

The implementation of simplified cost options with the European Social Fund in Italy

A case study on the 2007-2013 experience

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on the 2007-2013 experience

European Commission

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GLOSSARY

AA = Audit Authority

CA = Certifying Authority

ESF = European Social Fund

EU = European Union

IB = Intermediate Body

MA = Managing Authority

MS = Member State

MD = Methodological Document defining the SCO system

OP = Operational Programme

SC = Standard Costs

SCO = Simplified Cost Option

SCU = Standard Cost Unit

THE CASE STUDY AT A GLANCE

Background

Simplification is one of the guiding principles of the European Cohesion Policy. Simplified Cost Options play a key role in the concrete implementation of this principle. A clear example of their relevance can be found in the rich debate that has developed around the design and implementation of such a methodology.

In this debate, Italy's experience can certainly provide interesting points on which to reflect. This, on the one hand, to gain a better understanding of which criteria and effects have characterised SCOs implementation at all stages of planning and managing the initiatives co-funded by the ESF and, on the other, to contribute to identifying possible operational approaches and models to be used as validated references at European level.

Very briefly, the added value of the Italian experience relates primarily to the following aspects:

- **The great majority of ESF Managing Authorities implemented SCOs in the 2007-2013 programming period**, making considerable use of them in both quantitative terms (number of operations subject to SCOs and relative financial impact) and qualitative terms (types of actions, tools and target groups affected by simplification options). In terms of the three simplification options set out in Regulation (EC) No 396/2009, most Authorities chose to adopt *standard scales of unit cost*.
- **The methodological approaches and operational processes involved in implementing the SCOs have been quite heterogeneous.** Thus the relative analysis can contribute to:
 - defining reference models which take account of the variability of the available solutions
 - identifying the strengths and weaknesses of each approach
- **SCO-related experimentation has been underway for a few years now**, given the rapid implementation of the provisions of Regulation (EC) No 396/2009. This means that there are well-established data and information

available for all phases of the process to implement simplification options, consequently enabling assessment of the entire implementation cycle.

Scope and aims of the Study (what you will (and won't) find in it, and why?)

The Case Study aims to describe how SCOs have been implemented in Italy since the adoption of Regulation (EC) No 396/2009.

Thus, specific objectives of the Study are:

- **Ensuring a better understanding of how SCOs have been implemented**
- **Systematising the most significant experiences**, to highlight the elements of added value and criticalities that can be seen during definition and implementation of SCOs
- **Identifying possible methodological and operational routes** to ensure capitalisation of the experiences gained.

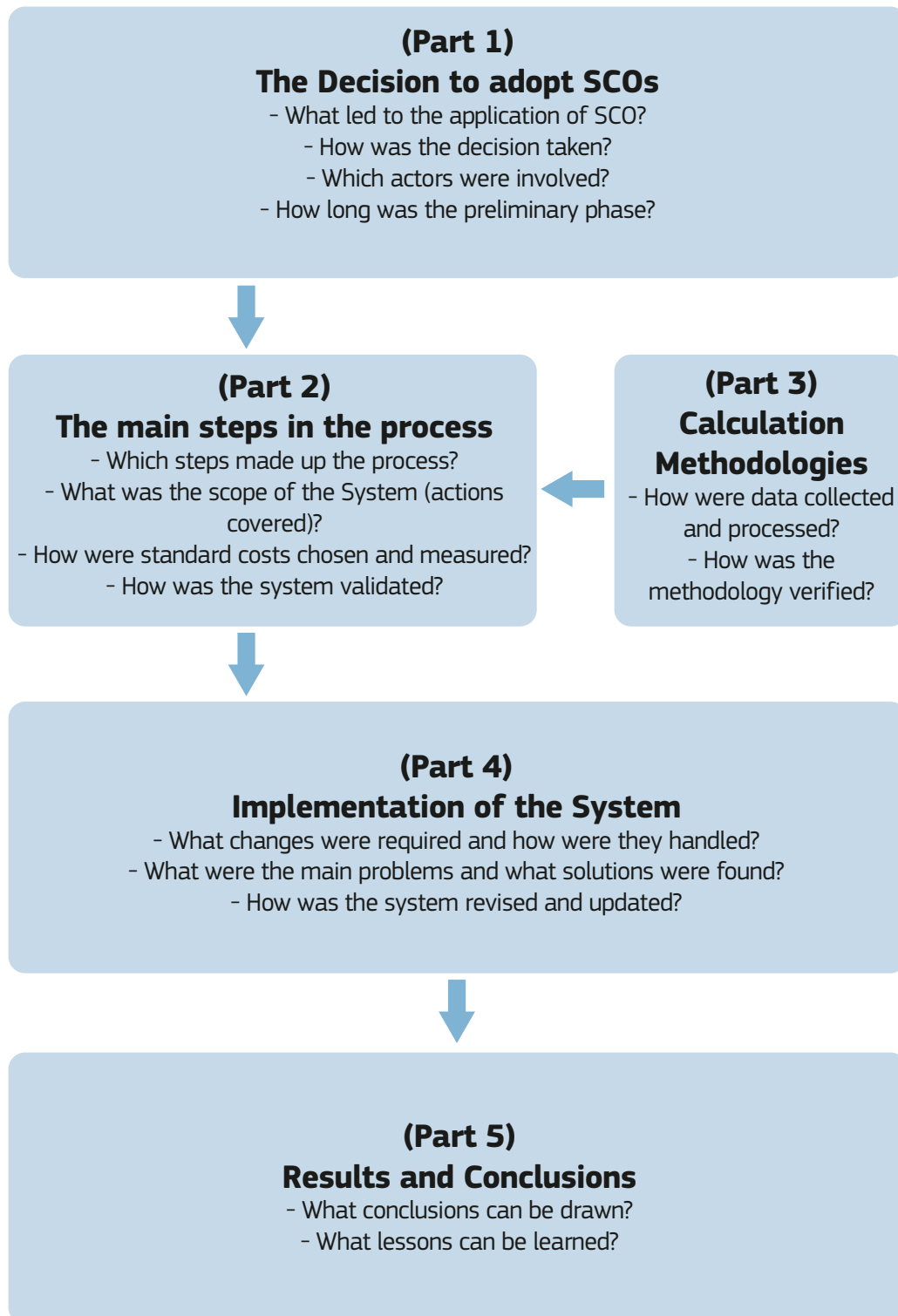
Hence, the objective of the document **is not** to provide an exhaustive and up-to-date account of the various conducts of all Managing Authorities. Nor will you find any charts comparing the standard unit cost of 1 hour of training approved by this or that Managing Authority (or anything similar).

Indeed, such comparative analyses can be very interesting in practical terms, but should always be based on full acknowledgement of all the key aspects defining a specific SCO system. Thus, a proper assessment of the decisions taken by a Managing Authority should very carefully consider the prerequisites, assumptions and the conditions behind every standard parameter and, of course, the context in which it is applied.

Given that the **aim of the Study** is to reach people in the various Member States to provide them with a few pages describing how SCOs have been implemented in Italy, we preferred to place more emphasis on the "sense" of the process, rather than on its specific details.

Structure of the Study

Aiming to represent definition of an SCO system as a logical path, the Study is structured into 5 main parts dedicated to the following steps of the process:



1. THE DECISION TO ADOPT SCOs

1.1. What led to the decision: a system approach

Anyone looking at Simplified Cost Options for the first time might think: "it's all about reducing the administrative workload".

Indeed, this is a good reason to adopt SCOs, but it is not the only one.

The Italian case shows that the approaches to simplification have gone far beyond administrative aspects.

Thus, the decision to adopt SCOs was not only driven by the chance to define technical guidelines for efficient management, but was also based on the need to **enhance the effectiveness of ESF policy measures and concrete actions**.

In several cases, the adoption of SCO systems was an important stage **in the development of these very policies and actions, because:**

- it furthered their clear definition with a strong focus on reaching measurable results;
- it was an important technical prerequisite for their concrete and rapid implementation.

Within this "system approach", the main reasons leading to the adoption of simplification options by Italian Managing Authorities can be summed up as follows:

- **Reduction in the administrative workload of Public Authorities (MA/IB, AA, CA) and Beneficiaries**
- **Greater emphasis on policies, objectives and intervention priorities** and a more targeted focus on the effectiveness of actions: during the programming phase, through clear definition of processes and objective and

measurable results; during implementation, by shifting the focus away from administrative aspects to actual results

- **The need for approaches which underline the "centrality of the individual"** in order to deal with the employment crisis in an active and individualised manner. This rationale has led to further fragmentation for ESF-funded operations, which are already characterised by a large number of interventions with limited funding
- Adoption of solutions and operational channels that can mobilise active policy services for beneficiaries, **while ensuring acceleration of spending**
- **Easier access for beneficiaries and target groups to the opportunities provided by the ESF.**

1.2. The decision making process

The adoption of a system-based approach to a decision requires the involvement of all the main actors engaged in the system.

In this sense, the decision-making process used for the application of the simplification options has often been characterised by intense exchange and consultation between players representing different areas of competence, responsibility and interest.

Best practices have shown, in particular, that this exchange has been developed at different levels (strategic and technical) not only within the Managing Authority, responsible for the decision, but also outside the "boundaries" of the Public Administration, through the active involvement of external stakeholders and beneficiaries.

The following table aims to provide a very brief representation of how such processes have been developed in terms of actors and aims.

Table 1. The decision making process in brief

		INSTITUTIONAL	
		Within Public Administration	Between Public Administration and External Stakeholders
OBJECTIVES	Strategic	<p>Actors involved Policy Makers and competent Directorates General.</p> <p>Main Objective Establish the main guidelines of the SCO system, through the collaboration between representatives of the highest political and technical levels in the various institutional sectors of the Administration (education, training, labour, social policy, migration ...), ensuring the compliance with the policy orientations.</p>	<p>Actors involved Highest institutional representatives of the public administration and the system of stakeholders (social partners).</p> <p>Main Objective Share the general guidelines of the system: i.e. sphere of application (policy areas), general objectives, characteristics of the main actions and broad guidelines for the operational execution of the system, allowing a participatory decision-making process.</p>
	Technical	<p>Actors involved Different competent departments for implementation of the Operational Programme.</p> <p>Main Objective Give practical execution of the general guidelines for the system, through the definition of rules, regulations, procedures and implementation tools, with a multi-disciplinary approach.</p>	<p>Actors involved Public Administration officers and beneficiaries.</p> <p>Main Objective Testing and fine-tuning the technical and administrative solutions defined, with the aim to harmonize different requirements: ensuring the effectiveness of the actions, though providing beneficiaries with the conditions to carry out initiatives using proper quality standards</p>

From a broader perspective, it is also seen that the decision to adopt SCOs has fuelled a broad and important debate and given rise to both formal and informal opportunities for exchange, among which are:

- The national ESF Coordination, managed by the Ministry of Labour and Social Policy⁽¹⁾
- The interregional/transnational “Simplification of ESF costs” project, an important occasion for sharing experiences and knowledge among various Managing Authorities⁽²⁾

- The discussion with the European Commission, with the purpose of taking a closer look at guidelines and implementation procedures⁽³⁾

This debate and, in general terms, the active involvement of the system of stakeholders and the development of more structured methodological and operational approaches, have more often been linked to the adoption of the *standard scale of unit costs* rather than to the other types of SCOs.

⁽¹⁾ Within the competences assigned to the Directorate “Coordination of ESF Activities” of the Ministry for Labour and Social Policy

⁽²⁾ An Interregional/transnational project involving fifteen Managing Authorities, aiming to exchange experiences and point out positive and critical elements concerning SCOs, in order to identify shared solutions and proposals

⁽³⁾ This discussion took place on two levels: formal (e.g. the formal approval by the Commission of the methodologies concerning *indirect costs, declared on a flat-rate basis*, defined by the MAs) and informal (e.g. meetings, seminars and other occasions where the Commission and the MAs had the opportunity to discuss implementation of SCOs).

1.3. Reaching consensus among opposing parties: reasons and preconceptions

Reaching consensus is a decisive factor when it comes to directing greater and more evolved emphasis on the processes, results and, hence, the actual impact of the actions.

Thus, the decision-making process might also require finding an agreement among actors who are not fully convinced that SCOs should be adopted.

Although this is now a minority position in Italy (proof of this is that SCOs are implemented within almost all OPs), it could be interesting to mention the main (typical) reasons given by actors not in favour of adopting the options:

- Risk of misuse of resources by beneficiaries, linked to simplistic positions whereby SCOs would bypass any kind of monitoring of the beneficiaries' conduct
- Absence of requisites for defining the system (i.e. the methodology is too complex, there are no definite references, lack of homogeneous or consistent databases)
- Highly complex management process, leading to excessive "investments", in organisational and technical terms, needed to implement the system.

In most cases, finding an agreement depends on a few essential requirements:

1. **Develop a proper knowledge and understanding of the provisions of the EC Regulations and the related interpretative documents**, not only from a technical viewpoint (specific provisions), but particularly in terms of the objectives and rationale behind the rules themselves, avoiding approaches based on preconceptions.

The point is: an SCO system itself does not encourage any misuse of resources, on the contrary it can (and should) allow a more efficient and effective use of the same resources, but of course it must be defined:

- in compliance with a few key principles (costs shall be *established in advance on the basis of a fair, equitable and verifiable calculation*) and provisions
- adopting well-established methodological and operational solutions for the practical implementation of such principles and provisions. **In this sense, it might be**

very helpful to take advantage of the lessons learned within previous experiences managed by other Managing Authorities.

2. **The willingness to take what, in several settings, has been defined as a "cultural leap"**. The definition of a SCO system presupposes a willingness, at all levels (from the definition of policy guidelines to the elaboration of management template), to embark on a shared journey which also requires an investment in terms of time, competences, skills and financial resources. **The positive "return" on such an investment also depends on the capacity to develop a positive attitude towards innovation.**

1.4. The definition of the system in operative terms: a multi-disciplinary task

While the overall decision-making process requires a system approach, the practical declination of an SCO system requires what could be defined as a "multi-disciplinary approach".

In terms of Authorities, the implementation of the system primarily involved the following actors:

- **Managing Authorities:** responsible for managing and implementing the operational programme and, in this framework, for validating the SCO system
- **Intermediate Bodies:** in some cases, the contribution of intermediate bodies was not restricted to defining the general characteristics of the system, but involved many aspects of its implementation. There have also been instances where the Intermediate Bodies have been a real "driving force", promoting the introduction of simplification options
- **Certifying Authorities and Audit Authorities,** providing feedbacks from their perspective according to the respective institutional competences.

Aside from a formal representation of the process, it might be important to point out who actually worked on defining the system in practical terms. In other words: **who do I need in order to define an SCO system in operational terms?**

In this sense, a possible representation of the “**SCOs working group**”⁽⁴⁾ could be provided in terms of **professional figures and skills related to the following areas:**

- ESF Programming and Management
- Legal
- Tax/Social Security
- Statistics
- Experts with specific skills relating to the actions covered by SCOs (e.g. Employment Services Experts)
- Monitoring and Evaluation
- Reporting and auditing

This approach has been extremely important in order to ensure:

- the compliance of the system in all areas affected by its implementation
- definition of the SCOs as a solution that can be fully integrated into the management processes of the Operational Programme.

1.5. The timing of the preliminary phase

Generally speaking, the implementation of Regulation 396/09 in Italy was carried out relatively rapidly.

Several Managing Authorities implemented SCOs within 1 year from the adoption of EC Regulation 396, many of them by the end of the following year (2011).

Part of the reason for this was the attention paid by Managing Authorities, right from the start, to the simplification debate at EU level. **Thus, approval of Regulation 396 was not the**

starting point of a journey, but rather a key moment for the practical execution of strategies that were already in the making.

In terms of the timing of the preliminary phase (i.e. the time elapsing from the “idea” of applying SCOs to its practical implementation), it should be noted that this period (one to two years) should not be considered as a reference.

Indeed, the methodologies developed within the 2009–2011 period were the first experiences of implementing “new” rules and provisions.

Therefore, the preliminary phase was marked not only by a relatively long period of actual implementation but also, and more importantly, by the willingness to investigate and validate the strategies taken on the basis of:

- **a more analytical definition of the provisions of the Regulation**, particularly with regard to application prerequisites and possible solutions for calculating and applying standard parameters. In this sense, the COCOF (Coordination Committee of the Funds) note 09/0025/04 (issued in January 2010) was a valuable reference and helped accelerate the decision-making process by the Managing Authorities
- **the comparison with experiences already implemented or in the process of definition**, through the sharing and capitalisation of evaluations and results. Here, it is useful to remember the added value gained through collaboration initiatives (formal or informal) between Managing Authorities at national and transnational level.

Although these two aspects should still be taken into consideration by a MA adopting SCOs for the first time, **the actual availability of well-established references (i.e. indications coming from previous experiences) enables a considerable reduction in the time required for the actual management of the preliminary phase.**

⁽⁴⁾ The MA is responsible for validating the SCO system. This means that the MA itself is directly responsible for the accuracy and compliance of the whole process (including definition and implementation of the methodology, according to the principles and criteria established at EU level). With regard to the composition of the working group, the operational choices made in terms of greater or lesser involvement of external experts might differ from case to case. However, it is important to state that, although external experts might be brought in for many specific aspects adding value to the management of the process, the MA staff responsible for the various areas listed (ESF programming, Legal, Tax ...) should always be directly involved. Their involvement from the very first stages of the process is important to ensure that all areas of the Administration are fully aware of the “impact” of SCOs on the implementation of OPs.

2. DEFINITION OF SCO SYSTEMS: MAIN STEPS OF THE PROCESS

2.1. The map of the process

The definition of an SCO system is a logical process.

Although many approaches and solutions have been adopted, the milestones of the process are:

- 1. DEFINING THE OBJECT OF THE SYSTEM** = Clearly describing the actions covered by SCOs
- 2. IDENTIFYING THE STANDARD PARAMETERS** = Expressing the action in “standard terms” and identifying the consequent standard cost parameters
- 3. QUANTIFYING THE STANDARD COSTS** = Assigning a value to each SC parameter
- 4. DETERMINING THE VALUE OF THE GRANT** = Defining the rules for application of SCOs
- 5. ORIENTING THE SYSTEM** = Defining the orientation of the system in terms of Process and/or Result

In this chapter, we will try to describe each milestone, with the aim of providing simple answers to the following questions:

- **What are the main tasks involved in defining an SCO system?**
- **How are the tasks linked to each other (what is the logical sequence)?**

We will not attempt to analyse the details of each possible solution. Indeed, that “exercise” may be very interesting in technical terms, but it is not within the scope of this document.

2.2. Actions covered by SCOs

The starting point of the process should always be the clear definition of the action(s) covered by SCOs (the object of the standardisation process).

Indeed, in terms of rationale and methodology, proper and effective implementation of SCOs requires the preliminary definition of the standards of the related operations.

This task serves four fundamental purposes:

- a. it sets out appropriate, acceptable levels of performance, encouraging operators to provide higher standards of service delivery
- b. it ensures that the nature and characteristics of the action are made explicit and clear to all beneficiaries, avoiding the risk of asymmetrical implementation or discrimination
- c. it facilitates the monitoring and comparative evaluation of processes and results
- d. it represents a key prerequisite for the definition of congruent and coherent standard cost parameters.

So, a closer look at the task shows **that the description of the action is not only the starting point of the process but also, and mostly, the main driver (reference) for defining the whole SCO system.**

In this sense, two main principles should be taken into full account:

- **Establishing a clear hierarchy between actions and simplified options.**

As briefly described in the previous chapter, SCOs can encourage and support the development of policies and actions, but they should never “steer” their definition. In other words, the direction of the process should be to **adapt SCOs to the action, not the action to SCOs.**

- **Ensuring compliance of the SCO system with the description of the actions.** Here, Italian MAs had to “tailor” the system to the actions, avoiding a critical adoption of models designed for other interventions within different contexts. The point is: **previous experiences are a valuable reference, but they should always be considered in relative terms.**

Given these premises, the implementation of SCOs in Italy has mainly concerned two macro-categories of intervention:

A. Employment Services

Compared to some other EU contexts, the implementation of employment services within ESF OPs is a relatively recent issue for Italy. Most of the related experiences have, in fact, been managed starting from 2009, within the framework of the anti-crisis policy measures.

Indeed, several MAs designed standards of service and standard costs at the same time, adopting both with the same administrative Act.

In many interesting experiences, employment services were defined in an extremely detailed manner, with the definition of objectives, content, processes, duration, delivery procedures, expected outcomes for beneficiaries, the qualitative and quantitative characteristics of the input and output factors.

With regard to the content of the services, the models adopted by the various Managing Authorities are fairly heterogeneous (in terms of the autonomy of Regional Administrations to regulate the labour market). It is, however, possible to classify the main service areas and the specific services related to them, as follows:

Access to services and First Assessment	<ul style="list-style-type: none"> a. Initial Assessment b. Skills Audit c. Definition of Individual Employment Plan
Professional Guidance	<ul style="list-style-type: none"> a. Career guidance <ul style="list-style-type: none"> • Individual guidance interviews • Interviews for further diagnostic analysis and assessment • Counselling b. Guidance information (assistance for consulting information systems providing details of employment and training opportunities) c. Guidance training (short modules aimed at groups of users with similar informational and training needs)
Services for Employment	<ul style="list-style-type: none"> a. Company scouting and active job seeking b. Pre-selection and matching supply with demand c. Guidance/tutoring for work placements d. Entrepreneurship support services

Given the nature of the services, standards are defined mainly for delivery to individuals. However, for some types of service, explicit provision is made for groups.

One extremely important aspect of this macro-category of services is the possibility of integrating their management. In fact, services can be reformulated into modules, so that:

- due consideration is given to **policy objectives and the operational results pursued;**
- **the centrality of the participant** (as an individual). Services are adapted to the different needs of the public participants and not vice versa;
- individual paths can be managed, through the construction of **tailored intervention plans, agreed by both operators and beneficiaries.**

The need to adopt an individual approach, has inevitably led to a certain amount of fragmentation between operations. In this sense, SCOs have played a key role in the implementation of employment services within ESF OPs. Thus, they have enabled the efficient management of a considerably larger number of operations.

B. Training and Education Actions.

Disregarding the extremely detailed nature of the provisions governing the various types of training initiatives, the main macro-categories that have been the subject of standardisation fall within the following groups:

- Compulsory Schooling or Training
- Vocational qualifications
- Vocational diplomas
- Higher Technical Education and Training
- Continuing Vocational Educational Training
- Higher Adult Education

Aside from this classification, the definition of training and education actions in “standard terms” required MAs to deal with a **higher number of variables** (compared to employment services), mainly with reference to:

- Number of participants: training targeted at either small or large groups

- Type of participants: also taking account of particular situations of vulnerability (e.g. disabilities, immigrants and drop-outs)
- Course Duration: varying from a few to hundreds of hours of training
- Training setting: work placements (on-the-job training), work experience, apprenticeships, inter-regional/transnational occupational mobility and distance learning (e-learning)
- Other specific features of the training course (i.e. to take account of innovative or prototype initiatives)

The aspects supporting the decision to standardise these types of activities are mainly due to:

- the fact that they are the subject of well-established rules. Although the standardisation process needs to consider a good number of variables, these should at least benefit unequivocal interpretation
- a willingness to apply SCOs widely; thanks to training, these can be extended to significant portions of the ESF allocation
- the availability of historical data consistent with the object of standardisation; this has certainly played a significant part in the handling of the preliminary stages of SCO implementation.

2.3. Identification of the standard parameters

Once the main characteristics of the action have been established, the next stage in defining the SCO system is to identify the parameters which ensure proper representation of the action in “standard terms”.

One key aspect to consider when doing so is that application of SCOs should produce a value that is as close as possible to the real cost of the operation.

The standard cost parameters should then be identified (and then quantified) in such a way as to take account of the system of variables and determinants impacting the cost of the specific operation.

In practical terms, in order to identify the right parameters, the best answers need to be found for the following questions:

- **Which variables can affect the cost of the operation?**
- **What impact does each variable have on the total cost?**
- **How do the variables relate to each other (are any of them interdependent)?**

Keeping the action (and its cost) as a constant reference, **these questions could be dealt with using a few key steps⁽⁵⁾:**

- 1. Identifying all sensitive variables** (e.g. no. of training hours, no. of participants, type of participants, delivery methods ...)
- 2. Making a qualitative/quantitative analysis of each variable** to select those which may have an actual impact on the cost of the operation
- 3. Defining the relationship between the selected variables and the cost of the operation** (how the variable affects the cost)
- 4. Identifying any interdependence among the variables** to assess whether or not to combine them (or some of them) into one single cost parameter (e.g. cost per hour per trainee)
- 5. Define the cost parameters** and, if necessary, how they are combined, representing all relevant variables selected.

There now follow a **few examples** to aid comprehension in practical terms.

⁽⁵⁾ In logical and methodological terms, all steps should be applicable to all SCOs.

Thus, given the specific features of lump sums and flat rated indirect costs, combining the parameters (expressed in value or %) as mentioned in points 4 and 5, may not be required (since only one parameter is usually chosen for such options).

SCENARIO 1

Conditions:

- Type of action = Training Course
- No. of course hours = 20
- No. of trainees = 10
- Hypothesis = all trainees have attended all training hours (100% participation rate)

Case 1

The only variable that can significantly affect the cost of the operation is the number of course hours (no. of training hours provided). The Managing Authority might thus identify just one simple unit cost parameter in terms of:

- *Unit cost per course hour* (e.g. 100 EUR).

So, the cost of the operation will be determined using the following formula:

No. of course hours (20h) x Unit cost per course hour (100 EUR) = 2.000 EUR

Case 2

The cost of the operation is affected by 2 variables (the number of course hours provided + the number of course hours attended by each trainee).

In this case, the MA may define two separate standard unit costs, one for each variable, in terms of:

- (A) *Unit cost per course hour* (e.g. 90 EUR)
- (B) *Unit cost per trainee hour* (e.g. 1 EUR)

Assuming that all trainees (10) have attended all hours (20), the cost of the operation will be:

$$\begin{array}{r} \text{(A) No. of course hours (20h)} \\ \text{x Unit cost per course hour (90 EUR) = 1.800 EUR} \\ + \\ \text{(B) No. of trainee hours (10x20 = 200 h)} \\ \text{x Unit cost per trainee hour (1) = 200 EUR} \\ \hline \text{Total cost (A+B) = 2.000 EUR} \end{array}$$

Case 3

The cost of the operation is affected by the same 2 variables as in the previous case (the number of course hours provided + the number of course hours attended by each trainee).

As an alternative to the solution adopted in the previous case (2 separate unit costs), the MA may combine the two variables into a single parameter, expressed as an indicator correlating both factors, in terms of:

- *Unit cost per course hour per trainee* (e.g. 10 EUR).

Again, assuming that all trainees (10) have attended all hours (20), the cost of the operation will be

No. of hours per trainee (10x20 = 200h) x Unit cost per course hour per trainee (10 EUR) = 2.000 EUR

Although the result is the same (2.000 EUR) in all three examples, in terms of total cost of the operation, the results will differ if we change the last hypothesis.

For example, if the participation rate is reduced from 100% (all trainees attending all course hours) to 80% (i.e. all 20 hours of training have been delivered, but each trainee attended 16 hours out of 20), we obtain different results (see Scenario 2).

SCENARIO 2

Conditions:

- Type of action = Training Course
- No. of course hours = 20
- No. of trainees = 10
- Hypothesis** = all 20 hours of training have been delivered, but each trainee attended 16 hours out of 20 (**80% participation rate**)

Recalling the very same approaches used for the previous Scenario, we obtain:

Case 1

No. of course hours (20h) x Unit cost per course hour (100 EUR) = 2.000 EUR

Case 2

$$\begin{array}{r} \text{(A) No. of course hours (20h)} \\ \text{x Unit cost per course hour (90 EUR) = 1.800 EUR} \\ + \\ \text{(B) No. of trainee hours (10x16 = 160 h)} \\ \text{x Unit cost per trainee hour (1) = 160 EUR} \\ \hline \text{Total cost (A+B) = 1.960 EUR} \end{array}$$

Case 3

No. of hours per trainee (10x16 = 160h) x Unit cost per course hour per trainee (10 EUR) = 1.600 EUR

These results should not lead to general conclusions in terms of which parameter (or which combination) is better. We could consider many other examples (and parameters) without finding one best way that is valid for all cases.

The aim of the examples was to highlight, in practical terms, that the best solution should be defined on the basis of the specific type of action (and the main variables affecting its cost).

2.4. The value of the parameters (cost items)

At this stage of the process, we have reached a definition of the action and the type of parameters that can represent it in standard terms.

Now the question is: “what value should we assign to the parameters?”

Here we refer back to the examples given on the previous pages: “how do we determine that the correct *Unit cost per course hour* is 100 Euro or the correct *Unit cost per course hour per trainee* is 10 Euros?”

Aside from the calculation methodology chosen (whether based on historical data, benchmark analyses or market surveys), the issue can be systematized using the following steps:

- 1. Identification of Ordinary and Extra-ordinary costs, according to the type of action**
- 2. Classification of ordinary costs in relation to each standard unit cost (if more than 1 parameter is chosen)**
- 3. Classification of direct and indirect costs (if this distinction is important for the system).**

1. Identification of Ordinary and Extra-ordinary costs

Depending on the characteristics of the action to be standardised, we can distinguish:

- **“Ordinary” costs:** this category includes all cost items pertaining to the “typical” management of the action, i.e. factors (input) that are required for implementation of the operation. The cost associated with these factors should therefore always be considered when determining the value to be assigned to the UC parameter.
- **“Extraordinary” costs:** this category includes factors (input) unrelated to the typical management of the action, not featuring in the standard definition of the characteristics of the operation. One example of this might be costs for services supporting disabled course participants (in training courses where disability is not an exclusive requisite for access).

The aim of this reclassification is to isolate all extraordinary items of expenditure and to determine their financial impact, in order to exclude their effects on the standard cost value applicable to all funded operations (e.g. courses with disabled students and those with no disabled students).

Extraordinary costs may still be considered in the overall model used to determine the value of the grant. However, given that they should not be considered in the general parameter applicable to all operations (e.g. cost per course hour), these costs may, for example:

- be the subject of separate standard unit cost (e.g. cost per hour of accompanying students) to be applied in addition to the general parameter, where conditions are satisfied
- be reported at real cost

2. Classification of ordinary costs in relation to each standard unit cost

If the characteristics of the action indicate the combined use of several unit cost parameters the MA is required to **split the total cost of the operation into different classes: one for each unit cost adopted.**

In practical terms, referring back to case no. 2 illustrated in the previous paragraph, we have to identify the cost items that should be considered in order to determine the value of each one of the two complementary parameters:

- (A) *Unit cost per course hour* (e.g. 90 EUR)
- (B) *Unit cost per trainee hour* (e.g. 1 EUR)

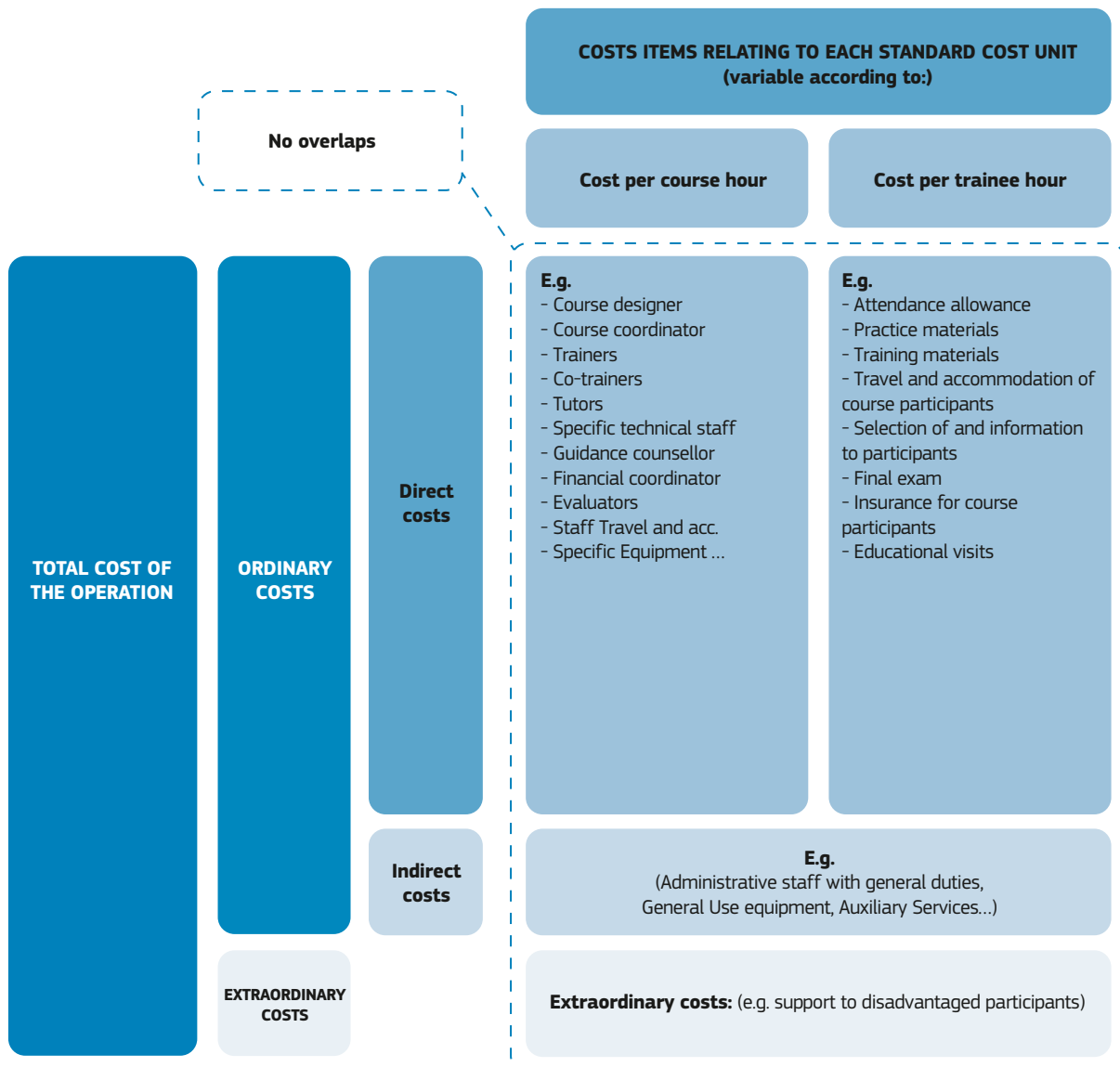
3. Classify direct and indirect costs

This step should of course be managed when adopting *indirect costs, declared on a flat-rate basis* (but it can also be referred to *standard scales of unit cost*). For this option, the reclassification between direct and indirect cost is required in order to determine the value of the flat rate (expressed as a percentage of all direct costs involved in an operation).

Leaving aside the detailed description of the different approaches adopted by the MAs, the following is a list of major cost items typically found under the “indirect costs” umbrella:

- Administrative staff with general duties
- Travel expenses for administrative staff with general duties
- Rental, leasing, depreciation and maintenance of general use buildings/ equipment
- General taxes and duties
- Auxiliary services (switchboard, reception, security, etc.)
- Office supplies not directly or unequivocally assigned to the action
- Sundry operating costs (postal costs, stamp duty, bank charges, etc....)
- Legal and administrative advice (legal advice, accountant, payroll, etc....)
- Certification and upgrading of the quality and accreditation system
- General expenses.

A practical example of the whole process is provided in the following reclassification schedule of cost items relating to the two standard cost units considered in case no. 2:



It is important to specify that the example model proposed is not a general model for all cases of practical application, mainly because:

1. different parameters might be considered for the reclassification of costs (e.g. differentiating between

costs related to the staff involved in the operation and costs related to logistics and equipment)

2. the same classification of ordinary and extraordinary costs may vary. Thus, the nature of each cost item should be assessed according to the specific characteristics and conditions defining the funded operation.

For example, returning to one of the cases described at the start of the paragraph, for courses exclusively targeting disabled students, it is absolutely legitimate and necessary for the cost of accompaniment services to be considered “ordinary”, and hence to fully integrate it into the calculation of the parameter value.

In any case, a general principle valid for all reclassification processes is to ensure that each cost item is considered in only one class. Any overlaps will, in fact, determine an over-estimation of the cost of the operation.

2.5. Measuring the value of the grant

Up to this stage, we have defined our coherent SC parameters and we have assigned a congruous value to each of them.

Now we should see how they could be applied in order to determine the value of the grant related to the operation.

The practical implementation of the SCO system should in fact consider three main aspects which could have an impact on the amount granted:

I. Whether or not to combine different SCOs and to apply them in conjunction with real costs

For example: the grant related to a training course involving interregional or transnational mobility may be determined by also applying:

- One or more standard unit costs, related to the delivering of training
- Lump sums to cover the costs of the travel and accommodation expenses of the participants
- Real costs for the attendance allowances of participants.

II. The Scalability of the value assigned to the standard parameter.

This aspect may be used to consider the reduction in the cost of the operation owing to:

- **Economies of scale:** for example, determined by the duration of the training course
- **Economies of scope:** for example, determined by the repetitive nature of certain phases or, conversely, their specific nature.

The reduction in the value of the operation was defined by applying two main methods, depending on the linearity of the progression of the cost compared to the variables considered:

- If the progression is sufficiently linear, the value of the standard unit cost can be reconfigured according to specific percentages, in turn determined on the basis of specific analysis.

Some practical examples encountered were:

- if the training course related to “social inclusion”, the standard unit cost increased by a certain percentage to take account of participants’ specific needs for accompaniment;
- if the training course included distance learning, the standard unit cost of e-learning hours were reduced by a certain percentage
- for the funding of recurrent training courses, the value of the standard unit cost was reduced in percentage terms (i.e. considering reduced costs for designing the project proposal).
- When, on the other hand, progression has a “stair step” formation, it might be useful to segment the amount associated with the standard parameter, defining specific ranges of values and associating a different cost to each.

E.g. with the unequivocal parameter “standard unit cost per trainee hour”, different values can be determined for the total duration of the training course (X = total no. of hours):

Course Duration	$X \leq 100$	$100 < X \leq 300$	$300 < X \leq 500$	$500 < X \leq 800$	$X < 800$
standard unit cost per trainee hour	12.20 EUR	10.80 EUR	9.40 EUR	8.50 EUR	7.90 EUR

III. The Definition of specific conditions affecting the value of grant

When defining simplification options, Managing Authorities **have established specific criteria and requirements which affect the value of the grant.** These tend to ensure minimum objectives for completion/outcomes of the initiative, binding beneficiaries to higher levels of quality and performance for the managed activities. Important examples of this are:

- Attendance of a minimum percentage of training hours by a participant
- A minimum number of students successfully completing the training course.

2.6. Process or result?

The process to define the SCO implementation model requires Managing Authorities to make a further **fundamental choice regarding which strategies to use for the system in terms of process or result.**

With regard to EC Regulation 396, the COCOF note 09/0025/04 states that the standard scales of unit costs can be:

- 1. Process-based:** where unit costs are linked to corresponding units of output (e.g. no. of course hours, no. of trainee hours)
- 2. Results-based:** valuing unit costs in terms of certain results achieved within the operation (e.g. no. of persons involved in employment services finding a job, number of students completing a training course successfully ...).

Given that choosing either a process-based or a results-based approach has technical and policy implications (a results orientation particularly involves a cultural and technical context ready to implement this approach), the analysis of experiences so far shows that both approaches have specific implications:

1. The process-based approach

- Requires a clear and measurable identification of the quantitative parameter related to the process
- There is a risk of steering beneficiaries towards concentrating on the quantitative aspects of the process, to the detriment of the quality of the services delivered. Using a fixed parameter may lead to lower-quality

factors of production in an effort to lower the effective cost of the operation (e.g., by calling on teachers with less experience)

- It is easier to safeguard the economic equilibrium of the operation, given that the value of the grant is measured in proportion to the quantity of output (process) delivered.

2. The results-based approach:

- Focuses strongly on the evaluation of actual outcomes and impacts generated by the initiative
- It is easier to justify, as eligible spending is only linked to one aspect of the operation, namely the outcome, without considering the complexity of the activities prior to that particular result. Thus, this approach highlights, although to a limited extent, the critical nature of “lump sums” based on an “on-off” system. If the result has been reached, the expenditure is allowed, otherwise it cannot be considered eligible, irrespective of the actual activity carried out
- It requires precise validation of the outcome (e.g. it may not be enough to say that the outcome is the participants’ finding work. A minimum duration should be specified for the employment contract, or a minimum number of monthly hours of employment, ...)
- It is potentially a “barrier to entry” for operators who are not able to guarantee the planned outcomes
- It involves a certain amount of economic risk for beneficiaries, particularly if a beneficiary is unable to reach a given result, despite having worked towards it. In such cases, the beneficiary will not be awarded a contribution, regardless of the costs already incurred
- There is a significant risk of “creaming” participants. As the contribution is conditional on the achievement of specific outcomes, beneficiaries may discriminate against potential participants, focusing on those providing better chances of success.

By systematising the above implications, we can consider the following adjustments:

A. Process-only model

For this approach, solutions should be devised to ensure a greater emphasis on the quality of services, identifying minimum standards as a prerequisite to determining the value of the grant.

An example of this might be when applying a standard unit cost per trainee hour. In this case a possible adjustment may be provided by recognizing the cost of the participant

only if he/she has attended at least 70 % of the scheduled training hours.

B. Results-only model

Given the significant risks underlying the on-off model, it may be useful to introduce systems to mitigate its impact. For example:

- a series of intermediate results that are mutually distinct but integral to the intended final outcome (e.g. a parameter based on the “cost per student successfully completing” a modular training course, where all technical conditions are satisfied, an intermediate result can be set for each module (e.g. annually);
- specific conditions limiting the risk of loss by beneficiaries if the result is not reached owing to reasons that cannot be attributed to the beneficiaries (for example, by recognising the cost per successfully completing student, even if the student has only attended part of the course - though a considerable portion of it - for justified personal reasons);
- Measures to exclude or limit the phenomenon of “creaming” (e.g. publication of calls for proposals targeting specific priorities, application of a higher value for the standard unit cost for services delivered to disadvantaged users ...).

C. Combination of process and results orientation within the same operation

It is useful to point out the advantages of combining both models within the same operation, thereby diminishing the risk of a significant difference between costs actually incurred by the beneficiaries and the value of the awarded grant, due to failure to achieve certain results. Indeed there is explicit provision for using both models within a single

operation, **the only condition being that application of one model should be complementary to the other for different types of cost.**

Hence, the possible combinations of the two options can:

- **refer to different types of costs within the same activity**

e.g. a process-based standard unit cost per “course hour” x hours of training activities managed + a results-based standard unit cost per “student successfully completing the course” x the number of students obtaining the qualification

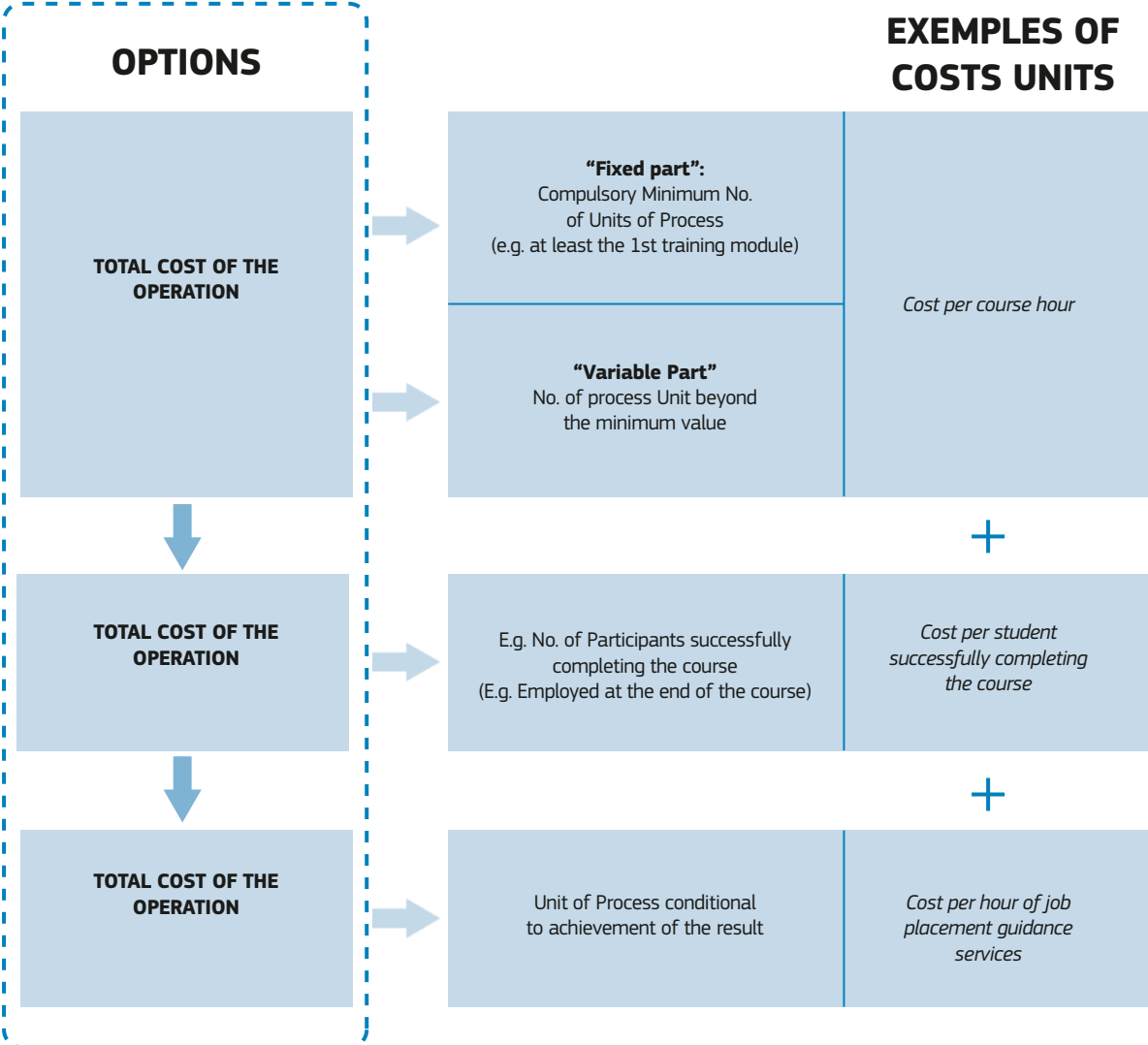
- **refer to different activities within one specific initiative**

e.g. for a tailored job placement path, some preliminary services may be recognised on a process basis (no. of hours of service provided within the “Access to employment services” area) and some may be recognised on the basis of results.

In most cases, this combination requires the process to precede the result in logical and functional terms (process-based preliminary activities with subsequent activities managed on a results basis)

However, it is interesting to mention some of the experiences where this order was reversed, and used, for example, a three-level model: process-based preliminary activities (Access to services and First Assessment, Professional Guidance and Training) + results-based core activities (e.g. participant finds employment) + process-based activities subsequent to the result (conditional to the achievement of the result itself) (e.g. tutoring services provided after the signature of the employment contract, in order to support the participants when they begin the new job).

A graphical representation of a possible combination of the 2 approaches within the same operation is provided in the following figure:



Although it looks like a theoretical example, equivalent models have also been put into practise.

For example, a similar approach was adopted for the implementation of one particular challenging action, with the following characteristics:

- Object: Individual paths of employment services and training
- Target group: unaccompanied foreign minors / young immigrants
- Location: Regions under the Convergence Objective
- Beneficiaries: Partnerships established between Local Public Administrations and Public/Private providers of training and employment services (mandatory Lead Partner: Local Municipalities).

The results of the initiative were extremely positive. Thus, it has been replicated within the Regions under the competitiveness and employment objective. The action was extended using national funds, capitalising the experience already developed within the ESF framework.

2.7. Validation of the system

The validation of the SCO systems implemented in Italy can be explained using two distinct levels of analysis:

- **Institutional validation (formal approval and adoption of the System)**

Validation in the sense of “institutional transposition”, at administrative level, of the defined simplification system. In this regard, we see that:

- In almost all cases, the system was transposed by Resolution of the Regional Executive Board (DGR), one of the highest regulatory powers held by these administrations
- With the DGR formalising the guidance, types of action and methodological recommendations for determining SCOs, many Managing Authorities subsequently implemented the system through specific administrative documents (further Resolutions of the Regional Executive Board, Decrees of the competent Directorate).
- **Technical validation**, of simplified cost options adopted and the methods used to determine them.

Three paths were taken:

- Validation by the various professionals of the multidisciplinary group involved in defining the system and also through dialogue with the system of stakeholders and beneficiaries
- Formal approval by the European Commission, exclusively for the criteria to be used to determine what percentage to allocate to indirect costs
- Verifying the consistency, rigour and soundness of the analyses made through centres with specific expertise (e.g., developing the calculation methodology in collaboration with a university department)

This last point will be looked at in the next chapter, dedicated to the calculation methodology.

3. CALCULATION METHODOLOGIES

3.1. The main approaches (methods)

In the previous pages we pointed out the main tasks involved in **technical definition** of the SCO system: from the description of the actions covered by SCOs to the approval of the system.

In this chapter we will describe the **methodological approaches** adopted by the MAs to:

- **Collect the Data**, needed to calculate the value of the SC parameters
- **Process this Data**
- **Verify the calculation methodology**

Coming to the main available options, as set out in the COCOF note 09/0025/04, the methodological approaches were based on one or a combination of the following methods:

1. Analysis of historical series of data

This was the most common method used by Managing Authorities, since:

- it uses established databases and information systems relating to the management of ESF co-funded operations (internal databases)
- it is exhaustive, particularly with regard to course-based training, traditionally funded with ESF resources

2. Benchmark analyses (referring to databases run by external parties: National Institutions, Public Offices providing employment services, Other Public Administrations or Private Organisations ...)

3. Market surveys, through dedicated investigations on the costs of the services, mostly targeted at the system of beneficiaries

The reasons for the Managing Authorities using these two methods (Benchmark Analysis and Market Surveys) are due to:

- The impossibility of building a database from previous experience, able to properly represent the characteristics of the actions covered by SCOs (e.g. due to the relatively innovative nature of the type of action, such as employment services for ESF in Italy, or the particular nature of the object of observation, such as transnational mobility processes)

- A willingness to carry out an analysis of the historical series should they prove to be insufficiently representative, in order to attain full validation of the determining parameters
- The intention to investigate other points of view (in this case, potential beneficiaries) in order to prevent the risk of the values assigned to the SCOs not meeting the need for a balanced budget of the operation.

3.2. Data collection

Which criteria and conditions should be taken into account when collecting the data needed for definition of an SCO system?

We will try to address this question on the basis of the main approaches adopted in terms of:

1. **Choice of source of data**
2. **Definition of the data reference period**

1. Choice of source of data

The decisions made by the different MAs with regard to the information sources used to determine SCOs were guided by several essential requirements:

- **Relevance:** ability to meet the knowledge requirements established as the basis of the survey. In this regard, all existing databases, or data collection methods were identified for the specific objects of simplification, thereby avoiding the risk of including "sources" that might be misleading in terms of the objectives set and determination of the parameter values.
- **Accessibility:** ability to easily find, acquire and understand the available information for specific purposes. The simplification options involve rigorous processing as a prerequisite to identification of the parameter value and this process was handled by identifying a system of strong information to optimise the trade-off between:
 - Reliability, analytical detail and representativeness of the data
 - Costs associated with their retrieval and acquisition.
- **Reliability:** refers to the sources and procedures for extrapolating the information. Assuming that this

requirement is met by the historical data pertaining to ESF programming, the reliability of information obtained through market surveys or benchmark analyses was verified through preliminary selection of sources (the operators included in the sample for the market survey and the credibility of the subjects used to reach additional databases for the benchmark analysis) and data collection methods, which often involved personnel specifically trained for the initiative.

- **Comparability:** the possibility that an information source might produce comparable data according to several variables (time, type of participant, duration of the training programme, ...). This requirement not only influenced the procedures used to consult and select the databases used in the analysis, but also the choices made during standardisation/harmonisation of the information acquired, as well as the decision about the nature of the parameter to be standardised.

2. Data Reference period

The time span covered by the databases used to determine the values to be assigned to the SCO is a further element to take into account when evaluating the representativeness of the sample considered.

However, we should specify that such an analysis must not be restricted to considering the length of the reference period. The significance of that period should also be taken into consideration in terms of the quantity and quality of the data (based on the criteria mentioned above).

These conditions are important for a proper "reading" of the summary information below regarding the guidelines adopted by the Managing Authorities for the Methodological Documents examined.

Following the analysis of these documents, it is seen that:

- **for the historical analyses,** the overall period considered includes the years within the 2000-2006 and the 2007-2013 Programming Periods.

Some Managing Authorities considered data pertaining to both periods. The reference period, expressed as the number of programming years, is in line with the Commission recommendation, advising a period of three years. All the Methodological Documents examined provide information that can be used to assess the representativeness of the period in terms of the number of operations funded and the volume of resources delivered in the years considered.

- **For the remaining 2 analysis methods** – not based on observations of the historical series but

rather on benchmark desk research or through specifically defined survey tools – most of the data considered referred to a specific moment in time. It is also worth stating that, when the data was acquired, due consideration was given to any variabilities in the time factor.

3.3. Data processing

The main aspects to be taken into account while processing the data can be described in the following terms:

a) **Processing data in sufficient detail as to represent the operations in standard terms.**

Here, it might be useful to refer back to the cost reclassification process described in paragraph 2.4. In order to run such a process properly, the allocation of cost items within the different categories (ordinary/extraordinary, direct/indirect, direct costs related to course hours or to trainee hours..) should be based on data ensuring:

- compliance of the reallocation (which cost item to assign to which category, without overlaps)
- congruence of its results (in terms of the value of the unit costs, the % of indirect costs, the value of the lump sums)

b) **Ensuring the consistency of each item of data with the object of observation and the comparability of the same data**

In this, particular attention was paid to the **heterogeneity of the data**.

Such issues have different implications and solutions depending on the type of data source, referring to which we can distinguish between:

1. Data taken from existing databases (either the MA's historical database or benchmarks on external databases)

In this case, consistency can be achieved through:

- **Harmonisation of data acquired from different databases** (e.g. if databases from two different ESF programming periods were used. In this case, it was necessary to take account of variability factors such as different definitions for the same type of action, different spending eligibility rules; different budget structures)
- **Consideration for the time factor** (within the analysis of the historical series). In this case, the data relating to different years were updated to the time of

the analysis, to take account of the values in terms of the time factor.

- **Consideration of the characteristics of the operations to which the data are related.** The joint use of data arising from the analysis of different previous operations, although they all appear similar to the one covered by SCOs, should be based on a preliminary assessment of the main characteristics of the same operations (i.e. objectives, specific actions, target groups, duration, setting, training methodology, context).
- **Isolation of the data related to extraordinary components**, which are “non-characteristic” of the operation to be standardised (e.g. the cost related to support services for disadvantaged participants, in the event that the standard parameters are to be applied to operations not specifically targeting these groups).

2. Data collected through dedicated Market Surveys designed and run by the MA

As these are specific forms of research, conducted with the specific objectives of implementing the SCO system, the issue of the heterogeneousness of the data was, from the outset, mainly handled by:

- **Designing unequivocal survey object (data) and tools** to ensure that the data processing is based on compliant and comparable data
- **Identifying the beneficiaries to be involved in the survey** paying particular attention to the representativeness of the sample, not only in terms of quantity (% of beneficiaries involved) but also with regard to their different characteristics, in terms of the main area(s) of intervention, public and private nature, dimension, etc.
- **Conducting information and guidance sessions with beneficiaries** being investigated before the surveys, in order to ensure their full knowledge and awareness of the object of survey, the nature of the requested data and the objectives of the work
- **Properly training the professionals** used for the surveys and the processing and analysis of the information;
- **Opting for participatory survey methods or fieldwork**, in order to limit the risks of interpretation or manipulation of the declared information
- **Investigating the data showing a significant deviation from the system**, to identify the reasons for the deviations and find standardisation models and paths.

The timeline of the process (from the design of the survey to validation of its results) may change

depending on various factors (the scope of the survey, the methodology adopted, the breadth and complexity of the system of beneficiaries involved in the survey ...). However, on average, the process was conducted in 4-6 months.

3.4. Verification of the methodology

The methods used to verify the methodology for determining SCOs involve 3 main areas of analysis:

1. Verifiability of the database used

For this requirement, it is important to mention that:

- **For the historical analysis**, the Managing Authorities used official ESF programming data (sources based on verifiable documentary evidence, in order to demonstrate the basis for calculation);
- **For the benchmark and market analysis**, a scientifically rigorous and operationally proceduralised survey methodology was designed, with the ability to trace all phases of the survey, providing the chance to find and trace back to input values at any time during their processing;
- **For the estimate of the percentage flat rate to apply to indirect costs**, some MAs not only examined the data for individual operations, but also checked and verified them by reclassifying and analysing the accounts of the beneficiaries, available within the ESF database (submitted by the beneficiaries in addition to the application for reimbursement of previous operations).

2. Enhancement of the data processing method

Here, we should point out the importance of using **suitable statistical functions** for the objectives of the investigation. In some cases, the statistical approach was designed in collaboration with university-level centres of expertise.

3. Assessment of the results

The results of the calculation were assessed by:

- **Calculating specific variability indexes** to outline the distribution of acquired input data with respect to the value determined for the parameter
- **“Counterfactual” verifications of the results obtained** (the value of the standard parameters). Specifically, these verifications were managed through a simulated comparison of:
 - the effective cost of a specific operation previously reported in “real costs”
 - the cost of the same operation resulting from the application of standard costs.

4. THE IMPLEMENTATION OF THE SYSTEM

4.1. Change management process

In this chapter we will try to illustrate how SCO systems have been put into practice.

As we are talking about the implementation of an innovative methodology, a proper introduction to the theme will be dedicated to describing **the change management process** that accompanied introduction of SCOs, in terms of:

- **Rationale of the process**
- **Main areas of Change**

The rationale of the change management process

Introduction of simplification options brought with it a phase of discontinuity from the cultural and operational paradigms previously adopted by Managing Authorities, paving the way for real change.

The outdatedness of the traditional management models thus required **a phase of development and adaptation** which was handled on two different levels:

1. Within Managing Authorities themselves, through:

- An initial drive to share and understand the rules, requirements and implications (direct and indirect) of SCO implementation
- Management of multidisciplinary working groups, instrumental to implementing the system and ensuring the adoption of an integrated approach to take account of and assess all the possible aspects and consequences
- Management of informational and training initiatives to transfer skills (ranging from the drafting of calls for proposals to monitoring and auditing operations) to all the different professionals involved so that the innovations might be properly and effectively implemented.

2. With the potential beneficiaries, by:

- involving them actively as early as the definition of the model, also through specific consultation during the market surveys

- setting up training, information and guidance initiatives, aimed at creating awareness of the changes around the introduction of simplified options, in order to ensure proper management of the SCO system, underlining its potential benefits
- Publishing and distributing specific manuals and guidelines concerning management and control systems.

In brief, the following key terms can be used for the rationale of the process:

- Positive attitude towards innovation
- Awareness raising
- Knowledge transfer
- Coordination of different roles, competences and skills
- Consistency between the solutions implemented

The main areas of change

The standardisation models should guarantee **logical and formal consistency** between the various implementation levels and the related documents :

- 1. The Methodological Document** whose purpose is to define the SCO system
- 2. The Management System** (Implementation and Control Manuals, Guidelines, ICT tools ...)
- 3. The Call for Proposals** (and related and subsequent documents: Application Form, Budget Template, FAQs, Activity reporting templates ...)

It is important to note that the changes arising from implementation of SCOs are to be placed within specific areas of intervention relating to:

- 1. Description of the operation:** Precise and unequivocal classification of the grant subject, including specific formalisation of the requisites and characteristics of the initiative (cf. process, outcome, conditions, ...)
- 2. Selection criteria:** eliminating irrelevant indicators (such as the appropriateness of the budget, the economic viability of the operation, etc.) and focusing on the effectiveness of the proposal in terms of the quality of

the proposed processes and the capacity to reach the expected results

3. Eligibility rules: no longer targeting the eligibility of expenditure, but based on more specific provisions concerning the eligibility of the activities

4. Criteria and conditions for determining the value of the grant, which must take account of

- the physical data (in terms of process and or results) relating to the standard unit costs;
- the determining factors for verifying the process or result;
- specific conditions (e.g. minimum thresholds, minimum requirements for outcomes ...)

5. Redefinition of the document management system⁽⁶⁾ (documents and tools) needed to trace, acquire and handle all process or outcome indicators proving delivery of the service and contributing to determination of the value of the grant

6. ICT systems, which requires review and adaptation to enable them to effectively support new information flows

7. Monitoring and evaluation system. In this regard, introduction of SCOs requires greater attention to:

- the quality characteristics of the input factors used to carry out the operation (e.g. experience and professionalism of human resources involved);
- the processes used to deliver the services;
- verification of the actual objectives achieved with funded operations.

Thus, it should be emphasised that greater investment in the quality of the initiatives should not be an indirect result, but rather an express objective of the simplification process.

8. Control and Audit procedures, based on actual execution of the service and managed through *On-desk* and *On-site* controls. The experience to date shows how eliminating the verification of all accounting documents supporting expenditure has made it possible/necessary to increase on-site checks, both in qualitative and quantitative terms, in order to ensure the proper execution of initiatives and redefine the specific audit procedures.

9. The system of Payments. In this regard, greater punctuality was found in the management of cash flows, after verification of individual expense items was dropped.

⁽⁶⁾ The point does not relate to the control of the expenditure flows (nor to control of the beneficiaries' analytical account system) but, conversely, aims to highlight briefly the need to ensure that the document management system can ensure the effective and efficient tracking and control of the physical progress (in terms of processes and outcomes) of the operations. Nevertheless, as stated in paragraph 2.4, one general principle valid for all reclassification processes is to ensure that each cost item is considered within one class only. Any overlaps will, in fact, lead to an over-estimation of the cost of the operation. This principle, mentioned in the description of the phase concerning the definition of the system by the MA, will guide the beneficiaries in the (combined) implementation of SCOs within a specific operation.

4.2. Main issues and solutions

The main issues and the solutions adopted in the SCO implementation phase can be systematised in the following chart:

Main issues	Respective solutions
Need to adjust the system of competences of the different operators involved (MAs + Beneficiaries)	Creation of formal and informal places of exchanges at inter-regional and transnational level Creation of multidisciplinary working groups Management of information and training initiatives
Need to redefine the rules of management, auditing and control	Review of management rules, procedures and tools Emphasis on specific examples and cases (to ensure full understanding)
Ensuring verification of the effective and correct execution of the operation	Intensification of on-site checks Identification of the execution issues on which to base the value of the grant (process and result) More emphasis on compliance checks, on the quality of the initiative (change in object of control)
Safeguarding the economic equilibrium of the operation	Clear definition of the costs related to each part of the operation (no overlap) "Counterfactual" verifications (simulated comparison: SCO vs Real Costs) Combination of process and results orientation within the same operation Scalability of the value of the grant
The need to take account of the specific complexity of some operations	Splitting the operation into "single objectives" Combination of SCOs Combination of SCOs and real costs
Preventing the risk of "creaming"	Targeted Calls for Proposals Additional types of service Higher unit cost value Extended duration of the action
Preventing moral hazard behaviours	Clear and detailed definition of the quality standards Enhancement of procedures and tools Greater emphasis on execution (process and result)
Compliance with Subcontracting and State Aid rules	Considering the impact of State Aid rules while determining the value of the standard parameters Verification of the truthfulness of the Beneficiaries' Statements attesting the compliance with relevant rules, through targeted checks
Verification of payments made by beneficiaries for obligations undertaken to implement the operations	Beneficiaries' Statement attesting to actual and final payment of all expense pertaining to the operation (the approach adopted assumes the responsibility of the beneficiary, with legislation imposing specific penalties for false statements) Documentation issued by the competent authorities attesting to payment of social security contributions and taxes

4.3. Management of specific cases

In order to ensure compliance with all the conditions and requirements related to the characteristics of the operation that is subject to standardisation, Managing Authorities have established – and some in great detail – special cases (i.e. irregularities and nonconformities) to be considered when determining the value of the grant.

An analysis of the Italian situation points to the following types of cases as the most significant in terms of frequency and importance:

A. Nature of irregularities/nonconformities

- Failed or erroneous advertising and promotion of the initiative
- Failure to observe the selection procedures for participants
- Lower number, by a given percentage, of service participants than originally planned
- Definite, significant and not sufficiently justified discrepancies with the approved operation
- Activities carried out with no specific requirements (venue, equipment, professionalism of the operators, ...)
- Failure to comply with the scheduled start and end times for the initiative, or the planned calendar of activities
- Non-compliant or irregular activity log management
- Failed or non-compliant management of the monitoring system specifically designed for verification of physical data (process or result)
- Failed, irregular or non-compliant management of the procedures for verifying the competences acquired by participants.

B. Consequent measures:

- Reduction in percentage of the overall cost of the operation
- Reduction in the value of one or several standard unit costs used to determine the value of the grant;
- Non-recognition, or redetermination of the variable for which the standard unit of cost was indexed when determining the cost of the operation.
- Withdrawal of funding.

4.4. System's revisions and updates

The evolution of the simplification systems adopted by the Managing Authorities took place along two separate but complementary lines of revision and updating:

1. Progressive introduction of simplification options according to different types of actions.

Most Managing Authorities gradually expanded and diversified the objective scope of application of the system, according to the different types of actions set out in the Operational Programme. In some cases, this process also led to the introduction of new types of parameters and the adoption of new and additional approaches (process- and/or results-based) than planned in the original formulas. However, this did not necessarily entail a change in strategy with respect to the choices made during first-time application. Instead, it involved adaptation of the system to take account of the specific characteristics of the types of actions considered later.

2. Updating values assigned to the various parameters, through the review of originally approved Methodological Documents.

In this case, the review of previously approved Methodological Documents did not alter the overall structure of the system. Rather, the aim was primarily to:

- integrate and enhance the system, through further benchmark and market research
- update the value of the standard parameters, depending on the performance of objective variables such as:
 - Inflation rate
 - Tax rates
 - The higher cost of human resources, following the review of collective agreements for industry operators.

According to the principles set out in EC Reg. 396/09, the costs must be *established in advance*.

Thus, it might be useful to mention the provisions of the COCOF note 09/0025/04 - par. IV.2.1, clearly specifying that:

It is important to communicate to the beneficiaries in the grant decision the exact requirements to substantiate the declared expenditure and the specific output or outcome to be reached.

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

These principles and provisions were followed (and should be followed) not only during initial implementation of SCOs but also in those cases where the methodology was updated.

In final analysis, we can conclude that:

- **The standard cost systems defined for first-time application were satisfactorily sound**, given that none of the Managing Authorities were in a position to make radical (or even non-essential) mandatory changes to the choices previously made
- **In many cases, Managing Authorities did not see the introduction of simplification options as a “one-off” process**, but rather as a system that is evolving systematically to take account of:
 - possible new objectives assigned to ESF-funded initiatives
 - changes in dynamics in the reference context (e.g. greater competitiveness in the system of operators; growth of the operators in terms of size, with consequent economies of scale;) with regard to the cost system determining standard unit costs.

5. RESULTS AND CONCLUSIONS

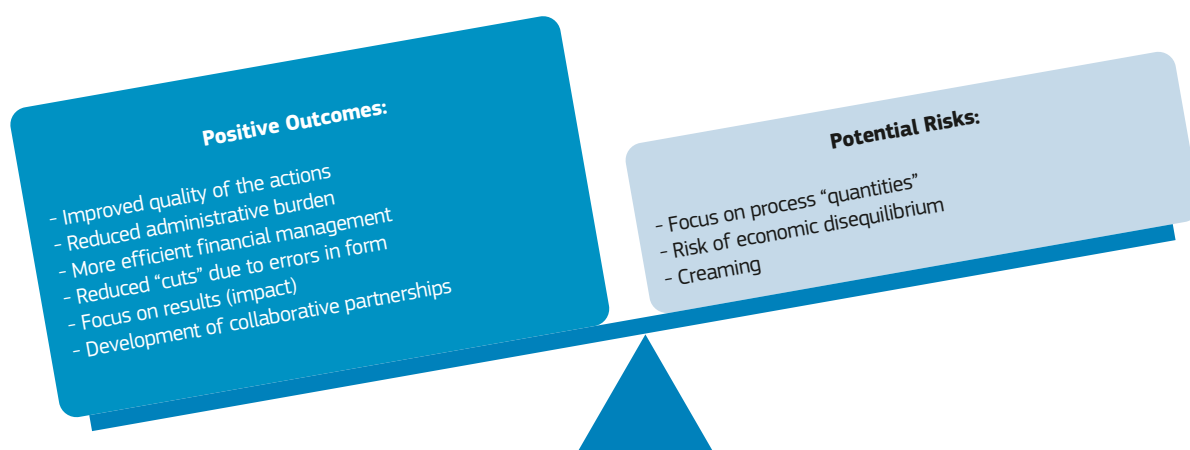
5.1. Case balance: positive and negative outcomes

In the first chapter of this Study we defined the implementation of an SCO system as “an investment”.

We then tried to describe how this investment was made, in terms of resources and processes relating to its design, implementation and revision.

Now, it is time to weigh up the positive and negative outcomes (or rather, the potential risks) produced by this investment in the Italian experience.

This assessment can be displayed on a balance as follows:



Generally speaking, the “weight” of the positive outcomes was much higher than the “load” of the potential risks.

Thus, the balance of the investment has certainly been positive.

The two “scale pans” (positive and negative) can briefly be described as follows:

Positive outcomes:

- 1. Improved quality of the programming process**, with identification of priorities and early definition of the outputs and expected outcomes of the actions
- 2. Reduction in administrative workload of the Managing Authorities**
 - Lighter administrative monitoring and control procedures
 - Easier communication with beneficiaries

3. More rapid, flexible and efficient financial management of operations:

- No more budget reallocations for financial reasons only
- No more discussions with the beneficiaries about the eligibility of each single small expenditure
- Faster payment of expenses, thanks to improvements in payment handling times

4. Reduced risk of spending cuts

related to errors due to the complexity of the legal and implementing framework concerning the eligibility of the expenditures in “real costs” systems

5. Greater emphasis among operators on the pursuit of clear, concrete and measurable results

6. Development of collaborative/competitive partnerships and approaches

among operators, with the results-oriented objective of enhancing excellence.

Potential risks (and possible countermeasures):

1. Risk of steering beneficiaries towards concentrating on the quantitative aspects of the process, to the detriment of the quality of the services delivered (i.e. potential “moral hazard” involved in determining a fixed parameter, possibly leading to the selection of lower quality and hence lower costing factors of production).

Countermeasures: process enhancement (ensuring greater emphasis on the quality of services, identifying minimum standards as a prerequisite and strengthening the monitoring and evaluation of such standards)

2. Risk of economic disequilibrium of the operation, in terms of:

- **Overpayments** (value of the grant resulting from the application of SCO > real cost of the operation)

Countermeasures: designing and implementing SCOs through a system-based (integrated and multidisciplinary) approach. Clear definition of the action covered by SCOs, the conditions related to the grant and the cost items covered by each standard cost unit (no overlaps).

- **Underpayments** (value of the grant resulting from the application of SCO < real cost of the operation)

Countermeasures: mitigating the impact of results-based approaches (also mixing them with process-based options, making sure the scope of the 2 approaches within the same operation is well distinguished)

3. Increased risk of creaming during the selection of participants, potentially jeopardising the principle of equal access to the ESF.

Countermeasures: launching calls for proposals which target specific priorities, application of a higher value for the standard unit cost for services delivered to particular target groups, designing specific services supporting disadvantaged participants.

and all the different institutional levels involved. It has brought about a clearer orientation to aspects relating to the execution of operations (results and outputs) and is a valuable opportunity to improve the programming process for initiatives, optimising resources in relation to policy objectives and defined priorities.

The experiences examined thus allow us to focus on a number of essential elements that can help capitalise and further enhance the work done so far:

- **The introduction of simplification options should not be seen as a “one-off” process, but rather as a system that is evolving systematically** to take account of:
 - possible new objectives that can be reached thanks to the ESF
 - changes in the various local contexts and developments in participants’ needs and resources
- **This makes it absolutely necessary to ensure coordination between the different levels of programming and management, and the consistency of all implementation solutions** (systems and tools)
- **The introduction of simplification options enables a significant growth in the quality and quantity of payment of certified expenditure.** It may thus be an important opportunity to ensure compliance with ESF spending objectives and achieve higher performance levels in terms of the impact of the operations financed
- **Less focus on the administrative aspects should be compensated by a stronger emphasis on monitoring the quality of the actions and the results achieved.** Such an approach would have an impact on:
 - the verification and audit systems implemented by the Managing Authorities, who may step up the on-site monitoring activities designed to check the suitability, accuracy and conformity of the operation
 - greater focus, on the part of the beneficiaries, on all aspects of the operation’s objective, investing in those factors determining the quality and goals (process or results related) of the initiative

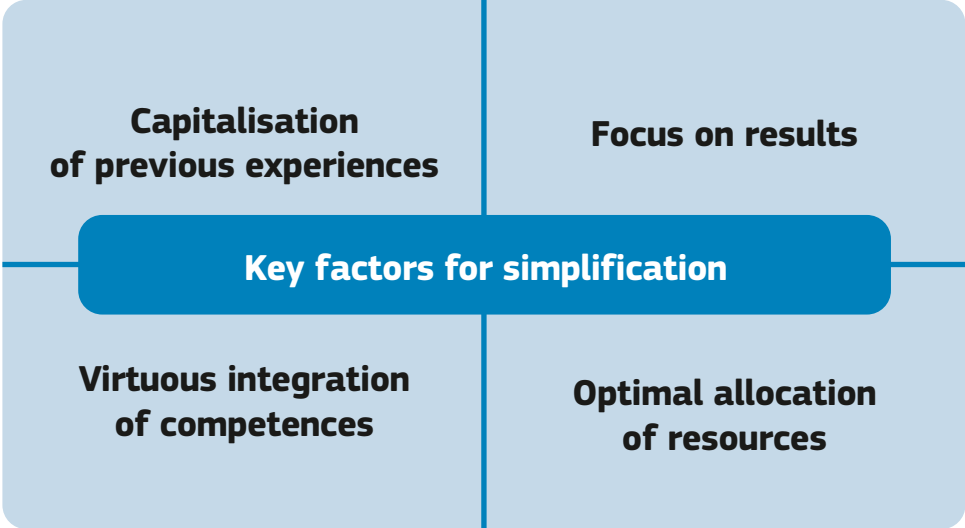
Last, but not least: **Simplification cannot be seen as one-sided.** All stakeholders of the cohesion policy should make their own contribution to implementation of the simplification principle. The Managing Authorities shall enforce the rules and procedures with beneficiaries. In turn, the beneficiaries should reassess their work methods and take advantage of the opportunities arising from the lighter administrative workload, but focusing on higher standards of quality.

5.2. General lessons and conclusions

The analysis of the numerous experiences conducted in Italy regarding implementation of SCOs shows that they facilitated a wider process of change and permeated and helped to innovate ESF management models at all levels.

With its operational objective of simplifying the procedures for the administrative management of ESF co-funded operations, the impact of Regulation 396/2099 has permeated all areas linked to the implementation of Operational Programmes (programming, management, auditing and certification of expenses)

In brief: simplification is a joint effort and a joint responsibility, which requires the definition of development paths based on 4 key factors.



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THE IMPLEMENTATION OF SIMPLIFIED COST OPTIONS WITH THE EUROPEAN SOCIAL FUND IN ITALY A CASE STUDY ON THE 2007–2013 EXPERIENCE

SCOs were introduced in the 2007–2013 programming period for ESF in order to reduce the administrative burden on Managing Authorities when implementing ESF co-funded projects and on beneficiaries. SCOs enable also to shift the focus from input to output and results. This thematic paper shares the Italian experience with this tool in the hope that good practices can be taken up by other EU countries when managing ESF projects. This publication is available in English.

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