Official Journal of the European Union

C 200

English edition

Information and Notices

Volume 64

27 May 2021

Contents

EN

IV

(Notices)

NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

EUROPEAN COMMISSION

COMMISSION NOTICE GUIDELINES ON THE USE OF SIMPLIFIED COST OPTIONS WITHIN THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS (ESI) – REVISED VERSION

(2021/C 200/01)

Guidance on Simplified Cost Options (SCOs): Flat rate financing, Standard scales of unit costs, Lump sums

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

Revised edition following the entry into force of Regulation (EU, Euratom) 2018/1046

DISCLAIMER:

'This is a working document prepared by the Commission services. On the basis of applicable EU law, it provides technical guidance for colleagues and bodies involved in the monitoring, control or implementation of the European Structural and Investment Funds. This guidance is without prejudice to the interpretation of the Court of Justice and the General Court.'

TABLE OF CONTENTS

Page

CHAPTER 1

Introduction

1.1. **Purpose**

This document provides technical guidance on costs declared on the basis of a flat rate, lump sums and standard scales of unit costs (hereinafter referred to as Simplified Cost Options) applicable to the ESI Funds and aims at sharing good practices with a view to encouraging Member States to use them. It covers the possibilities offered by the legal framework of the ESI Funds for the 2014-2020 programming period.

Following the entry into force of Regulation (EU, Euratom) 2018/1046 ([1]) (the 'Omnibus Regulation') on 2 August 2018, this revised edition of the guidance takes account of the amendments to Regulation (EU) No 1303/2013 ([2]) (Common Provisions Regulation – 'CPR') and Regulation (EU) No 1304/2013 ([3]) (European Social Fund Regulation – 'ESF Regulation') introduced by the Omnibus Regulation. These amendments build on and extend the possibilities introduced in 2014, taking into account the recommendations of the High-Level Group on Simplification ([4]). They also extend a number of options that had previously been provided for in Fund-specific regulations only to all ESI Funds.

This revision of the guidance also includes further clarifications based on questions posed by Member States and stakeholders during the current programming period.

This guidance does not cover joint action plans, simplified cost options used in the framework of Article 14(1) of the ESF Regulation ([5]), or financing not linked to costs as referred to in Article 67(1)(e) CPR.

1.2. **Why use simplified cost options?**

Where simplified cost options (SCOs) are used, the eligible costs of an operation are **calculated** according to a predefined method based on outputs, results or some other costs clearly identified in advance either by reference to an amount per unit or by applying a percentage. Simplified cost options are, thus, an alternative method for calculating the eligible costs of an operation opposed to the traditional method: calculation on the basis of the costs actually incurred and paid (Article 67(1)(a) of the CPR, hereinafter referred to as 'real costs'). With simplified cost options, **the tracing of every euro of co-financed expenditure to individual supporting documents is no longer required:** this is the key point of simplified cost options as it significantly **alleviates the administrative burden.**

Using simplified cost options also means that the human resources and administrative efforts involved in the management of the ESI Funds can **focus on the achievement of policy objectives** as less resources are needed for collecting and verifying (financial) documents.

It will also facilitate **access of small beneficiaries to the ESI Funds** ([6]) **(ESF, ERDF, EAFRD, EMFF, CF)** thanks to the simplification of the management process.

Finally, simplified cost options contribute to a more efficient and correct use of the ESI Funds (**lower error rate**). For many years, the European Court of Auditors has repeatedly recommended to the Commission to encourage and extend the use of simplified cost options, especially as they are less prone to errors. In its 2017 Annual report ([7]) the Court noted that, over the previous five years, 135 transactions out of the 1 437 audited used SCOs. From these, no

([1]) Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union

([2]) Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the ERDF, the ESF, the CF, the EARDF, and the EMFF 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

([3]) Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006

([4]) 2nd meeting of the High-Level Expert Group on Monitoring Simplification for Beneficiaries of ESI Funds

([5]) A dedicated guidance note covers these two instruments.

([6]) The European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Fund for Rural Development (EARDF), the European Maritime and Fisheries Fund (EMFF), the Cohesion Fund (CF).

([7]) Available here: https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=46515

quantifiable errors were found, leading the Court to conclude that projects using SCOs are less error-prone than projects using real costs ([8]). In addition, following the 2018 Special Report on 'New options for financing rural development projects', the Court concluded that SCOs bring significant simplification and decrease the administrative burden for both beneficiaries and Member State authorities ([9]).

CHAPTER 2

Horizontal principles and scope

2.1. When to use simplified costs

Simplified costs may only be used in the case of operations financed through grants and repayable assistance (Article 67(1) CPR).

Beyond the cases where the use of simplified cost options is mandatory, it is recommended that simplified costs are used when one or more of the following circumstances exist:

— if Member States want ESI Funds management to focus more on outputs and moving towards the achievement of results instead of inputs;

— real costs are difficult to verify (many supportive documents for small amounts with little or no singular impact on the expected output of the operations, complex apportionment keys, etc.);

— reliable data on financial and quantitative implementation of operations are available ([10]);

— simpler document management;

— the operations belong to a standard framework;

— SCO methods already exist for similar types of operations and beneficiaries under a nationally funded scheme or under another EU instrument.

N.B. Simplified cost options cannot be used in case the support to an operation is provided in the form of a financial instrument or a prize. However, in case the form of support to an operation is a **combination of a grant or repayable assistance with a financial instrument or prize**, simplified cost options can be used for the part of the support which is provided in the form of a grant or repayable assistance. Subject to certain exceptions, simplified cost options are not relevant for operations which the beneficiaries implement via procurement.

2.2. Use of Simplified Cost Options

2.2.1. *The principle*

With the exception of operations falling within the scope of Article 67(2a) CPR ([11]), the use of simplified cost options is not mandatory for the Member States. The managing authority or, the Monitoring Committee of ETC programmes, may decide to make such use optional or compulsory for all or certain categories of projects and activities and for all or part of an operation. In order to ensure respect of the principles of transparency and equal treatment of beneficiaries, the scope of the simplified cost options to be applied, i.e. the category of projects and activities for which they will be available, should be specified and published in the call for proposals.

2.2.2. *The exception: cases where the use of simplified cost options is mandatory [section revised following the Omnibus Regulation]*

Article 67(2a) CPR determines that for ESF and ERDF operations for which the public support does not exceed EUR 100 000 shall take the form of unit costs, lump sums or flat rate financing. The use of simplified cost options is thus mandatory.

([8]) Annual report on the implementation of the budget, (2017)C 332/01, European Court of Auditors.
([9]) Available here: https://www.eca.europa.eu/Lists/ECADocuments/SR18_11/SR_SCO_EN.pdf
([10]) It should be noted that the CPR also provides for simplified cost options which can be used by the managing authority without the need to make any calculation. Therefore, in these cases, they can be used even if there are no reliable data available for a certain type of operations.
([11]) And Article 14(4) ESF Regulation before the entry into force of the Omnibus Regulation

The purpose of this provision is to limit controls on real costs that, taking into account the low value of these operations, would not be cost efficient.

The amount of EUR 100 000 has to be considered as the maximum public support to be paid to the beneficiary, as specified in the document setting out the conditions for support to the beneficiary (ERDF and ESF + corresponding public national funding to be paid to the beneficiary as the maximum amount set in the funding agreement or decision if applicable). It includes neither the public contribution provided by the beneficiary, if any, nor the allowances or salaries disbursed by a third party for the benefits of the participants in an operation. It is only the programmed public support that determines whether Article 67(2a) has to be applied.

In case an operation receives support from both the ERDF and the ESF, the amount of support provided by both Funds is taken into account for the calculation of the 'public support' to the operation. Moreover, in case the total amount of public support is not higher than EUR 100 000 the **obligation to use simplified cost options applies to the support provided by each Fund (i.e. by both the ERDF and the ESF)**.

Example:

The draft budget of a public body for an operation with a total eligible cost of EUR 105 000 is as follows:

	(EUR)
Public national funding	20 000
ESF	22 500
ERDF	22 500
Self-financing	25 000
Allowances to the participants paid by the Public Employment Service	15 000
Total financing plan	**105 000**

Despite total eligible costs of EUR 105 000, this operation still falls in the category of operations for which simplified costs are mandatory. The support provided by both Funds and the public national funding are counted for calculating the public support to the operation.

The self-financing (EUR 25 000) of a public body is not taken into account to determine the public support paid to the beneficiary.

The allowances of the trainees paid by the Public Employment Service (EUR 15 000) are not counted either as they are paid by a third party to the participants.

Therefore, the public support equals EUR 45 000 (ERDF+ESF) + EUR 20 000 = EUR 65 000, which is below the EUR 100 000 threshold.

There are two exceptions to this obligation:

— Operations or a project forming a part of an operation implemented exclusively through the public procurement of works, goods or services. (see first sentence of Article 67(4) CPR).

— Operations receiving support within the framework of State aid, **which does not constitute *de minimis* aid** ([12]) (see the first subparagraph of Article 67(2a)).

([12]) For the ESF this is an important change compared to the rule set out in Article 14(4) ESF Regulation, before the omnibus regulation.

When the **obligation to use SCOs applies**, it relates **to the totality of the eligible expenditure of the operation**, with two exceptions on the basis of the second and third subparagraphs of Article 67(2a) CPR:

(1) The categories of costs to which a flat rate is applied.

These categories of costs to which a flat rate is applied may be calculated on the basis of real costs (e.g. in case the flat rate of up to 15 % for indirect costs set out in point (b) of the first subparagraph of Article 68 CPR is used, the eligible direct staff costs may be declared on the basis of real costs).

(2) Allowances and salaries paid to participants in case the flat rate of up to 40 % set out in Article 68b(1) CPR is used ([13]).

If the flat rate of up to 40 % set out in Article 68b(1) CPR is used, allowances and salaries paid to participants (which are additional eligible costs that are not included in the flat rate) may also be reimbursed on the basis of real costs.

N.B. **For the ESF**: Before the entry into force of the Omnibus Regulation, the use of simplified cost options was already mandatory for small operations supported by the ESF. Former Article 14(4) ESF Regulation determined that grants or repayable assistance to operations for which the public support did not exceed EUR 50 000 were obliged to use simplified cost options except for operations receiving support within the framework of a State aid scheme.

Although this provision was deleted by the Omnibus Regulation, **this provision continues to apply to operations supported under calls for proposals launched before the entry into force of the Omnibus Regulation** ([14]).

The obligation under Article 14(4) differs from Article 67(2a) CPR in the following areas:

(1) operations for which the support constitutes de minimis aid are exempted from the obligation to use simplified cost options ([15]);

(2) Salaries and allowances paid to participants cannot be declared on the basis of real costs when the 40 % flat rate set out in Article 14(2) ESF is used (as they cannot be declared in addition to those costs);

(3) **only the ESF support and the corresponding national funding to be paid to the beneficiary as specified in the agreement is taken into account for the calculation of the EUR 50 000 threshold** (as Article 14(4) ESF only applies to the ESF).

Snapshot: key changes on mandatory use of SCOs introduced by the Omnibus Regulation:

(1) The **obligation** to use SCOs **is extended to** the support provided by **the ERDF**. With the introduction of a new paragraph 2a in Article 67 CPR applying to both ERDF and ESF, Article 14(4) of the ESF Regulation was not needed any more and therefore deleted.

(2) The **threshold** is increased from EUR 50 000 to EUR 100 000.

([13]) This flat rate - which is now applicable to all ESI Funds - is inspired by former Article 14(2) ESF Regulation, which was only applicable to the ESF and was deleted by the Omnibus Regulation. Contrary to Article 14(2) ESF Regulation, according to Article 68b(1) CPR, for operations supported by the ESF, the ERDF and the EAFRD, which is now applicable to all ESI Funds, allowances and salaries paid to participants are considered additional eligible costs to the costs calculated on the basis of the flat rate. They are **not** included in the 'remaining eligible costs' which are calculated on the basis of a flat rate of 40% of eligible direct staff costs set out in Article 68b (see section 3.1.2.3. on Article 68b).

([14]) See section 2.2.3. which provides further guidance on application in time of the amendments introduced by the Omnibus Regulation.

([15]) Article 2(13) CPR defines 'State aid' as aid falling under Article 107(1) TFEU which shall be deemed for the purposes of this Regulation also to include *de minimis* aid within the meaning of Commission Regulation (EC) No 1998/2006, Commission Regulation (EC) No 1535/2007 and Commission Regulation (EC) No 875/2007. The reference to State aid in the ESF Regulation is to be understood like it is defined in the CPR.

(3) **Operations for which the support constitutes *de minimis* aid is now covered by the obligation** to use simplified cost options.

2.2.3. ***Application in time and transitional provisions***

Article 67(2a) CPR only applies to operations supported under calls for proposals published as from the date when the Omnibus Regulation entered into force (i.e. from 2 August 2018). It does not apply to operations supported under calls published before this date, even if the document setting out the conditions for support (e.g. the financing decision/grant agreement) is issued after the entry into force of the Omnibus Regulation. Operations that are supported outside the scope of a call for proposals (e.g. direct award) need to comply with the requirements of Article 67(2a) CPR if the grant agreement or the document setting out the conditions for support was signed as of 2 August 2018.

In accordance with Article 152(7) CPR, the managing authority, or the monitoring committee of the ETC programme, may decide not to apply mandatory SCOs for a maximum period of 12 months starting from 2 August 2018. This period may be extended for a period that seems appropriate to the managing authority (monitoring committee for ETC programmes) in case the mandatory application of SCOs is considered to create disproportionate administrative burden.

These transitional provisions set out in Article 152(7) CPR do not apply to grants (and repayable assistance) supported by the ESF **for which the public support does not exceed EUR 50 000**. This is because operations supported by the ESF with a public support not exceeding EUR 50 000 were already subject to the obligation of using simplified cost options before the entry into force of the Omnibus Regulation (Article 14(4) ESF Regulation).

Therefore, for ESF supported operations where the public support does not exceed EUR 50 000, Article 67(2a) CPR applies as from the entry into force of the Omnibus Regulation (i.e. to calls for proposals launched as from the entry into force of the Omnibus Regulation).

This has key implications in case the support by the ESF constitutes *de minimis* aid.

According to Article 14(4) ESF Regulation, operations for which the support constituted *de minimis* aid were not covered by the obligation to use simplified cost options. However, Article 67(2a) CPR only contains an exception for operations receiving support within the framework of State aid **that does not constitute *de minimis* aid**. This means that ESF supported operations for which the public support did not exceed EUR 50 000 before 2 August 2018 and since 2 August 2018 does not exceed EUR 100 000 and constitutes *de minimis* aid are no longer excluded from the obligation to use SCOs. Finally, the possibility to postpone the application of Article 67(2a) CPR cannot be used for ESF operations with a public support not exceeding EUR 50 000 in line with the last subparagraph of Article 152(7) CPR.

For operations and projects selected under calls for proposals launched before the entry into force of the Omnibus Regulation Article 14(4) ESF Regulation applies. ESF supported operations receiving public support (not exceeding EUR 50 000) are subject to the obligation to use SCOs but operations receiving support that constitutes State aid, including *de minimis* aid, are excluded from this obligation.

Other implications of the Omnibus Regulation

Joint support by the ESF and ERDF

In case an operation is supported by both the ESF and the ERDF and this operation is selected under a call for proposals launched **before the entry into force of the Omnibus Regulation**: the support by the ERDF is not taken into account for determining the attainment of the threshold for the obligation to use SCOs, but only the support by the ESF as well as the corresponding public national support. It is only the part of the operation supported by the ESF (and the corresponding national public support) that is subject to the obligation to use SCOs, as Article 14(4) ESF Regulation only applied to the ESF and there was no provision requiring that the ERDF support to such an operation to take the form of SCOs.

For operations and projects under calls for proposals launched **after the entry into force of the Omnibus Regulation**, the support by both the ESF and the ERDF is taken into account for the calculation of the public support, unless the managing authority (or the monitoring committee of the ETC programmes) makes use of the transitional provisions.

Cross-financing

In cases of cross-financing in accordance with Article 98(2) CPR, for example for operations supported by the ESF – i.e. the ESF is used to also provide support to expenditure eligible under the ERDF – **the whole amount** of support by the ESF as well as the corresponding public national support is considered for determining whether the amount of public support is covered by the obligation to use SCOs (as it is public support to an operation that is not supported by the ERDF, but only by the ESF.).

Operations and projects under calls for proposals launched **before the entry into force of the Omnibus Regulation**, need to be assessed in the light of Article 14(4) of the ESF Regulation ([16]). Although the entire amount provided from the ESF as well as the corresponding public national funding is taken into account for determining whether the operation is subject to the obligation to use SCOs under this provision, **the obligation only applies to the part of the support subject to the rules of the ESF**, i.e. the part of support subject to the rules applicable to the ERDF is not subject to the obligation to use SCOs.

In the case of operations and projects supported under a call for proposals launched **after the entry into force of the Omnibus** Regulation, the part of support subject to rules applicable to the ERDF is also subject to the mandatory use of simplified cost options, in case the managing authority (or the monitoring committee for ETC programmes) has not made use of the transitional provisions in Article 152(7) CPR.

2.3. Combination of options

2.3.1. *General principles*

Article 67(1) CPR creates the possibility for the managing authority to choose between five options to manage grants and repayable assistance co-financed by the ESI Funds.

In accordance with Article 67(3) CPR, these options may be combined only in the following cases, in order to prevent any double financing of the same expenditure:

(1) They must each cover different categories of eligible costs;

or

(2) they must be used for different projects in the same operation;

or

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

2.3.2. *Examples of combinations*

Example 1: Funding of different projects forming part of the same operation (ESF)

Example of an operation involving a training project for young unemployed people, followed by a seminar for potential employers of the region:

The costs related to the training could be paid on the basis of standard scales of unit costs (for example EUR 1 000/day of training). The seminar would be paid on the basis of lump sums.

Given that there are two different projects forming part of the same operation, there is no risk of double financing as each project's costs are clearly separated.

([16]) In the version amended by Regulation (EU) 2015/779 of the European Parliament and of the Council.

Example 2: Successive phases of an operation (ESF) – in line with Article 67(3) CPR

Example of an already started operation managed on the basis of real costs that the managing authority wants to continue to manage on the basis of simplified costs. Two phases will have to be clearly defined. The first phase could be calculated on the basis of real costs until a given date. The second phase, for **future** expenditure, could be calculated on the basis of a standard scales of unit cost **provided that the unit cost does not cover any of the previously supported expenditure.**

If such a possibility is applied, it should concern all the beneficiaries in the same situation (transparency & equal treatment). It could create some administrative burden because of the need to amend the document setting out the conditions for support, if this was not anticipated. A detailed description of the operation must be clearly drawn up by the Member State's authorities for each phase. The operation should be divided into at least two distinct, identifiable financial and ideally physical or development stages corresponding to the phases concerned. This is to be done with the aim of ensuring transparent implementation and monitoring and to facilitate controls.

Example 3: Different categories of eligible costs (ESF)

Example of a training session combining:

— a standard scale of unit cost for the wages of the trainers, e.g. EUR 450/day;

— real costs: room rented = EUR 800/month as per rental contract during 12 months

— a flat rate for the indirect costs, for example 10 % of direct costs.

At the end of the training, if 200 days of trainers were justified the grant will be paid on the following basis:

Direct costs (type 1 ([17])):

— wages of the trainers 200 days × EUR 450 = EUR 90 000

— training room: 12 months × EUR 800 = EUR 9 600

— subtotal direct costs: EUR 99 600

Indirect costs (type 2): 10 % of direct costs = 10 % × EUR 99 600 = EUR 9 960

Eligible expenditure: (EUR 90 000 + EUR 9 600) + EUR 9 960 = EUR 109 560

In that case, different categories of costs are concerned: wages of trainers, rent costs for the room, indirect costs. However, in order to verify the absence of double financing the authorities must ensure that the standard scale of unit cost does not relate to any costs linked to the renting of the room or to the indirect costs (salary of administrative staff or of the accountant, for example). Reciprocally the same applies for the definition of indirect costs that should not relate to costs covered by the standard scales of unit costs or real costs of renting the room.

If there is a risk of overlap or it is impossible to demonstrate that there are no overlaps, the managing authority will have to choose the more appropriate option in order to avoid any (risk of) double financing.

2.4. Public procurement & the use of simplified cost options

2.4.1. *Use of simplified cost options in the case of public procurement*

Pursuant to the first sentence of Article 67(4) CPR where an operation as defined in Article 2(9) CPR or a project forming part of an operation (which in itself is supported in form of a grant or repayable assistance) is implemented by the beneficiary exclusively through the procurement of works, goods or services, simplified cost options may not be used. However, in accordance with the second sentence of Article 67(4), where, the public procurement within an operation or a project forming part of an operation is limited to certain categories of costs, simplified cost options may be applied

([17]) For an explanation regarding the different types of costs with regard to flat-rate financing, see section 3.1.1.

'for the whole operation or project forming part of an operation'. This sentence was introduced by the Omnibus Regulation to clarify the previous text of Article 67(4) CPR. It clarifies that for cases where within a project or operation, some goods or services have been outsourced via public procurement, SCOs can be used to calculate all the costs of the operation, including for the costs that were subject to public procurement.

Operations subject to public procurement contracts are considered by the Commission as being operations implemented through the award of public contracts in accordance with Directive 2004/18/EC (including its annexes), Directive 2009/81/EC and Directive 2014/24/EU, which repealed Directive 2004/18/EC, or through the award of public contracts below the thresholds of the same Directives.

Whether an operation or project is implemented exclusively by public procurement or not depends on the scope of an operation or project, as defined by Member States.

In order to assess this, it is necessary to define the projects constituting the operation at the lowest possible level. If the public procurement covers all categories of costs of a project, the simplified cost options cannot be applied to that project.

In some cases, a beneficiary might outsource via public procurement almost all or the vast majority of an operation or project with perhaps only activities related to 'project management' or 'communications' remaining with the beneficiary. In such cases, it is clear that the operation or project is not 'exclusively' implemented through public procurement and simplified costs could be applied to the whole project or operation. However, in practice, when most of the project is implemented through public procurement, devising a SCO for categories of costs covered by a procurement may not be an efficient use of resources, as the majority of costs are already covered by the procurement. Although not recommended, it is, however, for the managing authorities to assess whether to make use of simplified costs for the entire project if it is not implemented exclusively through public procurement.

Example (ESF): A grant of EUR 20 000 000 is allocated to a public employment service ('beneficiary') to organise, during two years, the reintegration of 5 000 long-term unemployed people ('the operation'): this operation will be implemented via several projects: EUR 7 000 000 of personalised support projects implemented in-house, training projects implemented in-house by the beneficiary for EUR 5 000 000 and outsourced exclusively via public procurement contracts for the remaining part (EUR 8 000 000). Since the beneficiary is a public entity, training institutions for the projects outsourced will have to be chosen exclusively through public procurement procedures, and simplified cost options cannot be used for these projects forming part of the operation. Simplified cost options can only be used for an amount of EUR 12 000 000. For the training projects that the beneficiary implements by his own means, it is accepted that some of the expenditure items are outsourced through public procurement and included in the simplified cost options (external experts, cleaning services, etc.).

Example (ERDF): A municipality receives a grant for a maximum amount of EUR 1 000 000 of eligible costs for the construction of a road. For this, the municipality has to award a public works contract of an estimated value of EUR 700 000. In addition, the municipality incurs certain related costs of EUR 300 000 (expropriations, litigation ([18]) costs, monitoring of the progress on the ground, environmental studies carried out by its own staff, campaigns, tests for the acceptance of the road, etc.). For the amount of EUR 300 000 of direct costs and insofar as these costs are eligible under the national and Union provisions, simplified costs (e.g. indirect costs on a flat rate basis) can apply.

Example (ERDF): A beneficiary (municipality) receives a grant for a maximum amount of EUR 1 000 000 of eligible costs for the construction of a road.

([18]) Litigation costs are not eligible in the framework of ETC programmes further to Article 2(2) of the Commission Delegated Regulation (EU) No 481/2014.

For this operation which is not fully publicly procured, the managing authority wants to make use of Article 68(1)(b) CPR to calculate the indirect costs. However, the managing authority wants to mitigate the impact of the use of subcontracted staff on the level of indirect costs. It decides to exclude the subcontracted direct staff costs from the direct staff costs to which the flat rate is applied.

The draft budget for the operation is as follows:

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

When operations are implemented through public procurement procedures, the price in the contract notice is by definition a unit cost or lump sum constituting the basis of the **payments by the beneficiary to the contractor**. However, for the purposes of Article 67 CPR, costs determined and paid by the beneficiary based on amounts established through public procurement procedures constitute real costs actually incurred and paid under Article 67(1)(a) CPR ([19]).

Example (ESF):

If a beneficiary implements a training course via public procurement, it is possible that in the call for tenders the beneficiary will ask the bidders to make a price offer per trainee gaining certification at the end of the course.

The terms of the contract can therefore be: one trainee certified = EUR 1 000.

If, at the end of the course, 10 trainees are certified, the beneficiary can declare EUR 10 000 of eligible expenditure to the managing authority.

This EUR 10 000 will be considered as real cost based. Therefore, a control or audit of this expenditure will consist in a check of the public procurement procedure and observance of the terms of the contract (in this example, that there is proof of a trainee certified for each unit cost paid). The underlying costs of the training (renting of facilities, staff costs…) will not be checked as the contract does not provide for reimbursement on this basis.

2.4.2. ***Use of the flat rate for calculation of direct staff costs in operations implemented through public procurement***

As provided in Article 68a CPR, the calculation of direct staff costs of an operation at a flat rate of up to 20 % of the direct costs other than staff costs will not require a calculation to determine the methodology unless the operation includes public works contracts which exceed the threshold set out in point (a) of Article 4 of Directive 2014/24/EU. This means, that if the direct costs of the operation are even partially covered by such a public works contract which exceeds the threshold set out in point (a) of Article 4 of Directive 2014/24/EU, the use of the 20 % flat rate defined in the Regulation is possible but will require the establishment of a methodology to determine the applicable rate.

([19]) See joint statement by the Council and the Commission on Article 67 of the CPR *(contained in COREPER/Council doc 8207/12, ADD7 REV 1)*.

2.5. **Compatibility of simplified cost options with State aid rules**

It should be emphasised that the State aid rules laid down in the Treaty are of general application. Moreover, in accordance with Article 6 CPR operations shall comply with applicable Union law and the national law relating to its application. This includes compliance with rules on State aid. Therefore, whenever funding constitutes State aid within the meaning of Article 107 TFEU, those rules must be complied with in the calculation and administration of simplified cost options as provided for in Article 67 CPR. Managing authorities must therefore ensure that the categories of costs for which simplified cost options are established are eligible both under the ESI Funds rules and under State aid rules. They must also ensure that the maximum aid intensities set out in State aid rules are respected.

Block exemption regulations, i.e. the General Block Exemption Commission Regulation (EU) No 651/2014 ([20]) (GBER), the Agricultural Block Exemption Regulation (EU) No 702/2014 (ABER) and the Fisheries Block Exemption Regulation (EU) No 1388/2014 (FBER) provide for exemptions from the obligation of Member States to notify aid schemes and ad hoc aid fulfilling the conditions stipulated therein.

However, it should be noted that not all support granted by public authorities is subject to State aid rules. First, it should be assessed whether the support granted to an operation is considered State aid within the meaning of Article 107(1) TFEU. More information on the notion of State aid can be found in the Commission notice ([21]) which clarifies the Commission's understanding of Article 107(1) of the Treaty, as interpreted by the Court of Justice and the General Court. The provisions of the Regulations ([22]) on '*de minimis*' aid should also be taken into account. Aid that constitutes '*de minimis*' aid does not constitute State aid within the meaning of Article 107 of the Treaty. Therefore, in case an operation funded by the ESI Funds falls within the scope of the relevant *de minimis* Regulation, it means that the contribution by the ESI Funds does not constitute State aid. Therefore, in the case of *de minimis* aid there is no need to assess compliance with State aid rules, only those relating to the ESI Funds and the conditions for considering the support as *de minimis* aid.

In order for an operation to benefit from the relevant *de minimis* Regulation, the conditions (set out in that regulation) are to be met.

(1) the aid granted falls within the scope of Article 1 of the relevant '*de minimis*' Regulation;

(2) the aid granted complies with the ceilings as set out in Article 3 of the relevant '*de minimis*' Regulation;

(3) the aid granted complies with the requirements on the calculation of gross grant equivalent as set out in Article 4 of the relevant '*de minimis*' Regulation;

(4) the aid granted complies with the cumulation rules set out in Article 5 of the relevant '*de minimis*' Regulation;

(5) the aid granted complies with the monitoring requirement set out in Article 6 of the relevant '*de minimis*' Regulation.

2.5.1. ***Compatibility of simplified cost options with the General Block Exemption Regulation and the Agricultural Block Exemption Regulation***

The check of the compliance of ESI Funds operations with the GBER or the ABER should include the following steps:

— **Eligibility of costs under the GBER or the ABER and the rules on the ESI Funds**

First, when the managing authority wants to grant support that is considered to constitute State aid, the conditions for granting the aid should be checked according to the relevant category of aid/exemption provision under the GBER or the ABER.

([20]) Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1).

([21]) Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union, OJ C 262, 19.07.2016, p. 1.

([22]) Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid, Regulation (EU) No 1408/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid in the agriculture sector and Regulation (EU) No 717/2014 of 27 June 2014 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid in the fishery and aquaculture sector.

Then, the managing authority should verify whether, in the framework of this category of aid, **the costs envisaged for an operation are eligible, both on the basis of the relevant exemption provisions under the GBER or the ABER and the ESI Funds rules.**

In this respect, Article 7(1) of the GBER and Article 7 (1) of the ABER, both as amended by Regulation (EU) 2017/1084 of 14 June 2017, allow for eligible costs under the GBER and ABER to be calculated in accordance with the simplified cost options set out in the CPR, provided that the operation is at least partly financed through a Union fund that allows for the use of those simplified cost options and that the category of costs is eligible according to the exemption in the relevant GBER or ABER.

This means that where a simplified cost option has been **established** in accordance with the CPR or the Fund-specific regulations, this amount will as a rule be used for the purposes of the control of compliance with State aid rules, **provided that the category of costs as such is eligible under State aid rules and that the aid fulfils all conditions of the GBER or the ABER.**

Where simplified cost options are **used**, the categories of costs calculated on the basis of SCOs should be identified in the methodology used to arrive at the simplified cost amount. Where simplified cost options defined in the CPR or other fund specific rules are used, this should be ensured by the managing authority, when issuing calls for proposals **for operations which may be subject to State aid rules**, by stipulating the categories of costs which will be funded by the ESI Funds for that operation and which are also compliant with the GBER or the ABER. It should be further stated in the document setting out the conditions for support for the operation which categories of costs are considered eligible for that operation.

For the purpose of checking whether indirect costs (in the context of the ESI Funds) are eligible under the GBER, it should be noted that indirect costs will often constitute operating costs as defined in Article 2(39) GBER ('The operating costs include costs such as personnel costs, materials, contracted services, communications, energy, maintenance, rent, administration'). Therefore, in case operating costs are eligible under the GBER, this means that also the indirect costs in the context of the ESI Funds can be considered as GBER eligible costs. For the flat rate of 40 % (Article 68b(1) CPR), the document setting out the conditions for support should clearly state the categories of costs which are covered by the 40 %.

— **Verifying maximum aid intensity**

Where a simplified cost option has been established in accordance with the provisions of Article 67, 68, 68a and 68b CPR or the relevant provisions in the Fund-specific regulations, this amount may be used for the purposes of the control of compliance with the GBER or the ABER, including aid intensity. Therefore, similarly to what should be done when using real costs under the GBER (or the ABER), the amount resulting from the methodology used for calculating the SCOs may be used for verifying compliance with the maximum aid intensity under the relevant State aid category.

Since the methodology used must comply with sound financial management, managing authorities must use a reasonable and prudent hypothesis in order to ensure that simplified costs represent a reliable proxy for the real costs. This allows the amount set in the simplified cost to be used to facilitate demonstration of compliance with maximum aid intensity, maximum aid amounts or notification thresholds under the GBER or the ABER. The methodology will be subject to audit to ensure that it is in line with the applicable ESI Funds and State aid rules.

For an example, please refer to Annex II.

2.6. **Use of simplified costs in operations generating net revenue**

Simplified cost options are a way to calculate the costs, the 'expenditure side' of an operation. Therefore, in theory the use of simplified cost options should be independent of whether an operation generates revenue or not. However, in order to preserve the simplification impact, the CPR introduces some specificity for an operation generating revenue that uses lump sums or standard scales of unit costs.

2.6.1. ***Operations generating net revenue after completion (Article 61 CPR)***

Article 61 CPR applies to operations, which generate net revenue:

a) after their completion only or

b) during their implementation and after their completion.

In accordance with Article 61(7)(f) CPR, for operations generating net revenue after completion which have used lump sums or standard scales of unit costs, paragraphs 1 to 6 of Article 61 CPR do not apply. In case operations generate net revenue during implementation and after completion i.e., where Article 61 CPR applies, as stated in Article 61(7)(f) CPR the net revenue does not have to be taken into account in case of operations for which the public support takes the form of lump sums or standard scales of unit costs. In case of the use of flat rates the net revenue generated by the operation should be determined in advance and deducted from the eligible expenditure of the project.

2.6.2. ***Operations generating net revenue during implementation and to which paragraphs 1 to 6 of Article 61 CPR do not apply*** ([23])

For lump sums or standard scales of unit costs used in operations generating net revenue during their implementation, that net revenue does not have to be deducted from eligible expenditure so long as it has been taken into account ex-ante in the calculation of the lump sum or standard scale of unit costs (according to Article 65(8)(f) CPR).

If the net revenue was not taken into account ex-ante in the calculation of the lump sums or standard scales of unit costs, then the eligible expenditure co-financed by the ESI Funds will have to be reduced by the net revenue generated during implementation not later than at the final payment claim submitted by the beneficiary, pro rata of the eligible and non-eligible parts of the costs (second subparagraph of Article 65(8) CPR.

Where flat rate financing is chosen, any net revenue not taken into account at the time of approval of the operation and directly generated during the implementation of the operation has to be deducted from the eligible expenditure co-financed by the ESI Funds (having applied the flat rate) not later than at the final payment claim submitted by the beneficiary, pro rata of the eligible and non-eligible parts of the costs (second subparagraph of Article 65(8) CPR).

Example (ESF)

A conference is organised to promote entrepreneurship. A draft budget is submitted by the beneficiary stating that the total eligible costs should amount to EUR 70 000. The conference will charge an entrance fee of EUR 3.

The organiser expects to attract 200 visitors. The expected revenue to be generated is EUR 3 × 200 = EUR 600.

The conference proves to be a great success and the number of visitors exceeds the expectations (300 people). As this operation is only ESF co-financed and the net revenue is not generated after completion, Article 61 CPR does not apply, because the net revenue is not generated after completion. However, Article 65(8) CPR applies.

— Option 1: the revenue generated is taken into account ex-ante

The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be EUR 70 000 − EUR 600 = EUR 69 400.

The public support of this operation takes the form of a lump sum and revenue has been taken into account in the definition of the lump sum. The actual number of visitors does not impact the eligible amount (lump sum). The audit trail will require proof of implementation of the conference and the price of the entrance ticket.

— Option 2: the revenue generated is taken into account ex-ante but the conditions change during implementation

The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be EUR 70 000 − EUR 600 = EUR 69 400. The public support of this operation takes the form of a lump sum and revenue has been taken into account in the definition of the lump sum.

However, the organiser decides in the end to set the price of the entrance ticket at EUR 5 instead of EUR 3. In this case, the funding gap should be deducted ((EUR 5 × 300) − EUR 600 = EUR 900).

The total eligible costs will be EUR 69 400 − EUR 900 = EUR 68 500

([23]) Article 65(8) CPR.

— Option 3: the revenue generated is not taken into account ex-ante

The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be EUR 70 000. The public support of this operation takes the form of a lump sum and revenue has not been taken into account in the definition of the lump sum.

Once the beneficiary claims for reimbursement (EUR 70 000), it will need to provide evidence that the conference took place. It will also need to deduct the real revenue generated during implementation (EUR 3 × 300 = EUR 900).

In this case, the lump sum will be EUR 70 000 – EUR 900 = EUR 69 100.

2.7. **ERDF and ESF specific: cross-financing**

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

Pursuant to Article 98(2) CPR, when the ERDF or the ESF provide support to a part of an operation for which the costs are eligible under the other fund ('cross-financing'), the rules ([24]) of the other Fund apply to that part of the operation. Cross-financing may be used up to a limit of 10 % of Union funding for each priority axis.

With the exception of flat rates, a single SCO may be used in relation to expenditure eligible under one or the other Fund.

The application of the simplified cost options still requires that Member States respect the 10 % ceiling for each priority axis (by Fund and category of region where relevant). The 'cross-financed' amount should be recorded and monitored, operation by operation, on the basis of the data used to define the simplified cost options.

Specifically, for flat rate financing in cases of cross-financing, separate flat rates should apply to each 'ESF' and 'ERDF' part of the operation. The ESF and ERDF flat rates for similar operations will be applied respectively to the ESF and ERDF parts. Using an average of the two rates is not possible as expenditure needs to be traceable to ensure respect of the overall 10 % ceiling for cross-financing. Where no rate exists for the other Fund for a similar type of operation (for example because the rule is not applied for the other Fund ([25]) or because there are no similar operations funded by the other Fund), the managing authority has to decide on the applicable rate according to the general legal principles established in Articles 67(5) and the first subparagraph of Article 68 CPR.

2.7.2. ***Examples***

Example of ESF-ERDF cross-financing with unit costs or lump sums

If, for an ESF operation, the standard scale of EUR 6/hour × trainee includes purchase of infrastructure for EUR 0,50/hour eligible under the ERDF, the cross-financed amount will be EUR 0,50 × number of 'hours × trainee' realised.

The same principle applies for lump sums: if the draft detailed budget includes some 'cross-financed expenditure', it will be accounted and monitored separately. For example, within a EUR 20 000 lump sum funded by an ESF programme, ERDF type expenditure represents EUR 5 000. At the end of the operation the cross-financed amount will be the amount defined ex-ante (EUR 5 000 out of the EUR 20 000) or 'zero' if the grant is not paid because the predefined output has not been reached. The binary principle of lump sums, if not mitigated by setting milestones, will also apply to cross-financed expenditure.

([24]) Article 98(2) CPR was amended by the Omnibus Regulation in order to clarify that all rules applicable to the other Fund apply to the ESF or the ERDF when cross-financing is used.

([25]) This was particularly relevant before the entry into force of the omnibus regulation as Article 14(2) and (3) ESF provided for specific provisions on simplified cost options that were only applicable to the ESF (and which could also apply to a part of an operation supported by the ERDF in accordance with Article 98(2) CPR, i.e. when the ERDF provided support to ESF-type activities. With the omnibus regulation, these provisions were transposed to the CPR and are now also applicable to the ERDF.

Example of ESF-ERDF cross-financing with flat rate financing

In the case of a flat rate for indirect costs, the cross-financed amount will be the amount of 'cross-financed direct costs', added to indirect costs calculated by the flat rate applicable to these 'cross-financed direct costs'.

For example, within a EUR 15 000 operation funded by an ERDF programme, the 'ESF type' direct costs represent EUR 3 000 and indirect costs are calculated as 10 % of direct costs (EUR 300). The cross-financed amount would thus be EUR 3 300. If at the end of the operation the direct costs were reduced, the cross-financed amount (including for indirect costs) would be reduced according to the same formula.

2.8. **EAFRD and ETC specific rules**

EAFRD specific

Please refer to Annex III of this guidance for a list of EAFRD measures that fall under the scope of SCOs.

ETC specific

Specific rules on eligibility of expenditure for cooperation programmes with regard to staff costs, office and administrative expenditure, travel and accommodation costs, external expertise and service costs, and equipment expenditure are established at EU level.

Without prejudice to the eligibility rules laid down in the CPR, in the ETC regulation and in the specific eligibility rules for the cooperation programme, the Monitoring Committee establishes additional rules on eligibility of expenditure for the cooperation programme as a whole.

For matters not covered by the above-mentioned rules, the national rules of the Member State in which the expenditure is incurred apply.

CHAPTER 3

Types of Simplified Cost Options

3.1. **Flat rate financing**

In the case of flat rate financing, specific categories of eligible costs that are clearly identified in advance are calculated by applying a percentage, fixed ex-ante to one or several ***other*** categories of eligible costs.

3.1.1. ***Defining the categories of costs***

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

— Type 1: categories of eligible costs on the basis of which the flat rate is to be applied to calculate the eligible amounts;

— Type 2: categories of eligible costs that will be calculated with the flat rate;

— Type 3: where relevant, other categories of eligible costs: the rate is not applied to them and they are not calculated with the flat rate.

When using a flat rate financing system, the managing authority must define the categories of costs falling under each type: any category of expenditure is clearly included in one — and only one — of the three types. Note that in some cases, one type can be defined by opposition to another type or the other types (for instance, in a system where there are only direct (type 1) and indirect costs (type 2), indirect costs could be considered as all the eligible costs that are not eligible direct costs).

The CPR does not put any restriction on categories of eligible costs that might be used for flat rate financing. However, the main objective of using flat rates should be simplification and reduction of the error rate. Hence, flat rates are best suited to costs that are relatively low and for which verification is costly.

When an operation ([26]) covers more than one project, the flat rate may apply at the level of a project, provided that the activities and costs between the projects are clearly distinct.

3.1.2. ***Specific flat rate financing systems to calculate categories of costs detailed in the CPR and the Fund-specific Regulations***

Certain specific flat rate financing systems are defined at legislative level. **Most of them can be used without requiring the managing authority to establish a calculation method to determine the applicable rate.** These flat rates are set out in Articles 68 (with the exception of point (a) where no national method for similar operations is available), 68a and 68b. Under these provisions, a flat rate is applied to a certain category of costs (direct costs, direct costs other than staff costs or direct staff costs), to calculate other categories of costs (indirect costs, direct staff costs and remaining eligible costs of an operation, respectively).

Using any of these systems set out above, requires the managing authority (or the monitoring committee for the ETC programme) to **define the categories of costs covered by the flat rate**, i.e. the direct and indirect costs and the direct staff costs. It is the sole responsibility of the Member States to define the different categories of costs in a consistent, non-equivocal and non-discriminatory way. This is particularly relevant for the definition of direct staff costs to which a flat rate for other costs is applied.

This should be clearly set out in the national eligibility rules or programme rules in ETC programmes.

As general guidance, the following definitions are given below:

— **Direct costs** are those costs that are directly related to the implementation of the operation or project where the direct link with this individual operation or project can be demonstrated.

— **Indirect costs**, on the other hand, are usually costs, which are not or cannot be connected directly to the implementation of the operation in question. Such costs could include administrative expenses, for which it is difficult to determine precisely the amount attributable to a specific operation or project (typical administrative/staff expenditure, such as: management costs, recruitment expenses, costs for the accountant or the cleaner, etc.; telephone, water or electricity expenses, and so on).

— **Staff costs** ([27]) are defined in national rules and normally the costs deriving from an agreement between employer and employee or service contracts for external staff (provided that these costs are clearly identifiable). For example, if a beneficiary contracts the services of an external trainer for its in-house training sessions, the invoice needs to identify the different types of costs. The salary of the trainer will be considered an external staff cost. If the staff cost of the trainer is not identifiable as a distinct category from other categories of costs, for example teaching materials, then they cannot be used as the basis of flat rates, for example the 40 % flat rate as set out in Article 68b(1) CPR. Staff costs are defined by national rules and normally include the total remuneration, including in-kind benefits in line with collective agreements, paid to people in return for work related to the operation. They also include taxes and employees' social security contributions (first and second pillar, third pillar only if set out in a collective agreement or in the employment agreement) as well as the employer's compulsory and voluntary social contributions. Staff costs can be direct or indirect costs, depending on a case-by case analysis.

Therefore, for the purpose of applying the flat rates of point (b) of the first subparagraph of Article 68 CPR and of Article 68b(1) CPR (or other flat rate established by the managing authority on the basis of Article 67(5) CPR which is to be applied to direct staff costs), the total value of the remuneration as defined by national rules can be considered as staff costs as they represent the actual remuneration for the work of that person in the operation and therefore should be taken into account for determining other types of costs of the operation (which are calculated by applying a flat rate to the direct staff costs). This applies also to cases where the salary is (partly) reimbursed or funded by third parties (e.g. direct staff was recruited with a recruitment subsidy; the flat rate is applied to the total value of the remuneration even if a part of it is paid by a third party).

([26]) An operation, in accordance with Article 2(9) CPR, means a project, contract, action or group of projects selected by the managing authority.

([27]) This definition is not applicable to ETC. For an ETC definition of staff costs please refer to Commission Delegated Regulation (EU) 481/2014.

Travel costs are, however, not considered to be staff costs, apart from expenses for commuting to the workplace if national rules determine that they were part of the gross employment costs. Allowances or salaries disbursed for the benefit of participants in ESF operations are not considered to be staff costs either.

3.1.2.1. Calculation methods for indirect costs

The first subparagraph of **Article 68 CPR** determines that where the implementation of an operation gives rise to indirect costs, they **may be calculated on the basis of one of the flat rates set out in points (a), (b) and (c)**. The use of these flat rates for calculating indirect costs is optional, i.e. it is up to the managing authority to decide whether to use these flat rates, use real costs or other simplified cost options, established on the basis of Article 67(5) CPR (for instance the indirect costs can be included in a lump sum or a unit cost established on the basis of one of the methods set out in Article 67(5) CPR).

— Point (a) sets out the general system of flat rate financing for indirect costs with a rate of **up to 25 % of eligible direct costs**. The aim of this provision is to introduce **a capping to the amount of indirect costs** that can be calculated on the basis of a flat rate. Unlike the case of point (b) of the first subparagraph of Article 68 CPR, the rate to be used has to be justified according to one of the calculation methods under Article 67(5)(a) or (c) CPR (i.e. a fair, verifiable and equitable calculation method or a method applied under schemes for grants entirely funded by the Member State for a similar type of operation). This system is flexible. It could be based:

  — only on two types of costs — type 1: direct costs, type 2: indirect costs; or

  — on three types of costs: type 1: 'limited' direct costs (i.e. a sub-category of the direct costs), type 2: indirect costs calculated on the basis of type 1 and type 3: direct costs other than the 'limited' ones (type 1).

  For instance, it is possible to establish a flat rate that will be applied to the eligible **direct staff costs** (which is a sub-category of the eligible direct costs). That flat rate applied to the eligible direct staff costs can be higher than 15 % provided for in Article 68(b) CPR on the condition that this flat rate is not higher than 25 % of the eligible **direct costs** (to respect the capping set in Article 68(a) CPR). Therefore, whatever sub-category/-ies of direct costs the managing authority uses to establish a flat rate to calculate the indirect costs, it will always need to check whether that amount (i.e. the amount calculated on the basis of that flat rate) is not higher than 25 % of the eligible **direct costs**.

— Point (b) introduces a flat rate of **up to 15 % of the direct staff costs** to calculate the indirect costs. This flat rate may be used directly by the managing authority, without any justification.

  This is an example of a system where there will be three categories of costs: (Type 1) direct staff costs, (Type 2) indirect costs, (Type 3) direct costs other than staff costs (see Annex I for an example).

— Under point (c) it is possible to use a flat rate for indirect cost schemes existing in Union policies, like those used under Horizon 2020, LIFE, etc. Articles 20 and 21 of the Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 ([28]) provide for supplementary provisions regarding applicable flat rates for indirect cost methods applied in other Union policies and the scope for their application to the ESI Funds (see section 4.4).

3.1.2.2. Flat rate for determining direct staff costs

Article 68a(1) CPR states that the direct staff costs of an operation may be calculated at a flat rate of **up to 20 %** of the direct costs other than the staff costs of that operation. This means that only the direct staff costs may be calculated as a flat rate (applied to the direct costs other than staff costs) without there being a requirement for the Member State to perform a calculation to determine the applicable rate.

However, where the direct costs of that operation include public works contracts which exceed the threshold set out in point (a) of Article 4 of Directive 2014/24/EU, the application of the above flat rate requires to perform a calculation to determine the applicable rate.

([28]) Commission Delegated Regulation (EU) No 480/2014, of 3 March 2014, supplementing Regulation (EU) No 1303/2013 (OJ L 138, 13.5.2014, p.5).

Direct staff costs determined in such a way may form the basis to apply a flat rate under point (b) of the first subparagraph of Article 68 CPR (a flat rate of up to 15 % of eligible direct staff costs to calculate indirect costs). Conversely, direct staff costs calculated on the basis of this flat rate cannot serve as a basis for the flat rate under Article 68b(1) CPR (a flat rate of up to 40 % of eligible direct staff costs to calculate the remaining eligible costs of the operation), see Article 68b(2) CPR.

The use of this flat rate for calculating direct staff costs is optional, i.e. it is up to the managing authority to decide whether to use this flat rate, use real costs or other simplified cost options, established on the basis of Article 67(5) CPR.

3.1.2.3. Flat rate for determining all other costs of the operation other than direct staff costs

Article 68b(1) CPR allows that direct staff costs may be used to calculate all the other remaining eligible costs of the operation, on the basis of a flat rate of up to 40 % of eligible direct staff costs. 'All the other remaining eligible costs' of the operation include all other eligible direct costs (except direct staff costs), indirect costs and, for the ERDF, ESF and EAFRD, costs mentioned in the second subparagraph of Article 68b(1) CPR.

— **Remaining eligible costs and allowances and salaries paid to participants**

Article 68b, introduced by the Omnibus Regulation, is inspired by Article 14(2) ESF Regulation (before being amended by the Omnibus Regulation), which already provided this flat rate for operations supported by the ESF. The Omnibus Regulation extends the use of this flat rate to all the ESI Funds. There is, however, an important difference between the two provisions.

Article 14(2) ESF Regulation did not contain an exception for salaries and allowances paid to participants. Therefore, they were considered part of the 'remaining eligible costs of the operations'. This means that Article 14(2) ESF Regulation did not allow beneficiaries to declare salaries and allowances paid to participants in addition to costs calculated on the basis of the flat rate and the direct staff costs. This made the use of Article 14(2) ESF Regulation unattractive as applying a flat rate of 40 % to the eligible direct staff costs would often be insufficient to cover the costs of allowances and salaries paid to participants.

Therefore, the Omnibus Regulation, besides extending this flat rate to all ESI Funds, also allows, in the case of operations implemented under the ESF, the ERDF or the EAFRD, that salaries and allowances paid to participants are considered additional eligible costs not included in the flat rate (second subparagraph of Article 68b(1) CPR). This means that following the entry into force of the Omnibus Regulation, such salaries (i.e. (monthly) gross salaries of employees) and allowances (like unemployment benefits; not subsistence or travel allowances) can be claimed in addition to the direct staff costs and the flat rate applied for operations making use of Article 68b(1) CPR.

It should be noted that 'allowances and salaries paid to participants' include not only the case of salaries and allowances paid by the beneficiary but also the cases when these salaries or allowances are paid by a third party, when they are considered an eligible cost. This is the case, for instance, for the ESF, when they meet the conditions set out in Article 13(5) ESF Regulation ([29]).

— **Using the 40 % flat rate**

This provision allows the managing authority to use a flat rate of up to 40 % without a requirement to execute any calculation to determine the applicable rate. This means that the managing authority may use any rate **that is not higher than 40 % without any requirement to justify it**. This is without prejudice of the need to ensure equal treatment between beneficiaries. However, the managing authority may establish a higher rate than 40 % on the basis of one of the methods set out in Article 67(5) CPR (i.e. outside of the scope of Article 68b).

Finally, as explained in section 3.1.2.2., in accordance with Article 68b(2), this flat rate of up to 40 % cannot be used in an operation when the total direct staff costs of that operation are calculated on the basis of a flat rate (for example the flat rate under Article 68a(1) CPR).

([29]) Contributions in kind in the form of allowances or salaries disbursed by a third party (for the benefit of the participants in an operation) are eligible for a contribution from the ESF provided the conditions set out in that provision are met, i.e. the contributions in kind are incurred in accordance with national rules, including accountancy rules, and they do not exceed the cost borne by the third party.

Example

The estimated costs of a training course are:

Total Direct costs	55 000
Direct Staff costs	30 000
Room costs	4 000
Travel costs	5 000
Meals	1 000
Information/Publicity	5 000
Allowances paid to the trainees by the PES	10 000

Total Indirect costs	5 000
Indirect staff costs	4 000
Electricity, phone.	1 000

The managing authority can decide to apply Article 68b(1) CPR to this project. In this case, the grant agreement would have as a maximum allocation:

Direct staff costs: EUR 30 000

Other costs: 30 000 × 40 % = EUR 12 000

As the allowances paid to the trainee by the Public Employment Services can be declared in addition to the direct staff costs and the flat rate, the total eligible costs would be:

Total costs: 30 000 + 12 000 + 10 000 = EUR 52 000

3.1.2.4. Justification of flat rates set in the CPR

The flat rates mentioned in point (b) of the first subparagraph of Article 68, Article 68b(1) and Article 68a(1) CPR allow that a rate 'up to' the rate set in the relevant article may be used without the need for the Member State to perform a calculation to determine that rate. This means that the managing authority may use any rate up to the rate mentioned in the relevant article, and it will not have to justify why this rate was chosen, even if it is below the rate specified in the Regulation. If a lower rate is chosen, there is no requirement to perform any calculation.

When deciding on the flat rate to be applied, the **principle of equal treatment of beneficiaries** needs to be respected.

3.1.2.5. Application in time

The changes introduced by the Omnibus Regulation to Article 68 CPR and the new Article 68a CPR and Article 68b CPR are applicable from the entry into force of the regulation, i.e. as from 2 August 2018 ([30]).

These provisions can be used for operations in which the potential beneficiaries have not been selected yet (i.e. the call is still open or a new call is launched). As these provisions bring more benefits to beneficiaries, they may also be used for operations that are already being implemented, subject to the following cumulative conditions:

— The conditions for support (on the basis of the new provisions) are introduced for the future, i.e. for future implementation of the operation.

— The principle of equal treatment between beneficiaries is respected.

— For operations that are already being implemented, that the beneficiary agrees that the conditions are changed and that reimbursement will be done on the basis of an SCO.

([30]) Article 282(1) and (2) of Regulation (EU, Euratom) 2018/1046

— There is a clear separation between the period of reimbursement based on real costs (or previous provisions linked to SCOs) and the period based on SCOs introduced with the Omnibus Regulation. For instance, in case a flat rate of 15 % for indirect costs is introduced based on the eligible direct staff costs (point (b) of the first subparagraph of Article 68 CPR), then it should be determined that as from a certain date ('date x', not before 2 August 2018) the indirect costs will be calculated and reimbursed on the basis of that flat rate, i.e. this flat rate for indirect costs will be applied to all staff costs incurred as from the same date ('date x'). The same principle applies to the 40 % flat rate set out in Article 68b(1) CPR, including to the possibility to declare allowances and salaries paid to participants. For instance, for ESF operations, which have received support on the basis of Article 14(2) ESF Regulation before entry into force of the Omnibus Regulation, only allowances and salaries paid to participants as from 'date x' could be declared as additional eligible costs).

Example

A managing authority wishes to calculate all the remaining eligible costs of an operation by applying a flat rate to the eligible direct staff costs of the operation of EUR 150 000. In accordance with Article 68b(1) CPR, the managing authority decides to apply a rate of 35 %. This means that the total eligible costs of the operation will be EUR 150 000 + (EUR 150 000 × 0.35) = EUR 202 500.

Example (ESI Funds): Community-Led Local Development (CLLD)

The managing authority has assessed, based on past experience, the typical share of the running costs and animation of a given Local Action Group (LAG) compared to the expenditure incurred for the implementation of local operations under the CLLD strategy, and the preparation and implementation of the LAG's cooperation activities. Even though support from ESI Funds for running and animation costs cannot go above the ceiling of 25 % of the total public expenditure incurred within the CLLD strategy according to Article 35(2) CPR, experience shows that this percentage is actually lower in most cases.

The managing authority establishes a flat rate of 17 % of the implementation costs (based on a fair, equitable and verifiable methodology in accordance with Article 67(1)(d) and 67(5)(a) CPR but not Article 68(a) CPR as the flat rate under Article 35(2) CPR is not only covering indirect costs) of the expenditure incurred for the implementation of operations under the CLLD strategy and the preparation and implementation of the LAG's cooperation activities, to cover the following costs:

— Running costs (operating costs, personnel costs, training costs, costs linked to public relations, financial costs, costs linked to the monitoring and evaluation of the strategy, see Article 35(1)(d) CPR);

— Costs linked to the animation of the CLLD strategy (in order to facilitate exchange between stakeholders to provide information and to promote the strategy and to support potential beneficiaries with a view to developing operations and preparing applications, see Article 35(1)(e) CPR).

Therefore, if the budget allocated to the LAG for the implementation of operations under the CLLD strategy and the preparation and implementation of the LAG's cooperation activities for the 2014-2020 period is EUR 1,5 million (type 1), the maximum budget corresponding to running and animation costs would be EUR 1,5 million × 17 % = EUR 255 000 (type 2). Consequently, the total budget allocation for the LAG is EUR 1,755 million.

In the implementation phase, it means that whenever a beneficiary claims for reimbursement of the expenditure incurred on a project, the LAG will also be able to claim 17 % of that sum for its running and animation costs.

For example, if the incurred expenditure of a project equals EUR 1 000 (type 1), the LAG can declare to the managing authority EUR 1 000 × 17 % = EUR 170 (type 2) for its running and animation costs.

The LAG will not need to provide supporting documents for its running and animation costs declared on the basis of the flat rate, but the methodology for determining the 17 % has to be verifiable.

It should be noted that the flat rate may be established separately for running or animation costs only.

N.B. Please bear in mind that, like in the example above, the methodology of establishing the flat rate does not necessarily have to follow the one applied for establishing the maximum ceiling of 25 %. However, whatever methodology used to set the flat rate, the provisions on the maximum ceiling of running costs and animation provided in Article 35(2) CPR have to be respected.

3.2. **Standard scales of unit costs**

3.2.1. ***General principles***

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

The unit costs can be **process-based**, aiming at covering through a best approximation the real costs of delivering an operation. It can also be **outcome-based** (output or result/deliverable) or defined on both the process and outcome. Furthermore, different unit costs may be defined for different activities within an operation.

Managing authorities should take into consideration the audit trail when choosing between process and output-based unit costs.

Example (ESF)

a) Process-based: For advanced IT training of 1 000 hours provided for 20 trainees, the eligible costs may be calculated based on a cost per hour of training × number of hours of trainees. The cost per hour has been defined in advance by the managing authority and is shown in the document setting out the conditions for support.

Assuming, for example, that the managing authority sets the training cost at EUR 7 per hour of training per trainee, the maximum grant allocated to the project would be capped at 1 000 hours × 20 trainees × EUR 7/hr./trainee = EUR 140 000.

At the end of the operation the final eligible costs will be set on the basis of the real number of hours for each trainee (that could include some justified absences), according to actual participation of trainees and delivered courses. **There will still be a need for accurate attendance sheets of trainees detailing the training activities and certifying the actual presence of trainees**.

If, finally, only 18 people participated in the training, 6 of them for 900 hours, 5 of them for 950 hours, 5 of them for 980 hours and the remaining 2 for 1 000 hours, the number of total hours × trainees will be equal to:

900 × 6 + 950 × 5 + 980 × 5 + 1 000 × 2 = 17 050 total hours of training × trainees.

The eligible expenditure will be: 17 050 hours of training × EUR 7 = EUR 119 350.

b) Result-based: The advanced IT training of 1 000 hours consists of 5 modules of 200 hours each. A fair, equitable and verifiable methodology according to Article 67(5)(a) CPR was used to establish the total costs of delivering this IT training for 25 participants. The total costs, EUR 140 000, is then attributed to the successful participants. Taking into account a historic failure rate of 20 % (i.e. 5 participants) the unit costs per participant and successfully completed module would be EUR 140 000/20 participants/5 modules = EUR 1 400 (unit cost per participant per successful completed module).

The audit trail would entail a document proving the eligibility of the participant and a certificate per successfully complete module or complete course. No timesheets would be required.

Example (ERDF output-based): The beneficiary, a regional Chamber, organises an advisory service for the SMEs of the region. This service is supplied by the advisors of the regional Chamber. Based on past accounts of the 'advisory' department of the Chamber, a day of advice is estimated at EUR 350/day. The assistance will be calculated on the basis of the following formula: number of days × EUR 350. **There will still be a need for accurate timesheets detailing the advisory activity and the presence of advisors.**

Example (ESF result-based): a job-search assistance programme lasting 6 months ('the operation') could be financed on the basis of standard scales of unit costs (for example EUR 2 000/person) for each of the 20 participants in the operation who gets a job and retains it for a pre-established period, for example six months. The unit cost of EUR 2 000 per successful participant was established taking into account costs for all participants. The amount therefore also covers expenses for un-successful participants.

Calculation of the maximum grant allocated to the operation: 20 persons × EUR 2 000/placement = EUR 40 000.

The final eligible costs are calculated on the basis of the real output of the operation: if only 17 persons were placed on the labour market and retained their jobs for the requested period, the final eligible costs on the basis of which the grant will be paid to the beneficiary would be 17 × EUR 2 000 = EUR 34 000.

Example (EAFRD output-based): 'Investments in forest area development and improvement of the viability of forests' (Article 21 of Regulation (EU) No 1305/2013)

A forest holder will receive support for the afforestation and maintenance of 3 hectares of forest for 7 years. The costs (afforestation and maintenance) have been defined in advance by the managing authority depending on the type of forest. This methodology will be included in the Rural Development Programme. The unit costs are as follows: 2 000 EUR/ha for the establishment of the forest and, for the maintenance, 600 EUR/ha for the first year and 500 EUR/ha for the subsequent years.

Therefore, the total eligible costs would be:

3ha × 2 000 EUR/ha + 3ha × 600 EUR/ha + (3ha × 500 EUR/ha) × 6years= EUR 16 800

Example (EMFF process-based): Data collection (vessel costs)

Daily rates for vessel usage are calculated on the basis of historical data (averages from past years). The number of days allocated to the project are then evidenced through logbooks.

3.2.2. *Staff costs calculated at an hourly rate (Article 68a(2) to (4) CPR)*

The calculation of the hourly rate

Article 68a(2) to (4) CPR provides for a specific method to calculate staff costs ([31]). In line with this Article, staff costs may be determined by calculating an hourly rate calculated as follows:

$$\text{Hourly staff cost} = \frac{\text{latest documented annual gross employment costs}}{1\,720}$$

Before the Omnibus Regulation entered into force, this method for calculating staff costs was already provided for in Article 68(2) CPR. The Omnibus Regulation, however, introduced further changes to this provision (now moved to the new Article 68a(2) to (4) CPR) in order to clarify its application and to allow for its utilisation for persons working part-time.

([31]) Staff costs may also be established by a different methodology set in the CPR, e.g. unit costs with a different denominator than 1 720 hours could be established on the basis of Article 67(1)(b) and Article 67(5) CPR.

Calculated staff costs as above relate to the implementation of an operation. 'Implementation of an operation' has to be understood as covering all the steps of an operation. There is no intention to exclude some staff costs related to specific steps of an operation.

The denominator i.e. 1 720 hours is a standard annual 'working time' that can be used directly, without there being a requirement for the Member State to perform any calculation. This figure is based on Member States' average weekly working hours multiplied by 52 weeks and from which annual paid leave and average annual public holidays were deducted.

The numerator, however, needs to be justified. The CPR refers to the 'latest documented annual gross employment cost'. However, **gross employment cost is not defined** in the CPR. In accordance with Article 65(1), CPR national eligibility rules will need to define what is covered by annual gross employment costs, taking into account the usual accounting practices (see section 4.2.2.) ([32]) and national rules (e.g. the national rules may determine that expenses for commuting to the workplace are part of the gross employment costs).

The Regulation refers to the calculation of the hourly rate using the '**latest**' documented annual gross employment cost. This means that the data used need to be the most recently available. Thus, a calculation method based on historical data of the beneficiary is normally not relevant. The intention behind the term 'latest' in Article 68a(2) CPR is to make sure that the data used are recent enough, thus indicative of real staff costs.

Annual gross employment cost **does not have to relate to a calendar or financial year** (for example, it could be data relating to the period October 2015 to September 2016). What is important is that the gross employment cost covers a full 12-month period. It can be the 12-month period preceding the end of a reporting period (of the operation or the programme), 12 months before the grant agreement or 12 months of the previous calendar year. In accordance with Article 68a CPR, where data for a full 12-month period is not available, they

— may be derived from the available documented gross employment costs (for example, a managing authority could take the data relating to an employee for whom 4 months of data exists, and extrapolate this to an annual gross employment cost, taking account, where relevant, of issues such as statutory holiday payments or so-called 13th month payments).

— may be extrapolated from the contract of employment, taking account of eligible employers' social contributions and any other compulsory payments.

— may be derived from collective agreements.

The annual gross employment costs can be based on the real employment costs of this person. For months with incomplete data, extrapolated values may be taken to arrive at a good proxy for real costs of a 12-month period.

The annual gross employment costs may also be based on the average of the employment costs of a larger aggregate of employees, for example, those of the same grade or some similar measures, which correlate roughly to employment cost level.

The latest annual gross employment costs **need to be documented**: this can be done through accounts, payroll reports, referencing to publicly available agreements or documents, etc. They do not have to be audited ex-ante but have to be auditable.

Within specific situations, the amount of the hourly rate may as well be fixed after the start of the project. It can be determined, for example, when an employed person gets involved in the project (signature of the contract of employment or change of assignment for an employee) or when the beneficiary reports their costs to the managing authority. However, in this case, the document setting out the conditions for support needs to specify the use of this methodology too.

3.2.3. *The determination of eligible staff costs using the calculated hourly rate*

The number of hours worked needs to be determined in line with the eligibility rules of the respective operational programme. Only the hours worked should be used for calculating and declaring the eligible staff costs. Annual leave, for instance, is already included in the calculation of the hourly staff costs. Sick leave may be declared as staff costs if the related costs are borne by the beneficiary (i.e. they are incurred by the beneficiary). If the costs are covered by a third party (e.g. long-term sick leave for which the costs are covered by the social security system) or in the case of unpaid

([32]) Based on Article 18(1) of ETC regulation 1299/2013, Article 3 of Commission Delegated Regulation (EU) 481/2014 lays down specific rules on eligibility of expenditure on staff costs to delimit the contents of gross employment costs of staff employed by the beneficiary.

leave or absences (e.g. unjustified absences) for which there are no costs incurred by the beneficiary, **the corresponding hours/days not worked should not be taken into account for determining the eligible staff costs that can be declared**. This is because in these cases, there are no costs incurred by the beneficiary. However, in case there are staff costs for additional staff replacing the person on sick leave (or other type of leave) these staff costs are eligible (i.e. the corresponding hours worked are counted for calculating then eligible staff costs).

In accordance with Article 68a(3) CPR, when declaring the hours actually worked, these cannot exceed the hours used in the calculation method based on Article 68a(2) CPR. This means that, where 1 720 has been used as the denominator, the hours declared cannot exceed 1 720. 1 720 hours, thus, constitute a maximum of hours that can be declared for working in an operation for a period of 12 months. If a pro-rata of 1 720 was used as a denominator, the same principle applies (e.g. for staff with a part-time contract of 50 % the denominator would be 860 hours; thus, 860 is the maximum number of hours that can be declared for the concerned staff. For staff assigned to several operations, the capping applies pro-rata for each operation, respectively).

As specifically stated in the second subparagraph of Article 68a(3), this does not apply to the ETC for part time assignments on an operation where the hourly rate can be multiplied by the hours actually worked and thus, the 1 720 hours may be exceeded.

When the 1 720-hour rule is used, the resulting amount for the hourly rate is to be considered a unit cost. This unit cost can be used for reimbursing expenditure for staff costs, or it can also be used to calculate all indirect costs (for example by applying the 15 % flat rate in accordance with point (b) of the first subparagraph of Article 68) or even for calculating all the other remaining eligible costs (by applying the 40 % flat rate in accordance with Article 68b(1)). The overall amount defined after applying such flat rates shall also be considered a unit cost.

In the case of a project implemented over several years, the managing authority may choose to **update the hourly rate for staff cost** once new data are available or to use the same ones for the entire implementing period. If the implementation period is particularly long, a good practice would be to set out intermediary steps when and how the hourly rate for staff cost could be revised.

3.2.4. *Staff working part-time on the operation with fixed time per month*

Where employees work part-time on an assignment but with a fixed percentage of time per month, Article 68a(5) CPR provides that there is no requirement for a working time registration system in order to verify the number of hours worked. However, the employer should issue a document setting out the fixed percentage of time worked on the operation per month and this percentage can be used to calculate the eligible staff costs. This percentage may also be fixed in the employment contract. For example, if a person works 60 % of their time on a project, the eligible direct staff costs for that person can be calculated by multiplying the gross employment costs (based either on real costs or a calculated unit cost) by 60 %.

3.2.5. *Application in time*

The changes introduced by the Omnibus Regulation to the 1 720 hours methodology are applicable as from the date of the entry into force of the Regulation, i.e. 2 August 2018. However, the managing authority may apply it to ongoing operations provided that certain conditions are respected (see 3.1.2.5).

Example (ERDF): Certain types of projects targeted at SMEs in the field of R&D and innovation often involve personnel costs as a key element. The application of standard scales of unit costs as an option is a welcome simplification for these SMEs. The unit cost for activities is expressed in this case as an hourly rate applied to hours effectively worked by the staff. It is defined in advance in the document setting out the conditions for support that fixes the maximum amount of financial assistance as the maximum worked hours allowed multiplied by the unit cost (the calculated costs of the staff involved).

Aiming at covering the real costs through a best approximation and in order to take into account distinctions among regions and branches, the cost for a standard unit is defined as an hourly staff cost according to the following formula:

Hourly staff cost = gross annual salary (including legal charges) divided by average legal working hours (taking annual leave into account).

For example: Hourly staff cost = EUR 60 000/(1 980 hours – 190 hours of annual leave) = 60 000/1 790 = 33,52 EUR/hr.

The financial assistance given to the operation is calculated as the hourly rate multiplied by the real and verified number of hours worked. This requires SMEs to keep all supporting documents for hours worked by staff on the project and the managing authority must keep all the documents justifying the hourly staff cost. In principle, a reduction in the verified hours worked results in a reduction in the final amount to be paid.

Alternative example: *Same as above but the hourly staff cost is based on Article 68a(2) CPR.*

Hourly staff cost = latest documented gross annual salary (including legal charges) divided by 1 720 hours.

For example: Hourly rate = EUR 60 000/1 720 hours = 60 000/1 720 = 34,88 EUR/hr.

3.3. **Lump sums**

3.3.1. ***General principles***

In the case of lump sums, all eligible costs or part of eligible costs of an operation or project are calculated on the basis of a pre-established amount duly justified by the managing authority ([33]), which is paid if predefined activities and/or outputs are completed.

Lump sums can be suitable in the case of grants where standard scales of unit costs are not an appropriate solution, for example the production of a toolkit, the organisation of a small local seminar, etc.

In some cases, managing authorities might be dissuaded from using lump sums due to the fact that the deliverable is usually considered as achieved or not achieved, leading to a binary situation of payment or no payment depending on full achievement. However, this can be mitigated by including staged payments related to the achievement of certain pre-defined milestones.

3.3.2. ***Changes introduced by the Omnibus Regulation and application in time***

Before the Omnibus Regulation, the use of lump sums was restricted to amounts below EUR 100 000 of public contribution. In order to facilitate the use of lump sums, the Omnibus Regulation deleted this limitation. This means that as from the entry into force of the Omnibus Regulation, the managing authority may establish lump sums where the public support is above EUR 100 000.

3.3.3. ***Examples of lump sums***

Example (ERDF): In order to promote local products, a group of small enterprises wishes to participate jointly in a commercial fair.

Due to the low cost of the operation, the managing authority decides to use a lump sum for calculation of the public support. For this, the group of enterprises is invited to propose a budget for the costs of renting, setting up and running the stand. On the basis of this proposal, a lump sum of EUR 20 000 is established. The payment to the beneficiary will be made on the basis of proof of participation at the fair. The agreed budget of EUR 20 000 should be kept for audits (verification of the ex-ante calculation of the lump sum).

Example (ESF): An NGO managing childcare services requires support to launch a new activity. It includes a lump sum in its proposal by submitting a draft detailed budget to start the activity and run it over a period of one year. The activity would be maintained independently after the initial year. For example, the lump sum would cover expenditure related to the salary of one person in charge of looking after the children during one year, depreciation of new equipment, publicity costs linked to this new activity and indirect costs related to its management and accounting costs, water, electricity, heating, rental costs, etc.).

On the basis of a draft detailed budget, the managing authority grants a lump sum of EUR 47 500 covering all these costs. At the end of the operation, this amount would be paid to the NGO on the basis of the output; if a conventional number of additional (10) children were looked after. It would therefore not be necessary to justify the real costs incurred in relation to this activity.

([33]) Monitoring Committee in case of ETC.

It means however that if only 9 children were looked after, the eligible costs would be zero and the lump sum amount would not be paid. To mitigate this, a milestone could be stated in the document setting out the conditions for support that if 5 children are taken care of, half of the total amount (EUR 23 750) will be paid out.

Example (ESF): An NGO seeks to organise a local seminar and to produce a toolkit on the socio-economic condition of the Roma community in a region of a Member State. The document setting out the conditions for support will contain a draft detailed budget and the objectives of the grant, (1) the organisation of the seminar and (2) the production of a toolkit to draw the attention of employers in the region to the specific problems faced by the Roma.

Due to the size and objective of the operation (small operation with costs not easily quantifiable via standard scales of unit costs) and the nature of the beneficiary (local NGO), the managing authority decides to use the lump sum arrangement.

In order to calculate the amount of the lump sum, the managing authority will require a draft detailed budget for each of the operations: after negotiation on the draft detailed budget, the lump sum is established at: EUR 45 000 split into two projects requiring EUR 25 000 for the seminar and EUR 20 000 for the toolkit.

If the conditions of the document setting out the conditions for support are respected (organisation of the seminar, production of the toolkit), EUR 45 000 will be considered as eligible costs at closure. The supporting document required to pay the grant (and then to be archived) will be the proof that the seminar was organised and the final complete toolkit produced.

If only one of the projects (for example the seminar) is carried out, the grant will be reduced to this part (EUR 25 000), depending on what was agreed in the document setting out the conditions for support.

Example (EAFRD): 'Quality schemes for agricultural products, and foodstuffs' (Article 16 of Regulation (EU) No 1305/2013)

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

Example (EMFF): Support for the preparation of production and marketing plans of Producer Organisations (POs).

The lump sum (payable when the plan is approved) is based on historical data (POs' recent submissions of hours and other costs). Programme preparation is divided into various activities to produce an average cost, which is then multiplied by the applicable aid intensity.

3.4. **The specific case of flat rates for technical assistance**

3.4.1. ***Scope***

Following the entry into force of the Omnibus Regulation, the Commission made use of the new empowerment under Article 67(5a) CPR to define flat-rate financing for the reimbursement by the managing authorities to one or more beneficiaries of costs of operations financed under the priority axis of technical assistance (TA). The respective **Commission Delegated Regulation (EU) 2019/1867** ([34]) entered into force on 9 November 2019.

([34]) Commission Delegated Regulation (EU) 2019/1867 of 28 August 2019 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council with regard to the establishment of flat-rate financing - http://data.europa.eu/eli/reg_del/2019/1867/oj

For the ESF, the ERDF, the Cohesion Fund and the EAFRD the flat rate to calculate expenditure related to technical assistance is set at 4 % of the other types of expenditure. For ERDF programmes under the ETC and the EMFF the flat rate is set at 6 %. These flat rates may be applied only to expenditure of operations under the priority axes of a programme other than technical assistance, which has been subject to management verifications or, in the case of the EAFRD, on the basis of expenditure of operations under the rural development measures other than technical assistance, which has been subject to the relevant administrative checks and is declared as from the agricultural financial year starting on 16 October 2019 or as from any subsequent agricultural financial year. Consequently, operational programmes consisting exclusively of technical assistance are excluded from the scope of that Delegated Regulation.

It should be noted that the expenditure which may be included in the basis for the calculation of the flat rate refers to the total value of eligible payment claims even if not all invoices were covered by the administrative verifications, in line with point 1.7 of the Guidance for MS on Management Verifications (EGESIF 14-0012_02) which allows for verification of an application for reimbursement by beneficiary on the basis of a sample of expenditure items.

The flat rate may be applied from the accounting year starting on 1 July 2019 onwards or, in the case of the EAFRD, in the agricultural financial year starting on 16 October 2019 or any subsequent agricultural financial year. The application of the flat rate does not require a programme amendment, except in the case of EAFRD, where this information is to be included in any subsequent programme modification

The choice to use the flat-rate financing is at the discretion of the Member State. Nevertheless, to avoid the risk of double financing of the same expenditure, once applied, this method shall be the only form to reimburse technical assistance until closure of the programme ([35]). Member States should therefore notify the Commission about their choice to use this form of reimbursement together, where relevant, with their first payment application where this flat rate is applied.

3.4.2. ***Payment applications and reimbursements***

The basis for applying this flat rate is expenditure that has been subject to management verifications after the entry into force of Delegated Regulation (EU) 2019/1867 (i.e. after 9 November 2019) and as of the accounting year starting 1 July 2019. Expenditure, for which management verifications have been completed before 9 November 2019 is excluded from this basis. This cut-off date (9 November 2019) does not refer to the date of submitting a payment application to the Commission. In the case of EAFRD, the basis for applying this flat rate is expenditure that has been subject to administrative checks and declared to the Commission as of agricultural financial year starting on 16 October 2019 or as from any subsequent agricultural financial year.

Where amounts have been excluded from the accounts due to their ongoing assessment in accordance with Article 137(2) CPR, they may be included in a subsequent payment application and included in the basis for calculation of the flat rate if the assessment is positive and (additional) management verifications took place after 9 November 2019.

Member States need to be able to demonstrate that the flat rate is only applied to expenditure fulfilling these conditions. This could be done within the IT-system of the managing authority and/or of the Paying Agency.

It may happen that one payment application contains expenditure that had been subject to management verifications after 9 November 2019 (basis for applying the flat rate for TA) and expenditure for which management verifications had already been completed by that date. There is no differentiation of such expenditure in SFC. It is the responsibility of the Member State to ensure that the flat rate is only applied to the correctly established basis, monitor TA amounts included in the payment claim and ensure that there is no double financing. A possible solution would be to submit two separate payment applications to ensure a clear audit trail.

The Commission will reimburse payment applications including amounts that the managing authority or the Paying Agency calculated by applying the set rate (4 % or 6 %, respectively) in the same way as any other payment application.

The overall amount may be paid to one sole beneficiary or split among several beneficiaries, according to arrangements at national level. However, it cannot exceed the 4 % (or 6 %, respectively) threshold. There is no requirement to justify the split under Union rules.

The reimbursement method can be applied also in multi-fund programmes, even if the priority or priorities providing the expenditure basis get support from a fund other than the fund supporting the technical assistance priority.

([35]) For EAFRD, the methodology needs to be applied throughout the respective financial year.

3.4.3. ***Impact of the flat rate on TA allocation within the OP/Rural Development Programme***

The rate established in Delegated Regulation 2019/1867 will be applied within the limits of the technical assistance allocation of the programme. This means that the use of the reimbursement of TA on the basis of the flat rate does not have an impact on the technical assistance allocations as established in the programmes. In this respect, when deciding on the suitability of the flat-rate reimbursement of TA for their programme, the programme authorities should take into proper consideration both the available allocation of non-TA priorities forming the basis for application of the flat rate and the available allocation of the TA priority. Thus, if:

— the amount of technical assistance allocated and not yet included in a payment application of the programme represents less than 4 % (6 % respectively) of the remaining non-TA allocation of the programme:

  — the expenditure for technical assistance would be reimbursed until the total amount of technical assistance allocated for the OP is reached. There would be no reimbursements of TA exceeding this allocation.

— the amount of technical assistance allocated and not yet included in a payment application of the programme represents more than 4 % (6 % respectively) of the remaining non-TA allocation of the programme:

  — the flat-rate reimbursement would not ensure full absorption of TA allocation since only the flat rate set in Delegated Regulation 2019/1867 would be used for reimbursing expenditure for technical assistance (this form of flat-rate reimbursement may not be combined with reimbursement of TA under real costs).

3.4.4. ***Audit trail & impact of corrections***

Article 125(4)(a) CPR and Article 59 of Regulation (EU) No 1306/2013 apply. The managing authority or the Paying Agency (in the case of EAFRD) needs to:

— ensure that all non-TA expenditure taken into account for applying the flat rate has been subject to management verifications after 9 November 2019 and in the case of EAFRD that expenditure has been subject to administrative checks and was not declared beforehand to the Commission,

— and ensure that the flat rate is correctly applied.

In the case of EAFRD, the eligibility of the beneficiary of technical assistance should be always controlled under Article 48(2)(a) of Regulation 809/2014, in view of ensuring also compliance with the second sub-paragraph of Article 51(2) of Regulation (EU) No 1305/2013.

Management verifications and audits will not check the expenditure incurred or paid by beneficiaries during implementation of operations reimbursed under this method.

To allow the managing authorities to monitor that technical assistance is implemented in accordance with the programme rules and fulfilling indicators included in the programme, information on technical assistance implementation will continue to be included in the annual implementation reports and may be discussed at monitoring committees.

Reductions in the expenditure forming the basis of calculation of the flat rate following the application of financial corrections will affect the calculation of the flat rate, resulting in a proportional reduction of support for TA.

CHAPTER 4

Setting up Simplified Cost Options

Article 67(5) CPR introduces several methods for calculating simplified costs: some of them are based on statistical or historical data, others on data of the beneficiaries or elements included in the regulation. Following the amendment of the CPR by the Omnibus Regulation, a new way of establishment of simplified cost options for the ESI Funds is provided: a draft budget. This method is based on Article 14(3) ESF Regulation which, before the entry into force of the Omnibus Regulation, already allowed managing authorities to establish simplified cost options on a case-by-case basis (for an individual operation supported by the ESF) by reference to a draft budget ([36]).

It is important to ensure a proper documentation of the methodology applied when establishing simplified cost options.

([36]) This option was possible for operations with a public support not higher than EUR 100 000.

4.1. **Simplified cost options must be established in advance** ([37])

In accordance with Article 125 (3) (c) CPR, the managing authority must ensure that the beneficiary is provided with a document setting out the conditions for support for each operation. In this document, it is important to communicate to the beneficiaries the exact requirements for substantiating the declared expenditure and the specific output or outcome to be reached.

Therefore, simplified cost options must be defined ex-ante. As stated in Article 67(6) CPR, the method to be applied setting out simplified costs must be included **at the latest in the document setting out the conditions for support**. The relevant methods and conditions should be incorporated in the programme eligibility rules.

The simplified cost options have to be defined in advance and the use of simplified cost options should be mentioned in the calls for proposals addressed to the potential beneficiaries in order to ensure respect of the principle of transparency and equal treatment. In addition, retroactive application for operations already being implemented on the basis of real costs should be avoided as equal treatment between beneficiaries may not be ensured.

Once the standard scales of unit cost and the flat rate or the amount (in the case of lump sums) are established, the amounts may not be changed during or after the implementation of an operation to compensate for an increase in costs or underutilisation of the available budget, unless an adjustment over time is clearly expressed in the call for proposals ([38]) (e.g. multiannual operations may foresee an adjustment over time linked to inflation).

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

4.2. **A fair, equitable and verifiable calculation method** ([39])

4.2.1. ***General principles***

4.2.1.1. It must be fair:

The calculation has to be reasonable, i.e. based on reality, not excessive or extreme. If a given standard scales of unit cost has in the past worked out at between EUR 1 and EUR 2, the Commission would not expect to see a scale of EUR 7. From this point of view, the method used for identifying the unit cost, the flat rate, or the lump sum will be of the utmost importance. The managing authority must be able to explain and to justify its choices. An 'ideal' fair calculation method could adapt the rates to specific conditions or needs. For example, the execution of a project may cost more in a remote region than in a central region because of higher transport costs; this element should be taken into account when deciding on a lump sum or rate to be paid for similar projects in the two regions.

4.2.1.2. It must be equitable:

The main notion underlying the term 'equitable' is that it does not favour some beneficiaries or operations over others. The calculation of the standard scales of unit cost, lump sum or flat rate has to ensure equal treatment of beneficiaries and/or operations. Any differences in the amounts or rates should be based on objective justifications, i.e. objective features of the beneficiaries or operations.

4.2.1.3. It must be verifiable:

The determination of flat rates, standard scales of unit costs or lump sums should be based on documentary evidence that can be verified ([40]). The managing authority has to be able to demonstrate the basis on which the simplified cost option has been established. It is a key issue to ensure compliance with the principle of sound financial management.

The body determining the simplified cost option method should document as a minimum:

— The description of the calculation method, including key steps of the calculation;

— The sources of the data used for the analysis and the calculations, including an assessment of the relevance of the data to the envisaged operations, and an assessment of the quality of the data;

([37]) Article 67(6) CPR.
([38]) For support that is not awarded via a call for proposals this should be stated in the general document specifying the methodology of support.
([39]) Article 67(5) (a) CPR.
([40]) No matter when the methodology was established according to Article 67(5) (a) CPR, as long as it is in use, it must be auditable.

— The calculation itself to determine the value of the simplified cost option.

4.2.2. ***Methodologies in practice***

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

4.2.2.1. The use of 'statistical' data, an expert judgement or other objective information (Article 67(5)(a)(i).

— Statistical data may come from national statistical offices, EUROSTAT or other reliable sources.

— Another common source for statistical data is the statistical analysis of historical data (both, on projects or operations funded from an ESI Fund or from different sources).

— Other objective information could, for instance, take the form of

  — surveys, market research, etc. (need to ensure a proper documentation)

  — rates of reimbursement used for travel costs in Member States

  — rates set at national/regional level (e.g. price of school lunch)

  — hourly rates set within a national labour contract

  — data on remuneration for equivalent work

— An expert judgement: it will be based upon a specific set of criteria and/or expertise that has been acquired in a specific knowledge area, application or product area, a particular discipline, an industry, etc. It needs to be well documented and specific to the particular circumstances of each case. The CPR does not define the expert judgment. It will be for the managing authorities to specify the requirements for a judgment to qualify as expert and to ensure that there is no conflict of interests.

— Maximum values, like thresholds or ceilings set in national rules, cannot be used in principle when establishing a method based on Article 67(5)(a) CPR (or when establishing a draft budget – see chapter 4.3), unless it can be demonstrated that they represent a fair value.

The result of these methodologies may be applied to a group of operations and beneficiaries.

4.2.2.2. The use of individual beneficiary-specific data[41] (Article 67(5)(a)(ii) and (iii) CPR)

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

a) The verified historical data of individual beneficiaries:

   This method is based on the collection of past accounting data from the beneficiary, for actual costs incurred for the categories of eligible costs covered by the simplified cost option defined. Where necessary, these data should cover only the cost centre or department of the beneficiary that are related to the operation. This, in fact, pre-supposes the existence of an analytical accounting system at beneficiary level. It furthermore implies that any ineligible expenditure is filtered out from any calculation supporting the simplified cost options.

   When a managing authority decides to use this method, it should describe

   — the categories of costs covered;

   — the calculation method used;

   — the length of the series to be obtained: accounting data **over at least three years** should be obtained so as to identify any potential exceptional circumstance which would have affected actual costs in a specific year as well as the tendencies in the cost amounts. The three-year reference period should be used in order to take yearly fluctuations into account. However, if the managing authority can demonstrate that the use of data over a period of less than three years is justified, this can be acceptable. For example, where a new programme has been set up and data for only 2 years is available, this could suffice; where three-year data do not exist, depending on the particularities of the case, 2-year data may be accepted. However, this needs to be assessed on a case-by-case basis;

[41] The methods covered by this section are the ones set out in Article 67(5)(a)(ii) and (iii) CPR. The draft budget referred to in Article 14(3) ESF (prior to the Omnibus Regulation) and Article 67(5)(aa) CPR do not fall under those requirements.

— the reference amount to be applied, for example the average costs over the reference period or the costs as registered over the last years;

— adaptations, if any, that are needed to update the reference amount. Adjustment may be applied to update costs from previous years to current prices.

b) Application of the usual cost accounting practices of individual beneficiaries:

Usual accounting practices are practices which the beneficiary uses to account for all of its usual day-to-day activities and finances (including those not linked to EU support). These methods must comply with national accounting rules and standards. The length of use is not critical. An accounting method is not 'usual' if it has been customised for a particular operation or set of operations, for example those receiving EU support, and differs from the accounting method(s) used in other cases.

It is important to differentiate between actual costs and costs determined according to the usual cost accounting practices of individual beneficiaries.

Thus, actual costs mean costs calculated as exactly as possible ('costs actually incurred by the beneficiary') for the time period of the operation. For example, for hourly staff costs, use of standard hours as denominator is accepted (see for instance the 1 720 hours in section 3.2.2), but the numerator for the purpose of calculating 'actual costs' is the total eligible staff costs for each particular person assigned to the action.'

An hourly cost based on the beneficiary's cost accounting practices could be calculated on the basis of an average of the remuneration costs of a larger aggregate of employees. This average is normally a grade or some similar measure, which correlates to the gross employment costs, but the comparison can also be a cost centre or department (related to the operation) where gross employment costs may vary considerably within the aggregate group of employees.

Therefore, to ensure equal treatment among beneficiaries and that the grant does not cover ineligible costs, the document setting out the conditions for support authorising beneficiaries to use their cost accounting practices must provide for minimum conditions. Those minimum conditions aim at ensuring that the cost accounting practices result theoretically and practically in a fair and equitable system. This implies the existence of an acceptable analytical accounting system at beneficiary level. It furthermore implies that any ineligible expenditure is filtered out from the calculation.

c) Common requirements for the use of individual beneficiary-specific data:

The managing authority will have to verify individual beneficiary-specific data through a case-by-case approach. This needs to be done at the latest when establishing the document setting out the conditions for support to the beneficiary. Depending on the assurance obtained from the beneficiary's internal management and control system by the managing authority, it may be necessary for beneficiary-specific data to be certified by an external auditor or, in the case of public bodies, by a competent and independent accounting officer, so as to ensure reliability of the reference data used by the managing authority. Certification of historical data may take place as part of statutory audits or contractual audits. Any certification carried out in this manner would require in-depth knowledge, by the external auditor or independent accounting officer, of the ESI Funds Regulations in respect of e.g. the audit trail, the eligibility of the underlying costs and applicable law. Therefore, the audit authority may well be invited to support this process.

Where the risk of error or irregularity in the past accounting data used is deemed low, for instance, the calculation method may as well be based on data not certified by an auditor ex-ante. The managing authority would need to be able to demonstrate, in an objective manner, that the risk is indeed low and why it considers that the beneficiary's accounting system is reliable, complete and accurate.

4.3. **Draft budget**

As set out in Article 67(5)(aa) CPR since the entry into force of the Omnibus Regulation and in Article 14(3) ESF Regulation in the version applicable until the entry into force of the Omnibus Regulation, an alternative way of setting up simplified cost options is a draft budget. **The managing authority or the monitoring committee of ETC programmes may use a draft budget to establish unit costs, lump sums or flat rates for reimbursing beneficiaries.**

It needs to be established on a case-by-case basis and agreed in advance by the managing authority for operations where the public support does not exceed 100 000 €. This amount has to be considered as the maximum public support to be paid to the beneficiary for the whole operation, as specified in the document setting out the conditions for support to the beneficiary.

This possibility is designed to facilitate implementation of the compulsory use of simplified cost options for small operations (see also Article 67(2a) CPR). In fact, this method allows some simplified costs to be calculated if the operation is very specific. The draft budget will be used to calculate the specific simplified cost options related to this operation or project. The document containing the budget is to be archived by the managing authority as a supporting document to justify the simplified cost options used. The management verification of the operation or project will be based only on the type of simplified cost options applied, not on the budget itself.

The budget should be assessed by the managing authority ex ante on the same basis as it is assessed when real costs are used. In this respect, it is highly recommended that the managing authorities establish parameters or maximum cost levels that are used to compare at least the most important budgeted costs against these parameters. The absence of such parameters or maximum cost levels would render it difficult for any managing authority to ensure equality of treatment and observance of sound financial management. Even if it is recommended, when assessing the budget, it will not be necessary for the managing authority to compare the draft detailed budget proposed by the potential beneficiary with comparable operations.

The managing authority may also set minimum benchmarks on the quality of the expected outcome or results.

The managing authority should demonstrate and archive its assessment of the draft budget and the related supporting documents. The draft budget is not part of the document drawn up between the managing authority and the beneficiary setting out the conditions for support (grant agreement).

When supporting the same beneficiary several times it is recommended to compare the draft detailed budget with previously supported operations.

Example of draft budget use: A beneficiary intends to organise a seminar for 50 participants to present new implementation tools.

Staff spend time on planning and organising the event, a place is rented, some speakers come from abroad, and minutes of the event will have to be published. There are also indirect costs relating to staff (accounting costs, director, etc.) and electricity, phone bills, IT support, etc.

The draft budget is as follows ([42]):

Total Direct costs	*45 000*
Direct Staff costs	30 000
Room costs	4 000
Travel costs	5 000
Meals	1 000
Information/Publicity	5 000

Total Indirect costs	*7 000*
Indirect staff costs	4 000
Electricity, phone.	3 000

This draft budget is discussed and agreed between the managing authority and the beneficiary. The calculation of the simplified cost option will be based on these data.

The managing authority could decide to calculate the grant on the basis of a unit cost, based on the number of participants at the seminar: unit cost = EUR 52 000/50 = EUR 1 040/participant.

The document drawn up between the managing authority and the beneficiary setting out the conditions for support must specify the definition of the standard scales of unit costs (what is a participant), the maximum (minimum) number of participants, how it should be justified and its unit cost (EUR 1 040).

Furthermore, the flat rates enshrined in Articles 68, 68a and 68b CPR may be applied to establish the relevant categories of costs of a draft budget.

([42]) This draft budget has an illustrative purpose only. This should not be considered as a sufficiently detailed draft budget.

Reference to Article 14(3) ESF (for grant agreements signed before the entry into force of the omnibus regulation) or Article 67(5)(aa) CPR (for grant agreements signed after the entry into force of the regulation) is made in the document setting out the conditions for support.

Example EAFRD: Use of draft budget in the case of LEADER

A local action group (LAG) selects a bio-economy project submitted by an NGO aiming to use wood waste to generate energy in community buildings.

The grant will cover the following actions: (1) awareness raising (such as meetings, promotional materials), (2) feasibility study, (3) pilot project including investment in biogas devices, and (4) project coordination.

Due to the nature of the operation (integrated project consisting of a wide range of activities with costs not easily quantifiable via standard scales of unit costs), the LAG decides to use a lump sum arrangement. In order to calculate the amount of the lump sum, the LAG will check the detailed draft budget submitted by the NGO with its application. This draft budget will show estimated costs for all categories of costs needed to implement the four actions of the project. The LAG will assess reasonableness of these amounts (or their aggregates) based on available methods (e.g. comparison with historical data from the programme or the beneficiary, market survey, LAG expert judgement) and adapt them if necessary, before establishing a lump sum (in our example EUR 45 000). The LAG may decide to build in a milestone and thus have two payments: EUR 25 000 for the actions on awareness raising, the study and EUR 20 000 for the pilot project.

The document setting out the conditions for support should clearly indicate the actions required for each payment and supporting documents (e.g. lists of participants, outcomes of the study, photo of the biogas device, etc.). If these are respected, EUR 45 000 will be considered as eligible costs at closure. The supporting document required to pay the grant (and then to be archived) will be the proof that the actions to raise awareness, the study and the pilot project have been carried out.

If only one of the phases of the project (for example the awareness raising and the study) is carried out, the grant will be reduced to this part (EUR 25 000), depending on what was agreed in the document setting out the conditions for support.

4.3.1. *Use of a draft budget by other Funds as a method to establish unit costs, lump sums and flat rates before the entry into force of Omnibus Regulation*

Before the entry into force of the Omnibus Regulation, the use of a draft budget as a specific method was only provided for the ESF for operations with public support not exceeding EUR 100 000 (Article 14(3) ESF Regulation).

However, other ESI Funds could also make use of a draft budget to justify their simplified cost options in case the draft budget was considered objective information for the purposes of Article 67(5)(a)(i) CPR and provided that relevant Fund-specific rules were complied with.

With the entry into force of the Omnibus Regulation, the use of a draft budget is now set out as a method in Article 67(5)(aa) for all ESI Funds for operations **with public support not exceeding EUR 100 000.**

4.4. **Using standard scales of unit costs, lump sums and flat rates from other areas**

From other Union policies

Article 67(5)(b) CPR

The main aim of this method is to harmonise the rules between Union policies. The intention is to clarify that where the Commission has already developed simplified costs for a particular type of beneficiary and operation under an EU policy, the Member State does not need to duplicate this effort under the ESI Funds policies and can re-use the method and its results of simplified cost options under other Union policies.

All the applicable methods under other Union policies could be used for similar operations and beneficiaries. Methods that were used previously but discontinued are not acceptable. If the method under other Union policies is modified during the programming period then the same modification should apply to the ESI Funds projects selected after the modification.

When using an existing EU method, the managing authority should ensure and document:

— that the method is re-used in its entirety (for instance the definition of direct/indirect costs, eligible expenditure, scope, updates) and not only its result (the rate of X %);

— that the method is applied to similar types of operations and beneficiaries;

— the reference to the method used in other EU policies.

Article 68, first subparagraph, point (c) CPR

Articles 20 and 21 of the Commission Delegated Regulation (EU) No 480/2014 ([43]) provide for further rules on the use of flat rates to calculate indirect cost based on methods applied in other Union policies and define the scope for their application by the ESI Funds under the CPR:

— For operations in the areas of research and innovation: The Delegated Regulation defines the operations to which the flat rate of 25 % for indirect costs offered in Horizon 2020 may be applied. ([44]) This implies that all the relevant elements of the methodology for the application of the flat rate for Horizon 2020 must be applied. Direct costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the beneficiary, as well as financial support to third parties must be excluded from the costs on whose basis the rate is to be applied to calculate the eligible amounts (excluded from type 1 costs). As the flat rate established for Horizon 2020 is a flat rate of 25 % (and not up to 25 %) it is not possible for the managing authority to apply a lower flat rate than 25 % (nor higher) on the basis of point (c) of the first subparagraph of Article 68 CPR.

— The Delegated Regulation also lists operations similar to those under the LIFE programme which could make use of the flat rate of 7 % of direct costs as set out in Article 124(4) of Regulation (EU, Euratom) No 966/2012. ([45])

In both cases, a reference should be made to the Delegated Regulation and the relevant article in the document setting out the conditions for support. Furthermore, other Union policies not referred to in the Delegated Regulation could serve as a basis for the application of SCOs under Article 68(c) CPR too.

From schemes for grants funded entirely by Member States ([46])

The principle is the same as for options used in Union policies (see above). However, instead of applying Union policies' methods, national methods for simplified cost options are applied. Simplified cost options used under national support schemes (such as scholarships, daily allowances) can be used without additional calculations. The national methods used will not be subject to audits; audits will only assess whether the chosen method is well justified and how it is applied.

All the applicable national methods may be used for similar operations and beneficiaries supported by the ESI Funds **on the condition that these methods are also in use for operations supported entirely by national funds.** For example, an operation supporting apprenticeships funded entirely by national/regional resources can be considered a national scheme.

If the method is modified during the programming period, the same modification should apply but only to the ESI Funds projects **selected** under calls launched after the modification.

In addition, national methods that have been discontinued may not be used. If the method is modified/discontinued during the programming period then the same modification should apply but only to the ESI Funds projects **selected** under calls launched after the modification/discontinuation. However, if the method is discontinued during the programming period, the method may apply only to the ESI Funds projects **selected** under calls launched before the discontinuation.

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

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

— the method is re-used in its entirety (for instance and where applicable, eligible expenditure, scope) and not only its result (lump sum of EUR X);

([43]) Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 (OJ L 138, 13.5.2014, p.5).

([44]) Article 29(1) of Regulation (EU) No 1290/2013 laying down the rules for participation and dissemination in 'Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)'.

([45]) Article 124 Regulation (EU, EURATOM) No 966/2012 has been replaced by Article 181 Omnibus Regulation:
6. The authorising officer responsible may authorise or impose, in the form of flat-rates, funding of the beneficiary's indirect costs up to a maximum of 7 % of total eligible direct costs for the action. A higher flat rate may be authorised by a reasoned Commission decision. (…)

([46]) Article 67(5) (c) CPR.

— it normally applies to the same geographical area or a smaller one (accordingly, if a methodology is applied in only one region, it can be re-used by the region concerned but not by another region of this Member State where the national methodology is not applicable);

— the method is applied to similar types of operations and beneficiaries;

— reference to the method and justification that this method is in use for operations supported from national sources.

Flat rates from 2007-2013 period

Flat rates to calculate indirect costs established in the 2007-2013 period that were assessed and approved by the services of the Commission may continue to be applied during the 2014-2020 period. When the current ESF or ERDF programme uses the same system and continues to support the same types of operations, in the same geographic area, then the services of the Commission will consider the ex-ante approval given for the 2007-2013 period, by a letter signed by the relevant Directorate General, as valid for the 2014-2020 period. Any amendment of the approved methodology would be the responsibility of the Member State.

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

Article 67(5) (b) and (c) CPR provide the possibility for a Member State to re-use existing calculation methods and corresponding unit costs, lump sums and flat rates applicable to similar types of operations and beneficiaries. There is no indication in the CPR of what is understood by similarity of operations and/or beneficiaries. It is for the managing authority to assess whether in a particular case the condition of similarity is fulfilled. As an example, an operation and its beneficiary already eligible under a scheme may be considered as similar to the operation and beneficiary at stake and the calculation method and the corresponding unit costs/flat rates/lump sums of that scheme may be re-used in the operation at stake. As a general principle, all elements of the method that could have an impact on the unit cost/lump sum/flat rate should be taken into consideration. A case-by-case examination is necessary.

4.5. Using rates established by the CPR or the Fund-specific rules

Article 67(5)(d) CPR

The CPR and the Fund-specific regulations specify a number of specific flat rates. The intention is to give legal certainty and to reduce the initial workload or the need for available data to establish a flat rate system because there is no requirement to perform a calculation to determine the applicable rates. However, such methods are not suited to all types of operations.

The flat rate established under point (b) of the first subparagraph of Article 68 CPR that applies to the five ESI Funds is a maximum rate. Member States may use this or a lower rate, without having to carry out a specific calculation. Nevertheless, if the managing authority decides not to apply the same rate to all beneficiaries of a call for proposals, it should be able to prove that the principle of equal treatment and non-discrimination was respected.

4.6. Adaptation of flat rates, lump sums and standard scales of unit costs in time

Article 67 CPR does not include any provision on the adaptation of simplified cost options. Therefore, adaptation is not compulsory. However, it is recommended that the managing authority adapts the simplified cost options when launching a new call for proposals or does so periodically in order to take account of an indexation or economic changes e.g. in energy costs, levels of salaries, etc. The Commission suggests enshrining in the methodology some automatic adaptations (based on inflation, or evolution of salaries for instance). Thus, the simplified cost option remains a reliable proxy of real costs.

Adapted amounts should apply only to projects or to the phases of projects that will be implemented in the future, not retrospectively. For multiannual operations, a yearly adaption may be foreseen in the document setting out the conditions for support.

For any revision which is undertaken, there should be adequate supporting documentation to justify the adapted rates or amounts available at the managing authority.

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

Article 67(5)(e) CPR

Additional methods may be established by the Fund-specific regulations. Before the entry into force of the Omnibus Regulation, Article 14(2) ESF defined a flat rate of up to 40 % of the eligible direct staff costs to cover the remaining eligible costs of an operation. This article was deleted with the Omnibus Regulation and replaced by Article 68b CPR (see section 3.1.2.3).

CHAPTER 5

Consequences for audit and control

5.1. The need for a common audit and control approach

Simplified cost options require an **ex-ante approximation of costs** based on, for example, historical or statistical data. Being average or median amounts, or the result of other statistically sound methodologies, it is inherent that SCOs may overcompensate or undercompensate to a limited extent the actual costs incurred and paid by the beneficiaries. However, this is considered acceptable under applicable rules as SCOs established on a correct methodology are deemed a reliable proxy for real costs; any such overcompensation does not constitute a profit.

When SCOs are applied, controls and audits will not check *ex post* the invoices and amounts paid by beneficiaries; they will check that the methodology setting up the SCO *ex ante* is in line with applicable rules and that it is correctly applied.

This chapter describes the approach for management verifications and audits of simplified cost options. Member States are also encouraged to take into account the key requirements developed jointly by ECA and the Commission services responsible for the ESIF and which are relevant for all bodies using and checking SCOs ([47]).

When verifying and auditing simplified cost options, national authorities are encouraged to maintain a common approach in order to ensure **uniform treatment** when drawing conclusions on the legality and regularity of the declared expenditure.

5.2. The audit authority's role in SCO design

It is highly recommended that **national auditors carry out an ex-ante assessment of the design of simplified cost options** and provide the result of their assessment prior to implementation. It is the sole responsibility of the managing authority to define the SCO methodology and its parameters; however, an **ex-ante assessment and validation of this methodology and its calculation by the audit authority or certification body (for EAFRD)** significantly increases the quality of SCOs, subject to compliance with the principle of separation of functions set out in Article 72(b) CPR.

When providing such an assessment, auditors perform a consulting service which does not impede their impartiality when auditing costs declared on the basis of an SCO during implementation later on. If the ex-ante compliance assessment is carried out in sufficient depth and in a well-defined framework and the audit authority or certification body comes to a positive conclusion (i.e. formal validation of the SCO methodology), the audit authority or certification body can use the result of its assessment for future (assurance) audits, when operations are sampled where SCOs are applied.

For the programme, this approach has the advantage of providing the desired legal certainty and **helps preventing systemic errors** that could have financial consequences if detected only during implementation.

5.3. General management verifications and audit approach

Where simplified costs are used, for the purposes of determining the legality and regularity of expenditure, both Commission and national audits and controls will check the correct design of the methodology, calculation of the rates or amounts (if applicable) and their correct application.

The Omnibus Regulation clarified, in its amendments to Article 125(4)(a) CPR the scope of the verifications to be carried out by the managing authority with regard to costs reimbursed pursuant to simplified cost options. Thus, Article 125(4)(a) CPR states that **the managing authority shall verify that the co-financed products and services have been delivered, that the operation complies with applicable law, the operational programme and the conditions for support of the operation.**

In addition, Article 125(4)(a)(ii) CPR states that for costs reimbursed on the basis of simplified cost options, **management verifications (and, as a consequence, audits) shall aim at verifying that the conditions for reimbursement of expenditure to the beneficiary have been met** (for example, as set out in the grant agreement).

For expenditure reimbursed on the basis of SCOs, the requirement of Article 125(4) CPR that the co-financed products and services have been delivered does not imply that audits should verify or request documentation of the underlying costs.

([47]) https://www.eca.europa.eu/Lists/ECADocuments/SR18_11/SR_SCO_EN.pdf (Annex II - 1. Assurance on SCOs and 2. Performance of SCOs)

For the EAFRD, Article 48(2)(d) of Implementing Regulation (EU) No 809/2014 specifies that administrative checks shall verify the eligibility of the costs of the operation, including compliance with the category of costs or calculation method to be used when the operation is part or it falls under Article 67(1)(b), (c) and (d) CPR. Further, according to paragraph (3)(b) of the same provision, the costs incurred and the payments made do not have to be checked where a form or a method as referred to in Article 67(1)(b), (c) and (d) CPR is applied.

Therefore, **the scope of management verifications and audits on the expenditure for reimbursement based on a SCO methodology will cover outputs/deliverables for unit costs and lump sums, and basis costs in case of flat rate financing. Management verifications and audits will not cover the individual invoices and specific public procurement procedures underlying the expenditure reimbursed on the basis of simplified cost options.** As a consequence, these underlying financial or procurement documents shall not be requested with a view to check the amounts (expenditure) incurred and paid by the beneficiary.

Audit and control will be carried out at two levels:

1) Verification of the correct establishment of the calculation method for establishing the simplified cost option, and

2) Verification of the correct application of the established rate(s) and amount(s).

5.3.1 ***Verification of the correct establishment of the calculation method for the simplified cost option***

Verification of the calculation method **generally** will be carried out for a **programme (or parts thereof) or several programmes under the responsibility of a managing authority or an intermediary body**. For SCOs based on beneficiaries' own data in accordance with Article 67(5)(a)(ii) and (iii) and (aa) CPR, that verification will be carried for specific beneficiaries.

In practice, the audit authority will verify if the simplified cost option was set up in compliance with the requirements for calculation methods specified in Article 67(5) CPR and relevant provisions defined by the programme authorities for such simplified cost option.

Assessment whether the methodology developed by the managing authority was the result of a diligently completed analytical process will include:

— checking that **information on the calculation method** is properly documented, easily traceable and is applied consistently;

— verifying that **costs included in the calculations are relevant and are eligible costs**,

— verifying the reliability/accuracy of data,

— verifying that all the **categories of costs** which are covered by the SCO exist, and

— assessing the **detailed description of the steps** performed when establishing the simplified cost option.

Auditing the calculation method focuses on verifying the fulfilment of the conditions to establish a methodology and does not question the reasons for selecting a specific methodology over another. The choice of method remains the sole responsibility of the managing authority. The managing authority should keep adequate records of the established calculation method and should be able to demonstrate the basis on which the flat rates, standard scales of unit costs or lump sums were set. The records kept for documenting the calculation method will be subject to the requirements of the Regulations in force (Articles 82, 87 and 88 of Regulation (EU) No 1306/2013 for the EAFRD and Article 140 CPR for the other ESI Funds).

For flat rates, lump sums and unit costs which are set in the CPR or Fund-specific regulations which do not require a calculation to determine the applicable rate, audits will focus on the definition of categories of costs (e.g. direct cost, indirect cost, direct staff cost). There is no legal basis to ask for underlying documents for SCOs established in the CPR (e.g. auditors may not ask beneficiaries to provide invoices for real costs to verify if indeed the beneficiary had incurred indirect costs of 15 % when point (b) of the first subparagraph of Article 68 CPR was applied).

5.3.2. ***Verification of the correct application of the method***

— When using a flat rate, unit cost or lump sum there is **no need to justify the real costs of the categories of expenditure covered by the simplified cost options** including, where applicable, depreciation and contributions in kind. Contributions in kind referred to in Article 69(1) CPR can be taken into account for calculating the value of a flat rate, a standard scale of unit cost or a lump sum. However, when the simplified cost option is applied, there is no need to verify the existence of the contributions in kind, and, in consequence, that the provisions of Article 69(1) CPR are fulfilled.

— As stated above, verifications of the calculation method will generally be carried out at the level of the managing authority (depending on the methods used) or intermediary body, whilst **checking the correct application of the established method will be done at beneficiary level**.

5.3.2.1. Verification of the correct application of flat rates

Verification of the correct application of the flat rate financing system will involve **verification of the categories of costs of the operation to which the flat rate is applied, i.e., so-called 'basis costs', or of their calculation where other simplified cost options are used to establish them**. Where relevant, it will also involve verification of other categories of eligible costs not taken into account in the flat rate financing system (i.e., eligible costs to which the flat rate is not applied). There are, however, no checks on the actual costs incurred by the beneficiary or related (financial) supporting documents for the amounts reimbursed on the basis of a flat rate.

National systems should provide a clear and unequivocal definition of the categories of costs or a pre-established list of all categories of eligible costs on which the flat rate is based (and where relevant the other categories of eligible costs).

The task of auditors when verifying the correct application of the flat rates is:

— To examine the **programme rules** concerning this option and agreements made with the beneficiary, in order to verify that:

  — the flat rate takes into account the right categories of cost, i.e., it concerns the correct category and uses the correct category(-ies) of eligible costs on which the flat rate is based;

  — the flat rate percentage has been used correctly.

— To control the '**basis costs**', for instance expenditure declared on the basis of real cost, to which the flat rate is applied, in order to verify that:

  — there is no ineligible expenditure included in the 'basis costs';

  — there is no double declaration of the same cost item, i.e. that the 'basis cost' or any other real costs do not include any cost item that normally falls under the flat rate. For example, administration costs covered by a flat rate for indirect costs may not be included in another category of costs, like direct real costs for external expertise if they also contain indirect costs for administration, to avoid the risk of double financing;

  — the amount calculated by applying the flat rate is proportionally adjusted if the value of the basis cost(s) to which the flat rate is applied has been modified. Any reduction of the eligible amount of the 'basis costs' accepted following verifications of the categories of eligible costs on which the flat rate is applied (i.e., in relation to the estimated budget or following a financial correction) of the 'basis costs', will affect proportionally the amount accepted for the categories of costs calculated by applying a flat rate to the 'basis costs'.

5.3.2.2. Verification of the correct application of standard scales of unit costs

Verification of the correct application of standard scales of unit costs will include an assessment to ascertain **whether the conditions set in terms of process, outputs and/or results for the reimbursement of costs have been fulfilled**.

The task of the auditor will comprise checks:

— that the units delivered by the project in the sense of quantified inputs, outputs, or results covered by the unit cost are documented and thus verifiable and are real; and

— that the **amount declared equals the set unit cost multiplied by the actual units delivered** by the project.

— If other conditions are set in the document setting out the conditions for support, the auditors will also verify the fulfilment of those conditions.

Auditors and controllers should not accept unit costs that have been paid and declared to the Commission in advance, without prior implementation of the corresponding part of the project. The beneficiary is only obliged to report and prove the number of units delivered, not the underlying actual cost.

5.3.2.3. Verification of the correct application of lump sums

In the case of lump sums, the realisation of the operation is key to trig the payment. It is therefore essential to get assurance that the outputs/results reported are real. The control thus consists in **checking whether the agreed steps (milestones, if applicable) of the project were fully completed and that the outputs/results were delivered** in line with the conditions set by the programme authorities (the outputs/results need to be documented). The actual costs borne by the beneficiary in relation to the delivered outputs/results will not be checked.

5.3.2.4. Verification in the case of a combination of options within the same operation

In the case of a combination of SCOs, in addition to the checks required for the individual types of simplified costs described above, **audit and control need to confirm that all costs of the operation are declared only once.** This includes checking that the methodologies applied ensure that no expenditure of an operation can be charged under more than one type of SCO and, if applicable, direct costs (double declaration of costs, for instance both as direct and as indirect costs).

5.3.3. ***Potential errors or irregularities linked to the use of SCOs***

Findings that could be considered to be errors or irregularities include the following:

— The methodology used to calculate the SCOs does not respect the regulatory conditions;

— The results of the calculation method have not been respected while setting and applying the rates;

— A beneficiary has not observed the rates set or has declared ineligible costs not included in the categories of eligible costs established by the managing authority;

— Double declaration of the same cost item: as 'basis' cost (calculated on the basis of the real cost principle, lump sum or unit cost) and as 'calculated' eligible costs (included in the flat rate);

— When the 'basis costs' are reduced without a proportional reduction of 'calculated' eligible costs (included in the flat rate);

— Lack of supporting documents to justify the outputs, or outputs only partially justified but paid in totality.

If an irregularity in the categories of eligible costs to which a flat rate is applied is detected in an audit or during management verification, the calculated eligible costs will need to be reduced too.

Example (ERDF): A municipality receives a grant for a maximum amount of EUR 1 000 000 of eligible costs for the construction of a road.

The payment claim for the project is as follows:

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

The expenditure declared by the beneficiary is checked by the managing authority. Ineligible expenditure is found in the direct staff costs declared.

The accepted payment claim is as follows:

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

Example (ESF): A unit cost of EUR 5 000 is paid for every trainee completing training.

The training starts in January, finishes in June and 20 people are expected to attend. The amount of the expected eligible expenditure is 20 × EUR 5 000 = EUR 100 000. Every month the training provider will send an invoice corresponding to 10 % of the grant: EUR 10 000 at the end of January, EUR 10 000 at the end of February, etc.

However, given that no trainee has completed the training before the end of June, all these payments are considered as advances and cannot be declared to the Commission. **Only after it is demonstrated that some people have completed the training may an amount be certified to the Commission**: for instance, if 15 people have completed the training then 15 × EUR 5 000 = EUR 75 000 may be certified to the Commission.

ANNEX I

Examples of simplified cost options

This annex provides the example of a grant to a beneficiary that intends to **organise a seminar for 50 participants** to present new implementation tools. Staff spend time on planning and organising the event, a venue is rented, some speakers come from abroad, and minutes of the event will have to be published. There are also indirect costs relating to staff (accounting costs, director, etc.) and electricity, phone bills, IT support, etc.

The draft budget in 'real costs' is as follows, and its form will be kept for all the possibilities and options so that the differences can be more clearly seen:

Total Direct costs	135 000
Direct Staff costs	90 000
Room costs	12 000
Travel costs	15 000
Meals	3 000
Information/Publicity	15 000

Total Indirect costs	15 000
Indirect staff costs	12 000
Electricity, phone, etc.	3 000

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

Possibility 1: Standard scales of unit costs (Article 67(1)(b) CPR)

Principle: all or part of the eligible expenditure is calculated on the basis of quantified inputs, outputs or results multiplied by a unitary cost defined in advance.

For the seminar, a unit cost of EUR 3 000 per person attending the seminar could be established (on the basis of one of the calculation methods of Article 67(5) CPR).

The draft budget would become:

Maximum number of persons attending the seminar = 50

Unit cost/person attending the seminar = EUR 3 000

Total eligible costs = 50 × EUR 3 000 = EUR 150 000.

If 48 people attend the seminar, the eligible cost is: 48 × EUR 3 000 = EUR 144 000

Audit trail:

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

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

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

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

Possibility 2: Lump sums (Article 67(1)(c) CPR)

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

A lump sum of EUR 150 000 could be established for the *organisation of the seminar* (independently of the number of participants) to present new implementation tools, calculated on the basis of the calculation methods specified in Article 67(5) CPR.

The draft budget would become:

Objective of the lump sum = organising a seminar to present new implementation tools

Total eligible cost = EUR 150 000

If the seminar is organised and new implementation tools are presented, the lump sum of EUR 150 000 is eligible. If the seminar is not organised or new implementation tools are not presented, nothing is paid.

Audit trail:

— the methodology used to determine the value of the lump sum should be documented and stored;

— the document setting out the conditions for support needs to be clear about the lump sums and the triggering factors for payment;

— proof of delivery of the seminar and its content is necessary (newspaper articles, invitation & programme, photos…).

Possibility 3: Flat rate financing (Article 67(1)(d) CPR)

N.B: the amounts resulting from the calculations are rounded.

General principle: Specific categories of eligible costs, which are clearly identified in advance, are calculated by applying a percentage fixed ex-ante to one or several other categories of eligible costs.

When comparing flat rate financing systems, always compare all the below elements of the method and not only the flat rates:

— categories of eligible costs to which the flat rate will be applied (the 'basis');

— the flat rate itself;

— categories of eligible costs calculated with the flat rate;

— where relevant, categories of eligible costs to which the flat rate is not applied and that are not calculated with the flat rate.

Option 1: General 'flat rate financing' rule

The Member State uses one of the methods stipulated in Article 67(5) CPR [1] to define a flat rate of 47 %, which will be applied to all staff costs (both direct and indirect) to calculate the other costs [2] of the operation:

Categories of eligible costs to which the rate is to be applied to calculate the amounts for other eligible costs (type 1)	Staff costs = 90 000 + 12 000 = EUR 102 000
The flat rate itself	47 %
Other categories of eligible costs that will be **calculated** with the flat rate (type 2)	Other costs = 47 % of staff costs = 47 % × 102 000 = EUR 47 940
Other categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)	Not relevant

=> Total eligible costs = 102 000 + 47 940 = EUR 149 940.

The draft budget takes the following form:

Staff costs (type 1):	102 000	Other costs (type2) = 47 % staff costs	47 940
Direct staff costs	90 000	*(calculated)*	
Indirect staff costs	12 000	Total eligible costs	149 940

(Generally based on real costs)

Audit trail:

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

Option 2: Flat rate financing for indirect costs (point (a) of the first subparagraph of Article 68 CPR)

Pursuant to point (a) of the first subparagraph of Article 68 CPR, the Member State designs a flat rate system where a flat rate of 11,1 % — calculated according to one of the methods of Article 67(5)(a) or (c) CPR — is applied to the eligible direct costs. This rate is calculated on the basis of a fair, equitable and verifiable calculation method or a method applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary:

[1] Under paragraphs (a) (b) (c) or (d)

[2] Please note that if the categories of eligible costs calculated with the flat rate were indirect costs, then pursuant to point (a) of the first subparagraph of Article 68CPR the flat rate should be capped to 25 %.

Categories of eligible costs to which the rate is to be applied to calculate the amounts for the eligible indirect costs (type 1)	Eligible direct costs = EUR 135 000
The flat rate	11,1 % (may not be higher than 25 % and needs to be justified)
Categories of eligible costs that will be **calculated** with the flat rate (type 2)	Indirect costs (calculated) = 11,1 % of eligible direct costs = 11,1 % × 135 000 = EUR 14 500
Categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)	Not applicable as there are no other eligible costs.

=> Total eligible costs = 135 000 + 14 500 = EUR 149 500

The draft budget takes the following form:

Direct costs (type 1)	135 000
Direct staff costs	90 000
Room costs	12 000
Travel costs	15 000
Meals	3 000
Information/Publicity	15 000

(Generally based on real costs)

Indirect costs (type 2) = 11,1 % of direct costs	14 500
(calculated)	
Total eligible costs	149 500

Audit trail:

Categories of eligible costs to which the flat rate is to be applied to calculate the eligible amounts	Direct costs = — clear definition of what direct costs are; — proof of these costs (pay slips, timesheets if relevant, proof of publicity and invoice, etc.)
The flat rate	Reference to the method chosen for the flat rate, and: — For a) at the level of the managing authority, need to store the document proving the calculation method; — For b) correct application of the methodology and proof that the beneficiary and the type of operations are similar; — For c) proof that the methodology is applied for schemes for grants funded entirely by the MS and proof that the beneficiary and the type of operations are similar.
Categories of eligible costs that will be **calculated** with the flat rate	No justification needed.

Option 3: Flat rate financing for indirect costs (point (b) of the first subparagraph of Article 68 CPR)

The Member State may decide to opt for the flat rate system of point (b) of the first subparagraph of Article 68 CPR: a flat rate of up to 15 % to calculate the indirect cost is applicable only to the eligible direct staff costs. There is no need to justify the rate itself given that it is specified by the Regulation.

Categories of eligible costs to which the flat rate is to be applied to calculate the eligible amounts (type 1)	Direct staff costs = EUR 90 000
The flat rate	15 % (no justification needed)
Categories of eligible costs that will be **calculated** with the flat rate (type 2)	Indirect costs (calculated) = 15 % of direct costs = 15 % × 90 000 = EUR 13 500
Categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)	Other direct costs (Room costs, travel costs, meals, info, publicity) = EUR 45 000

Total eligible costs = Direct staff costs + calculated indirect costs + other direct costs = 90 000 + 13 500 + 45 000 = EUR 148 500

The draft budget takes the following form:

Direct staff costs (type 1)	90 000	=>	Indirect costs (type 2) = 15 % direct staff costs	13 500
			(calculated)	
Other direct costs (type 3):				
Room costs	12 000			
Travel costs	15 000		Total eligible costs	148 500
Meals	3 000			
Information/Publicity	15 000			

(Generally based on real costs)

Audit trail:

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

Option 4: flat rate financing Article 68b(1) CPR

The Member State may decide to opt for the flat rate system of Article 68b(1) CPR: a flat rate of up to 40 % is applied only to the direct staff costs to calculate all the other costs of the operation ([3]). There is no need to justify the rate itself given that it is specified by the Regulation ([4]).

Categories of eligible costs to which the flat rate is to be applied to calculate the eligible amounts (type 1)	Eligible direct staff costs = EUR 90 000
The flat rate	40 % (no justification needed)
Categories of eligible costs that will be **calculated** with the flat rate (type 2)	All other costs = 40 % of eligible direct staff costs = 40 % × 90 000 = EUR 36 000
Categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)	Since the entry into force of the Omnibus Regulation, salaries and allowance for participants can be declared in addition to the 40 % flat rate and direct staff costs (Article 68b(2) CPR).

Total eligible costs = Direct staff costs + all other calculated costs = 90 000 + 36 000 = EUR 126 000

The draft budget takes the following form:

Direct staff costs (type 1)	90 000	=>	All other costs (type 2) = 40 % direct staff costs	36 000
(Generally based on real costs)			*(calculated)*	
			Total eligible costs	126 000

Audit trail:

Categories of eligible costs to which the flat rate is to be applied to calculate the eligible amounts	Direct staff costs = — clear definition of what direct staff costs are; — proof of salary costs (pay slips, timesheets if relevant, collective agreements to justify benefits in kind if applicable, detailed invoice of external provider)
The flat rate	Reference to Article 68b CPR is needed in the document setting out the conditions for support.
Categories of eligible costs that will be **calculated** with the flat rate (type 2)	No justification needed. However, it is recommended to specify what kind of categories of costs are covered by this flat rate in order to demonstrate compliance with State aid rules, if applicable.
Categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)	Proof of salaries and allowance paid to participants.

([3]) Apart from salaries and allowance for participants (Article 68b(2) CPR).
([4]) A justification would be needed if the rate were above 40 %. However, a rate above 40 % could only be used in a framework other than Article 14(2) ESF.

ANNEX II

Example of SCOs' compatibility with State aid rules

A company obtains a grant under a State aid scheme to implement a training project for its staff. The public support amounts to EUR 387 000. This aid is below the EUR 2 million threshold laid down in Article 4(1)(n) of Commission Regulation (EU) No 651/2014 [1] and therefore the GBER applies.

The beneficiary and the managing authority agree to make use of standard scales of unit costs to determine the cost of the course per participant.

Article 31 GBER states the following regarding Training aid:

1. Training aid shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempted from the notification requirement of Article 108(3) of the Treaty, provided that the conditions laid down in this Article and in Chapter I are fulfilled.

2. Aid shall not be granted for training which undertakings carry out to comply with national mandatory standards on training.

3. The eligible costs shall be the following:

   (a) trainers' personnel costs, for the hours during which the trainers participate in the training;

   (b) trainers' and trainees' operating costs directly relating to the training project such as travel expenses, accommodation costs, materials and supplies directly related to the project, depreciation of tools and equipment, to the extent that they are used exclusively for the training project.

   (c) costs of advisory services linked to the training project;

   (d) trainees' personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training.

4. The aid intensity shall not exceed 50 % of the eligible costs. It may be increased, up to a maximum aid intensity of 70 % of the eligible costs, as follows:

   (a) by 10 percentage points if the training is given to workers with disabilities or disadvantaged workers;

   (b) by 10 percentage points if the aid is granted to medium-sized enterprises and by 20 percentage points if the aid is granted to small enterprises;

5. Where the aid is granted in the maritime transport sector, the aid intensity may be increased to 100 % of the eligible costs provided that the following conditions are met:

   (a) the trainees are not active members of the crew but are supernumerary on board; and

   (b) the training is carried out on board of ships entered in Union registers.

[1] As amended by Commission Regulation (EU) 2017/1084 of 14 June 2017. Prior to the entry into force of this regulation amending the GBER, the accommodation costs were excluded as eligible costs except for the minimum necessary accommodation costs for trainees' who are workers with disabilities.

The managing authority decides to establish standard scales of unit costs to determine the eligible expenditure of the projects. It is using statistical data (according to Article 67(5)(a)(i) CPR) on similar type of training in a given geographical area.

After appropriate treatment of the statistical data, the resulting average costs per item of expenditure for this type of course with a similar number of participants are:

(EUR)

Direct costs	
Trainer — remuneration	100 000
Trainer — travel costs	10 000
Trainees — remuneration	140 000
Trainees — accommodation	55 000
Trainees — travel costs	25 000
Non-depreciable consumption goods	5 000
Publicity	2 000
Organisation costs	5 000
Total direct costs	**342 000**

(EUR)

Indirect costs	
Administrative costs	17 500
Rent	15 000
Overheads	12 500
Total indirect costs	**45 000**

When processing the data, the managing authority takes out all non-eligible costs.

Article 31 of the revised GBER ([2]) included the following category of costs as eligible costs:

— Trainees' accommodation costs for trainees with and without disabilities.

Therefore, the standard scale of unit cost can now include the trainees' accommodation costs. The calculation is as follows:

Total eligible costs of the training (total costs – ineligible costs)	EUR 387 000 – 0 = EUR 387 000
Expected number of participants completing the training	300
Costs per participant completing the training (standard scale of unit cost)	EUR 387 000/300 participants = EUR 1 290/participant

The provisional funding of the training project is as follows:

Public funding (national + ESF)	EUR 193 500
Private funding (self-financing)	EUR 193 500
Intensity of State aid	50 %

([2]) Commission Regulation (EU) No 651/2014.

Article 31(4) of Commission Regulation (EU) No 651/2014 limits the aid intensity to 50 % of the eligible costs defined in the document setting out the condition for support of the project. The provisional budget is in line with this requirement.

After implementation of the project, the eligible cost will be based on the real number of participants completing the training. If only 200 participants complete the training, the aid will be as follows:

Total eligible costs to be declared to the Commission	EUR 1 290 × 200 = EUR 258 000
Public funding (national + ESF)	EUR 129 000
Private funding (self-financing)	EUR 129 000
Intensity of State aid	50 %

ANNEX III

SCO and EAFRD specific measures

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

Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013		Code	Sub-measure for programming purposes (when relevant)	SCO (Yes/No)	Comments
Article 14	knowledge transfer and information actions	**1**	support for vocational training and skills acquisition	Yes	Not allowed if the measure is implemented through public procurement Allowed under in-house provider
			support for demonstration activities and information actions	Yes	
			support for short-term farm and forest management exchange as well as farm and forest visits	Yes	
Article 15	advisory services, farm management and farm relief services	**2**	help in benefiting from the use of advisory services	No	
			support for the setting up of farm management, farm relief and farm advisory services as well as forestry advisory services	No	
			support for training of advisors	No	
Article 16	quality schemes for agricultural products and foodstuffs	**3**	support for new participation in quality schemes	Yes	
			support for information and promotion activities implemented by groups of producers in the internal market	Yes	
Article 17	investments in physical assets	**4**	support for investments in agricultural holdings	Yes	
			support for investments in processing/marketing and/or development of agricultural products	Yes	

Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013		Code	Sub-measure for programming purposes (when relevant)	SCO (Yes/No)	Comments
			support for investments in infrastructure related to development, modernisation or adaptation of agriculture and forestry	Yes	
			support for non-productive investments linked to the achievement of agri-environment-climate objectives	Yes	
Article 18	restoring agricultural production potential damage by natural disasters and introduction of appropriate prevention	**5**	support for investments in preventive actions aimed at reducing the likely consequences of natural disasters, adverse climatic events and catastrophic events	Yes	
			support for investments for the restoration of agricultural land and production potentially damaged by natural disasters, adverse climatic events and catastrophic events	Yes	
Article 19	farm and business development	**6**	business start-up aid for young farmers	No	
			business start-up aid for non-agricultural activities in rural areas	No	
			business start-up aid for the development of small farms	No	
			support for investments in creation and development of non-agricultural activities	Yes	
			payments to farmers eligible for the small farmers scheme who permanently transfer their holding to another farmer	No	
Article 20	basic services and village renewal in rural areas	**7**	support for drawing up and updating plans for the development of municipalities and villages in rural areas and their basic services, and protection and management plans relating to Natura 2000 sites and other areas of high nature value	Yes	
			support for investments in the creation, improvement or expansion of all types of small-scale infrastructure, including investments in renewable energy and energy saving	Yes	

Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013		Code	Sub-measure for programming purposes (when relevant)	SCO (Yes/No)	Comments
			support for broadband infrastructure, including its creation, improvement and expansion, passive broadband infrastructure and provision of access to broadband and public e-government	Yes	
			support for investments in the setting-up, improvement or expansion of local basic services for the rural population including leisure and culture, and the related infrastructure	Yes	
			support for investments for public use in recreational infrastructure, tourist information and small-scale tourism infrastructure	Yes	
			support for studies/investments associated with the maintenance, restoration and upgrading of the cultural and natural heritage of villages, rural landscapes and high nature value sites including related socio-economic aspects, as well as environmental awareness actions	Yes	
			support for investments targeting the relocation of activities and conversion of buildings or other facilities located inside or close to rural settlements, with a view to improving the quality of life or increasing the environmental performance of the settlement	Yes	
			others	Yes	
Article 21	investments in forest area development and improvement of the viability of forests	**8**	support for afforestation/creation of woodland establishment and maintenance	Yes	Except for maintenance
			support for establishment and maintenance of agro-forestry systems	Yes	
			support for prevention of damage to forests from forest fires and natural disasters and catastrophic events	Yes	
			support for restoration of damage to forests from forest fires and natural disasters and catastrophic events	Yes	
			support for investments improving the resilience and environmental value of forest ecosystems	Yes	
			support for investments in forestry technologies and in processing, mobilising and marketing of forest products	Yes	

Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013		Code	Sub-measure for programming purposes (when relevant)	SCO (Yes/No)	Comments
Article 27	setting up of producer groups and organisations	**9**	setting up of producer groups and organisations in the agriculture and forestry sectors	No	
Article 28	agri-environment-climate	**10**	payment for agri-environment-climate commitments	No	
			support for conservation and sustainable use and development of genetic resources in agriculture	Yes	
Article 29	organic farming	**11**	payment to convert to organic farming practices and methods	No	
			payment to maintain organic farming practices and methods	No	
Article 30	Natura 2000 and Water Framework Directive payments	**12**	compensation payment for Natura 2000 agricultural areas	No	
			compensation payment for Natura 2000 forest areas	No	
			compensation payment for agricultural areas included in river basin management plans	No	
Article 31	payments to areas facing natural or other specific constraints	**13**	compensation payment in mountain areas	No	
			compensation payment for other areas facing significant natural constraints	No	
			compensation payment to other areas affected by specific constraints	No	
Article 33	animal welfare	**14**	payment for animal welfare	No	
Article 34	forest-environmental and climate services and forest conservation	**15**	payment for forest-environmental commitments	No	
			support for the conservation and promotion of forest genetic resources	Yes	

Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013		Code	Sub-measure for programming purposes (when relevant)	SCO (Yes/No)	Comments
Article 35	cooperation	**16**	support for the establishment of operational groups of the European Innovation Partnership for agricultural productivity and sustainability	Yes	
			support for pilot projects and for the development of new products, practices, processes and technologies	Yes	
			cooperation among small operators in organising joint work processes and sharing facilities and resources, and for developing and marketing tourism	Yes	
			support for horizontal and vertical cooperation among supply chain actors for the establishment and development of short supply chains and local markets and for promotional activities in a local context relating to the development of short supply chains and local markets	Yes	
			support for joint action undertaken with a view to mitigating or adapting to climate change and for joint approaches to environmental projects and ongoing environmental practices	Yes	
			support for cooperation among supply chain actors for sustainable provision of biomass for use in food and energy production and industrial processes	Yes	
			support for non-CLLD strategies	Yes	
			support for drawing up forest management plans or equivalent instruments	Yes	
			support for diversification of farming activities into activities concerning health care, social integration, community-supported agriculture and education about the environment and food	Yes	
			others	Yes	

Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013		Code	Sub-measure for programming purposes (when relevant)	SCO (Yes/No)	Comments
Article 36	risk management	**17**	crop, animal and plant insurance premium	No	No simplification (only administrative costs of setting up the mutual fund)
			mutual funds for adverse climatic events, animal and plant diseases, pest infestations and environmental incidents	No	
			income stabilisation tool	No	
Article 40	financing of complementary national direct payments for Croatia	**18**	financing of complementary national direct payments for Croatia	No	
Article 35	support for LEADER local development (CLLD)	**19**	preparatory support	Yes	
			support for implementation of operations under the CLLD strategy	Yes	
			preparation and implementation of cooperation activities of the local action group	Yes	
			support for running costs and animation	Yes	
Articles 51 to 54	technical assistance	**20**	Support for technical assistance (other than National Rural Network (NRN))	Yes	
			support for establishing and operating the NRN	Yes	

ANNEX IV

SCO and EMFF-specific measures

A list of EMFF compensation measures whose characteristics indicate similarities to, and thus possible suitability for, SCOs, appears below. This list is not meant to be exhaustive. The Articles listed are those in Regulation (EU) No 508/2014 (as amended).

Article	Compensation scheme	Possible SCO type(s)
33 and 34(3)	Temporary and permanent cessation of fishing activities	Lump sum/unit costs
40(1)(h)	For damage to catches caused by protected mammals and birds	Unit costs
53(3)	Conversion to organic aquaculture (compensation of additional costs/loss of revenue)	Unit costs
54(2)	Specific requirements for aquaculture in respect of NATURA 2000 (compensation of additional costs/loss of revenue)	Unit costs
55	Public health – temporary suspension of farmed molluscs	Flat rate (% of turnover as per Article 55(2)(b))
70-72	Compensation for additional costs in outermost regions	Determined in Commission-approved compensation plan (Article 72)

In addition to EMFF compensation measures, on EMFF support to data collection (Article 77), Managing Authorities are encouraged to use SCOs.

ISSN 1977-091X (electronic edition)
ISSN 1725-2423 (paper edition)

Publications Office of the European Union
L-2985 Luxembourg
LUXEMBOURG

EN