is applied 	Direct costs = 45.000
<ul style="list-style-type: none"> the flat rate. 	11.1% (shall be below 25%)
<ul style="list-style-type: none"> categories of eligible costs that will be calculated with the flat rate 	Indirect costs (calculated) = 11.1% of Direct costs = 11.1% x 45.000 = 5.000
<ul style="list-style-type: none"> categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate 	Not relevant

=> Total eligible costs = 45.000 + 5.000 = 50.000.

The draft budget has the following form:

<i>Direct costs</i>	45000	Indirect costs = 11.1% of direct costs	5000
Direct Staff costs	30000	(calculated)	
Room costs	4000		
Travel costs	5000	Total eligible costs	50000
Meals	1000		
Information / Publicity	5000		

(Generally based on real costs)

³⁰ Where this calculation method is used, the legal reference is Art 68 (c). One of the key points is that the capping of 25% referred to under Art 58 (a) does not apply to systems covered by Article 58 (c).

Option 3: flat rate financing for indirect costs Art 58 (b)

The Member State may decide to opt for the flat rate system of Article 58 (b): the flat rate of 15% to calculate the indirect cost is applicable only to the direct staff costs. There is no need to justify the 15% rate itself given that it is specified by the Regulation.

<ul style="list-style-type: none"> categories of eligible costs to which the flat rate is applied 	Direct staff costs = 30.000
<ul style="list-style-type: none"> the flat rate. 	15% (no justification needed)
<ul style="list-style-type: none"> categories of eligible costs that will be calculated with the flat rate 	Indirect costs (calculated) = 15% of Direct costs = 15% x 30.000 = 4.500
<ul style="list-style-type: none"> categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate 	Other direct costs (Room costs, travel costs, meals, info pub) = 15.000

Total eligible costs = Direct staff costs + calculated Indirect costs + Other direct costs
 = 30.000 + 4.500 + 15.000 = 49.500

The draft budget has the following form:

Direct Staff costs	30000	=>	Indirect costs = 15% direct staff costs	4500
			(calculated)	
Room costs	4000			
Travel costs	5000			
Meals	1000			
Information / Publicity	5000			
			Total eligible costs	49500

(Generally based on real costs)

Option 4: flat rate financing Art 14.2 of Regulation (EU) 1304/2013 (applicable to ESF only)

The Member State may decide to opt for the flat rate system of Article 14.2 ESF: the flat rate of 40% is applicable only to the direct staff costs to calculate all the other costs of the operation. There is no need to justify the 40% rate itself given that it is specified by the Regulation.

<ul style="list-style-type: none"> categories of eligible costs to which the flat rate is applied 	Direct staff costs = 30.000
<ul style="list-style-type: none"> the flat rate. 	40% (no justification needed)
<ul style="list-style-type: none"> categories of eligible costs that will be calculated with the flat rate 	All other costs = 40% of direct staff costs = 40% x 30.000 = 12.000
<ul style="list-style-type: none"> categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate 	Not relevant

Total eligible costs = Direct staff costs + calculated all other costs = 30.000 + 12.000 = 42.000

The draft budget has the following form:

Direct Staff costs	30000	=>	All other costs = 40% direct staff costs	12000
<i>(Generally based on real costs)</i>			<i>(calculated)</i>	
Total eligible costs			42000	

Annex 2: General relevant legal provisions of Regulation (EU) No 1303/2013

Article 67

Forms of grants and repayable assistance

1. Grants and repayable assistance may take any of the following forms:
 - (a) reimbursement of eligible costs actually incurred and paid, together with, where applicable, contributions in kind and depreciation;
 - (b) standard scales of unit costs;
 - (c) lump sums not exceeding EUR 100 000 of public contribution;
 - (d) flat-rate financing, determined by the application of a percentage to one or more defined categories of costs.

Fund-specific rules may limit the forms of grants or repayable assistance applicable to certain operations.

2. By way of derogation from paragraph 1, additional forms of grants and methods of calculation may be established in the EMFF Regulation.

3. The options referred to in paragraph 1 may be combined only where each option covers different categories of costs or where they are used for different projects forming a part of an operation or for successive phases of an operation.

4. Where an operation or a project forming a part of an operation is implemented exclusively through the public procurement of works, goods or services, only point (a) of the first subparagraph of paragraph 1 shall apply. Where the public procurement within an operation or project forming part of an operation is limited to certain categories of costs, all the options referred to in paragraph 1 may be applied.

5. The amounts referred to in points (b), (c) and (d) of the first subparagraph of paragraph 1 shall be established in one of the following ways:

- (a) a fair, equitable and verifiable calculation method based on:
 - (i) statistical data or other objective information;
 - (ii) the verified historical data of individual beneficiaries; or
 - (iii) the application of the usual cost accounting practices of individual beneficiaries;
- (b) in accordance with the rules for application of corresponding scales of unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation and beneficiary;
- (c) in accordance with the rules for application of 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;
- (d) rates established by this Regulation or the Fund-specific rules;
- (e) specific methods for determining amounts established in accordance with the Fund-specific rules.

6. The document setting out the conditions for support for each operation shall set out the method to be applied for determining the costs of the operation and the conditions for payment of the grant.

Article 68
Flat rate financing for indirect costs and staff costs concerning grants and repayable assistance

1. Where the implementation of an operation gives rise to indirect costs, they may be calculated at a flat rate in one of the following ways:
 - (a) a flat rate of up to 25 % of eligible direct costs, provided that the rate is calculated on the basis of a fair, equitable and verifiable calculation method or a method applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary;
 - (b) a flat rate of up to 15 % of eligible direct staff costs without there being a requirement for the Member State to perform a calculation to determine the applicable rate;
 - (c) a flat rate applied to eligible direct costs based on existing methods and corresponding rates, applicable in Union policies for a similar type of operation and beneficiary.

The Commission shall be empowered to adopt delegated acts in accordance with Article 149 concerning the definition of the flat rate and the related methods referred to in point (c) of the first subparagraph of this paragraph.

2. For the purposes of determining staff costs relating to the implementation of an operation, the hourly rate applicable may be calculated by dividing the latest documented annual gross employment costs by 1 720 hours.

Annex 3: Joint Statement by the Council and the Commission on article 67 of the CPR³¹

Joint Statement by the Council and the Commission on Article 67

The Council and the Commission agree that Article 67 (4) which excludes the application of simplified costs set out in Article 67 (1) (b)-(d) in cases where an operation or a project forming part of an operation is implemented exclusively through public procurement procedures does not preclude the implementation of an operation through public procurement procedures which result in payments by the beneficiary to the contractor based on pre-defined unit costs. The Council and the Commission agree that the costs determined and paid by the beneficiary based on these unit costs established through public procurement procedures shall constitute real costs actually incurred and paid by the beneficiary under Article 67 (1) (a).

³¹ OJ L347, 20.12.2013, p 466

Annex 4: ESF specific relevant legal provision of Regulation (EU) No 1304/2013

Article 14 Simplified cost options

1. In addition to the options referred to in Article 67 of Regulation (EU) No 1303/2013, the Commission may reimburse expenditure paid by Member States on the basis of standard scales of unit costs and lump sums defined by the Commission. The amounts calculated on this basis shall be regarded as public support paid to beneficiaries and as eligible expenditure for the purpose of applying Regulation (EU) No 1303/2013.

For the purpose of the first subparagraph, the Commission shall be empowered to adopt delegated acts in accordance with Article 24 concerning the type of operations covered, the definitions of the standard scales of unit costs and lump sums and their maximum amounts, which may be adjusted according to the applicable commonly agreed methods, taking due account of experience gained during the previous programming period.

Financial audit shall exclusively aim at verifying that the conditions for reimbursement by the Commission on the basis of standard scales of unit costs and lump sums have been fulfilled.

Where funding on the basis of standard scales of unit costs and lump sums, in accordance with the first subparagraph, is used, the Member State may apply its accounting practices to support operations. For the purpose of this Regulation and Regulation (EU) No 1303/2013, such accounting practices and the resulting amounts shall not be subject to audit by the audit authority or by the Commission.

2. In accordance with Article 67(1)(d) and (5)(d) of Regulation (EU) No 1303/2013, a flat rate of up to 40 % of the eligible direct staff costs may be used in order to cover the remaining eligible costs of an operation without a requirement for the Member State to execute any calculation to determine the applicable rate.

3. In addition to the methods stipulated in Article 67(5) of Regulation (EU) No 1303/2013, where the public support for grants and repayable assistance does not exceed EUR 100 000, the amounts referred to in Article 67(1)(b), (c) and (d) of Regulation (EU) No 1303/2013 may be established on a case-by-case basis by reference to a draft budget agreed ex-ante by the managing authority.

4. Without prejudice to Article 67 (4) of Regulation (EU) No 1303/2013, grants and repayable assistance for which the public support does not exceed EUR 50 000 shall take the form of standard scales of unit costs or lump sums in accordance with paragraph 1 of this Article or with Article 67 of Regulation (EU) No 1303/2013 or flat rates in accordance with Article 67 of Regulation (EU) No 1303/2013, except for operations receiving support within the framework of a State aid scheme. Where flat-rate financing is used, the categories of costs which are used to calculate the rate may be reimbursed in accordance with Article 67(1)(a) of Regulation (EU) No 1303/2013.