



**COMMISSION NOTICE**

**Guidelines on the use of simplified cost options within the Funds covered by Regulation  
(EU) 2021/1060 (Common Provisions Regulation)**

(C/2024/7467)

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*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 Common Provisions Regulation Funds. This guidance is without prejudice to the interpretation of the Court of Justice and the General Court.*

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**List of acronyms**

AA	Audit Authority
AMIF	Asylum Migration and Integration Fund
BMVI	Border Management and Visa Instrument
CLLD	Community-Led Local Development
CPR	Common Provisions Regulation
EC	European Commission
ECA	European Court of Auditors
EMFAF	European Maritime, Fisheries and Aquaculture Fund
ERDF	European Regional Development Fund
ESF+	European Social Fund Plus
ISF	Internal Security Fund
JTF	Just Transition Fund
LAG	Local Action Group
MA	Managing authority
MS	Member State
SCO	Simplified Cost Option
SME	Small- and Medium-sized Enterprise

**Preamble**

This document provides technical guidance on costs declared on the basis of unit costs, lump sums and flat-rate financing (hereinafter referred to as 'simplified cost options' or SCOs) applicable to the Funds covered by Regulation (EU) 2021/1060<sup>(1)</sup> (Common Provisions Regulation – hereinafter referred to as 'CPR') 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 CPR for the 2021-2027 programming period and takes into account legislative changes introduced by Regulation (EU) 2021/1060 as compared to the 2014-2020 programming period, in particular, the possibility of reimbursing the Union contribution to a programme in the form of simplified cost options.

Following the entry into force of Regulation (EU) 2021/1060, the guidance covers the reimbursement of the grants provided to beneficiaries by the Member States in the form of simplified cost options or a combination of different modes of reimbursement according to Article 53(1)(b), (c), (d) and (e) CPR, as well as the reimbursement of the Union contribution to a programme in the form of simplified cost options or a combination of different forms according to Article 51(c), (d), (e) and (f) CPR.

This guidance also includes further clarifications based on questions posed by Member States and stakeholders that relate or are relevant for the 2021-2027 programming period.

<sup>(1)</sup> Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

## CHAPTER 1: INTRODUCTION TO SIMPLIFIED COST OPTIONS

### 1.1. What are simplified cost options and why use them?

Simplified cost options are amounts or percentages, defined ex ante, that represent the best possible approximation of actual (real) eligible costs incurred in practice when implementing an operation. Therefore, they are an alternative method for reimbursing the eligible costs of an operation, as opposed to the traditional method where costs actually incurred by the beneficiary and paid and are justified by invoices or payment slips (Article 53(1)(a) CPR, hereinafter referred to as 'real costs') are reimbursed.



With simplified cost options, the tracing of every euro of co-financed expenditure to individual supporting documents is no longer required; the use of SCOs significantly alleviates the administrative costs and burden for managing authorities and for beneficiaries.



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



Simplified cost options **facilitate access to the Funds** also for **small beneficiaries** thanks to the simplification of the management process. In addition, beneficiaries observe simplified and less time-consuming processes during the life span of their projects, from the application for funding to the reimbursement of their expenditure (e.g. less costs and time needed to prepare the application for funding, less supporting documents needed, lower risk of providing incorrect documentation or missing documentation, faster reimbursement of expenditure).



Finally, simplified cost options contribute to a more efficient and correct use of the CPR 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 (?). The European Court of Auditors' briefing paper on 'Simplification in post-2020 delivery of Cohesion Policy' echoed such views, recommending to increase the possibility to use SCOs also to reduce administrative costs and burden (?).

### 1.2. Where best to use simplified cost options

Beyond the cases where the use of simplified cost options is mandatory (see Chapter 1.4 below), the use of SCOs is strongly recommended specifically for operations for which one or more of the following criteria regarding feasibility and relevance are met:

- For operations where real costs are difficult and/or burdensome 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.);
- Where reliable historical or statistical data on financial and quantitative implementation of similar operations are easily available as a basis to build sound calculation methods;
- For operations belonging to a standard framework, such as repetitive activities with stable terms of conditions and standard forms of implementation;
- Where SCO methods already exist for similar types of operations under a nationally funded scheme or under EU policies.

(?) See for instance European Court of Auditors - Simplification in post-2020 delivery of Cohesion Policy, Briefing Paper, May 2018; ECA Annual Report concerning the financial year 2011, Chapter 6, paragraph 30; ECA Annual report concerning the financial year 2012, Chapter 6, paragraph 42; ECA Annual Report concerning the financial year 2014, Chapter 6, paragraph 79; ECA Annual Report concerning the financial year 2018, Chapter 6, paragraph 24; ECA Annual Report concerning the financial year 2020, Chapter 5, paragraph 23; ECA Annual Report concerning the financial year 2021, Chapter 5, paragraph 23.

(?) [https://www.eca.europa.eu/Lists/ECADocuments/BRP\\_Cohesion\\_simplification/Briefing\\_paper\\_Cohesion\\_simplification\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/BRP_Cohesion_simplification/Briefing_paper_Cohesion_simplification_EN.pdf).

Establishing SCOs necessitates investment of time and resources. This should be considered when designing a new methodology. If this investment contradicts the simplification objectives of SCOs, alternative reimbursement methods may be more appropriate.

### 1.3. Use of simplified cost options at two levels of reimbursement

In line with the legal framework for the 2021-2027 programming period, simplified cost options can be used at two reimbursement levels:

- reimbursement of the Union contribution by the Commission to the Member States' programmes (the 'upper level') and
- reimbursement of grants provided by the Member States to beneficiaries (the 'lower level').

#### USE OF SCOs at the 'Upper level'

The Union contribution to a programme may be reimbursed in the form of simplified cost options in accordance with Article 51(c), (d) and (e) CPR.

The simplified cost options must be established by:

1. the Commission decision approving the programme or its amendment (Article 94(3) CPR), or
2. a delegated act adopted by the Commission (Article 94(4) CPR).

In the first case, Member States should submit a proposal to the Commission in accordance with Appendix 1 of Annexes V and VI of the CPR, as part of the programme submission or of a request for its amendment. **The audit authority of that programme is required to provide a positive ex-ante assessment** (\*) of the calculation method and amounts and of the arrangements to ensure the verification, quality, collection and storage of data.

**The use of SCOs at the 'upper level' is not automatically linked to the use of SCOs at the 'lower level'**. If the reimbursement of the Union contribution is based on SCOs approved in the programme or in a delegated act, the reimbursement of the beneficiary may take any form of support (Article 94(3) CPR).



To reach full simplification, it is however recommended that the SCOs used at the 'upper level' are also used at the 'lower level', i.e., when reimbursing grants to beneficiaries.

Member States are not obliged to use SCOs at the 'upper level'. The Union contribution to the programme can be based on any form of reimbursement of support provided to beneficiaries (Article 51(b) CPR).

#### Use of SCOs at the 'Lower level'

Simplified cost options may only be used in the case of operations financed through grants (Article 53(1) CPR). SCOs cannot be used for financial instruments and prizes. SCOs used for the reimbursement of grants provided by Member States to beneficiaries are not included in the programme through Appendix 1 of Annexes V and VI of the CPR and are not subject to the Commission's approval.



**The ex-ante assessment by the audit authority** is not required for SCOs used at the 'lower level' but it is **highly recommended**.



Simplified cost options are forms of grants according to Article 53 CPR. The provisions on grants, including provisions concerning simplified cost options, are **not applicable to the support provided in the form of grants combined in a single financial instrument operation** according to Article 58(5) CPR; the combined support follows the FI rules. However, in case a grant is combined with a financial instrument **in two separate operations**, simplified cost options can be used for the part of the support which is provided in the form of a grant. Simplified cost options cannot be used in case the support to an operation is provided in the form of a prize.

(\*) According to Annexes V (or VI), Appendix 1, section C, point 5 of the CPR.

## Key similarities and differences between SCOs used at the 'upper' OR ONLY at 'lower' level

	SCOs used at the 'upper level'	SCOs used only at the 'lower level'
Type of SCOs used	Unit costs, flat-rate financing and lump sums	
Commission's role in setting up the SCOs	The SCOs are adopted by the Commission: 1) in the decision approving the programme or its amendment on the basis of a proposal submitted by the Member States in accordance with the template set out in Appendix 1 of Annexes V and VI CPR (Article 94(3) CPR) or 2) by means of a delegated act (Article 94(4) CPR).	The SCO and methodology are defined by Member States without any mandatory involvement of the Commission.
Audit authority's role in setting up the SCOs	An ex-ante assessment of the methodology by the audit authority is mandatory for the SCOs set up by Commission decision approving the programme or its amendment (Article 94(3) CPR and Annex V (or Annex VI), Appendix 1, section C, point 5 of the CPR)	The ex-ante assessment of the methodology by the audit authority is not mandatory but highly recommended.
Allowed methodology	Calculation based on a fair, equitable and verifiable method (e.g., statistical and historical data). Draft budget. Use of existing EU or national schemes for similar types of operations.	Calculation based on a fair, equitable and verifiable method (e.g., statistical and historical data). Draft budget (if the total cost of the operation does not exceed EUR 200 000). Use of existing EU or national schemes for similar types of operations. Use of rates and methodologies established by or on the basis of the CPR or Fund-specific regulations.
Reimbursement level	Member State is reimbursed by the Commission ('upper level') on the basis of the SCO approved by the Commission decision approving the programme or its amendment or set out in the delegated act.	The Member State reimburses the beneficiary ('lower level') in the form of a SCO and the same expenditure is declared to the Commission.
Scope of management verifications and audit	Fulfilment of the conditions for reimbursement set out in Appendix 1 of Annexes V and VI CPR.	The methodology used to set up the SCOs <sup>(1)</sup> and the application of the SCO methodology.
Management verifications and audit do NOT cover	Underlying real costs (except for the real costs which are used as a basis for calculating flat rate financing) The methodology used to set out the SCO, adopted either by the Commission decision approving the programme or its amendment, or by delegated act. Please see also Chapter 6.	Underlying real costs (except for the real costs used as a basis for calculating flat rate financing). The calculation method used to set-up the 'off the shelf' flat rates (except for Article 54, first paragraph, point (c) CPR). Please see also Chapter 6.

<sup>(1)</sup> For further details, see Chapter 6 of this document on Management Verifications and Audit.

#### 1.4. Optional and mandatory use of simplified cost options

The principle: optional use of simplified cost options

The use of simplified cost options is optional for the Member States at 'upper level' and 'lower level', with the exception of Article 53(2) CPR described below in this chapter. At 'upper level', once the Commission adopts a decision approving SCOs in the programme, the Union contribution to the Member State is reimbursed in this form and cannot be claimed by the Member State on the basis of Article 51(b) CPR, i.e., on the basis of support paid to the beneficiary. At the 'lower level', the managing authority, or the monitoring committee in the case of Interreg programmes, decides on whether to use SCOs or not in a call for proposals, by defining the categories of costs and/or types of operations to which these SCOs apply. To ensure the respect of the principles of transparency and equal treatment of beneficiaries, the scope of the simplified cost options to be applied, i.e., categories of costs or types of operations for which they will be available, should be specified and published (in the call for proposals, programme rules or national rules).

The exception: cases where the use of simplified cost options is mandatory

In accordance with the first subparagraph of Article 53(2) CPR, where the total cost of an operation **does not exceed EUR 200 000** the contribution provided to the beneficiary from the ERDF, the ESF+, the JTF, the AMIF, the ISF and the BMVI should take the form of unit costs, lump sums or flat rates, **with the exceptions mentioned below**. The purpose of this provision is to limit controls on real costs because such controls would not be cost efficient considering the low value of these operations.

For **small projects financed through small project funds within an Interreg programme** (Article 25(6) Interreg Regulation <sup>(5)</sup>), the contribution from ERDF has to take the form of simplified cost options where the **public contribution to a final recipient implementing the small project does not exceed EUR 100 000** except for operations for which the support constitutes State aid.

The costs to be considered for the application of Article 53(2) CPR are the ones planned at the signature of the document setting out the conditions for support for the operation <sup>(6)</sup>. The costs actually incurred in the implementation of the operation or of the small project are not relevant since these are no longer part of the cost calculation and reimbursement method of the operation or of the small project.

The mandatory use of simplified cost options applies **at the level of support granted by the Member States to beneficiaries, therefore at the level of the operation to be co-financed and beneficiary, within the meaning of Article 2 CPR**. For small project funds in Interreg programmes (see above), the mandatory use of simplified cost options applies **at the level of the support granted by the beneficiary managing the small project fund to final recipients**.

The mandatory use of SCO also applies in cases of grants provided by Member States to beneficiaries in technical assistance operations where the total cost of such operations does not exceed EUR 200 000. Therefore, there is **no exemption from the mandatory use of SCOs provided for technical assistance operations**. <sup>(7)</sup>

The requirement of mandatory use of SCOs does not apply to <sup>(8)</sup>:

- **Operations receiving support which constitutes State aid.** *De minimis aid* does not constitute State aid and, therefore, operations receiving only *de minimis aid* fall under Article 53(2) CPR, i.e. the mandatory use of SCOs. However, in case of combination of State aid and *de minimis aid* in the same operation, the mandatory use of SCOs does not apply.

<sup>(5)</sup> Regulation (EU) 2021/1059 of the European Parliament and of the Council of 24 June 2021 on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments (OJ L 231, 30.6.2021, p. 94).

<sup>(6)</sup> For the non-euro Member States, the conversion into EUR should be made on the basis of the amounts defined in the document setting out the conditions for support, by using the monthly exchange rate of the Commission (InforEuro) for the month during which the document was signed.

<sup>(7)</sup> The mandatory use of SCOs applies when the Union contribution for technical assistance in a Member State is made in accordance with Article 36(4) CPR.

<sup>(8)</sup> However, SCOs may be used in these operations although their use is not mandatory. For the use of SCOs in operations receiving State aid that fall into the scope of the GBER, see also Chapter 5.2.

- The managing authority may agree to exempt **some operations in the area of research and innovation** from the requirement set out in Article 53(2) first subparagraph CPR, provided that the monitoring committee has given prior approval for such an exemption. The CPR does not specify criteria for such exemption. It is therefore up to the managing authority to propose such exemption and to ensure it is approved by the monitoring committee.

When the obligation to use simplified cost options applies, it relates to **all categories of costs of an operation**, with two exceptions on the basis of Article 53(2) CPR:

- (1) The categories of costs, to which a flat rate is applied, may be calculated on the basis of real costs. For example, in case the flat rate of up to 15 % for indirect costs set out in Article 54, first paragraph, point (b) CPR is used (with eligible direct staff costs as a basis to which a flat rate is applied), the eligible direct staff costs may be declared on the basis of real costs (but direct costs other than direct staff costs have to be covered by SCOs). In case the flat rate of up to 7 % for indirect costs set out in Article 54, first paragraph, point (a) CPR is used, the eligible direct costs may be declared on the basis of real costs.
- (2) Allowances and salaries paid to participants may be reimbursed on the basis of costs actually incurred.

These exceptions are exhaustive.

Possible examples to ensure compliance with the requirements of mandatory use of SCOs by using SCOs established by the CPR		
Use of Article 54, first paragraph, point (a) or (c) CPR	Use of Article 54, first paragraph, point (b) CPR	Use of Article 56(1) and (2) CPR
Indirect costs = up to 7 % of eligible direct costs (no calculation method required) or up to 25 % of eligible direct costs (a fair, equitable and verifiable calculation method is required, or a flat rate established pursuant to Article 67(5)(a) of Regulation 1303/2013 for a similar operation) Direct costs = real costs <sup>(1)</sup>	Indirect costs = up to 15 % of eligible direct staff costs (no calculation method required) Direct staff costs = real costs <sup>(2)</sup> All other direct costs (if applicable) = SCO	Direct staff costs = real costs <sup>(3)</sup> Remaining costs (apart from salaries and allowances paid to participants) = up to 40 % of eligible direct staff costs (no calculation method required) If applicable, salaries and allowances paid to participants may be paid based on real costs (= additional eligible costs)

- <sup>(1)</sup> The direct costs can also be reimbursed in the form of another SCO, e.g. a unit cost calculated on the basis of a method from Article 53(3)(a)-(d) CPR. On combinations of different SCOs, see Chapter 2.5.
- <sup>(2)</sup> Direct staff costs can also be reimbursed in the form of another SCO.
- <sup>(3)</sup> Direct staff costs can also be reimbursed in the form of a unit cost or lump sum (but not in the form of a flat rate, see Chapter 2.5).

## CHAPTER 2: TYPES OF SIMPLIFIED COST OPTIONS

### 2.1. Overview of the different types of simplified cost options

Articles 51 and 53(1) CPR include three types of SCOs, that can be defined as follows:

- **FLAT-RATE FINANCING:** Specific categories of eligible costs clearly identified in advance, are calculated by applying a percentage that is established in advance to one or several **other** categories of eligible costs.
- **UNIT COSTS:** All or part of the eligible costs will be calculated on the basis of quantified activities, input, outputs or results multiplied by unit costs established in advance.
- **LUMP SUMS:** All eligible costs or part of eligible costs are calculated on the basis of amounts, established in advance, which are paid if predefined activities and/or outputs are completed.

The managing authority can choose to use one type of SCO or to combine different types within the same operation provided that any possible overlap between costs covered by different SCOs is excluded to avoid double financing (see also Chapter 2.5 on the combination of simplified cost options).

## 2.2. Flat rate financing

Flat rates can be used at both reimbursement levels, i.e., at upper level for the reimbursement of the Union contribution (Article 51(e) CPR) and at lower level for grants provided by the Member States to the beneficiary (Article 53(1)(d) CPR).

There are different types of flat rates, in particular:

- The 'off-the-shelf' flat rates, i.e. those established in the CPR and Fund specific regulations or, as the case may be, a delegated act adopted under Article 94(4) CPR, and for which the managing authorities are not required to establish a calculation method to determine the applicable rate;
- Flat rates for which the managing authorities developed a methodology (including a calculation method).

### 2.2.1. General principles

#### 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 (so called 'basis cost');
- TYPE 2: categories of eligible costs that will be covered by applying the flat rate;
- TYPE 3: where relevant, other categories of eligible costs (the rate is not applied to them and they are not covered by applying the flat rate).

When using a flat rate financing system, the managing authority (or the monitoring committee for Interreg programmes) must define the categories of costs falling under each type: any category of expenditure must be clearly included in one — and only one — of the three types. 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 can be defined as all other eligible costs which are not direct costs. During the selection of operations, the managing authority (or the monitoring committee for Interreg programmes) should verify that the cost categories covered by the flat rate are necessary for the specific operation, based on the activities needed to implement the operation, detailed in the application for funding.

The CPR does not put any restriction on categories of eligible costs that might be used for flat rate financing. But considering that the main objective of using flat rates is simplification, flat rates are best suited to costs that are relatively low and for which verification is costly (e.g., flat rate to cover staff costs or indirect costs).



**It is possible to use different flat rates for different categories of costs applied to the same basis** <sup>(\*)</sup>. For example, a flat rate of 13 % of direct staff costs can be used to calculate the indirect costs. The same basis (i.e., direct staff costs) can also be used to calculate the travel and accommodation costs of the operation at a flat rate of 15 %.

<sup>(\*)</sup> However, not all flat rates are combinable. In particular, the flat rate of Article 56(1) CPR may not be combined with the flat rates of Articles 54 or 55(1) CPR, see Chapter 2.2.4. For more on the combination of SCOs, see Chapter 2.5.



**It is possible to calculate a flat rate on the basis of real costs or costs reimbursed using simplified cost options.** (see Chapter 2.5)

To avoid double financing, when designing the simplified cost option methodology, particular attention should be given to ensure that cost categories that will be covered by the flat rate are not to be included in the basis costs.

Specific flat rates to calculate categories of costs detailed in the CPR and the Fund-specific Regulations

Certain specific flat rates are defined in the legal framework. These flat rates can be used for the reimbursement of grants provided by Member States to beneficiaries (Article 53(3)(e) CPR).



It is only where the CPR Regulation states it explicitly, that flat rates can be used without requiring the managing authority to establish a calculation method to determine the applicable rate ('off the shelf' simplified cost options). These flat rates are applied to a certain category of costs (i.e., the basis costs), to calculate other categories of costs (covered by the flat rate). The managing authority may use any rate up to the rate mentioned in the relevant article, and it will not have to justify why a rate below the rate specified in the Regulation was chosen, as long as the costs covered by the rate are relevant for the specific operation. If a lower rate is chosen, there is no requirement to perform any calculation.

However, the managing authority may establish a higher rate than the rates set out in Articles 54 - 56 CPR (except for point (c) of the first subparagraph of Article 54 CPR) based on one of the methodologies set out in Article 53(3) CPR.

When deciding on the flat rate to be applied, the principle of equal treatment of beneficiaries needs to be respected. Thus, beneficiaries supported from a certain call and in a similar situation may not be treated differently without there being a justification.

The 'off the shelf' flat rates are:

Article	The 'off the shelf' flat rates
Art 54, first paragraph, point (a) CPR	Up to 7 % of eligible direct costs to reimburse indirect costs
Art 54, first paragraph, point (b) CPR	Up to 15 % of eligible direct staff costs to reimburse indirect costs
Art 55(1) CPR	Up to 20 % of [eligible] direct costs <sup>(1)</sup> to reimburse direct staff costs
Art 56(1) CPR	Up to 40 % of eligible direct staff costs to reimburse the remaining costs of an operation <sup>(2)</sup>
Art 39(3)(c) Interreg Regulation	Up to 20 % of [eligible] direct costs to reimburse direct staff costs
Art 41(5) Interreg Regulation	Up to 15 % of the [eligible] direct staff costs to reimburse travel and accommodation costs
Art 22(1)(b) ESF+ Regulation	1 % of the costs referred to in point (a) <sup>(3)</sup> to cover the costs borne by the purchasing body related to transporting food and/or basic material assistance to the storage depots or the beneficiaries and storage costs
Art 22(1)(c) ESF+ Regulation	7 % of the costs referred to in point (a) or 7 % of the costs of the value of the food disposed of in accordance with Article 16 of Regulation (EU) No 1308/2013 to cover the administrative, transport, storage and preparation costs borne by the beneficiaries involved in the distribution of the food and/or basic material assistance to the most deprived persons

Article	The 'off the shelf' flat rates
Art 22(1)(e) ESF+ Regulation	7 % of the costs referred to in point (a) to cover the costs of accompanying measures undertaken by or on behalf of beneficiaries and declared by the beneficiaries delivering the food and/or basic material assistance to the most deprived persons

- (<sup>1</sup>) Provided that the direct costs of the operation do not include public works contracts or supply or service contracts which exceed in value the thresholds set out in Article 4 of Directive 2014/24/EU of the European Parliament and of the Council or in Article 15 of Directive 2014/25/EU of the European Parliament and of the Council. In addition, for the AMIF, the ISF and the BMVI, that flat rate shall only be applied to the direct costs of the operation not subject to public procurement.
- (<sup>2</sup>) Salaries and allowances paid to participants are to be considered additional eligible costs not included in the flat rate.
- (<sup>3</sup>) Art. 22 (1)(a) ESF+ Regulation: the cost of purchasing food and/or basic material assistance, including costs related to transporting food and/or basic material assistance to the beneficiaries delivering the food and/or basic material assistance to the end recipient.

Additionally, **Article 54, first paragraph, point (c) CPR** sets a ceiling on a flat rate for indirect costs to 25 % of eligible direct costs, provided a fair, equitable and verifiable calculation method defined by the MA is used pursuant to Article 53(3)(a) CPR.

Using any of these options requires the managing authority (or the monitoring committee for the Interreg programme) to **define the categories of costs covered by the flat rate and those to which the flat rate applies**, i.e., the direct and indirect costs and the direct staff costs. It is the responsibility of the Member States to define the different categories of costs in a consistent, non-equivocal and non-discriminatory manner and ensure that double financing is avoided.

The definition of the categories of costs should be clearly set out in the programme rules or calls for proposals.



As general guidance, the categories of costs can be defined as follows:

- **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 are costs which are necessary for implementing the operation and which are not or cannot be connected directly to the implementation of the operation** in question or which are related to the implementation of the operation but represent auxiliary expenses that do not directly contribute to the achievement of its indicators/results/objectives. Such costs could include, for example, administrative expenses/overheads, for which it is difficult to precisely determine 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** are defined in national rules and normally are the costs deriving from an agreement between employer and employee or service contracts for external staff (provided that these costs are clearly identifiable). Staff costs typically 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 (for example in the case of pensions, first and second pillar, third pillar only if set out in a collective agreement or in the employment agreement) and any eligible voluntary employees' contribution 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 and on the role of the staff in the operation.

#### Particularities of the definition of Staff costs

For the purpose of applying the flat rates referred to in Article 54, first paragraph, point (b) CPR, in Article 56(1) CPR and Article 41(5) Interreg (or any other flat rate established by the managing authority on the basis of Article 53(3) CPR which is to be applied to direct staff costs), the total value of the remuneration as defined by national rules can be considered 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). If staff costs for external staff comes from a service contract, the staff costs have to be 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 direct staff cost. If the staff costs of the trainer are 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 56(1) CPR.

The definition of direct staff costs is not linked to whether the staff costs take the form of **in-kind contribution expenditure** or not. Therefore, the value of voluntary work in the form of in-kind contribution can be included in the basis amount for the calculation of flat rates, provided Article 67(1) CPR is respected.



**Travel costs** are not considered to be staff costs, apart from expenses for commuting to the workplace if national rules determine that they are part of the gross employment costs.

**Allowances or salaries** disbursed for the benefit of participants in operations supported by the ERDF, the ESF +, the JTF, the AMIF, the ISF and the BMVI are not considered to be staff costs either (see Article 56(1) and (2) CPR). For example, in an operation aiming at recruiting new persons, the wages of newly hired workers are not considered 'staff costs' for the purposes of Article 56 CPR as these persons are not carrying out any task for implementing the operation – they are considered as salaries paid for the benefit of participants. Therefore, they cannot be calculated into the basis of the flat rate defined in Article 56(1) of CPR.



In the context of Article 56 CPR, the meaning of **allowance** is to be understood as financial support provided to participants for possible expenses related to the objective of a given operation.

For example, training allowances within the framework of the European Social Fund Plus (ESF +) refer to financial support provided to individuals participating in training programs. These allowances are designed to cover various costs associated with training, such as travel expenses, and subsistence costs. The aim is to make training more accessible.

### 2.2.2. Flat rates for determining indirect costs (Article 54 CPR)

The first subparagraph of Article 54 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) and (b) of its first subparagraph. Article 54, first paragraph, point (a) CPR introduces a flat rate of **up to 7 % of eligible direct costs** to calculate indirect costs. Article 54, first paragraph, point (b) CPR contains a flat rate of **up to 15 % of the direct staff costs** to calculate the indirect costs. Both flat rates may be used directly by the managing authority, without any justification of the calculation of the rate, if it is within the ceiling set by the Regulation.

Article 54 CPR does not provide an exhaustive list of methods on how to establish flat rates for indirect costs of an operation and allows the Member States to use a flat rate for indirect costs established on the basis of other methods, i.e., those stated in Article 53(3) (b) to (e) CPR.



However, a flat rate covering indirect costs established on the basis of a fair, equitable and verifiable method referred to in Article 53(3)(a) CPR **is subject to a ceiling of 25 % of the eligible direct costs** set out in Article 54, first paragraph, point (c) CPR. Flat rates not established on that basis but rather on another method among those referred to in Article 53(3)(b) to (e) CPR, are not subject to a ceiling.

### 2.2.3. Flat rate for determining direct staff costs (Article 55(1) CPR)

Article 55(1) CPR states that the direct staff costs of an operation may be calculated as a flat rate of **up to 20 % of the direct costs other than the staff costs** of that operation without there being a requirement for the Member States to perform a calculation to determine the applicable rate.



However, where the **direct costs of that operation include public works contracts or supply or service contracts** which exceed the threshold set out in the EU's Directive on public procurement, notably Article 4 Directive 2014/24/EU<sup>(10)</sup> and Article 15 Directive 2014/25/EU,<sup>(11)</sup> the off-the-shelf flat rate in Article 55(1) CPR could not be applied and the flat rate for direct staff costs would need to be determined based on a method provided for in Article 53(3)(a) to (e) CPR. In this situation, the flat rate up to 20 % without performing a calculation cannot be applied to the given operation. This applies to all work/supply/services contracts above the thresholds falling under the scope of these Directives, including those awarded by contracting entities other than contracting authorities in the case of Directive 2014/25/EU. It is the entire public procurement value that will be taken into account when determining whether the thresholds in the Directives have been exceeded, irrespective of the lots that a procurement may be divided in<sup>(12)</sup>.



As regards the **AMIF, the BMVI and the ISF** specifically, any costs subject to public procurement (i.e., the subcontracted/externalised costs) have to be excluded from the basis for the calculation of the flat rate, see second sub-paragraph of Article 55(1) CPR.

For Interreg programmes, staff costs can be reimbursed based on a flat rate of up to 20 % of eligible direct costs, without any restriction on **whether direct costs include public procurement or not**, according to Article 39(3)(c) Interreg Regulation.

Direct staff costs determined on the basis of a flat rate may form the basis for the application of a flat rate specified under Article 54, first paragraph, point (b) CPR (a flat rate of up to 15 % of eligible direct staff costs to calculate indirect costs). However, direct staff costs calculated on the basis of a flat rate cannot serve as a basis for the flat rate under Article 56(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 56(3) CPR.

### 2.2.4. Flat rate for determining all other costs of the operation other than direct staff costs (Article 56 CPR)

Article 56(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**. Operations using this flat rate can only include the following:

- Direct staff costs – basis costs for the flat rate;
- and a flat rate of up to 40 % covering the remaining costs of the operation;
- and salaries and allowances paid to participants.

For the ERDF, the ESF+, the JTF, the AMIF, the ISF and the BMVI, salaries and allowances paid to participants are excluded from the costs covered by this flat rate. [They could therefore be reimbursable using a different form referred to in Article 53(1) CPR] Regarding the definition of allowances and salaries, please see Chapter 2.2.1.



The use of this flat rate is suitable in operations where the direct staff costs represent a significant share of the budget. Thus, labour-intensive, R&D, small (scale) projects with many low-value and large volume costs other than staff costs, small innovation projects, educational and vocational project, and soft activities projects are best suited for the use of the flat rate set out in Article 56(1) CPR.

<sup>(10)</sup> Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC (OJ L 94, 28.3.2014, p. 65).

<sup>(11)</sup> Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC (OJ L 94, 28.3.2014, p. 243).

<sup>(12)</sup> Article 4 of Directive 2014/24/EU refers to 'procurements with a value net of value-added tax (VAT) being equal to or greater than the specific thresholds stated therein'. The same provision is set out in Article 15 of Directive 2014/25/EU.

The managing authority may apply this flat rate to types of operations that clearly distinguish between the following categories of costs: direct staff costs, other direct costs, and indirect costs. The flat rate defined in Article 56(1) CPR should cover both other direct costs and indirect costs, and not only indirect costs.

If the operation includes only indirect costs and direct staff costs, the managing authority should not use the flat rate in Article 56(1) CPR but can use the flat rate defined in Article 54(b) CPR.

The flat rate in Article 56(1) CPR cannot be combined with a flat rate for indirect costs (e.g., the options in Article 54 CPR) as the same category of costs (i.e., the indirect costs) would be covered twice.

This flat rate of up to 40 % cannot be used in an operation where the total direct staff costs of that operation are calculated on the basis of a flat rate (for example the flat rate under Article 55(1) CPR in accordance with Article 56(3) CPR. However, this flat rate can be applied to direct staff costs that are themselves designed as SCO, as long as this SCO is not a flat rate (see Chapter 2.3.2.

**Example 1**

A managing authority wishes to cover 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 56(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 x 0,35) = EUR 202 500.

**Example 2**

The estimated costs of a training course are:

<b>Total Direct costs</b>	<b>52 000 EUR</b>		<b>Total indirect costs</b>	<b>5 000 EUR</b>
Direct Staff costs	30 000 EUR		Indirect staff costs	4 000 EUR
Room costs	3 000 EUR		Electricity, phone.	1 000 EUR
Travel costs	4 000 EUR			
Meals	1 000 EUR			
Information / Publicity	4 000 EUR			
Allowances paid to the trainees by the PES	10 000 EUR		<b>Total eligible costs</b>	<b>57 000 EUR</b>

The managing authority can decide to apply Article 56(1) CPR to this project and sets the flat rate to reimburse the remaining costs of the operation at 40 %. In this case, the document setting out the conditions for support for the operation would have as a maximum allocation:

Direct staff costs: EUR 30 000

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

As the allowances paid to the trainees 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 eligible costs: 30 000 (direct staff costs) + 12 000 (other costs) + 10 000 (allowances paid to the trainees by the PES) = EUR 52 000



During the implementation of operations using the flat rate from Article 56(1) CPR, it is important to plan direct staff costs carefully from the start and to closely and continuously monitor spending in this cost category. Due to the nature of the 40 % flat rate, any underspending of direct staff costs will automatically mean less money reimbursed for other costs.

### Example

The original budget of the operation allocated EUR 350 000 to the category of direct staff costs and EUR 140 000 (40 %x 350 000 EUR) to the category of remaining costs. During the programme implementation, only EUR 230 000 of direct staff cost was reported. This means that only EUR 92 000 (40 %x 230 000 EUR) for the other remaining costs is reimbursed.

#### 2.2.5. Flat rate for travel and accommodation costs (Article 41(5) Interreg)

Article 41(5) Interreg Regulation provides for a flat rate for travel and accommodation costs of an operation of **up to 15 % of the direct staff costs** without the Member States having to make a calculation to determine the applicable rate. This flat rate is to be used directly in Interreg operations.

#### 2.2.6. The specific case of flat rates for technical assistance (Article 36(5) CPR)

According to Article 36(3) CPR, the amount of the Union contribution for technical assistance is to be made either as reimbursement of support provided to beneficiaries in accordance with the applicable rules of the CPR (Article 51(b) CPR) or as a flat rate (Article 51(e) CPR) (the use of the flat rate is mandatory in certain situations - see below in this chapter).

### Scope

The choice of using the flat-rate financing is at the discretion of the Member States. In line with the second subparagraph of Article 36(3) CPR, the choice applies to all programmes in the Member State concerned for the entire programming period and cannot be modified subsequently. Member States should notify the Commission about their choice of the form of Union contribution for technical assistance in the Partnership Agreement in accordance with Annex II CPR.

In line with the third subparagraph of Article 36(3) CPR, for programmes supported by the AMIF, the ISF and the BMVI and for Interreg programmes, the Union contribution for technical assistance is made only in the form of a flat rate.

The flat rates for the Union contribution for technical assistance are laid down in Article 36(5) CPR for each Fund and in Article 27 Interreg Regulation for Interreg programmes.

How the Member State uses the flat-rate payments for technical assistance is the responsibility of the Member State; there will be no checks of the underlying costs of the amounts reimbursed based on the flat rate at EU level.

### Payment applications

Where a Member State or an Interreg programme uses the flat-rate financing for technical assistance, the relevant flat-rate percentage for the Fund concerned provided in Article 36(5)(b) CPR and in Article 27(3) Interreg Regulation will be applied automatically to the total amount of eligible expenditure or the total amount of public expenditure, as appropriate, included in each payment application submitted to the Commission. The amount of the flat-rate technical assistance in column D (column C for AMIF, BMVI and ISF) in table 'Expenditure broken down by priority' of Annex XXIII CPR is to be calculated automatically in SFC2021 based on the data provided in the payment application.

The amount of the flat rate technical assistance is not to be reported in Appendix 2 of Annex XXIII CPR and, for AMIF, BMVI and ISF programmes, in Appendix 3 of Annex XXIII CPR, i.e. for specific objectives for which the enabling conditions are not fulfilled.

### 2.2.7. Specificities of support for community-led local development

According to Article 34(1)(c) CPR, support from the Funds for community-led local development (CLLD) covers the cost of the management, monitoring and evaluation of the strategy and its animation, including the facilitation of exchanges between stakeholders. According to the second subparagraph of Article 34(2) CPR, these costs are subject to a ceiling of 25 % of the total public contribution to the strategy.

The following example illustrates how it is possible to reimburse these costs on the basis of a flat rate applied to other implementation costs:

#### Example

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 CPR 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 34(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 method in accordance with Article 53(1)(d) and 53(3)(a) CPR) 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 (costs linked to the management, monitoring and evaluation of the strategy, see Article 34(1)(c) 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 34(1)(c) 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 is EUR 1,5 million (type 1), the maximum budget corresponding to running and animation costs would be EUR 1,5 million x 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 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 also declare to the managing authority EUR 1 000 x 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.

N.B. The methodology of establishing the flat rate does not necessarily have to result in the application of a 25 % rate. However, whatever methodology used to set the flat rate, the provisions on the maximum ceiling of running costs and animation provided in the second subparagraph of Article 34(2) CPR have to be respected.

### 2.3. Unit costs

Unit costs can be used at both reimbursement levels, i.e., at the 'upper level' for the reimbursement of the Union contribution (Article 51(c) CPR) and at the 'lower level' for grants provided by the Member States to the beneficiary (Article 53(1)(b) CPR).

### 2.3.1. General principles



In the case 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 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 related unit costs. **Unit costs apply typically to easily identifiable quantities.**

Unit costs can be:

- Process-based, i.e., linked to inputs (e.g., hourly unit cost for a trainer) or outputs (e.g., hourly unit cost per trainee);
- Results- or outcome-based (e.g., unit cost per person obtaining a training certificate).

The purpose of using SCOs in an operation is to simplify processes for all stakeholders involved. Therefore, managing authorities should set inputs, outputs, results or outcomes that bring simplification and are easy to record, trace etc. Managing authorities should also pay particular attention to the audit trail when choosing between process and outcome-based unit costs.

#### Example 1 (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 x number of trainees. The cost per hour has been defined in advance by the managing authority using the fair, equitable and verifiable method and is shown in the document setting out the conditions for support for the operation.

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 x 20 trainees x EUR 7 per hour/ 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.** 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 x trainees will be equal to:

$900 \times 6 + 950 \times 5 + 980 \times 5 + 1\,000 \times 2 = 17\,050$  total hours of training.

The eligible expenditure will be: 17 050 hours of training x 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 method according to Article 53(3)(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. Considering 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 need to include a document proving the eligibility of the participant and, for each eligible participant, a certificate of a successfully completed module or complete course. No timesheets would be required.**

#### Example 2 (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 per day. The assistance will be calculated on the basis of the following formula: number of days x EUR 350. **There will still be a need for accurate timesheets detailing the advisory activity and the presence of advisors.**

**Example 3 (ESF+ result-based)**

A job-search assistance programme lasting 6 months ('the operation') could be financed on the basis of unit costs (for example EUR 2 000 per 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 unsuccessful participants.

Calculation of the maximum grant allocated to the operation: 20 persons x 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 x EUR 2 000 = EUR 34 000.

**The audit trail would need to include documents proving that the participant was placed on the labour market and retained his/her job for the requested period.**

**Example 4 (EMFAF process based)**

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**.

**Example 5 (AMIF): Funding of different projects forming part of the same operation – use of two different unit costs**

The managing authority provides a grant of 1 600 000 EUR to a public agency dealing with asylum seekers, for an operation covering two types of activities: 1) first reception support of third-country nationals after their arrival in a Member State (max. 1 000 000 EUR), 2) language trainings for asylum seekers (max. 600 000 EUR).

For the first reception support, the managing authority developed (based on historical data) a unit cost of 50 EUR per day and person to cover the cost of one day of assistance provided to a third-country national during their reception period in the host country. The categories of costs included in the unit cost amount cover all elements of the reception (such as accommodation, the provision of food and non-food items, medical examination, interpretation, guardianship for unaccompanied minors, information and counselling). The maximum grant allocation is capped to 1 day x 50 EUR x 20 000 third-country nationals = 1 000 000 EUR.

The obligatory elements of the audit trail for this unit cost consist of a signed and dated list of third-country nationals supported and duration of their stay (in days), together with their official (if available) and/or unique identification (any document that confirms the identity of the person), and a proof of the support provided (e.g. signed and dated list of provided food and non-food items, signed and dated counselling attendance sheet, signed and dated note issued by an authorised healthcare professional).

The eligible expenditure is calculated on the basis of the actual days of the first reception support and the number of supported third-country nationals. This means that if for instance 1 000 third-country nationals were supported, 500 of which for 20 days and 500 for 10 days, the number of total days/persons will be equal to: 500 x 20 + 500 x 10 = 15 000 day/person of support. The eligible expenditure will be = 15 000 x 50 EUR = 750 000 EUR.

For the language training, the managing authority developed (based on historical data) a unit cost of 10 EUR per hour and person to cover the costs of one hour of a lesson (the length of a lesson is 60 minutes) for one trainee/asylum seeker to attend a language course of up to 60 hours in adequately sized groups (up to 15 trainees per group). The categories of costs included in the unit cost amount cover all costs of the language training (such as staff costs, rental costs of training premises, training materials). The maximum grant allocation to the project is capped to 60 hours x 1 000 trainees x 10 EUR per hour/trainee = 600 000 EUR.

The audit trail to support the expenditure needs to include a **proof/document(s) that monitors the actual attendance (number of hours) of the trainees and the course duration, documents confirming the identity of the trainees/asylum seekers and documents regulating the timing and content of the language course, the size of the group (max. 15) and the standard length of a lesson (60 minutes).**

The eligible expenditure is calculated on the basis of the actual number of training hours delivered to each asylum seeker/trainee. This means that if for instance only 900 asylum seekers/trainees participated in the training, 750 of which for 60 hours, 50 for 55 hours, 100 for 50 hours, the number of total hours x trainees will be equal to:  $750 \times 60 + 50 \times 55 + 100 \times 50 = 52\,750$  total hours of training x trainees. The eligible expenditure will be =  $52\,750 \times 10 \text{ EUR} = 527\,500 \text{ EUR}$ .

Given that there are two different projects/activities forming separate part of the same operation and covering different costs of the operation, there is no risk of double financing as each project/activity costs are clearly separated.

### 2.3.2. Staff costs calculated at an hourly rate (Article 55(2) to (4) CPR)

Article 55(2) CPR provides for two specific methods to calculate direct staff costs<sup>(13)</sup>. Both options can be used to calculate an hourly rate to determine direct staff costs.

The two methods are the following:

- calculation of the hourly rate by dividing annual gross employment costs by 1 720, Article 55(2)(a) CPR;
- calculation of the hourly rate by dividing the monthly gross employment costs by the average monthly working time, Article 55(2)(b) CPR.

It is up to the managing authority to decide on the method to be used. The option introduced in Article 55(2)(b) CPR can even be used in the case where the data on annual gross employment costs is available. Calculated direct staff costs relate to the implementation of an operation. 'Implementation of an operation' has to be understood as covering all the steps of an operation.

#### Example

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 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 for the operation 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 (based on Article 55(2)(a) CPR):

Hourly staff cost = latest documented gross annual costs (see Chapter 2.2.1 for details on what costs can be included) divided by 1 720 hours.

For example: Hourly rate =  $\text{EUR } 60\,000 / 1\,720 \text{ hours} = 34,88 \text{ EUR per hour}$ .

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 (e.g. timesheets extracted from an IT system) 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.

<sup>(13)</sup> Direct 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 53(1)(b) and of one of the methods set in Art. 53(3) CPR.

Alternative example: *Same as above but the hourly staff cost is calculated as follows.*

Hourly staff cost = latest documented gross annual costs (see Chapter 2.2.1 for details on what costs can be included) divided by average legal working hours (taking annual leave into account).

For example: Hourly rate = EUR 60 000 / (1 980 hours – 190 hours of annual leave) = 60 000/1 790 = 33.52 EUR per hour.

Calculation of the hourly rate by dividing the latest documented annual gross employment costs by 1 720 HOURS, Article 55(2)(a) CPR

The first option of Article 55(2)(a) CPR is to determine direct staff costs by calculating an hourly rate as follows:

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

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 States 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. It represents one full time equivalent (FTE) and can be used for all situations where the employee works full-time. This also applies if, in accordance with national law or the applicable collective agreement, the FTE corresponds to less than 40 hours per week.

For persons working part-time, a corresponding pro-rata of 1 720 hours is to be used. For example, for the calculation of the hourly rate for a person working only 50 % (i.e., 0.5 Full Time Equivalent (FTE) for the beneficiary), the denominator would be 860 hours (1 720 x (50/100) = 860). Reference for this should be the working time laid down in the work contract or appointment decision.

The numerator, however, needs to be justified. The CPR refers to the ‘latest documented annual gross employment cost’. However, **gross employment costs are not defined** in the CPR. In accordance with Article 63(1) CPR, eligibility rules will need to define what is covered by annual gross employment costs, taking into account the usual accounting practices (see Chapter 3.2.1). For example, the applicable 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. In accordance with the term ‘latest’ in Article 55(2) CPR, Member States should ensure that the data used are the most recent, thus indicative of real direct staff costs.

Annual gross employment costs **do not have to relate to a calendar or financial year** (for example, it could be data relating to the period October 2022 to September 2023). 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 document setting out the conditions for support for the operation or 12 months of the previous calendar year. In accordance with Article 55(4) 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, the managing authority could take the data relating to an employee for whom 4 months of data exists, and extrapolate this to the annual gross employment costs, taking account, where relevant, of issues such as statutory holiday payments or so-called 13th month payments).
- may be derived from the employment document (i.e. employment or work contract or an appointment decision).

The annual gross employment costs can be based on the real employment costs of this person. When the person has not worked the whole month (e.g. the start of the contract does not take place at the beginning of the month and thus the available data does not cover the entire month), extrapolated values may be taken to arrive at a good proxy to 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 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. The supporting documents 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 the latter case, the document setting out the conditions for support for the operation needs to specify the applicable methodology too.

Calculation of the hourly rate by dividing monthly gross employment costs by the average monthly working time, Article 55(2)(b) CPR.

When calculating an hourly rate to determine direct staff costs based on Article 55(2)(b) CPR, it is for the Member State(s) to establish the average monthly working time, in accordance with applicable national rules referred to in the employment document.

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 programme. In accordance with Article 55(3) CPR, the total number of hours declared per person for a given year or month shall not exceed the number of hours used for the calculation of that hourly rate.

This means that, where 1 720 has been used as the denominator, the hours declared cannot exceed 1 720, the latter 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 per year). For staff assigned to several operations, the capping applies pro-rata for each operation, respectively and cannot exceed the maximum of hours that can be declared for the specific staff for a period of 12 months.

In the case of Article 55(2)(b) CPR, the hours declared as average monthly working time of the person concerned do not necessarily need to be the number of hours actually worked; the average monthly working time as set in the employment document, in accordance with applicable national rules, must be taken into account. However, the hours declared for calculating the eligible staff costs cannot exceed the number of hours per month used for the calculation of that hourly rate, as provided in Article 55(3) CPR.

In the case that the hourly rate is calculated based on Article 55(2)(a) CPR, only the hours actually worked should be used for calculating and declaring the eligible staff costs because the standard denominator 1 720 already deducts annual leave and public holidays. 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 leave or absences (e.g. unjustified absences) for which there are no costs incurred by the beneficiary, **the corresponding hours/days not worked must 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).



When point (a) or (b) of Article 55(2) CPR are 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, and it can also be used for calculating the direct staff costs as basis costs for the application of flat rates (for example by applying the 15 % flat rate in accordance with point (b) of the first subparagraph of Article 54 CPR or for calculating all the other remaining eligible costs by applying the 40 % flat rate in accordance with Article 56(1) CPR). In the case of a project implemented over several years, the managing authority may choose to **update the hourly rate for direct staff costs** 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 in the methodology intermediary steps when and how the hourly rate for staff cost could be revised (adjustment method).

#### Staff working part-time on the operation with fixed time per month, Article 55(5) CPR

Where employees work part-time on an assignment but with a fixed percentage of time per month, Article 55(5) CPR provides that there is no obligation to establish a separate working time registration system. However, the employer is required to 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 direct 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 %.

#### Example

Different unit costs can be established for different groups of employees in the projects, e.g., unit costs for the project manager, for employees with key functions and for administrative staff. The differences should be linked to objective considerations to ensure that the unit costs constitute a reliable proxy to real costs.

Conditions regarding the education level or working experience can be defined for each group of staff. For example, a master's degree for one group (group 1), a bachelor's degree for a second group (group 2) and a relevant training qualification for a third group (group 3). In this case, the reimbursement of an unit cost for a specific group will need to be dependent on the fulfilment of the condition linked to that group (e.g., to reimburse the unit cost for group 1, the audit trail needs to include the master's degree.).

## 2.4. Lump sums

Lump sums can be used at both reimbursement levels, i.e., at the 'upper level' for the reimbursement of the Union contribution (Article 51(d) CPR) and at the 'lower level' for grants provided by the Member States to the beneficiary (Article 53(1)(c) CPR).

### 2.4.1. General principles

In the case of lump sums, all eligible expenditure or part of eligible expenditure of an operation or project are calculated on the basis of an amount established and duly justified in advance and are reimbursed if predefined activities and/or outputs are completed.

Lump sums can be suitable in the case where unit costs are not an appropriate solution because easily identifiable quantities are missing, e.g., for the production of a toolkit, the organisation of an open community event, a 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. **This can be mitigated by including staged payments related to the achievement of certain pre-defined intermediary milestones.**

**Example 1: ERDF**

In order to promote local products, a group of small enterprises wishes to participate jointly in a commercial fair.

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 draft budget for the costs of renting, setting up and running the stand. Based on this draft budget, 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 assessment of the draft budget and the related supporting documents for the calculation or justification of the costs of all categories of the draft budget should be kept for audits.

**Example 2: 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.

**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 for the operation that if 5 children are taken care of, half of the total amount (EUR 23 750) will be paid out.

**Example 3: 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 for the operation 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 nature of the operation (operation with costs not easily quantifiable via unit costs), 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 for the operation are respected (organisation of the seminar, production of the toolkit), EUR 45 000 will be considered as eligible costs. Supporting documents will be required as **proof that the seminar has been 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 for the operation.

**Example 4: EMFAF**

Support for the preparation and implementation of production and marketing plans (PMP) of Producer Organisations (POs).

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

## 2.5. Combination of simplified cost options

Article 53(1) CPR offers the managing authorities the possibility to choose between five options to manage grants under the CPR. In accordance with Article 53(1)(e) CPR, the first four options (excluding financing not linked to costs) may be combined in the same operation. That possibility is however subject to the following conditions, to **prevent any double financing of the same cost category**:

- (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.

Simplified cost options can be used in the same operation together with costs declared as real costs or costs reimbursed based on another SCO.

In addition, an amount calculated as a flat rate can be used as a basis for another flat rate: a flat rate of up to 15 % to reimburse indirect costs can be applied to direct staff costs calculated as a flat rate of up to 20 % of the direct costs (other than direct staff costs).

### 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 unit costs (for example EUR 1 000 per 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.

### Example 2: Successive stages of an operation (ESF+)

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 cost options. Two stages of the operation will have to be clearly defined. The first stage could be calculated on the basis of real costs until a given date. **The second stage, for future expenditure, could be calculated on the basis of a 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 for the operation, if this was not anticipated. A detailed description of the operation must be clearly drawn up by the Member State's authorities for each stage. The operation should be divided into at least two distinct, identifiable financial and ideally physical or development periods corresponding to the stages 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 unit cost for the wages of the trainers, e.g., EUR 450 per day;
- real costs: room rented = EUR 800 per 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 <sup>(14)</sup>):*

wages of the trainers 200 days x EUR 450 = EUR 90 000

training room: 12 months x EUR 800 = EUR 9 600

subtotal direct costs: EUR 99 600

*Indirect costs (type 2):* 10 % of direct costs = 10 % x 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 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 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 to avoid any (risk of) double financing.

**Examples of combinations of SCOs NOT allowed in the CPR**

Article 56 and Article 55(1) CPR	Article 54 CPR and Article 56 CPR
<p>Flat rate of up to 40 % of eligible direct staff costs used to cover the remaining costs of an operation (Article 56 CPR) cannot be applied to staff costs calculated on the basis of a flat rate of up to 20 % of direct costs other than direct staff costs (Article 55(1) CPR)</p> <p>Reason: Not possible due to Article 56(3) CPR because the same category of costs (i.e., staff costs) cannot be the basis for the calculation of a flat rate for all remaining costs of an operation and, at the same time, be calculated as a flat rate on the basis of part of the costs that are included in the remaining costs of an operation (i.e., direct costs).</p>	<p>Flat rate of up to 7 % of eligible direct costs / up to 15 % of eligible direct staff costs / up to 25 % of eligible direct costs (Article 54 CPR) to calculate indirect costs (Article 54 CPR) cannot be combined with a flat rate of up to 40 % of eligible direct staff costs used to cover the remaining costs of an operation (Article 56 CPR)</p> <p>Reason: the same category of costs (i.e., the indirect costs) would be covered twice.</p>

**Examples of combinations of SCOs**

The table below gives an overview of combinations of SCOs which are as a general rule possible/impossible. However, each situation must be analysed case-by-case.

Managing authorities must clearly define the relevant categories of costs (direct/indirect) and ensure that there is no double financing of the costs covered.

(Y – yes, possible, N – no, not possible)

Combinations	Up to 20 % staff costs	Up to 7 % indirect costs	Up to 15 % indirect costs	Up to 15 % travel costs	Hourly rate staff costs (*)	Up to 40 % all other costs
Up to 20 % staff costs		Y	Y	Y	N	N

<sup>(14)</sup> For an explanation regarding the different types of costs, see Chapter 2.2.1.

Combinations	Up to 20 % staff costs	Up to 7 % indirect costs	Up to 15 % indirect costs	Up to 15 % travel costs	Hourly rate staff costs (*)	Up to 40 % all other costs
Up to 7 % indirect costs	Y		N	Y	Y	N
Up to 15 % indirect costs	Y	N		Y	Y	N
Up to 15 % travel costs	Y	Y	Y		Y	N
Hourly rate staff costs (*)	N	Y	Y	Y		Y
Up to 40 % all other costs	N	N	N	N	Y	

(\*) Article 55(2) CPR, i.e., 1 720 h method or hourly rate obtained by dividing the latest documented monthly gross employment cost by the average monthly working time of the operation

### CHAPTER 3: SETTING UP SIMPLIFIED COST OPTIONS

#### 3.1. Simplified cost options must be defined ex-ante

For the reimbursement of the Union contribution, SCOs can only be used after their approval by a Commission decision approving the programme or its amendment, or after their adoption in a Commission delegated act, in accordance with Article 94(1) CPR.

SCOs used for the reimbursement of grants provided by the Member States to the beneficiary also have to be defined *ex ante* (i.e., in advance). In accordance with Article 73(3) CPR and Article 22(6) Interreg Regulation for the Interreg programmes, the managing authority must ensure that the beneficiary or lead partner of an Interreg operation 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.



In line with Article 73(3) CPR and Article 22(6) Interreg Regulation for the Interreg programmes, the method to be applied for determining the costs of the operation and the conditions for payment must be included **at the latest in the document setting out the conditions for support for the operation**. The relevant methods and conditions could be incorporated in the programme rules or calls for proposals.

In order to ensure respect of the principle of transparency and equal treatment, **the use of simplified cost options to reimburse costs should be mentioned in the calls for proposals addressed to the potential beneficiaries. In cases where no call for proposals is launched, the use of simplified cost options should be mentioned in the programme rules or national rules covering the concerned operations.**

In addition, retroactive application to operations already selected and being implemented on the basis of real costs should be avoided as equal treatment of beneficiaries may not be ensured. Simplified cost options can be used for operations selected after the start of their implementation. However, the support should comply with Article 63(6) CPR which provides that operations should not be selected for support by the Funds where they have been physically completed or fully implemented before the application for funding under the programme is submitted. Simplified cost options, covering also eligible expenditure incurred by beneficiaries before operations were selected, can be used in such operations and in some cases, their use is mandatory (see Chapter 1.4). Whether expenditure had already been incurred by beneficiaries before the call was launched is irrelevant for the use of the simplified cost options, as long as the actions constituting the basis for reimbursement are to be carried out within the eligibility period (Article 63(2) CPR) and this expenditure was not part of the expenditure previously declared to the Commission.

Once the unit cost, the flat rate or the amount (in the case of lump sums) are established, they should not be changed during or after the implementation of an operation to compensate for an increase in costs or underutilisation of the available budget. If the implementation period is particularly long, a good practice would be to set out, in advance, an adjustment method specifying when and how the unit cost, the flat rate or the amount could be revised (on adjustment methods, please refer to Chapter 3.4. of this Guidance Note)<sup>(15)</sup>. Any change of the unit cost, flat rate or amount in the absence of an adjustment method is considered a new simplified cost option.. In exceptional cases, in the case of multiannual operations, it is possible to settle the accounts and make payments on the basis of the actual cost of the corresponding activities of the operation after a first part of the operation has been carried out and then introduce the option of flat rate financing, 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.

### 3.2. Methodologies

The methodologies for establishing SCOs are set out in Article 53(3) CPR and Article 94(2) CPR. In general, these methodologies are the same for setting up SCOs at lower and at upper level (with some exceptions that are specifically indicated in this chapter).

#### 3.2.1. *A fair, equitable and verifiable calculation method*

The amounts, rates and unit costs can be established on the basis of a fair, equitable and verifiable calculation method, as set out in Article 53(3)(a) CPR and Article 94(2), second subparagraph, point (a) CPR.

#### General Principles

##### **It must be fair:**

The calculation has to be reasonable, i.e., based on reality, not excessive or extreme. For example, if a given 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 (or the monitoring committee for Interreg programmes) must be able to explain and justify its choices. A fair calculation method may justify differences in rates/amounts taking into account 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.

##### **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 unit cost, lump sum or flat rate has to ensure equal treatment of similar beneficiaries and/or similar operations. Any differences in the amounts or rates should be based on objective justifications, i.e., objective features of the beneficiaries or operations.

##### **It must be verifiable:**

The determination of flat rates, unit costs or lump sums should be based on documentary evidence that can be verified<sup>(16)</sup>. The managing authority has to be able to demonstrate the basis on which the simplified cost option has been established. It is a key element 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;

<sup>(15)</sup> For support that is not awarded via a call for proposals this should be stated in the general document specifying the methodology of support.

<sup>(16)</sup> No matter when the methodology was established according to Article 53(3)(a) CPR or Article 94(2)(a) CPR, as long as it is in use, it must be auditable.

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

#### Sources of data

When setting up simplified cost options, the data used needs to be relevant for the SCO considered. The sources of data used for the calculation – including an assessment of the relevance of the data to the envisaged operations and an assessment of the quality of the data – should be provided and documented.

There is no predefined minimum set of data required to calculate simplified cost options. It depends on the characteristics of the population. If the data are very dispersed, the number of data must be high. On the contrary, if the data are homogeneous and representative of the population, the set of data can be lower.

Data can be taken from various sources. Reliability of data used will depend on the source of data used. For example, data from national statistical offices or EUROSTAT is considered reliable. For some sources of data, more detailed checks could be needed to confirm the reliability of data. In some cases, the professional judgement of the audit authority can be used to decide whether additional checks on a sample basis should be carried out or not (taking into account any information available to the audit authority on the type of data, the way of compilation, internal procedures of bodies for approving the provided information etc.). However, the ex-ante assessment of the methodology by the audit authority is not mandatory (but recommended) for the establishment of SCOs at the lower level.

When data coming from reliable sources (for example, published reports and official internet databases) are not used directly as such (i.e. automatically generated from the source's database) but are compiled to a unified form, it is a good practice to compare (on a sample basis) whether the compiled numbers are in line with official reports. As, however, this will not always be practically easy to do, the audit authority, in case it assesses the methodology ex-ante, may use their professional judgement to decide whether additional check on the sample basis should be carried out or not, taking into account any information available to the audit authority on the type of data, the way of compilation, internal procedures of a body compiling the provided information, etc.).

#### The use of 'statistical', verified historical data or usual cost accounting practices

When establishing their SCOs, the managing authorities can use statistical data (from different sources), **verified** historical data (on projects or operations funded from a CPR Fund) <sup>(17)</sup> or usual cost accounting practices.

When the managing authority decides to use statistical or verified historical data, it should describe:

- the categories of costs covered;
- the calculation method used;
- the length of the series to be obtained: **data over a representative period of time** 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. This reference period should be used in order to take yearly fluctuations into account. For example, a period of three years could be considered representative. 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 (e.g. 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). This needs to be assessed on a case-by-case basis.

<sup>(17)</sup> Planned budget (e.g. from a previous call for proposals) cannot be used as a source of data for the calculation method in accordance with Articles 53(3)(a), 94(2)(a) CPR, as the historical data must be verified.

The planned budget of the specific operation can be used for setting up a SCO on the basis of a draft budget in accordance with Article 53(b) CPR for operations below 200 000 EUR and in accordance with Article 94(2)(b) CPR.

- 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.

According to Article 53(3)(a)(ii) and (iii), the managing authority can also use individual beneficiary-specific data to establish SCOs applied to individual beneficiaries. Given the requirements involved in the use of beneficiary-specific data, these methodologies are simplifications, for example, for beneficiaries who will implement many projects over the programming period.

### **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.

### **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 and paid') for the time period of the operation. For example, for hourly staff costs, use of standard hours as a denominator is accepted (see for instance the 1 720 hours in Chapter 2.3.2), 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 for the operation 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 analytical accounting system at beneficiary level. It furthermore implies that any ineligible expenditure is filtered out from the calculation.

### **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 providing to the beneficiary the document setting out the conditions for support for the operation. 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, 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 CPR and the Fund-specific 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 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.

The use of other objective information or an expert judgement

**Other objective information** could, for instance, take the form of:

- surveys, studies, market research, etc. (need to ensure a proper documentation);
- data on remuneration for equivalent work.

**Expert judgements** should 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 documented and specific to the particular circumstances of each case. The CPR does not define the expert judgement. It will be for the managing authorities to specify the requirements for a judgement to qualify as expert and to ensure that there is no conflict of interests. For any expert chosen the managing authority would need to demonstrate his/her expertise in the relevant field as well as his/her independence.

Thresholds, ceilings or other maximum values set in national rules can be considered as other objective information. However, they can only be applied by the managing authority, provided that the managing authority can **demonstrate that they represent a fair value and a reliable proxy**.

Use of historical data from previous programming periods

The use of verified historical data from previous programming periods (e.g., 2007-2013 and 2014-2020), may be accepted if it is demonstrated that the amounts are still relevant. This means that the programme authorities should ensure that this data is still a reliable proxy to real costs and adjust it where needed.

### 3.2.2. Draft budget

As set out in Articles 53(3)(b) and 94(2)(b) CPR, another method to setup simplified cost options is a draft budget.

According to Article 53(3)(b) CPR, for the SCOs used at the **'lower level'** (Member State – beneficiary), this applies only to operations whose **total cost does not exceed EUR 200 000** and needs to be established on a case-by-case basis and agreed in advance by the body selecting the operation. The total costs of the operation are all the costs needed to implement the operation, as specified in the document setting out the conditions for support for the operation. According to Article 94(2)(b) CPR, there is **no such limitation** for the set-up of simplified cost options used at the **'upper level'** (Commission – Member State).

In case of small projects financed by **Interreg programmes**, according to Article 25(6) Interreg Regulation, the beneficiary managing the **small project fund** can – on a case-by-case basis – use the draft budget to establish simplified cost options to reimburse final recipients if **the public contribution to the small project does not exceed EUR 100 000**.



The possibility of using a draft budget can facilitate the implementation of the compulsory use of simplified cost options for small operations (see also Article 53(2) CPR). In fact, this method allows some simplified costs to be calculated if the operation is very specific.

For a draft budget used at the **'lower level'**, as a first step, the managing authority (or the monitoring committee for Interreg programmes) has to outline the **principles of the calculation method** in or alongside the call for proposals.



In this respect, it is highly recommended that the managing authorities (or monitoring committees for Interreg programmes) establish parameters or maximum cost levels that are used to compare at least the most important budgeted costs against these parameters. The managing authority may also set minimum benchmarks on the quality of the expected outcome or results. The absence of such parameters, minimum benchmarks or maximum cost levels may render it difficult for any managing authority (or monitoring committee for Interreg programmes) to ensure equality of treatment and observance of sound financial management.

Based on programme rules, it is then up to the **applicants for funding to prepare and submit detailed and factual budgets and to provide documents to justify all the costs in the budget**. SCOs (including milestones for lump sums) should be defined in close cooperation with applicants (or beneficiaries after the selection of operations) so that they are aware of what has to be delivered and of supporting information/evidence to be provided to generate payments.

Subsequently, **draft budgets are assessed by the managing authority**. 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. When supporting the same beneficiary several times it is recommended to compare the draft detailed budget with previously supported operations.

Finally, the managing authority (or the monitoring committee for Interreg programmes) is **transforming the draft budget into SCOs** (i.e., flat rates, lump sums and unit costs) before or after the selection of operations (but before issuing the document setting out the conditions of support which needs to include the SCO). The defined SCOs (and possible milestones for lump sums) should be reflected in the document setting out the condition for support for the operation. The managing authority / monitoring committee cannot delegate the assessment and transformation of draft budgets in SCOs to beneficiaries. For small projects selected under small project funds for Interreg programmes, it is the beneficiary managing the small project fund who assesses the draft budget.

The managing authority (or monitoring committee for Interreg programmes) should **demonstrate and archive its assessment of the draft budget and the related supporting documents for the calculation or justification of the costs of all categories of the draft budget**. The draft budget is not part of the document setting out the conditions for support for the operation drawn up between the managing authority and the beneficiary. The management verifications of the operation or project will be based only on the type of simplified cost options applied, not on the budget itself.

Simplified cost options may be based on a draft budget in relation to the whole or part of the budget of the operation or project. As an example, for an operation composed of 5 different activities:

- activity 1 and 2 of the operations are reimbursed on the basis of real costs or on the basis of another simplified cost option;
- activity 3, 4 and 5 of the operations are reimbursed as unit costs established on the basis of a draft budget.

Furthermore, the flat rates enshrined in Articles 54 to 56 CPR may be applied to establish the relevant categories of costs of a draft budget.

The principles explained above are also applicable for a draft budget used at the **‘upper level’**.

**Example 1**

The operations consist of a lump sum below EUR 100 000 for a small preparational project (e.g., reducing the environmental impacts caused by acid sulphate soils).

In the call for proposals, the intermediate body sets out (1) the use of the lump sums and clearly defines the main tasks to achieve the defined outcome, milestones, timeline of activities, and (2) sets out detailed criteria against which the most important budgeted costs are compared.

In its application, the beneficiary sets out its draft budget and provides documents to justify all the costs in the budget. The beneficiary provides detailed information on each budget line for each task of the project. These are then assessed by the intermediate body on the basis of (1) eligibility of the costs, and (2) justifications of the costs. If necessary, the intermediate body requests additional information and data (e.g., further comparison to similar projects).

The draft budget is as follows:

Summary of the costs	Total (in EUR)
1. Total salary costs	58 440

2. Outsourced services	1 000
3. Investment in machinery and equipment	0
4. Other direct costs	0
5. Indirect costs	14 026
<b>Total</b>	<b>73 466</b>

After analysing the draft budget, the intermediate body approves the estimated costs and sets out a lump sum of EUR 73 466 to be paid to the beneficiary once the project is implemented.

In the implementation phase of the project, no justification of the actual cost is required. Grants will be reimbursed based on the lump sum established ex-ante and after achieving the outcome.

### Example 2

A beneficiary intends to organise a seminar for 50 participants to present new implementation tools.

Staff spends 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: <sup>(18)</sup>

<b>Total Direct costs</b>	<b>45 000</b>	<b>Total Indirect costs</b>	<b>7 000</b>
Direct Staff costs	30 000	Indirect staff costs	4 000
Room costs	4 000	Electricity, phone.	3 000
Travel costs	5 000		
Meals	1 000		
Information / Publicity	5 000		

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 the information provided to and verified by the managing authority.

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 per participant.

The document setting out the conditions for support for the operation drawn up between the managing authority and the beneficiary must specify the definition of the unit costs (what is a participant), the maximum (minimum) number of participants, the audit trail and its unit cost (EUR 1 040).

Reference to Article 53(3)(b) CPR is to be made in the document setting out the conditions for support for the operation.

Further examples on how to setup simplified cost options based on a draft budget are provided in Annex 1.

<sup>(18)</sup> This draft budget has an illustrative purpose only. This should not be considered as a sufficiently detailed draft budget.

### 3.2.3. Use of simplified cost options from Union policies

According to Articles 53(3)(c) and 94(2)(c) CPR, the managing authority can make use of corresponding unit costs, lump sums and flat rates applicable in Union policies for a **similar type of operation**. The main aim of this method is to harmonise the rules between Union policies. The intention is to clarify that where simplified cost options are already developed for a particular type of operation under an EU policy, the Member State does not need to duplicate this effort under the CPR Funds and can re-use the method and its results.

All the applicable methods under Union policies could be used for similar operations if the **Union policies are in force** at the time of the set-up of the methodology. The methods from Union policies can be used without additional calculations.

The method needs to be 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 %). 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.



There is no indication in the CPR of what is understood by similarity of operations. It is for the managing authority to assess on a case-by-case basis whether in a particular case the condition of **similarity** is fulfilled.

If the method under the Union policy is modified during the programming period then the same modification should apply to the operations selected under calls launched after the modification.

Any modification with regard to the method under Union policy which was used to setup a methodology under Article 94(2)(c) CPR must be reflected in Appendix 1 of Annexes V and VI CPR via a request for amendment to the programme that needs to be approved by Commission decision.

Examples of SCOs in Union policies are:

- **Erasmus+**: lump sums and unit costs (e.g., rates for travel distance, linguistic support, preparatory visits, course fees, organisation of the intensive programmes) are used in the programme;
- **Citizens, Equality, Rights and Values (CERV) programme**: lump sums per participant in in-situ and physical events are defined in the EC decision authorising the use of lump sums for actions under the CERV programme (2021-2027);
- **Horizon Europe**: 3 types of SCOs can be found from Horizon Europe (flat rate, unit costs, lump sums) set out in Commission decisions; – e.g., unit costs for SME owners, unit costs for staff mobility, lump sums and unit costs for Marie Skłodowska-Curie actions;
- **European Solidarity Corps**: the decision authorising the use of lump sums, unit costs (e.g., travel costs, organisational support, project management support, staff costs, linguistic support, coaching costs) and flat-rate financing for volunteering, traineeships, jobs and Solidarity Projects.

### 3.2.4. Use of simplified cost options from schemes for grants funded entirely by Member States

According to Articles 53(3)(d) and 94(2)(d) CPR, the managing authority can make use of corresponding unit costs, lump sums and flat rates applicable under schemes for grants funded entirely by the Member State for a **similar type of operation**. Simplified cost options used under national support schemes (such as scholarships, daily allowances) can be used without additional calculations, if the **national schemes are in force at the time of the design of the methodology**.

According to the second paragraph of Article 54 CPR, flat rates for indirect costs calculated in accordance with point (a) of Article 67(5) of Regulation (EU) No 1303/2013, i.e., based on a fair, equitable and verifiable method, may be used for similar operations financed in the 2021-2027 programming period. These flat rates may be used for the purposes of Article 54, first paragraph, point (c) CPR, i.e., to justify the rate of up to 25 % of eligible direct costs to reimburse indirect costs. Thus, the ceiling of up to 25 % established in Article 54, first paragraph, point (c) CPR applies to these flat rates.

All the applicable national methods **may be used for similar operations supported by the CPR Funds** (see Chapter 3.2.3 regarding the notion of 'similarity'). For example, an operation supporting apprenticeships funded entirely by national/regional resources can be considered a national scheme. The method should be **re-used in its entirety** and not only its result. 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 or a smaller one** (e.g., 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 this methodology is not applicable). However, if the conditions are sufficiently comparable, other applied methods can serve as an example or model (see Chapter 3.2.7).

If the method is modified during the programming period, the same modification should apply to the operations selected under calls launched after the modification.

Any modification with regard to the national method which was used to set up a methodology under Article 94(2)(d) CPR must be reflected in the Appendix 1 of Annexes V and VI CPR via a request for amendment to the programme that needs to be approved by Commission decision.

### 3.2.5. *Using flat rates and specific methods established by or on the basis of the CPR or the Fund-specific rules*

The CPR and the Fund-specific regulations define several specific flat rates, i.e. 'off-the-shelf' flat rates. The flat rates set out in the CPR and the Interreg Regulation are discussed above, in Chapter 2.2. 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.

Simplified cost options established at the 'upper level' by a Commission decision approving a programme or a programme amendment as referred to in the first subparagraph of Article 94(3) CPR and Appendix 1 to Annexes V and VI CPR may be used at the 'lower level' on the basis of Article 53(3)(e) CPR for the specific programme. However, the SCO can only be used insofar as it is designed to cover beneficiaries' costs in an appropriate (or the same) type of operation, otherwise it would not constitute a reliable proxy to real costs. In addition, simplified cost options established on the basis of Article 94(3) CPR are programme-specific and cannot be automatically used in the implementation of other programmes or in other Member States. They can be, however, used by programme authorities as an example to develop their programme-specific schemes that need to be submitted for approval by the Commission.

Additional methods may be established by the Fund-specific Regulations (for reference, see the table in Chapter 2.2.1.).

Third parties reimbursed by beneficiaries of an operation are not concerned by Articles 53 to 56 CPR. This means that there is no direct application of the provisions of the CPR or Fund-specific Regulations (except where specifically referred to) to subsequent support from the beneficiaries to third parties. In case of Interreg's Small Project Fund, it is possible for the beneficiary redistributing the support to final recipients to set out a methodology for the application of SCOs taking inspiration from the CPR or Interreg rules on SCOs.

### 3.2.6. *Use of simplified cost options from previous programming periods*

It is possible to use methodologies established in previous programming periods if the conditions in the previous programming period remain relevant and valid for the programming period 2021-2027 (type of activities, categories of costs covered, etc.) and the original data is auditable. In this case, the managing authority (or the monitoring committee for Interreg programmes) should ensure that the methodology is adapted to the new legislation applicable to the programming period 2021-2027. Should such a methodology be proposed at the 'upper level' the audit authority would need to assess it at this moment in time (if the methodology was audited in the previous programming periods, the previous audit work can be relied upon, provided an adequate audit trail is available).

### 3.2.7. Re-use/recycle simplified cost options set up within the same Member State or from other Member States

Different simplified cost options methodologies can co-exist in a Member State, i.e., SCOs set up in certain or all national/regional programmes at upper and/or lower level. These methodologies can be of interest for managing authorities from other programmes or other Member States who wish to set up similar schemes. However, being programme- (or even call-) specific, these simplified cost options and their corresponding amounts/rates cannot be automatically used under other programmes or by other Member States. Managing authorities need to review the methodology and adapt it, where needed, to the specificities of their programme (type of activities, categories of costs covered, etc.). Moreover, the data sources, calculations and amounts also need to be adapted to the programme under which the SCOs will be implemented.



These considerations stand for the development of simplified cost options at both upper and lower levels. At the 'upper level', the new SCO must be assessed by the audit authority before its submission to the Commission. Where a new SCO is used at the lower level, it is strongly recommended to ask the audit authority for their ex-ante assessment.

### 3.3. Procedural steps towards approval of a simplified cost option in the programme (the 'upper level')

According to Article 94(1) CPR, simplified cost options for the reimbursement of the Union contribution to a programme can be based on the amounts and rates set out in a Commission decision approving the programme or programme amendment. Member States can also use SCOs set out in a delegated act adopted by the Commission (see Chapter 4.4.)

According to Article 94(2) CPR, Member States need to submit to the Commission a proposal in accordance with the templates set out in Appendix 1 of Annexes V or VI CPR, as part of the programme submission or of a request for its amendment. Therefore, the procedure for approval or amendment of a programme applies.



The submission of Appendix 1 is needed if simplified cost options are applied at the 'upper level', regardless the form of reimbursement between the managing authority and beneficiary. The submission of Appendix 1 is not needed if simplified cost options are applied exclusively at the 'lower level' or for simplified cost options from a delegated act. The latter's amounts and adjustment methods are defined by a delegated act in accordance with Article 94(4) CPR (see Chapter 4.4.).



**Informal exchanges with the Commission** prior to the submission of a programme or a request for amendment are recommended as they facilitate and accelerate the process of the formal approval procedure.

When submitting Appendix 1 of Annexes V and VI CPR, the Member State(s) or Interreg programme will need to state the source of data used to calculate the simplified cost options providing detailed information on where produced, collected and recorded data come from, where they are stored, any cut-off dates as well as how they are validated. The audit authority assesses if the data used are reliable and relevant, as part of its audit assessment prior to the submission of Appendix 1 to Annexes V or VI CPR to the Commission.



The **positive ex-ante assessment by the audit authority** of the proposals made by Member States is a precondition for submitting Appendix 1 to the Commission's approval.

The decision approving or amending the programme will set out the types of operations covered by the reimbursement based on simplified cost options included in Appendix 1, the definition and the amounts covered by those simplified cost options and the methods for adjustment of the amounts.

Simplified cost options approved in a programme become mandatory and it is no longer possible that the Union contribution for the concerned types of operations is reimbursed in a different form (e.g., costs actually incurred)

For further instructions and examples on how to fill in Appendix 1, see Annex 2.

### 3.4. Adaptation of simplified cost options in time (Adjustment Method)

The methodology setting out the simplified cost options may include a description of an adjustment method for the simplified cost options amounts. The adjustment of the amounts is not mandatory, but it is **strongly recommended**, especially for simplified cost options used over a longer period, in order to take account of inflation or economic changes (e.g., in energy costs, levels of salaries, etc) and to ensure that the simplified cost option remains a reliable proxy of the real costs. Moreover, if – for SCOs used at the ‘upper level’ – the adjustment method is included in Appendix 1 of Annexes V and VI CPR, applying the adjustment is not considered a modification of the simplified cost option methodology and does not require a programme amendment.

The methodology setting out the simplified cost options should include sufficient details about the adjustment method envisaged (e.g., index used, timing and frequency of the adjustment, formula for adjustment,...).



A good practice is to link the adjustment with the index specific to the main cost categories covered by the simplified cost options, but the Member States are free to establish other adjustment methods, if they are documented and duly justified.

The managing authority (or monitoring committee for Interreg programmes) may decide to not include an adjustment method in the methodology if they consider that the simplified cost options will not need adjustment over the period of its application.

## CHAPTER 4: IMPLEMENTING SIMPLIFIED COST OPTIONS

### 4.1. Currency used for SCOs established at the ‘upper level’

According to Article 87 CPR, all amounts set out in the programmes, reported or declared to the Commission by Member States are required to be denominated in euro. This provision applies also to Appendix 1 of Annexes V or VI CPR as the appendix is part of the programme. In practice, this means that:

- the amounts of simplified cost options in Appendix 1 of Annexes V and VI CPR have to be set in euro;
- the decision approving the programme or the amendment to programme must include amounts set out in euro;
- and the simplified cost option amounts to be included in payment applications are to be denominated in euro as well.



Irrespective of the result of the conversion at national level, the amount to be included in a payment application to the Commission cannot be different from the simplified cost option amount approved in the Commission decision.



In the case of Member States that have not adopted the euro as their currency, these requirements might increase the risk of differences between the amounts to be included in payment applications and the amounts reimbursed by the managing authorities to the beneficiaries in the national currency because of fluctuations in the exchange rates between the euro and the national currency.

Member States can mitigate this situation for example by including in the Appendix 1 of Annexes V and VI CPR:

- a fixed exchange rate (e.g., on the basis of a projection of the exchange rate);
- an adjustment method that prevents that the amounts reimbursed by the Commission in euro differ from the amounts reimbursed by the managing authorities to the beneficiaries (e.g., adjustment of the exchange rate used in Appendix 1 in case of a pre-defined deviation – upwards or downwards – between the rate published on the InforEuro page over a certain period of time and the original exchange rate at the time of the submission of Appendix 1 to the Commission).

#### 4.2. Application in time of simplified cost options adopted in the programme

The Commission will start reimbursing the Member State based on simplified cost options once these are approved in a programme through a Commission decision approving the programme or its amendment. Only as of that moment, the managing authority can include the agreed amounts in payment applications to the Commission.

However, it is possible that simplified cost options are already being implemented at the level of the beneficiaries before approval by the Commission of the methodology submitted in Appendix I of Annexes V and VI CPR. Until a decision in line with Article 94(3) CPR is adopted, the managing authority may declare to the Commission the amounts corresponding to the costs reimbursed to the beneficiaries by the managing authority ('lower level'). This means that the managing authorities may include the expenditure of the simplified cost operations in column B of the payment application (Annex XXIII CPR) in line with Article 91(4)(c) CPR (for more information on payment applications, see Chapter 4.3). However, the expenditure declared in column B should not be included again in column C of the payment application.



To the extent possible, to avoid any potential inconsistencies between the methodologies approved at the two levels for the same simplified cost options, Member States are recommended to submit the simplified cost option under Article 94 CPR and obtain the Commission approval for the upper level, before using the concerned SCOs at the 'lower level'.

After the decision on the programme or its amendment is adopted, the Commission will start reimbursing the Union contribution to a programme on the basis of the simplified cost options herein. The managing authority will include these amounts in column C of the payment application (Annex XXIII to the CPR) in line with Article 91(4)(b) CPR (see also Chapter 4.3.).

The Commission decision approving a simplified cost option under Article 94 CPR has no impact on the eligibility of expenditure, i.e., no new expenditure will become eligible as a result of this decision. The rules on the eligibility of expenditure are set out in national rules and in Article 63 CPR. The Commission's decision impacts only the mode of reimbursement between the Commission and the Member States.

#### 4.3. How to declare simplified cost options in the payment applications

Article 91(3) CPR provides that the payment applications are to be submitted in accordance with Annex XXIII CPR, per priority (specific objective and type of action for AMIF, BMVI and ISF programmes) and, where applicable, by category of region.

For the SCOs used at '**upper level**', the amounts as approved by a Commission decision referred to in Article 94(3) CPR or set out in the delegated act referred to in Article 94(4) CPR need to be declared in **column C of Annex XXIII CPR**.

The amounts of simplified cost options set by the Member State at '**lower level**' for the reimbursement of the beneficiary by the Member States **which are not covered by SCOs used at 'upper level'** are to be included in **column B of Annex XXIII CPR**. According to Article 91(4)(c) CPR, for grants reimbursed in the form of SCOs, the amounts included in a payment application are the costs calculated on the applicable basis (i.e., the SCO).

The amounts reimbursed to beneficiaries for the cases covered by Article 91(4)(b) CPR, i.e., reimbursement of the Union contribution in the form of a simplified cost options, reported in column C may not be included in column B to avoid double financing of the same expenditure. There are differences in the way the SCOs are declared in the payment applications and accounts. In particular, in the accounts all the total amount of eligible expenditure declared for reimbursement is included in column A of the accounts (i.e., real costs, Financing Not Linked to Costs and all SCOs regardless of whether they are subject to Article 94 CPR or not).

The amounts approved by the Commission decision are binding and, thus, the Member States has to declare to the Commission the amounts as approved, i.e., it cannot include amounts in the payment applications that would be different than those in the decision approving the programme (or its amendment). Any modifications of the amounts which are not covered by the adjustment method in the decision approving the programme (or its amendment) would require an amendment of the decision.



According to Article 93(5) CPR, the support from the Funds to a priority in the payment of the balance of the final accounting year should not exceed any of the following amounts:

- the public contribution declared in payment applications;
- support from the Funds paid or to be paid to beneficiaries;
- the amount requested by the Member State.

#### 4.4. Use of simplified cost options set out in Commission delegated acts

According to Article 94(4) CPR, the Commission can adopt a delegated act defining at Union level unit costs, lump sums, flat rates, their amounts and adjustment methods in line with the calculation methods of Article 94(2) CPR.

After the adoption of the delegated act, Member States can request the reimbursement of the Union contribution to the programme by using amounts and rates set out in the act (and, if applicable, adjusted in line with the adjustment methods approved in the delegated act); those amounts need to be declared in **column C of Annex XXIII CPR**. It is important that in the implementation of the operation, the rules of the delegated act are observed, *inter alia* on eligible activities and the audit trail. Member States can submit their payment applications with the corresponding amount set out in the delegated act without prior approval by the Commission.

## CHAPTER 5: HORIZONTAL PRINCIPLES

### 5.1. Public procurement and the use of simplified cost options

Since the 2021–2027 programming period, simplified cost options can also be used in an operation or project forming part of an operation which is implemented by the beneficiary exclusively through public procurement.

Operations subject to public procurement contracts are considered by the Commission to be operations implemented through the award of public contracts in accordance with Directive 2009/81/EC, Directive 2014/24/EU and Directive 2014/25/EU, or through the award of public contracts below the thresholds of the same Directives based on national rules.



There is no exception from the mandatory use of simplified cost option for operations below EUR 200 000 that are exclusively implemented through public procurement. The managing authorities (or monitoring committees for Interreg programmes) will have to ensure the compatibility between the rules on simplified cost options and the Union and national rules on the award of public contracts.

Whether an operation is fully procured should not have an impact on the calculation methods established in Articles 53(3) and 94(2) CPR, which are the same for all types of operations, fully procured or not. The managing authorities should design a methodology based on sufficient reliable data and foresee adjustment methods which would ensure that the amounts of simplified cost options remain a proxy to real costs during the implementation of the operations. Adjusting the amount of simplified cost options with the prices resulting from public procurement procedures awarded in the framework of the given operation is not allowed. In addition, simplified cost options including any adjustment method need to be set *ex ante* by the managing authorities and should be included in the document setting out the conditions for support.

### 5.2. 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. Whenever funding provided in the form of SCOs at the ‘lower level’ constitutes State aid within the meaning of Article 107 TFEU, these rules must be complied with.

The managing authorities (or the monitoring committees for Interreg operations) must therefore ensure that the categories of costs for which simplified cost options are established, are eligible under both the CPR Funds rules and the State aid rules. They must also ensure that the maximum aid intensities set out in State aid rules and the incentive effect are respected. In the case of compensation for services of general economic interest which constitutes state aid the amount of compensation has to be respected.

EU State aid rules require prior notification to the Commission of all new aid measures. Member States must wait for the Commission's decision before they can put the measure into effect. Block exemption regulations, i.e., the General Block Exemption Regulation (EU) No 651/2014 (GBER)<sup>(19)</sup> and, among others, the Fisheries Block Exemption Regulation (EU) 2022/2473 (FIBER)<sup>(20)</sup> provide for exemptions from the obligation of Member States to notify to the Commission aid schemes and ad hoc aid that fulfil the conditions stipulated therein. Similarly, the decision on State aid in the form of public service compensation for services of general economic interest<sup>(21)</sup> ('the SGEI decision') sets out the conditions under which State aid in the form of public service compensation granted to undertakings entrusted with the operation of services of general economic interest is exempt from the prior notification requirement. Other documents such as sector-specific Commission Guidelines<sup>(22)</sup> should also be taken into consideration when devising State aid as they lay down the conditions for notified State aid to be considered compatible with the internal market.

However, not all support granted by public authorities is subject to EU 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 on the notion of State aid<sup>(23)</sup> which clarifies the Commission's understanding of Article 107(1) TFEU, as interpreted by the Court of Justice of the European Union. The provisions of the Regulations<sup>(24)</sup> 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(1) TFEU. Therefore, in case an operation funded by the CPR Funds falls within the scope of the relevant *de minimis* Regulation, it means that the contribution by the CPR 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 CPR Funds and the conditions for considering the support as *de minimis* aid.

Compensation for services of general economic interest (SGEI) may also not be State aid and thus may fall outside the scope of application of State aid rules. The Commission communication on rules to compensation granted for the provision of services of general economic interest<sup>(25)</sup> explains in which circumstances this occurs.

General principles on the compatibility of simplified cost options with State aid rules for the reimbursement of grants provided by Member States to the beneficiaries

When using simplified cost options, State aid and *de minimis* rules are to be considered at the stage of the methodology preparation as well as at the stage of selection of operations/implementation, depending on individual cases.

<sup>(19)</sup> 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).

<sup>(20)</sup> Commission Regulation (EU) 2022/2473 of 14 December 2022 declaring certain categories of aid to undertakings active in the production, processing and marketing of fishery and aquaculture products compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union (OJ L 327, 21.12.2022, p. 82).

<sup>(21)</sup> Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (OJ L 7, 11.1.2012, p. 3).

<sup>(22)</sup> See for example the Guidelines on State aid for climate, environmental protection and energy (2022/C 80/01).

<sup>(23)</sup> 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, 19.7.2016, p. 1).

<sup>(24)</sup> Commission Regulation (EU) 2023/2831 of 13 December 2023 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid (OJ L, 2023/2831, 15.12.2023, ELI: <http://data.europa.eu/eli/reg/2023/2831/oj>); Commission 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 (OJ L 190, 28.6.2014, p. 45); Commission Regulation (EU) 2023/2832 of 13 December 2023 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest (OJ L, 2023/2832, 15.12.2023, ELI: <http://data.europa.eu/eli/reg/2023/2832/oj>).

<sup>(25)</sup> Commission communication on rules to compensation granted for the provision of services of general economic interest (OJ C 8, 11.1.2012, p. 4).

To ensure compliance of CPR Funds operations with the GBER, other Block Exemptions Regulations, the SGEI decision and relevant Commission Guidelines, the following elements are to be considered:

— **Eligibility of costs covered by the SCOs with the GBER and the rules on the CPR 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.

Then, the managing authority should ensure that, 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 and the CPR Funds rules.**

In this respect, Article 7(1) GBER allows for eligible costs under the GBER 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 relevant exemption in GBER.

This means that where a simplified cost option has been established in accordance with the CPR or the Fund-specific regulations, the amount reimbursed based on the simplified cost option will 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.**

Where simplified cost options are used, the categories of costs calculated on the basis of simplified cost options should be identified in the methodology used to arrive at the amount of simplified cost options. 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 CPR Funds for that operation and which are also compliant with the GBER. 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.

Managing authorities, when issuing calls for proposals for operations which may be subject to State aid rules, have to stipulate, for the aid applicants, the categories of costs which will be funded by the CPR Funds for that operation, allowing therefore to check their compliance with one of GBER provisions, i.e. that the categories of costs were properly defined and are compliant with the relevant GBER provisions. There are categories of costs that are eligible for reimbursement from CPR funds but are not eligible under the GBER provisions.

Annex 3 provides an example on the SCO's compatibility with State aid rules.

— **Eligibility of costs covered by the SCOs with the SGEI decision and the rules on the CPR Funds**

The operation should fall under the combined scope of the SGEI Commission Decision 2021/21 and the relevant provisions on the scope of support in the CPR and the Fund-specific Regulations.

— **Ensuring compliance with maximum aid intensity or maximum aid amount under GBER or compensation under SGEI decision**

Where a simplified cost option has been established in accordance with Articles 53 to 56 CPR or the relevant provisions in the Fund-specific regulations, this amount will be used for the purposes of the control of compliance with the State aid rules.

Managing authorities must use a reasonable and prudent hypothesis in order to ensure that the amounts of simplified costs options represent a reliable proxy to real costs. This allows the amounts of simplified cost options to be used to facilitate demonstration of compliance with maximum aid intensity, maximum aid amounts or notification thresholds under the GBER or compensation level under the SGEI decision. The methodology will be subject to audit to ensure that it is in line with the applicable CPR Funds and State aid rules.

For an example, please refer to Annex 3.

### — Ensuring respect of the incentive effect

According to Article 6 of the GBER, for most categories of aid, the GBER only applies to aid that has an incentive effect. The aid is considered to have an incentive effect if the beneficiary has submitted a written application for the aid to the Member State concerned with the content required by Article 6(2) GBER before work on the project or activity starts (for ad hoc aid to large undertakings also the additional conditions laid down in Article 6(3) GBER apply).



If support constitutes state aid, there is an obligation for managing authorities to ensure ex-ante that the incentive effect is respected, regardless of whether simplified cost options are used or not. The managing authorities have to ensure that the beneficiaries have not entered into any type of contractual arrangements showing the willingness to pursue operations even in the absence of aid. This *ex ante* check could be done by requiring a self-declaration from the aid applicant that it had not entered into firm legal commitment (start of works as defined in the GBER before the submission of his application. Self-declarations could be considered acceptable to demonstrate the incentive effect, provided there exists an effective system of control allowing random checks on these self-declarations.

### Specific provisions in the GBER and the use of simplified cost options

Article 25(3)(e) GBER introduces a flat rate of up to 20 % that can be applied in research and development projects for calculating additional overheads and other operating expenses, including costs of materials, supplies and similar products, incurred directly as a result of the project. The application of the flat rate under Article 25(3)(e) GBER is alternative to the use of SCOs established under the CPR programmes or another Union fund that allows the use of simplified cost options and without prejudice to them. The flat rate is to be applied to total eligible research and development project costs referred to in Article 25(3)(a) to (d) GBER. The Member State can use the flat rate introduced by GBER for operations co-financed by the Cohesion Policy Funds in accordance with Article 53(3)(c) CPR as a corresponding flat rate applicable in Union policies for a similar type of operation<sup>(26)</sup>. When applying the methods used in other Union policies, the Member State has to ensure that the method is used in its entirety and that the method is applied to similar types of operations.

In case of training aid scheme falling under Article 31 GBER, it is possible to apply the flat rate for indirect costs calculated on the basis of direct costs listed under point (a) of the first subparagraph of Article 54 CPR to the training aid scheme falling under Article 31 GBER. In order to ensure compatibility, indirect costs under point (a) of the first subparagraph of Article 54 CPR calculated as a percentage of direct costs should be computed based only on the categories of direct costs defined as eligible in Article 31(3) GBER, taking into account the specific limitations for each of them provided in the same GBER provision.

### 5.3. ERDF and ESF+ specific: cross-financing

Pursuant to Article 25(2) CPR, when the ERDF or the ESF+ provide support to all or part of an operation for which the costs are eligible under the other Fund ('cross-financing'), cross-financing may be used up to a limit of 15 % of support from those Funds for each priority of a programme. The eligibility rules of the other Fund, i.e. the one from which the cross-financing originates, apply to that (part of the) operation.

With the exception of flat rates, a single simplified cost option 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 to comply with the above-mentioned 15 % ceiling.



**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 15 % 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 or because there are no similar operations funded by the other Fund), the managing authority has to determine the applicable rate according to the general legal principles established in Article 53(3) CPR and Article 54 CPR.

<sup>(26)</sup> For more information on the calculation method in Article 53(3)(c) CPR, please refer to Chapter 3.2.

**Example 1: ESF+/ERDF cross-financing with unit costs or lump sums**

If, for an ESF+ operation, the unit cost of EUR 6 per hour x trainee includes purchase of infrastructure for EUR 0,50 per hour eligible under the ERDF, the cross-financed amount will be EUR 0,50 x number of 'hours x 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.

**Example 2: ESF+/ERDF cross-financing with flat rate financing**

**In case a flat rate for indirect costs based on direct costs is used, the cross-financed amount will be the amount of 'cross-financed direct costs', plus indirect costs calculated based on 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 15 % of direct costs (EUR 450). The cross-financed amount would thus be EUR 3 450. 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.

**5.4. Requirements related to the collection, storage and publishing of data**

According to Article 72(1)(e) CPR, the managing authority is obliged to record and store electronically the data on each operation necessary for monitoring, evaluation, financial management, verifications, and audits in accordance with Annex XVII to the CPR.

According to the introduction to Annex XVII to the CPR, only data fields that are relevant to the operation in question should be completed. There are data fields specific to the reimbursement in the form of simplified cost options, either for the reimbursement of grants to the beneficiary (fields 86 – 96) or for the reimbursement of the Union contribution to programmes (fields 112 - 114).

Information in data fields 23 and 24 on contractors, their beneficial owners, contracts, and sub-contractors does not have to be recorded and stored in the case of indirect costs covered by a flat rate, unit cost or lump sum <sup>(27)</sup>. When a simplified cost option covers both direct costs and indirect costs, the requirement to record and store data on contractors, their beneficial owners, contracts and sub-contractors applies only to the direct costs.

Furthermore, according to Article 49(3) CPR, managing authorities need to publish on their website a list of operations selected for support by the Funds. The information required under Article 49(3) CPR should be based on Annex XVII to the CPR and no additional data except the ones included in Annex XVII CPR should be collected for the purpose of Article 49(3) CPR. As mentioned above, managing authorities do not have to record and store electronically data on contractors in Annex XVII CPR for indirect costs covered by a unit cost, lump sum or flat rate. Therefore, the obligation to publish the name of contractors of the beneficiary set out in Article 49(3)(a) CPR does not apply in relation to the contractor's name in the case of public procurement for indirect costs covered by a simplified cost option.

<sup>(27)</sup> Please note that the information under field 23, information on contractors, their beneficial owners and contracts only has to be recorded where the operation is implemented in accordance with Union public procurement rules (i.e., public procurement above the thresholds set out in Directive 2014/24/EU or Directive 2014/25/EU). Information on sub-contractors under field 24 has to be recorded at the first level of sub-contracting, only where information is recorded on a contractor under field 23, and only for sub-contracts above EUR 50 000 total value.

### 5.5. Simplified cost options and eligibility period

The second subparagraph of Article 63(2) CPR provides that in the context of unit costs and lump sums, **the actions constituting the basis for reimbursement** are to be carried out between the date of submission of the programme to the Commission or from 1 January 2021, whichever is earlier, and 31 December 2029. This means that it is not the actual date of the payment by the beneficiary of the costs actually incurred, which is relevant for the eligibility period, but rather the actions constituting the basis for reimbursement.

As for the flat rates, only the categories of costs to which the flat rate is applied (basis costs) - if based on real costs - have to be incurred by the beneficiary and paid in implementing operations within the eligibility period provided in the first subparagraph of Article 63(2) CPR. For example, if indirect costs are calculated in the form of up to 25 % flat rate of eligible direct costs, in accordance with Article 54 CPR, the basis costs for the calculation of the flat rate (eligible direct costs of the operation) have to be incurred by the beneficiary and paid in implementing operations within the eligibility period, i.e., by 31 December 2029.

## CHAPTER 6: MANAGEMENT VERIFICATIONS AND AUDIT

Simplified cost options, except for the off the shelf SCOs, 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 by the beneficiaries and paid in implementing operations. However, this is considered acceptable under applicable rules as SCOs established on a correct methodology are deemed a reliable proxy to real costs; any such overcompensation does not constitute unjust enrichment.

**When SCOs are applied, management verifications and audits will not check *ex post* the costs actually incurred 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.

### 6.1. General approach for management verifications and audit

Where simplified cost options are used at the 'lower level', for the purposes of determining the legality and regularity of expenditure, both Commission and national audits will check the correct design of the methodology. The correct application of the methodology will be verified during Commission and national audits and management verifications.

Article 74(1)(a) CPR states that **the managing authority is to verify that the co-financed products and services have been delivered, that the operation complies with applicable law, the programme and the conditions for support of the operation.**

In addition, Article 74(1)(a)(ii) CPR states that for costs reimbursed on the basis of simplified cost options, the managing authority is to **verify that the conditions for reimbursement of expenditure to the beneficiary have been met.**

The requirements of Articles 74(1)(a) and 77(1) CPR and Annex XIII of the CPR that the co-financed products and services have been delivered and **the operation complies with applicable law** do not imply that management verifications and audits should verify or request documentation of the underlying costs (e.g. invoices, payment documentation). **Management verifications and audits will not cover the actual costs incurred by the beneficiary (e.g. invoices, receipts) nor specific public procurement procedures underlying the expenditure reimbursed on the basis of simplified cost options.** As a consequence, these underlying financial or procurement documents should not be requested with a view to checking the amounts (expenditure) actually incurred by the beneficiary and paid.

For simplified cost options approved by the Commission for the '**upper level**', according to Article 94(3) CPR, **management verifications and audits will exclusively aim at verifying that the conditions for reimbursement by the Commission have been fulfilled.**

Eligibility rules are to be complied with regardless of the form of reimbursement. Therefore, even when SCOs are used in operations, the eligibility of the operation, beneficiary, participants (if applicable) needs to be ensured.

## Audit trail

All documents required for the audit trail as set out in Annex XIII CPR are to be kept according to Article 69(6) CPR.

## SCOs and risk-based management verifications

According to Article 74(2) CPR, management verifications are carried out based on a risk assessment performed ex-ante. If according to the risk assessment, the managing authority has to verify expenditure declared under a SCO (SCOs are not to be automatically excluded from the risk assessment), the checks will include the specific points detailed in this Chapter.

## Conflict of interests

The conflict of interests is also to be addressed in operations using SCOs. The Commission's guidance <sup>(28)</sup> on the avoidance and management of conflict of interests under the Financial Regulation applies. Relevant examples are provided in that guidance. Ineligibility of expenditure is to be decided on a case-by-case basis, depending on the extent of the detected conflict of interest (the whole operation or only part of the operation).

**Example:** The European Social Fund (ESF) supported a research project at a university. The project received financial support for hiring fixed-term researchers (reimbursement was made based on standard unit cost per month per researcher). The project was approved through a competitive selection process. An audit for the project uncovered conflicts of interests in the researcher selection process. Despite regulations requiring impartiality, some evaluators reviewed applications where they had co-authored publications with the applicants, which was not properly disclosed or addressed by the University or the managing authority. Consequently, the auditors identified this as a conflict of interests, compromising the transparency and fairness of the selection process. The auditors questioned the legality of the declared expenditures for the researchers involved.

### 6.2. Verification of the correct establishment of the methodology for the simplified cost option

Verification of the methodology will be carried out at the managing authority or intermediate body level.

The audit authority assesses the establishment of the methodology ex-ante or during implementation, as follows:

- For simplified cost options used at the 'upper level' (Article 94 CPR), it is mandatory that the audit authority assesses the methodology ex-ante, before the submission of Appendix 1 of Annexes V and VI CPR to the Commission. After the Commission's approval of the simplified cost option, the methodology will not be audited again by the Commission.
- For simplified cost options used at the 'lower level' (Article 53 CPR), it is highly recommended that the audit authority assesses the methodology ex-ante and provides the result of its assessment prior to implementation. Alternatively, the audit authority will assess it during implementation, when auditing expenditure reimbursed to beneficiaries based on simplified cost options. An ex-ante assessment and validation of the methodology by the audit authority may significantly reduce the risk of irregularities. In addition, the audit authority can use the result of its assessment for future (assurance) audits, when operations using SCOs are sampled. For the programme, this approach has the advantage of preventing systemic errors that could have financial consequences if detected only during implementation. If the ex-ante assessment is carried out and the audit authority comes to a positive conclusion (i.e. formal validation of the SCO methodology), the audit authority can use the result of its assessment for future audits, when operations in which the same SCOs are used are sampled.

Verification of the SCO methodology **generally** will be carried out for a **programme (or parts thereof) or several programmes under the responsibility of the managing authority or an intermediate body**. For SCOs based on beneficiaries' own data in accordance with Articles 53(3)(a)(ii) and (iii) and 53(3)(b) CPR, that verification will be carried out for specific beneficiaries.

<sup>(28)</sup> Commission Notice - Guidance on the avoidance and management of conflicts of interest under the Financial Regulation (OJ C 121, 9.4.2021, p. 1).

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 53(3) for 'lower level' and Article 94(2) CPR for 'upper level' and relevant provisions defined by the programme authorities for such simplified cost option.

The assessment by the audit authority of the methodology developed by the managing authority for any type of SCO will include:

- Checking that the methodology was designed based on the methods described in the CPR and that it is properly described;
- Verifying that the categories of costs covered by the SCO are eligible;
- Verifying that the audit trail for deliverables is described and adequate;
- In case combination of several SCOs and/or real costs is possible in the same operation, checking that there is no risk of double financing (e.g. categories of costs covered by flat rates are clearly separated);
- If an adjustment method is proposed, assessing if the adjustment method is relevant for the specific SCO and
- If the SCO will be used in operations subject to State aid rules, the costs covered by the SCO are eligible according to the State aid rules.

**In addition**, the following elements are to be checked:

For SCOs based on a fair, equitable and verifiable calculation method:

- Checking that information on the calculation method is documented, easily traceable and correct;
- Verifying that costs included in the calculations are relevant and eligible;
- Verifying the reliability/accuracy of data.

For SCOs based on a draft budget:

- Verifying that the budget was reviewed and agreed ex-ante by the managing authority. In case it is a 'lower level' SCO, the audits will verify that the total cost of the operation does not exceed EUR 200 000 or EUR 100 000 in case of projects implemented under a small project fund (Article 25 Interreg Regulation)

For SCOs based on corresponding unit costs, lump sums and flat rates applicable in Union policies:

- The rules on the corresponding EU policy SCOs were still applicable at the moment of the call for proposals (for 'lower level' SCOs) or at the moment of the programme amendment submission to the Commission (for 'upper level' SCOs)
- Verifying that the totality of the methodology was re-used
- Verifying that the SCO is used for similar operations.

For SCOs based on corresponding unit costs, lump sums and flat rates applicable in Member States:

- The rules on the corresponding Member State SCOs were still applicable at the moment of the call for proposals (for 'lower level' SCOs) or at the moment of the programme amendment submission to the Commission (for 'upper level' SCOs);
- Verifying that the totality of the methodology was re-used;
- Verifying that the SCO methodology under the national policy is applied under schemes for grants funded entirely by the Member State;
- Verifying that the SCO is used for similar operations.

The auditing of the SCO methodology focuses on verifying that the CPR provisions to establish a methodology are complied with. The choice of calculation 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, unit costs or lump sums were set. The records kept for documenting the calculation method will be subject to the requirements for the availability of documents set out in Article 82 CPR.

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 (the 'off the shelf' SCOs), the verification by the audit authority will focus on the definition of categories of costs (e.g., direct costs, indirect costs, direct staff costs). The auditors will verify that the categories of costs covered by the 'off the shelf' flat rates are set out either by the Member State in the national rules or by the managing authority (or monitoring committee for Interreg programmes) in the programme or in the calls for proposal launched and double financing is avoided.

### 6.3. Verification by the managing authority and audit of the correct application of the methodology during implementation

- 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 <sup>(29)</sup>.
- Verification of compliance with State aid rules is to be performed when using simplified cost options at the 'lower level', i.e. as a reimbursement method for beneficiaries (see Chapter 6.5).
- There is no legal basis to check the costs actually incurred and paid for cost categories covered by SCOs established in line with the CPR, therefore underlying documents justifying the real costs are not to be asked (e.g. beneficiaries do not need to provide invoices for real costs to verify if indeed the beneficiary had incurred indirect costs of 15 % when point (b) of Article 54 CPR was applied).
- Verification of the correct application of the established method will be done at managing authority level for simplified cost options used at 'upper level' and at the beneficiary level for simplified cost options used at 'lower level'.

The managing authority/intermediate body verifies the correct application of the SCO methodology during management verifications. The audit authority verifies it during its audits (audits of operations, thematic audits, system audits).

#### 6.3.1. Verification of the correct application of flat rates

Verification of the correct application of the flat rate financing system will involve checking the following elements:

- The managing authority (or the monitoring committee for Interreg programmes) defined the categories of costs covered by the flat rate and those to which the flat rate applies (the 'basis costs'). **The managing authorities should either provide a clear definition of the categories of costs** or define a pre-established list of all categories of eligible costs covered by the flat rate and those on which the flat rate is based (and where relevant the other categories of eligible costs);
- The use of the flat rate is envisaged in the document setting out the conditions for support;
- The costs used as the basis for the calculation (called 'basis costs') are eligible, legal and regular <sup>(30)</sup>;

<sup>(29)</sup> Contributions in kind referred to in Article 67(1) CPR can be taken into account for calculating the value of a flat rate, a unit cost or a lump sum, provided that Article 67(1) CPR is respected. 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 conditions set out in Article 67(1) CPR are fulfilled.

<sup>(30)</sup> And correctly calculated if declared on the basis of simplified cost options.

- There is no double declaration of the same cost item (the 'basis' for the calculation or any other real costs do not include any cost item that is covered by the flat rate). For example, if administration costs are covered by a flat rate for indirect costs, they should not be declared based on costs actually incurred;
- The amount declared is correctly calculated by applying the flat rate to the 'basis costs';
- 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 (e.g. 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,
- If other conditions are set in the document setting out the conditions for support, during management verifications and audits the fulfilment of those conditions will have to be verified as well;
- If applicable, State aid rules are observed for SCOs used to reimburse beneficiaries (see Chapter 6.5)
- The cost categories covered by the flat rate are necessary for the implementation of the operation; at selection stage the managing authority will check whether the categories of costs covered by the flat rate are necessary, based on the activities needed for the implementation of the project, detailed in the application for funding and the document setting out the conditions for support.

**No checks** are to be performed on:

- The actual costs incurred by the beneficiary or related (financial) supporting documents for the amounts reimbursed on the basis of a flat rate;
- Supporting documents to check that the amount of the flat rate was spent by the beneficiary on the correct cost category;
- The accounting system of beneficiaries.

As technical assistance reimbursed based on a flat rate<sup>(31)</sup> is calculated automatically in SFC2021 based on declared expenditure, there are no checks to be performed by the managing authority or audit authority. Reductions in the expenditure forming the basis of calculation of the flat rate following the application of financial corrections will affect the automatic calculation of the flat rate, resulting in a proportional reduction of support for the technical assistance.

### 6.3.2. *Verification of the correct application of unit costs*

Verification of the correct application 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.**

Verification of the correct application of the unit costs will involve checking the following elements:

- The use of the unit cost is envisaged in the document setting out the conditions for support;
- 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. Unit costs linked to outputs and results which have not been achieved cannot be declared;
- The amount declared equals the set unit cost multiplied by the actual units delivered by the project;
- There is no double declaration of the same cost item (costs declared under other forms of reimbursement do not include any cost item covered by the unit cost);

<sup>(31)</sup> According to Article 36(5) CPR and Article 27(2) Interreg Regulation for Interreg programmes.

- If other conditions are set in the document setting out the conditions for support, during management verifications and audits the fulfilment of those conditions will have to be verified as well;
- If applicable, State aid rules are respected for SCOs used to reimburse beneficiaries (see Chapter 6.5).

**No checks** are to be performed on:

- The actual costs incurred by the beneficiary or related (financial) supporting documents for the amounts reimbursed on the basis of unit costs;
- Supporting documents to check that the amount reimbursed as unit costs was spent by the beneficiary on the correct cost category.
- The accounting system of beneficiaries

### 6.3.3. *Verification of the correct application of lump sums*

In the case of lump sums, it is essential to **get assurance that the outputs / results reported are real**. The control thus consists in checking the following elements:

- The use of the lump sum is envisaged in the document setting out the conditions for support;
- The agreed steps (milestones, if applicable) of the project were fully completed and the outputs/results were delivered in line with the conditions set by the programme authorities for the use of the SCO (the outputs/results need to be documented);
- There is no double declaration of the same cost item (costs declared under other forms of reimbursement do not include any cost item that is covered by the lump sum);
- If other conditions are set in the document setting out the conditions for support, during management verifications and audits the fulfilment of those conditions will have to be verified as well;
- If applicable, State aid rules are respected for SCOs used to reimburse beneficiaries (see Chapter 6.5).

**No checks** are to be performed on:

- The actual costs incurred by the beneficiary in relation to the delivered outputs/results;
- Supporting documents for the actual costs to justify that the amount of the lump sum was actually spent by the beneficiary on the predefined types of costs/ activities;
- The accounting system of beneficiaries.

### 6.4. **Verification of absence of double financing when using SCOs**

Absence of double financing within the same operation

The aspect of double financing has to be addressed already from the design of the methodology by clearly defining and distinguishing the categories of costs covered by the SCO and those reimbursed using other forms of reimbursement. During management verifications and audits, in the case of a combination of SCOs, in addition to the checks required for the individual types of simplified costs described above, the management verifications and audits 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, cost category (double declaration of costs, for instance both as direct and as indirect costs).

The management verifications and audits should check as well that 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 a flat rate. For example, accounting costs covered by a flat rate for indirect costs according to Article 54 may not be included in another category of costs, such as direct costs for external expertise if they also include accounting costs, to avoid the risk of double financing.

Absence of double financing from other EU funds, programmes, instruments

The absence of double financing can be tackled at different levels (programming, selection or implementation); Member States can design (and request from beneficiaries to implement) adequate measure for avoiding double financing. In this chapter, we will present examples of measures to avoid double financing at each of those levels.

**The Partnership Agreement needs to contain the coordination, demarcation and complementarities between the Funds and, where appropriate, coordination between national and regional programmes.**

**Example 1: Clear demarcation**

The Partnership Agreement describes that **in the respective Member State programme X will finance national roads while programme Y will finance country roads or there is a clear geographical delimitation.**

In cases where the Partnership agreement does not contain a clear delimitation, then **adequate measures need to be put in place at the level of the Member State to avoid double financing.**

**Example 2: Verifications at selection stage**

The managing authority of a programme provides its list of operations proposed for selection to other managing authorities in the same Member State, asking them to compare to their own lists of selected projects in order to avoid clear overlaps (e.g., same local authority receives grants from two sources to consolidate the same segment of the shore of a river).

**Example 3: Thematic verifications by the managing authorities**

The Coordinating Body in a Member State created an AI tool which compares the lists of operations from programmes presenting overlaps in areas of financing and scans for similar beneficiaries and description of operations. In case of matches, it alerts the staff of the respective managing authorities who proceeds to additional checks in order to avoid double financing.

During a thematic review of the staff hired in the operations financed via SCOs, the MA identified the same person employed in the same time period in 3 different projects. For two of the projects, staff costs were reimbursed based on real costs and for one project staff costs were reimbursed based on hourly rates. Upon verifying the hours declared for the first two projects for the concerned person, the MA determined that the total amount of allowed working time according to national rules was exceeded. This implied that the concerned person could not have worked on an additional project, even if reimbursed based on hourly rates.

According to Article 63(9) CPR, the operation may receive support from one or more Funds or from one or more programmes and from other Union instruments, as long as the same expenditure is declared only once. **The absence of double financing has to be ensured and checked even when the reimbursement towards the beneficiaries takes the form of simplified cost options.**

**Example 4: Checks at the level of the beneficiary**

The managing authority performs the management verifications at the level of a beneficiary. The operation uses the 40 % flat rate applied to direct staff costs. As part of the managing authority checks on the staff costs (basis costs), the job description of a person is verified. The job description contains a mention that 100 % of the activities performed by the respective staff are for operations financed by ERDF, while the operation verified is financed via ESF+.

Ultimately, it is the responsibility of the Member State to design and implement the necessary measures to avoid double financing, in accordance with Article 63(9) CPR. Commission audits will focus in particular on ensuring that such measures are in place and, where this is not the case, remedial actions are taken.

Self-declarations from beneficiaries that they will not ask for financing for the same type of activities from other funds may be used if corroborated (on a case-by-case basis) with additional sources of information. The management verifications and audits may include searching in the national or European databases and checks on the publicity measures taken by the beneficiaries on their websites and locations.. In case of doubt, the managing and audit authorities are to perform more in-depth checks and gather additional information from the beneficiaries.

**Example 5: Suspicion of double financing**

At the level of one beneficiary two projects related to the creation of a bicycle lane were identified, the one financed by the ERDF was the object of an audit of operations. The auditors identified that part of the bicycle lane was submitted as part of projects once for ERDF funding and secondly for EAFRD funding. The verifications carried out by the managing authority at the request of the auditors confirmed that the expenses for the signage were financed by both the ERDF and the EAFRD, resulting in double financing of a part of the operation.

**6.5. Verification of compliance with State aid rules in case of using simplified cost options as form of reimbursement**

When using simplified cost options to reimburse beneficiaries, the verification of State aid and *de minimis* rules is required. If the support is considered State aid, in order to check the compliance with State aid rules, the management verifications and audits will cover the following elements:

— **Eligibility of costs covered by the SCO under the GBER rules and the SGEI Decision**

In case State aid rules apply (see Chapter 5.2), the costs covered by the SCO have to be eligible under the GBER rules or the SGEI decision. In order to check the eligibility, the managing authority and audit authority check that the categories of costs identified at the level of the methodology, published in the calls for proposal and stated in the document setting out the conditions for support are eligible under the GBER rules or the SGEI Decision.

For operations using the pre-defined flat rates from the Regulations, the eligibility of costs will be verified by checking the document setting out the conditions for support to ensure that only eligible categories of costs are to be funded by the operation.

— **The maximum aid intensity or aid amount/compensation is respected**

When simplified cost options have been established in accordance with Articles 53 to 56 CPR or the relevant provisions in the Fund-specific regulations, this amount will be used for the purposes of checking the maximum aid intensity or, in case of services of general economic interest, the compensation. Therefore, similar to using real costs under the GBER or SGEI Decision, the amount of the simplified cost option will be used for verifying compliance with the maximum aid intensity under the relevant State aid category or to calculate the amount of compensation under the SGEI rules.

— **The incentive effect is respected, according to Article 6 GBER**

The managing authority has to check ex-ante that the beneficiary respects incentive effect.

Both managing and audit authority will need to check that the beneficiary did not enter into any type of contractual arrangement showing its willingness to pursue the project even in the absence of aid. This check could be done by requiring a self-declaration from the aid applicant that it had not entered into firm legal commitment (start of works as defined in the GBER) before the submission of the application. Self-declarations could be considered acceptable to demonstrate the incentive effect, provided there exists an effective system of control allowing random checks on these self-declarations.

## 6.6. Fraud cases and serious deficiencies

Any allegations of fraud related to operations financed through SCOs will be addressed either by the national system or, in case the Commission would receive such information, it would be passed to OLAF, national fraud investigation bodies and the European Public Prosecutor's Office, as appropriate and pursued in the same way as allegations of fraud where SCOs are not part of the programme.

The decision of the competent body, as well as the national legislation will have to be taken into account. However, it should be recalled that a final conviction assigning criminal liability to a specific person for a fraudulent act committed with respect to Union funds will often not be necessary to establish an irregularity and to proceed with financial corrections <sup>(32)</sup>.

In cases the fraud affects operations being reimbursed using SCOs, the expenditure declared using those SCOs will be considered irregular as well.

Should there be evidence to suggest a serious deficiency for which corrective measures have not been taken, the Commission may interrupt or suspend related payments respectively (Articles 96 and 97 CPR). Where the Commission concludes that there is a serious deficiency which has put at risk the support from the Funds already paid to the programme, it will make financial corrections by reducing support from the Funds to a programme (Article 104 CPR).

## 6.7. Potential errors or irregularities linked to the use of simplified cost options

Findings that could be considered to be errors, **at the level of setting up the methodology**, include the following:

- The methodology used to calculate the SCOs does not respect the regulatory conditions (for example, the method used for developing a simplified cost option was not fair, equitable and verifiable). For example, unit cost for a training course was established on the basis of data from 4 projects only. The source of the data was not clear and the relevance of the projects considered for the historical data was not proven;
- The sample considered for the calculation of the SCO is not representative. For example, the unit cost for salaries established was based on individual project data covering 6 months (July-December), whereas there was a fluctuation in the salary costs during the year. The sample was not considered representative as it did not cover various fluctuations in salary costs over a year;
- The results of the calculation method have not been correctly used to establish the simplified cost options. For example, in case of a unit cost for hourly rates established based on staff costs from the previous programming period, the results of the calculation method were adjusted with an index which was not related to the evolution of salary costs;
- Ineligible costs are included in the calculation to establish the simplified cost option. For example, in the case of a unit cost for an hourly rate, which was established based on historical data, an optional insurance for employees which was not considered an eligible cost was included in the calculation;
- SCOs were established and based on the application of corresponding unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation, but the national scheme was not used in its entirety. For example, in the case of unit costs established for salary costs based on remuneration of employees working in the area of public interest, the national law stipulated conditions on the seniority level (a minimum number of years of experience) in order to apply the unit cost. These conditions were not included in the unit cost methodology.

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<sup>(32)</sup> The existence of an irregularity presupposes the combination of three elements, namely, first, the existence of an infringement of applicable law, second, the fact that that infringement is the result of an act or omission on the part of an economic operator and, third, the existence of prejudice, actual or potential, caused to the budget of the European Union. The intentional or negligent nature of the conduct cannot be regarded as an essential element for the finding of an irregularity within the meaning of that provision (judgment of the Court of Justice of 1 October 2020, *Elme Messer*, C-743/18, EU:C:2020:767, in particular paragraph 62).

Findings that could be considered to be errors or irregularities, **at the level of the application of the methodology**, include the following:

- A beneficiary has not applied the simplified cost options established by the managing authority to declare expenditure;
- Simplified cost options are applied retroactively: for example, the methodology to establish a flat rate was changed and the flat rate increased from 2 % to 3 % for newly selected projects. The new flat rate of 3 % was however used to reimburse expenditure for operations already selected.
- 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 eligible costs covered by the flat rate. If costs covered by a flat rate are declared as real costs as well, the amount declared as real costs is considered ineligible.
- In case of flat rates, when the ‘basis costs’ are reduced without a proportional reduction of ‘calculated’ eligible costs (included in the flat rate). If an irregularity in the categories of eligible costs to which a flat rate is applied is detected during management verification or during an audit, the overall reimbursement under the flat rate will need to be reduced too.
- In case of lump sum, lack of supporting documents to justify the outputs, or outputs only partially justified but paid in totality.
- The lump sum corresponding to the specific deliverable was declared to the Commission, but following an audit, the deliverable is not considered achieved. If the deliverable is achieved at a later stage, the corresponding amount can be declared at that moment.
- All irregularities concerning SCO methodologies and their application are to be corrected.

**Example 1: 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:

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

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:

<b>Project 1: work</b> (public procurement procedure)	<b>EUR 700 000</b>
<b>Project 2: other costs:</b>	<b>EUR 288 500</b>
<i>Direct staff costs (type 1)</i>	<i>EUR 40 000</i>
<i>Other directs costs (type 3)</i>	<i>EUR 242 500</i>

<i>Indirect costs (type 2)</i>	<i>Direct staff costs x 15 % = EUR 6 000</i>
<b>Total eligible costs after pro rata deduction:</b>	<b>EUR 988 500</b>

**Example 2: 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 x EUR 5 000 = EUR 100 000. Every month the training provider sends 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, these payments cannot be declared to the Commission. **Only after it is demonstrated that some people have completed the training the relevant expenditure can be declared to the Commission:** for instance, if 15 people have completed the training then 15 x EUR 5 000 = EUR 75 000 may be declared to the Commission.

## ANNEX 1

**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 SCO is set-up based on a draft budget, according to Article 53(3)(b) CPR.

The draft budget 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	Total Indirect costs	15 000
Direct staff costs	90 000	Indirect staff costs	12 000
Room costs	12 000	Electricity, phone, etc.	3 000
Travel costs	15 000		
Meals	3 000		
Information / Publicity	15 000		

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

**Possibility 1: Unit costs (Article 53(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 Article 53(3)(b) CPR).

The costs of the operation would become:

Maximum number of persons attending the seminar = 50

Unit cost / person attending the seminar = EUR 3 000

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

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

Audit trail for the expenditure reimbursed based on the SCO methodology:

- the methodology used to determine the value of the unit cost should be documented and stored;
- the document setting out the conditions for support for the operation needs to be clear about the unit cost and the triggering factors for payment;
- proof of attendance at the seminar (attendance sheets).

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

The full audit trail has to be compliant with Annex XIII CPR.

**Possibility 2: Lump sums (Article 53(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 Article 53(3)(b) CPR.

The reimbursement of the operations 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 for the expenditure reimbursed based on a SCO method:

- 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...).

The full audit trail has to be compliant with Annex XIII CPR.

**Possibility 3: Flat rate financing (Article 53(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 Article 53(3)(b) CPR to define a flat rate of 47 %, which will be applied to all staff costs (both direct and indirect) to calculate the other costs of the operation:

<i>Categories of eligible costs to which the rate is to be applied to calculate the amounts for other eligible costs (type 1)</i>	Staff costs = 90 000 + 12 000 = EUR 102 000
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The flat rate itself	47 %
Other categories of eligible costs that will be <b>calculated</b> with the flat rate (type 2)	Other costs = 47 % of staff costs = 47 % x 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 reimbursement of expenditure 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	<b>Total eligible costs</b>	<b>149 940</b>

(Generally based on real costs)

**Audit trail for the expenditure reimbursed as a SCO:**

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	— The methodology used to determine the value of the flat rate should be documented and stored, including the proof of the necessity of covering all the cost categories concerned — the document setting out the conditions for support for the operation mentioning the flat rate.

**Option 2: Flat rate financing for indirect costs**

The Member State designs a flat rate system where a flat rate of 11,1 % is applied to the eligible direct costs, according to Article 53(3)(b) CPR.:

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 %
Categories of eligible costs that will be <b>calculated</b> with the flat rate (type 2)	Indirect costs (calculated) = 11,1 % of eligible direct costs = 11,1 % x 135 000 = EUR 14 985
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 reimbursement takes the following form:

Direct costs (type 1)	135 000	Indirect costs (type 2) = 11,1 % of direct costs	14 985
Direct staff costs	90 000	<i>(calculated)</i>	
Room costs	12 000		
Travel costs	15 000	Total eligible costs	149 985
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 costs = — clear definition of what direct costs are; — proof of these costs (pay slips, timesheets if relevant, proof of publicity and invoice, travel tickets, etc.)
The flat rate	— The methodology used to determine the value of the flat rate should be documented and stored — the document setting out the conditions for support for the operation mentioning the flat rate.

### How to fill in Appendix 1 of Annexes V and VI CPR

Union contribution based on unit costs, lump sums and flat rates

Template for submitting data for the consideration of the Commission (Article 94)

Date of submitting the proposal	15 May 2024
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This Appendix is not required when EU-level simplified cost options established by the delegated act referred to in Article 94(4), CPR are used.

#### A. Summary of the main elements

Priority	Fund	Specific objective	Category of region	Estimated proportion of the total financial allocation within the priority to which the SCO will be applied in %	Type(s) of operation covered		Indicator triggering reimbursement		Unit of measurement for the indicator triggering reimbursement	Type of SCO (unit costs, lump sums or flat rates)	Amount (in EUR) or percentage (in case of flat rates) of the SCO
					Code <sup>(1)</sup>	Description	Code <sup>(2)</sup>	Description			
2	ERDF	RSO2.2.	Less developed	0,15 %	053. Smart Energy Systems (including smart grids and ICT systems) and related storage	Energy storage devices		Capacity of the installed energy storage device	kWh	Unit cost	EUR 100 = unit cost per kWh of energy storage device of lithium ferro-phosphate EUR 70 = unit cost per kWh of energy storage device of lithium-ion
2	CF	RSO2.2.		0,10 %	053. Smart Energy Systems (including smart grids and ICT systems) and related storage	Energy storage devices		Capacity of the installed energy storage device	kWh	Unit cost	EUR 100 = unit cost per kWh of energy storage device of lithium ferro-phosphate EUR 70 = unit cost per kWh of energy storage device of lithium-ion

<sup>(1)</sup> This refers to the code for the intervention field dimension in Table 1 of Annex I CPR (or the code in Annex VI of the AMIF, BMVI and ISF Regulations).

<sup>(2)</sup> This refers to the code of a common indicator, if applicable.

**A – Summary of the main elements**

The table in part A of Appendix 1 of Annex V or Annex VI to the CPR summarises information provided in part B for each SCO.

In SFC, part A of Appendix 1 will automatically take information from part B and create the summary table broken down by Priority/Fund/Category of Region/Specific Objective/ Type of Operation and Indicator triggering reimbursement. Therefore, the number of lines in table A will depend on the particularity of the SCO scheme(s) included in Appendix 1.

In SFC, there are four fields that need to be manually introduced in Part A i.e.:

- Estimated proportion of the total financial allocation within the priority to which the SCO will be applied: The information to be provided is at the level of each line of Part A (see above to each line could correspond). If there are several lines for the same SCO within a priority axis, then the sum of all these lines must be equal to the estimated proportion of the total financial allocation within the priority to which the SCO will be applied.
- Code for the type of operation(s) covered: Please select the Intervention Field(s) code(s) to which the SCO will apply. The selection is made from the Operation Type Code list in Annex I to the CPR] which contains all Intervention Field codes (and their description) valid for the Specific Objective, Fund and selected in Table 4 for that Priority, Fund, Category of Region, Specific Objective. For the AMIF, the BMVI and the ISF, the selection is made from the intervention field code list in Annex VI of the AMIF, BMVI and ISF Regulations. If a SCO scheme applies to all/a significant number of types of interventions in the programme, choose one type of intervention in Part A (if possible, the most relevant one for the SCO scheme) and indicate, in part B (under Description of operations), all the other types of interventions covered by the SCO scheme.
- Code for the indicator triggering reimbursement: This field is mandatory when the SCO uses common indicators. The indicator needs to be selected from the drop-down list which contains all common Indicator codes (and their description), Output and Result, already used in Tables 2 and 3, for the Priority, Fund, Category of Region, Specific Objective combination).  
The field should be left empty in case the SCO uses programme specific indicators.
- SCO non applicable: It is possible that one Specific Objective covers multiple Priorities and/or Funds and/or Categories of region, but some of these Priorities and/or Fund and/or Categories of region are not concerned by a proposed SCO scheme in Appendix 1. However, Part A of Appendix 1 will create separate lines for each Priority/Fund/Category of region covered by the given Specific Objective (i.e., even for those which are not part of SCO scheme). In such case, tick the box in column SCO non applicable for those Priorities/ Funds/Categories of region for which the SCO scheme does not apply.

**B - Details by type of operation (to be completed for every type of operation)**

Question	Observations	Example
<p>1. Description of the operation type including the timeline for implementation</p>	<p>The operations should be clearly described and include all elements, i.e., eligible activities, beneficiaries, expected outputs, duration as well as the operation’s contribution to the achievement of the objectives of the programme. The timeline for implementation should also be indicated i.e., envisaged starting date of the selection of operations and envisaged final date of their completion. Additionally, relevant information should be provided to show that the operations are not physically completed/ fully implemented.</p>	<p><b>ERDF</b> Support for the installation of individual energy storage devices for consumers (households) intending to produce electricity for the needs of the household. The implementation of these activities will encourage households to adopt solutions for the electricity produced from renewable energy sources. It is planned that the support will be granted to households owning a residential single-apartment building or a garden building (a garden house), which are registered in the national Real Estate Register and where they have installed a solar or wind power plant or intend to install a solar or wind power plant by the date of the request for reimbursement.</p>

	The information should be consistent with Part A - Type(s) of operations covered. If applicable, do not forget to indicate all the interventions fields in the programme covered by the SCO scheme (see explanations above in Part A - Code for the Type(s) of operation covered).	The operation will contribute to the achievement of objectives under SO 2 of priority 2 of the 2021-2027 programme 2021-2027 – measure 'Promote electricity generation from RES and the deployment of energy storage solutions in households'. The expected start and completion date of the selection of this action is Q3 2024 to Q2 2028.
2. Specific objective(s)	The specific objective should be in line with the types of operation(s) covered.	<b>ERDF</b> RSO 2.2
3. Indicator triggering reimbursement	The indicator should be relevant for the type of operations and should be clear, measurable and straightforward. The indicators could be: — Cost type-based: formulated in terms of categories of cost to which the SCO is applied; — Process-based: indicators formulated in terms of units of input; — Result-based (or outcome-based): indicators formulated in terms of results / outcomes / deliverables achieved within the operation. N.B: whenever possible, it is recommended to set 'umbrella' indicators to avoid the multiplication of indicators used. Example: instead of setting three different indicators – capacity of the installed air-to-water pumps; capacity of the installed gas heat pumps, capacity of the water-to-water pumps – you can set only one indicators – capacity of the heat-generating installations in households and define three different amounts for each installation.	<b>ERDF</b> — capacity of the installed energy storage device; — dwellings (social housing) with improved energy performance; — digital diagnosis of an SME carried out; — consultancy reports issued and approved; — SME participation in international fairs; — trained SME employees obtaining a certificate of completion. <b>ESF+</b> — trainer hours carried out; — trainee hours followed/completed; — person involved in employment services finding a job; — student successfully completing a training course. <b>All funds</b> — direct staff costs to calculate indirect costs or all other eligible costs of the operation (e.g., travel, accommodation etc.)
4. Unit of measurement for the indicator triggering reimbursement	The unit of measurement should correspond to the indicator and be relevant for the type of operations.	<b>ERDF:</b> — kilowatt hour (kWh) — number (of dwellings, consultancy reports/SMEs, employees etc.) <b>ESF+</b> — number (of hours, trainees, persons, etc.)
5. Standard scale of unit cost, lump sum or flat rate	Should correspond to the type of SCO developed.	<b>ERDF:</b> Unit cost <b>ESF+</b> Unit cost
6. Amount per unit of measurement or percentage (for flat rates) of the SCO	The individual amount (s) or flat rate of the SCO should be provided. N.B. In case of 'umbrella' indicators, the field should contain the amount(s) for each type of individual deliverable covered by the SCO.	<b>ERDF:</b> EUR 100 = unit cost per kWh of energy storage device of lithium ferro-phosphate EUR 70 = unit cost per kWh of energy storage device of lithium-ion

<p>7. Categories of costs covered by the unit cost, lump sum or flat rate</p>	<p>Provide clear description of cost categories covered by the SCO to ensure that no double financing of costs occur (especially in case of SCOs combination).</p>	<p><b>ERDF:</b> The unit cost will cover the following categories of cost: the cost of purchasing an energy storage device, the purchase of the necessary accessories to install the energy storage device (charger/hybrid inverter, etc.), the cost of installing the installation.</p>
<p>8. Do these categories of costs cover all eligible expenditure for the operation? (Y/N)</p>	<p>This is a Yes/No field If not all costs are covered by the SCO, describe in field 7 which categories of costs are claimed on top of those covered by the SCO.</p>	<p><b>ERDF:</b> Yes</p>
<p>9. Adjustment(s) method</p>	<p>Indicate frequency, cut-off date and timing of the adjustment(s) and a clear reference to a specific indicator. Explain sources that it is based on (national legislation or other, including a link to the website where this indicator is published, if applicable) and when starts the use of the adjusted amount.</p>	<p><b>ERDF:</b> The unit costs shall be updated once a year before the end of the first quarter of year N, under the following conditions: — taking into account the change in the VAT rate laid down in the Law on VAT; — in accordance with the changes of the Consumer Prices Index (CPI) published by the National Statistics Office. The percentage increase/decrease is calculated taking into account the change in the index over the period between the last month of adjustment of unit costs and the month of the revision. The recalculated unit costs will be applied to the operations under the calls launched after the adjustment.</p>
<p>10. Verification of the achievement of the units — describe what document(s)/ system will be used to verify the achievement of the units delivered; — describe what will be checked and by whom during management verifications; — describe what arrangements will be made to collect and store relevant data/documents.</p>	<p>Describe clearly document(s) / system(s) used for the verification; body(ies) to perform and documents to check during the management verification; arrangements to collect and store relevant data.</p>	<p><b>ERDF:</b> To obtain payment on the basis of the unit costs, the following supporting documents will be collected: — justification of the acquisition and installation of equipment and takeover (transfer-receipt of equipment; a declaration by the contractor of the quality of the works carried out in accordance with the requirements of the legislation governing the installation of energy storage devices); — technical details of the equipment (Installation Passport and/or technical specification) which must specify the type of installation purchased (lithium ferro-phosphate or lithium-ion) and capacity. The MA will carry out the management verifications according to the procedures in place. The relevant documents will be stored in accordance with the management and control system description and will be available in the electronic monitoring system of the programme.</p>

11. Possible perverse incentives, mitigating measures and the estimated level of risk (high / medium / low)	Explain how the use of SCOs may affect negatively the implementation of the operations (versus the use of real cost) by indicating what is the level of risk (low/medium/high), as well as what mitigating measures are planned to be applied. In case of combination of SCOs, there is always a risk of double financing – describe measures to mitigate the risk.	<b>ERDF:</b> There may be new technological solutions on the market leading to significant changes in the cost of energy storage devices or the need to combine several technologies, which will require a revision of the rates. Level of risk: Medium Mitigating measures: A new market price survey will be carried out to calculate unit costs for the new technological solutions. The methodology will be submitted to the approval of the European Commission via a programme amendment.
12. Total amount (national and EU) expected to be reimbursed by the Commission on this basis	Should be consistent with Part A - Estimated proportion of the total financial allocation within the priority to which the SCO will be applied in %. However, here the total amount to be spent for the SCO should be indicated.	EUR 5 000 000

### C - Calculation of the standard scale of unit costs, lump sums or flat rates

General observation: Due to the limitation of characters in SFC, the information provided should be a short summary of the more detailed information that is included in the audit authority assessment. If deemed necessary, other supporting documentation can be uploaded in the system via the section General -> Documents.

Question	Observations	Example
1. Source of data used to calculate the standard scale of unit costs, lump sums or flat rates (who produced, collected and recorded the data; where the data are stored; cut-off dates; validation, etc.).	Describe sources of data (all data or a sample is used?), clearly indicating data timeframe. If some projects were not included in the analysis, provide justifications why. Provide exhaustive cost categories (costs) used to calculate an SCO. Describe arrangements to ensure that the data used is up-to-date. In case other objective data or expert judgement is used, make sure that the data is available to show that your calculation is consistent, complete etc.	Example 1: The managing authority has carried out a survey of market prices between April and June 2022 by interviewing suppliers of new technological solutions for energy storage devices. The list of suppliers is based on the information on legal entities and their activities from the national database, publicly available on the website. The database is available in annex and recorded in the MA's IT system. Example 2: The unit cost was calculated based on the historical data of the programme. The managing authority selected all operations financed in the 2014-2020 programming period related to energy efficiency. Data is stored in the MA's IT system and has been validated by management verifications and audits.

<p>2. Please specify why the proposed method and calculation based on Article 94(2) is relevant to the type of operation.</p>	<p>Does a proposed SCO reflect reality? Why is it needed? Which simplification does it bring and who does it affect?          Why is a specific calculation method used? Is average used (or mean, median)?          Why is a specific sample used (if applicable)?</p>	<p>Example 1: This methodology is appropriate for the specific type of action, as the study was conducted based on a market price analysis; national legislation related to the issues of the investigation has also been examined. Only the market price analysis method can be applied to the calculation of the unit costs, as energy storage devices are new on the market, their purchase was not financed by any EU or state budget prior to the start of the investigation and therefore historical data are not available. 80 % of all suppliers responded to the request.          Example 2: The operations financed in the 2014-2020 programming period representing the source of the calculations are of homogeneous nature. The methodology is based on the real costs verified by the managing authority, and they provide objectively measurable results.          The same type of operations will be financed in the 2021-2027 programming period. Implementing these operations based on actual costs incurred is an extremely significant administrative burden for the beneficiaries and across the entire management chain. This burden is significantly reduced by reimbursing beneficiaries using SCOs.</p>
<p>3. Please specify how the calculations were made, in particular including any assumptions made in terms of quality or quantities. Where relevant, statistical evidence and benchmarks should be used and, if requested, provided in a format that is usable by the Commission.</p>	<p>Describe a step-by-step calculation and how you arrived at the amount/ percentage (in case of a flat rate financing).          In case of sampling, explain how and why. In case of excluded data (outliers), explain your reasoning.          Avoid rounding up as there might be a risk of overpriced SCOs. A prudent approach could be to round down.</p>	<p>Example 1: The legal framework governing the conditions for energy storage devices in the Member State was analysed. Based on this analysis the minimum technical requirements have been defined.          The survey was sent to the suppliers identified in the national database. 80 % of the suppliers answered the survey.          After getting the results of the survey, it was decided to differentiate between the energy storage devices and their technology when calculating average prices, as significant price differences between these different technologies were observed. The most used technologies were selected, and a unit cost was calculated as an average of prices obtained from the survey. The calculation is available in Annex 2, and is stored in the MA's IT system. The x statistical function checked for outliers in the data and there were no amounts excluded.          Example 2: Based on historical data, it was decided to differentiate between energy renovation of individual housing and collective housing. The unit cost was calculated as an average of energy renovation costs of individual housing and collective housing. The calculation is available in annex 1 and stored in the MA's IT system.</p>

<p>4. Please explain how you have ensured that only eligible expenditure was included in the calculation of the standard scale of unit cost, lump sum or flat rate.</p>	<p>This is about data reliability. You are expected to explain why the data used is meaningful. E.g., for historic programme data, that it was verified through management verifications and that any audit findings were corrected, or, in case of national statistics that the data basis does not include anything which is not considered eligible.</p>	<p>Example 1: The calculation of the unit costs includes only relevant data for analysis:</p> <ul style="list-style-type: none"> <li>— establishing the list of suppliers, some of the enterprises that indicated that they did not provide specific services or could not submit a survey were eliminated.</li> <li>— minimum technical requirements for energy storage devices from the national legislation were considered.</li> <li>— the study hypotheses were verified by a statistical programme. The calculation of the unit costs is based on the results of the correlation analysis.</li> </ul> <p>Example 2: Only operations related to the energy efficiency renovations were used for the calculations, The following operations regarding renovations not linked to energy efficiency were excluded: (list of the operations).</p> <p>Within the financed operations, the costs categories were verified and only the costs covered by the SCO were considered in the calculation. All the cost categories used to calculate the unit cost have been checked and approved by the managing authority and audit authority.</p>
<p>5. Assessment of the audit authority(ies) of the calculation methodology and amounts and the arrangements to ensure the verification, quality, collection and storage of data.</p>	<p>The positive ex-ante assessment by the AA is mandatory and will be uploaded in SFC under the section General -&gt; Documents.</p>	<p>Example 1: Based on the assessment of the study on the establishment of SCOs, the audit authority can confirm that the proposed structure complies with the regulatory requirements, in particular:</p> <ol style="list-style-type: none"> <li>a) the calculation method is fair, correct and verifiable;</li> <li>b) the data used is based on other objective information (market price survey). The data used was assessed as reliable and relevant to the type of operation;</li> <li>c) the categories and types of expenditure taken into account for the establishment of SCOs comply with the relevant national and EU eligibility rules, in particular those set out in Articles 64 and 67 CPR;</li> <li>d) based on the information available on the structure of unit costs, there is no risk of double financing of the same costs (the SCOs in question do not cover all the costs of the operation, additional costs reimbursed by other SCOs do not duplicate or cover the same costs);</li> <li>e) the amounts of simplified cost options per unit of measurement determined are consistent with the assumptions made and the data used to determine the amounts;</li> <li>f) the description of the adjustment method provides sufficient information on the conditions and timing of its application, the conditions are clear and measurable, and the method is considered appropriate.</li> </ol> <p>As regards the measures to ensure the verification, quality, collection and storage of data, appropriate supporting documents and a system are planned to be used to confirm the achievement of the intermediate number of units and the storage of data.</p>

		Example 2: Positive assessment of the audit authority according to the audit authority's assessment report (in annex),
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## ANNEX 3

**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 3 million notification threshold laid down in Article 4(1)(n) GBER for trainings and all the other conditions laid down by GBER in respect of such aid are satisfied. Therefore the GBER applies.

The beneficiary and the managing authority agree to make use 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.

The managing authority decides to establish unit costs to determine the eligible expenditure of the projects. It is using statistical data (according to Article 53(3)(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:

Direct costs (in EUR)		Indirect costs (in EUR)	
Trainer — remuneration	100 000	Administrative costs	17 500
Trainer — travel costs	10 000	Rent	15 000
Trainees — remuneration	140 000	Overheads	12 500
Trainees — accommodation	55 000	<b>Total indirect costs</b>	<b>45 000</b>

Trainees — travel costs	25 000
Non-depreciable consumption goods	5 000
Publicity	2 000
Organisation costs	5 000
<b>Total direct costs</b>	<b>342 000</b>

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

The calculation is as follows:

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

The provisional funding of the training project is as follows:

<b>Public funding (national + ESF)</b>	EUR 193 500
<b>Private funding (self-financing)</b>	EUR 193 500
<b>Intensity of state aid</b>	50 %

Article 31(4) GBER limits the aid intensity to 50 % of the eligible costs (as set out in the document setting out the condition for support). The provisional budget is in line with this requirement.

After implementation of the project, the eligible costs 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:

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