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**POLICY DEPARTMENT
STRUCTURAL AND COHESION POLICIES B**



**RESEARCH FOR REGI
COMMITTEE - SIMPLIFIED
COST OPTIONS IN
PRACTICE**

STUDY

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**DIRECTORATE-GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

Regional Development

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Abstract

This study reviews experience with the application of Simplified Cost Options (SCOs), primarily under the European Regional Development Fund, in the programming periods 2007-2013 and 2014-2020. The focus is on the achievement of the immediate and wider objectives of the SCOs, notably the reduction of administrative burden/cost and the refocussing of resources from financial reporting and control to the implementation and achievement of policy objectives. The study presents the first evidence that the uptake of SCOs, owing to the improved regulatory framework and to enhanced guidance, has increased in the 2014-2020 programming period and that the SCOs are achieving their intended objectives.

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LIST OF ABBREVIATIONS

- AA** Audit Authority
- AGRI** Agriculture and Rural Development Committee, European Parliament
- CPR** Common Provisions Regulation
- EAFRD** European Agricultural Fund for Rural Development
- EC** European Commission
- DG EMPL** Directorate General Employment, Social Affairs & Inclusion, European Commission
- EP** European Parliament
- ERDF** European Regional Development Fund
- ESF** European Social Fund
- ESI** European Structural and Investment Funds
- HLG** High Level Group
- IB** Intermediate Body
- MA** Managing Authority
- OP** Operational Programme
- SCO** Simplified Cost Option
- REGI** Regional Development Committee, European Parliament
- DG REGIO** Directorate General Regional and Urban Policy, European Commission
- ToR** Terms of Reference

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EXECUTIVE SUMMARY

Introduction – objectives, scope and methodology

Further to a request by the European Parliament (Policy Department for Structural and Cohesion Policies), this study was prepared between December 2015 and April 2016.

The study reviews the performance of the Simplified Cost Options (SCOs), with focus on the achievement of the SCOs' immediate objective of simplifying and reducing administrative burdens and the wider objective of re-focusing resources from administration and financial control to the achievement of policy objectives. The focus is primarily on the European Regional Development Fund (ERDF), and to a lesser extent on the European Social Fund (ESF), covering the programming periods 2007-2013 and 2014-2020. The report was prepared on the basis of desk research and interviews with Structural Funds authorities and beneficiaries in nine Member States (referred to as stakeholders in the remaining text) and with the European Commission.

Simplified Cost Options – rationale and regulatory framework

The rationale underlying the introduction of the SCOs relates to concerns over administrative burdens and related consequences, with the SCOs aiming to simplify the use of the Structural Funds and, thus, reduce administrative burdens. Moreover, the SCOs are expected to reduce error rates, enhance the access to the Structural Funds of small beneficiaries with limited capacities and, in the medium-term, allow for a refocussing of resources towards the achievement of policy objectives.

The Structural Funds' regulatory framework for 2007-2013 progressively introduced three types of SCOs, namely flat-rate financing of indirect costs, standard scales of unit costs and lump sums. The 2014-2020 regulatory framework has largely maintained the *acquis*, whilst addressing identified deficiencies and providing additional detail.

Stakeholder feedback on the regulatory framework is generally positive, noting, *inter alia*, enhanced clarity and flexibility. However, stakeholders have suggested that further regulatory improvements are required, e.g. in the form of additional detail, flexibility or the adaptation of requirements to specific Member State conditions. Despite the progress made, legal uncertainty remains an issue, with room for interpretation discouraging Member States from using more innovative types of SCO. Stakeholders have also noted 'gold plating' issues with regard to EU-level audit of the SCOs. Finally, and in more general terms, there is a need for further harmonisation of regulatory requirements between the different European Structural and Investment (ESI) Funds, with different requirements affecting multi-fund programmes.

Enhanced uptake and achieving the immediate and wider objectives of SCOs

- As regards uptake, systematic data on the actual uptake of the SCOs under the ERDF (2007-2013 and 2014-2020) was not available at the time of writing. Whilst DG REGIO research covered uptake via a survey, this research is only due for publication in September 2016. DG EMPL research confirms an increase in uptake from 7 % in 2007-2013 to 35 % in 2014-2020.
- In terms of achievement of immediate objectives, simplification in general did not substantially reduce administrative burdens during the 2007-2013 programming period. Existing research indicates that Member States have experienced regulatory and methodological constraints when introducing SCOs. This notwithstanding, stakeholders consider the SCOs to have reduced administrative burdens and costs, contributed to reduced error rates and bolstered data protection. With regard to the programming period

2014-2020, stakeholders have provided positive feedback on EC guidance, while still perceiving guidance as being too general to ensure legal certainty. Indeed, while some stakeholders have expressed appreciation for EC advice, others have noted a need for more practical support. Some Member States have opted for an informal validation of their methodology by national auditors.

- As regards the use of SCOs, stakeholders have confirmed that the selection of SCOs is motivated by concerns over avoiding risks. Legal uncertainty is considered the main constraint for establishing SCO calculation methods. Overall, stakeholders have associated the SCOs with positive effects in terms of reducing administrative burdens, speeding up payment processes and reducing error rates. However, the SCOs have not been found to have made much of a difference with regard to attracting new beneficiaries.
- Finally, with regard to the wider objectives, desk research confirms the SCOs' potential in terms of reallocating resources to policy objectives, and this was validated by interview feedback, with, however, some exceptions.

Conclusions and recommendations

- At the time of writing, there is still limited experience with the SCOs, and further research (ideally starting in 2017) is required to provide a systematic assessment of their performance. For example, the stakeholder feedback collected in this study is not always conclusive, e.g. some Member State authorities and beneficiaries criticise the regulatory framework for a perceived lack of clarity, with provisions leaving room for interpretation, and note the need for more legal certainty. Other stakeholders consider that the framework needs to be more flexible to allow the SCOs to be better adapted to specific Member State contexts. This notwithstanding, the 2014-2020 programming period is witnessing an increased uptake of SCOs, and this is largely explained by improvements in the regulatory framework and enhanced EC guidance. The Member States' greater willingness to use SCOs in a systematic way in 2014-2020 is also explained by their often tentative, but largely positive, experiences in the 2007-2013 programming period.
- The aforementioned improvements of the CSOs notwithstanding, interviews conducted for this study suggest that further efforts are needed at design level, and in the context of guidance on, and the promotion of, the SCOs. On that basis, the study concludes with four recommendations, addressed both to the European Union institutions, responsible for the regulatory framework and related guidance, and to the Member States' Structural Funds authorities, responsible for implementation: (1) address regulatory obstacles to the use of the SCOs; (2) strengthen guidance and advice; (3) promote the SCOs; and (4) consider further harmonisation of different ESI Funds.

1. INTRODUCTION

KEY FINDINGS

- This study reviews the performance of the Simplified Cost Options with a focus on assessing the achievement of the immediate objective of simplifying and reducing administrative burdens, and of the medium-term objective of re-focusing resources from administration/financial control to the achievement of policy objectives.
- The focus is primarily on the ERDF, and to a lesser extent on the ESF, covering the programming periods 2007-2013 and 2014-2020. The study was prepared on the basis of desk research and of interviews with relevant stakeholders in nine Member States and with the European Commission.

This introductory section briefly presents the objectives and scope (Section 1.1), methodology (Section 1.2) and structure (Section 1.3) of this assessment of the Simplified Cost Options (SCOs), primarily in the context of the ERDF.

1.1. Objectives and scope

1.1.1. Objectives

The Terms of Reference (ToR) for this study require '*an overview of SCOs in Cohesion Policy and an analysis of their contribution to simplification of Cohesion Policy implementation*'. Three specific issues are highlighted:

- **Description of the SCOs:** The ToR require a clear presentation of the SCOs, including an introduction to their functioning, rationale and genesis over the programming periods 2007-2013 and 2014-2020.
- **Use of the SCOs:** The 2014-2020 regulatory framework for ESI Funds maintains the optional nature of the SCOs, i.e. it is up to the Member State authorities to decide whether or not to use the SCOs. In consequence, this area of research will focus on 'uptake', i.e. on how many Operational Programmes (OPs) apply the SCOs.
- **Achievement of the SCO objectives:** Two levels of objective can be identified: first, an immediate objective of simplification and reduction of administrative burden;¹ and second, a medium-term objective of re-focusing resources from administration, and financial control and audit, to supporting the achievement of policy objectives. The 'theory of change' implicit in the proposed approach is as follows: the application of the SCOs simplifies the implementation of the ESI Funds, meaning that less resources need to be dedicated to administration, reporting, financial control and audit, etc. (immediate objective). This in turn frees up resources that can be dedicated to supporting other more 'meaningful' aspects of delivery, most notably the achievement of intended outcomes, i.e. enhanced cohesion/reduced disparities (medium-term objective).

1.1.2. Scope

The study focuses primarily on the ERDF, and to a lesser extent on the ESF, covering two programming periods, 2007-2013 and 2014-2020. The ToR require the study to include findings relevant for the other ESI Funds, where appropriate.

¹ Administrative burden is defined as '*the part of administrative costs that businesses sustain simply because it is a regulatory requirement*' (European Parliament, 2011, referring to OECD, International Standard Cost Model Manual, October 2005).

In this context, it is worth noting a first caveat concerning the assessment of experience with the SCoS in the 2014-2020 programming period. This study reviews experience in early 2016. However, at this stage the actual implementation of the new programming period has only just started, and there is still limited experience with the use of the SCoS in practice.

Indeed, EC and Member State stakeholder feedback indicates that actual experience with the use of the SCoS in 2014-2020 is limited because of the recent start of the OPs. Interventions are not expected to progress to the stage of experiencing the benefits of the SCoS until 2017.² Interviews with Member State Managing Authorities (MAs) and ERDF beneficiaries have confirmed their – to date – very limited experience with the actual ‘performance’ of the SCoS in 2014-2020.

This implies that the review of the SCO experience in 2014-2020 will need to focus on the process of introducing the SCoS, e.g. at the level of the MAs, with limited scope for actual beneficiary feedback.

1.2. Methodology

The methodology was designed with a view to ensure the added value of this research assignment vis-à-vis other past and ongoing research on SCoS.

Added value with regard to past research is mainly ensured by this study’s comparative perspective, i.e. developments with regard to the SCoS between the two programming periods 2007-2013 and 2014-2020, and via the study’s interest in the wider objective of the SCoS, namely the reorientation of resources from financial management and control to implementation and the achievement of Cohesion Policy objectives.

Looking at ongoing research, it is worth noting two EC initiatives:

- In mid-2015 the EC initiated a substantial research effort focusing on the SCoS by launching the study '*The use of new provisions on simplification during the early implementation phase of the European Structural and Investment (ESI) Funds*' (duration 14 months, research budget of EUR 700,000).³ The objectives of this study include a mapping of the uptake of the SCoS, an appraisal of implications with regard to administrative burden and cost, and an assessment of ‘gold plating’. The study involves a comprehensive survey and interview schedule (85 interviews), and '*three case studies on each simplified cost option*'. It is worth noting that the study’s specifications do not refer explicitly to the objective of the SCoS of allowing for a refocusing of resources from cost reporting and control to implementation, and thus the achievement of Cohesion Policy objectives.
- On 10 July 2015 the EC established a '*High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds*' (hereinafter ‘HLG Simplification’).⁴ This group was tasked with the assessment of the uptake of simplification measures, related analysis and recommendations for improvement, and meets at least twice per year (a meeting on 1 December 2015 focused on SCoS; at a second meeting in April 2016, the HLG issued its conclusions and recommendations).

Considering the EC’s somewhat more quantitative approach (focus on uptake and related reduction of administrative burden and cost), this study carried out for Parliament has adopted

² Telephone interview with the EC’s DG EMPL (Directorate F, Unit 1), 20 January 2016.

³ http://ec.europa.eu/regional_policy/en/information/publications/studies/2015/study-on-the-use-of-new-provisions-on-simplification-during-the-early-implementation-phase-of-the-european-structural-and-investment-esi-funds.

⁴ European Commission, Commission Decision of 10.7.2015 setting up the High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds C(2015) 4806 final, http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification/.

a qualitative focus with a primary interest in the achievement of the SCOs immediate and medium-term objectives.

1.2.1. Desk research

Desk research helped to answer the first and second research questions (description of the SCOs and uptake); it also informed the work on the third research question (achievement of the objectives of the SCOs), mainly with regard to the quantification of administrative burden. Furthermore, desk research involved a review of existing documentation on the SCOs. This comprised the regulatory framework and other documentation (for an overview of the regulatory framework, see section 2.2 below).

Concerning other documentation, whilst the EC and the Member States have issued a substantial volume of guidance on the SCOs, there is very limited research to date on their performance. Existing research focuses on uptake and the related reduction of administrative burden/cost.⁵ A series of Parliament research assignments have adopted a more qualitative approach.⁶ Beyond this, several Member State courts of auditors have taken an interest in the SCOs.⁷

1.2.2. Interviews

Interviews were conducted at two levels, at EU and at Member State level. A first series of interviews focused on the EC, and involved the Directorate-General for Regional and Urban Policy (DG REGIO) and the Directorate-General for Employment, Social Affairs & Inclusion (DG EMPL). The aim was to discuss and understand the EC experience with the SCOs, including the focus of the ongoing research effort in the EC, and the possible added value of this study prepared for Parliament.

A second series of interviews focused on the level of the OPs in the different Member States, including ERDF and ESF programmes.

Whilst covering a wide range of aspects concerning the regulatory framework and design of the SCOs, the interviews focused on the achievement of their immediate and medium-term objectives, namely the reduction of administrative burden/cost and the reallocation of resources to policy objectives.

The interview selection was guided by the existence of relevant Member State experience with the SCOs, ideally covering the two programming periods 2007-2013 and 2014-2020.

Looking at the ERDF, by October 2011, 12 Member States had introduced SCOs: Austria, Belgium, Cyprus, Denmark, Estonia, Finland, France, Germany, Latvia, Portugal, Slovenia and the United Kingdom.⁸ In addition to these countries, later research confirms the use of SCOs in three more countries: Italy, Netherlands and Sweden.⁹

To allow for an in-depth reflection on the performance of the SCOs, this study focused on Member States using the SCOs in both programming periods. The selection of interviews also aimed to ensure the representation of different types of OPs (national/regional, single-/multi-fund) and length of experience with Cohesion Policy (EU 15/EU 13). Finally, interviews were organised with MAs, Audit Authorities(AAs) and beneficiaries (ERDF and ESF). Where not specified, the text refers to the interviewees as 'stakeholders'.

The following table presents an overview of the interview work.

Table 1: Interviews

⁵ European Commission, 2010b and 2012.

⁶ European Parliament 2010, 2011 and 2012.

⁷ Contact Committee 2014.

⁸ European Parliament, 2011.

⁹ Contact Committee 2014.

Member State	Type of OP	EU 15	EU 13	ERDF	ESF
EE	national		x	x	x
ES: Castilla-La Mancha	regional	x		x	
FI	national	x		x	x
FR: Auvergne-Rhône Alpes	regional	x		x	x
IT: Marche (National OP Enterprises and Competitiveness), Friuli Venezia-Giulia, Marche, Piemonte, Lombardy, Tuscany, Abruzzo, Calabria	regional and national	x		x	x
LV	national		x	x	x
NL: North Netherlands, West Netherlands	regional	x		x	
PL	national		x		x
SE: Stockholm and East Middle Sweden	regional	x		x	x

Source: Blomeyer & Sanz

2. THE SIMPLIFIED COST OPTIONS

KEY FINDINGS

- The rationale underlying the introduction of the SCOs relates to concerns over administrative burden and related consequences, with the SCOs aiming to simplify the use of the Structural Funds and thus reduce administrative burden. Moreover, the SCOs are expected to reduce error rates, enhance access to Structural Funds for small beneficiaries with limited capacities, and, in the medium-term, allow for a refocussing of resources towards the achievement of policy objectives.
- The Structural Funds' regulatory framework for 2007-2013 progressively introduced three types of SCOs, namely flat-rate financing of indirect costs, standard scales of unit costs and lump sums. The 2014-2020 regulatory framework has largely maintained the *acquis*, whilst addressing identified deficiencies and providing additional detail.
- Stakeholder feedback on the regulatory framework is generally positive, *inter alia* noting enhanced clarity and flexibility. However, stakeholders suggest that further regulatory improvements are required. Despite the progress made, legal uncertainty remains an issue, with room for interpretation that can discourage Member States from using more innovative types of SCOs.
- Stakeholders also noted 'gold plating' issues with regard to the EU-level audit of the SCOs.
- There is a need for further harmonisation of regulatory requirements between the different ESI Funds, with different requirements affecting multi-fund programmes negatively.

This section presents the rationale underlying the introduction of the SCOs (section 2.1), and reviews their regulatory framework (section 2.2).

2.1. Rationale

The SCOs were introduced for the first time in the 2007-2013 programming period, initially for the ESF, and then with amendments to the regulatory framework, also for the ERDF (see section 2.2 for detail on the regulatory framework).

The introduction of the SCOs was motivated by criticism over excessively demanding requirements with regard to financial control, i.e. by the need for simplification and the need to speed up spending in the light of the economic and financial crisis at the outset of the programming period.¹⁰

The EC presents the SCOs rationale in very concise terms (highlighting by the author):¹¹

*'Despite being well known for their actions, the European Structural and Investment (ESI) funds are also (still) known for their complexity. This affects the way ESI funding is perceived by national administrations and by citizens. [...] Regrettably, the image of the Fund has been historically hampered by a perception of **heavy administrative burden primarily linked with the need to justify all the expenditure that it supports**, which often consists of a*

¹⁰ European Parliament, 2010.

¹¹ EC DG EMPL (2015) Simplified Cost Options in the European Social Fund, Promoting simplification and result orientation. This document was shared with the authors on 18 January 2016. At the time of writing the document remains an internal DG EMPL working document, however it was shared with the European Parliament in the context of the Budget Discharge.

multiplicity of small spending items incurred by small beneficiaries. As a result, national administrations complain about the **resources needed to verify boxes of documents and timesheets**, while **beneficiaries are at a loss to understand why they must reimburse money to the EU for participants' bus tickets long after the ink has faded on those tickets**. Failure to ensure that the necessary verifications take place can lead to unacceptably **high rates of error** and, consequently, the necessity to interrupt and suspend payments to the Member States. Implementation of the necessary corrective actions, ensuring legal, regular and eligible spending of the funds, can lead to Operational Programmes being **blocked for up to several years**'.

With the expectation that the SCOs 'should result in lower administrative burden for beneficiaries, improved implementation and focus on results and lower error rates',¹² the EC's current guidance document details a series of expected benefits deriving from the use of the SCOs:¹³

- **Reduction of administrative burden and cost:** The guidance document first notes the positive impact of the SCOs on administrative burden and cost: '*Where simplified costs are used, the eligible costs are calculated according to a predefined method based on outputs, results or some other costs. The tracing of every euro of co-financed expenditure to individual supporting documents is no longer required: this is the key point of simplified costs as it significantly alleviates the administrative burden*'.¹⁴

A further benefit can be noted in relation to reduced administrative burden, namely enhanced compliance with data protection requirements resulting from the fact that the SCOs exempt project promoters from having to report/share confidential information such as staff salary. The same source suggests benefits in terms of enhanced relations within project partnerships, i.e. the SCOs reduce the need for 'discussing' individual cost items that can be covered by the application of one of the SCOs.¹⁵ There are also several references to difficulties in substantiating costs with relevant documentation, e.g. in the case of complex salary structures. The example of verification of labour costs is noted to illustrate the SCOs benefits: prior to the SCOs, the verification of salary costs covered seven different items (basic taxable gross salary, employer statutory costs, employer costs, total paid annual leave, contracted working days, contracted hours and hours worked). Following the introduction of the SCOs, this list is reduced to two items, namely hours worked and existence of the worker.¹⁶

- **Reduced error rates:** The EC guidance also emphasises a positive impact on error rates: '*Simplified costs also contribute to more correct use of the Funds (lower error rate)*'.¹⁷ The European Court of Auditors validates this finding.¹⁸
- **Enhanced access of small beneficiaries:** Moreover, the EC notes that SCOs '*will also facilitate access of small beneficiaries to the ESI Funds thanks to the simplification of the management process*'.¹⁹ This is confirmed by several stakeholders, noting that prospects of reduced administrative requirements attract applicants with more limited resources.²⁰
- **Focusing of resources on achievement of policy objectives:** Finally, the European Commission highlights a positive impact on the use of resources: '*Using simplified costs means also that the human resources and administrative effort involved in management of*

¹² European Commission, 2015.

¹³ European Commission, 2014.

¹⁴ European Commission, 2014.

¹⁵ Agentschap Vlaanderen, 2013.

¹⁶ Northern Ireland ERDF Managing Authority, 2015.

¹⁷ European Commission, 2014.

¹⁸ European Court of Auditors, 2015.

¹⁹ European Commission, 2014.

²⁰ Regional Ministry of Agriculture, Livestock, Fisheries and Water of the Canary Islands Government, 2015.

the ESI Funds can be focused more on the achievement of policy objectives instead of being concentrated on collecting and verifying financial documents'.²¹

2.2. Regulatory framework

This section reviews the regulatory framework of the SCOs over the two programming periods 2007-2013 and 2014-2020. Moreover, interview feedback on the adequacy of the current regulatory framework is presented.

However, before presenting the regulatory framework it is worth explaining the three types of SCOs (the text below is valid for both programming periods). Indeed, a European Parliament study provides a clear description of the three types of SCOs:²²

- Flat rates: '*Indirect costs declared on a flat rate basis: Indirect costs are declared on the basis of a percentage of direct costs [...]. Supporting documentation is only required for the direct costs.'*'
- Standard scales of unit costs: '*Flat rate costs calculated by application of standard scales of unit costs: Costs are reimbursed on the basis of set unit costs for specific processes (e.g. hours of training provided) or outcomes (e.g. number of trainees placed on the labour market). Reimbursement varies with the number of units achieved, e.g. number of hours of training delivered, or number of trainees placed on the labour market. Supporting documentation for real costs is not required. Setting the unit costs must be fair, equitable and verifiable.'*'
- Lump sums: '*Eligible costs of small projects are reimbursed on the basis of a pre-established lump sum with payment upon delivery of the activity/output. The calculation of the lump sum must be fair, equitable and verifiable.'*'

2.2.1. 2007-2013 programming period

SCOs were first introduced for the 2007-2013 programming period. This was initially limited to the ESF, and to one type of SCOs, namely flat-rate financing of indirect costs (Article 11.3(b), Regulation 1081/2006).²³ In 2009, this type of SCOs was extended to the ERDF. Moreover, two new types of SCOs were introduced for the ERDF and the ESF, namely standard scales of unit costs and lump sums (amending regulations 396/2009²⁴ and 397/2009²⁵ of 6 May 2009).

2.2.2. 2014-2020 programming period

The current regulatory framework on the use of the SCOs is set out at different levels.

The general framework is set out in the regulation governing all ESI Funds, i.e. the Common Provisions Regulation (CPR).²⁶ The CPR lists the three types of SCOs (standard scales of unit costs, lump sums, flat-rate financing) at the same level as 'real' costs ('reimbursement of

²¹ European Commission, 2014.

²² European Parliament, 2011.

²³ Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999.

²⁴ Regulation (EC) No 396/2009 of the European Parliament and of the Council of 6 May 2009 amending Regulation (EC) No 1081/2006 on the European Social Fund to extend the types of costs eligible for a contribution from the ESF.

²⁵ Regulation (EC) No 397/2009 of the European Parliament and of the Council of 6 May 2009 amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing.

²⁶ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

'eligible costs actually incurred and paid') (Article 67.1). The main differences vis-à-vis the 2007-2013 regulatory framework are shown in Table 2 below.

The general framework does not refer to any fund-specific provisions for the SCoS, and is supported with provisions under a Commission Delegated Regulation relating to flat rates for indirect costs.²⁷ The Delegated Regulation provides additional detail on flat-rate financing for indirect costs for operations under the ERDF in specific fields of intervention.

A further Commission Delegated Regulation on SCoS specifies the conditions for reimbursement related to standard scales of unit costs under the ESF in Sweden and France, in line with the possibility set out in the ESF Regulation (Article 14.1) to adapt standard scales of unit costs and lump sums to a specific Member State context.²⁸

The ERDF Regulation does not refer to any fund-specific conditions for the SCoS.²⁹

Comparing the regulatory framework between the two programming periods, the table below shows that the SCoS *acquis* from the programming period 2007-2013 was maintained, whilst further detail was introduced to enhance legal certainty. It also appears that the changes introduced in 2014-2020 react to weaknesses identified for 2007-2013.³⁰ For example, criticism over the maximum threshold for lump sums of EUR 50 000 was met by increasing the threshold to EUR 100 000.

Table 2: Changes in the regulatory framework³¹

	2007-2013	2014-2020
Lump sums	Limited to EUR 50,000 (Art. 1.2 (ESF), (Art. 1.3) (ERDF)	Increased to EUR 100,000 (Art. 67.1 (c))
Flat-rate financing	Limited to indirect costs; up to 20 % of direct costs (Art. 1.1 (ESF), (Art. 1.3) (ERDF)	Up to 25 % of direct costs with need for demonstrating fair, equitable and verifiable calculation (Art. 68.1 (a)); 15 % of eligible direct staff costs without need for calculation (Art. 68.1 (b)); flat rate applied to direct costs based on existing methods/corresponding rates applicable in Union policies for similar type of operation/beneficiary

²⁷ Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund.

²⁸ Commission Delegated Regulation (EU) 2015/2195 of 9 July 2015 on supplementing Regulation (EU) No 1304/2013 of the European Parliament and of the Council on the European Social Fund, regarding the definition of standard scales of unit costs and lump sums for reimbursement of expenditure by the Commission to Member States.

²⁹ Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006.

³⁰ European Parliament, 2011.

³¹ References to the 2007-2013 programming period are based on Regulations 1081/2006, 396/2009 and 397/2009; references to the 2014-2020 programming period are related to Regulation 1303/2013.

	2007-2013	2014-2020
Definition of SCOs	Established in advance on basis of fair, equitable and verifiable calculation (Art. 1.2 (ESF), (Art. 1.3 (ERDF))	Fair, equitable and verifiable; plus four additional approaches (Art. 67.5 (a-e))
Public procurement	Not envisaged	SCOs can apply under certain conditions to operations involving public procurement (Art. 67.4)

Source: Blomeyer & Sanz

Drawing on interviews with stakeholders in the Member States, the following paragraphs address the adequacy of the current regulatory framework vis-à-vis practical implementation experience.

Stakeholder feedback on the regulatory framework generally positive

MAs and beneficiaries generally provided positive feedback on the current regulatory framework for the SCOs. Stakeholders highlighted the improvements, pointing to the wider range of options available under the current regulatory framework of 2014-2020 (Finland, Latvia, Poland, Sweden, France, Netherlands), and the enhanced clarity and flexibility (Italy).³² Stakeholders from a few countries considered that the regulatory framework was not sufficiently adapted to the nature of ERDF interventions, most notably in the case of infrastructure investments (Estonia, Italy, Spain).

There was limited AA feedback on the regulatory framework, the argument being that it is still too early to provide an opinion. Nevertheless, some AA representatives indicated high expectations as to the regulatory framework's impact on their work. For example, feedback from an AA in Finland specifically referred to lump sums, not an option previously used in that country.

Despite progress, legal uncertainty remains an issue

Some MAs considered legal certainty to have improved with the CPR (Finland, Latvia). Other MAs recognised the progress made (Poland), but highlighted that the regulatory framework still left too much room for interpretation (Sweden, Netherlands, Italy). In some cases, this had discouraged MAs from experimenting with innovative measures, opting instead for 'safe options' (Estonia).

³² In Finland, both the MA and the IB mentioned '*substantial improvements for the period 2014-2020*', including not only the new measures but also the new IT system that facilitates managing the entire life cycle of projects. In this respect, the Helsinki Business Hub, which has experience with ESF and ERDF projects (in the 2007-2013 and 2014-2020 programming periods, respectively), highlights the increase in options available in 2014-2020. The Hub project involves much travelling outside Finland, which in the past would have resulted in tedious tasks of collecting and reporting many travel tickets to the MA. Thanks to using the flat-rate 24 % option, this is not needed anymore, resulting in less time spent on administrative tasks.

Box 1: Difficulties with applying flat rate schemes in Estonia (Article 68.1(c), CPR)

Estonia intended to apply the Horizon 2020 flat-rate scheme in the ERDF OP 2014-2020, but the idea was abandoned owing to difficulties in interpreting parts of the regulation. For example, the MA was not entirely clear about the meaning of '*similar operation and beneficiary*' (Article 30 CPR), stating that '*in case of doubt we could not risk it*'.

Others argued that the regulatory framework was 'still too complex', drawing parallels with earlier programming periods (Spain) or referring to issues of incompatibility between EU and national regulations as the main cause of legal uncertainty (France).

Box 2: Flat-rate financing for staff costs in France (Article 68.2 CPR)

The MAs in France have a tendency to use the least risky option because of high uncertainty. One MA identified several factors, but the main cause was the compatibility between regulations. Defining the right output and result indicators, and finding the right data when designing a method, is a complex task and a source of uncertainty. There are also many questions regarding the method for calculation of staff cost using the '1720h' method, as defined in Article 68.2 CPR. Finally, there is limited clarity on the methods for future controls.

One MA reflected on the dilemma of flexibility versus legal certainty. It argued that Member States demanded more and more room of manoeuvre from the EC for managing the funds, on the one hand, and higher levels of legal certainty, on the other, and this was considered somewhat contradictory (Sweden).³³

'Gold plating' issues identified at EU level

The concept of 'gold plating' generally refers to a national/regional regulatory requirements going beyond the requirements set out at EU level. Stakeholders did not consider 'gold plating' to affect the introduction of SCOs in their national regulatory framework. However, several stakeholders referred to unnecessarily complex rules at EU level. For example, in Finland many projects are co-financed 50 % by the ERDF and 50 % by national funds. In this context, national regulations could have been amended so as to be better aligned with the EU regulatory framework. However, this did not happen as '*we do not want to add the complications that the EC usually adds*' (Finland). Others went even further, indicating some cases of 'gold plating' by EU auditors (Sweden) or noting procedures perceived by the interviewed MA as unnecessary (France, Italy).

³³ The MA in Finland argued that if the EC had only set up a flat rate of 20 %, for example, this would have been positive in terms of increasing legal certainty, but to the detriment of flexibility.

Box 3: Alleged 'gold plating' experience in Sweden and Italy

In Sweden, an MA explained that, according to regulations, project timesheets were only to be signed by employees. However, in the context of an ERDF event, the MA heard EU auditors indicating that timesheets must be signed both by the employee and by the employer. The MA has decided to ignore this information and only ask for the employee's signature. In fact, for some projects involving large staff numbers in complex environments (e.g. projects run by universities), applying the 'double signature' would have had a negative impact on the project's performance, i.e. getting the manager to sign all timesheets could be a long/tedious task.

In Italy, an MA suggested, with regard to the standard scales of unit costs, to adopt monthly timesheets instead of daily timesheets as a way to reduce the administrative burden. This would be particularly useful for small and medium-sized beneficiaries whose staff are not usually involved full-time in a project, and for beneficiaries running long-term projects.

Need for further harmonisation of regulatory requirements

Stakeholders noted a need for further harmonisation of rules, both within EU funds (ESF and ERDF) and between ESI Funds and national funds. With respect to the former, MAs of multi-fund OPs noted the complexity of running a programme subject to different levels of rules, depending on the nature of the activity (Finland, Estonia). Furthermore, one MA acknowledged having advised beneficiaries against multi-fund projects, as these are '*almost impossible to apply in practice*' (Sweden).³⁴ In Italy, several regional MAs considered DG REGIO and DG EMPL to have different views on the SCoS, arguing that the former allowed for less flexibility. In France, MAs were concerned about the lack of harmonisation of regulatory requirements with regard to financial control and audit. While they comply with EU requirements regarding SCoS, there is a fear that the national control authorities may apply different requirements.

Similarly, several beneficiaries complained about having to work with different regulatory frameworks depending on the source of funding. For example, a parking ticket can be considered a direct or indirect cost, depending on the source of funding. This relates to the situation of projects including some activities where parking tickets are funded by national funds, and other activities where parking tickets are funded by the ERDF, thus increasing the complexity of management and the likelihood of errors (Sweden).

³⁴ The MA in Sweden refers to the application of Article 98.2 of the CPR that allows the complementary funding of ERDF and ESF for an OP.

3. ACHIEVING OBJECTIVES

KEY FINDINGS

- As regards uptake of SCOs, systematic data on the actual uptake under the ERDF (2007-2013 and 2014-2020) was not available at the time of writing. Whilst DG REGIO research covered uptake via a survey, this research is only due for publication in September 2016. DG EMPL research confirms an increase in uptake from 7 % in 2007-2013 to 35 % in 2014-2020.
- As regards the achievement of immediate objectives, in 2007-2013, simplification in general did not substantially reduce administrative burden. Existing research indicates that Member States experienced regulatory and methodological constraints when introducing the SCOs. This notwithstanding, stakeholders considered the SCOs to reduce administrative burden and cost, and to contribute to reduced error rates and data protection. With regard to the programming period 2014-2020, stakeholders provided positive feedback on EC guidance, but still perceived it to be too general to ensure legal certainty. Some stakeholders voiced the need for more practical EC support. Some Member States opted for an informal validation of their methodology by national auditors.
- As regards the use of the SCOs, stakeholders confirmed that the selection of SCOs is motivated by concerns over avoiding risks. Legal uncertainty is considered to be the main constraint for establishing the SCO calculation methods. Overall, stakeholders associated the SCOs with positive effects in terms of reduced administrative burden, faster payment processes and reduced error rates. However, the SCOs were not found to have made much of a difference with regard to attracting new beneficiaries.
- Finally, with regard to the medium-term objectives, desk research confirms that the use of SCOs may lead to reallocation of resources to policy objectives, an observation that was validated by interview feedback.

This section examines the extent to which the immediate and medium-term objectives of the SCOs have been achieved. Section 1.1.1 outlined the immediate objective of simplifying/reducing administrative burden, and a medium-term objective of re-focusing resources from administration/financial control and audit to supporting the achievement of policy objectives.

First, we review the actual uptake of the SCOs, i.e. the extent to which Member States have decided to make use of the SCOs as an alternative to 'real cost' reimbursement (section 3.1). We then discuss the achievement of immediate objectives, e.g. the reduction of administrative burden and cost and / or reduced error rates (section 3.2); the section finally explores the achievement of the medium-term objective of reorienting resources to the achievement of policy objectives (section 3.3). The experiences under the two programming periods, 2007-2013 and 2014-2020, are discussed separately.

3.1. Uptake

This section first presents findings on uptake from desk research and interviews with the EC (covering both the ERDF and the ESF), then reviews feedback from interviews in the Member States.

Systematic data on SCOs uptake under the ERDF not available

Systematic data on the actual uptake of the SCOs under the ERDF (2007-2013 and 2014-2020) was not available at the time of writing. Indeed, existing DG REGIO research did not comprise any systematic research on the uptake of the SCOs, and existing DG EMPL research focused on the ESF and did not look at uptake under the ERDF.

This notwithstanding, an ongoing DG REGIO research assignment on the use of new provisions in the early implementation phase is currently ongoing, and is expected to facilitate insights into the uptake of the SCOs in 2014-2020. The first results on uptake were expected in April 2016, and the study is due to be published in September 2016.³⁵ The limited insights into the actual uptake of the SCOs explain this study's focus on the uptake and related quantification of reduced administrative burden. Data on uptake is currently being collected by means of a survey of MAs.³⁶ The REGIO study's interview / case study focus covers the Czech Republic (OP Enterprise and Innovation or OP Transport), Germany (North-Rhine Westphalia or Saxony), Estonia, UK (Northern Ireland), Poland (OP Digital Growth – Broadband), Italy (Puglia) and Croatia.³⁷

DG EMPL research confirms important increase in uptake of SCOs under the ESF

DG EMPL conducted a survey looking at the uptake and effectiveness of the SCOs in the 2007-2013 and 2014-2020 programming periods.³⁸ This survey aimed to establish a baseline for the use of the SCOs. **DG EMPL feedback suggests a substantially increased uptake of SCOs in 2014-2020** (see Figure 1 below).³⁹ This notwithstanding, it is also noted that some of the most innovative types of SCOs, e.g. lump sums relating reimbursement to the achievement of results, continue to meet with limited Member State enthusiasm. To some extent this is explained by the effort associated with the initial establishment of these types of SCOs (e.g. Article 14.1 of the ESF Regulation, Joint Action Plans). DG EMPL addresses Member State concerns by offering cooperation and support in the process of establishing the SCOs.

Looking at the findings of the DG EMPL survey, it is worth highlighting the following:⁴⁰

- 2007-2013: 7 % of total ESF expenditure, or approximately EUR 8 billion, was declared under at least one type of SCO; 63 OPs used flat-rate financing, 65 OPs used unit costs, and 12 OPs used lump sums;
- 2007-2013: The DG EMPL survey also identifies a number of obstacles to the introduction of the SCOs that explain the 'low' uptake of 7 %, including legal uncertainty, fear of systemic error and poor alignment with national/regional legal systems: '*A further obstacle can be*

³⁵ DG REGIO (Deputy Directorate General for Implementation, Unit 1 Better Implementation) was asked to share the data on uptake, emails of 14 January and 17 March 2016, both without any response by the time of finalising this report at the end of April 2016.

³⁶ Telephone interview with REGIO (Deputy Director General for Policy, Performance and Compliance, Unit 1), 14 January 2016.

³⁷ DG REGIO, Email, dated 20 January 2016.

³⁸ DG EMPL (2015) Simplified Cost Options in the European Social Fund, Promoting simplification and result orientation. This document was shared with the authors on 18 January 2016. At the stage of this review the document remains an internal DG EMPL working document, however it was shared with the European Parliament in the context of the Budget Discharge.

³⁹ Telephone interview with EMPL (Directorate F, Unit 1), 20 January 2016, DG EMPL.

⁴⁰ DG EMPL (2015) Simplified Cost Options in the European Social Fund, Promoting simplification and result orientation. This document was shared with the authors on 18 January 2016. At the stage of this review the document remains an internal DG EMPL working document, however it was shared with the European Parliament in the context of the Budget Discharge.

national/regional legal systems which do not allow for, or do not easily accommodate, the use of certain types of simplified cost options. In less rigid examples of this, there can be a double system in place; the SCOs system for the EU declaration and a real cost system for the national/regional co-financing. Whenever the national/regional co-financing is not based on the same rules as the EU expenditure, the introduction of SCOs solely for the EU declaration necessitates a double accounting system, which creates an additional burden for Member States and beneficiaries'.

- 2014-2020: The DG EMPL survey finds that 35 % of total ESF expenditure, or approximately EUR 37.6 billion, will be declared under at least one type of SCO. This amounts to a five-fold increase relative to the results for the 2007-2013 programming period; 80 % of OPs intend to use SCOs; the intended use of the SCOs focuses on flat-rate financing (98 %), standard scales of unit costs (94 %), lump sums (79 %).
- 2014-2020: Looking at SCOs uptake by Member State, it is worth noting that the DG EMPL survey points to 18 Member States making an under-average use of SCOs, i.e. under 35 % of total costs declared under one of the SCOs (Bulgaria, Cyprus, Czech Republic, Germany, Denmark, Estonia, Finland, France, Croatia, Hungary, Ireland, Lithuania, Latvia, Malta, Romania, Slovenia, Slovakia, United Kingdom); whilst 10 Member States are estimated to declare over 35 % of total costs under one of the SCOs (Austria, Belgium, Spain, Greece, Italy, Luxembourg, Netherlands, Poland, Portugal, Sweden) (See Figure 1 below).

Flat rates the most 'popular' type of SCOs (for both ERDF and ESF)

Member State interviews confirm that **flat rates are the most 'popular' type of SCOs, no matter the type of OP**, i.e. in Member States with national and regional programmes (Sweden, France), single national multi-fund programmes (Finland, Estonia, Latvia) or regional programmes (Netherlands). For some, this choice is based on their previous experience in 2007-2013 (Sweden, France), or driven by risk aversion, i.e. flat rates are considered a 'risk free' option (Estonia).

Sometimes the MAs oblige beneficiaries to use the SCOs established for the OP (Sweden, Estonia). The MA in Estonia motivated beneficiaries to use SCOs by providing, in national law, that indirect costs, such as electricity, heating, telephone , etc., are only eligible if SCOs are used. In other cases, the beneficiary is free to decide on the use of SCOs, e.g. using the lump sum option in regional OPs (Poland).

The MA in Finland established the flat-rate thresholds based on beneficiary feedback on the 2007-2013 programming period, and the real cost option is now only used in exceptional cases (e.g. in the absence of staff costs).⁴¹ Latvia introduced flat rates of up to 15 % of direct staff costs, based on rates used in other EU policies, and standard scales of unit cost. Estonia introduced unit costs to cover undergraduates' and postgraduates' travel costs during their mobility period under an R&D measure, drawing on the Erasmus+ unit costs. The Netherlands uses 15 % of the gross monthly salary, added to a 32 % flat rate for social charges, as well as standard scales of unit costs for calculating hourly rates for labour costs.⁴²

The MA in Spain intends to introduce unit costs gradually for R&D and initiatives to promote the internationalisation of businesses. The idea is to take advantage of stakeholder experience with similar measures under Horizon 2020 (for R&D), of the feasibility to set unit costs on the basis of existing historical data (for initiatives to promote business internationalisation) and of the need to reduce the administrative burden of the research community, with a view to promoting R&D initiatives.

⁴¹ In 2007-2013 beneficiaries in Finland complained about flat rates being too low to cover real travel costs. For that reason, for 2014-2020 the MA has established two different thresholds, namely 17 % and 24 %, the latter only for projects including travel costs in their budget.

⁴² *Integrale Kosten Systematiek*.

The lump-sum option is used in Finland for feasibility studies (up to EUR 100 000), where it is regarded as very useful as it allows for the feasibility of projects to be assessed before any further steps are taken. Poland also uses lump sums in regional OPs, although this is not obligatory, and no information was available on the actual uptake. In Italy, most regional programmes, albeit not all, intend to introduce SCOs (flat rates and standard scales of unit costs) in R&D projects and technical assistance programmes. Flat-rate limits will be set drawing on either existing examples, Horizon 2020 or the 15 % limit set out in the regulatory framework.⁴³ In France, the SCOs methodology for flat rates was validated by the EC for 2007-2013, and the same method is used for the current period.

No systematic information on uptake under the ERDF – estimated range 10-25 %

Very few MAs provided information on uptake. For example, in Finland, while flat rates are obligatory for staff costs, at the time of the interview no information was available on a number of projects, including figures on staff costs.

Some Member States provided estimates, e.g. in Finland, 64 % of ERDF projects use SCOs, amounting roughly to 25 % of total funding. In Latvia, the estimated coverage is about 7 % for flat rates, and about 7 % for unit costs. Other countries, such as Estonia and Spain, see limited scope for the application of SCOs under the ERDF, with an estimated uptake of 10-15 % in the case of Spain. In the Netherlands, feedback indicates that almost all staff costs in ERDF projects are expected to use the 15 % flat rate. Considering the importance of staff costs, SCOs are expected to cover a substantial volume of the ERDF funds. In Italy, the MA of the Friuli Venezia-Giulia region estimated the value of the coverage to be approximately 25 % for 2014-2020, similar to the value for 2007-2013.

Introduction of SCOs constrained by the large variety of ERDF interventions

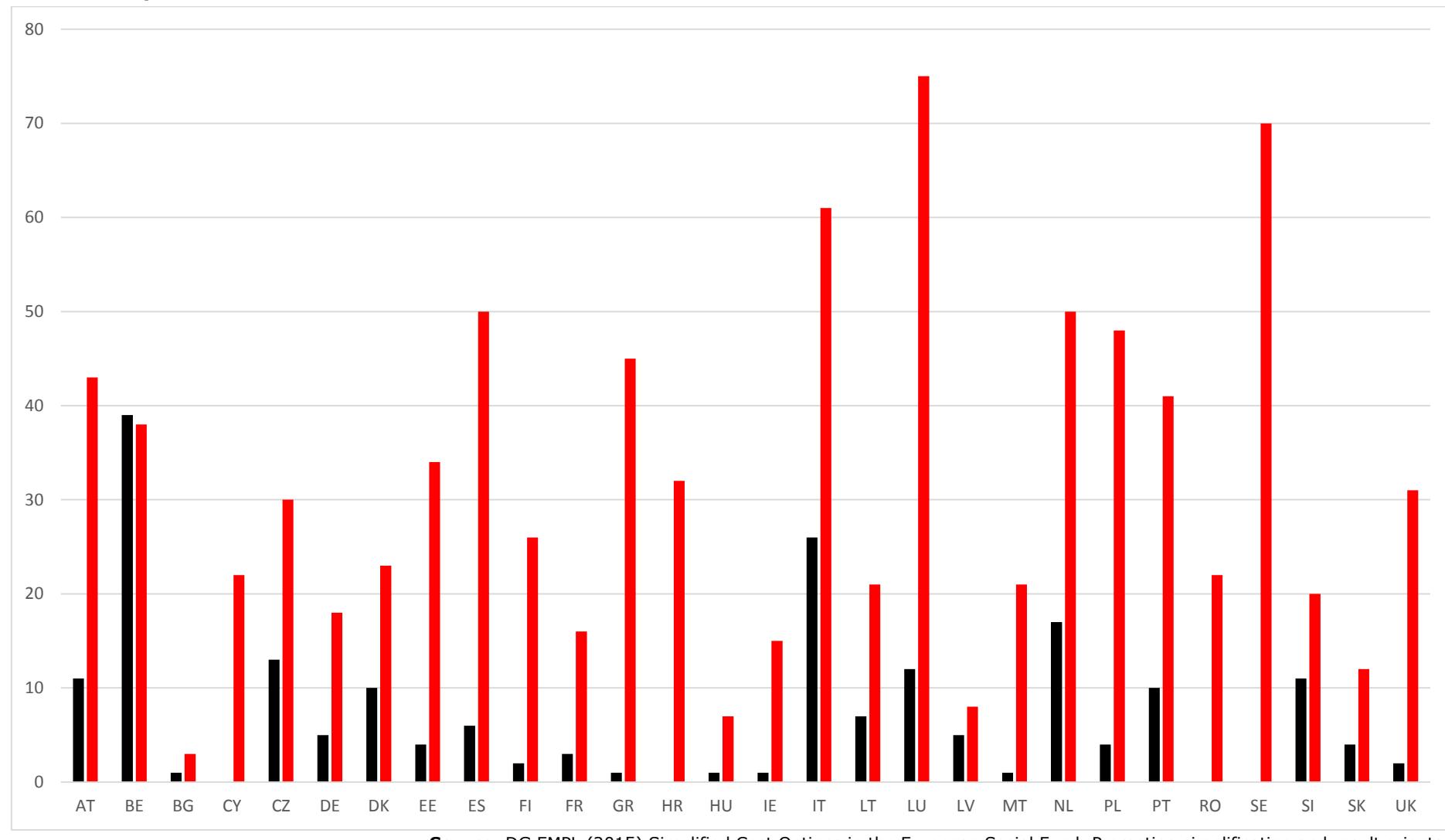
Several stakeholders considered that the wide variety of ERDF operations made it very complex to establish fair standard scales of unit costs (Sweden, Finland, Poland, Italy). Other stakeholders argued that the main reason for not introducing different SCOs (e.g. unit costs and lump sums in Sweden) is either a culture of risk-aversion (Sweden, Finland, France), the limited scope for application under the ERDF (Spain, Estonia, Italy), the fact that the SCOs are new, and that additional capacity is required for their establishment or for dealing with burdensome calculations (Poland), or fear of systemic errors (Italy, Poland).

Box 4: Difficulties with lump sums in Finland and Sweden

The difficulty to set up mechanisms to measure whether an objective is met, and thus to carry on with processing the payment claim, remains a challenge in Finland. Despite this challenge, the MA explained that more and more IBs are requesting payment decisions based on results. In Sweden, the AA encouraged the MA to introduce lump sums and a standard scale of unit costs, bearing in mind the context, i.e. there is only one ESF OP (versus nine ERDF OPs), and this facilitates trying new measures. The MA, in its turn, explained that lump sums are highly risky, as '*either the beneficiary achieves 100 percent of the objective and s/he gets the lump sum, or no money is reimbursed, even if the objective is 80 percent achieved*'.

⁴³ The Lombardy region recently approved (23 December 2015) the introduction of the standard scales of unit costs for R&D projects.

Figure 1: Coverage of SCOs in the ESF in 2007-2013 (black) and 2014-2020 (red), percentage of total ESF budget covered per Member State



Source: DG EMPL (2015) Simplified Cost Options in the European Social Fund, Promoting simplification and result orientation

3.2. Immediate objectives

3.2.1. 2007-2013 programming period

Simplification did not substantially reduce administrative burden

Earlier research has suggested the limited effectiveness of the simplification efforts used during the 2007-2013 programming period, including the SCOs. Indeed, based on a 2010 survey of 37 Audit Authorities in 19 Member States, a Parliament study reached the following conclusions: '*A majority of survey respondents noted that the simplification measures had not changed the burden related to the management and control of the SF. Moreover, more respondents believed the simplification measures to increase the burden (19%) than to provide any relief (17%)*'.⁴⁴ The response was explained '*by the fact that the simplification measures first needed to be introduced into national and regional systems with the related methodological and communication effort. Moreover, by the time of conducting the survey (mid-2010), there was still limited practical experience with the simplification measures*'.⁴⁵

The same study provided a first quantification of the reduction of administrative burden and cost: '*Using the updated information on the situation of the introduction of the simplified cost options in September/October 2011 (53.7 % of ESF and 7.6 % of ERDF funds affected), the reduction in administrative cost/burden can be re-calculated as €16.03 million for the ESF, and €5.94 million for the ERDF*'.⁴⁶ However, according to the study, '*the actual reduction is likely to be even lower, since the above figure is calculated on the assumption that all funds under a specific OP are affected; however, often only specific priorities or measures within an OP are affected, or only projects of a certain size. Moreover, several Member States have chosen to introduce only one of the three available simplified cost options, namely the reimbursement of flat rates for indirect costs. It should also be noted that most of the simplified cost options were only introduced recently; however the above calculations are made on the basis of the simplified cost options being in place for the entire programming period*'.⁴⁷

Recent DG EMPL research validates this cautious assessment: the recent DG EMPL survey mentioned above found that only 7 % of total ESF expenditure was covered by a SCOs, i.e. a percentage nearly seven times lower than the one used for the above calculations.⁴⁸

Member States experienced methodological and regulatory constraints

Member State audit work in 2007-2013 has shed additional light on some of the constraints affecting the introduction and use of the SCOs.

For example, several stakeholders highlighted difficulties at the stage of introducing SCOs at the level of the OPs:⁴⁹ '*In the case of national authorities, the process of establishing the methodology relating to the application of the above-indicated measures led to administrative burdens and was regarded as difficult and involving an element of risk; furthermore, developing the methodology and acquiring the Commission's approval were often lengthy processes. The lump sum was perceived as too low and the 'all or nothing-principle' led to a reluctance of the measure's use*'.

⁴⁴ European Parliament, 2011.

⁴⁵ European Parliament, 2011.

⁴⁶ European Parliament, 2011.

⁴⁷ European Parliament, 2011.

⁴⁸ DG EMPL (2015) Simplified Cost Options in the European Social Fund, Promoting simplification and result orientation. This document was shared with the authors on 18 January 2016. At the stage of this review the document remains an internal DG EMPL working document, however it was shared with the European Parliament in the context of the Budget Discharge.

⁴⁹ Contact Committee, 2014.

Moreover, difficulties were identified with regard to regulatory compatibility between Member State and EU provisions:⁵⁰ 'To use measures 1 and 2, the Member States had to modify their national legal framework, eligibility guidelines and/or the funding contracts for implementation'.

Recent research also found the SCOs to imply legal uncertainty (insufficient guidance, lack of clarity concerning the need for EC approval), administrative burdens (establishing the methodologies for SCOs and communication with the EC), mixed experiences with audit of SCOs and conflicts with pre-existing national SCOs systems, etc.⁵¹

Stakeholders consider SCOs to reduce administrative burden and cost

Notwithstanding the difficulties outlined in the paragraphs above, stakeholders also noted the first important positive effects.

A survey of Managing Authorities in October 2011 focused more specifically on the implications of the SCOs with regard to administrative burden:⁵² 'A majority of survey respondents considers that the three options have reduced the administrative burden of the Managing Authorities. The indirect cost option is valued most positively (71% consider that administrative burden has been reduced/strongly reduced), followed by the standard scales of unit costs (57%) and the lump sums (50%). (...) Positive feedback is also provided in terms of the beneficiaries' reduced administrative burden. In this case, the standard scales of unit costs are valued most positively (68% consider that administrative burden has been reduced/strongly reduced), followed by the indirect costs (67%) and the lump sums (61%)'.

European Parliament research confirmed the following SCOs benefits related to the reduction of administrative cost on the basis of survey and case study work in 2011:⁵³

- resource savings via reduced requirements for documenting payment claims (77 % to 82 % of survey respondents agreed or strongly agreed); and
- shortened application procedures (44 % to 55 % of survey respondents agreed or strongly agreed).

Similarly, audit work confirmed reduced administrative cost for beneficiaries:⁵⁴ 'Less documentation was to be prepared and checked; Required proof was less voluminous and more straightforward; Project implementation was facilitated (...). Audit work also suggests that the SCOs made an important contribution with regard to reducing administrative cost in relation to substantiating staff costs:⁵⁵ 'Enterprises consider the use of flat rates to simplify the establishment and proof of staff costs under the ERDF'.⁵⁶

Finally, recent research on the use of SCOs in ten Member States confirms the contribution of the SCOs to 'reducing the workload for the beneficiary (particularly during the payment phase)'; and 'speeding up payment processing and reducing the need for clarifications (AT, FIN, BE)'.⁵⁷

⁵⁰ Contact Committee, 2014.

⁵¹ Research covers AT, CZ, DK, FI, FR, GR, PL, PT, SI and UK. European Policies Research Centre (2015).

⁵² European Parliament, 2011.

⁵³ European Parliament, 2011.

⁵⁴ Contact Committee, 2014.

⁵⁵ Rechnungshof, 2013.

⁵⁶ (Rechnungshof, 2013): 'Die Anwendung der Pauschalsätze vereinfachte aus Sicht der Unternehmen sowohl die Ermittlung wie auch den Nachweis der in einem EFRE-Projekt abgerechneten Personalkosten'.

⁵⁷ Research covers AT, CZ, DK, FI, FR, GR, PL, PT, SI and UK. European Policies Research Centre (2015).

SCOs contribute to reduced error rates

As already noted in the introduction, the European Court of Auditors confirmed the SCOs contribution to reduced error rates: '*Over the last three years, we did not detect any quantifiable error related to the use of simplified cost options (SCOs). In 2014, we sampled 42 transactions, relating to 16 of the 24 payments to ESF OPs, which included SCOs in their cost declarations. We detected only two non-quantifiable errors related to the specific use of SCOs. This demonstrates that projects using SCOs are less prone to error than the ones using actual costs.*'⁵⁸

Member State audit work also confirms the contribution of the SCOs to reduced error rates.⁵⁹ Similarly, recent research confirms the contribution of the SCOs to reduced error rates (in PT).⁶⁰

SCOs contribute to data protection in 2007-2013

The Contact Committee found the SCOs to imply benefits in terms of data protection: '*Data protection problems were generally avoided, as flat-rates often covered personnel costs.*'⁶¹

3.2.2. 2014-2020 programming period

Improved EC guidance still perceived as too general to ensure legal certainty

Addressing criticism over limited guidance and legal uncertainty in 2007-2013, the EC has stepped up efforts to promote the use of the SCOs.

For the 2014-2020 programming period, the EC prepared a comprehensive manual entitled 'Guidance on Simplified Cost Options (SCOs): Flat rate financing, Standard scales of unit costs, Lump sums', with some 60 pages of text and over 30 examples.⁶² In 2007-2013, the guidance provided by the EC was more limited, taking the form of a COCOF (Coordination Committee of the Funds) note (09/0025/04-EN) with some 30 pages of text and seven examples.⁶³ It is also worth noting that the more comprehensive manual was also made available at an early stage of the 2014-2020 programming process. In the 2007-2013 programming period, the COCOF note only became available in January 2010.⁶⁴ Notwithstanding the EC's efforts, it appears that the nature of guidance allows room for further improvements, in the form of 'hands-on ex-ante assistance' (such as targeted EC advice on specific SCO calculation methods).⁶⁵

Beyond the written guidance, it is worth noting EC efforts to promote the use of the SCOs in the Member States. For example, DG EMPL has conducted seminars in several Member States (France, Italy and Malta in 2014) and a case study on the SCOs used in Italy.⁶⁶

In the context of the research carried out for this study, Member State stakeholders were asked to comment on the quality of the manual, as well as on the support provided by the EC.

Some MAs highlighted the quality of the EC manual: '*we appreciate that the EC has developed 'Guidance on Simplified Cost Options' which is really helpful and is used in our daily work'* (Latvia), or noted its comprehensiveness, clarity and practical examples (Finland). Other stakeholders explained that despite improvements (compared to 2007-2013), guidance

⁵⁸ European Court of Auditors, 2015.

⁵⁹ Contact Committee, 2014.

⁶⁰ Research covers AT, CZ, DK, FI, FR, GR, PL, PT, SI and UK. European Policies Research Centre (2015).

⁶¹ Contact Committee, 2014.

⁶² European Commission, 2014.

⁶³ European Commission, 2010a.

⁶⁴ European Parliament, 2011.

⁶⁵ Agentschap Vlaanderen, 2015.

⁶⁶ European Commission, 2015.

remained too general to ensure legal certainty (Sweden, Poland, Estonia, France). Moreover, it was considered to be complicated and not adapted to different types of projects, and was perceived as 'too institutional' or 'academic' (Italy).⁶⁷ A few stakeholders went even further, arguing that the guidance creates more legal uncertainty than simplification, and that the EC should directly propose a set of methodologies for each SCO, instead of Member States having to establish and negotiate the methodology (France).⁶⁸

While some stakeholders noted the fact that guidance was available at an earlier stage than in 2007-2013 (Finland, Italy), beneficiaries in Sweden complained about slight delays (nine months), forcing beneficiaries to make ex-post corrections.

Feedback from the Netherlands indicates missed opportunities to make the most out of the SCOs' potential, as the rules provide too much room for manoeuvre, which in turn made the authorities unsure about their interpretation. In this respect, the MAs wished they had participated in some sort of best practice exchange with other Member States.

Some stakeholders appreciated EC advice, others wanted more practical support

The HLG Simplification also discussed 'ex-ante' exchanges between the EC and the MA on the adoption of SCO methodologies. Looking back to the 2007-2013 programming period, there were issues over the length of the EC approval process of the Member States' proposed SCO methodologies.⁶⁹ For the 2014-2020 programming period, while there is no formal requirement for the EC to approve these, it appears that an informal exchange on the adequacy of the proposed methodology has been pursued, e.g. the SCO proposal for Northern Ireland was first submitted to DG REGIO in 2014, while the final proposal was not presented until October 2015.⁷⁰

Member State stakeholders considered EC advice and support to be 'sound and valuable', just wishing for faster EC responses to their requests (Latvia), whilst noting improvements compared to 2007-2013 (Italy). Other stakeholders only requested limited EC support, and this was explained by the use of SCOs similar to those used in 2007-2013 (Finland, Estonia). Some stakeholders wished that the EC had played a more active role in facilitating the exchange of best practices among Member States (Poland, Netherlands), whilst others highlighted the usefulness of the (ESF) Thematic Network on Simplification established by the EC for 2014-2020 for that purpose (Finland). A regional MA in Italy noted the practical approach and usefulness of a DG EMPL seminar on SCOs and called for additional national events to bring together the MA and AA.⁷¹

Other stakeholders pointed to room for improvement, criticising too much 'PowerPoint format' documentation (Spain),⁷² or limited EC support on specific issues (Netherlands, France).

One MA referred to the HLG Simplification, with output considered valuable. However, the MA did not necessarily feel part of these debates (Netherlands).

⁶⁷ For example, the MA in Estonia referred to their difficulty interpreting the concept '*similar operation and beneficiary*' (CPR, Art. 30), explaining that when it asked the EC for clarification, it did not receive a clear answer, whilst EC auditors and the Court of auditors also provided different interpretations.

⁶⁸ An MA at regional level in France complain that the status of the guidance is unclear: it is not a directive, not a regulation but it has to be applied. The MA would recommend the complete suppression of the guidance. At national level, it is indicated that the EC guidance does create uncertainty and can be contradictory to practices (that comply with the regulation). However, the AA consider that the EC guidance is the legal interpretation of a regulation and therefore has to be followed like a regulation. Nevertheless, in cases where guidance contradicts already established practice, there is a legal vacuum.

⁶⁹ European Parliament, 2011.

⁷⁰ Northern Ireland ERDF Managing Authority, 2015.

⁷¹ The seminar was organised in Rome during autumn 2015.

⁷² In Spain, an IB recommended that the Commission and Parliament organise hearings with Member State MAs and IBs to develop a direct understanding of their concerns and realities: '*we feel much further away from Brussels than we actually are*'. Moreover, the IB argued that the regulatory framework needs to be complemented with more promotion efforts: '*you have to sell it properly*'.

In some Member States, beneficiaries highlighted the support and guidance provided by the MA (Finland, Sweden, Netherlands). For example, in Sweden, the MA has put beneficiaries in contact with each other so that they can learn from each other's experience. In the Netherlands, further to information meetings, the MA has prepared a handbook on the use of the ERDF. The handbook is available on all relevant websites and includes a specific section on calculation methods for SCOs.⁷³ In other countries, however, the support provided by national-level authorities is considered insufficient (Italy). In France, the national level has published memoranda or notes, and the communication on SCOs is more about exchanges of best practices than guidance. In terms of national support, the 'Commissariat Général à l'égalité des territoires' provides technical assistance and support to national authorities.

Box 5: Promoting SCOs in France

The 'Commissariat Général à l'égalité des territoires' (CGET), acting as National Authority, has financed a project through its programme Europ'Act, consisting of missions to regions to meet the MAs and conduct exchanges about SCO methodologies. This only covers standards scales of unit cost and lump sums, as flat rates are not new and their use is well understood in France. Since the project was launched in 2015, there have been around 15 such missions. As a result – subsequent to those missions and to an analysis of other European practices – a small guide is currently in the making. A seminar is to be held in June 2016 in connection with the launch of the guide, which will be sent out to all relevant authorities. The goal is to present good practices.

Informal validation of methodologies by national auditors

Some Member States have asked national-level auditors for informal, ex-ante assessments of their SCOs methodologies. In some cases, the MAs obtained useful auditor feedback despite the auditors 'keeping some distance' (Sweden), and this informal feedback was considered to enhance legal certainty (Finland). An MA contacted their national auditors in the 2007-2013 but without much success (Estonia). An IB in Spain also noted the intention of validating the SCO methodologies with the national auditors.

Box 6: Difficulties with introducing SCOs in Estonia

Estonia introduced standard scale of unit costs for training activities under the ESF for 2007-2013. Since the Estonian MA had difficulties with the formulation of certain calculations, they requested support from the national auditors. The auditors refused to help, arguing time constraints, and when they later audited the OP, they told the MA that their calculations '*are not correct*', the reason being that the method used to calculate the standard scale of unit costs was the average instead of the weighted average. The MA complained that this was not explicit in the regulatory framework or guidance. For the 2014-2020 programming period, the MA has met with EC auditors and agreed to use the same method as that used (and already corrected) in 2007-2013 for ESF unit costs.

Some stakeholders supported an obligatory EC ex-ante assessment with a view to ensure legal certainty (Sweden, Spain, Poland, Italy) and, thus, encourage MAs to move away from only adopting 'safe' SCO types, such as the off-the-shelf rates provided by the EC (AA in Sweden). However, other stakeholders noted the downside of a mandatory assessment, namely that this would slow down the start of the OP (Sweden, Poland, Italy).⁷⁴

⁷³ See for example: <http://www.kansenvoorwest2.nl/files/handboek-efro.pdf>.

⁷⁴ The MA in Sweden indicated that the ESF allows Member States to ask for EC ex-ante assessment on proposed SCOs schemes. However, only Sweden and France have used that option. In Sweden, it took one year until the EC provided feedback on the country's methodology for standard scale of unit costs. Similarly, Poland explained that in 2007-2013 they had to wait one year before their ESF OP methodology was approved by the EC, which '*stops you from implementation*'.

Selection of SCOs motivated by concerns over avoiding risks

A pragmatic approach and safety considerations have driven the selection of the types of SCOs deployed in the OPs. For example, the IB consulted in Spain will pilot the standard scales of unit costs in a reduced number of suitable operations and roll it out to others in the future. The unit cost type was chosen because of the availability of historical data.⁷⁵ Other Member States, such as Sweden, initially considered using standard scales of unit costs, but because it lacked the resources to find historical data the MA decided to avoid any risk and 'took one of the off-the-shelf products' ('*flat rate of up to 15 % of eligible direct staff costs without there being a requirement for the Member State to perform a calculation to determine the applicable rate*' Article 68.1(b), CPR). Poland faced similar problems with the unit costs in their multi-fund regional programmes. Estonia opted directly for the 'risk free' option, i.e. the flat rate of 15 % provided by the EC.

In Italy, the widespread fear of risk and the not very optimistic feedback received from regions already trying to introduce the SCOS, is slowing down the adoption of more innovative SCOS. For example, the MA of the Piemonte and Abruzzo region noted its concerns with regard to future audits, considering that it was not clear whether the focus would be on methods or results. Several Italian MAs felt discouraged because of the '*long time to receive an answer about the proposed method from DG REGIO*'.

Box 7: Unit costs in multi-fund programmes in Poland

Regional OPs in Poland are multi-funded (ESF and ERDF). The ESF-funded axis include all type of SCOS, namely, flat rate indirect costs of up to 25% (obligatory), lump sums of up to EUR 100,000 (obligatory) and standard scale of unit costs (only for language courses). The ERDF-funded axis only includes lump sums, with no obligation. According to the authority consulted, the initial intent to extend the scope of the standard scale of unit costs further failed owing to the complexity of setting up prices for different regions and thematic areas. For this reason, the scope of the standard scale of unit cost was reduced to cover only language courses.

Legal uncertainty seen as main constraint in establishing SCO calculation methods

As mentioned in sections above, most stakeholders pointed to legal uncertainty and conflicting regulation (EU versus national level) as the main challenges to the establishment of the SCO calculation methodology. Other issues include lack of capacity/availability of resources to adopt new SCOS, e.g. to process all existing amounts of historical data (Sweden, Poland, Italy) or unexpected tasks (France).⁷⁶ Moreover, beneficiary mind-sets are still on real costs (Sweden, Finland), and the same applies to the Structural Fund authorities (Poland).⁷⁷

Further to the adoption of calculation method, some beneficiaries have complained about the low thresholds for some SCOS, which is resulting in reimbursements that are lower than the actual costs (Sweden).⁷⁸ In this respect, it is worth noting that in Finland, following beneficiary

⁷⁵ The Instituto de Promoción Exterior de Castilla-La Mancha (Foreign Trade Body of Castilla-La Mancha) will calculate the unit costs based on the guidance provided by the IB. This type of SCOS and operation was selected because the activities to promote the internationalisation of businesses are similar from one year to another, and this provides sound historical data that can be used to calculate the cost of the activities.

⁷⁶ A regional MA in France explained that it had asked the EC to provide feedback on a proposed methodology for lump sums, and was told that a response could be received faster if it translated it into English. Translation takes time and is not considered a usual activity.

⁷⁷ Poland mentioned that projects supervisors have traditionally been too focused on projects' compliance and financial issues ('*taking payment claims*') and less on their merits. It is expected that the new SCOS will help shift the focus from control to content.

⁷⁸ An MA in Finland commented on the university sector complaint with regard to the 20% limit to cover staff

feedback on the low rates to cover travel costs in the past, the relevant flat rate was increased to 24 % for projects involving significant travel cost.

Too early to assess SCO performance but MAs expect positive contribution

MAs in several Member States (Sweden, Estonia, Italy, Poland, Netherlands) expect a positive contribution of the SCOs to reduce the administrative burden, which is considered 'currently extremely high' (Italy). While most agree that it is too early to assess this, a few have begun to notice a positive impact (Finland, Latvia).⁷⁹

Box 8: Verification of labour costs in the Netherlands

A stakeholder in the Netherlands noted that more than half of the time allocated by their controllers is dedicated to checking labour costs. The use of SCOs for labour costs is expected to reduce the authorities' burden by two thirds. This corresponds approximately to the work-time cost of five controllers, which could be allocated to different tasks. Another MA explained that during the 2007-2013 period, beneficiaries calculated the overhead costs themselves. The MA therefore had frequently to explain to beneficiaries which expenses could or could not be covered. In combination with discussions between the MA and other bodies, such as the AA, this resulted in time-consuming activities. Currently, MAs only need to check annual salary statements when using the 15 % flat rate.

The IB in Spain and the MA in Estonia argued that the SCOs would be particularly useful for beneficiary tasks such as payment claims and the preparation of project proposals. At the same time, however, they felt that the 'workload has moved from beneficiaries to the MA', with the latter burdened with the ex-ante work of establishing calculation methods and rules (Estonia), and with other additional control tasks in relation with the SCOs (Spain).

Authorities in France have hardly noticed any reduction of administrative burden so far, arguing that putting in place the SCOs requires resource investments, which sometimes leads to delays in the implementation of the SCOs. There are so many other aspects subject to verification that the benefit of the SCOs does not appear clearly yet, although this may change once the system is operational. For the time being, the MA recognises the reduction of burden in terms of reduced documentation requirements.⁸⁰

AA feedback points to two opposite views. Some believe that the SCOs will have limited impact in terms of simplification, in comparison to what could be achieved through other measures, such as conducting risk-based auditing to perform control in proportion to funding (Sweden). Other AAs explained that the SCOs would release them from the tedious task of having to understand the beneficiaries' methods to calculate indirect costs (Finland).

Beneficiary views on SCOs vary from MS to MS – some indicate that MAs/AAs will benefit most

In Sweden, for example, beneficiary opinions are not unanimous. Some noted improvements compared to the situation in 2007-2013, namely the introduction of the flat rate

indirect costs, since indirect costs are in reality closer to 30%. The MA mentioned that '*we applied the 20% approved by the EC in 2011 so that this should be audit safe*', but in the light of current concerns, a new flat rate of 25%, based on Horizon 2020, is being considered.

⁷⁹ For example, in Finland the IB consulted explained that in the past it could receive '15 kg of payment request documentation' whilst now the amount of documents has been considerably reduced, as well as received through more efficient means (e-systems). So, '*everything is faster now*', with some 20 % of time saved according to the IB as '*applications are easier to check, payments are faster to pay*' and there is no need to assess if the eligibility of indirect costs on a case by case basis. The MA in Finland for its turn, explains that since they do not deal with project selection or monitoring they hardly benefit from the SCOS, however, the MA argues that at present they receive fewer questions about eligibility, and that it is also easier to prepare the eligibility rules for 2014-2020.

⁸⁰ An MA stated that verifying every single cost does not have any relevance to the work of the managing authority and here the simplification is very much appreciated.

of 15 % for indirect costs, and the 42.68 % rate for social costs, that will 'make life easier for small partner organisations' not familiar with EU procedures. Others have hardly noticed any reduction of burden, as they still spend too much time with calculations, e.g. figuring out an item cost category, which may vary depending on whether the item is ERDF or ESF funded, etc. Also, whilst beneficiaries do not have to submit documentation on activities covered by the flat-rate indirect cost in order to comply with national requirements (which certainly reduces complexity for the MAs), they still have to collect, and keep, all such documentation in their systems. Other beneficiaries claim that the SCOs increase the administrative burden in certain cases.

Interestingly, whilst some MAs pointed to the beneficiaries as the stakeholder group that will benefit most from the SCOs, beneficiaries from Sweden argued that it is the MAs that will benefit most as they will have to review less documentation. In France, the MAs consulted argued that the impact of the SCOs on beneficiaries is uneven. In particular, they pointed out that, in some situations, the SCOs present an advantage to beneficiaries (e.g. reduced amount of paperwork at payment stage), while in others it adds to the beneficiary's administrative burden (e.g. the time/cost of maintaining separate systems depending on the origin of the funds).

The SCOs may trigger some undesired effects among both beneficiaries (losing money and risk of avoiding future application for further EU funding) and authorities (shift of administrative burden).

Beneficiaries in Sweden indicated that the staff cost rate (42.68 %) made them 'lose money every month', as real costs were between 50 % and 55 %. Others found it burdensome having to split up social costs and salaries. Moreover, some beneficiaries questioned whether it was worth the effort of applying for future EU funding, given the greater complexity of the procedures – as compared to national schemes – and the purportedly excessive control, the SCOs notwithstanding.

Stakeholders in Poland (MA) fear that, as a consequence of the SCOs, the focus of auditing activities may shift from checking invoices to documents in order to prove that an output was produced (e.g. timesheet), which will result in an additional administrative burden for the MA.

Box 9: Beneficiaries' views on SCOs in Sweden

A beneficiary in Sweden running a project to bring together industry, universities and the public sector complained about how time-consuming and problematic it is having to deal with different regulations within the same project. For example, the cost category for *parking ticket* changes hinges on whether the ticket is linked to an activity funded by the ERDF or by a national scheme. It would be better, the beneficiary argued, if there were a harmonised system that simplifies requirements for small beneficiaries that lack capacity and resources. A university beneficiary in Sweden argued that whilst the flat rate for social charges may reduce the administrative burden of small organisations, this is not the case for universities, which experience an additional workload. The reason for this is that while the university's system combines social costs and salaries in a single entry, each staff member involved in ERDF projects must split them into separate costs, carry out the corresponding calculations, and finally re-enter the details into the reporting system as two different entries.

Stakeholders agree that payment and application process has/will be speeded up

The payment process (from gathering the information, reporting to the MA, getting reimbursed) has speeded up (or is expected to do so) for beneficiaries (Finland, Sweden, Spain, Italy, France). This is particularly valid for small beneficiaries that lack the financial resources of big organisations: 'We don't have to report now every single bus ticket or the milk bought

for meetings' (Sweden, Finland).⁸¹ The case of Finland is particularly interesting: beneficiaries explained that now it only takes a couple of weeks to get their cost reimbursed, compared to three to five months in 2007-2013. For lump sums, the process is even faster as 'you only need to verify the results' explained the MA.

Stakeholders also believed that the SCOs will facilitate the application process (Spain, Estonia, Finland), as confirmed by a beneficiary in Finland: 'it is much easier now to make the application', despite initial difficulties from learning to apply a new system.

Most stakeholders expect decrease of error rates thanks to SCOs

Most stakeholders expect the SCOs to bring down error rates (Sweden, Estonia, Finland, Latvia, Poland, Netherlands, France). A number of reasons are given:

- Less typing and checking of invoices is needed (the new e-tools available in some Member States also help), and this will result in fewer errors and fewer auditor requests for clarification on small invoices, thereby saving time (Sweden, Latvia).⁸²
- The beneficiaries do not need to perform complex calculation for indirect costs. In the past, many errors occurred owing to weak project management (Poland), e.g. misunderstanding on the eligibility of indirect costs (Estonia, Finland, Netherlands).
- There is now more time for beneficiaries to focus on other problematic areas in terms of error rates (e.g. procurement), and, hopefully, this will reduce the error rates in these areas as well (Finland).

Other stakeholders indicated that error rates continue to be high, or that they do not expect a significant reduction in the error rates, as most errors are related to areas in which the SCOs are not applied, e.g. public procurement (Spain).

Box 10: SCOs lowering error rates in the Netherlands

An MA in the Netherlands explained that, at present, it only needs to check annual salary statements when using the 15 % flat rate, and that this aspect has contributed to lower error rates. For example, in the past it was necessary to make available for auditing the documentation needed to substantiate overhead percentages. A wrong calculation of overhead costs was immediately considered by the AA to be an error. With the new method, the requirements are clear on all sides.

Potential effect of SCOs on data protection uncertain

Many stakeholders – beneficiaries and authorities – recognised that they had not considered the impact of the SCOs in terms of data protection (see section 3.2.1). Most of them do not expect much of a benefit, since the beneficiaries still need to do the bookkeeping of all the project costs in order to comply with national regulations, regardless of the SCOs (Sweden, Estonia, Finland, Latvia). However, among the interviewed MAs, one did refer to reduced bureaucracy in terms of data protection requirements (Italy).

SCOs have made little difference in attracting new beneficiaries

⁸¹ The Helsinki Business Hub estimates that the SCOs help them save one day of work per payment claim, a process carried out twice a year. For the purpose of illustrating, it was explained that '*in the past if the accounts did not match for twenty cents, you had to redo the process all over again and again...*'. So SCOs not only save time, but also reduce errors.

⁸² A beneficiary in Sweden explained that, in the past, the AA's request for clarification on small invoices had an impact throughout all the actors of the chain: The lead beneficiary received the request; it then had to ask partner organisations for clarifications, wait for their response, and finally come back to the AA.

Some Member States indicated that the SCOs hardly make a difference in terms of attracting small beneficiaries, as ERDF projects are still too complex to manage (Sweden, Spain, Italy, Poland). Smaller SMEs are not willing to take up EU projects that are financially rather large in size (Netherlands). One indicated that it is still too early to assess the impact of the SCOs in terms of attracting new beneficiaries (France). Stakeholders in Sweden provided two additional arguments. First, in Sweden, the ERDF contribution is relatively low in the country context; hence the authorities are most interested in targeting big projects to help increase the visibility of ERDF initiatives. Second, the EU focus on errors may lead the MA to favour big/well-experienced beneficiaries who the MA thinks are less error prone. In the Netherlands, the MAs consulted expect some effect, but consider other factors more important when it comes to improving access, namely experience with EU funding, financial/human resources, and willingness to be involved in innovative projects, three factors that small beneficiaries usually lack.

In other countries, the SCOs make no difference to small beneficiaries, who are not afraid of the complexity of the ESI Funds but will set up a project proposal as long as funding is available. (Estonia)

Poland and Finland have put in place 'advanced payment' instruments to attract more small beneficiaries.⁸³ However, feedback indicates that the ERDF-related administrative burden is still too high compared with that of national funds and that therefore, as explained by an IB in Finland, at present there are very few new types of beneficiaries.

3.3. Focusing on policy objectives

This section reviews SCOs performance in terms of achieving medium-term objectives, i.e. allowing for a reorientation of efforts from financial management and control towards the realisation of policy objectives.

SCOs potential in reallocating resources to policy objectives confirmed

European Parliament research has confirmed the following SCOs benefits related to the achievement of medium-term objectives on the basis of survey and case study work in 2011:⁸⁴ enhanced project quality (40 % to 49 % of survey respondents agreed or strongly agreed).

The recent DG EMPL survey also looked at the SCOs medium-term objectives, and found, for the 2007-2013 programming period, that: 43 % of survey respondents agreed that SCOs '*allowed to divert resources to other activities*' (22 % disagree, and 34 % are neutral). DG EMPL explains this with '*the initial extra workload in implementing SCOs and the fact that SCOs were only widely implemented in exceptional cases. Thus, the scope for SCOs to impact on reducing the workforce has been seen to be more limited*'.⁸⁵

While aware of importance of reallocating time to more meaningful tasks, many MAs point to still high workload of managing ERDF programmes and projects

Some MAs distinguished between short and long-term impact, explaining that the SCOs will not have much of an impact at an early stage, arguing that the time that MA staff used to spend checking invoices will be now spent on educating beneficiaries on the new SCOs. (Latvia,

⁸³ In Finland, this facility offers pre-financing of up to 30 % of total costs to small beneficiaries.

⁸⁴ European Parliament, 2011.

⁸⁵ DG EMPL (2015) Simplified Cost Options in the European Social Fund, Promoting simplification and result orientation. This document was shared with the authors on 18 January 2016. At the stage of this review the document remains an internal DG EMPL working document, however it was shared with the European Parliament in the context of the Budget Discharge.

Sweden).⁸⁶ In the medium term, however, MAs expected to reallocate human resources to the achievement of objectives and to follow-up on the ERDF impact (Sweden). Other MAs also agreed on the possibility to reallocate resources, without mentioning any specific timeframe for that to happen (Italy, Poland, Netherlands). The MA from Estonia, for its part, had no view yet on this.

Other MAs consulted noted that, in general, Cohesion Policy is perceived as heavily regulated and scrutinised, and projects supervisors have therefore traditionally been more focused on ensuring compliance with the regulation and financial issues than on the merits of the projects (Poland, Italy, Netherlands). Whilst the SCOs are expected to help the Structural Funds authorities shift the focus from control to content, this will be challenging, given that the administrative workload of the ERDF remains high, and that the time saved will probably be used for other administrative tasks.

The earlier point fits in with the feedback from a beneficiary in the Netherlands who lamented that authorities are seen to be more involved in administration than in wider objectives, such as strengthening the regional economy through innovation. Whilst the beneficiary recognised the need for effective scrutiny of public spending, it was noted that, while doing so, the overall objectives should not be lost from sight.

Possibility to reallocate time to project implementation tasks hinges on beneficiary's resources

The possibility of beneficiaries to reallocate time to project implementation tasks will much depend on the resources at their disposal. There was very limited feedback from beneficiaries on this issue. Findings indicate that, overall, beneficiaries expect to devote more time to project implementation, although it is too early to judge (Sweden). Others already see results, although it is not clear if the time saved has been reallocated or just cut off from the project budget (Finland).⁸⁷

It was also argued that the reallocation would depend on the specific case (Spain). Only under certain circumstances, such as if the staff member concerned can perform different functions, can the time saved from reduced control be reallocated to implementation (Sweden, Finland).⁸⁸ Some (potential) negative consequences, in terms of employment, were noted by the Swedish MA, arguing that it might not be possible to reallocate all staff currently working on financial control to project implementation tasks.

⁸⁶ The MA in Latvia explained that the introduction of the SCOs will '*take more efforts and involvement both from the managing authority and intermediate bodies in first stages – e.g. planning and developing methodologies and clarifications that is rather complex and time-consuming process.*'

⁸⁷ The Aviapolis City project confirmed that it can now spend more time on project implementation. For the 2014–2020 programming period, it has reduced the number of staff members to run projects from three to two, partly owing to finance control and checking work, and partly to budget reduction.

⁸⁸ The Helsinki Environmental Centre confirmed that the flat-rate measure saves time that they use for implementation tasks. This is possible, it explains, because project staff members have several hats, and '*that is why we never hire financial accountants*', as well as for the fact that '*nobody likes only project administration*'. It was noted, however, that it runs small projects, and perhaps *one-hat* roles (finance controllers) would be needed for bigger projects.

4. CONCLUSIONS AND RECOMMENDATIONS

KEY FINDINGS

- At the time of writing there is still limited experience with the SCOs and further research is needed to provide systematic evidence on their performance (ideally in 2017). Stakeholder feedback collected for this study is not always conclusive, e.g. some stakeholders demand more legal certainty whilst others consider that the framework needs to be more flexible to allow for the SCOs to be better adapted to specific Member State contexts. This notwithstanding, the 2014-2020 programming period is witnessing an increased uptake of SCOs, and this is largely explained by improvements in the regulatory framework and enhanced EC guidance. The Member States' more systematic consideration of using SCOs in 2014-2020 is also explained by the Member States' often tentative, but largely positive, experience in the 2007-2013 programming period.
- Notwithstanding the improvements, interviews conducted for this study suggest the need for further efforts at the level of the design of the SCOs, and with regard to guidance on and promotion of the use of the SCOs. On this basis, four recommendations are issued, addressed both to the European Union institutions, responsible for the regulatory framework and related guidance, and to the Member States' Structural Funds authorities, responsible for implementation: (a) address regulatory obstacles to the use of the SCOs; (b) strengthen guidance and advice; (c) promote the use of the SCOs; and (d) consider further harmonisation between different ESI Funds.

4.1. Conclusions

Before noting the conclusions, it is worth reiterating an important caveat. As noted in the introduction to this study, at the time of writing, experience with the use of the SCOs in 2014-2020 is limited because of the recent start of the OPs. Indeed, interventions are not expected to progress to the stage of experiencing the benefits of the SCOs until 2017. Moreover, the publication of EC research on actual uptake is not expected before September 2016. Finally, stakeholder feedback collected by this study is not always conclusive, e.g. some Member State authorities and beneficiaries criticise the regulatory framework for a perceived lack of clarity, with provisions leaving room for interpretation, and note the need for more legal certainty. Other stakeholders consider that the framework needs to be more flexible to allow for the SCOs to be better adapted to specific Member State contexts. This means that it will only be future research, as of 2017, that will be able to shed full light on the use and performance of the SCOs.

Notwithstanding this caveat, research clearly shows substantial improvements over the past programming period with regard to the regulatory framework governing the SCOs and related EC guidance and other support. The EU level regulatory framework for 2014-2020 has been reviewed, responding to identified deficiencies with regard to the operation of the SCOs in 2007-2013. Moreover, EC guidance on SCOs has been improved, most notably by complementing the provisions of the regulatory framework with practical examples of how to use the SCOs in practice. Interviews with stakeholders in the Member States for this study, and DG EMPL survey work, consequently point to increased uptake, i.e. Operational Programmes providing for the use of SCOs. The Member States' more systematic consideration of using SCOs in 2014-2020 is also explained by the Member States' often tentative, but largely positive, experience in the 2007-2013 programming period.

However, research also confirms the need for further efforts to allow for the SCOs to develop their full potential in terms of alleviating administrative burden and allowing for a reallocation of resources from control to the achievement of Cohesion Policy objectives. Efforts are mainly required at the level of the **design of the SCOs**, i.e. the regulatory framework, and at the level of **guidance on and promotion of** the introduction and use of SCOs. It is worth noting that these efforts fall under the remit both of the **European Union institutions**, responsible for the regulatory framework and related guidance, and of the **Member States' Structural Funds authorities**, responsible for implementation.

Finally, this study's conclusions and recommendations are largely in line with the recent recommendations by the HLG Simplification.⁸⁹ However, whilst the Expert Group recommendations mainly address the Commission, the recommendations presented in this study target both the European Union institutions (especially the Commission) and the Member State authorities in charge of the ESI Funds. Moreover, the Expert Group has issued a series of detailed recommendations concerning the regulatory framework.⁹⁰ This study refrains from recommending specific regulatory changes, considering that, at this stage, there is insufficient systematic evidence available to support such recommendations. Possible future regulatory changes can be envisaged further to the publication of the currently on-going DG REGIO research on the SCOs, and should be the subject of a full regulatory impact assessment.

4.2. Recommendations

The recommendations that follow focus primarily on the SCOs. However, other issues raised during the stakeholder interviews in the Member States are also noted. The recommendations are addressed to the European Union institutions, responsible for the regulatory framework and related guidance, and to the Member States' Structural Funds authorities, responsible for implementation, covering all ESI Funds. All recommendations need to be followed up in the current programming period if they are to develop their full potential in the next programming period.

Address regulatory obstacles to the use of SCOs

Interviews pointed to remaining difficulties for the operation of the SCOs caused by incompatibilities between EU and national and/or regional regulatory requirements. It is therefore recommended that all Member States experiencing such issues clearly identify the 'incompatible' elements of regulation and communicate this to the Commission, thus allowing for a joint reflection on how to address remaining regulatory obstacles. In this context, the Commission and the Member States should also reflect on 'gold plating' in relation to the SCOs. 'Gold plating' issues, whether in terms of adding to the regulatory requirements or in terms of how the regulatory requirements are interpreted, need to be identified and addressed.

Strengthen guidance and advice

Interviews conducted for this study show that the regulatory framework is still perceived to leave too much room for interpretation, causing uncertainty in Member States and leading Member State authorities to opt for 'safe options', i.e. SCO types already defined in the regulatory framework, instead of exploring the design of SCOs in line with their OPs' specific requirements. Whilst it might be possible to enhance the clarity of the regulatory framework further, it can be expected that the rules will always allow for different interpretations, no matter the level of detail or clarity of wording.

Therefore, it is considered more effective to focus efforts on enhancing guidance on the introduction and operation of SCOs. This should take two forms:

⁸⁹ European Commission (2016).

⁹⁰ European Commission (2016).

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- Improving generic guidance on the SCOs on the basis of the EC's existing guidance document, ideally further enriched with practical illustrations of how the SCOs can operate in practice. This relates to the future programming period, post 2020.
 - Strengthening the provision of speedy 'hands-on' advice by the Commission and relevant Member State authorities (e.g. Audit Authorities) on individual SCO schemes as proposed under specific OPs. This is an on-going task, relevant to the current programming period, and post 2020.

Guidance and advice should be developed both at EC and Member State level.

Promote the SCOs

The Commission and relevant Member State authorities have made important efforts in terms of promoting the use of the SCOs. This notwithstanding, it is worth the effort to intensify further the promotion of the SCOs. This can take different forms:

- The organisation of EC and Member State promotion events, bringing together relevant OP representatives to explain the potential of the SCOs and discuss obstacles to the use of the SCOs;
- The establishment of EC and Member State networks for continuous exchange of experience on the introduction of, and practice with, the SCOs;
- The collection of best practice examples illustrating the successful use of SCOs, disseminated in brochures and on relevant EC and Member State websites.

Consider further harmonisation between different ESI Funds

Whilst not directly related to the SCOs, stakeholders frequently referred to the complexity caused by the differences between the various ESI Funds. In this context, a more general effort is required, reviewing the fund-specific regulatory requirements in detail in order to identify opportunities for further harmonisation. The Commission (involving all relevant DGs) could collect detailed information on such difficulties, and on this basis prepare an enhanced framework for post-2020.

ANNEX 1 - REFERENCES

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Regulatory framework

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- Regulation (EC) No 397/2009 of the European Parliament and of the Council of 6 May 2009 amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing
- Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006
- Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006
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ANNEX 2 - STAKEHOLDERS

This annex notes the stakeholders consulted in the Member States.

Estonia

Managing Authority, ERDF 2014-2020

Finland

Managing Authority, ERDF 2014-2020

Intermediate Body, Helsinki-Uusimaa Regional Council

Audit Authority

Beneficiary, The City of Helsinki Environment Centre

Beneficiary, The City of Vantaa

Beneficiary, Greater Helsinki Promotion Oy Ltd / Helsinki Business Hub

France

National Authority, Commissariat Général à l'égalité des territoires (CGET)

Managing Authority, Région Auvergne-Rhône Alpes

Audit Authority, Commission interministérielle de coordination et des contrôles (CICC)

Italy

Managing Authority, National OP on Enterprises and Competitiveness

Managing Authority, ERDF OP Friuli Venezia-Giulia region

Audit Authority, ERDF OP Friuli Venezia-Giulia region

Managing Authority, ERDF and ESF OP Marche region

Managing Authority, ERDF OP Piemonte region

Managing Authority, ERDF OP Lombardy region

Managing Authority, ERDF OP Tuscany region

Managing Authority, ERDF OP Abruzzo region

Managing Authority, ERDF OP Calabria region

Latvia

EU Funds management and control department

Netherlands

Managing Authority, ERDF OP North Netherlands 2014-2023

Managing Authority, ERDF OP West Netherlands 2014-2023

Beneficiary in North Holland, GreenPort Aalsmeer

Poland

Ministry for Economic Development, Department of the European Social Fund

Spain

Intermediate Body, ERDF OP Castilla-La Mancha 2014-2020

Sweden

Managing Authority (Tillväxtverket), ERDF 2014-2020

Audit Authority (Ekonomistyrningsverket)

Beneficiary, Stockholm Kommun, ERDF OP Stockholm

Beneficiary, ALMI Invest, ERDF OP East Central Sweden and ERDF OP Stockholm

Beneficiary, Mälardalens Högskola (Västerås), ERDF OP East Central Sweden

Beneficiary, Stuns Stift F Samv Mel Univ i U-A Näringsl O Sam, ERDF OP East Central Sweden

ANNEX 3 – INTERVIEW QUESTIONS

0. Identification of respondent

- 0.1 Please indicate the Fund (ESF, ERDF, ESF+ERDF)
- 0.2 Please indicate the Member State
- 0.3 Operational Programme

1. Take-up

[This question only applies to the ESIF authorities as beneficiaries have no choice, i.e. they need to apply the SCO if they are foreseen]

- a. Please note the SCO options that you are using (standard scales of unit costs, lump sums, flat-rate financing (three types: Art. 68.1(a) flat rate of up to 25%, Art. 68.1(b) flat rate of up to 15% of direct staff costs, Art. 68.1(c) flat rate based on rates used in other EU policies (Horizon 2020 / LIFE), for Art. 68.1(b) use of option under Art. 68.2 'dividing the latest documented annual gross employment costs by 1 720 hours')
- b. Please indicate the approximate coverage of the SCO in relation to available funding (0-10%, 11-20%, 21-30%, 31-40%, 41-50%, 51-60%, 61-70%, 71-80%, 81-90%, 91-100%)
- c. If you have decided not to use one of the SCO, please note the reasons (scale of 1-5, from 1=very minor factor, to 5=very important factor, for the following options: not suitable for the type of operation, insufficient legal certainty, disproportionate effort to establish SCO methodology, disagreement with EC on SCO methodology, high risk of errors, high risk of fraud; by SCO)

2. Regulatory framework

- a. Do you consider the 2014-2020 regulatory framework for SCO to represent an improvement over the 2007-2013 regulatory framework? (scale of 1-5, from 1=to a very limited extent, to 5=to a very important extent; by SCO)
- b. In case you consider the 2014-2020 regulatory framework to represent an improvement, what has improved? (scale of 1-5 for the following options: enhanced clarity, more options / regulatory framework better adapted to requirements, more legal certainty, open text box; by SCO)
- c. In case you consider the 2014-2020 regulatory framework not to represent an improvement, please indicate what would be required to improve the regulatory framework? (scale of 1-5, with 5=very strong need for improvement, for the following options: enhanced clarity, more options / regulatory framework better adapted to requirements, more legal certainty, open text box; by SCO)

3. SCO methods and related EC and national / regional guidance documentation

[This question might only apply to the ESIF authorities]

- a. Please note your view on the degree of difficulty of establishing the method for calculating the SCO (scale of 1-5, from 1=very easy, to 5=very difficult; by SCO); discuss why you found it difficult to establish the methods
- b. What is the quality of European Commission Guidance (EC (2014), Guidance on Simplified Cost Options)? (scale of 1-5, from 1=of very poor quality, to 5=of very high quality; by SCO)
- c. In case you consider European Commission Guidance to be of high quality, which features of the document do you value? (scale of 1-5, from 1= value to a very limited extent, to 5= value very highly, for the following options: clarity on regulatory framework, clarity on application, practical examples, open text box; by SCO)
- d. In case you consider European Commission Guidance to be of poor quality, how can the document be improved? (scale of 1-5, from 1= value to a very limited extent, to 5= value very highly, for the following options: clarity on regulatory framework, clarity on application, practical examples, open text box; by SCO)
- e. What is the quality of national guidance? (scale of 1-5, from 1=of very poor quality, to 5=of very high quality; by SCO)
- f. In case you consider national guidance to be of high quality, which features of the guidance do you value? (scale of 1-5, from 1= value to a very limited extent, to 5= value

- very highly, for the following options: clarity on regulatory framework, clarity on application, practical examples, open text box; by SCO)
- g. In case you consider national guidance to be of poor quality, how can guidance be improved? (scale of 1-5, from 1= value to a very limited extent, to 5= value very highly, for the following options: clarity on regulatory framework, clarity on application, practical examples, open text box; by SCO)

4. EC and national / regional advice (in the process of establishing the SCO)

[This question only applies to the ESIF authorities]

- a. Have you received EC advice on the establishment of the SCO? (yes, don't know, no)
- b. What has been the quality of European Commission advice on establishing the SCO? (scale of 1-5, from 1=of very poor quality, to 5=of very high quality; for the following options: establishing legal certainty, we adapted to requirements of the operations, timeliness; by SCO)
- c. In case you consider EC advice to be of poor quality, how can EC advice be improved? (open text box; by SCO)
- d. Have you received national / regional advice on the establishment / application of the SCO? (yes, don't know, no)
- e. What has been the quality of national / regional advice on establishing / applying the SCO? (scale of 1-5, from 1=of very poor quality, to 5=of very high quality; for the following options: establishing legal certainty, we adapted to requirements of the operations, timeliness; by SCO)
- f. In case you consider national / regional advice to be of poor quality, how can national advice be improved? (open text box; by SCO)
- g. Please describe the promotion of the SCO at national and regional level? What have you done to attract new beneficiaries? Are new types of beneficiaries being attracted to use the funds because of the SCO?

5. Achievement of immediate objectives

- a. Do you consider the SCO to reduce administrative burden / cost when comparing with previous experience of reimbursement on the basis of 'real costs'? (scale of 1-5, from 1=to a very limited extent, to 5=to a very important extent; by SCO)
- b. Do you consider the SCO to reduce error rates when comparing with previous experience of reimbursement on the basis of 'real costs'? (scale of 1-5, from 1=to a very limited extent, to 5=to a very important extent; by SCO)
- c. Do you consider the SCO to reduce administrative burden in terms of reduced requirements to store documentation / receipts, reduced data protection requirements?

6. Achievement of wider objectives

- a. Do you consider the SCO to allow you to re-allocate human resources from financial management, reporting and control to actual implementation and achievement of objectives? (scale of 1-5, from 1=to a very limited extent, to 5=to a very important extent; by SCO)
- b. Do you consider the SCO to allow you to reduce the overall allocation of human resources for the ESI Funds? (scale of 1-5, from 1=to a very limited extent, to 5=to a very important extent; by SCO)

7. Recommendations for the future of the SCO

Description of the Good Practice Case: Please describe in 0.5 to 1 page the actual activity supported by the funds, where the SCO come into the picture, and what the beneficiary managed to do thanks to the SCO?

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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