European Commission

Simplification Cost Options: Current use and Perspectives for 2014-2020

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

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

Do you want to

- *reduce the risk of errors?*
- *focus on what really matters, on what you achieve?*
- *stop controlling every cent?*
- *simplify your work?*

… then use simplified costs options.

2007 2013: 3 simplified cost options

1. *Flat rate for indirect costs: indirect costs calculated as a % of direct costs (maximum 20%)*

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

2. *Standard scales of unit costs: reimbursement calculated on the basis of delivered quantities multiplied by a unit cost*
   - **Ex: eligible cost = nb of trainees x cost by trainee**

3. *Lump sums (<50 kEUR): reimbursement when pre-defined terms of agreement on activities and/or outputs are completed*
   - **Eligible cost = lump sum amount (if completed) or 0.**

Simplification! *No audit of underlying financial documents*

Costs fully justified ('real costs')

Training, with a number of 21,400 hours x trainees realised (sum of hours of training undergone by every trainee)

Direct costs = 113 772 €

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

Total costs : 128 963 €

Indirect costs = 15 191 €

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

Justification: Each Euro & number of hours x trainees.

Flat rate for indirect costs

Training, with a number of 21,400 hours x trainees realised (sum of hours of training undergone by every trainee)

Direct costs = 113 772 €

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

Total costs : 128 963 €

Indirect costs = flat rate rule

Indirect costs = 13 % of direct costs

= 113 772 x 13% = 14 790 €

⇒Indirect costs (€) = 14 790

TOTAL CERTIFIED: 128,562 €

Justification: Each Euro <u>of direct costs</u> & number of hours x trainees & rate

Standard scale of unit costs

Training, with a number of 21,400 hours x trainees realised (sum of hours of training undergone by every trainee)

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

⇒ **The grant paid will be: €6 x 21,400 = € 128,400**

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

An example of lump sum: new activity for a NGO managing a 'crêche' (childcare)

1. *Draft detailed budget to calculate ex ante the amount of the lump sum*

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

2. *Lump sum amounting to 38,753 EUR to look after 10 additional children during one year.*

3. *End of implementation: 11 additional children looked after during one year*

⇒ *Condition fulfilled*

⇒ *Payment of the lump sum grant of 38,753 EUR.*

Before implementation → **Closure of operation**

2007 2013: key points of SCOs

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

=> a first step to focus more on outputs and results than inputs

Simplification … but

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

And for the future ?

SCOs 2014 – 2020: Guiding principles

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

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

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

COM proposal 2014 2020 : Simplified costs

*For all ESI Funds, **grants** may take the following forms:*

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

Simplified costs

Calculation of simplified costs (1)

Objective: maintain the 'acquis' …

fair, equitable and verifiable calculation is maintained and specified.

Method based on:

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

Calculation of simplified costs (2)

- *methods and corresponding scales of unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation and beneficiary;*
- *methods and corresponding scales of unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary;*
- *for the ESF, unit costs, lump sums and flat rates calculated on the basis of a draft budget in the case of grants not exceeding 100.000 EUR.*

Flat-rate financing (1)

rates established by the Common General Regulation or the Fund-specific rules (no justification required)

Art 14.2 ESF

	Category of costs to which the rate is applied	Rate	Rate used to calculate …	Calculation method
ESF Reg	Eligible direct staff costs	Up to 40%	Remaining eligible costs of an operation	No calculation

Flat rate financing (2) to calculate indirect costs (Art 58 CPR)

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

*** ESF, for grants < EUR 100.000**

Staff costs: annual working time

Proposal endorsed by the Council and the EP

*Method to calculate hourly staff costs: divide latest documented annual gross employment costs by **1720** hours.*

✋ *Still to document time spent on operations!*

How to calculate the other direct costs = 40% of direct staff costs (based on Art. 14.2 ESF)

A. Direct staff costs =

60 895 + 39143 = 100 038 €

1.1 Internal personnel – remuneration 60 895

1.4 External personnel – remuneration 39 143

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

= 100 038 x 40% = 40 015 €

TOTAL ELIGIBLE :

A + B = 140 053 €

How to calculate indirect costs = 15% of direct staff costs (based on Art. 58.1 (b) CPR

Direct costs = 113 772 €

Project direct costs = 113 772 €

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

A. Direct staff costs =

60 895 + 39143 = 100 038 €

B. Indirect costs = 15% of direct staff costs

= 100 038 x 15% = 15 006 €

C. Other direct costs = 13 735 €

TOTAL ELIGIBLE :

A + B + C = 128 779 €

Comparison current / future (ESF)

- *flat rate to calculate indirect costs -> flat rate to calculate any type of costs*
- *increase of lump sum threshold (100.000 EUR)*
- *lump sums / unit costs compulsory for small ESF grants*

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

Conclusion: Act now!

- *Always keep in mind the simplification purpose. Other areas, also at national level*
- *Compare the options and decide before the start of the programme!*
  - **type of operations,**
  - **data availability,**
  - **legal certainty or flexibility,**
- *Speak together*
- *Adapt your rules*
- *A lot of experience (mainly ESF)*

Next steps

- *Guidance note on simplified cost options (COCOF note): update of the current note, first draft by the autumn*

- *Delegated Act Article 58 (c) CPR :* definition of the flat rate for indirect costs based on existing methods and corresponding rates, applicable in Union policies for a similar type of operation and beneficiary -> need to have clear view about other EU legal frameworks

- *Delegated Act Article 14.1 ESF*: concerning the type of operations covered, the definitions of the standard scales of unit costs and lump sums and their maximum amounts (incl. adjustment methods) -> template proposed at next meeting of expert group

Article 14.1 ESF: Standard scales and lump sums defined by the Commission (1)

- *ESF only, in addition to Art 57-58 (CPR) => MS (or even OP) specific, depending on data.*
- *Reimbursement of expenditure by the Commission on the basis of these standard scales and lump sums.*
- *Financial audit = exclusively to verify that conditions for reimbursements by the Commission on the basis of standard scales and lump sums have been fulfilled.*

Article 14.1 ESF: Standard scales and lump sums defined by the Commission (2)

The Delegated acts should contain:

- *Type of operations [including scope of implementation]*
- *Definition of standard scales of unit costs / lump sums*
- *Maximum amounts for standard scales of unit costs / lump sums*
- *Adjustment methods*

Article 14.1 ESF: Standard scales and lump sums defined by the Commission (3)

In order to define some standard scale of unit costs and lump sums

- *data will have to be submitted by Member States to the Commission (based on a template proposed by the COM),*
- *together with the necessary information to justify the maximum amounts of the standard scales and lump sums.*

Relevant legal references and documents

For the period 2007 2013:

COCOF note on simplified cost options

Microsoft Word Document

For the future:

Simplified cost options:

- *Art. 57 & 58 Common Regulation (applicable to the 5 ESI Funds)*
- *Art 14 ESF Regulation (applicable to ESF)*

Thank you for your attention

Any questions ?