

**2nd MEETING of the High Level Expert Group
on Monitoring Simplification for Beneficiaries of ESI Funds**

Simplified Cost Options (SCOs)

1. The members of the High Level Group recognise the potential of SCOs to simplify and streamline administration for beneficiaries but calls upon the Commission to ensure that the barriers and uncertainties around their use, especially in terms of conflicts with other EU rules such as state aid, are clarified as soon as possible and by legislative changes if needed.
2. They emphasise that SCOs are based on results and if the results are achieved then costs should be accepted. They recommend that the Commission provide more support to programme authorities and extend the possibilities to give programme authorities an ex-ante assurance of their SCO schemes by opening up the possibilities already contained in Article 14 of the ESF regulation and/or providing a fast track approval of methodologies developed by programme authorities.
3. The members of the High Level Group recommend that the Commission bring forward legislative changes as soon as possible to remove some of the restrictions that complicate the use of SCOs and make the flat rates currently possible for some funds or objectives available to all.

Interim Report on Simplified Cost Options (SCOs)

from the High Level Expert Group on Monitoring Simplification for Beneficiaries of ESI Funds

Using flat rates, standard scale of unit costs or lump sums (the SCOs) instead of reimbursing real costs reduces the likelihood of error and administrative burden on project promoters. When using SCOs, the eligible costs are calculated according to a predefined method based on outputs, results or some other costs. The tracing of every euro of co-financed expenditure to individual supporting documents is no longer required. For instance, indirect costs could be calculated by applying a percentage to direct costs or to staff costs. A seminar could be reimbursed based on an agreed lump sum in which case the beneficiary would be paid on the basis of proof of organisation of such a seminar with no need to detail the real costs of the project.

Conclusions:

- The members of the High Level Group recognised the potential of SCOs to reduce the administrative burden for beneficiaries, as well as for managing authorities, certifying authorities and audit authorities.
- They stressed that SCOs should be about results but noted the following challenges in implementing them raised by the experts in SCOs at the meeting:
 - The difficulty for some partners to shift their mind-set and to be more result-oriented and more supportive of SCOs, and overcome their concerns about risks and the way they will be audited.
 - The lack of detailed guidance on some aspects of the SCOs: for instance, the regulation offers the possibility to make use of SCOs applicable in other EU policies (such as Horizon 2020) or under national schemes for a similar type of operation and beneficiary. But there is no clear understanding of what "similar operation" and "similar beneficiary" mean.
 - The fact that there is no guidance available on the quantity of historical/statistical data needed and over which period of time in order to set up a flat rate or unit cost.
 - The lack of legal certainty for Member States when devising SCOs as the Commission does not provide ex ante verification.
 - The lengthy process of approval by the Commission in the case of Article 14.1 of the ESF Regulation¹ and joint action plans².
 - The lack of historical data based on real costs after some years of using only SCOs, which leads to problems of updating or creating new SCOs.

¹ Article 14.1 ESF allows the Commission to adopt delegated acts to define standard scale of unit costs and lump sums for the reimbursement to the managing authorities based on results.

² Articles 104-109 of the Common Provisions Regulation allows for the adoption of joint action plans (JAPs) by Commission decisions. A JAP is an operation the scope of which is defined in relation to outputs and results.

- The apparent conflict in some cases between using SCOs and state aid rules and public procurement which requires an in-depth analysis to find appropriate solutions.
- The members of the High Level Group recognised that audit-related issues are a major concern for managing authorities and beneficiaries. For example, the lack of engagement by European and national auditors in assessing SCOs, the lack of a clear, consistent and harmonised approach in auditing SCOs, and the lack of differentiation between error and fraud (albeit a wider issue than just applying to SCOs) all contribute to uncertainty among authorities and beneficiaries and can limit their use.
- There is a general lack of knowledge among national and regional authorities about what is working (or not working as the case may be) in other regions and Member States. This relates to the type of SCOs adopted, but also to the methods used to define such SCOs.
- They noted that there is a general lack of emphasis on results orientation when it comes to simplified costs and increasing the focus on results should be a priority objective for SCOs. They stated the need to find a balance between trust and control and to focus on results.
- The regulations do not cover how the SCOs should be audited. This lack of a European framework creates legal uncertainty and invalidates the impact on simplification as beneficiaries feel they must keep, for security reasons, all financial supporting documents although they are funded on the basis of SCOs. It is helpful to determine the audit trail requirements at the set-up of the SCO in order to avoid audit related problems afterwards.
- Other options could be developed to simplify the payment procedure to the beneficiary, for the benefit of both managers and beneficiaries. As is the case in Horizon 2020, payments could be made upon declarative commitments by the researchers on the implementation steps of the project (no need to keep every bill of every item of expenditure of the project). It would be logical to get inspiration from Horizon 2020 as the ESI Funds are supporting more and more collaborative projects, softer projects, notably in research and innovation.

Recommendations to the Commission for 2014-20 period:

The members of the High Level Group recommend that the Commission ensure that ex-ante support is given to managing authorities to enable a greater take up of SCOs which can provide a reduction of administrative burden for beneficiaries by:

- disseminating widely to Member States the good practice examples such as those of Northern Ireland, Malta, Canary Islands and Denmark, and encourages them to put similar systems in place in their own programmes/administrations where relevant.
- putting in place a mechanism to allow the sharing of experience and practical examples of how SCOs were developed between managing authorities, as this would encourage more authorities to make use of the SCOs and bring valuable lessons for potential further fine-tuning and simplification.
- giving clear, transparent and standard approach descriptions on how SCOs should be documented, monitored, archived and audited to ensure legal certainty for managing authorities, beneficiaries and the Commission.

- supporting further the Interact Programme, as a useful instrument for ETC programmes, towards the practical use of SCOs and other simplification methods (eg studies, workshops).

The members of the High Level Group calls on the Commission to consider the following legislative changes to streamline the setting up of SCOs across all ESI Funds:

- to lift the restrictions imposed on fully procured projects that can only claim eligible costs actually incurred and paid (real costs) and delete Article 67(4) CPR;
- to make SCOs currently restricted to certain Funds available to all ESI Funds through the CPR, in particular Article 14 ESF (delegated act, 40% flat rate, use of a draft budget) and ETC provisions relating to staff costs for part-time workers and staff costs at a flat rate of up to 20% of the direct costs other than the staff costs;
- to provide more off-the-shelf SCOs, including EU level SCOs based on data provided by Member States and bodies such as ESTAT (for example, to allow the calculation of indirect costs with a flat rate of 25% of direct costs (without to perform a calculation) by modifying Article 68(1)(a) CPR);
- to allow a third party contribution to be counted outside the 40% flat rate under Article 14(2) ESF;
- to allow lump sums above EUR 100,000;
- to clarify, if needed by a legislative modification, the way to apply state aids framework in the case of SCOs (for example by modifying Articles 67 and 68 CPR to allow the use of SCOs when operations are related with state aid rules);
- to remove the term "up to" from Article 68 CPR to define a single rate that cannot be disputed.

The members of the High Level Group also consider that the Commission could review its internal procedures to provide a faster response to managing authorities wishing to make use of Article 14(1) ESF; and to create a fast-track procedure allowing managing authorities to have certainty on questions regarding the set up and implementation of SCOs or, if necessary, an ESI Fund-specific regulation should be implemented, involving Commission auditors and providing binding answers.

Member States should be able to define their own methods, present them for information to the Commission and audit authority, with a deadline for them to react if they have a difficulty with the new method, and after this, they should be able to implement it. The new method should, of course, respect the principle of sound financial management.

The members of the High Level Group supported the suggestion from the experts to set up an "audit"³ committee at national or regional level to assist the programme authorities to set up SCOs including how they are to be managed and audited. This should include auditors, the services of Commission (desk and audit) and external experts in order to set up a clear and coherent framework concerning documentation, control and audit for SCOs and act as a mediator between the managing authority and auditors.

The members of the High Level Group call on the Commission to develop a roadmap (timeline) to set out how and when these recommendations will be implemented/realised and

³ This committee is distinct from an audit committee in the context of corporate governance which is usually a committee of the board of directors of an organisation which has responsibility for oversight of the financial reporting process and review of audit results.

to regularly inform the Group on progress in implementation of the proposed recommendations.

Recommendations for the Commission to encourage action by the Member States for 2014-2020 period:

- Member States and regions should envisage a closer collaboration between all authorities and should invest more in training for all the relevant, institutional and socio-economic partners.
- Managing authorities should give clear and transparent descriptions of how SCOs should be documented, monitored, archived and audited.
- European and national auditors should be actively involved in ex ante verification of national SCOs (ex ante verification does not endanger their independence and ability to control implementation ex post).

Suggestions for further reflection for post 2020:

The members of the High Level Group recommend that the Commission ensure that the full potential for reducing the administrative burden on beneficiaries through SCOs can be realised through:

- gathering further evidence on best practices and barriers to implementation of SCOs to allow discussion at a future meeting of the Group with a view to reflect on further simplification post 2020.
- reflecting on extending the possibilities for declaring output-based expenditure in particular for infrastructure projects (eg reimbursement based on a unit cost per kilometre of new built road).
- investigating approaches already in place elsewhere that are in line with the idea of SCOs – such as the “Output-based Aid” approach systematically used by the World Bank and the idea of Social Impact Bonds.
- exploring ways to improve and simplify the legal framework and introduce potential other options for SCOs, based on lessons learnt. To this end, to investigate the possibility to introduce differentiated flat rates for different thematic objectives.
- identifying ways to make the use of SCOs mandatory/extend the use of mandatory SCOs, with clear requirements on audit and control.
- finding a suitable way to avoid conflict between the use of SCOs and state aid rules.