|  |  |
| --- | --- |
|  | EUROPEAN COMMISSION |

European Structural and Investment (ESI) Funds

Guidance on Simplified Cost Options (SCOs):

Flat rate financing, Standard scales of unit costs, Lump sums

 (under Articles 67 and 68 of Regulation (EU) No 1303/2013, Article 14(2) – (4) of Regulation (EU) No 1304/2013 and Article 19 of Regulation (EU) No 1299/2013)

**DISCLAIMER:**

*‘This is a working document prepared by the Commission services. On the basis of applicable EU law, it provides technical guidance for bodies involved in the monitoring, control or implementation of ESI Funds on how to interpret and apply EU rules in this area. The aim of this document is to provide Commission services’ explanations of the said rules in order to facilitate programme implementation and to encourage good practice(s). This guidance is without prejudice to interpretations of the Court of Justice and the General Court or decisions of the Commission.’*

**Table of Contents**

[Chapter 1: Introduction 5](#_Toc396985569)

[1.1. Purpose 5](#_Toc396985570)

[1.2. Why use simplified costs? 5](#_Toc396985571)

[1.2.1. Background 5](#_Toc396985572)

[1.2.2. Advantages of simplified costs 6](#_Toc396985573)

[1.3. When to use simplified costs? 6](#_Toc396985574)

[1.4. Key differences compared with the 2007-2013 period 7](#_Toc396985575)

[1.5. Simplified costs are optional 9](#_Toc396985576)

[1.6. Applicability of simplified costs 10](#_Toc396985577)

[1.6.1. Determination of the exact scope of use of the simplified cost options particularly in the case of public procurement 11](#_Toc396985578)

[1.6.2. Procurement within a project implemented by the beneficiary itself 11](#_Toc396985579)

[1.6.3. Recommended approach for projects procured even where beneficiaries belong to categories that are not covered by the Directive 2004/18/EC 13](#_Toc396985580)

[1.6.4. National rules on eligibility of expenditure 13](#_Toc396985581)

[1.6.5. Fund-specific rules 14](#_Toc396985582)

[Chapter 2: Flat rate financing 15](#_Toc396985583)

[2.1. Defining the categories of costs 15](#_Toc396985584)

[2.2. Specific flat rate financing systems to calculate indirect costs detailed in the Regulations 15](#_Toc396985585)

[2.2.1. Calculation methods for indirect costs 15](#_Toc396985586)

[2.2.2. Definition of direct/indirect staff costs 16](#_Toc396985587)

[2.2.3. Fund-specific rules 18](#_Toc396985588)

[Chapter 3: Standard scales of unit costs 20](#_Toc396985589)

[3.1. General principles 20](#_Toc396985590)

[3.2. Specific case of hourly staff costs 22](#_Toc396985591)

[Chapter 4: Lump sums 24](#_Toc396985592)

[4.1. General principles 24](#_Toc396985593)

[4.2. Examples of lump sums 24](#_Toc396985594)

[Chapter 5: Establishing flat rate financing, standard scales of unit costs and lump sums 26](#_Toc396985595)

[5.1. It must be established in advance 26](#_Toc396985596)

[5.2. A fair, equitable and verifiable calculation method 27](#_Toc396985597)

[5.2.1. General principles 27](#_Toc396985598)

[5.2.1.1. It must be fair: 27](#_Toc396985599)

[5.2.1.2. It must be equitable: 27](#_Toc396985600)

[5.2.1.3. It must be verifiable: 27](#_Toc396985601)

[5.2.2. Methodologies in practice 28](#_Toc396985602)

[5.2.2.1. The use of ‘statistical’ data or other objective information 28](#_Toc396985603)

[5.2.2.2. The use of individual beneficiary-specific data 28](#_Toc396985604)

[5.3. Using standard scales of unit costs, lump sums and flat rates from other areas 30](#_Toc396985605)

[5.3.1. From other Union policies 30](#_Toc396985606)

[5.3.1.1. Article 67(5)(b) CPR 30](#_Toc396985607)

[5.3.1.2. Article 68(1) (c) CPR 31](#_Toc396985608)

[5.3.2. From Member States' schemes for grants 31](#_Toc396985609)

[5.3.3. How to assess if types of operations and beneficiaries are similar? 32](#_Toc396985610)

[5.4. Using rates established by the CPR or the Fund-specific rules 33](#_Toc396985611)

[5.5. Adaptation of flat rate for indirect costs, lump sums and standard scales of unit costs 33](#_Toc396985612)

[5.6. Specific methods for determining amounts established in accordance with the Fund-specific rules 33](#_Toc396985613)

[Chapter 6: Consequences for the management and control system 36](#_Toc396985614)

[6.1. The need for a common audit and control approach 36](#_Toc396985615)

[6.2. General approach to controlling and auditing SCOs 36](#_Toc396985616)

[6.3. Consequences in terms of financial management… 38](#_Toc396985617)

[6.3.1. General provisions 38](#_Toc396985618)

[6.3.2. …for a flat rate financing system 39](#_Toc396985619)

[6.3.3. …for the certification of expenditure 39](#_Toc396985620)

[6.4. Key points for the managing authority 40](#_Toc396985621)

[6.4.1. …for a flat rate financing system 40](#_Toc396985622)

[6.4.1.1. Respective definitions of the categories of expenditure 40](#_Toc396985623)

[6.4.1.2. Use of the current experience 40](#_Toc396985624)

[6.4.2. …for a unit cost 41](#_Toc396985625)

[6.4.2.1. Correlation between the realised quantities and the payments 41](#_Toc396985626)

[6.4.2.2. Justification of declared quantities 41](#_Toc396985627)

[6.4.2.3. Choice of the standard scales of unit cost 41](#_Toc396985628)

[6.4.3. …for a lump sum 43](#_Toc396985629)

[6.4.3.1. Correlation between the realised operation and the payments 43](#_Toc396985630)

[6.4.3.2. Justification of the costs 43](#_Toc396985631)

[6.4.3.3. Choice of activities/outputs/outcomes 43](#_Toc396985632)

[6.5. Audit and control approach 44](#_Toc396985633)

[6.5.1. …for a flat rate financing system 44](#_Toc396985634)

[6.5.2. …for standard scales of unit costs and lump sums 45](#_Toc396985635)

[6.5.3. Examples 46](#_Toc396985636)

[Chapter 7: Other provisions 48](#_Toc396985637)

[7.1. Combination of options 48](#_Toc396985638)

[7.1.1. General principles 48](#_Toc396985639)

[7.1.2. Examples of combinations 48](#_Toc396985640)

[7.2. Assessing the thresholds 49](#_Toc396985641)

[7.2.1. General principles 49](#_Toc396985642)

[7.2.2. Fund-specific 50](#_Toc396985643)

[7.3. Compatibility of simplified cost options with state aid rules 50](#_Toc396985644)

[7.4. Use of simplified costs in operations generating net revenue 51](#_Toc396985645)

[7.4.1. Operations generating net revenue after completion 51](#_Toc396985646)

[7.4.2. Operations generating net revenue during implementation and to which paragraphs 1 to 6 of Article 61 CPR do not apply 51](#_Toc396985647)

[7.5. ERDF and ESF specific: cross-financing 54](#_Toc396985648)

[7.5.1. Declaring the actions falling under Article 98(2) CPR in relation to the simplified cost options 54](#_Toc396985649)

[7.5.2. Examples 54](#_Toc396985650)

[Annex 1: Examples of simplified cost options 55](#_Toc396985651)

[Annex 2: Example of compatibility of SCOs with state aid rules 63](#_Toc396985652)

[Annex 3: SCO and EAFRD specific measures 64](#_Toc396985653)

# Introduction

## Purpose

This guidance was prepared by the Commission services responsible for the ESI Funds in consultation with the members of the ESF Technical Working Group and the Expert Group for the European Structural and Investment Funds (EGESIF). This guidance is based on and is replacing the COCOF note 09/0025/04-EN applicable to the period 2007-2013. Where necessary, it includes the new possibilities offered by the 2014-2020 regulations. However this guidance does not cover either the Joint Action Plans or the unit costs and lump sums used in the framework of Article 14(1) of Regulation (EU) No 1304/2013 (ESF).[[1]](#footnote-2)

The purpose of this 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 a view to encouraging Member States to use simplified costs.

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.

## Why use simplified costs?

### Background

In 2006 an important simplification introduced in the 2007-2013 ESF Regulation[[2]](#footnote-3) 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 scales of unit costs and lump sums (hereinafter referred to as ‘simplified costs’) was welcomed by all stakeholders, including the European Court of Auditors. "The Court recommended […] that the Commission should extend the use of lump sum and flat rate payments instead of reimbursing ‘real costs’ in order to reduce the likelihood of error and the administrative burden on project promoters. […] Projects whose costs are declared using SCOs are less error prone. Thus a more extensive use of SCOs would normally have a positive impact on the level of error"[[3]](#footnote-4).

For the 2014-2020 period, 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 by shared management (AMIF,[[4]](#footnote-5) ISF[[5]](#footnote-6)) or through other methods of implementation (Horizon 2020, Erasmus + for instance).

The Common Provisions regulation (CPR - Regulation 1303/2013) 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 provided for in the Fund-specific regulations.

### Advantages of simplified costs

Where simplified costs are used, 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**: this is the key point of simplified costs as it significantly **alleviates the administrative burden**. Using simplified costs means also that the human resources and administrative effort involved in management of the ESI Funds can be **focused more on the achievement of policy objectives** instead of being concentrated on collecting and verifying financial documents. It will also facilitate access of small beneficiaries to the ESI Funds thanks to the simplification of the management process.

Simplified costs also contribute to 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 detected.[[6]](#footnote-7)

## When to use simplified costs?

**Simplified costs are to be used only in the case of grants and repayable assistance** (Article 67 (1) CPR). Where an operation or a project forming part of an operation is implemented exclusively through public procurement, simplified costs must not be used (see Article 67 (4) CPR and section 1.6.2, page 11).

It is recommended that simplified costs be used when one or more of the following circumstances exist:

* if Member States want ESIF management to focus more on outputs and results instead of inputs;
* real costs are difficult to verify and to demonstrate (many small items to verify with little or no singular impact on the expected output of the operations, complex apportionment keys, …);
* reliable data on financial and quantitative implementation of operations are available (however, some of the possibilities for calculation do not require these data);
* there is a risk that accounting documents are not properly retained (by small NGOs for instance);
* the operations belong to a standard framework (this is where SCOs will have more added value. However, this is not mandatory and some of the possibilities for calculation are based on an approach by operation / beneficiary);
* SCO methods already exist for similar types of operations and beneficiaries under a nationally funded scheme or under another EU instrument.

## Key differences compared with the 2007-2013 period

One of the principles underpinning the Commission’s proposal 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. 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 except for small ESF operations (it is mandatory for ESF operations below EUR 50 000 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:* Use of existing EU schemes for similar types 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.
* For ESF: flat rate of up to 40 % of eligible direct staff costs to calculate all the other costs of the project.
* For ETC: flat rate of up to 20 % of the direct costs other than staff costs of the operation to calculate the direct staff 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 unit cost calculation method is set out for staff costs.Hourly staff cost = latest documented annual gross employment costs / 1720 hours.  |

## Simplified costs are optional

The use of simplified costs is an option for the Member State concerned: at beneficiary level, the managing authority may decide to make such 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 and 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) ESF, 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[[7]](#footnote-8) does not exceed EUR 50 000*’.This amount has to be considered as the maximum public support **to be paid to the beneficiary**, as specified in the document setting out the conditions for support to the beneficiary (ESI Funds + corresponding public national funding to be paid to the beneficiary as the maximum amount set out in the funding agreement or decision if applicable). 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 public support that determines whether Article 14(4) has to be applied (see section 7.2.2, page 50).The purpose of this Article is to avoid controls of actual costs which are not cost effective given the low value to be checked.In order to prevent any contradiction between sets of rules there are two exceptions to the application of Article 14(4) ESF:* when Article 67(4) CPR is applicable, i.e. when the operation or a project forming a part of the operation is publicly procured: simplified cost options cannot be used;
* when operations receive support within the framework of a state aid scheme: the rules of the state aid scheme will be applied. The managing authority has to ensure that state aid rules do not prevent the application of simplified cost options.
 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Example (ESF specific):**The draft budget of a public body for an operation with a total eligible cost of EUR 70 000 is as follows:

|  |  |
| --- | --- |
| Public national funding | EUR 10 000 |
| ESF | EUR 35 000 |
| Self-financing | EUR 15 000 |
| Allowances to the participants paid by the Public Employment Service | EUR 10 000 |
| **Total financing plan** | **EUR 70 000** |

Despite total financing of EUR 70 000, this project still falls in the category of projects for which simplified costs are mandatory.Indeed, the self-financing (EUR 15 000) of a public body is not taken into account to determine the public support paid to the beneficiary. The allowances of the trainees paid by the Public Employment Service (EUR 10 000) are not counted either as they are paid by a third party to the participants. **Therefore the public support equals 35 000 + 10 000 = 45 000, which is below the EUR 50 000 threshold.** |

## Applicability of simplified costs

Simplified costs under Articles 67 and 68 CPR are applicable only in the case of grants and repayable assistance.

Pursuant to Article 67(4) CPR the simplified costs are not to be used where an operation as defined in Article 2(9) CPR, or a project, forming part of an operation is outsourced and implemented exclusively through the procurement of works, goods or services. 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.

However the implementation of an operation through public procurement procedures which result in **payments by the beneficiary to the contractor determined on the basis of predefined unit costs or lump sums** is possible. In fact, the invoices paid through public procurement contracts constitute real costs actually incurred and paid by the beneficiary under Article 67(1)(a) CPR, even though it is defined in the contract as a standard scale of unit cost or a lump sum price.[[8]](#footnote-12) What this means basically is that standard scales of unit costs, lump sums or flat rates may be used within a public procurement procedure as a payment method, but provisions deriving from Article 67(1) (b)-(d) CPR do not apply.

|  |
| --- |
| **Example (ESF):**If a beneficiary implements a training course via public procurement, it is possible that in the call for tenders the beneficiary will ask the bidders to make a price offer on the basis of a unit cost per trainee gaining certification at the end of the course.The terms of the contract can therefore be: one trainee certified = EUR 1 000.If, at the end of the course, 10 trainees are certified, the beneficiary can declare EUR 10 000 of eligible expenditure to the managing authority.This EUR 10 000 will be considered as real cost based. Therefore a control or audit of this expenditure will consist in a check of the public procurement procedure and observance of the terms of the contract (in this example, that there is proof of a trainee certified for each unit cost paid). The underlying costs of the training (renting of facilities, staff costs…) will not be checked as the contract does not provide for reimbursement on this basis.  |

### Determination of the exact scope of use of the simplified cost options particularly in the case of public procurement

Where the simplified cost options are applicable to an operation, it has to be determined whether 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 forming part of an operation the simplified cost options can be applied to, 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 those projects which are subject to public procurement contracts.

### Procurement within a project implemented by the beneficiary itself

If the beneficiary[[9]](#footnote-13) itself implements a project (meaning keeping full control of the management and implementation of the project), the simplified cost options are applicable, even if some of the **categories of costs** within the project are procured (e.g. some of the project implementation costs like cleaning services, external expertise, purchase of furniture, etc.).[[10]](#footnote-14)

|  |
| --- |
| **Example (ESF):** A grant of EUR 20 000 000 is allocated to a public employment service (‘beneficiary’) to organise, during two years, the reintegration 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, training projects 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 projects outsourced will have to be chosen through the public contract award procedures’ depending on the applicable threshold, and the simplified cost options will not be applicable to these projects forming part of the operation. It will be applicable only to an amount of EUR 12 000 000. For the training projects 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 (external experts, cleaning services, etc.). |

|  |
| --- |
| **Example (ERDF):** A municipality receives a grant for a maximum amount of EUR 1 000 000 of eligible costs for the construction of a road. For this the municipality has to award a public works 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 carried out by its own staff, campaigns, tests for the acceptance 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 (e.g. indirect costs on a flat rate basis) can apply. |

**In the case of flat rate financing**, the extent of procurement of some of the categories of costs by the beneficiary could have an impact on the proportion of calculated costs. Therefore, Member States should assess the impact of the extent of procurement of services within projects forming part of an operation on the proportion of calculated costs and hence the flat rate, except in the case of flat rates enshrined in the Regulation. Therefore it could require mitigating measures to be introduced in the methodology: for instance if the extent of procured services has a significant effect on the proportion of calculated costs, the flat rate should either be reduced proportionally to the extent of procurement or be applied only to those costs which are not procured (for the flat rate financing for indirect costs based on the Horizon 2020 approach it is compulsory to deduct the subcontracting costs). However, it may also be that the extent of procurement of services 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 procurement of services 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 (a rate) for the application of flat rate financing. In the case of flat rates laid down by the regulations (Article 68 (b) and (c) CPR, Article 14(2) ESF and Article 19 ETC), it is not necessary to take into account the level of procurement. However Member States could decide if procured services within a project are excluded or not from the categories of costs on whose basis the rate is to be applied, provided that the principle of equal treatment is respected.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Example (ERDF):** A municipality receives a grant for a maximum amount of EUR 1 000 000 of eligible costs for the construction of a road. For the project which is not publicly procured, the managing authority wants to use the provision of Article 68 (1)(b) CPR to calculate the indirect costs. However, the managing authority wants to mitigate the impact of the use of subcontracted staff on the level of indirect costs. It decides to withdraw the subcontracted direct staff costs from the direct staff costs to which the flat rate is applied.The draft budget for the project is as follows:

|  |  |
| --- | --- |
| **Project 1: work** (public procurement procedure) | **EUR 700 000** |
| **Project 2: other costs:**  | **EUR 298 500** |
| ***Direct staff costs*** | *EUR 50 000* |
| *Out of which subcontracted direct staff costs* | *EUR 10 000* |
| ***Other directs costs***  | *EUR 242 500* |
| ***Indirect costs*** | *(Direct staff costs – subcontracted direct staff costs) x 15% = EUR 40 000 x 15% = EUR 6 000* |
| **Total costs declared** |  **EUR 998 500**  |

 |

### Recommended approach for projects procured even where beneficiaries belong to categories that are not covered by the Directive 2004/18/EC

The Commission recommends applying the approach developed above (section 1.6.1, page 11 applied by analogy; section 1.6.2, page 11 adhered to in all cases) for projects procured, even where beneficiaries belong to categories that are not covered by the Directive 2004/18/EC, in order to respect the intention to restrict the simplified cost options to grants and repayable assistance.

### 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) CPR). They must cover the entirety of the expenditure declared under the programme. Moreover, ‘the managing authority shall be responsible for managing the programme in accordance with the principle of sound financial management’ (Article 125(1) CPR) and has the opportunity to apply stricter rules than those set out under the applicable European legal framework.

Therefore, managing authorities should determine and document the eligibility rules for ESI Fund operations, at the appropriate level (national, regional, local, or by programme), make them available to potential beneficiaries, and indicate all relevant rules in the document setting out the conditions for support. As part of these rules, the framework for applying Article 67 CPR should also be set out.

### Fund-specific rules

|  |
| --- |
| **EAFRD specific**Managing authorities must ensure that the relevant calculations as regards Simplified Cost Options are adequate and accurate when established in advance on the basis of a fair, equitable and verifiable calculation. To this end, a body that is functionally independent from the authorities responsible for implementing the programme and possesses the appropriate expertise will perform the calculations or confirm their adequacy and accuracy. A statement confirming the adequacy and accuracy of the calculations must be included in the rural development programme (RDP).[[11]](#footnote-15)If the managing authority uses a method established according to Article 67(5) (b), (c), (d) or (e) CPR, such calculations and the above-mentioned statement do not have to be performed or submitted.The RDP should only include the methodology used for calculating the payments based on SCOs. If this methodology does not vary throughout the programming period, the programme would not have to be modified. If a system of SCOs is introduced as a payment mechanism under a specific measure, the programme should be accordingly modified. *Please refer to the last annex of this guidance for a list of EAFRD measures which fall under the scope of SCOs.*  |

# 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.

## Defining the categories of costs

In a flat rate financing system there is a maximum of three types of categories of costs:

* Type 1: categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts ;
* 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 must 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 or the other types (for instance, in a system where there are only direct (type 1) and indirect costs (type 2), indirect costs could be considered as all the eligible costs that are not eligible direct costs).

The Regulation does not put any restriction on categories of eligible costs that might be used 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 to costs that are relatively low and for which verification is costly.

## Specific flat rate financing systems to calculate indirect costs detailed in the Regulations

### Calculation methods for indirect costs

The regulations include **certain specific flat rate financing systems**. Article 68(1) CPR details **some flat rate financing systems for calculating indirect costs**:

* Paragraph a) sets out the general system of flat rate financing for indirect costs with the maximum rate increased to 25 %. It is a continuation of the current system, the real rate to be used has to be justified according to one of the calculation methods under Article 67(5) (a) and (c) CPR. This system is flexible. It could be based:
	+ only on two types of costs - type 1: direct costs, type 2: indirect costs;
	+ or on three types of costs: type1: "limited" direct costs, type 2: indirect costs calculated on the basis of type 1, type 3: direct costs other than the "limited" ones (of type 1).
* Paragraph b) makes it possible for a managing authority to use a flat rate of 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 is an example of a system 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, page 55 for an example).
* Under paragraph c) it is possible to re-use a flat rate for indirect cost schemes existing in Union policies, based on those used under Horizon 2020 and under LIFE and specified in a delegated act (see 5.3.1.2 page 31).

### Definition of direct costs, of indirect costs and of staff costs

Use of these systems could require the managing authority to define the direct and indirect costs and the staff costs. These definitions must 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 though direct time registration).
* **Indirect costs**, on the other hand, are usually 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 (typical 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[[12]](#footnote-16)).
* **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). For example, if a beneficiary contracts the services of an external trainer for its in-house training sessions, the invoice needs to identify the different types of costs. The salary of the trainer will be considered as external staff costs. However, teaching materials for example cannot be taken into account. Staff costs include the total remuneration, including in-kind benefits in line with collective agreements, paid to people in return for work related to the operation. They also include taxes and employees’ social security contributions (first and second pillar, third pillar only if set out in a collective agreement) as well as the employer’s compulsory and voluntary social contributions. Costs of business trips are however not considered to be staff costs. Allowances or salaries disbursed for the benefit of participants in ESF operations are not considered to be staff costs either.

|  |
| --- |
| **Example (ESI Funds):** Community-Led Local Development (CLLD)The managing authority has assessed, based on past experience, the typical share of the running costs and animation of a given Local Action Group (LAG) compared to the budget available for the preparatory support, the implementation of operations under the CLLD strategy, and the preparation and implementation of the LAG’s cooperation activities. Even though support from ESI Funds for running and animation costs cannot go above the ceiling of 25 % of the total public expenditure incurred within the CLLD strategy, experience shows that this percentage is actually lower in most cases.The managing authority establishes a flat rate of 17 % (based on a fair, equitable and verifiable methodology in accordance with Article 67(1) (d) and 67 (5) (a) CPR and *not* Article 68(1) (a) CPR as this flat rate is not only covering indirect costs) of the budget available for the preparatory support, the implementation of operations under the CLLD strategy and the preparation and implementation of the LAG’s cooperation activities, to cover the following costs:* Running costs (operating costs, personnel costs, training costs, costs linked to public relations, financial costs, costs linked to the monitoring and evaluation of the strategy);
* Costs linked to the animation of the CLLD strategy in order to facilitate exchange between stakeholders to provide information and to promote the strategy and to support potential beneficiaries with a view to developing operations and preparing applications.

Therefore, if the budget allocated to the LAG for the preparatory support, the implementation of operations under the CLLD strategy and the preparation and implementation of the LAG’s cooperation activities for the 2014-2020 period is EUR 1.5 million (type 1), the maximum budget corresponding to running and animation costs would be EUR 1.5 million x 17 % = EUR 255 000 (type 2). Consequently the total budget allocation for the LAG is EUR 1.755 million.In the implementation phase, it means that whenever a beneficiary claims for reimbursement of the expenditure incurred on a project, the LAG will also be able to claim 17 % of that sum for its running and animation costs.For example if the incurred expenditure of a project equals EUR 1 000 (type 1), the LAG can declare to the managing authority EUR 1 000 x 17 % = EUR 170 (type 2) for its running and animation costs. The LAG will not need to provide supporting documents for its running and animation costs declared on the basis of the flat rate, but the methodology for determining the 17 % has to be verifiable. It should be noted that the flat rate may be established separately for running or animation costs only.  |

### Fund-specific rules

*Following comments raised by the Member States delegations at the ESF TWG of 18/06/2014 and EGESIF meeting of 25/06/2014, the following points on article 14(2) ESF are under discussion with the Legal Service. Further update on this topic will be provided by the EGESIF meeting of 10/09/2014. This text remains unchanged since the last meeting.*

|  |
| --- |
| ***ESF specific (validation by Legal Service is pending)****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%. "All the other categories of costs" include other direct costs (except direct staff costs and salaries and allowances disbursed for the benefit of the participants if paid by a third party) and indirect costs. 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.*  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Example (ESF specific): (validation by Legal Service is pending)*** *The draft budget of a training course is:*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Total Direct costs* | *55.000* |  | *Total Indirect costs* | *5.000* |
| *Direct Staff costs* | *30.000* |  | *Indirect staff costs* | *4.000* |
| *Room costs* | *4.000* |  | *Electricity, phone.* | *1.000* |
| *Travel costs* | *5.000* |  |  |  |
| *Meals* | *1.000* |  |  |  |
| *Information / Publicity* | *5.000* |  |  |  |
| *Allowances paid to the trainees by the PES* | *10.000* |  |  |  |

*The managing authority can decide to apply article 14(2) to this project. In this case, the grant agreement would have as a maximum allocation:**Direct staff costs: EUR 30.000* *Other costs: 30.000 x 40% = EUR 12.000* *Allowances for participants paid by a third party: EUR 10.000* *Total costs : 30.000 + 12.000 +10.000 = EUR 52.000* |

|  |
| --- |
| **ETC specific**Article 19 of Regulation (EU) No 1299/2013 states that the staff costs of an operation may be calculated at a flat rate of up to 20 % of the direct costs other than the staff costs of that operation. This means that only the direct staff costs may be calculated as a flat rate (of the direct costs other than staff costs); it also means that this flat rate can be used without there being a requirement for the Member State to perform a calculation to determine the applicable rate. |

# **Standard scales of unit costs**

## General principles

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

The standard scales of unit costs can be process-based, aiming at covering through a best approximation the real costs of delivering an operation. It can also be outcome-based or defined on both process and outcome (cf. example in section 6.5.3, page 46).

**Managing authorities should also take into consideration the impact the different set-ups will have in terms of justification of the eligible costs**.

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

|  |
| --- |
| **Example (ESF output-based):** For advanced IT training of 1 000 hours provided for 20 trainees, the eligible costs 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 shown in the document setting out the conditions for support. 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 at 1 000 hours x 20 trainees x EUR 7 /hr. / trainee = EUR 140 000*.* At the end of the operation the final eligible costs will be set on the basis of the real number of hours for each trainee (that could include some justified absences), according to actual participation of trainees and delivered courses. **There will still be a need for accurate attendance sheets of trainees detailing the training activities and certifying the actual presence of trainees**.If, finally, only 18 people participated in the training, 6 of them for 900 hours, 5 of them for 950 hours, 5 of them for 980 hours and the remaining 2 for 1 000 hours, the number of total hours x trainees will be equal to: 900x6 + 950x5 + 980x5 + 1 000x2 = 17 050 total hours of training x trainees. The eligible expenditure 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 advisors 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. **There will still be a need for accurate timesheets detailing the advisory activity and the presence of advisors.**  |
|  |
| **Example (ESF result-based)**: a job-search assistance programme lasting 6 months (‘the operation’) could be financed on the basis of standard scales of unit costs (for example EUR 2 000/person) for each of the 20 participants in 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 EUR 2 000 /placement = EUR 40 000. The final eligible costs are calculated 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 eligible costs on the basis of which the grant will be paid to the beneficiary would be 17 x EUR 2 000 = EUR 34 000.  |
|  |
| **Example (EAFRD):** ‘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 will 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 for the subsequent years.Therefore the total eligible costs would be:3ha x 2000 EUR/ha + 3ha x 600 EUR/ha + (3ha x 500 EUR/ha) x 6years= EUR 16 800 |

## Specific case of hourly staff costs

Article 68(2) CPR introduces a new rule to facilitate the use of hourly unit costs for calculating staff costs[[13]](#footnote-19) related to the implementation of an operation:

|  |  |
| --- | --- |
| Hourly staff cost = | 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. In the case of a project implemented over several years, the managing authority may choose to update the hourly staff cost once new data are available or to use the same one for the whole implementing period. If the implementation period is particularly long, a good practice would be to set out intermediary steps when the hourly staff cost could be revised (and the grant agreement accordingly).

There are at least two possibilities for the numerator concerning the costs of the people working on an operation (and only these people) to be fixed:

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 share 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 scales of unit cost that includes the salary of the person working on the operation and a part of the indirect salaries.

Managing authorities should however be aware that option 2 is not likely to be the most practical combination. It would rather be advised to follow option 1 or to calculate an hourly staff cost that includes all indirect costs (on the basis of a flat rate) or even all the other eligible costs (fully loaded hourly staff costs).

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 section 5.2.1.3, page 27);
	+ The latestannual gross employment cost has to be documented through accounts, payroll reports, etc. This information does not have to be audited ex-ante but has to be auditable.
	+ A calculation method based on historical data of the beneficiary is not usable given that the Regulation refers to **latest** documented annual gross employment costs;
	+ Latest document annual gross employment costs implies to have a past reference period of one year (12 consecutive months). It is not possible to use the data of periods after the signature of the document setting out the conditions for support;
	+ Only the hours worked should be used for the calculation of the eligible staff costs. The annual leave for instance is already included in the calculation of the hourly staff costs.

The added value of this methodology is that the 1720 hours cannot be questioned.

|  |
| --- |
| **Example (ERDF):** Certain types of projects targeted at SMEs in the field of R&D and innovation often involve personnel costs as a key element. The application of standard scales of unit costs 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 for support that fixes 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 the real costs through a best approximation and in order to take into account distinctions among 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 annual leave into account). 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 given 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 must keep all the documents justifying the hourly staff cost. In principle, a reduction in the verified hours worked results in a reduction in the final amount to be paid.**Alternative example**: *Same as above 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 1720 hours. For example: Hourly rate = EUR 60 000 / 1720 hours = 60 000/1720 = 34.88 EUR/hr. |

# Lump sums

## 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 by the managing authority), in accordance with predefined terms of agreement on activities and/or outputs. The grant is paid if the predefined 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 giving NGOs (but not exclusively NGOs) better access to the ESI Funds. That is the reason why lump sums falling within the scope of Article 67(1) (c) CPR 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 section 7.2.1, page 49). 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 must not exceed EUR 100 000 of public contribution for a given operation / beneficiary. However, within a project, lump sums not exceeding EUR 100 000 of public contribution could be combined with real costs and/or other simplified cost options for a total which could exceed EUR 100 000 of public contribution.

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

##  Examples of lump sums

|  |
| --- |
| **Example (ESF):** A NGO managing childcare 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 independently after the initial year. 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 in relation to this activity. It means however that if only 9 children were looked after, the eligible costs would be zero and the lump sum amount would not be paid.  |

|  |
| --- |
| **Example (ESF):** A Roma NGO seeks 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 document setting out the conditions for support 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 draw the attention of employers in 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 scales 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 at: EUR 45 000 split into two projects requiring EUR 25 000 for the seminar and EUR 20 000 for the toolkit.If the conditions for the document setting out the conditions for support are respected (organisation of the seminar, production of the toolkit), EUR 45 000 will be considered as eligible costs 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 produced. If only one of the projects (for example the seminar) is carried out, the grant will be reduced to this part (EUR 25 000), depending on what was agreed in the document setting out the conditions for support.  |

|  |
| --- |
| **Example (ERDF):** In order to promote local products, a group of small enterprises wishes to participate jointly in a commercial fair. Due to the low cost of the operation, the managing authority decides to use a lump sum for 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 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):** ‘Quality schemes for agricultural products, and foodstuffs’ (Art. 16)

A group of farmers who have received support to cover new participation in a recognised quality scheme wants to organise a promotional activity for their products. The managing authority has calculated the cost of the activity as a lump sum (e.g. EUR 15 000 / seminar min. 50 participants). The group of farmers has to provide evidence of carrying out the activity and the number of participants (at least equal to 50).

# Establishing flat rate financing, standard scales of unit costs and lump sums

Article 67(5) CPR and Article 14(3) ESF introduce several methods for calculating 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, while others offer strong legal certainty or can be established with a limited administrative burden.

For simplified cost options, it is important to ensure a proper ex-ante assessment and related documentation of the method, where necessary, since **it is only the control of the achievements that is done ex-post.**

## It must be established in advance[[14]](#footnote-21)

It is important to communicate to the beneficiaries, in the document setting out the conditions for support, the exact requirements for substantiating 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 programme either at national or regional level or specific to the particular programme. It also means that once the standard scales of unit cost and the rate or the amount (in the case of lump sums) are established, they cannot be changed during or after the implementation of an operation to compensate for an increase in costs or underutilisation of the available budget.

Given that the simplified cost options have to be defined in advance, a retroactive application for operations that are already being implemented on the basis of real costs should be avoided and would entail a significant workload for the national authorities in order to ensure equal treatment between beneficiaries.

Exceptionally, in the case of multiannual operations it is possible to settle the accounts and the corresponding activities of the operation after a first part of the operation has been carried out and then to introduce the option of flat rate financing, standard scales of unit costs or lump sums for the remaining part/period of the operation. In such cases, the period for which real costs are declared should be clearly separated from the period for which costs are declared on the basis of simplified cost options, in order to avoid project costs being declared twice.

## A fair, equitable and verifiable calculation method[[15]](#footnote-23)

### General principles

#### It must be fair:

The calculation has to be reasonable, i.e. based on reality, not excessive or extreme.

If a given standard scales 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 of 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 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 calculated according to Article 67(5) (a) CPR should not systematically lead to inflation of the costs of operations 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.

#### 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 scales of unit cost, lump sum or flat rate has to ensure 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.

Managing authorities and auditors from the audit authority and the Commission will not accept calculation methods which unjustifiably discriminate against particular groups of beneficiaries or types of operations.

#### 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.[[16]](#footnote-24) The managing authority has to be able to demonstrate the basis on which the simplified cost option has been established. It is a key issue to ensure compliance with the principle of sound financial management.

The body determining the simplified cost option method, should document a minima:

* The description of the calculation method, including key steps of the calculation;
* The sources of the data used for the analysis and the calculations, including an assessment of the relevance of the data to the envisaged operations, and an assessment of the quality of the data;
* The calculation itself to determine the value of the simplified cost option.

In the case of a fair, equitable and verifiable method pursuant to Article 67(5)(a) of CPR, it is not be acceptable to define ‘ex nihilo’ simplified cost options.

### Methodologies in practice

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

#### 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 scales of unit costs or flat rate financing in advance, the most common amongst them is the statistical analysis of historical data. One source of data could be the certified expenditure from the past. In case the data used is not certified, it should be verified by the managing authority.

As an alternative calls for proposals could also be introduced: 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 standardised 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 document setting out the conditions of support?”

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

#### The use of individual beneficiary-specific data[[17]](#footnote-25)

The methodologies presented below will be applied to beneficiaries. But given the requirements involved in the use of beneficiary-specific data, these methodologies are simplifications for beneficiaries who will implement many projects over the programming period.

1. **The verified historical data of individual beneficiaries**:

This will result in an ad hoc system that is beneficiary-specific. Where necessary, these data should cover only 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 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 calculation method used;
	+ the length of the series to be obtained: accounting data **over at least three years** must 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 three-year reference period is used to take into account the yearly fluctuations;
	+ the reference amount to be applied, for example the average costs over the reference period or the costs as registered over the last years;
	+ adaptations, if any, that are needed to update the reference amount.
1. **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 between actual costs and costs determined according to the usual cost accounting practices of individual beneficiaries.

Thus, ‘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 1720 hours in section 3.2 page 22), 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 measure, 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 means that the cost amounts obtained by application of cost accounting practices generally deviate from the actual 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 equal treatment and that the grant does not cover ineligible costs, the document setting out the conditions for support authorising beneficiaries to use their cost accounting practices must provide for minimum conditions. Those minimum conditions will 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 expenditure is filtered out from the calculation.

1. **Common requirements for the use of individual beneficiary-specific data**

Depending on the assurance obtained from the beneficiary’s internal management and control system by the managing authority, it may be necessary for beneficiary-specific data to be certified by an external auditor or, in the case of public bodies, by a competent and independent accounting officer, so as to ensure reliability of the reference data used by the managing authority. Certification of historical data may take place as part 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 low, the calculation method may be based on data not audited ex-ante. The managing authority would need to be able to demonstrate, in an objective manner, that the risk is indeed low and why it considers that the beneficiary’s accounting system is reliable, complete and accurate. In any case the managing authority will have to assess and validate these individual beneficiary-specific data through 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 the managing authorities are therefore 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.

## Using standard scales of unit costs, lump sums and flat rates from other areas

### From other Union policies

#### Article 67(5)(b) CPR

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 an EU policy, the Member State/the Commission does not 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 were applied between 2007 and 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;
	+ the reference to the method used in other EU policies.

#### Article 68(1) (c) CPR

Articles 20 and 21 of the Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014[[18]](#footnote-28) provide for applicable flat rates for indirect cost methods applied in other Union policies and the scope for their application in the CPR:

* For Horizon 2020: the Delegated Regulation defines the conditions under which a flat rate of 25 % for indirect costs may be applied to operations under the ESI Funds corresponding to the possibilities offered in Horizon 2020.[[19]](#footnote-29) All relevant elements of the methodology for the application of the flat rate set out in this regulation must be applied. Direct costs for subcontracting and the costs of resources made available by third parties, which are not used on the premises of the beneficiary, as well as financial support to third parties must be excluded from the costs on whose basis the rate is to be applied to calculate the eligible amounts (excluded from type 1 costs).
* For LIFE: the Delegated Regulation defines the conditions under which projects similar to LIFE could make use of the flat rate of 7 % of direct costs as set out in Article 124(4) of the Financial Regulation.

In both cases, a reference should be made to the Delegated Regulation and the relevant article in the document setting out the conditions for support.

### From Member States' schemes for grants[[20]](#footnote-30)

The principle is exactly the same as for options used in Union policies (see section 5.3.1, page 30). But instead of being a copy of Union policies’ methods, it is a copy 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. The national methodology used will not be subject to audits, only its application.

All the applicable national methods could be used for similar operations and beneficiaries supported by the ESI Funds **on 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 an 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 have been discontinued will not be usable. If the method is modified / discontinued during the programming period then the same modification should apply but only to the ESI Funds projects **selected** after the modification / discontinuation.

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

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

* + the totality of the method is re-used (for instance and where applicable, eligible expenditure, scope) and not only its result (lump sum of EUR X);
	+ it applies to the same geographical area or a smaller one (This implies that if a methodology is applied in only one region, it can be re-used by the concerned region but not by another region of this Member State where the national methodology is not applicable);
	+ the method has to be applied to similar types of operations and beneficiaries;
	+ justification that this method is in use for operations supported exclusively by national funds.

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

Article 67(5) (b) and (c) CPR provides 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, 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 of at least 3 Member States that have published at least 10 publications during the last three years. The criterion of the number of publications 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. |

## Using rates established by the CPR or the Fund-specific rules[[21]](#footnote-32)

The CPR and the Fund-specific regulations specify a number of rates designed to provide Member States with 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 suited to all types of operations.

The one established under Article 68(1) (b) CPR applies to the five 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. Nevertheless, if the managing authority decides not to apply the same rate to all beneficiaries, it should be able to prove that the principle of equal treatment was respected. The same applies to Article 14(2) ESF (see also 2.2.3 p.18).

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

Article 67 CPR 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 proposals 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).

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 available at the managing authority.

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

Article 67(5) of the CPR defines four ways of establishing simplified cost options and also provides that the Fund-specific regulations may establish additional methods.

|  |
| --- |
| **ESF specific**Article 14(3) ESF adds a specific possibility for the ESF, involving 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 maximum public support to be paid to the beneficiary, as specified in the document setting out the conditions for support to the beneficiary (see section 7.2.2, page 50). It does not include either 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 is designed to facilitate implementation of the compulsory use of simplified cost options for small ESF operations. In fact this method allows some simplified costs to be calculated 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 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 observance of sound financial management. Even if it is recommended, when assessing the budget, it will not be necessary for the managing authority to compare the draft detailed budget proposed by the potential beneficiary with comparable operations.**The draft budget and the supporting documents demonstrating that the managing authority has 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 drawn up between the managing authority and the beneficiary setting out the applicable rules.When supporting the same beneficiary several times 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. Staff spends time on planning and organising 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 as follows:[[22]](#footnote-34)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Total Direct costs*  | *45 000*  |  | *Total Indirect costs*  | *7 000*  |
| Direct Staff costs  | 30 000  |  | Indirect staff costs  | 4 000  |
| Room costs  | 4 000  |  | Electricity, phone.  | 3 000  |
| Travel costs | 5 000 |  |  |  |
| Meals | 1 000 |  |  |  |
| Information / Publicity | 5 000 |  |  |  |

This draft budget is discussed and agreed between the managing authority 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 at the seminar: unit cost = EUR 52 000/50 = EUR 1 040 / participant. The document drawn up between the managing authority and the beneficiary setting out the applicable rules must specify the definition of the standard scales of unit costs (what is a participant), the maximum (minimum) number of participants, how it should be justified and its unit cost (EUR 1 040). Reference to Article 14(3) ESF should also be made in the document setting out the conditions for support. |

# **Consequences for the management and control system**

## 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 scales 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, by definition, overcompensate or ‘undercompensate’ the costs incurred for the supported operation. Those in charge of management verifications and auditors will have to focus more on outputs rather than on inputs and costs of projects.

This guidance aims to make the Commission audit and control approach 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 to 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.

## General approach to controlling and auditing SCOs

Where simplified costs are used, for the purposes of determining the legality and regularity of expenditure, those in charge of management verifications and audits 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 methodology established in accordance with the provisions of Articles 67 and 68 of the CPR, taking into account the recommendations and best practices set out in this guidance, and there are no indications of fraud or abuse,[[23]](#footnote-35) 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 of 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 (see Chapter 2: page 15), standard scales of unit costs (see Chapter 3: page 20) or lump sums (see Chapter 4: page 24), which should be established on the basis of one or several of the methods specified in Article 67(5) CPR (see Chapter 5: page 26). 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 verifications could vary according to the method chosen and will be reduced to the definition of categories of expenditure in case of application of Articles 68 (1) (b), CPR 14 (2) ESF and 19 ETC. The ex-ante control and audit of calculation methods based on data of the beneficiary (historical data, usual accounting practice) present some specificity (see section 5.2.2.2.c) page 30).
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 where other simplified cost options are used 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 section 1.6.2, page 11). 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.

Horizontal thematic audits on compliance with applicable rules could analyse also procedures followed for public procurement in the event that a risk assessment establishes a specific risk of irregularity,[[24]](#footnote-37) but only to verify whether the public procurement procedures have been respected, not to audit the amounts paid. . If breaches of public procurement procedures are observed, it could be difficult or even impossible to quantify the exact impact at operational level; however, a flat rate correction could be applied and an infringement procedure could be launched by the Commission. Managing authorities are also expected to take action if they witness such breaches.

While auditing the calculation method, the Commission will focus on verifying the fulfilment of the different conditions and will not question the reasons for selecting a specific method over another. The managing authority 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 CPR[[25]](#footnote-38) and Article 49 of Regulation (EU) No 1306/2013.[[26]](#footnote-39)

In the case of combination of options, in addition to the checks required for the individual types of ‘simplified costs’ described above, those responsible for management verifications and audits should verify that the methodologies used ensure that parts of expenditure of an operation have not been charged using more than one type of option, thus leading to a double declaration of costs.

## Consequences in terms of financial management…

### 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 including, where applicable, depreciation and contributions in kind. Indeed, contributions in kind as defined by Article 69 CPR can be taken into account for the calculation of the value of a flat rate, a standard scale of unit cost or a lump sum. However, when the simplified cost option is applied, there is no need to verify the existence of underlying contributions in kind and by consequence, that the provisions of Article 69 CPR are fulfilled.

When using unit costs or lump sums:

* The basis for calculating the unit costs or lump sums used in an operation should be clear and refer to one or several of the ways specified in Article 67(5) CPR;
* Given that payments will be calculated on the basis of quantities/realisation of an operation, it is essential to get assurance that the activities or the outputs claimed were in fact realized. In particular, declared quantities/proof 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. It means that the focus of verifications under Article 125(4) (a) CPR[[27]](#footnote-40) and Article 58 of Regulation (EU) No 1306/2013[[28]](#footnote-41) will move, especially for ‘intangible’ 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, **paying particular attention to on-the-spot checks during implementation.**

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

|  |
| --- |
| **ESF specific**As regards the possibility to use simplified cost options for allowances and salaries disbursed by a third party (Article 13 (5) ESF), these salaries or allowances are generally based on unit costs set by national rules, therefore based on simplified cost options. So what will be paid by the third party will be the costs calculated on the basis of simplified costs in accordance with Article 67 (5) (c) CPR. Therefore the provision from Article 13 (5) ESF does not prevent the third party to use simplified cost options and to be reimbursed on this basis. However, in case allowances and salaries disbursed by a third party are not based on simplified cost options, it is possible to determine a simplified cost based on a fair, equitable and verifiable methodology (Article 67 (5) (a) CPR). This means that on an individual basis, it could be that the SCO exceeds the amount born by the third party. However on average, the amount paid on the basis of the simplifed cost will not exceed the amount born by the third party which is line with Article 13 (5) ESF. |

### …for a flat rate financing system

Simplifying the justification of the calculated categories of costs, however, entails **careful verification of the other categories of costs, in accordance with the** document setting out the conditions for support. This verification is aimed at justifying the amount of calculated categories of costs and constitutes part of the management checks (Article 125(4) (a) CPR[[29]](#footnote-42) 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 affect proportionally the amount accepted for the flat rate calculated categories.

### …for the certification of expenditure

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

For instance, in the case of a flat rate for indirect costs, indirect costs are considered as ‘paid’ in due proportion to direct costs: if 45 % of the direct costs are paid by the beneficiary, 45 % of the indirect costs (in any event, not exceeding 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 shall not be certified to the Commission at the time of the declaration of related expenditure because they would be considered as an advance payment to the beneficiary.

In the cases of standard scales 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 beneficiaries could be made on a monthly basis (1/10 of the grant each month for 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) CPR[[30]](#footnote-43) and Article 63 of Regulation (EU) No 1305/2013[[31]](#footnote-44)). National authorities would have to wait for the final payment, where quantities are certified and verified, in order to declare expenditure from the operation.

## Key points for the managing authority

### …for a flat rate financing system

Managing authorities using flat rates must pay specific attention to the following points:

#### Respective definitions of the categories of expenditure

These definitions have to be clear for all the stakeholders of the system and there must be no overlap between them. There should also be no overlap between simplified costs and real costs. The Commission has given a broad definition of direct / indirect costs, staff costs but these definitions have to be transposed by the managing authority in the national or programme context.

#### Use of the current experience

Many programmes already use flat rates to calculate the indirect costs. For the ESF and the ERDF some of these systems were assessed and approved by the services of 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, in the same geographic area, then the services of the Commission will consider the ex-ante approval given for the 2007-2013 period by the letter signed by the relevant Director General, as valid for the 2014-2020 period.

In some cases the results of the preparatory work to determine the flat rate for indirect costs were above the 20 % threshold of 2007-2013, for instance 30 %. It should be noted that the services of the Commission agreed, inter alia, a maximum flat rate capped to 20 %: so even if the services of the Commission considered that the Member State’s calculation should have resulted in a rate of 22 % instead of 30%, it could only agree to 20 %. Therefore, if a Member State decides to use the 2007-2013 calculation of the flat rate to increase an agreed flat rate for indirect costs because it had found a result of 30 %, the approval of the services of the Commission for the rate itself is not applicable. Likewise, if a Member State decides to adapt its flat rate for indirect costs to take into consideration an increase in some categories of costs, the adaptation of the methodology will be the responsibility of the Member State.

### …for a unit cost

When a managing authority decides to use standard scales of unit costs, specific attention will need to be paid to the following points:

#### Correlation between the realised quantities and the payments

When declared quantities decrease (in comparison with the maximum initially set out), the eligible 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 outside the beneficiary’s control, rather than because of the beneficiary. Such ‘exceptions’ must of course be **clearly defined ex-ante** in the document setting out the conditions for support or in an act with an equivalent legal effect and be set up for all similar operations.

|  |
| --- |
| **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. Moreover, the document setting out the conditions for support should clarify the maximum number of authorised absences, the minimum number of training hours to be justified for a trainee to remain eligible, the type of training scheme (compulsory participation from the start of the training, replacement of trainees who leave the training, etc.).  |

#### Justification of declared quantities

It should also be underlined that some types of standard scales of unit costs could be more difficult to justify than others. Therefore the choice of the 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 easier to justify, but cover only one aspect of the operation. |

#### Choice of the standard scales of unit cost

As a general principle, the choice of the standard scales of unit cost should reflect the activity (-*ies*) of the type of operation 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 costs 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 of underpaying operations and beneficiaries. It is particularly relevant in the case of operations dedicated to vulnerable groups: expected results are generally low.

On the other hand, managing authorities should be careful with the ‘quality’ of their indicators. For example, if training costs are exclusively covered by standard scales of unit costs defined as the number of participants entering the course, there is no quality incentive. Such a practice would not comply with the principle of sound financial management. Indeed the beneficiary might receive full reimbursement on day one while all the trainees could drop out on day two given insufficient means allocation. Therefore the indicator should be changed or defined in such a way as to pay for participants entering the course for a predefined (sufficiently long) period.

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

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

Or

* 1. ‘Creaming’ the participants (choosing those most capable of reaching imposed results) or lowering the standards to reach the expected results.

Finally, the choice of standard scales 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 section 7.1, page 48 for combination of options).

In conclusion, the choice of appropriate standard scales 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, ensuring the economic balance of the operation and of the beneficiary, lowering the risk of ‘creaming’ participants.** In the case of standard scales of unit costs the focus of verifications under Article 125(4) (a) CPR[[32]](#footnote-45) and Article 62 of Regulation (EU) No 1305/2013[[33]](#footnote-46) will move, especially for immaterial operations, from predominantly financial aspects to technical and physical aspects, with particular attention paid to on-the-spot checks during implementation.

### …for a lump sum

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

#### Correlation between the realised operation and the payments

The main difference between 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 costs, 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 based on a ‘**binary**’ approach.

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 would most likely choose standard scales of unit costs rather than lump sums.

#### Justification of the costs

**The document setting out the conditions for support for the beneficiary should be drafted very carefully in order to define the basis on which costs will be calculated and how they will be reduced if 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 of applying in practice the payment of the lump sum. Given that some lump sums could be totally independent of quantities, there is a risk of too general or too qualitative wording about activities/outputs/outcomes to be implemented or reached to trigger the payment, that could make it impossible to effect payment on a transparent or fair basis. 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 document setting out the conditions for support. In the case of immaterial operations this point is of the utmost importance in order to give guarantees that an operation was actually organised.

#### Choice of activities/outputs/outcomes

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

* + It should reflect the type of operation 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 of whether to use lump sums rather than standard scales 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 unequivocal 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 document setting out the conditions for support the exact requirements for substantiating 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 document setting out the conditions for support are reached, then no payment will be issued.

## Audit and control approach

### …for a flat rate financing system

The management verifications carried out at the stage of selection of operations and during their implementation, will cover both the calculation method — to ensure that one of the calculation methods of Article 67(5) CPR 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 managing authority (depending on the methods used) or intermediary body level, whilst checking of the application of the flat rate scheme will be at beneficiary level. Audits carried out by the audit authority and/or by the Commission will verify these aspects also, if covered by the respective samples.

**National systems must provide a clear and unequivocal 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).

Those in charge of management verifications 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 a 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. Audits carried out by the audit authority and/or by the Commission will verify these aspects also, if covered by the respective samples. National authorities can only declare calculated costs together with the costs used to calculate them (‘basis costs’).

Findings that could be considered as irregularities include the following:

* The methodology used to calculate the SCOs does not respect the regulatory conditions;
* The results of the calculation method have not been respected while setting the rates;
* 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 be applied to the calculated eligible costs, as otherwise they will exceed the flat rate set by the scheme.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Example (ERDF):** A municipality receives a grant for a maximum amount of EUR 1 000 000 of eligible costs for the construction of a road. The payment claim for the project is as follows:

|  |  |
| --- | --- |
| **Project 1: work** (public procurement procedure) | **EUR 700 000** |
| **Project 2: other costs:**  | **EUR 300 000** |
| *Direct staff costs (type 1)* | *EUR 50 000* |
| *Other directs costs (type 3)* | *EUR 242 500* |
| *Indirect costs (type 2)* | *Direct staff costs x 15% = EUR 7 500* |
| **Total costs declared** |  **EUR 1 000 000**  |

The expenditure declared by the beneficiary is checked by the managing authority. Ineligible expenditure is found in the direct staff costs declared. The accepted payment claim is as follows:

|  |  |
| --- | --- |
| **Project 1: work** (public procurement procedure) | **EUR 700 000** |
| **Project 2: other costs:**  | **EUR ~~300 000~~ 288 500** |
| *Direct staff costs (type 1)* | *EUR ~~50 000~~* ***40 000*** |
| *Other directs costs (type 3)* | *EUR 242 500* |
| *Indirect costs (type 2)* | *Direct staff costs x 15% = EUR ~~7 500~~* ***6 000*** |
| **Total eligible costs**  |  **EUR ~~1 000 000~~ 988 500** |

 |

### …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 managing authority/intermediary body level, whilst the correct application of the unit cost / lump sum will be checked at beneficiary level.

If the results of the control point to a calculation error, the correction will only be done proportionally to the mistake. In a situation where the outputs/results triggering the payment are not justified, a full correction of the lump sum/standard scales of unit costs paid and costs declared is applied.

The main purpose 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 document setting out the conditions for support, the auditors will also verify the fulfilment of those conditions. Auditors and controllers 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 include the following:

* 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.

### Examples

|  |
| --- |
| **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 eligible expenditure is 20 x EUR 5 000 = 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. **Only after it is demonstrated that some people have completed the training may an amount be certified to the Commission**: for instance, if 15 people have completed the training then 15 x 5 000 = EUR 75 000 may be certified to the Commission. |

|  |
| --- |
| **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 (the 20 % rate does not need to be justified) would be reimbursed on the basis of the result, considering that the success rate should be 75 % (the 75 % rate should be based on experience and is part of the audit trail that the managing authority needs to ensure).In the example in section 3.1 page 20, the maximum grant allocated to the project was capped at 1 000 hours x 20 trainees x EUR7 /hr. / trainee = EUR 140 000*.* The same capping would apply but on different assumptions:* 20 % x 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 % x 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: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 |

# Other provisions

## Combination of options

### General principles

Article 67(1) CPR 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) CPR, 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;

or (3) they must be used for successive phases of an operation.

The definition of a project varies from one Member State to another. It could be possible that, according to national rules, one project includes different actions with different beneficiaries. In this case, it could be envisaged to have different simplified cost options for the same category of cost but applicable to different beneficiaries while respecting the principle of equal treatment.

### 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, e.g. 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 (type 1): 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 800Indirect costs (type 2): 10 % of direct costs = 10 % x EUR 49 800 = EUR 4 980Eligible expenditure: (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 scales of unit costs or real costs of renting the room.If there is a risk of overlap or it is impossible to demonstrate that there are no overlaps, the managing authority will have to choose the more appropriate option in order to avoid any (risk of) double financing. |

|  |
| --- |
| **Example on case 2: Funding of different projects forming part of the same operation (ESF)**Example of an operation involving 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 forming part of the same operation, there is no risk of double financing as each project’s costs are clearly separated. |

|  |
| --- |
| **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 need to amend the document setting out the conditions for support, if this 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. |

## Assessing the thresholds

### General principles

The CPR sets out one financial threshold related to the applicability of lump sums, which 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 for each operation/beneficiary** (referred to in Article 67(6) CPR).

The amount taken into account will be the **public contribution** as specified in the document setting out the conditions for support corresponding to total eligible costs of the operation/project, including any public funding by the beneficiary.

The public support or contribution required by the beneficiary in the application form or paid to the beneficiary at closure of the operation has no influence on the assessment of the threshold. It is only the agreed eligible amounts as shown in the document setting out the conditions for support that matter.

For Member States that have not adopted the euro as their currency, fluctuations in the exchange rate of the national currency against the euro can also have an impact on the threshold assessment. To ensure legal certainty, Member States should determine whether to consider the monthly exchange rate in force at the time of the publication of the call for interest, the application of the project or the selection or the approval of the project at national level. This will neutralise the risk of cost variations due solely to exchange rate fluctuations. On the basis of the exchange rate considered, the managing authority will be able to determine whether an operation/project/lump sum is to be considered below or above the defined thresholds. The choice made by Member States should be specified in the eligibility rules applicable to the programme.

**Note for ESF projects**: When defining the eligible expenditure in the document setting out the conditions for support, it is not possible to apply real costs to projects that after submitting their application and the deduction of the ineligible expenditure, fall below the threshold of public support of EUR 50 000.

### Fund-specific

|  |
| --- |
| **ESF specific**Several methods set financial thresholds related to the applicability of simplified costs or of calculation methods in the ESF Regulation. This is the case for:1. the possibility to use a draft budget to establish SCOs on a case-by-case basis for ESF grants and repayable assistance: the public support must 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 must not exceed EUR 50 000 (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 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 specified in the document setting out the conditions for support, excluding public funding **by** the beneficiary. |

## Compatibility of simplified cost options with state aid rules

***The section on state aid rules is still under discussion internally. An update of this section will be provided by the EGESIF on 10/09/2014. This text remains unchanged since the last meeting***

*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.*

*When calculating the simplified cost options and 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.*

*For an example please refer to Annex 2.*

## Use of simplified costs in operations generating net revenue

First of all it must be borne in mind 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 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.

### Operations generating net revenue after completion[[34]](#footnote-48)

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) (f) CPR. In fact, the lump sum / standard scales 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 61[[35]](#footnote-49) apply.

### Operations generating net revenue during implementation and to which paragraphs 1 to 6 of Article 61 CPR do not apply[[36]](#footnote-50)

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 (according to Article 65(8) (f) CPR).

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 flat rate financing is chosen, any net revenue not taken into account at the time of 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.

|  |
| --- |
| **Example (ESF)**A conference is organised to promote entrepreneurship. A draft budget is submitted by the beneficiary stating that the total eligible costs should amount to EUR 70 000. The conference will charge an entrance fee of EUR 3. The organiser expects to attract 200 visitors. The expected revenue to be generated is EUR 3 x 200 = EUR 600. The conference proves to be a great success and the number of visitors exceeds the expectations (300 people). As this operation is only ESF cofinanced, Article 61 CPR does not apply. However, Article 65(8) CPR applies.* Option 1: the revenue generated is taken into account ex-ante

The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be EUR 70 000 – EUR 600 = EUR 69 400.The public support of this operation takes the form of a lump sum and revenue has been taken into account in the definition of the lump sum. Even if the revenue exceeds the forecast, this will not affect the payment of the lump sum. The audit trail will require proof of implementation of the conference and the price of the entrance ticket.* Option 2: the revenue generated is taken into account ex-ante but the conditions change during implementation

The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be EUR 70 000 – EUR 600 = EUR 69 400. The public support of this operation takes the form of a lump sum and revenue has been taken into account in the definition of the lump sum.However, the organiser decides in the end to set the price of the entrance ticket at EUR 5 instead of EUR 3. In this case, the funding gap should be deducted ((EUR 5 x 300) – EUR 600 = EUR 900).The total eligible costs will be EUR 69 400 – EUR 900 = EUR 68 500* Option 3: the revenue generated is not taken into account ex-ante

The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be EUR 70 000. The public support of this operation takes the form of a lump sum and revenue has not been taken into account in the definition of the lump sum. Once the beneficiary claims for reimbursement (EUR 70 000), it will need to provide evidence that the conference took place. It will also need to deduct the real revenue generated during implementation (EUR 3 x 300 = EUR 900). In this case, the eligible costs for the lump sum will be EUR 70 000 – EUR 900 = EUR 69 100.  |

## ERDF and ESF specific: cross-financing

### Declaring the actions falling under Article 98(2) CPR in relation to the simplified cost options

Pursuant to Article 98(2) CPR, ERDF and ESF ‘cross-financed’ actions will apply the eligibility rules of the other Fund.

Specifically for flat rate financing in cases of cross-financing, two flat rates should apply to each ‘ESF’ and ‘ERDF’ part of the operation. The ESF and ERDF flat rates for similar operations will be applied respectively to the ESF and ERDF parts. Using an average of the two rates is impossible because the relative share of each part could vary during implementation. Where no rate exists for the other Fund for a similar type of operation (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 Articles 67(5) and 68(1) CPR.

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 region 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.

### Examples

|  |
| --- |
| **Example of ESF-ERDF cross-financing with unit costs-lump sums**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’, it will be accounted and monitored separately. For example, within a EUR 20 000 lump sum funded by an ESF programme, ERDF type 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 expenditure) or ‘zero’ if the grant is not paid. The binary principle of lump sums will also apply to cross-financed expenditure. |

|  |
| --- |
| **Example of ESF-ERDF cross-financing with flat rate financing**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 3 300. 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 provides the example of a grant to a beneficiary that intends to **organise a seminar for 50 participants** to present new implementation tools. Staff spend time on planning and organising the event, a venue 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 as follows, and its form will be kept for all the possibilities and options so that the differences can be more clearly seen:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Total Direct costs* | *45000* |  | *Total Indirect costs* | *5000* |
| Direct Staff costs | 30000 |  | Indirect staff costs | 4000 |
| Room costs | 4000 |  | Electricity, phone, etc. | 1000 |
| Travel costs | 5000 |  |  |  |
| Meals | 1000 |  |  |  |
| Information / Publicity | 5000 |  |  |  |

The various ways in which this project would be treated, depending on the simplified cost option selected, are described below.

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

**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, a unit cost of EUR 1 000 per person attending the seminar could be established (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 x 1 000 = 50 000.

If 48 people attend the seminar, the eligible cost is: 48 x 1 000 = 48 000

Audit trail:

- the methodology used to determine the value of the standard scale of unit cost should be documented and stored;

- the document setting out the conditions for support needs to be clear about the standard scale of unit cost and the triggering factors for payment;

- proof of attendance at the seminar (attendance sheets).

**Note:** In this case the eligibility of participants does not need to be verified. Whenever the targeted participants have to comply with a specific profile, their eligibility should be verified.

**Possibility 2: Lump sums (Art. 67 (1) (c) CPR)**

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

A lump sum of EUR 50 000 could be established 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 EUR 50 000 is eligible. If the seminar is not organised or new implementation tools are not presented, nothing is paid.

Audit trail:

* the methodology used to determine the value of the lump sum should be documented and stored;
* the document setting out the conditions for support needs to be clear about the lump sums and the triggering factors for payment;
* proof of delivery of the seminar and its content is necessary (newspaper articles, invitation & programme, photos…).

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

*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:

|  |
| --- |
| * categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts;
* the flat rate itself;
* categories of eligible costs calculated with the flat rate;
* 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 ‘flat rate financing’ rule**

Pursuant to Art. 67(1) (d), the Member State designs a flat rate system where a flat rate of 47 % — calculated according to one of the methods of Article 67(5)[[37]](#footnote-51) CPR — is applied to all staff costs (both direct and indirect) to calculate the other costs[[38]](#footnote-52):

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts *(type 1)* | Staff costs = 30 000 + 4 000 = 34 000 |
| *the flat rate itself* | 47 %  |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate (type 2)* | Other costs = 47 % of staff costs= 47 % x 34 000 = 16 000 |
| *categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)* | Not relevant |

=> Total eligible costs = 34 000 + 16 000 = 50 000.

The draft budget takes the following form:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Staff costs (type 1): | 34000 |  | Other costs (type2) = 47 % staff costs | 16000 |
| Direct staff costs | 30000 |  | *(calculated)* |  |
| Indirect staff costs | 4000  |  | Total eligible costs  | 50000 |

*(Generally based on real costs)*

Audit trail:

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts | Direct costs = * clear definition of what staff costs are;
* proof of these costs (pay slips, timesheets if relevant, etc.)
 |
| *the flat rate* | Reference to the method chosen for the flat rate, and:* For a) at the level of the managing authority, need to store the document proving the calculation method;
* For b) correct application of the methodology (which is still in force when the operation is selected) and proof that the beneficiary and the type of operations are similar;
* For c) proof that the methodology is nationally funded and still in force when the operation is selected, and proof that the beneficiary and the type of operations are similar;
* For d) the reference to the method used.
 |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate* | No justification needed.  |

**Option 2: flat rate financing for indirect costs Art. 68(1) (a) CPR**

Pursuant to Art. 68 (1) (a) CPR, the Member State designs a flat rate system where a flat rate of 11.1 % — calculated according to one of the methods of Article 67(5) (a), (b)[[39]](#footnote-53)or (c) CPR — is applied to the direct costs:

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts *(type 1)* | Direct costs = 45 000 |
| *the flat rate* | 11.1 % (must be below 25 %) |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate (type 2)* | Indirect costs (calculated) = 11.1 % of Direct costs = 11.1 % x 45 000 = 5 000 |
| *categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)* | Not relevant |

=> Total eligible costs = 45 000 + 5 000 = 50 000

The draft budget takes the following form:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Direct costs (type 1)* | *45000* |  | Indirect costs (type 2) = 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)* |  |  |  |  |

Audit trail:

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts | Direct costs = * clear definition of what direct costs are;
* proof of these costs (pay slips, timesheets if relevant, proof of publicity and invoice, etc.)
 |
| *the flat rate.* | Reference to the method chosen for the flat rate, and:* For a) at the level of the managing authority, need to store the document proving the calculation method;
* For b) correct application of the methodology (which is still in force when the operation is selected) and proof that the beneficiary and the type of operations are similar;
* For c) proof that the methodology is nationally funded and still in force when the operation is selected, and proof that the beneficiary and the type of operations are similar.
 |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate* | No justification needed.  |

**Option 3: flat rate financing for indirect costs Art. 68(1) (b) CPR**

The Member State may decide to opt for the flat rate system of Article 68(1) (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.

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts *(type 1)* | Direct staff costs = 30 000 |
| *the flat rate* | 15 % (no justification needed) |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate (type 2)* | Indirect costs (calculated) = 15 % of Direct costs = 15 % x 30 000 = 4 500 |
| *categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)* | 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 takes the following form:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Direct staff costs (type 1) | 30000 | => | Indirect costs (type 2) = 15 % direct staff costs | 4500 |
|  |  |  | *(calculated)* |  |
| Other direct costs (type 3): |  |  |  |
| Room costs | 4000 |  |  |  |
| Travel costs | 5000 |  | Total eligible costs  | 49500 |
| Meals | 1000 |  |  |  |
| Information / Publicity | 5000 |  |  |  |
| *(Generally based on real costs)* |  |  |  |  |

Audit trail:

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts | Direct staff costs = * clear definition of what direct staff costs are;
* proof of salary costs (pay slips, timesheets if relevant, collective agreements to justify benefits in kind if applicable, detailed invoice of external provider)
 |
| *the flat rate* | Reference to Article 68 (b) is needed in the document setting out the conditions for support.  |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate* | No justification needed. |
| *categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate* | Other direct costs such as room costs, travel costs, meals, information and publicity should be justified with relevant invoices and proof of service delivery if relevant.  |

**Option 4: flat rate financing Art. 14(2) ESF (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.[[40]](#footnote-54)

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts *(type 1)* | Direct staff costs = 30 000 |
| *the flat rate* | 40 % (no justification needed) |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate (type 2)* | All other costs = 40 % of direct staff costs = 40 % x 30 000 = 12 000 |
| *categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)* | Not relevant |

Total eligible costs = Direct staff costs + all other calculated costs = 30 000 + 12 000 = 42 000

The draft budget takes the following form:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Direct staff costs (type 1) | 30000 | => | All other costs (type 2) = 40 % direct staff costs | 12000 |
| *(Generally based on real costs)* |  |  | *(calculated)* |  |
|  |  |  |  |  |
|  |  |  | Total eligible costs  | 42000 |

Audit trail:

|  |  |
| --- | --- |
| *categories of eligible costs* on whose basis the rate is to be applied to calculate the eligible amounts | Direct staff costs =* clear definition of what direct staff costs are;
* proof of salary costs (pay slips, timesheets if relevant, collective agreements to justify benefits in kind if applicable, detailed invoice of external provider)
 |
| *the flat rate* | Reference to Article 14(2) ESF is needed in the document setting out the conditions for support |
| *categories of eligible costs that will be* ***calculated*** *with the flat rate* | No justification needed.  |

Annex 2: Example of compatibility of SCOs with state aid rules

***The section on state aid rules is still under discussion internally. An update of this section will be provided by the EGESIF on 10/09/2014.***

Annex 3: SCO and EAFRD specific measures

Based on the guidance given, a list of measures which could fall under the scope of SCOs is presented below. This list is not meant to be exhaustive but is just an indicative approach to targeting appropriately the rural development programmes. The payments set out in the Regulation already using a standard scale of unit cost (i.e. per hectare or per livestock unit) have been excluded.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013*** | ***Code***  | ***Sub-measure for programming purposes (when relevant)*** | ***SCO (Yes/No)*** | ***Comments*** |
| Article 14  | knowledge transfer and information actions | **1** | support for vocational training and skills acquisition | Yes | Not allowed if the measure is implemented through public procurementAllowed under public procurement thresholds and in-house provider |
| support for demonstration activities and information actions | Yes |
| support for short-term farm and forest management exchange as well as farm and forest visits | Yes |
| Article 15  | advisory services, farm management and farm relief services | **2** | help in benefiting from the use of advisory services | No |
| support for the setting up of farm management, farm relief and farm advisory services as well as forestry advisory services | No  |
| support for training of advisors | No |
| Article 16  | quality schemes for agricultural products and foodstuffs | **3** | support for new participation in quality schemes  | Yes |  |
| support for information and promotion activities implemented by groups of producers in the internal market | Yes |  |
| Article 17  | investments in physical assets | **4** | support for investments in agricultural holdings | Yes |  |
| support for investments in processing/marketing and/or development of agricultural products | Yes |  |
| support for investments in infrastructure related to development, modernisation or adaptation of agriculture and forestry | Yes |  |
| support for non-productive investments linked to the achievement of agri-environment-climate objectives | Yes |  |
| Article 18  | restoring agricultural production potential damage by natural disasters and introduction of appropriate prevention | **5** | support for investments in preventive actions aimed at reducing the likely consequences of natural disasters, adverse climatic events and catastrophic events | Yes |  |
| support for investments for the restoration of agricultural land and production potentially damaged by natural disasters, adverse climatic events and catastrophic events | Yes |  |
| Article 19  | farm and business development | **6** | business start-up aid for young farmers | No |  |
| business start-up aid for non-agricultural activities in rural areas | No |  |
| business start-up aid for the development of small farms | No |  |
| support for investments in creation and development of non-agricultural activities | Yes |  |
| payments to farmers eligible for the small farmers scheme who permanently transfer their holding to another farmer | No |  |
| Article 20  | basic services and village renewal in rural areas | **7** | support for drawing up and updating plans for the development of municipalities and villages in rural areas and their basic services, and protection and management plans relating to Natura 2000 sites and other areas of high nature value | Yes |  |
| support for investments in the creation, improvement or expansion of all types of small-scale infrastructure, including investments in renewable energy and energy saving | Yes |  |
| support for broadband infrastructure, including its creation, improvement and expansion, passive broadband infrastructure and provision of access to broadband and public e-government | Yes |  |
| support for investments in the setting-up, improvement or expansion of local basic services for the rural population including leisure and culture, and the related infrastructure | Yes |  |
| support for investments for public use in recreational infrastructure, tourist information and small-scale tourism infrastructure | Yes |  |
| support for studies/investments associated with the maintenance, restoration and upgrading of the cultural and natural heritage of villages, rural landscapes and high nature value sites including related socio-economic aspects, as well as environmental awareness actions | Yes |  |
| support for investments targeting the relocation of activities and conversion of buildings or other facilities located inside or close to rural settlements, with a view to improving the quality of life or increasing the environmental performance of the settlement | Yes |  |
| others | Yes |  |
| Article 21  | investments in forest area development and improvement of the viability of forests | **8** | support for afforestation/creation of woodland establishment and maintenance | Yes | Except for maintenance |
| support for establishment and maintenance of agro-forestry systems  | Yes |
| support for prevention of damage to forests from forest fires and natural disasters and catastrophic events | Yes |  |
| support for restoration of damage to forests from forest fires and natural disasters and catastrophic events | Yes |  |
| support for investments improving the resilience and environmental value of forest ecosystems | Yes |  |
| support for investments in forestry technologies and in processing, mobilising and marketing of forest products | Yes |  |
| Article 27  | setting up of producer groups and organisations | **9** | setting up of producer groups and organisations in the agriculture and forestry sectors  | No |  |
| Article 28  | agri-environment-climate | **10** | payment for agri-environment-climate commitments | No |  |
| support for conservation and sustainable use and development of genetic resources in agriculture | No |  |
| Article 29  | organic farming | **11** | payment to convert to organic farming practices and methods  | No |  |
| payment to maintain organic farming practices and methods  | No |  |
| Article 30  | Natura 2000 and Water Framework Directive payments | **12** | compensation payment for Natura 2000 agricultural areas  | No |  |
| compensation payment for Natura 2000 forest areas  | No |  |
| compensation payment for agricultural areas included in river basin management plans  | No |  |
| Article 31  | payments to areas facing natural or other specific constraints | **13** | compensation payment in mountain areas | No |  |
| compensation payment for other areas facing significant natural constraints | No |  |
| compensation payment to other areas affected by specific constraints | No |  |
| Article 33  | animal welfare | **14** | payment for animal welfare  | No |  |
| Article 34  | forest-environmental and climate services and forest conservation | **15** | payment for forest-environmental commitments  | No |  |
| support for the conservation and promotion of forest genetic resources | Yes |  |
| Article 35  | cooperation | **16** | support for the establishment of operational groups of the European Innovation Partnership for agricultural productivity and sustainability  | Yes |  |
| support for pilot projects and for the development of new products, practices, processes and technologies | Yes |  |
| cooperation among small operators in organising joint work processes and sharing facilities and resources, and for developing and marketing tourism | Yes |  |
| support for horizontal and vertical cooperation among supply chain actors for the establishment and development of short supply chains and local markets and for promotional activities in a local context relating to the development of short supply chains and local markets | Yes |  |
| support for joint action undertaken with a view to mitigating or adapting to climate change and for joint approaches to environmental projects and ongoing environmental practices | Yes |  |
| support for cooperation among supply chain actors for sustainable provision of biomass for use in food and energy production and industrial processes | Yes |  |
| support for non-CLLD strategies | Yes |  |
| support for drawing up forest management plans or equivalent instruments | Yes |  |
| support for diversification of farming activities into activities concerning health care, social integration, community-supported agriculture and education about the environment and food | Yes |  |
| others | Yes |  |
| Article 36  | risk management | **17** | crop, animal and plant insurance premium | No | No simplification (only administrative costs of setting up the mutual fund) |
| mutual funds for adverse climatic events, animal and plant diseases, pest infestations and environmental incidents | No |
| income stabilisation tool | No |
| Article 40  | financing of complementary national direct payments for Croatia | **18** | financing of complementary national direct payments for Croatia | No |  |
| Article 35  | support for LEADER local development (CLLD) | **19** | preparatory support | Yes |  |
| support for implementation of operations under the CLLD strategy | Yes |  |
| preparation and implementation of cooperation activities of the local action group | Yes |  |
| support for running costs and animation  | Yes |  |
| Articles 51 to 54  | technical assistance | **20** | Support for technical assistance (other than National Rural Network) | Yes |  |
| support for establishing and operating the NRN | Yes |  |

1. These instruments will be covered by specific guidance notes. [↑](#footnote-ref-2)
2. Article 11.3(b) of Regulation (EC) No 1081/2006. [↑](#footnote-ref-3)
3. Annual report on the implementation of the budget, 2013/C 331/01, European Court of Auditors. [↑](#footnote-ref-4)
4. Asylum, Migration and Integration Fund. [↑](#footnote-ref-5)
5. Internal Security Fund. [↑](#footnote-ref-6)
6. Annual report on the implementation of the budget, 2013/C 331/01, European Court of Auditors. [↑](#footnote-ref-7)
7. **Warning**: please bear in mind that Article 14 ESF refers to the term ‘public support’ (i.e. public support to be paid to the beneficiary, as specified in the document setting out the conditions for support to the beneficiary - ESI Funds + corresponding public national funding to be paid 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) while Article 67 CPR refers to ‘public contribution’ (see Article 2 (15) CPR). [↑](#footnote-ref-8)
8. See joint statement by the Council and the Commission on Article 67 of the CPR *(contained in COREPER/Council doc 8207/12, ADD7 REV 1)*. [↑](#footnote-ref-12)
9. It applies independently of the nature of the implementing body, private or public. [↑](#footnote-ref-13)
10. Last sentence of Article 67(4) of the CPR Regulation. [↑](#footnote-ref-14)
11. Article 62 of Regulation 1305/2013. [↑](#footnote-ref-15)
12. This list has no mandatory purpose. It is the sole responsibility of the Member State to define its different categories of costs in a non-equivocal way. [↑](#footnote-ref-16)
13. Cf. definition of staff costs, section 2.2.2 page 16. [↑](#footnote-ref-19)
14. Article 67(6) CPR. [↑](#footnote-ref-21)
15. Article 67(5) (a) CPR. [↑](#footnote-ref-23)
16. No matter when the methodology was established according to Article 67(5) (a) CPR, as long as it is in use, it must be auditable. [↑](#footnote-ref-24)
17. The methods covered by this section are the ones set out in Article 67(5) (a) (ii) and (iii) of CPR. Article 14(3) ESF does not fall under those requirements. [↑](#footnote-ref-25)
18. Commission Delegated Regulation (EU) No 480/2014, of 3 March 2014, supplementing Regulation (EU) No 1303/2013 (OJ L 138, 13.5.2014, p.5). [↑](#footnote-ref-28)
19. Article 29(1) of Regulation (EU) No 1290/2013 laying down the rules for participation and dissemination in ‘Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)’. [↑](#footnote-ref-29)
20. Article 67(5)(c) CPR. [↑](#footnote-ref-30)
21. Article 67(5)(d) CPR. [↑](#footnote-ref-32)
22. **Warning**: This draft budget has an illustrative purpose only. This should not be considered as a sufficiently detailed draft budget. [↑](#footnote-ref-34)
23. i.e. incidents or practices inconsistent with accepted and sound practices, such as the ones described in this guidance. [↑](#footnote-ref-35)
24. Triggering factors to check public procurement could be newspaper articles, whistle-blowers, Arachne …. [↑](#footnote-ref-37)
25. Applicable to ESF, ERDF, CF and EMFF. [↑](#footnote-ref-38)
26. Applicable to EAFRD. [↑](#footnote-ref-39)
27. Applicable to ESF, ERDF, CF and EMFF. [↑](#footnote-ref-40)
28. Applicable to EARDF. [↑](#footnote-ref-41)
29. Applicable to ESF, ERDF, CF and EMFF. [↑](#footnote-ref-42)
30. Applicable to ESF, ERDF, CF and EMFF. [↑](#footnote-ref-43)
31. Applicable to EARDF. [↑](#footnote-ref-44)
32. Applicable to ESF, ERDF, CF and EMFF. [↑](#footnote-ref-45)
33. Applicable to EARDF. [↑](#footnote-ref-46)
34. Article 61 CPR. [↑](#footnote-ref-48)
35. Except for operations to which Article 61(7) CPR applies. [↑](#footnote-ref-49)
36. Article 65(8) CPR. [↑](#footnote-ref-50)
37. (a) (b) (c) or (d). [↑](#footnote-ref-51)
38. Please note that if the categories of eligible costs calculated with the flat rate were indirect costs, then pursuant to Article 68(1) (a) CPR the flat rate should be capped to 25%. [↑](#footnote-ref-52)
39. Where this calculation method is used, the legal reference is Art. 68(1) (c) CPR. One of the key points is that the capping of 25 % referred to under Art. 68(1) (a) CPR does not apply to systems covered by Art. 68(1) (c) CPR. [↑](#footnote-ref-53)
40. A justification would be needed if the rate were above 40 %. However, a rate above 40 % could only be used in a framework other than Article 14(2) ESF. [↑](#footnote-ref-54)