



# Simplified Cost Options in the European Social Fund

Promoting simplification and result-orientation

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# Simplifying the ESF means ensuring policy implementation and results delivery

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. The European Social Fund (ESF) has a key role to play in supporting the achievement of the employment, education and social inclusion targets of Europe 2020 and in particular the related recommendations in the framework of the European Semester and more generally in delivering a tangible contribution to the social dimension of the EU.

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 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 (OPs) being blocked for up to several years.

More than ever before, the ESF has today a key role to play in helping Member States address today's economic and social challenges. But to achieve maximum results, its implementation must be fundamentally simplified.

## The simplification of the ESF is a part of the overall simplification agenda of the Commission

In the words of President Juncker, *'Every action we take must deliver maximum performance and value added.'* For the new programming period, this has been translated into the Commission's strategy on 'An EU Budget Focused on Results'. This strategy seeks to underpin the spending of EU funds with three fundamental questions:

- I. Where we spend (EU added-value of funding),
- II. How we spend (maximising the use of funds) and
- III. How we are assessed (achieving better results).

For the ESI funds, this overarching strategy is being supported by a number of initiatives. Of most relevance for this report, the Commission has set up a *High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds* chaired by the Vice President of the Barroso II Commission Siim Kallas. This group will advise the Commission on how to achieve further reduction of administrative burden for beneficiaries by assessing the uptake of simplification opportunities by Member States, analysing the impact on administrative burden and costs, identifying good practice, and making recommendations. One area of particular interest that the high level group will look at is the use of simplified costs options and how they can be better utilised in order to support the goal of simplification.

## Simplified Cost Options have a great potential to simplify the ESF

By cutting red tape and speeding up procedures, simplification allows the shifting of scarce resources from a focus on procedures to achieving results. In this context, the 2013 report "Simplification and Gold-Plating in the European Social Fund" presented the potential for simplification in the ESF. This potential was built mainly around the introduction of simplified cost options (SCOs, namely flat rate financing, standard scales of unit costs and lump sums<sup>1</sup>), as a way to establish eligible costs to be reimbursed not on the basis of what has precisely been spent (and which then needs to be justified by documentary evidence), but on the basis of pre-defined amounts. By making it easier to justify the expenditure, SCOs not only reduce bureaucracy, but they also reduce the risk of committing errors. This has been amply demonstrated by the fact that the European Court of Auditors (ECA) has, for three consecutive years, found no quantifiable errors when examining transactions under SCOs in its ESF sample. This has led the court to state in its conclusion that SCOs are less error prone than real costs.

<sup>1</sup> Where simplified costs are used, the eligible costs are calculated according to a predefined method based on outputs, results or some other costs. In the case of flat rate financing, specific categories of eligible costs which are clearly identified in advance are calculated by applying a percentage to one or several other categories of eligible costs. In the case of standard scales of unit costs, all or part of the eligible costs of an operation will be calculated on the basis of quantified activities, inputs, outputs or results multiplied by unit costs established in advance. In the case of lump sums, the eligible costs of an operation are calculated on the basis of pre-defined lump sum in accordance with pre-defined terms of agreement on activities and/or outputs.

Most importantly, SCOs have the advantage of focussing the funding on the outputs or the results achieved, rather than on what has been spent, as is the case with the real costs system. This aligns with the objective of the Commission to have a budget implementation which is more result-oriented and to maximise the impact of the money spent. When analysing the potential for SCOs to simplify the ESF, it should be recalled that simplification is a shared effort between the EU institutions and the Member States. Indeed, any regulatory provisions will not bear fruit if they are not adequately taken on board by the national/regional administrations.

Previous reports have described a number of ways in which implementation of the ESI funds can be simplified. For example, simplification of eligibility rules defined at national level in particular by removing unnecessarily complex and demanding rules (gold plating) can greatly help to avoid errors <sup>(2)</sup>. However, for the ESF, expanding the use of SCOs represents by far the largest simplification potential and is therefore the exclusive focus of this report.

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<sup>2</sup> See recommendation n.1 and the European Commission's reply in the ECA 2014 Annual Report

## Objective and methodology of the report

The purpose of this report is to provide an overview of the current and planned take-up of simplified cost options by Member States in implementing the ESF. It, therefore, takes stock of (i) the results achieved by implementation of simplified cost options for the 2007-2013 programming period (ii), the regulatory progress on simplified cost options for the 2014-2020 programming period and (iii) presents an overview of the expected implementation of simplified cost options for the current programming period.

As no reporting system on SCOs was included in the regulatory framework for the 2007-2013 period, and since no data is yet available for the 2014-2020 period, an extensive ad hoc survey was sent to all ESF Managing Authorities in June 2015. The results of this survey and the data collected in that context form the basis of this report. Despite the high representativeness of the survey <sup>(3)</sup>, its results should still be interpreted with caution, mainly because these are estimates made by the Member States based on their own understanding and interpretation of the current and expected situation. Despite these qualifications, the results of the survey represent the most comprehensive estimate available of the use of the SCOs in the ESF.

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<sup>3</sup> See Annex 1

# 1. The introduction of SCOs in ESF in the 2007–2013 programming period was successful even if it was limited

## 1.1 The 2007–2013 regulatory framework was changed in order to allow the use of simplified cost options

The European Commission has actively promoted simplification of the ESF via simplified cost options for a number of years. Already back in 2006, the 2007–2013 ESF Regulation allowed Member States to declare indirect costs (overheads) on a flat rate basis, of up to 20% of direct costs of an operation. The simplification of charging flat rates for indirect costs was welcomed by all stakeholders, including the European Court of Auditors.

In its Annual Report for 2007 the Court concluded that the majority of errors found in structural actions expenditure were partly due to the complexity of the legal and implementing framework. For this reason it recommended to simplify “the basis of calculation of eligible cost and making greater use of lump sum or flat rate payments instead of reimbursement of ‘real costs’”. The Financial Regulation applicable to the general budget of the European Communities and its implementing rules already allowed such an approach for direct management expenditure.

In November 2008, the Commission published the communication on a European Economic Recovery Plan, which called for a stepping-up of investments to stimulate Europe’s

economy. To this end, the implementation of the Structural Funds should be accelerated. The Commission committed itself to propose a series of measures, aiming inter alia “to widen the possibilities for eligible expenditure on a flat rate basis for all the funds”.

In this context, the Commission put forward a proposal to amend Article 11 of Regulation (EC) No 1081/2006 (ESF Regulation) introducing the possibility to apply simplified costs calculated by application of standard scales of unit cost and lump sum grants. The proposal was adopted on 26 November 2008. During the negotiations the Commission agreed to extend to the European Regional Development Fund (ERDF) the application of flat rate for indirect costs, standard scales of unit costs and lump sum grants by an amendment of Article 7 of Regulation (EC) No 1080/2006 (ERDF Regulation).

Therefore, the ESF Regulation as amended by Regulation (EC) No 396/2009 and the ERDF Regulation as amended by Regulation (EC) No 397/2009, included the same possibility to apply flat rates for indirect costs, standard scales of unit costs and lump sums.

## 1.2 The uptake in 2007-2013 was mixed but already provided great results

### **i. The uptake of the SCOs in Member States and within the Member States varies greatly**

Based on the estimates collected in the survey, it is estimated that almost 7% of the total expenditure to be declared for ESF co-financing for the 2007-2013 period will be under at least one type of simplified cost options (see Annex 2.1).

However, the implementation of SCOs varies greatly from one Member State to another; while some have not implemented SCOs at all (e.g. Romania, the Netherlands, Croatia), others expect to declare around a third of their expenditure for the 2007-2013 period under an SCO (Italy and Belgium). These stark divergences between Member States level mask an even stronger divergence within some Member States, whereby one region or operational programme might make extensive use of SCOs while others do not implement SCOs at all.

Regarding the type of SCOs used, they are mainly flat rate financing (for 63 OPs) and standard scales of unit costs (for 65 OPs), while lump sums are used only sparingly (for 12 OPs).

### **ii. The use of SCOs during the 2007-2013 programming period is already a success story**

A large majority of the respondents who have already used SCOs in the 2007-2013 period agree that their use led to simplification for operations (77%).

The main advantage observed is a reduction in the administrative burden (83%) – linked to the lower paper-work requirement at all levels. As a logical consequence, a large majority of respondents agreed that SCOs make it easier and simpler to check compliance with the rules (81%). They also agreed that this cut in red tape and simplification of compliance reduces the risk of errors and of financial corrections (78%) and that SCOs leave less room for differences in interpretation around eligibility rules (75%). Despite all these advantages, less than half of the respondents (43%) agreed that simplified cost options could help them divert resources to other types of activities, probably because of 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.

### 1.3 Despite the success of the implementation of SCOs there are still some obstacles to take-up

Given the large majority which views SCOs favourably in theory (87% of the respondents say that the benefits of SCOs are obvious), the 7% figure for the actual uptake of SCOs suggests that there remain obstacles to an increased implementation of SCOs in practice.

Most of the respondents agree that there is enough information on how to design/implement SCOs (59%) but there does appear to be more concern around the risk of “human error”, with 53% of the respondents noting there is **too much legal uncertainty around SCOs**. This observation could be linked to the fact that SCOs have been introduced in a legal framework that was designed and developed on the logic/principle of real costs. SCOs challenge this logic and, therefore the more SCOs are implemented, the more conflicting regulatory provisions emerge and some complex legal issues are brought to the attention of the Commission. One obvious area for this is State Aid, where the lack of legal certainty on the compatibility of State Aid rules with SCOs is seen as an impediment to the use of SCOs by some Member States. As this is a complex legal area, the Commission’s services continue to work together to examine the precise scope for using SCOs in case of State Aid.

Simplified Costs also change greatly the control and audit framework of the ESF. While significantly reducing the risk of eligibility errors, SCOs are perceived by some to carry some new potential risks. A majority of the respondents (**69%**) **fear the risk of a systemic error** being applied, should the methodology used to design the flat rate or the unit cost prove to be incorrect. In reality, even if a risk that as SCO would be considered not to have been designed on a fair, equitable and verifiable method exists, the impact of it would typically be easily and precisely defined and the corresponding financial correction (if required) would likely be limited to the difference against the correct value of the flat rate/unit cost.

A further obstacle can be 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 SCO 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.

The implementation of simplified costs has sometimes even been prevented by conflicting national regulations. This is a significant problem that can only be resolved by Member States themselves and the Commission will continue to ask Member States to identify and address the instances where this occurs.

SCOs can also be undermined by weaknesses in the administrative capacity of Member States. Sometimes, the resources available are not sufficient for developing a sufficiently robust SCO system. Indeed, among the countries which suffer from recurrent problems and face suspension of payments, many have been unable to develop and use SCOs for this reason. This is then compounded by the fact that recurring audit issues mean that their historical database is risky and therefore not appropriate as a basis to calculate SCOs.

Finally, the shift from a real cost-based system to simplified costs can require a change in culture and mind-set. It can sometimes be difficult for beneficiaries, intermediate bodies and managing authorities, as well as audit authorities, to move from a system whereby the golden rule was that all expenditure must be verified on the basis of receipts and invoices, to a system where this no longer applies. Indeed, where ESF systems have been implemented for decades on a real-cost basis, the habits formed and the systems in place are difficult to give up.

The Commission has and will continue to work on this cultural shift through ongoing engagement with Member States to reinforce the advantages and benefits that can accrue from using simplified costs.

## 2. The new legal framework for SCOs 2014-2020 should unlock the potential for a greater implementation of SCOs

### 2.1 The “classical SCOs” were made easier to use by the national administrations

The purpose of the new regulatory framework was to make all previously simplified cost options applicable to all the ESI Funds and not only to ESF and ERDF. In addition, the options offered have been expanded to address some of the limitations identified in the previous programming period.

*More calculation methods offered to define simplified costs:*

Simplified costs existing in frameworks other than the ESI Funds can be reused, subject to conditions.

One example is article 67 (5)(b) CPR which allows simplified cost options used in **another Union policy** to be applied to similar types of operations and beneficiaries in the ESF. In particular, this could allow methods defined in Erasmus + to be easily applied to similar ESF-funded operations.

Similarly, Article 67(5)(c) CPR allows for simplified cost options applied under a **scheme funded entirely by the Member State** to be used in ESF for similar type of operation and beneficiary.

These two additional methods present a great opportunity for capitalising on existing simplifications: they are directly applicable to ESI Funded operations (provided that it is for a similar type of operation and beneficiary and that the scheme is still into force) and the value of the SCO will not be audited, which reduces the scope of potential control. These two methods can be applied effortlessly by the Member States and bear very little risk of error.

Member States have previously raised concerns regarding the risks entailed in the *old fair, equitable and verifiable* method (Article 67(5)(a) CPR). Indeed, in cases of calculation error, Member States were wary of the systemic nature of the error and of the corresponding correction. Therefore, in addition to the previously mentioned methodologies, the new Regulation introduced **rates and specific methods established in the CPR and Fund specific Regulations** (notably to define flat rate financing for indirect costs –Article 68(1)(b)CPR, or to define all the costs of an ESF operation outside of direct staff costs – Article 14(2)ESF).

Finally, for the smallest ESF operations (below EUR 100.000 of public support) a **draft budget** can be used to define an SCO. This method was introduced to compensate for the obligation for ESF projects below EUR 50.000 of public support to use one type of SCO to cover at least a part of its expenditure (except if fully publicly procured or under a State Aid scheme).

*More possibilities to use flat rate financing:*

While flat rate financing was initially limited to covering indirect costs, it can now cover any category of costs.

*Increased ceiling for lump sums:*

While lump sums were initially capped at EUR 50.000 they are now capped at EUR 100.000 of public contribution.

## 2.2 The new Joint Action Plans offer a mean to use SCOs in a more strategic and secured framework

Joint Action Plan (JAPs) are a completely new and potentially far-reaching way of implementing the ESI funds <sup>(4)</sup>. A JAP is an operation that is managed entirely on the basis of the outputs and results to be achieved. It may:

- Consist of a project or a group of projects,
- Receive support from one or more priority axes of one or more programmes,
- Be supported by one or more of ESF, YEI, ERDF and/or the Cohesion Fund,

The projects should produce the outputs and results necessary to achieve the JAP objective. The payments only take the form of unit costs and/or lump sums linked to the outputs and results of each project.

In a sense, Joint Action Plans could be compared to “small Operational Programmes” or “Major Projects” as they have a global objective and an inner intervention logic which must be approved by the Commission. This gives legal certainty to Member States regarding the methodology developed to define the SCOs.

Joint Action Plans are also a concrete tool facilitating the shift towards outputs and results in the ESI funds. Joint Action Plans could be considered as a middle-way between shared-management and direct management and they allow the Commission to know and contribute in greater detail to what happens on the ground. Joint Actions Plans challenge not only the financial implementation of the Funds by using only SCOs, but they also challenge the normal negotiation process. JAPs can, therefore, be seen as an experiment in alternative modes of implementation of the Funds.

<sup>4</sup> Introduced by Article 104(1) of the CPR

## 2.3 Article 14(1) ESF introduces “advanced level” SCOs which can drastically simplify the financial framework of ESF

Article 14(1) ESF empowers the Commission to adopt standard scales of unit costs and lump sums by delegated act. This **provides legal certainty regarding the calculation method** of the simplified cost options defined in this delegated act and addresses one of the chief obstacles identified by Member States, i.e. their fear that the methodology for calculating the unit cost or the lump sum could be challenged by auditors (national or EU), leading to a systemic error. Having the methodology validated ex ante by the Commission in a legal act secures and validates the work being done by Member States.

By allowing Member States to claim EU funding on the basis of SCOs, while applying a different (national) system for the reimbursement of beneficiaries, Article 14(1) also opens the possibility to use SCOs in Member States where, in normal circumstances, national rules do not allow for the use of simplified cost options. Together with the possibility to apply SCOs in operations that are publicly procured, Article 14(1) thus represents a major opportunity to greatly increase the use of SCOs.

The first two methodologies submitted by Member States for consideration by the Commission were adopted on 2nd July 2015 <sup>(5)</sup>. They cover staff and participants costs for Sweden and costs related to the implementation of the French Youth Guarantee. Other methodologies are currently under examination by the Commission services. It is hoped that these examples will prompt and encourage other Member States to avail of Article 14(1).

<sup>5</sup> Commission Delegated Regulation (EU) 2015/2195 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. This Delegated Regulation was published in the Official Journal of the EU on 28 of November 2015.

# 3. Expectations for the 2014-2020 programming period

## 3.1 DG EMPL has set an ambitious political target for SCOs in the ESF

Given the positive impact and numerous advantages of simplified cost options and taking into account the above-mentioned new opportunities introduced by the 2014-2020 legal framework, the Commission has set a political target to have by 2017 50% of ESF expenditure implemented through simplified cost options.

This ambitious target is an impetus to greatly increase the use of SCOs so as to help reduce administrative burden and the risk of errors while increasing the focus on results, but it should not be viewed as an end in itself. Instead, the target should be seen as an encouragement to all sides – Commission, Member States and beneficiaries, to maximise their efforts to reap the potential of SCOs. This is especially relevant in the environment of shared management under which the ESI funds are implemented.

The target will be monitored on the basis of the data that Member States are already required to store <sup>(6)</sup> in order to avoid creating unnecessary additional burden.

The ambition of the target and progress towards its achievement should be viewed in the context that not all operations supported by the ESF (and other ESI funds) can be reimbursed on the basis of SCOs. Indeed, simplified cost options cannot be used for operations which are fully publicly procured (except under Article 14(1) ESF and Joint Action Plans). While the share of ESF implemented fully under public procurement is unknown (estimates should be made available in the framework of the report on simplification for the High Level Group on simplification), it is not negligible. Some operational programmes are implementing most of their operations under public procurement and these cannot therefore make as extensive use of SCOs as other Member States. As mentioned earlier, operations falling under State aid rules may also not always be fit for use with SCOs.

It can be expected that for operations falling under General Block Exemption Rules and Service of General Interest, managing authorities may not want to or even be able to make use of SCOs. Monitoring and assessment of progress towards achieving the 50% target will also have to take into account these limitations.

Finally, simplification does not and should not stop at simplified cost options. Other simplified delivery methods, in essence similar to SCOs, are used and should be further promoted. For example, the use of vouchers is widespread in some Member States and, while not technically a simplified cost in accordance with the CPR or ESF Regulations, they are a simplification measure which also aids the overall objective of an increased focus on results, reduced administrative burden and reduced error rate. DG Employment will enquire by 2017 on the use of other forms of simplified tools in addition to SCOs via a survey

DG EMPL will continue to advocate for simplification measures to be developed and implemented by leaving it up to the Member States to choose the simplification method that best fits their systems. The overall objective is to simplify and secure the ESF and improve its result orientation, and not strictly speaking to reach a strict target of simplified cost options.

<sup>6</sup> Set out by the 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

## 3.2 Estimated situation and estimated evolution by Member States

### i. Estimated use of SCOs in general

The results of the survey show that a significant progressive increase of the uptake of SCOs in the 2014-2020 programming period is likely. Indeed, for 80% of OPs, one or more SCOs have already been designed. Of those which have not yet designed an SCO, 83% intend to develop a form of SCO in the future.

The total costs estimated to be declared under a form of SCO varies strongly from one Member States to another (7% in HU to 75% in LU). The overall estimated amount to be declared under a form of SCO at EU level over the programming period is expected to be 35% which is still well below the target of 50% but significantly higher than the 7% reported for the 2007-2013 period. The types of SCOs that Member States are using or intend to use are mainly flat rate financing (98%) and standard scales of unit costs (94%), while 79% intend to use lump sums. The main types of ESF beneficiaries to be covered by the SCOs developed at national and regional level are: Public Employment Services (73%), Education body (91%), NGOs (79%) and private training or services providers (87%).

It should be stressed that the optional use of SCOs leads to a naturally progressive take-up by Member States. When Member States that had little or no previous experience of SCOs begin implementation of the 2014-2020 operational programmes, the focus of the management and control system is not on developing simplified cost options, as the human resources required to develop SCOs are generally not available. Instead the focus at the start of implementation is on launching calls for proposals and associated tasks. Therefore, it is logical that most Member States will avail of the SCOs which are easiest to implement, particularly those provided by the regulations, and which can be directly applied with the least effort and resource investment. Consequently, it is expected that at the start of the programme period flat rates for indirect costs will be widely used. This will result in a high proportion of operations being covered, but at the expense of a lower proportion of expenditure (by definition, less than 25% of the total cost of the operations). It is to be expected that subsequently, as resources become available and the added-value of SCOs is demonstrated and understood, additional types of SCOs will be developed. As the implementation of operational programmes is often delayed, it is likely that only

a small amount of expenditure will have been certified to the Commission by 2017. Most of this expenditure is likely to be based on initial operations selected at the very start of the programming period. The result of this is that it is likely that there will be a small number of the available simplified cost options models covering a small amount of expenditure, but with a potentially high number of operations.

However, when measuring progress towards the target and the overall objective, it is important to consider not only the amounts declared but also how many beneficiaries have benefited from the cut to red-tape. While it is of course easier to reach a defined target of expenditure by focusing on “big beneficiaries”, this could lead to the effect of neglecting the smaller beneficiaries with atypical operations which are more difficult to standardise and to cover with an SCO. Therefore, it is important to define the 50% target not only in terms of the amount of expenditure declared under an SCO, but also in terms of the proportion of operations covered by an SCO, which will help to indicate whether simplification is reaching as wide a range of beneficiaries as possible.

All in all, the Commission expects that by 2017 Member States will endeavour to having at least 50% of the 2014-2020 ESF funding amount to be implemented through an SCO. It is the intention of the Commission to repeat this survey in 2017 to compare the estimates of the Member States in 2015 to what is being done already in 2017 and what is expected to be done in the future.

## ii. Estimated use of one of the new types of SCO: Article 14(1)ESF

Thanks to intensive communication by the Commission services on Article 14(1)ESF via seminars, the ESF Technical Working Group and other fora, Member States have good knowledge on the existence of Article 14(1) ESF (96%), and a large majority are aware of its specificities (86% know that it is applicable to publicly procured operations). However, only 62% of the respondents intend to make use of the tool. This should be viewed against the fact that at the time of the survey the delegated act was just adopted with models of simplified costs for only two Member States. The Commission is currently working with around five other Member States and expects to be in a position to adopt an amendment to the Delegated Act early in 2016 covering at least two more Member States <sup>(7)</sup>. The Commission expects that, as more SCO models are adopted by delegated act, this will encourage more Member States to seek to have their own simplified costs covered by the act.

<sup>7</sup> NB – Since the original finalisation of this report, Delegated Regulation (EU) 2015/2195 was amended by Delegated Regulation (EU) 2016/812, setting out unit costs for Belgium and the Czech Republic. As of August 2016, the Commission expects to propose a further amendment covering Italy, Germany, the Netherlands, Malta and Slovakia, while also including additional unit costs for the Czech Republic. This would bring the number of Member States covered by the Delegated Regulation to nine.

Among the blocking factors for Article 14(1) ESF, the main argument is the lengthy adoption procedure of the delegated act. While the Commission can work to reduce this period, it is a fact that it is a formal legislative act and therefore there

are certain procedures that must be followed and which take time. Other factors are that some Managing Authorities would prefer to wait for other Member States to test the procedure first before using it, and also the initial investment involved.

## iii. Estimated use of one of the new types of SCO: Joint Action Plans

Similarly, there is widespread awareness of the existence of JAPs (86%) as well as the particularities of the tool (81% know that it is applicable to fully procured operations). However the tool is not yet attractive to Member States as 66% of the respondents declared they do not intend to use the option.

Among the reasons cited for this are that the minimum budget of the JAP is considered as being too high <sup>(8)</sup>, especially in the case of small Operational Programmes, the fact that the JAP can only be implemented after adoption by the Commission, and the lack of experience. DG EMPL is actively seeking a 'pioneering' Member State to demonstrate what a JAP could look like in practice and, in turn, encourage other Member States to also pursue the tool.

<sup>8</sup> 10 million EUR or 10% of the OP (whichever is the lowest) or 5 Million in case of a pilot JAP. No threshold is applicable in the framework of the Youth Employment Initiative.

### 3.3 DG EMPL has undertaken a number of actions to support the take-up of SCOs by Member States

As well as the obvious effort involved in designing simplified costs, they also imply a **strong cultural shift in the way management and control systems are designed and function in Member States. In order to support the Member States.** In order to support the Member States in these areas, the Commission has undertaken **series of actions to help the uptake of SCOs.**

Firstly, the Commission **developed guidance documents** on SCOs. The first reference document was finalised in January 2010: the COCOF note on Simplified Cost Options setting out examples on how to develop, introduce and make use of the different types of SCOs. This guidance was updated by the EGESIF guidance note on SCOs in September 2014. Both of these notes were translated in all EU languages. Moreover, two specific guidance notes were developed for Article 14(1) ESF and Joint Action Plans in June 2015. In order to illustrate some good practices of SCOs, a case study on the implementation of SCOs in the ESF in Italy was published in February 2014.

The Commission has also organised, together with the Member States, seminars on simplified cost options. These started in 2012 with six seminars (Bulgaria, Spain, Hungary, Croatia, Italy, and Portugal), and continued in 2013 with 10 seminars (Cyprus, Spain, two in France, Greece, Croatia, Romania, Sweden, Slovakia, and the UK). In 2014, five seminars took place (two in France, Ireland, Italy and Malta) while in addition two training sessions were organised in Brussels for all Member States (in October and December). The format of these events varied depending on the occasions (round tables at a more general ESF event, plenary event, hands-on seminar...).

While from 2012 to 2014 the training sessions were based more on introducing SCOs and explaining in theory how they could be applied, the format of the seminars changed from late 2014 and 2015 so as to concentrate more on the individual needs of the Member State concerned and to examine concrete proposals which the Member State was considering. Such “advanced” seminars took place in nine Member States (Bulgaria, one joint for Czech Republic and Slovakia, Greece, Spain, Lithuania, Poland, Hungary, Portugal and Romania). The pedagogical approach adopted by the Commission specifically focused on a joint effort: the seminars have been organized by the ESF geographical units together with the ESF coordination unit and ESF audit units. Support was also provided by the European Court of Auditors, which joined many of the SCO seminars to explain to the Member States the added value of the SCO system from its perspective.

The presence and explanations of EU auditors to Member States has been greatly appreciated as it has helped, on the one hand, to reassure Member States and, on the other hand, to convince national auditors to provide their expertise to the managing authorities so as to help them to achieve the change in mind-set required. The Commission has always insisted that these seminars should include all actors at national and regional level – Managing, Certifying and Audit Authorities, as well as the main intermediate body and beneficiaries, so as to ensure a wide understanding of the tool. These **practical seminars** appear to be appreciated by Member States as practical workshop-based training seminar were considered by **89%** of the survey respondents as being a useful support to develop SCOs.

During the 2007-2013 programming period, DG EMPL (and also DG REGIO) offered to assess **Member States’ methodologies on flat rate financing for indirect costs.** For the ESF, 23 Member States submitted proposals for flat rate for indirect costs methodologies representing 53 Operational Programmes. For 33 of these the methodology was approved by letter of the Director General of DG EMPL. This approach was very much appreciated by Member States who were asking for more legal certainty for the cost calculations they had developed.

Considering that the new regulatory framework provides the Member States with a vastly increased range of possibilities for SCOs, including several flat rates which are “secured” by the regulation and do not require validation, DG EMPL no longer assesses these flat rates. Instead, and to increase the competences of multiple stakeholders, DG EMPL has organised an **internal task force on developing simplified cost options and joint action plans** which brings together the expertise of the geographical units, the auditors and the ESF coordination unit. This set-up helps to disseminate knowledge on the topic in the Member States and for DG EMPL to have a better understanding of the developments on the ground. This network aims also at **providing ad-hoc assistance to Member States on designing Article 14.1 ESF proposals and Joint Action Plans.** This is seen by 83% of the managing authorities as a good way for the Commission to help Member States develop SCOs.

In terms of direct support, DG EMPL has decided to focus its resources on the development of unit costs and lump sums in the framework of Article 14(1)ESF and Joint Action Plans given that these two tools provide legal assurance on the methodology for Member States. Additionally, and to give maximum legal certainty to Member States together with reducing their initial workload in developing SCOs, DG EMPL will pursue the development of **SCOs at EU level** – including by pursuing with Eurostat the possibility to define some activities and costs EU-wide. If these efforts are successful, they could

be adopted by delegated regulation under Article 14(1) ESF, meaning Member States could apply them directly and without need for justification.

As a general objective, DG EMPL will continue its work **communicating on SCOs and JAPs. SCOs have been systematically on the agenda of every ESF Technical Working Group and have also been extensively discussed at the ESF Committee.** To advertise better the existing information on SCOs and JAPs, a dedicated section on the ESF website was created ([www.ec.europa.eu/esf/sco](http://www.ec.europa.eu/esf/sco)). Here the different guidance notes can be found (translated in all languages for the EGFESIF SCO, in EN, DE, FR, ES, CZ, SK, HU, EL, PL, IT for 14.1 ESF and JAP). To disseminate the legal interpretations raised by the Managing Authorities and answered by the Commission, DG EMPL will put on the SCO webpage a list of **frequently asked questions**. Such a FAQ would be considered useful for **92%** of the respondents. Further discussion and reflexion will be done together with the Member States to see what other information could be shared on this site.

Member States have regularly called for examples of what has been developed by others. However, as Simplified Cost Options are optional and the Commission is not necessarily consulted on the system developed, the knowledge of the different methodologies lies mostly in Member States. Therefore a **transnational network on SCOs** has been launched in September 2015 and will hold its first meeting

on 9-10 December 2015. This network will be managed from a logistical perspective by an external contractor but in terms of content, will be led and directed by the Member States themselves. It will be a forum for Member States **to exchange their experiences on the topic and even reflect on what further support would be needed.** The Commission will participate in the different meetings and support the Member States in whatever way it can. **58%** of the respondents to the survey view this tool as a good way to help Member States to develop SCOs.

DG EMPL, being **the lead DG for ESI funds** on simplified cost options and joint actions plans, has set up an **inter-DG network of ESIF SCOs experts (I-SCO)** to ensure collaboration between DGs on the development of guidance documents (the EGFESIF guidance note) and exchange of good practices. DG EMPL has also supported the other ESI fund DGs by providing training to their staff, **presenting the EGFESIF guidance to the Member States representatives, and also attending and helping develop trainings on SCOs.** DG EMPL has also led the work on the regulatory interpretation for SCOs and validated the SCOs Question & Answers and led the necessary discussions with the Legal Service and other DGs.

DG EMPL is also **leading on the work on SCOs for the report on simplification to be presented to the High Level Group on Simplification for beneficiaries.** DG EMPL will also feed the High Level Group with contributions on the SCO topic.

# Conclusions

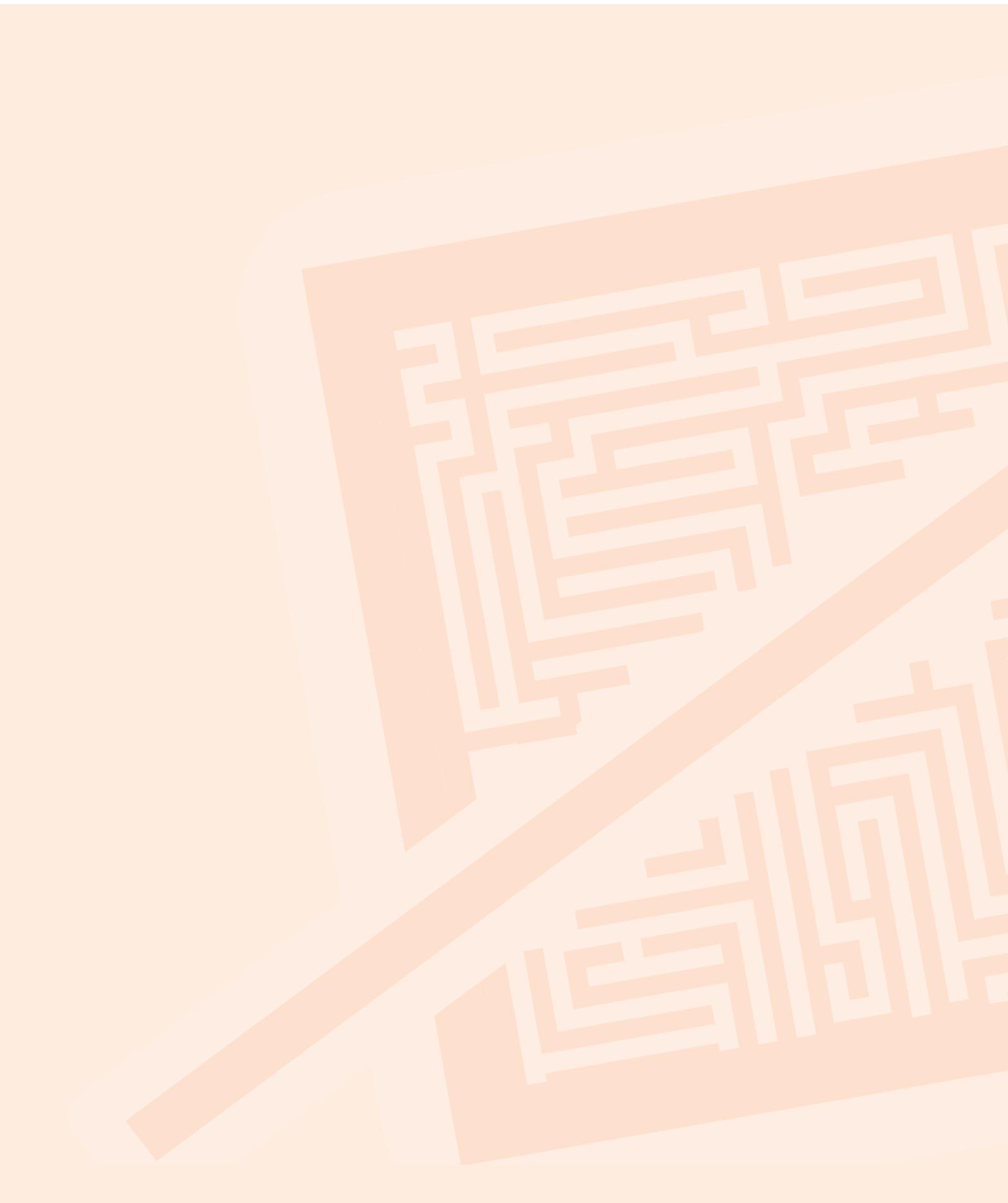
Compared to the estimated 7% of ESF expenditure declared under SCOs for 2007-2013, the currently estimated 35% of ESF expenditure for 2014-2020 shows a significant improvement. Given that implementation of the 2014-2020 period is only now beginning, it can be concluded that much progress has been made, thanks to the efforts from all sides thus far, but also that there remains considerable scope to increase this number further. The full potential of tools like Article 14(1) of the ESF Regulation is not nearly yet utilised.

The 50% target, even if ambitious should remain in order to serve as an anchor for the necessary efforts. For this target to be reached, Member States will indeed need to invest significant resources in the forthcoming months and years.

DG Employment is committed to pursuing the efforts undertaken to improve the uptake of all kinds of simplified cost options in the Member States. This should ultimately ensure a better absorption of the Funds, a reduced risk of suspension of payments and financial correction, and thus a better focus on outputs and results. Ultimately this means a better implementation of the policy measures required to address the challenges identified in the framework of the European Semester.

## **DG EMPL therefore will:**

- Continue to provide support to Member States to develop SCOs by continuing to offer interpretation of legal issues and by helping to set up SCO systems,
- Monitor closely the uptake of SCOs by Member States and, via the annual review meetings, monitor what they require to increase the uptake of SCOs,
- Offer strong assistance to Member States which submit to the Commission data for consideration for adoption in the framework of 14(1)ESF and therefore amend the Commission delegated regulation C(2015)4625 whenever deemed necessary,
- Explore, as far as possible, the possibility to implement an Article 14.1 Delegated Act, as part of an agreed action plan, for those systems showing serious deficiencies that have not yet sufficiently implemented simplified cost options,
- Work in collaboration with Eurostat in order to explore potentials for defining EU level SCOs to be introduced in the Commission delegated regulation C(2015)4625. It will explore the potential to standardise some categories of costs widely used in ESF, such as staff costs, and standardise costs for core activities of ESF such as training in the Public Employment Services,
- Assist Member States in developing Joint Action Plans (JAPs),
- Continue hands-on seminars on-demand in Member States to promote the use of the SCOs and JAPs,
- Keep SCOs and JAPs on the agenda of the ESF Technical Working Group to monitor progress and needs of Member States,
- Follow the work done by the High Level Group on Simplification and discuss it with the ESF Technical Working Group and Committee and feed into the work of the High Level Group via the on-going study on simplification led by DG EMPL and contributions from the ESF Technical Working Group /Committee,
- Consider proposals for amending the Regulation if insufficient progress is done for implementing SCOs,
- Reflect carefully, and in consultation with other relevant stakeholders, on what would be required in the post 2020 programming period to fully utilise the potential of SCOs to deliver an improved ESF.
- Inform the European Parliament of the progress done on SCOs.



# Annexes

# Annex 1: Methodological details of the survey (coverage etc.)

**Disclaimer:** all data included in the report is based on an online survey completed by ESF Managing Authority for 2014-2020. The services of the Commission can therefore not be held responsible for the data provided as they are based on Member States declaration (except if coming from another source and mentioned as such). A consistency check was done by the services and discussed with the Member States bilaterally and the results of the report were shared with the Member States in the framework of the ESF Technical Working Group.

## I. Representativeness of the results: coverage per Member States of the replies per OP and per Total costs of the OPs covered (cut of date 15/09/2015)

The survey was sent to all 2014-2020 ESF managing authorities in June 2015 with a deadline of the first week of July. It was extended to ensure a better coverage until 15/09. All Member States replied to the survey but not all OPs were covered. The table below represents per Member States the number of OPs covered by the replies received and the corresponding total costs of the OPs. The last column gives an insight on the coverage of the study (sum of the total costs covered by the replies received to the survey divided by the total costs of the operational programmes of the Member States). From the table, one can see that replies were received for the 28 Member States, covering 150 operational programmes, representing 84% of the total budget (including ESF, national and private) allocated to ESF for 2014-2020.

Member States	Number of Operational Programmes covered by replies received per Member State	Coverage of the study (Total funding amount of OPs covered by the replies received as a proportion of total amount of ALL OPs per Member State)
AT	1	100%
BE	4	100%
BG	3	100%
CY	1	100%
CZ	3	100%
DE	14	83%
DK	1	100%
EE	1	100%
ES	23	100%
FI	2	100%
FR	28	87%
GR	16	98%
HR	1	100%
HU	4	88%
IE	1	100%
IT	14	63%
LT	1	100%
LU	1	100%
LV	1	100%
MT	1	100%
NL	1	100%
PL	11	79%
PT	10	100%
RO	2	100%
SE	1	99%
SI	1	100%
SK	2	100%
UK	5	32%
<b>Grand Total</b>	<b>154</b>	<b>84%</b>

Note: the replies to the survey received cover 154 ESF OPs (including ESF, YEI or multifund ESF OPs). The total costs of the OPs (not including the ERDF part where the OP is multifund) for which a reply was received represent 84% of all the total costs of ALL ESF OPs.

## Annex 2: Details of the survey's results

### I. Take-up of SCOs in the 2007-2013 programming period

Member States	% of Total Costs of the ESF OPs (9) to be declared under an SCO
AT	11%
BE	39%
BG	1%
CY	0%
CZ	13%
DE	5%
DK	10%
EE	4%
ES	6%
FI	2%
FR	3%
GR	1%
HR	0%
HU	1%
IE	1%
IT	26%
LT	7%
LU	12%
LV	5%
MT	1%
NL	17%
PL	4%
PT	10%
RO	0%
SE	0%
SI	11%
SK	4%
UK	2%
<b>Grand Total</b>	<b>7%</b>

*Note: As an example, based on the operational programmes for which a reply to the survey was received, it is estimated that 26% of the total eligible expenditure to be declared by Italy for the 2007-2013 programming period will be under a form of simplified cost option.*

9 (based on the ones covered by the replies collected)

## II. Main benefits of introducing SCOs

What were the main benefits of introducing SCOs?	Total (as a % of the OPs covered by the replies)
<b>-Less administrative burden</b>	
Agree	49%
Agree (Totally)	34%
Disagree	1%
Disagree (Totally)	1%
Neutral	15%
<b>-Simpler and easier to check compliance</b>	
Agree	36%
Agree (Totally)	45%
Disagree	1%
Neutral	18%
<b>-Less room for differences of interpretation around eligibility rules</b>	
Agree	57%
Agree (Totally)	18%
Disagree	6%
Disagree (Totally)	1%
Neutral	18%
<b>- Opportunity to divert resources to other activities, such as monitoring of performance</b>	
Agree	36%
Agree (Totally)	7%
Disagree	21%
Disagree (Totally)	1%
Neutral	34%
<b>- Lower level of errors and thus no need to apply financial corrections or other corrective actions</b>	
Agree	38%
Agree (Totally)	40%
Disagree	3%
Disagree (Totally)	1%
Neutral	18%

*Reading example: 45% of the OPs for which a reply to the survey was received, totally agree to the affirmation that one of the main benefits of introducing SCOs was that it made it simpler and easier to check compliance.*

Do you agree that SCOs led to less administrative burden?



Do you agree that with SCOs it is easier and simpler to check compliance?



Do you agree that SCOs leave less room for differences of interpretation around eligibility rules?



Do you agree that SCOs led to a lower level of error and thus less financial corrections?



Do you agree that SCOs allowed to divert resources to other activities?



### III. Potential blocking factors for the take-up of SCOs

<b>If you are either not using SCOs at all, or only using them for some of your projects or expenditure, please state if you agree with these reasons for not making greater use of SCOs:</b>	<b>Total (as a % of the OPs covered by the replies)</b>
<b>-I think there is a lack of information on how to design/implement SCOs</b>	
Agree	21%
Agree (Totally)	1%
Disagree	55%
Disagree (Totally)	4%
Neutral	19%
<b>-SCOs are too administratively burdensome to design</b>	
Agree	32%
Agree (Totally)	16%
Disagree	19%
Disagree (Totally)	4%
Neutral	29%
<b>-The benefits of SCOs are not obvious</b>	
Agree	3%
Disagree	77%
Disagree (Totally)	10%
Neutral	10%
<b>-I am aware of the potential systemic impact of a miscalculation of the rates or unit applied</b>	
Agree	57%
Agree (Totally)	12%
Disagree	15%
Disagree (Totally)	2%
Neutral	14%
<b>-There is too much legal uncertainty surrounding SCOs</b>	
Agree	38%
Agree (Totally)	15%
Disagree	16%
Disagree (Totally)	2%
Neutral	29%

*Reading example: 59% of the OPs for which a reply to the survey was received disagree or even disagree totally that there is a lack of information on how to design/implement SCOs.*

#### IV. Expected support from the Member States to develop SCOs

How could further support be given to you in developing SCOs:	Total (as a % of the OPs covered by the replies)
<b>-Ad Hoc assistance from the Commission on designing 14.1 Delegated Act and JAP?</b>	
Agree	44%
Agree (Totally)	40%
Disagree	2%
Neutral	14%
<b>-Practical workshop-based training seminar?</b>	
Agree	35%
Agree (Totally)	54%
Disagree	2%
Neutral	9%
<b>-Transnational Network on SCOs?</b>	
Agree	26%
Agree (Totally)	32%
Disagree	19%
Disagree (Totally)	1%
Neutral	22%
<b>-List of 'Frequently Asked Questions' ?</b>	
Agree	23%
Agree (Totally)	69%
Disagree	1%
Neutral	6%

*Reading example: 40% of the OPs for which a reply was received totally agree, and 44% agree, with the fact that an ad hoc assistance would help them to further develop SCOs.*

## V. Differences of audit trail between the “classical” SCOs (Art. 67 CPR) and Article 14(1) ESF

Audit trial - SCO (Art. 67 CPR)		
Operation	Member States	European Commission
<b>Direct Staff costs:</b> 4.500 EUR (SSUC hourly based)	<b>Direct Staff costs:</b> Justify the methodology of the SSUC & justify the number of hours	Same amounts declared and used as a basis of reimbursement from beneficiary to European Commission
<b>Other direct costs:</b> 1.500 EUR (real costs)	<b>Other direct costs:</b> 1.500 EUR (real costs)	
<b>Indirect costs:</b> 675 EUR (15% flat rate from REGL)	<b>Indirect costs:</b> 675 EUR (15% flat rate from REGL)	
Audit trial - 14(1)ESF version 2.0		
Operation	Member States	European Commission
No financial audit!	All costs are declared on the basis of the SSUC of DA: 6 certified trainee (justified) x 1.000 EUR = 6.000 EUR	Same amounts declared and used as a basis of reimbursements from Member States to European Commission
		The SSUC was assessed and adopted by delegate act

In the framework of Article 67 CPR, the amounts declared by the beneficiary to the Managing Authority have to be the same than the amount declared by the Member State to the Commission.

In the framework of Article 14(1) ESF, the unit cost/lump is agreed between the Member State and the Commission. The Managing Authority can apply the same SCO to the beneficiary or another or real costs. This is consequently diminishing the scope for financial audit, but allows on the other hand the audit to focus on the delivery of the agreed outcome/result.

## VI. Estimated take-up of SCOs for the 2014-2020 period

Member States	Estimated total costs to be declared under a form of SCOs for ESF in 14-20 (in EUR millions)	SCOs as a % of the total of the OPs covered by the replies received
AT	376.6	43%
BE	887.2	38%
BG	63.5	3%
CY	36.5	22%
CZ	1,287.7	30%
DE	1,863.4	18%
DK	90	23%
EE	231.3	34%
ES	5,889.2	50%
FI	269.6	26%
FR	1,475.3	16%
GR	2,173.5	45%
HR	600	32%
HU	356.6	7%
IE	176.3	15%
IT	7,358.6	61%
LT	281.7	21%
LU	30	75%
LV	61.7	8%
MT	28	21%
NL	512.4	50%
PL	5,963.1	48%
PT	3,802.9	41%
RO	1,264.9	22%
SE	1,100	70%
SI	181.1	20%
SK	1005.	28 <sup>10</sup> %
UK	910.6	31%
<b>Grand Total</b>	<b>38,276.7</b>	<b>35%</b>

Reading example: for the overall 2014-2020 programming period, it is estimated that on the basis of the replies received to the survey, around 35% of the total eligible expenditure to be declared to the Commission will be declared under a form of SCOs.

10 Originally, this figure was incorrectly reported as 12% for Slovakia, with an amount of 315 million Euro.

## VII. Estimated use of SCOs for 2014-2020 period per type of SCO

What type of Simplified Cost Option are you using or do you intend to use?		% of OPs covered by the replies who are or who intend to use SCOs
Flat rate financing	Yes	89%
	Maybe	9%
	No	2%
Standard Scale of Unit Cost	Yes	77%
	Maybe	17%
	No	5%
Lump sum	Yes	50%
	Maybe	29%
	No	21%

Reading example: for 89% of the OPs for which a reply to the survey was received, at least one type of flat rate is being used or is intended to be used.

## VIII. Estimated coverage of beneficiaries by a form of SCOs for 2014-2020 period

Will you cover the following types of beneficiaries by the SCOs?	Total as a % of the OP covered by the replies
<b>- Public Employment Services</b>	
No	27%
Yes	73%
<b>- Education body</b>	
No	9%
Yes	91%
<b>- Other public bodies (such as municipalities) within TO 11</b>	
No	57%
Yes	43%
<b>- NGOs</b>	
No	21%
Yes	79%
<b>- Private training or service providers</b>	
No	13%
Yes	87%

Reading example: for the OPs for which a reply was received, it is estimated that 73% of them will make use of at least one form of SCOs for the operations implemented by the Public Employment Services.

## IX. Estimated take-up of 14(1) ESF

Are you aware that the Commission may approve ex ante standard scale of unit costs and lump sums by a delegated act (DA) of the Commission under Article 14(1) ESF?	Total as a % of the OP covered by the replies
Yes	96%
No	4%
Are you aware that unit costs and lump sums approved in the framework of Article 14(1) ESF can also be applied to operations that are fully publicly procured?	
Yes	86%
No	14%
Do you intend to use this option?	
Yes	62%
No	38%

Reading example: 96% of the OPs for which a reply was received were aware that Art. 14(1)ESF entitled the Commission to approve ex ante SSUC and LS by delegated act.

## X. Estimated take-up of Joint Action Plans

Are you aware of the possibility to use Joint Action Plans ?	Total as a % of the OP covered by the replies
No	14%
Yes	86%
Are you aware that unit costs and lump sums approved in the framework of a JAP can also be applied to operations that are fully publicly procured?	
No	19%
Yes	81%
Do you intend to use this option?	
No	66%
Yes	34%

Reading example: 86% of the OPs for which a reply was received were aware of the possibility to use JAP.



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## SIMPLIFIED COST OPTIONS IN THE EUROPEAN SOCIAL FUND

Simplified Cost Options (SCOs) change how we reimburse expenditure under ESF projects. Rather than paying on the basis of real costs backed up with invoices and receipts, we pay on the basis of pre-defined standard scales of unit costs, flat rate or lump sum payments. SCOs are proven to reduce the error rate for the programme and also to reduce the administrative burden for Member States and beneficiaries. They can also help put a greater focus on the outputs and results achieved.

This report reviews the current and planned take-up of SCOs. It summarises outcomes for the 2007-2013 period and the regulatory improvements on SCOs for the 2014-2020 period. It presents an overview of the planned implementation of SCOs during the current programming period, and the benefits that national authorities derive from them. Finally, it looks at what else needs to be done to increase the use of SCOs. The results represent the most comprehensive estimate available of the use of the SCOs in the ESF.

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