

**Seminar “Simplified Cost Options: moving from 2014-2020 to 2021-2027”  
European Commission, DG EMPL**

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

**Brussels, 20 June 2019**

# Structure of the presentation



- I. The decision making process
- II. When and why use SCOs
- III. Setting up the SCO system
- IV. Management & control and audit
- V. Conclusions and lessons learned

# I. The decision making process



## Good practices:

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



## Not so good practices:

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

# I. The decision making process

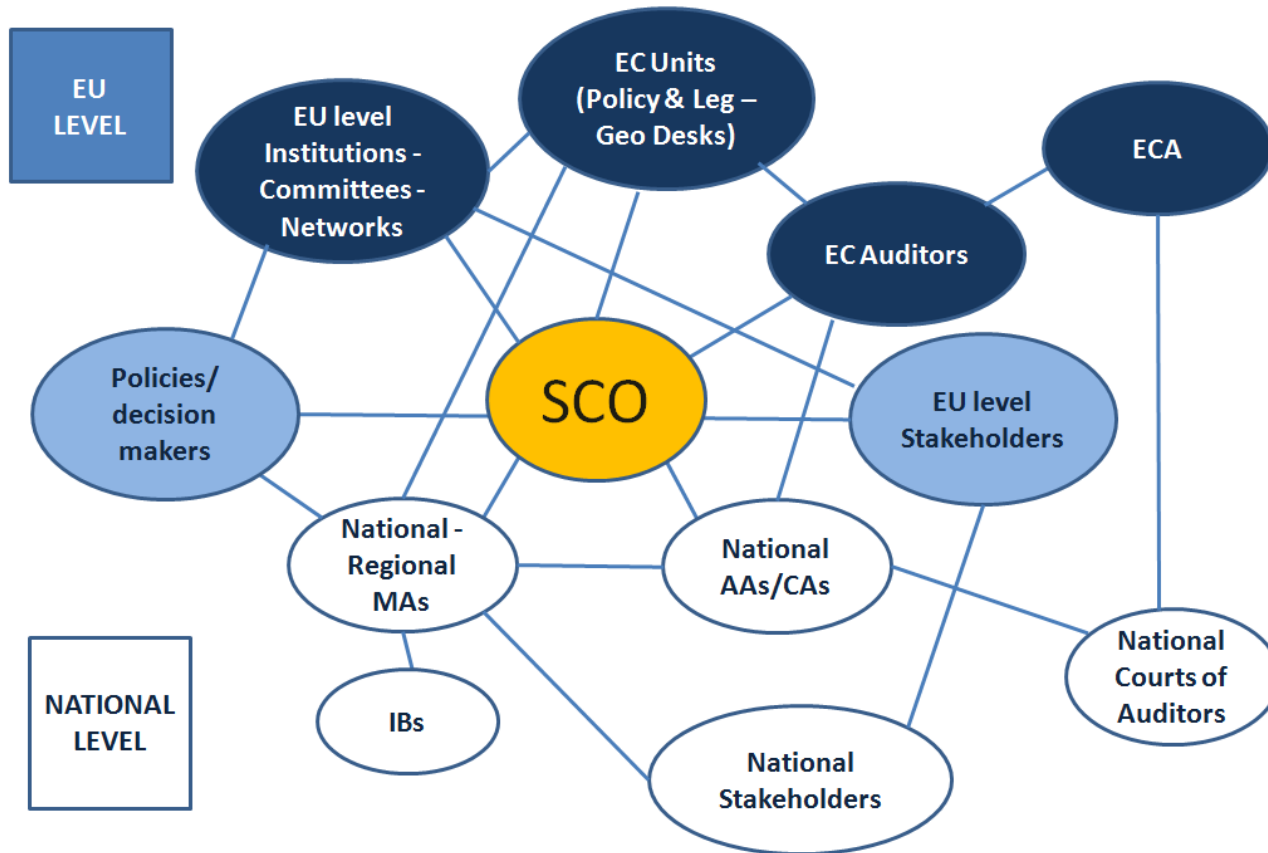
## Actors and levels

		A) INSTITUTIONAL LEVEL	
		Within Public Administration	Between PA and External Stakeholders
B) LEVEL OF EXCHANGE	Strategic	Debate among the various Institutional representatives of the Administration (training, labour, social policy, ...)	Highest institutional representatives of the PA and the system of stakeholders (social partners)
	Technical	Collaboration among different competent departments for implementation of the OP (fine-tuning of technical and administrative solutions )	PA officers and beneficiaries (jointly testing the system)

Decision-making levels

# I. The decision making process

## Map of SCO stakeholders



# II. When and why use SCOs



## Good practices:

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



## Not so good practices:

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

## II. When and why use SCOs

Identification of actions most suitable for SCOs

Assessment of the interventions based on two key variables



### Feasibility

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



### Relevance (Impact)

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

## II. When and why use SCOs



### Main advantages

SCO are indeed very effective to reduce administrative costs and burden, but there are further important reasons for the uptake, such as:

- Reducing errors (e.g., see *DAS: no quantifiable errors detected and reported related to the use of SCOs in the last 4 years*)
- Enhancing of the value and the quality of the operations (increased focus on content, process and results)
- Increasing the quality of programming (spending is more targeted)
- Setting up partnerships between all actors involved in designing, implementing and controlling the operations



# III. Setting up of the SCO system

## (calculations and conditions)



### Good practices:

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



### Not so good practices:

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

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

## Designing the SCO “structure”

### Trade-off between:

#### Accuracy

Application of SCO should lead to the best approximation of actual costs incurred by beneficiaries under given conditions

**VS.**

#### Manageability

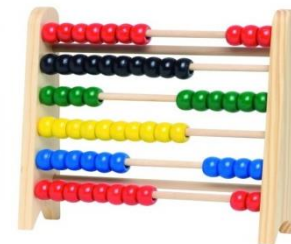
Beneficiaries would need to demonstrate that all the specific conditions are fulfilled, while Managing Authorities/Paying Agencies would need to be able to control them

### Approach

The design of a SCO structure should be based on the optimisation of the combinations of variables and conditions related to determining the unit costs. These should be combined in a limited number of clusters/groups ensuring fulfilment of the key principles and requirements as well as effective manageability of the system.

(Keep the SCO structure as simple as possible)

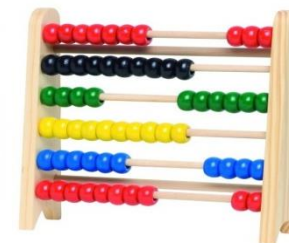
# III. Setting up of the SCO system (calculations and conditions)



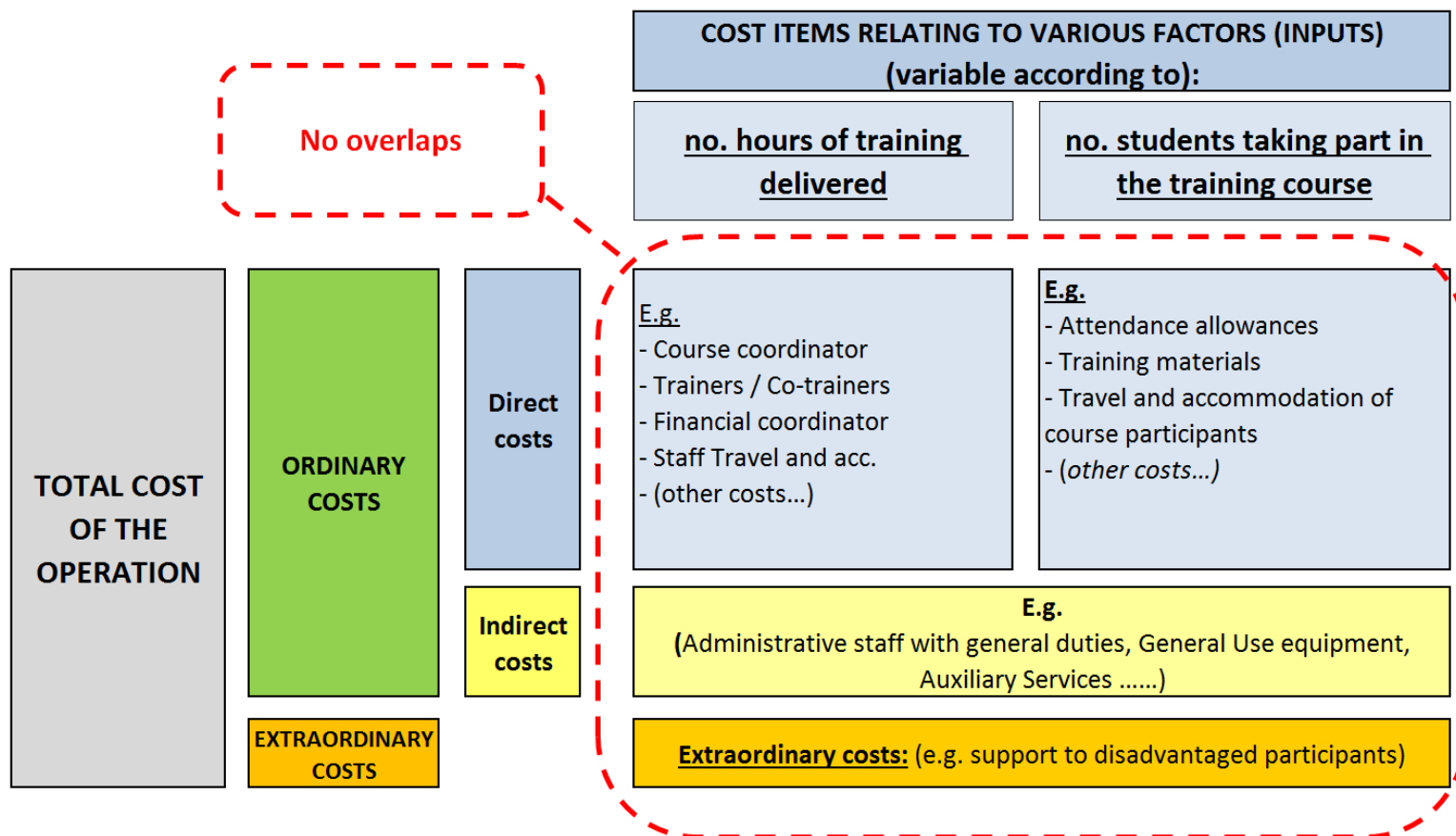
## Calculation methods

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

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



## Cost reclassification process



# III. Setting up of the SCO system

## Process-based or result-based approach?

### Process-based approach:

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

**VS.**

### Results-based approach:

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

### Possible adjustments

**"Enhance the Process"**

**"Mitigate the impacts"**

**"Specify the outcomes"**

**Combine the two approaches**

# IV. Management & control and audit



## Good practices:

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



## Not so good practices:

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

# V. Conclusions and lessons learned



## Hurdles limiting the use of SCO

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

# Main (perceived) risks



- **Calculation methodology is not adequate**

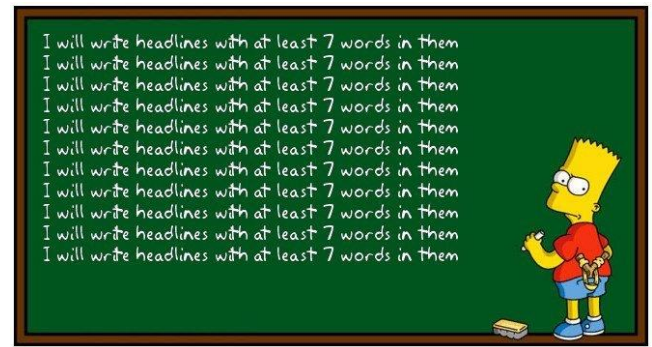
- Quantitative risk (data are not sufficiently representative)
- Qualitative risk (e.g. Reliability of data/data source)

- **Implementation phase**

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



# Lessons learned



## How to improve the uptake of SCO

### (Recommendations for the Authorities)

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

**Thank you!**