



# FAMENET

## Working Paper Simplified Cost Options (SCO) Update 2023

**Final**

December 2023

# FAMENET

## Working Paper Simplified Cost Options (SCO)

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EUROPEAN COMMISSION – Directorate-General for Maritime Affairs and Fisheries

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The approach and methodologies proposed do not constitute legal interpretation and are not binding. They are considered recommendations by technical experts to enhance exchange among stakeholders and to enrich the body of knowledge on EMFAF implementation.

**Recommended citation:**

EUROPEAN COMMISSION – Directorate-General for Maritime Affairs and Fisheries, Unit D.3 (2023): FAMENET Working paper on Simplified Cost Options (SCO), Brussels

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## List of acronyms

AA	Audit Authority
EC	European Commission
CIR	Commission Implementing Regulation
CLLD	Community-led local development
CPR	Common Provisions Regulation
DCF	Data Collection Framework
EAFRD	European Agricultural Fund for Rural Development
ERDF	European Regional Development Fund
EMFF	European Maritime and Fisheries Fund
EMFAF	European Maritime, Fisheries and Aquaculture Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
FEV	Fair, equitable and verifiable calculation principle
FNLC	Financing not linked to costs
LAG	Local Action Group
MA	Managing Authority
MS	Member State
OP	Operational programme
OtS	Off-the-shelf (SCOs)
PA	Paying Agency
SCOs	Simplified Cost Options
ToO	Type of operation

## 1 Introduction

### 1.1 Background

The use of flat rates, unit costs and lump sums (referred to as “simplified costs” or SCOs/Simplified Cost Options) is considered an important simplification measure to reduce administrative costs and burdens in the framework of the European Structural and Investment Funds. In 2020 and 2021 FAME, one of FAMENET’s predecessors, developed a working paper on the use of simplified cost options in the European Maritime and Fisheries Fund (EMFF). It addressed possible approaches for the introduction of SCOs tailored to the specific measures and types of actions implemented through the fisheries funds.

Since the publication of that working paper a lot has changed, especially due to the crisis measures introduced to respond to the COVID-19 outbreak and Russia’s military aggression against Ukraine. As a consequence, the introduction of SCOs in EMFF and EMFAF programmes has accelerated.

With these changes in mind, it has become clear that further updates and clarifications with respect to the use of SCOs are needed. This need is based on feedback from the stakeholders, FAQs received, observations internally in FAMENET and DG MARE, and experience gained after a year of assessing SCO methodologies.

### 1.2 Purpose and target groups

The purpose of this working paper is to provide operational guidance on the simplified costs applicable to the EMFF/EMFAF, with a view to encouraging their widest possible use to secure simplification for beneficiaries.

The present Working Paper aims to:

- summarise the lessons learned on the application of SCOs in 2022 and 2023;
- identify areas where SCOs are applicable in EMFAF programmes and help outline an EMFAF-specific SCO approach;
- demonstrate practical examples of how to establish relevant SCOs; and
- provide EMFAF MAs with practical tools for developing and applying SCOs in EMFAF programmes.

The target groups are officers of the EMFF/EMFAF MAs and related authorities (e.g. Audit Authorities), and DG MARE geographic policy officers.

#### **Limits of the working paper**

This working paper cannot conclusively answer all technical questions concerning the application of SCOs. SCOs are currently an open concept that will require many more clarification steps at both European and national levels over the next few years. As the saying goes, “paths are made by walking”.

The working paper explains the legal framework generally, but for ease of reading it does not refer specifically to the content of Articles. It provides an EMFAF-specific introduction to SCOs and cannot replace an in-depth study of the legal framework.

### **1.3 Structure of the working paper**

Following the introduction, this working paper contains five additional chapters.

Chapter 2 briefly describes the methodological steps and provides further reading. Chapter 3 examines the applicability of SCOs explicitly for EMFF/EMFAF programmes. Chapter 4 offers an introduction to SCO application. Chapter 5 gives an overview of SCOs applied for compensation. Chapter 0 contains recommendations and examples of tailor-made SCOs applied in the MSs, and concludes by discussing the description of SCOs in the EMFAF programme template. Annex 1 demonstrates the application of financing not linked to costs (FNLC) in Austria.

### **1.4 Acknowledgments**

For their active contributions to the working paper we thank the Managing Authorities and funding experts from the Member States and representatives of the European Commission.

We thank in particular representatives from the MSs who have presented their SCOs at FAMENET MA meetings and in online channels (Austria, Bulgaria, Cyprus, Czech Republic, Denmark, France, Greece, Hungary, the Netherlands, Romania and Sweden).

We further invite Member States to take an active part in FAMENET events to present and discuss their experiences of introducing SCOs.

## 2 Methodology

### 2.1 The development path of SCOs

The use of flat rates, unit costs and lump sums (referred to as “simplified costs” or Simplified Cost Options (SCOs)) is considered by the European Commission (EC) and the European Court of Auditors<sup>1</sup> to be one of the most important simplification measures to reduce administrative costs and burdens, and the likelihood of error. The increased use of SCOs has been pursued at the European level for more than a decade.

In 2006, the 2007-2013 ESF Regulation introduced an important simplification allowing the Member States (MSs) to declare indirect costs, i.e. overheads, on a flat-rate basis covering up to 20% of the direct costs of an operation. During the 2007-2013 programming period some additional options were introduced in the form of standard scales of unit costs and lump sums, and the ability to use them was extended to the ERDF.

For the 2014-2020 period the European Commission proposed to retain the 2007-2013 period options. The European Commission also extended these possibilities, seeking more legal certainty for national authorities and more harmonisation among the ESIFs, as well as with other EU Funds implemented under shared management or through other methods of implementation.

To fully use this potential, SCOs are at the centre of the regulatory framework of the 2021-2027 programming period. There is significantly more emphasis on the use of SCOs, and more “off-the-shelf” options are offered, building on the Omnibus Regulation from 2018.<sup>2</sup>

The main advantage of using simplified costs is that tracing every Euro of co-financed expenditure to individual supporting documents is no longer required. According to the EC,<sup>3</sup> further benefits are:

- SCOs significantly reduce the administrative burden for both Managing Authorities and beneficiaries (especially smaller ones);
- they allow administrations to shift the focus from collecting and verifying financial documents to achieving policy objectives, i.e. concentrating on achieving concrete outputs and results instead of verifying and controlling costs actually incurred;
- they simplify the audit trail, thereby reducing the risk of errors – for three years in a row the European Court of Auditors has not found any errors in transactions using SCOs, which means fewer interruptions and suspensions, and faster reimbursement of expenditure.

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<sup>1</sup> See the 2017 Annual report by the Court: <https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2017/annualreports-2017-EN.pdf>.

<sup>2</sup> Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No. 1296/2013, (EU) No. 1301/2013, (EU) No. 1303/2013, (EU) No. 1304/2013, (EU) No. 1309/2013, (EU) No. 1316/2013, (EU) No. 223/2014, (EU) No. 283/2014, and Decision No. 541/2014/EU and repealing Regulation (EU, Euratom) No. 966/2012.

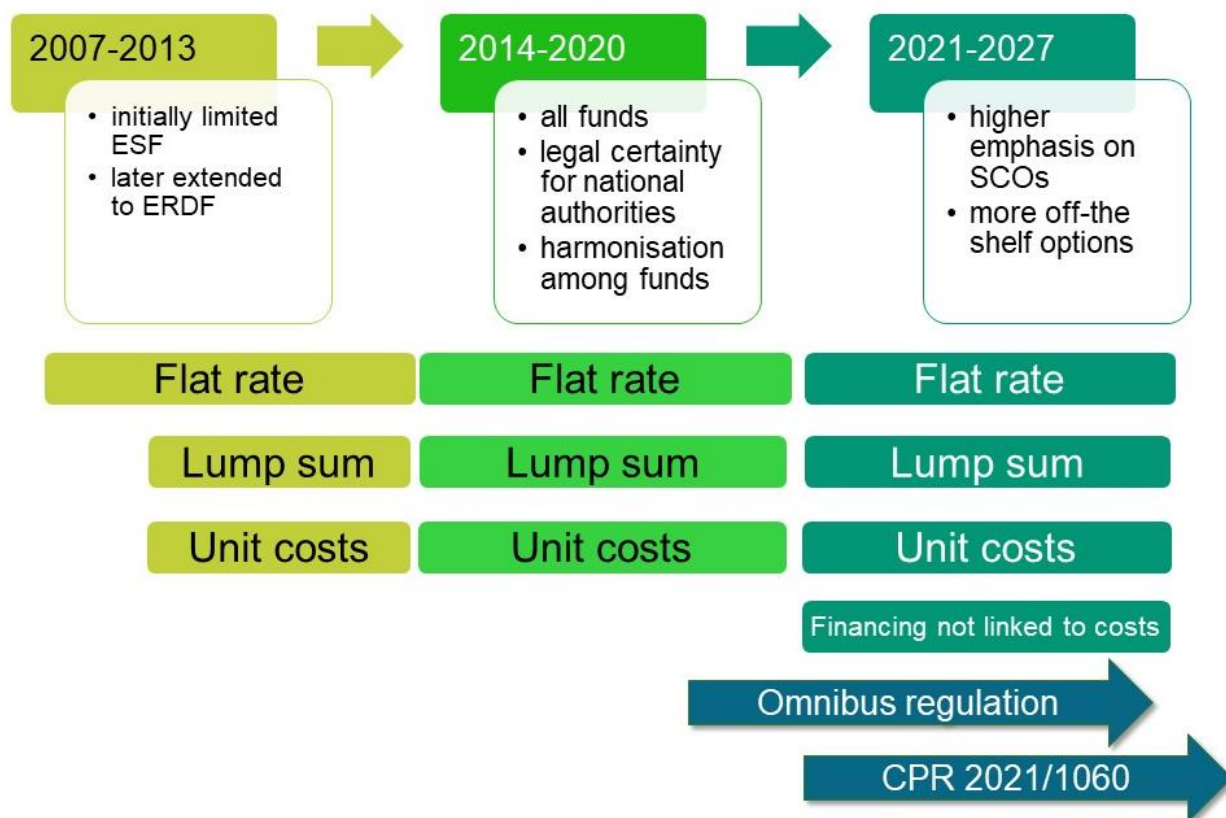
<sup>3</sup> See the Commission’s website on SCOs (European Social Fund Plus, Simplified Cost Options): <https://ec.europa.eu/european-social-fund-plus/en/simplified-cost-options#:~:text=What%20is%20it%3F,on%20process%2C%20outputs%20or%20results.>



While the ESF, for example, has initiated broad use of SCOs, application in the EMFF was previously limited. EMFAF, as the smallest ESI Fund, needs to learn from experience gained elsewhere and to provide EMFAF-specific assistance to the Managing Authorities (MAs) to develop national and regional cost options.

In short, SCOs are not a new phenomenon and have been used for several programming periods as outlined in Figure 1 below. Implementation started in the ESF before being rolled out to all the other ESIF, and there is an ever-growing stock of experience.

**Figure 1: Evolution of the use of SCOs across programming periods**



Source: FAMENET, 2023

Experience from the past shows, however, that the implementation of SCOs is not straightforward and requires intensive preparation.

**Balancing potential gains and administrative costs**

The MAs face the challenge of finding a good balance between, on the one hand, the necessary investment in introducing (as off-the-shelf options) or developing (as tailor-made options) the methodology in advance, and on the other hand the expected time savings for authorities and beneficiaries in applications and payment claims. It is also important that the management verifications and audits of operations implemented via SCOs follow logical rules and should not offset the associated potential gains, e.g. through “gold plating” (extra requirements imposed by national rules).

Table 1 outlines potential advantages and challenges when applying simplified costs. It is important to consider which actions can be handled more efficiently with the help of SCOs and which cannot. The working paper is intended to help with this decision.

**Table 1: Achieving a good trade-off between advantages and challenges in funding management when applying simplified costs**

Phase	Potential advantages	Challenges
Preparation	<ul style="list-style-type: none"> <li>• SCOs may be used for a wide range of types of operation and types of expenditure</li> <li>• No need to prepare any methodology when using off-the-shelf solutions</li> <li>• Some off-the-shelf solutions are easily applied and widely used (e.g. calculation of indirect costs)</li> <li>• A flexible combination of different types of SCOs is possible</li> <li>• Draft budgets can be established for individual projects on a case-by-case basis</li> <li>• SCOs from EU or national schemes can be copied if types of beneficiaries and operations are similar</li> <li>• Moving from invoice checks towards result-based payments</li> </ul>	<ul style="list-style-type: none"> <li>• SCOs are only suitable for a certain number of similar operations and with no large variation in costs</li> <li>• If off-the-shelf solutions are not used, the MA faces additional in-house workload or external costs for outsourcing when preparing the methodology</li> <li>• Need to justify assumptions and data used for the methodology (traceability)</li> <li>• An independent check on the design of the SCO is necessary (by the AA), which takes time</li> <li>• Need to regularly review and update the methodology (but historical data on “real costs” are no longer available)</li> </ul> <p><b>Reasonable advance and ongoing investment</b></p>
Application for support	<ul style="list-style-type: none"> <li>• No check on plausibility of costs of individual applications</li> </ul>	<ul style="list-style-type: none"> <li>• In the case of draft budgets, cost plausibility has to be checked</li> </ul>
Payment claim	<ul style="list-style-type: none"> <li>• Easier for beneficiaries to submit payment claims (reduced volume of documents to be provided)</li> <li>• The MA (or the Paying Agency (PA) for the EAFRD) saves time by not checking invoices or proof of payment (shift from invoices to outputs)</li> </ul> <p><b>Expected time savings for authorities and beneficiaries</b></p>	<ul style="list-style-type: none"> <li>• The MA/PA has to verify whether the operation has been completed and whether the quantities claimed are correct, including spot checks</li> <li>• Audit Authority checks detailed SCO methodology and correct application</li> <li>• Commission auditors may examine the methodology and the application</li> </ul> <p><b>All risks can be calculated, and no increased workload for MA</b></p>

Source: FAMENET based on a compilation of different sources, 2023

Remark: The term “real costs” refers to actual costs that have to be verified individually, in contrast to SCOs.

## 2.2 Methodological steps

In 2020 and 2021 FAME developed a working paper (WP) on the use of simplified cost options in the European Maritime, Fisheries and Aquaculture Fund (EMFAF). This WP was published in February 2021 and updated in August 2021. Due to its importance, the WP was also uploaded to the FAMENET website and has been distributed to the stakeholders on various occasions.

Since the publication of the original WP a lot has changed, especially due to the crisis measures introduced to respond to the COVID-19 outbreak and Russia's military aggression against Ukraine. For the latter, the European Commission has activated the "crisis mechanism" of Article 26(2) of Regulation (EU) 2021/1039 (the EMFAF Regulation) allowing for compensation in case of exceptional events causing a significant disruption of markets. Furthermore, in accordance with Article 68 of Regulation (EU) 508/2014 (the EMFF Regulation), as amended, the EMFF may support financial compensation to operators in the fisheries and aquaculture sectors for income foregone and additional costs incurred due to the market disruption caused by Russia's military aggression against Ukraine and its impact on the supply chain of fishery and aquaculture products.

As a consequence, the introduction of SCOs in EMFF and EMFAF programmes has accelerated. A series of peer-to-peer meetings with stakeholders have also addressed the use of SCOs, since there is a huge demand by MSs to discuss the practical implementation of SCOs.

Reflecting those developments, the following updates and clarifications were introduced:

- screening and presentation of all relevant changes in relation to SCOs (e.g. in the legal framework, and new technical documents);
- additions to the existing text and improved graphics in some sections;
- new case studies on regular (non-crisis) SCOs applied in EMFAF programmes (or used in other funds and potentially transferable to EMFAF), as far as information is available (see the updated Chapter 0);
- a new chapter (Chapter 5) on tailor-made SCOs used for EMFF and EMFAF compensation in the context of the war in Ukraine, giving an overview of programmes that use crisis compensation schemes and an in-depth case study;
- a new section on how to evaluate SCOs (4.7) in order to be able to observe whether the expectations on SCO can be confirmed in real implementation.

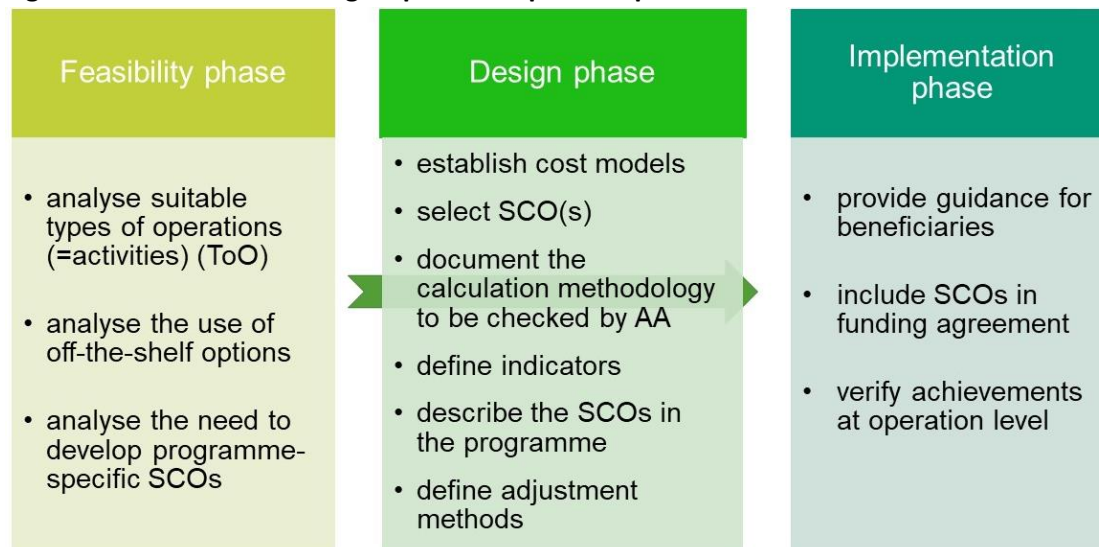
## 2.3 Tools offered to support the application of SCOs in the EMFAF

Extensive work is needed to introduce or develop SCOs, especially tailor-made ones developed for the programmes.<sup>4</sup> Figure 2 shows the three phases involved, and their working steps.

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<sup>4</sup> See for example the Interact working paper: Road map for a programme specific SCO, June 2020.

**Figure 2: Phases and working steps to set up and implement SCOs**



Source: FAMENET, 2023

This working paper provides specific tools to better manage these phases.

#### When checking the feasibility of SCOs...

- Read the list of guidance documents in section 2.3.
- Identify the actions best suited to SCOs by reading Chapter 3, which includes general criteria for applicability and how to screen suitable types of operations.
- Understand how SCOs work by reading Chapter 4, and learn to distinguish between off-the-shelf options and tailor-made solutions.

#### In the design phase of SCOs...

- See the inspiring examples of how to establish the method of calculation for relevant SCOs as described in Chapters 5 and 0 and the Annexes.

#### In the implementation phase...

- Read section 4.6 on management verification and section 4.7 on evaluating SCOs.

## 2.4 Legal framework and guidance documents

The legal framework for SCOs in the 2021-2027 programming period is set out in the Common Provisions Regulation (CPR) 2021/1060 for the European Structural and Investment Funds (ESI Funds, which include EMFAF). In particular, Articles 51-56, 74, 94 and 95 provide that MSs may use different types of SCOs to calculate the eligible costs of operations co-financed by the ESI Funds, instead of the traditional method of calculating costs on the basis of the costs actually incurred and paid. In addition, many guidelines, tools and exchange platforms are available on the subject of SCOs; here are some examples:

- **European Commission: Simplified Cost Options website offering guidance and exchange on SCOs and network meetings**

[https://ec.europa.eu/regional\\_policy/policy/how/improving-investment/simplified-cost-options\\_en](https://ec.europa.eu/regional_policy/policy/how/improving-investment/simplified-cost-options_en)

- **Expert Group on European Structural Investment Funds (EGESIF)**

A key guidance document on SCOs is “Commission Notice Guidelines on the use of simplified cost options within the European Structural and Investments Funds (ESI) – revised version (2021/C 200/01)”. This was revised for the 2014-2020 programming period and published in May 2021:

[https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0527\(02\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0527(02))

- **ESF Transnational Cooperation Platform and its “Community of Practices on Results-based Management”**

“Simplified Cost Options – A practitioners’ manual” includes 17 case study reports on SCO practices from the 2014-2020 programming period:

<https://ec.europa.eu/european-social-fund-plus/en/publications/simplified-cost-options-practitioners-manual>

“Ex ante assessment of Simplified Cost Options and partnerships between managing authorities and audit authorities – How to do it?”

<https://ec.europa.eu/european-social-fund-plus/system/files/2021-11/KE-03-21-360-EN-N.pdf>

- **Interact**

Interact is intensively involved in the practical application of SCOs and provides very good learning materials, such as:

<http://www.interact-eu.net/search/node/simplified%20cost%20options>

<https://learning.interact-eu.net/course/scos-explained/> (Online course, estimated time: 5 hours)

- **Guidance developed by programmes (in English)**

For example, the “Detailed Guidance on using simplified costs” developed by the Welsh Government, Version 4 from June 2021:

<https://www.gov.wales/sites/default/files/publications/2021-06/eu-structural-funds-2014-2020-using-simplified-costs-guidance.pdf>

- **Evaluation Studies** of the application of Simplified Costs, for example, a Portuguese study from 2021 (in English):

[https://portugal2020.pt/wp-content/uploads/custos\\_simplificados\\_executive\\_summary\\_vf.pdf](https://portugal2020.pt/wp-content/uploads/custos_simplificados_executive_summary_vf.pdf)

**Note:** The present working paper provides an EMFAF-specific introduction to SCOs and **cannot replace an in-depth study** of the guidelines.

### 3 Areas where SCOs are applicable in the EMFAF

#### 3.1 SCOs as part of the intervention logic

SCOs are a tool to implement certain actions more efficiently and help them to achieve the expected results. When considering the use of SCOs, therefore, practitioners should start from the actions and the types of projects involved (see below), not from the costs.

To support the smart implementation of SCOs in the intervention logic of the EMFAF programmes, this working paper references SCOs to:

- Infosys “types of operations” (ToOs) for the 2021-2027 period (according to Commission Implementing Regulation (CIR) 2022/79, Annex II, Table 7), and
- “SCO specific types of operations” (subgroup).

Further details on the terminology used are provided in Chapter 7 SCO terminology in the EMFAF programme template.

#### 3.2 General criteria for the applicability of SCOs

The choice and design of SCOs are the sole responsibility of the MA. One possible approach to explore the applicability of SCOs is to screen types of operations and rate them along with relevant criteria. Based on such screening, prioritisation is feasible. Such an approach can help MAs to better explore the feasibility of SCOs. Table 2 shows criteria that can be used for the analysis:

**Table 2: Points to consider when exploring the need for SCOs**

Criteria	Description
<b>Procurement plays a minor role, if any</b>	Simplified costs can only be applied to ToOs or projects that are not outsourced/contracted through the procurement of works, goods or services. Costs implemented through procurement must be deducted from total eligible costs before applying SCOs.
<b>Large number of standardised operations</b>	SCOs are suitable for ToOs that include many repetitive operations (>50 in our screening) that are stable in terms of conditions. “Repetitive” means that the action has a high level of standardisation; the more similar the operations, the more suitable they are for SCOs. On the other hand, complicated non-standardised projects seem inherently less suited to SCOs and are safer to run with real cost options that allow changes to the project plan during implementation.
<b>Potential to reduce the administrative burden</b>	SCOs are advantageous when operations are particularly burdensome or error-prone to control based on their real costs. For instance, administrative expenses usually represent only a small part of the total costs, but checking many small cost items is time-consuming and the effort is not proportionate to the total costs. Even small measures can place a disproportionate burden on administrative capacity. Simplification of staff costs and indirect costs serves a wide range of projects. For this purpose, off-the-shelf (OtS) SCOs are available (see also section 4.2). By contrast, “one invoice” operations do not lend themselves to SCOs.
<b>Beneficiaries have low administrative capacity</b>	When beneficiaries (or partnerships of beneficiaries) lack administrative capacity (e.g. small organisations), there is a higher risk that they will not deliver accounting documents correctly and in good time. In such cases SCOs in the form of flat rates or lump sums may be a good solution.

Criteria	Description
<b>Reliable indicators exist for outputs or results achieved</b>	By reducing the importance of invoices to show spending, SCOs emphasise the need for representative and consistent data on outputs or results (indicators) to verify the implementation. This is particularly relevant when calculating unit costs.
<b>ToO or operation has a large budget to achieve high leverage</b>	Ideally, the introduction of SCOs should allow large budgets to be handled with relatively little administrative effort. If a significant part of the programme can be covered in terms of funds, this justifies the effort required to set up SCOs. Do not invest too much effort in setting up SCOs to cover specific costs with limited impact on reducing administrative cost and burden.

Source: FAMENET, based on a compilation of different sources, 2023

An important starting point for the introduction of SCOs is to identify types of operations that are inherently difficult to administer and verify; apart from the cost and effort involved, because of it potential beneficiaries may not be interested to apply with projects.

#### **Example of an administratively demanding action that led to an SCO (Czech Republic)**

Compensation for damage caused by cormorants is administratively so demanding that smaller fish farmers often do not apply.

A great burden on fishers is the need for an expert opinion to prove the damage suffered. In the case of small breeding ponds, this often costs more than the compensation obtained. However, even the assessments by the experts – drawn up on the basis of the number of fish stocked and the number of cormorants indicated by the injured party – are more or less rough estimates. It is almost impossible to quantify the actual damage in these cases.

### **3.3 Identifying suitable types of operations for SCOs**

Since SCOs are not suitable for every type of operation and project, it is of major interest to identify suitable ToOs for which the use of SCOs provides a real benefit in administrative management.

#### **Methodology to identify suitable types of operations**

To start the process of identifying suitable areas, those ToOs were selected in which SCOs are either already in use or in preparation, or which appear potentially suitable according to the general criteria mentioned in section 3.2. In more detail, ToOs were selected where:

- SCOs are already used in EMFF 2014-2020, or are planned and already under preparation for EMFAF 2021-2027, including both cross-cutting SCOs and those used for specific ToOs; or
- there is a potential for SCOs, which is assessed according to two criteria:
  - o Infosys data show higher case numbers (a minimum of 50 operations per ToO); or
  - o expert judgment suggests a high proportion of operations that are standardised or very similar, and whose achievements can be measured by indicators.

Table 3 shows the results. The analysis is provisional, and provides only indicative results that need to be discussed with the MSs. The SCOs already developed in the various MSs may be considered for their broader or EU-wide relevance.

Out of a total of 66 ToOs, in 25 cases (38%) the use of SCOs appears to be appropriate according to the current state of knowledge. According to the findings, SCOs may be used in a wider range of measures than they are at present, including both “soft” (e.g. training) and “hard” (e.g. infrastructure or productive investment) spending.

Besides the more widespread application of SCOs for data collection (EMFF Article 77 or EMFAF SO 1.4, ToO 46) and cross-cutting mechanisms to cover indirect costs (overheads), an attempt was made to include operations in which simplified reimbursement for staff costs, compensations and capital investments would appear to make sense.

When looking through the SCOs listed in Table 3, it is noticeable that:

- SCOs individually designed for the programmes dominate, while only few off-the-shelf (OtS) SCOs – as defined in the CPR – are used. An example is the calculation of indirect staff costs at a flat rate of 15% of eligible direct staff costs.
- All types of SCOs are used: unit costs, lump sums and flat rates. A draft budget is also used to calculate lump sums (see the introduction to SCOs in Chapter 4). Lump sums and unit costs are likely to have great potential for capital investment projects.

**Table 3: SOCs – applied and potential – for suitable types of operations<sup>5</sup>**

Types of operations (CIR 2022/79)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, and subject to further revision)
(01) Investment in reduction of energy use and energy efficiency	Replacement of vessel engine	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> Flat rate for the installation of an engine as a percentage of engine costs (remark: the costs for the replacement of the vessel engine itself is easily proven by submitting an invoice on real costs reflecting different power classes).</li> <li>• <b>EMFAF 2021-2027:</b> Italy, <u>unit cost</u> for the purchase of engines used in fishing and aquaculture vessels (EUR per kW).</li> </ul>
(02) Investment in renewable energy systems	Installation of solar panels	<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Estonia: <u>unit costs</u> for encouraging solar energy deployment for fisheries, aquaculture, and processing.</li> </ul>
(03) Investment in on-board production equipment	Cooling installations	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> the Netherlands, <u>lump sum</u> for investment in added value, product quality and use of unwanted catches (*)</li> </ul>
(08) Preparation and implementation of production and marketing plans by producer organisations	Preparation of the production and marketing plan	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> the Netherlands national calculation: <u>lump sum</u> for staff costs to support the preparation of production and marketing plans (PMPs) by producer organisations (POs). (Remark: a PMP for a large PO with several hundred vessels entails more work than for a small PO. SCOs may incorporate fixed staff unit costs, but these have to be multiplied by the amount of time spent. The potential for the SCO is only for PMP</li> </ul>

<sup>5</sup> SCOs that are described in detail in chapter 6 are marked with (\*)



Types of operations (CIR 2022/79)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, and subject to further revision)
		<p>preparation. Support for PMP implementation cannot be lumped, since it depends on the extent of the measures foreseen.)</p> <ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Estonia: <u>lump sum</u> for the implementation of production and marketing plans.</li> </ul>
(10) Advisory services	Knowledge, innovation and technology	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> Ireland, Knowledge Gateway Scheme, funding for projects that promote knowledge, innovation and technology in the aquaculture sector. For projects undertaken by research institutions, overheads eligible at a <u>flat rate</u> of 25% of eligible direct costs (excluding equipment, subcontracting costs and vessel charter). Personnel costs are calculated from <u>unit costs</u> based on total salary cost/1 720 hours per annum.</li> <li>• <b>EMFF 2014-2020:</b> Ireland, Seafood Processing Innovation Scheme, <u>lump sum</u> for hiring an Innovation Specialist providing technical expertise and advice on innovation and R&amp;D activities.</li> <li>• <b>EMFF 2014-2020:</b> Ireland, Seafood Scaling and New Market Development Scheme. For market visits/trade shows, a <u>lump sum</u> for economy flights and up to €240 per day, subject to approval.</li> <li>• <b>EMFF 2014-2020:</b> Greece: <u>flat rate</u> (15% of staff cost for indirect costs) for innovation projects (Articles 26, 39, 47).</li> <li>• <b>EMFAF 2021-2027:</b> Italy: <u>unit cost</u> for consulting services (EUR per hour).</li> </ul>
(14) Training to improve skills and develop human capital	Vocational training and skills acquisition	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Unit costs</u> for training (labour costs of teachers and other training costs): number of hours × number of trainees, with a standard scale of unit costs.</li> <li>• <b>EMFAF 2021-2027:</b> Italy: <u>unit cost</u> for vocational training (EUR per course hour and number of trainees).</li> </ul>
(17) Capacity building	Capacity building	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> Direct management of EMFF by the EASME agency: indirect costs (overheads) are calculated at a <u>flat rate</u> of 7% of the eligible direct costs (direct personnel costs, subcontracting and other direct costs).</li> </ul>
(21) Studies and research	Research	<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Italy: <u>Unit costs</u> for R&amp;D projects (hourly costs for personnel in EUR).</li> </ul>
(25) Restocking of aquatic species	Direct restocking	<ul style="list-style-type: none"> <li>• <b>Potential:</b> <u>Unit costs</u> for direct restocking (e.g. EUR/quantity of juveniles released). (Remark: France uses unit costs for eel restocking based on quantity (EUR 350/kg). This is used not in the EMFF operational programme but in a national aid scheme.)</li> </ul>
(26) Retrieval and/or proper disposal of marine litter	Landing of marine litter	<ul style="list-style-type: none"> <li>• <b>Potential:</b> <u>Unit costs</u> for landing of marine litter per unit weight or volume. (Remark: Fishers mostly use fish boxes to store litter; a check of the weight or number of boxes is necessary to prevent abuse.)</li> </ul>
(27) Environmental services	Compensation	<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Czech Republic: compensation for damage caused by fish-eating predators (mainly cormorants), with <u>unit costs</u> per hectare individually set by the programme based on a Hungarian statistical model. (*)</li> </ul>

Types of operations (CIR 2022/79)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, and subject to further revision)
		<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Czech Republic: compensation for non-production functions of ponds, <u>unit costs</u> per hectare individually set by the programme for ponds of 2-5 hectares.</li> <li>• <b>Potential SCO:</b> <u>Unit costs</u> for the compensation of additional costs/loss of revenue for conversion to organic aquaculture, Article 53(3) of the EMFF Regulation.</li> <li>• <b>Potential SCO:</b> <u>Unit costs</u> for the compensation of additional costs/loss of revenue for specific requirements for aquaculture in respect of Natura 2000, Article 54(2) of the EMFF Regulation.</li> </ul>
(28) Specific investments for improving aquatic habitats and biodiversity	Compensation	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Unit costs</u> per weight for damage to catches caused by protected mammals and birds, Article 40(h) of the EMFF Regulation; or a flat percentage rate for lost revenue (e.g. 5% of annual revenue).</li> <li>• <b>EMFF 2014-2020:</b> Cyprus: lump sum to compensate fishers for losses from dolphins (Article 40(1) of the EMFF regulation).</li> </ul>
(29) Permanent cessation of fishing activities	Scrapping	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Lump sum/unit costs</u> by gross tonnage for decommissioned vessels, with adjustment for vessel age.</li> <li>• <b>EMFF 2014-2020:</b> France set a scrapping premium (<u>unit cost</u>) on the basis of vessel tonnage and age for vessels from 0 to 24 m. Aid received = (tonnage x indexed subsidy + fixed subsidy) x discount according to the age of the vessel</li> <li>• <b>EMFAF 2021-2027:</b> Italy: <u>unit cost</u> for the permanent cessation of fishing activities (compensation for scrapping in EUR per vessel type).</li> </ul>
(30) Temporary cessation of fishing activities	Temporary cessation	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Lump sum/unit costs</u> for temporary cessation of fishing activities, Article 33 of the EMFF Regulation, EUR/day or EUR/kW/day (the latter would account for the size of the vessel). (Remark: the rate can be estimated using Data Collection Framework (DCF) segment data or logbook or catch declaration for small vessels and first sale prices of catches of the vessels involved; whatever is available. The advantage of data as captured for example in the logbook is that seasonality can be accounted for in calculating the premium.)</li> <li>• <b>EMFF 2014-2020:</b> France: SCO (<u>unit cost</u>) for small vessels based on calculated average turnover across the fleet (different for Mediterranean and Atlantic vessels). For larger vessels there is no SCO; premiums are paid based on actual and verifiable economic performance.</li> <li>• <b>Potential SCO:</b> Article 55 of the EMFF Regulation, public health – temporary suspension of farmed molluscs, <u>flat rate</u> (% of turnover as per Article 55(2)(b) of the EMFF Regulation).</li> <li>• <b>EMFAF 2021-2027:</b> Italy: <u>unit cost</u> for the temporary cessation of fishing activities (daily compensation in EUR per vessel type and qualification level).</li> </ul>
(31) Compensation	Compensation	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> Articles 70-72 of the EMFF Regulation, compensation for additional costs in outermost regions;</li> </ul>

Types of operations (CIR 2022/79)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, and subject to further revision)
		<p>determined by MSs in Commission-approved compensation plan (Article 72) based on standardised premium per unit weight according to species/groups of species.</p> <ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Various MSs: <u>unit cost</u> for the compensation of additional costs caused by Russia's aggression against Ukraine (EUR/kW for fishing vessels or EUR/tonne of aquaculture production).</li> </ul>
(32) Productive investments for sustainable aquaculture	Revitalisation of ponds	<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Czech Republic: mud removal in ponds, <u>unit cost</u> to remove 1 m<sup>3</sup> of mud, individually set up by the programme based on project data.</li> </ul>
(33) Gear selectivity to reduce unwanted catches	Testing activities	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Lump sum</u> to cover costs for testing on board, including equipment and direct labour, to compensate for lost fishing revenues (EUR/day).</li> <li>• <b>EMFF 2014-2020:</b> France: fishing vessels participating in selectivity trials or exploratory fishing are paid a fixed amount per day (<u>lump sum</u>) to compensate for lost fishing revenues. The rate is not standardised across projects, but is set by negotiation during project preparation depending on the estimated revenue foregone.</li> <li>• <b>EMFAF 2021-2027:</b> Estonia: <u>unit costs</u> for different gear types to support the introduction of selective fishing gear.</li> </ul>
(36) Use of unwanted catches	Investment in added value	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> the Netherlands: <u>lump sum</u> for a limited list of eligible investments related to added value under Article 42 of the EMFF Regulation.</li> </ul>
(42) Water usage and water quality improvements	Investment in recirculating aquaculture systems	<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Czech Republic: recirculating aquaculture systems, <u>unit costs</u> per m<sup>3</sup> of breeding space depending on fish species, individually set up for the EMFAF programme.</li> <li>• <b>EMFAF 2021-2027:</b> Czech Republic: investment in aquaculture, <u>lump sum</u> to cover specific costs, individually set up for the EMFAF programme (the existing list of financial limits for eligible expenditure of the EMFF OP Fisheries 2014-2020 can be used).</li> </ul>
(46) Data collection	Data collection on board	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> Ireland/France: data collection scheme – <u>unit costs</u> for vessel days and overheads.</li> <li>• <b>EMFF 2014-2020:</b> Finland: purchase of fish samples for data collection, <u>unit costs</u>, individually set for the EMFF operational programme.</li> <li>• <b>EMFF 2014-2020:</b> Czech Republic: <u>flat rate</u> for calculating indirect costs from staff costs in data collection, individually set for the EMFF operational programme.</li> <li>• <b>EMFF 2014-2020:</b> France: data collection scheme, travel costs based on percentage of salary costs (4% or 6%).</li> <li>• <b>EMFF 2014-2020:</b> Croatia: <u>flat rate and unit costs</u> for data collection.</li> <li>• <b>EMFF 2014-2020:</b> Greece: <u>flat rate</u> for data collection.</li> </ul>

Types of operations (CIR 2022/79)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, and subject to further revision)
		<ul style="list-style-type: none"> <li>• <b>EMFAF 2021-2027:</b> Italy: <u>unit costs</u> for vessel rental (EUR/hour and EUR/day per type of vessel).</li> <li>• (Remark: MAs are encouraged by the EC to use SCOs for data collection (EMFF Article 77 or EMFAF SO 1.4, ToO 46).</li> </ul>
(59) Animation and capacity building	Community animation, project development and awareness-raising activities in LAG areas	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Flat rate</u> off-the-shelf up to 40% (e.g. 35% is also possible) based on staff costs to cover the costs of LAG managers for community animation, project development and awareness-raising activities in LAG areas.</li> <li>• (Remark: performance can be very well monitored through reports by the LAG manager on the activities implemented, without proof of real costs.)</li> </ul>
(56) Pilot projects (57) Socio-cultural development (58) Governance	CLLD small investments Running and animation costs	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Lump sum</u> based on a draft budget for small investments in CLLD projects (below EUR 100 000).</li> <li>• <b>EMFAF 2021-2027:</b> Denmark: <u>lump sum</u> for LAG running and animation costs. (*)</li> <li>• <b>EMFAF 2021-2027:</b> Estonia: <u>lump sum</u> for drawing up strategies for fisheries areas (LAG support).</li> <li>• <b>EMFAF 2021-2027:</b> Estonia: <u>unit costs</u> to cover administrative costs for LAG support.</li> </ul>
(60) Preparatory actions	CLLD preparatory support	<ul style="list-style-type: none"> <li>• <b>Potential SCO:</b> <u>Lump sum</u> based on draft budget costs related to creating a local development strategy, including studies, consultancy and meetings with stakeholders, community groups and potential project promoter.</li> </ul>
(61) Management	Running and animation costs of LAGs	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> Greece, Sweden: <u>flat rate</u> off-the-shelf, 15% of eligible direct staff costs to cover indirect costs (e.g. rental expenses, phone, heating, water, cleaning, postal expenses, secretarial costs, maintenance of PCs, printers, copiers).</li> </ul>
Cross-cutting (ToO not specified)	Indirect costs Staff costs Preparation costs	<ul style="list-style-type: none"> <li>• <b>EMFF 2014-2020:</b> DE, DK, FR, IE, LV, UK-Wales, SE: <u>unit costs</u> to calculate hourly staff costs (annual gross employment costs/1 720 hours; timesheets show hours allocated).</li> <li>• <b>EMFAF 2021-2027:</b> France: <u>hourly unit costs</u> for personnel costs (annual average gross salary / 1 607 h legal working time per a)</li> <li>• <b>EMFAF 2021-2027:</b> Belgium: <u>flat rate</u> off-the-shelf to cover indirect costs, up to 25% of eligible direct costs.</li> <li>• <b>EMFF 2014-2020:</b> Sweden: <u>lump sum</u> from a draft budget for all projects where the MA finds it suitable, established case-by-case and agreed between MA and beneficiary for projects with total costs below EUR 100 000. (*)</li> <li>• <b>EMFAF 2021-2027:</b> Sweden: <u>flat rate</u> off-the-shelf to cover indirect costs, up to 15% of eligible direct staff costs.</li> <li>• <b>EMFAF 2021-2027:</b> Estonia: <u>lump sum</u> for the preparation of application documents for fisheries, aquaculture, and processing.</li> </ul>

Source: FAMENET, based on various sources, 2023

The analysis shows that SCOs may be used for a wide range of types of operations and types of expenditures in the EMFAF priorities (Article 3 EMFAF Regulation), and across priorities:

**In EMFAF Priority 1 “Fostering sustainable fisheries and ... aquatic biological resources”**

- investment in energy efficiency and renewable energy systems
- investments in on-board production equipment
- direct restocking
- data collection and control
- landing of marine litter
- permanent and temporary cessation

**In EMFAF Priority 2 “Fostering sustainable aquaculture ...and food security in the Union”**

- compensation for non-productive environmental services
- production and marketing plans
- revitalisation of ponds
- investments in aquaculture

**In EMFAF Priority 3 “Enabling a sustainable blue economy ...and... development of fishing and aquaculture communities”**

- CLLD preparatory support
- running costs of LAGs
- investments in small CLLD projects

**Across priorities**

- personnel-intensive support of knowledge and innovation, research, training and skills.

**Obligatory use of SCOs for compensation**

According to the EMFAF Regulation (Article 39)<sup>6</sup> any compensation supported by the EMFAF **must take the form of a simplified cost option (but not FNLC)**. This includes all types of compensations that the EMFAF programme can have, including permanent cessation, temporary cessation, and compensation for additional costs or income foregone.

**Summary of the applicability of SCOs in EMFAF programmes**

- SCOs may be used for a wide range of types of operation and types of expenditure, in particular for similar operations that are difficult to administer and to verify.
- SCOs are easy to implement if off-the-shelf solutions are used.
- SCOs are obligatory for any compensation supported by the EMFAF, e.g. permanent/temporary cessation, compensation for additional costs or income foregone.

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<sup>6</sup> Regulation (EU) 2021/1139 of the European Parliament and of the Council of 7 July 2021 establishing the European Maritime, Fisheries and Aquaculture Fund and amending Regulation (EU) 2017/1004.

## 4 Understanding how SCOs work

### 4.1 Basic principles, types of SCOs and implementation options

In brief, what are simplified cost options (SCOs)?

- SCOs are proxies for real costs, determined in advance and based, for example, on statistical data.
- Estimates of future costs will never equate precisely to actual costs; they always over- or under-estimate the actual costs incurred for the operation.
- SCOs must be determined ex-ante before the action is implemented; a sound methodology is key.
- SCOs can be expressed in absolute numbers (such as EUR/ha for unit costs and EUR for lump sums) or as a percentage of other values (such as 15% of turnover for a flat rate).
- Ex-post controls and audits will check not the invoices and amounts paid by beneficiaries but instead the correct application of the calculation method.

#### Principles

Simplified costs should by default be **approximations of actual costs**, determined in advance and based, for example, on averages and surveys of historical data or market prices.

Estimates of future costs will never equate precisely to actual costs; it is inherent in such fixed rates that in many cases they **overcompensate or undercompensate** the actual costs incurred for the operation. On average, however, well-designed SCOs are a **reliable proxy** for real costs. The aim is to reduce these differences to acceptable levels. To achieve the required balance between under- and over-compensation it is mandatory that all beneficiaries apply SCOs when these are available; they should not be allowed to cherry-pick between real costs and simplified costs.

Once simplified cost rates are established (this refers to all SCO types), they **cannot be changed** during or after the implementation of an operation to compensate for an increase in costs or under-utilisation of the available budget.

#### SCO types and implementing options

There are **three types of SCOs** (flat rate, unit cost, lump sum<sup>7</sup>) and five types of **implementing options** including financing not linked to costs (FNLC) (Table 4).

**Table 4: Types of SCOs and implementing options**

Type of SCOs	Implementing options				
	Off-the-shelf	Tailor-made SCOs	Copy-paste	Jointly developed SCOs	Financing not linked to costs (FNLC)
<b>Flat rate</b>	X	X	X	X	x
<b>Unit cost</b>	X	X	X	X	x

<sup>7</sup> A draft budget is a calculation method for simplified cost options, not an SCO in itself.

Type of SCOs	Implementing options				
	Off-the-shelf	Tailor-made SCOs	Copy-paste	Jointly developed SCOs	Financing not linked to costs (FNLC)
<b>Lump sum</b>	Not mentioned in the CPR	X	X	X	X (most cases)

Source: FAMENET, 2023

The implementing options, excluding FNLC (see further below), are:

- **“Off-the-shelf”**: ready-made SCOs offered in the 2021-2027 CPR and Omnibus Regulation from 2018 (flat rates, unit costs, no lump sum). There is no need to develop any methodology, and specific rates and methods can be implemented directly up to the maximum extent allowed. (The CPR offers a single exception to this pattern, in the form of a “do-it-yourself” flat rate calculated based on the Fair, Equitable and Verifiable (FEV) principle.) SCOs are easy to implement if off-the-shelf solutions are used.
- **“Tailor-made” SCOs developed by the MA**: individually developed at programme level by the MA, with a specific methodology incorporating the FEV principle and early consultation with the Audit Authority. A “draft budget” covering up to EUR 200 000 of total costs can also be established at the project level on a case-by-case basis and agreed ex-ante between the implementing body and the beneficiary.
- **“Copy-paste”**: from existing EU or national schemes, but only for similar types of operations and beneficiaries. As example, a unit cost for advisory services used in a Rural Development Programme might be adopted to support advisory services in an EMFAF programme. National schemes may be more difficult to copy-paste than Europe-wide models developed by the Commission.
- **Jointly developed SCOs**: MAs can jointly develop EMFAF-specific SCOs to be made applicable at EU level. Taking into account the small size of the fund, the exploitation of synergies seems a reasonable option.

For specific actions, some types of SCOs might be more suitable than others. It is therefore important to understand the areas of application of the different types, which are briefly described below.<sup>8</sup>

### When to use a flat rate?

In the case of flat rates, specific categories of eligible costs – which must always be clearly identified before the costs arise or activities take place – are calculated by applying a fixed percentage to other categories of eligible costs. The percentage is agreed in advance, at funding approval stage, and does not change during the implementation of the operation.

<sup>8</sup> Also consult Interact guidance such as:

- Interact, Road map for a programme-specific SCO in the 2021-2027 period, September 2021, <https://www.interact-eu.net/download/file/fid/23676>
- Interact, SCOs – the Basics, Session for beginners and reminder for interested, July 2020, <https://www.interact-eu.net/download/file/fid/19692>

For example, a flat rate of 15% may be applied to calculate indirect costs (“overheads”) from direct staff costs. There is no need to justify the 15% rate itself since it is specified by the EU Regulation (“off-the-shelf”). Total eligible costs = real direct staff costs (“basis costs”) + simplified calculated indirect costs + real other direct costs (rooms, travel, meals...).

Flat rates are best suited to high-volume, low-value transactions (such as indirect costs) where verification is costly. On the other hand, the regulations do not limit flat rates to specific categories of eligible costs; they can in principle be applied to any budget line.

To avoid double counting, the MA needs to ensure that the cost categories are clearly defined and distinguished: which costs are covered by which flat rates, which costs are used as the basis for flat-rate calculations, and the distinction between direct and indirect costs.

Management verification needs to check that:

- the basis costs are correct before the flat rate is applied;
- the correct percentage is applied; and
- other reported project expenditure is not already covered by the flat rate.

#### **When to use unit costs?**

All or part of the eligible costs of an operation will be calculated on the basis of an expected quantity of activities, outputs or results multiplied by standard scales of unit costs, agreed at funding approval stage.

For example, daily rates are paid for vessel costs based on historical data averages. Logbooks show days allocated.

This system can be used for any type of project, or part of a project, when it is possible to readily identify and define:

- the expected quantities of a certain activity, output or result that would represent the successful delivery of the operation; and
- a scale of unit costs for those quantities.

Unit costs apply typically to easily identifiable quantities, and could be:

- process-based – such as hourly staff costs – aiming to approximate the real costs of delivering an operation; or
- outcome-based – such as outputs or results; or
- a combination of both process- and outcome-based measures.

When setting up unit costs, the risk of change in behaviour (such as a reduction in quality) should be addressed. For example, if training costs are reimbursed exclusively in terms of the number of people receiving training, there is no incentive to maintain training quality. This risk may be reduced by a combination of process- and outcome-based unit costs (e.g. number of people attending the training according to the agreed standards and succeeding in certain exams).

The management process needs to verify:



- the number of units;
- that the amount declared is justified by the quantities; and
- that other reported project expenditure is not already covered by the unit cost.

### When to use lump sums

Lump sums are similar to unit costs in that all the eligible costs, or parts of eligible costs, of an operation are calculated on the basis of a pre-established lump sum, in accordance with predefined terms of agreement on the activity or event, milestone or implementation step, or an output.

A lump sum arrangement could also be used in the case of grants where standard scales of unit costs are not an appropriate solution. For example, a seminar might cost EUR 20 000 to organise, regardless of the number of participants.

Lump sums are, in effect, a unit cost with an expected quantity of one unit, such as a seminar to be delivered or a toolkit to be produced. They are binary in nature – the grant is paid in full if the predefined terms of agreement on activities and outputs are completed, but none of the grant is paid if delivery is incomplete. If the seminar is organised and its proposed content is delivered, the lump sum of EUR 20 000 can be declared as eligible costs. If the seminar is not organised or the content is not delivered, nothing is paid.

The main difference between lump sums and unit costs is the relationship between costs and quantities. In the case of unit costs, when quantities decrease, the eligible costs decrease proportionally. In the case of lump sums, this proportionality does not apply. A financial risk for the beneficiary can arise when there are no other choices than receiving 0% or 100% of the grant. When setting out the conditions for support in the grant agreement with the beneficiary, it is therefore crucial to define in detail how the reimbursement will be reduced if the objectives are not reached.

The management process needs to verify:

- the relevant deliverables/outputs;
- that the criteria for the payment of the lump sum are fulfilled; and
- that other reported project expenditure is not already covered by the lump sum.

Table 5 below summarises the pros and cons of each type.

**Table 5: Summary of pros and cons for different types of SCOs**

Types of SCOs	Points to consider	Challenges
<b>Flat rates</b>	<ul style="list-style-type: none"> <li>• Best suited to costs that are relatively low and for which verification is costly (e.g. indirect costs)</li> <li>• Need to strictly define direct and indirect costs</li> <li>• No focus on outputs or results</li> <li>• The MA need not provide a calculation methodology when using CPR off-the-shelf products (excluding increased rate of 25%)</li> </ul>	<ul style="list-style-type: none"> <li>• Beneficiaries claim that 15% flat rate for indirect costs is low</li> <li>• All the indirect expenses funded have to relate to the funding purpose</li> <li>• Avoid double funding</li> </ul>

Types of SCOs	Points to consider	Challenges
<b>Unit costs</b>	<ul style="list-style-type: none"> <li>• Can cover all the costs of an operation</li> <li>• Focus on process/outputs/results</li> <li>• Suited to operation with repetitive and regular outputs</li> <li>• MA has to design the methodology</li> </ul>	<ul style="list-style-type: none"> <li>• Calculation of unit costs requires extensive analysis of funded projects (e.g. 1 700 audited projects in LEADER, Saxony)</li> <li>• Costs correspond to the median value; the actual costs may vary</li> </ul>
<b>Lump sums</b>	<ul style="list-style-type: none"> <li>• Can cover all the costs of an operation</li> <li>• Focus on outputs/results</li> <li>• Suited to operations with irregular or single output</li> <li>• MA has to design the methodology (may be based on a draft budget)</li> </ul>	<ul style="list-style-type: none"> <li>• All-or-nothing risk</li> <li>• Concrete requirements for draft budgets are not clear</li> <li>• Threshold for lump sums</li> </ul>

Source: FAMENET, based on a compilation of different sources, 2023

### Financing not linked to costs

Another implementing option offered by the Omnibus Regulation and the 2021-2027 CPR<sup>9</sup> Article 95 is “**financing not linked to costs**” (FNLC<sup>10</sup>). Here, financing is linked not to costs incurred by the beneficiary but to the fulfilment of conditions or results agreed between the MS and the Commission.

FNLC is not an SCO in the narrow sense, though it is similar to standard SCOs since it operates through mechanisms such as unit costs. The difference is that FNLC agreements are made at a higher level, between **MSs and the EC**, and not between MSs and beneficiaries as for standard SCOs.

With FNLC, the EC checks whether the agreed results have been delivered, rather than checking the beneficiaries. There are no more checks of invoices and other supporting documents on the side of the beneficiaries. Second-level (EU) audits are limited to checking compliance with (intermediate or final) “financing conditions” for the reimbursement of EU funds.

<sup>9</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.

<sup>10</sup> Occasionally also the acronym FNLTC is used in the literature.

### **Austria's FNLC pilot**

An Austrian FNLC pilot started in October 2019 in the area of energy efficiency and renewable energy, based on Commission Delegated Regulation (EU) 2019/694. It concerns an existing and well proven funding measure in the ERDF OP and addresses for example energy saving in enterprises and building refurbishment. Funding is planned for around 2 300 projects in total.

A fixed ERDF contribution of EUR 250 per tonne of CO<sub>2</sub> saved was agreed with the EC and enshrined in the OP. The related CO<sub>2</sub> reduction goal is 58 500 tonnes per year up to 2023. Intermediate financing conditions were agreed with the EC, which was to release 25% of the ERDF funds by 2019, 40% by 2020, 75% by 2021, 95% by 2022, and 100% by 2023.

The pilot FNLC had a good start in 2019 and the financing conditions were met in 2019 and 2020.

Since there are no longer checks of single operations, the Intermediate Bodies saw a massive reduction in their administrative burden.

In the new ERDF/JTF programme for the 2021-2027 period Austria plans to release at least 25%-30% of the funds via the FNLC approach. Other thematic areas for funding are under consideration; the 2021-2027 CPR no longer restricts FNLC to energy efficiency and renewable energy, as in the Delegated Act 2019/694.

A detailed case study on the Austrian FNLC pilot is available in Annex 8.1.

MS are required to use FNLC if the costs for Technical Assistance exceed 6% of the budget of the programme to cover the excess (information given by the EC from 16 April 2021).

In developing the FNLC methodology, MSs are required to submit a proposal to the EC in accordance with the EMFAF programme template (CPR Annex V, Appendix 2: Union contribution based on financing not linked to costs). All the basic principles are covered in the 2021-2027 CPR. An ex-ante assessment by the Audit Authority is not mandatory, but is recommended. Support from international experts is advisable to develop the FNLC methodology. Application in the EMFAF may be further discussed in upcoming EMFAF expert group meetings, as necessary.

## 4.2 Application of off-the-shelf SCOs

Seven off-the-shelf SCOs were introduced by the EC in the CPR and ETC Regulations. This means that for these SCOs the managing authority (MA) is not required to develop a specific methodology, with the exception of an “almost off-the-shelf” flat rate of up to 25% for indirect costs (Article 54(c) CPR), for which the methodology needs to be developed by the MA.

Off-the-shelf SCOs are the easiest to use in terms of effort and resources needed, since they can be taken directly from the Regulations (hence the name) and used for the EMFAF programme.

The flat rate offered reads as “up to x% of ... costs”. “Up to” means that the MA may decide on the percentage of the flat rate to cover the costs of the project without developing any specific methodology or providing any justifications on the percentage chosen, which in some cases can be up to 40%.

This section gives more detail on the seven off-the-shelf SCOs available under the 2021-2027 CPR from a practical viewpoint, broken down by cost category (Figure 3).

**Figure 3: Off-the-shelf SCOs, flat rates and a unit cost**

Off-the-shelf SCOs	Type of costs
Flat rate up to <b>15%</b> of eligible <b>direct staff costs</b> (CPR 2021/1060 Article 54 (b))	<b>Indirect costs (overheads):</b> management costs, electricity, telephone, heating, office equipment, cleaning
Flat rate up to <b>7%</b> of eligible <b>direct costs</b> (CPR 2021/1060 Article 54 (a))	
Flat rate up to <b>25%</b> of eligible <b>direct costs</b> , provided that the rate is calculated in accordance with FEV (CPR 2021/1060 Article 54 (c))	
Flat rate up to <b>40%</b> of eligible <b>direct staff costs</b> (CPR 2021/1060 Article 56 (1))	<b>Remaining costs:</b> room costs, travel costs, meals, information, salaries and allowances in addition to the direct staff costs
Flat rate up to <b>15%</b> of the <b>direct staff costs</b> of that operation (ETC regulation 2021/1059 Article 41 (5))	<b>Travel and accommodation costs</b>
Flat rate up to <b>20%</b> of the <b>direct costs other than the direct staff costs</b> of that operation (CPR 2021/1060 Article 55 (1)) (ETC regulation 2021/1059 Article 39 (3)(c))	<b>Staff costs:</b> internal and external staff costs, including taxes and social security contributions
<b>Unit costs for staff costs:</b> hourly rate based on 1 720 h per year (CPR 2021/1060 Article 55 (2))	<b>Staff costs</b> based on annual gross employment costs

Source: FAMENET based on CPR and ETC regulation, 2023

To calculate SCOs properly it is important to **delimit all relevant categories of costs**, regardless of whether or not they are later decided to be covered by SCOs, to avoid double counting (Table 6). Note that off-the-shelf SCOs may be used in combination with real costs under the same operation.

**Table 6: Examples of cost categories**

Total costs of an operation	
Direct costs (directly related to an individual activity of the entity)	Indirect costs (cannot be connected directly to an individual activity of the entity)
Direct investments, equipment (if subject to a procurement procedure, real costs rather than SCOs must be used)	–
Direct staff costs (internal and external staff costs including taxes and social security contributions)	Indirect staff costs (e.g. management costs)
Other direct costs (e.g. room costs, travel costs, meals, information/publicity)	Electricity, phone, heating, use of office equipment, cleaning etc.
Allowances	–

Source. FAMENET, 2023

- **Direct costs** relate directly to the implementation of an individual operation or project, and this link can be demonstrated.
- **Indirect costs** are not connected directly to the implementation of an operation. Such costs include administrative expenses for which it is difficult to determine precisely the amount attributable to a specific operation or project. Examples are management costs, recruitment expenses, costs for the accountant or the cleaner, telephone, water and electricity bills.

Table 7 below explores the practical application of the off-the-shelf SCOs.

**Table 7: Overview of off-the-shelf SCOs and points to consider**

Cost categories and related off-the-shelf SCOs	Points to consider
<b>Indirect costs (overheads)</b> , e.g. management costs, electricity, telephone, heating, office equipment, cleaning	
<ul style="list-style-type: none"> <li>• Flat rate up to 15% of eligible direct staff costs used to calculate the indirect costs</li> </ul>	15% for overheads is simple to apply and can be used across all operations incurring personnel costs. It is important to define overhead costs precisely in order to avoid double funding. Use of the flat rate pays off even if there are only a few projects. A lower percentage (e.g. 11.5%) could also be defined, but would increase the need for explanations to the Audit Authority. Should an MA opt for a lower percentage such as 11.5%, it is not possible to revert to 15% midstream; this can only be done in a separate, later step.
<ul style="list-style-type: none"> <li>• Flat rate of up to 7% of eligible direct costs to calculate the indirect costs</li> </ul>	An alternative to the 15% flat rate.
<ul style="list-style-type: none"> <li>• Flat rate of up to 25% of eligible direct costs to calculate the indirect costs</li> </ul>	This flat rate is only applicable to a very limited extent, since it could result in very high indirect costs. In order to capping the amount of indirect costs that can be calculated on the basis of a 25% flat rate, the rate to be used has to be justified. Accordingly the 25% flat rate is

Cost categories and related off-the-shelf SCOs	Points to consider
	“almost off-the-shelf” because an underlying calculation method has to be provided (e.g. the FEV calculation method).
<b>All other remaining eligible direct or indirect costs</b> , e.g. room costs, travel costs, meals, information, salaries and allowances in addition to the direct staff costs	
Flat rate of up to 40% for all other remaining eligible costs (whether indirect or direct) based on staff costs	<p>In projects where direct staff costs represent a significant share of the budget and where many activities are done in-house, the 40% flat rate is a good choice. Thus, labour-intensive small-scale R&amp;D projects with many low-value costs other than staff, small innovation projects, educational and vocational projects, and projects involving soft activities are best suited to the 40% flat rate.</p> <p>The 40% flat rate is not suitable for projects with investment-related activities, or projects with a high share of external expertise and services budgets, since those costs would have to be covered by the 40% flat rate. Nor is it the best option in projects where lots of activities are externalised and direct staff costs do not represent a solid share of the beneficiary’s budget, since the 40% flat rate is calculated on top of the staff costs category.</p> <p>Source: Interact: Factsheet on a 40% flat rate, September 2023</p>
<b>Staff costs:</b> internal and external staff costs, including taxes and social security contributions	
<ul style="list-style-type: none"> <li>Flat rate of up to 20% for staff costs, on all other direct costs (i.e. eligible costs including investments other than staff costs)</li> </ul>	Not broadly applicable, because it results in very low amounts for staff costs and so is not suitable for projects that are cost-intensive in terms of personnel. This is a reverse variant of the 40% flat rate.
<ul style="list-style-type: none"> <li>Unit costs for staff costs: hourly rate based on 1 720 h per year</li> </ul>	Broadly applicable; the hourly staff cost is calculated as the latest documented annual gross employment cost divided by 1 720 hours per year. The gross employment cost is not defined in the CPR and needs to be defined and documented; without further justification it may be increased by 15% or 30% to cover overhead costs (e.g. in AT: gross wage + 30% indirect costs/1 720 h)
<b>Travel and accommodation costs</b> , not considered to be staff costs	
<ul style="list-style-type: none"> <li>Flat rate up to 15% of the direct staff costs of an operation for travel and accommodation costs</li> </ul>	This SCO originates from the ETC regulation and is intended for travel-intensive Interreg projects; application to other funds is only possible for similar project types. The criteria for similar projects are outlined in the report by the European Court of Auditors, 2018, Special Report No. 11, Annex I, Assurance on SCOs, p2.

Source: FAMENET, based on interview, CPR, ETC Regulation, Interact Factsheet on a 40% flat rate, 2023

### Combined application of off-the-shelf SCOs

It is possible to apply various off-the-shelf SCOs in the same project for the same beneficiary to cover different cost categories.

To this end, Interact has worked out an example of possible combinations (Figure 4). For example, it is possible to combine hourly unit staff costs based on the 1 720 h method with a 15% flat rate for indirect (admin) costs.

Conversely, direct staff costs calculated at a flat rate of up to 20% of the direct costs cannot serve to calculate the remaining eligible costs of an operation based on a flat rate of up to 40% of direct staff costs. This is to prevent double-financing through double declaration of costs (e.g. the same costs cannot fall under two different cost categories).

**Figure 4: Combinations of off-the-shelf SCOs**

		OFF-THE-SHELF Options						DIY SCO
SCO combinations		20% Staff costs	15% Admin	7% Admin	15% Travel	1720h Staff	40% all other	25% Admin
OFF-THE-SHELF Options	20% Staff costs							
	15% Admin							
	7% Admin							
	15% Travel							
	1720h Staff							
	40% all other							
DIY SCO	25% Admin							
yes, but...								

Source: Interact (2020), *Simplified Cost Options (SCOs) and Focus on Small Project Funds*, 6 February 2020, Bratislava.

Figure 4 shows combinations of ready-made SCOs available from the 2021-2027 CPR and ETC Regulation and the “do it yourself (DIY)” or “almost off-the-shelf” 25% flat rate (this is the only SCO offered by the CPR for which the rate is calculated in accordance with the fair, equitable and verifiable / FEV calculation method; see section 4.4). The figure is to be understood as follows:

- A dark green box shows that a combination is possible (e.g. 20% staff costs & 15% admin).
- Light green means a combination is possible with conditions (e.g. 15% travel costs & 20% staff costs if different categories of costs are covered)
- Red means a combination is not possible (e.g. the 40% flat rate is calculated on the staff costs and cannot be combined with the 20% flat rate to cover staff costs).

Ultimately, the decision of whether or not to combine SCOs should be made on a case-by-case basis. The managing authority should ensure that the combination of SCOs is justified and does not duplicate each other. This means that they should not be used to cover the same costs.

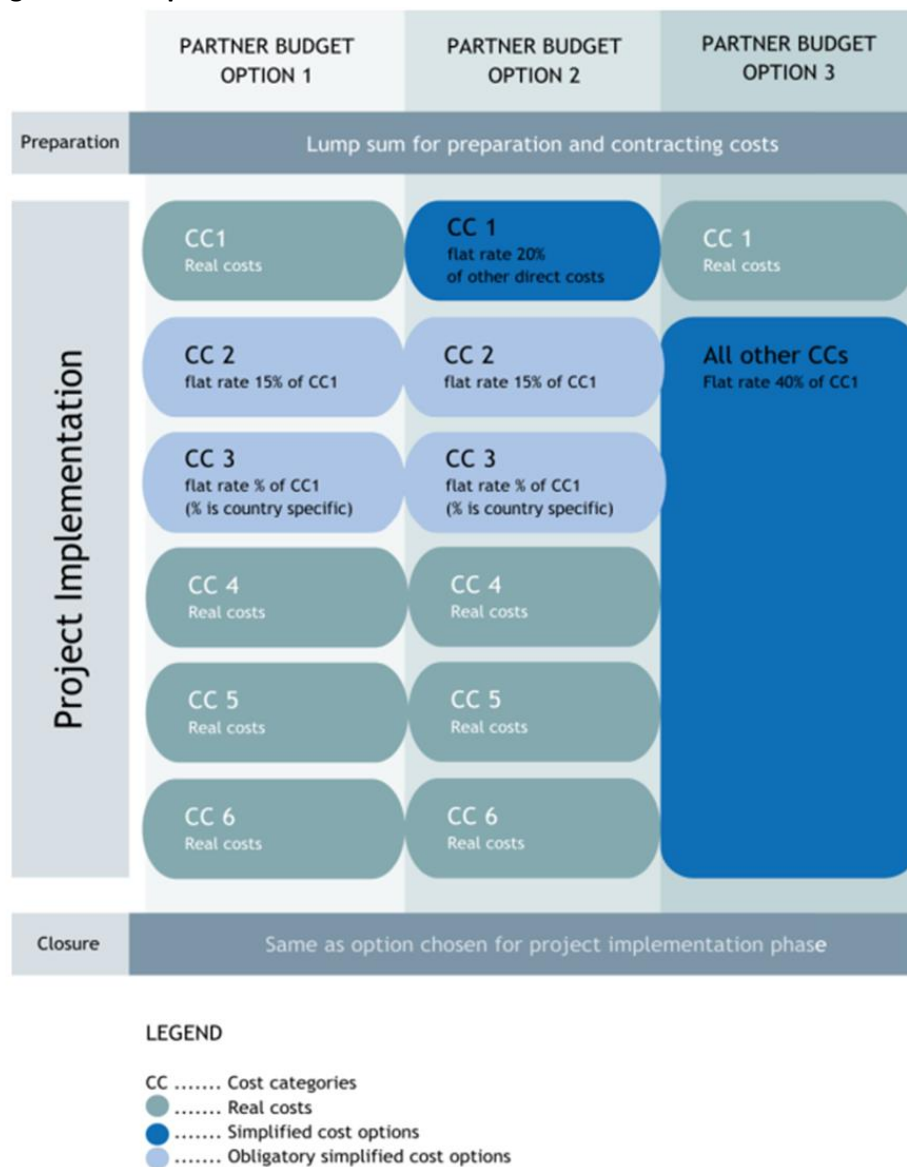
**Combined application of off-the-shelf and tailor-made SCOs**

Off-the-shelf SCOs may be used in combination with real costs and other SCOs in the same project to cover different costs, although multiple funding of the same cost categories is not possible. An example is provided by Interreg Central Europe, where beneficiaries of larger projects can select from three possible combinations of SCOs with real costs (Figure 5):

- lump sum for preparation and contracting costs
- 20% flat rate for staff costs

- 15% flat rate for office and administrative costs
- 40% flat rate for eligible direct costs other than direct staff costs.

Figure 5: Example of off-the-shelf SCOs in combination with real costs and other SCOs



Source: Interreg Central Europe, Programme Manual, <https://www.interreg-central.eu/library/programme-manual/2023>

### 4.3 Using SCOs for the EU contribution to programmes

According to the 2021-2027 CPR (Articles 51 and 53), SCOs are used in two cases with regard to the use of the Union contribution:

- reimbursements from the EC to MSs (SCOs are assessed by AA and EC)
- payment of grants by MSs to beneficiaries (SCOs are assessed by AA only)



In both cases, all types of SCOs can be used, and in both cases the MS can develop a method for an SCO in consultation with and assessed by the AA (by using the FEV method or draft budget, as explained in Chapter 5) (see Figure 6 below).

However, tailor-made SCOs defined by the MA to reimburse beneficiaries **should not** be described in the EMFAF programme. This means that the SCO is not “approved” by the EC as a formal part of the programme. Section 8 of the EMFAF programme (which includes Appendix 1 and Appendix 2) only needs to be completed for SCOs that concern the reimbursement of the Union contribution from the European Commission to the MS. In this case, the MS defines in the EMFAF programme Section 8, Appendix 1 (as part of the programme) together with a positive AA assessment, and the European Commission approves the programme including the SCO.

Since the European Commission checks and approves the methods, the scope of management verifications, audits, and European Commission audits is limited to what is specifically mentioned in the EMFAF programme Section 8, Appendix 1. This enhances legal certainty for all the players involved, as long as the SCO is included in the programme. Legal certainty through this Appendix 1 is not applicable in retrospect, i.e. an SCO cannot be applied before an EMFAF programme amendment to introduce the SCO in the programme is approved.<sup>11</sup>

**Figure 6: SCOs between European Commission-MS and MA-beneficiary: similar but different**

SCO between COM and MS	SCO between MA and beneficiary	But...methodology can be the same... as described in this FAMENET working paper
<ul style="list-style-type: none"> <li>• Formal part of the EMFAF programme,</li> <li>• Reviewed by the Audit Authority</li> <li>• Approved by the European Commission</li> <li>• Legal certainty</li> </ul>	<ul style="list-style-type: none"> <li>• Not part of the EMFAF programme</li> <li>• Reviewed by the Audit Authority</li> <li>• Not approved by the European Commission</li> </ul>	

Source: FAMENET, 2023

Of all 26 EMFAF programmes, only **Estonia** has made use of the option to define SCOs in the EMFAF programme. The motivation of the Estonian MA to include SCOs to the Annex of the EMFAF Programme is to achieve additional legal certainty by using the same SCOs on both levels: for payments to beneficiaries and payments from the EC (Source: Oleg Epner, 07.10.2021).

<sup>11</sup>Interact (2021), SCOs and Appendix 2: what, when, how, 16 April 2021 | Online, Zoom.

All these SCOs refer to Article 94 CPR (Use of unit costs, lump sums, flat rates) and not to Article 95 CPR (Financing not linked to costs). All are tailor-made by the Estonian MA, and only unit costs and lump sums were applied.

Estonian EMFAF programme, Appendix 1 C describes the following SCOs:

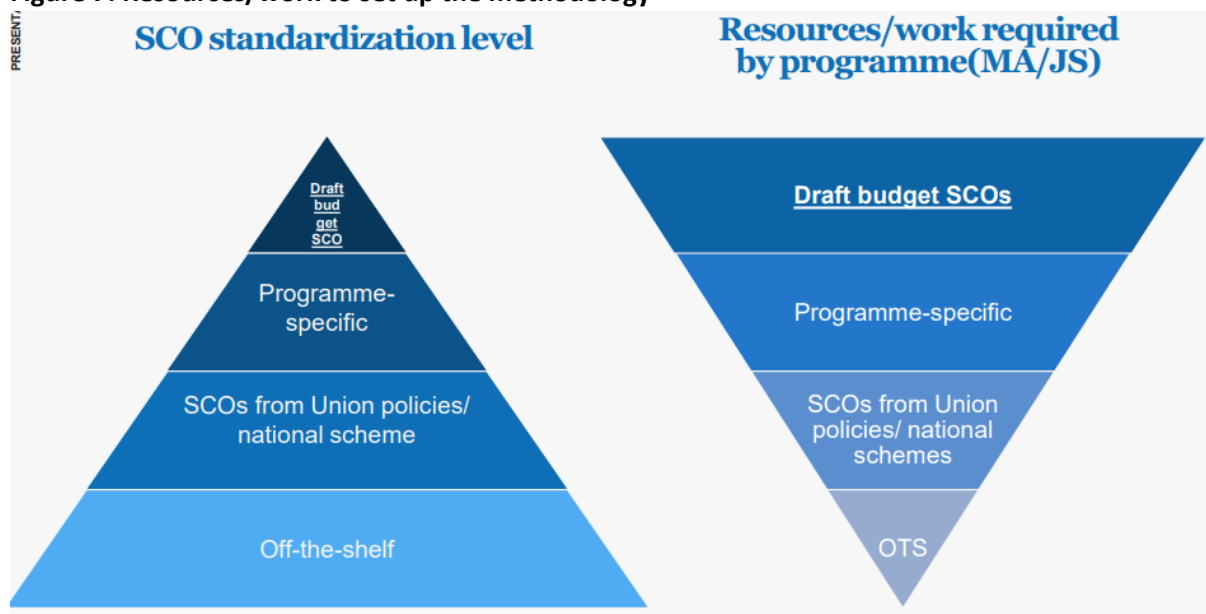
- Drawing up strategies for fisheries areas – lump sum
- LAG support – unit costs to cover administrative costs
- Encouraging solar energy deployment – unit costs
- Encouraging the introduction of selective fishing gear – unit costs for different gear types
- Preparation of application documents – lump sum
- Implementation of production and marketing plans – lump sum

The Audit Authority confirmed that the proposed arrangement complies with the regulatory requirements.

#### 4.4 Developing the methodology for tailor-made SCOs

Tailor-made (also called “programme-specific”) SCOs have a low degree of standardisation and therefore require much more work to set up. Applying the draft budget method requires the most effort because a separate SCO is developed for each project, so to speak (Figure 7).

Figure 7: Resources/work to set up the methodology



Source: Interact; Draft budget – setting up project-specific SCOs, 13 September 2023

An MA faces additional in-house workload or external costs for outsourcing when preparing the methodology for tailor-made SCOs. It is necessary to justify assumptions and data used for the methodology (traceability). An independent check on the design of the SCO is recommended (by the AA), which takes time. And there is a need to regularly review and update the methodology (but historical data on real costs are no longer available).

The calculation methodology is the backbone of tailor-made SCOs. It requires careful and thorough setup, which can be a complex exercise that may benefit from external consultants.

In summary, the SCO calculation must be based on a robust database and the method of calculation must be fair, equitable and verifiable (the FEV method). It is also important that the method is regularly reviewed, adjusted if necessary, and well documented by the MA. Additionally, the MA must issue clear guidelines with regard to data storage, data adjustment (e.g. annual indexing based on the consumer price index), and the obligation for the beneficiary to keep supporting documents.

There is a need to clarify which data source can be used when real costs (accounting data in the monitoring system) are no longer available because reimbursement has changed from real costs to simplified costs. This means that at a certain point the MA must access external data to be able to verify or update the SCO calculation.

The calculation method for a tailor-made SCO should in all cases follow the FEV principles:<sup>12</sup>

- **Fair:** the method is realistic, reasoned and explained.
- **Equitable:** the method does not favour some beneficiaries or projects over others (differentiated treatment is possible, where and if properly justified).
- **Verifiable:** the method is based on documented evidence that can be checked. The documentation must cover:
  - a description of the methodology (including key steps of the calculation);
  - the data sources used, including an assessment of their relevance and quality; and
  - the calculation itself.

An alternative to the FEV method is the **draft budget method** (see below) or methodologies applicable in Union policies for a **similar type of operation** (e.g. a unit cost for advisory services used in a Rural Development Programme might be adopted to support advisory services in an EMFAF programme).

If SCOs are based on existing EU or national schemes (“copy-paste”), these schemes should address similar types of beneficiaries and operations. The methodology must assess whether the types of beneficiaries and operations supported by the SCO are similar. This should be checked on a case-by-case basis, for instance by assessing whether the type of beneficiary would have been eligible under the EU/national scheme used as a basis for the SCO. It is also necessary to verify that the parameters used from the existing methodology are also valid for the types of operations for which it will be adapted.

In practice there will be a mixture of “off-the-shelf” SCOs taken from the CPR, SCOs developed by the MA using the FEV method, and “copy-paste” SCOs taken from other programmes without any development effort of their own.

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<sup>12</sup> According to Interact (June 2020), Road map for a programme specific SCO, p 9.

### Use of statistical data and expert assessment for the FEV method

To ensure compliance with the FEV method the 2021-2027 CPR allows not only the use of recent statistical data and other objective information but also an expert judgement. Ideally, statistical data from the last three years is combined with an expert judgement.

The statistical method analyses the data pool of the last three years to identify the normal distribution of costs (in the statistical sense), and possible outliers. Discussion at an early stage with an expert group is recommended to ensure the reliability and objectivity of the calculation. The judgement on the SCO should be performed by a group of people who are experts in the particular subject or activity. An opinion from a single expert might not be sufficient.

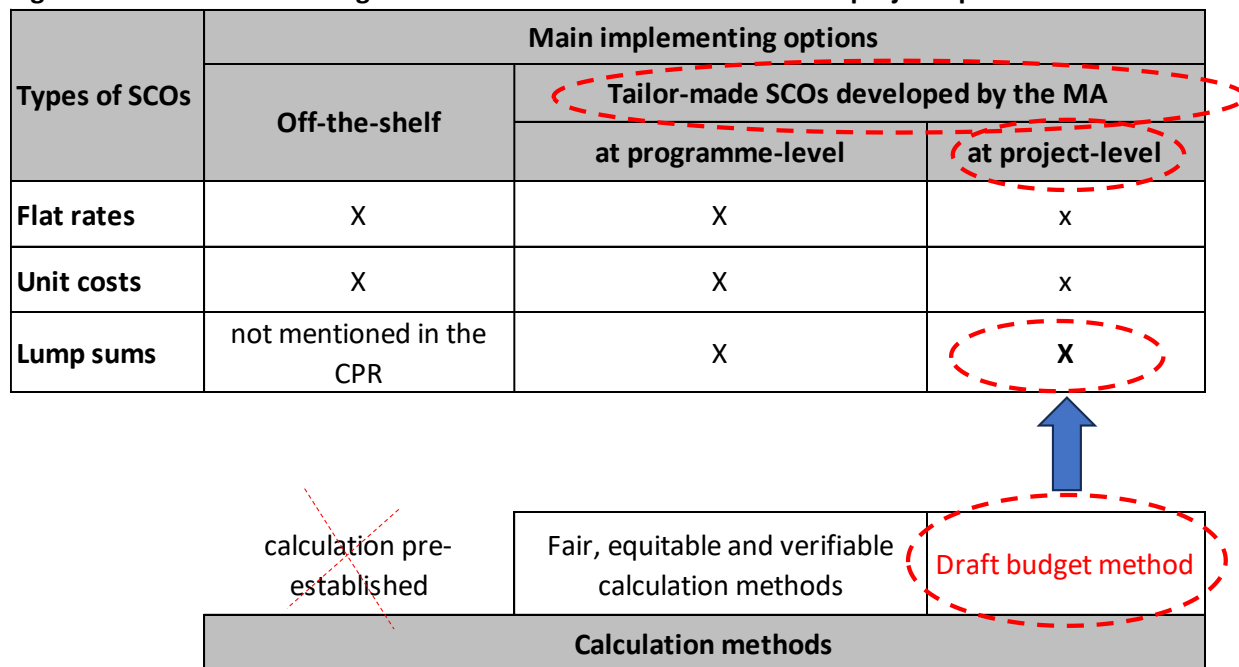
Documentation of the calculation method is important. When external consultants carry out the calculation, the contract should oblige them to provide the detailed underlying data to the Audit Authority.

In the case of a newly introduced intervention, there will be hardly any historical statistical data; this means that alternative approaches must be explored (for example case studies).

### Draft budget

The 2021-2027 CPR includes the possibility for certain operations to calculate costs by reference to a **draft budget** in the case of grants below EUR 200 000 of public support. A draft budget is a calculation method and not an SCO in itself (Figure 8).

**Figure 8: What is a draft budget? A calculation method to establish a project-specific SCO**



Source: FAMENET, 2023

The applicant proposes a draft budget for their project, with detailed information on each budget line, including the calculation methodology used. The MA assesses the draft budget on a case-by-case basis,

and calls for revisions as necessary. After approving the draft budget, the MA then establishes SCOs where possible: in other words, the draft budget is converted into flat rates, unit costs, or lump sums.

During the project implementation, no justification of real costs from the draft budget is required (except where flat rates are used, in which case justification should be provided for the basis costs for the flat-rate calculation). Application of the draft budget requires a solid stock of cost benchmarks, since the budget proposed by the application has to be thoroughly checked before it is transformed into an SCO.

A major advantage is the fact that the detailed cost check only has to be done once, namely at the time of project submission, and no longer at the end. This yields estimated savings of around 40% in the checking effort. However, a major challenge is to define milestones that can be audited.

A good factsheet on draft budgets is available from Interact: Draft budget – a calculation method of simplified cost options, April 2020.

Figure 9 below shows an example draft budget for a promotion campaign for local products. It combines real costs and off-the shelf SCOs.

**Figure 9: Draft budget example**

	Budget item	Cost*	SCO	Approach
<b>Costs</b>	Kick-off meeting	5,000	Lump sum 1 = 20,000	Milestone 1 – delivery of the report X
	Data collection	10,000		
	Report preparation	5,000		
	Marketing campaign design	5,000	Lump sum 2 = 43,000	Milestone 2 – execution of marketing campaign and evaluation study
	Marketing campaign execution	20,000		
<b>Off-the-shelf SCO</b>	Evaluation study	5,000	Lump sum 2 = 43,000	Milestone 2 – execution of marketing campaign and evaluation study
	Staff (20%)	10,000		
	Office and admin (15%)	1,500		
	Travel and accommodation (15%)	1,500		
	<b>Total</b>	<b>63,000</b>	<b>63,000</b>	<b>Total lump sum</b>

Source: Interact: Draft budget - setting up project-specific SCOs, 13 September 2023; adapted by FAMENET

### **Illustration of the draft budget approach for LEADER in Austria**

In Austria, draft budgets are used in the 2023-2027 programming period for smaller LEADER/CLLD projects (rural development, <EUR 100 000). In the application phase, the applicant must submit a cost calculation for defined outputs (analogous to milestones).

For each output the costs must be documented, e.g. by requesting offers. Individual cost components of the draft budget can also be calculated at a flat rate. A draft budget is agreed if the authorising body considers the costs to be plausible.

If the beneficiary is able to achieve the output, the corresponding costs can then be settled without detailed cost checks. If an agreed output is not achieved, the corresponding costs cannot be invoiced. A balance must be found between detailed outputs (intermediate steps that reduce the implementation risk for the beneficiary) and the audit effort required to verify the outputs declared.

An audit trail must be defined for each output. The predefined outputs usually cannot be changed in the draft budget, which limits flexibility in project implementation. Nor can the costs of an output be changed afterwards.

However, there is flexibility within outputs. For example, suppose it was agreed to hold a press conference (an output). Under the draft budget system it does not matter where the press conference is held, so the location can be changed without a formal amendment. If real costs are charged, on the other hand, the project sponsor must argue why the press conference was held at location X and not at location Y.

Draft budgets are suitable for projects with predictable outputs and short implementation periods, where the risk of major project changes is low.

Draft budgets suit decentralised implementing bodies that know their clients and projects well, so they can accurately assess the plausibility of planned outputs and the associated costs.

For further details see the description in Chapter 0.

*Source: Merkblatt, Interview with Julian Gschnell (AT, BML), 2023*

## Template to develop tailor-made SCOs

In developing and structuring the method, the following points should be addressed (Table 8):

**Table 8: Suggested methodology template for tailor-made SCOs<sup>13</sup>**

<b>Type of operation</b>	Link SCOs to types of actions, and consequently to types of operations, when implementing them.
<b>Type of SCO</b>	Flat rate/unit cost/lump sum.
<b>Type of projects covered</b>	Subjects/types of projects that are covered by the SCO (e.g. training).
<b>Type of beneficiaries covered</b>	Types of applicants/beneficiaries to whom the SCO applies (e.g. farm managers, municipalities, SMEs, etc.).
<b>Categories of costs covered by SCO</b>	Types of <u>eligible</u> costs covered by the SCO (e.g. personnel costs, indirect costs (please specify), travel costs, etc.).
<b>Categories of costs NOT covered by SCO</b>	Types of eligible costs not covered by the SCO.
<b>State aid</b>	Indicate whether the SCO will be used within aid schemes to which the state aid rules apply. If the answer is yes, indicate whether the projects/objects are implemented under <i>de minimis</i> or GBER schemes.
<b>Public procurement law</b>	Indicate whether the SCO is applied by applicants for subsidies that are subject to public procurement law.
<b>When SCOs are based on existing EU or national systems</b>	a) Describe whether the applicants and projects supported by the SCO are similar. Check this by, for example, assessing whether comparable costs would have been eligible under the EU/national system which serves as the basis for the SCO. b) Show that the parameters used from the existing methodology (e.g. geographical scope) are also valid for the new subjects/projects.
<b>Calculation methodology is based on</b>	<ul style="list-style-type: none"> <li>• fair, equitable and verifiable calculation method;</li> <li>• draft budget;</li> <li>• SCOs applicable in Union policies for a similar type of operation and beneficiary;</li> <li>• SCOs applicable in MS policies for a similar type of operation and beneficiary.</li> </ul>
<b>Justification for the method selected</b>	Show why the selected method is the most suitable. Indicate how the SCO calculation achieves balance, so that no applicants or projects are preferred above others. How have you ensured that the assumptions and data used in the calculations are based on average projects/applicants, or that the amounts and rates chosen are based on objective justifications? Details can be presented via references to annexes (e.g. detailed description of calculations) with appropriate chapters and page numbers.
<b>Source of data used to calculate the standard</b>	Statistical data, other objective information or an expert judgement. Verified historical data from individual beneficiaries. Cost accounting practices of individual beneficiaries.

<sup>13</sup> The methodology template here is a FAME working tool and independent of the EMFAF programme template, especially Appendix 1 and Appendix 2.

<b>Scale of unit costs, lump sums or flat rates</b>	Also, who produced, collected, and recorded the data; where the data are stored; cut-off dates; validation, etc.
<b>Description of the calculation method and result of the calculation</b>	<p>Indicate how the calculations have been carried out, including in particular any assumptions regarding quality or quantity and including the main steps of the calculation.</p> <p>Indicate the unit of measurement used for the SCO and the amounts/rates (e.g. unit costs of EUR X per research hour; flat rate of EUR Y for project preparation).</p> <p>Where relevant, statistical evidence and benchmarks should be used and attached.</p>
<b>Exclusion of ineligible expenditure and exclusion of double funding (where different SCOs or real costs are combined)</b>	<p>Explain how you ensure that only eligible expenditure is included in the calculation of unit costs, lump sums or flat rates.</p> <p>(a) How do you avoid double charging of cost items? If a combination of SCOs or different reimbursement mechanisms is used for the same operation, double charging must be excluded.</p> <p>(b) How do you ensure that a single type of expenditure can only be funded once for a single applicant?</p> <p>(c) If a lump sum and unit costs are used for the same subject/project, how do you ensure that the calculation of the lump sum does not also cover costs reimbursed by unit costs?</p> <p>(d) In the case of flat rates, how do you ensure that:</p> <ul style="list-style-type: none"> <li>• the category or categories of costs to which the flat rate is applied; and</li> <li>• the category or categories of costs reimbursed by the flat rate can be fully defined and clearly distinguished?</li> </ul>
<b>Adjustment method of the calculation methodology</b>	<p>Whether, how often and how the methodology will be updated.</p> <p>Indicate the criteria for adapting or updating the methodology, e.g. automatic adjustment based on economic indicators. Please specify which index is used to adjust for inflation, its date of publication, the date of the adjustment and the date from which it applies.</p>
<b>Possible risks and measures to minimise them</b>	Indicate the possible risks and corresponding risk reduction measures, for instance to prevent dysfunctional behaviour.
<b>Management verification, verifying the triggers for payment</b>	<p>(a) What documents are used to verify that the results have been achieved or that the payment has been triggered? Examples are hourly records, annual payroll account, photos and reports.</p> <p>(b) Describe what is checked during the administrative control (including spot checks) and by whom. In the case of SCOs, it may also make sense for the administration to also carry out a spot check at the same time.</p> <p>(c) Describe what is checked during the spot check.</p> <p>(d) What precautions have been taken to collect and store the data and documents required for verification?</p> <p>It is NOT necessary to check the real costs underlying the expenditure.</p>
<b>Early feedback from the Audit Authority and certifying body</b>	<p>Has the methodology been assessed by the Audit Authority or Certifying Body (calculation method, amounts, verification arrangements, quality, collection and storage of data)?</p> <p>If the assessment has been carried out, indicate which areas it covers.</p>

Source: Interact, Road map for a programme-specific SCO June 2020, 'Template for the description of the calculation methodology'; Checklist for SCOs used in the Rural Development Programme Austria, 2020.



## Consultation with the Audit Authority

Once the programme-specific SCO has been designed, the next step is to ask the Audit Authority to confirm that they consider the SCO is likely to work, before presenting it to beneficiaries. In this case the Audit Authority acts as an advisor to the MA, and does not provide a formal audit opinion.

It is important to keep in mind that the EC does not carry out any assessment of tailor-made (programme-specific) SCOs. Nevertheless, the EC offers resources to support the audit work, such as a checklist for auditing SCOs (see presentations under the link).<sup>14</sup>

## 4.5 Save costs and avoid risks through the joint development of EU-level SCOs

Since a sound methodology is key to a successful SCO, MSs need to make significant investments in resources and time to develop sound MS-specific SCO methodologies. Developing a methodology is time-consuming because of the need for consultations involving stakeholders, auditors and approval procedures. Cooperation between MAs could help to lower this barrier, reduce the burden for the programme authorities and achieve legal certainty for MSs.

### Potential area for the joint development of an SCO

In the course of several FAME and FAMENET events, MAs discussed the option of a cross-programme, jointly developed SCO to be developed on an action of general interest. An example is **compensation for non-productive environmental services in aquaculture**, in the form of a flat rate such as a percentage of revenue or turnover.

The resulting SCO could be applicable at a level higher than that of a single EMFAF programme<sup>15</sup> and would thus become a new off-the-shelf solution. With this cooperation, the MAs would save development costs for the SCO and exclude any risks of error in calculation methodologies, since broader adoption would enhance legal certainty for the MAs.

Currently (December 2023) there are no concrete proposals, but FAMENET plans to address the topic anew in 2024.

## 4.6 Controls (management verifications and audit)

From an audit and control point of view, SCOs signify a departure from the principle of “real costs”. Verifications and audits of projects using SCOs will therefore focus on outputs rather than on inputs and costs.

Chapter 5 of the **EGESIF Guidance on SCOs** (2021/C 200/01), published in May 2021) describes the general principles for audit and control when using SCOs. The guidance also explains the specific

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<sup>14</sup> [https://ec.europa.eu/regional\\_policy/en/policy/how/improving-investment/high-level-group-simplification/](https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification/).

<sup>15</sup> For example, delegated acts on the methodology used to calculate SCOs were used in the ESF in the 2014-20 period (see <https://ec.europa.eu/esf/main.jsp?catId=1490&langId=en>). In the 2021-27 period delegated acts can be used in all ESIFs, including the EMFAF. Further details on “EU-level SCOs” can be found in a paper from the 7th meeting of the Transnational Network (TN) of ERDF/CF SCO practitioners, 8-9 October 2020 (online meeting), Session III.2 EU Level SCOs, Background and outcomes of the 1st meeting of the TN subgroup on “EU-level SCOs”.

requirements for the management verification of the correct application of flat rates, unit costs, and lump sums.

Another useful and practical information source was developed by **Interact**: “Verification of simplified cost options August 2023”.<sup>16</sup> Among other things, the guideline provides detailed information on how the different types of flat rates (15%, 20%, 40%) can be verified.

Audit and control of SCOs focus on two elements:

- **correct establishment** of the method; the audit part is carried out by the Audit Authority and the Commission auditors, and
- **correct application** of the method; the audit part and management verification are carried out by the Managing Authority.

The European Commission has published an **EC checklist** “Assessment/Audit of Simplified Cost Options (SCO)” for the 2021-2027 programming period. The checklist addresses both elements: verification of the SCO methodology, to be used by the AA for system audits, and the correct application of the established methodology, to be used by controllers for management verifications.

Management verifications and audits will not cover the individual invoices and specific public procurement procedures underlying expenditure that is reimbursed on the basis of SCOs. These underlying financial or procurement documents must therefore not be requested with a view to checking the expenditure incurred and paid by the beneficiary.

Such simplified verifications, however, **do not imply that SCOs overrule eligibility rules**. Even though spending backed by SCOs is not checked, projects must still comply with all European, programme, and national eligibility rules, and programmes need to communicate this clearly to all project partners implementing projects with SCOs. To support this, the grant agreement must explicitly mention the categories of costs covered, and maximum aid intensities must be respected.

The use of SCOs does not necessarily mean that physical project site **checks** are no longer carried out; for example, compliance with publicity obligations (e.g. displaying the EU emblem) still needs to be checked. The extent to which physical projectsite checks are necessary when moving from a real-cost practice to the use of SCOs should be clarified in a risk management strategy set up by the MS; this is considered good practice. Clarifying the need for physical checking of assets (not the paperwork) is important in order to get a complete picture of the administrative costs when implementing SCOs.

With regard to **auditing and the role of the AA and its cooperation with the MA**, the EC has drawn up a guideline: “Ex ante assessment of Simplified Cost Options and partnerships between managing authorities and audit authorities – How to do it?” from November 2021.<sup>17</sup> This includes examples of good practice in collaboration between MA and AA from Estonia, Portugal, Sweden and the Netherlands.

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<sup>16</sup> <https://www.interact-eu.net/library#4296-factsheet-verification-scos-practical-implications-scos-control-and-audit-work>.

<sup>17</sup> <https://op.europa.eu/en/publication-detail/-/publication/bb33b6aa-4cdb-11ec-91ac-01aa75ed71a1/language-en>.

As stated by the guidance, the role of the Audit Authorities in assessing the legality, regularity and eligibility of the proposed SCOs is, for the MAs concerned, a key factor in obtaining legal certainty that the SCOs comply with the applicable regulations and requirements. The ex-ante assessment of SCOs is not mandatory, but it is **highly recommended** by the European Commission. An ex-ante assessment does not breach the independence of the AA and does not undermine the formal division of roles and responsibilities of the authorities. An ex-ante assessment does not involve additional work for auditors, since it means the AA does not have to reassess the methodology once the operation is implemented.

The scope of **management verifications** of the expenditure reimbursed via SCOs is limited to verifying the delivered outputs/deliverables (for unit costs and lump sums), or basis costs (for flat rates). Management verifications do not cover individual invoices for underlying expenditure reimbursed on the basis of SCOs, as would be the case for the real costs.

As an example, we can look at the basic requirements for verifying flat rates, unit costs and lump sums.

Verification of **flat rates** (both off-the-shelf and tailor-made) includes:

- eligibility of the actual costs (basis costs) incurred and paid, to which the flat rate is applied
- the correct percentage rate is applied
- other reported project expenditure is not already covered by the flat rate (no double financing).

Verification of **unit costs** (both off-the-shelf and tailor-made) includes:

- a check of the number of units delivered, including supporting evidence
- correct multiplication of quantities to give the amount declared
- other reported project expenditure is not already covered by the unit cost (no double financing).

Verification of tailor-made **lump sums** includes:

- the predefined criteria or milestones for the payment are fulfilled, including supporting evidence
- other reported project expenditure is not already covered by the lump sum (no double financing).

A recurring point in management verification is to **avoid the double declaration of costs**. Checking for double financing means verifying that each specific type of expenditure by a project partner is reimbursed on the basis of either real costs or one type of SCO (flat rate, unit cost or lump sum). For instance, office and administrative costs covered by a flat rate should not appear in any other cost category of the project partner's budget.

A combination of different forms of support (real costs and SCOs) in one project is possible, however, under certain conditions. They can be combined if:

- the combination covers different categories of costs, or
- they are used for different projects forming a part of an operation, or

- for successive phases of an operation.

By clearly separating the cost categories and the application of different SCOs for each category, the MA ensures that there will be no double financing of the same expenditure.

#### 4.7 Evaluating SCOs

Simplification for both administrators and beneficiaries should be taken into account in the mandatory assessment of the “**Efficiency**” evaluation criterion<sup>18</sup>. The application of SCO is part of the simplification approach and thus needs to be evaluated to observe whether the desired effects have been achieved.

Simplification is defined as minimising any costs that are not strictly necessary to achieve the objectives of the EMFAF, and adopting measures reducing administrative burden for administrators and beneficiaries. Additional administrative costs that do not add value to the achievement of objectives should be avoided. Simplification affects all phases of programme implementation, and also different target groups. Accordingly, it is important to distinguish simplification from the perspective of administrators and simplification from the perspective of applicants and beneficiaries/participants. The main changes in the administrative procedure should be assessed, e.g. with regard to submission/approval/rejection of project applications, accounting (e.g. SCOs) and payments, and control procedures. Digital solutions may be useful to develop more efficient procedures.

Simplification can be achieved by adopting measures that directly or indirectly lead to the reduction of administrative costs, as with the implementation of SCOs.

Given the strategic nature of SCOs, the aim of the evaluation is to analyse how the application of SCOs contributes to simplifying the implementation of the EMFAF, and to identify the critical points, needs and potential for extending their application.

To assess efficiency and effectiveness gains through SCOs, the evaluation should analyse:

- the effort required to develop the SCO methodologies, especially for tailor-made solutions;
- the effort required to establish specific control, verification and audit procedures;
- the extent of “gold plating”: the situation in which a programme body exercises more controls and checks than requested by the EU Regulations;
- the effort required to clearly communicate SCOs to the beneficiaries, and acceptance by target groups;
- reduction of management costs in the different stages of the life cycle of projects, for the various stakeholders;
- acceleration of administrative procedures to implement types of action where SCOs are applied (SCOs should make the processes of application, reporting and financial management simpler and leaner);
- reduction in the error rate;

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<sup>18</sup> The five evaluation criteria according to Article 44 CPR are: effectiveness, efficiency, relevance, coherence and Union added value.

- effectiveness gains through greater focus on project quality, achievements and results (e.g. does the application of SCOs allow more emphasis to be placed on the quality of reports and the quality of outputs, milestones and results, rather than checking financial expenditure?).

## **5 Experience with SCO methodology for compensation**

### **5.1 Background and application in MSs**

This chapter looks at SCOs in the context of compensation provided to operators and producer organisations in the fisheries and aquaculture sectors for their increased costs and lost income caused by Russia's military aggression against Ukraine.

Because the disruption to fisheries and markets was so sudden and so serious, MAs had to develop suitable SCOs very quickly. Compensation can be financed either from the EMFAF or from the EMFF.

#### **EMFAF**

Russia's military aggression against Ukraine since 24 February 2022 has affected the EU's fisheries and aquaculture sectors. The war has led to market disturbance caused by significant cost increases and trade disruptions. This is considered an exceptional event.

The Commission has activated the "crisis mechanism" of Article 26(2) of Regulation (EU) 2021/1060 (the EMFAF Regulation) under which the EMFAF may support compensation for certain costs that are not otherwise eligible for such compensation. This applied to operators in the fisheries and aquaculture sectors, and to recognised producer organisations and associations of producer organisations which store fishery products in accordance with Articles 30 and 31 of Regulation (EU) No. 1379/2013.

Article 39 of Regulation (EU) 2021/1139 requires compensation in this case to be granted under any of the SCOs referred to in points (b) to (e) of Article 53(1) of Regulation (EU) 2021/1060 (CPR).

As part of the crisis response, the Commission also adopted a temporary state aid framework on 23 March 2022 that covers the fishery and aquaculture sectors, allowing businesses to be supported with state aid of up to EUR 335 000.

#### **EMFF**

Regulation (EU) 2022/1278 of 18 July 2022 gives MSs the legal possibility to reallocate funds in the EMFF operational programmes 2014-2020 to specific measures to address the situation. The following types of compensation are possible:

- compensation to operators engaged in commercial fishing for the temporary cessation of fishing activities due to a danger to the security of fishing activities or the impeded economic viability of fishing operations (pursuant to Article 33 of Regulation (EU) No. 508/2014);
- compensation to recognised producer organisations and associations of producer organisations which store fishery or aquaculture products (storage aid pursuant to Article 67 of Regulation (EU) No. 508/2014);

- compensation to operators engaged in fishing, aquaculture production and processing of fishery and aquaculture products for the additional costs they have incurred due to the market disturbance (pursuant to Article 68 of Regulation (EU) No. 508/2014).

The Regulation adds a new paragraph 3 to Article 68 of the EMFF Regulation allowing financial compensation for operators in the fisheries and aquaculture sector for loss of revenue and additional costs resulting from market disruptions caused by Russia’s military aggression against Ukraine and their effects on the supply chain of fishery and aquaculture products. Regulation (EU) No. 1303/2013, Article 65(9), second subparagraph, defines that expenditure for operations supported under the first subparagraph shall be eligible from 24 February 2022.

### Examples of MAs’ SCO methodologies

Table 9 lists details of SCOs from a selection of **15 MSs** for which sufficient information is available on methodological details. The overview shows the following characteristics:

- Compensation is financed mainly by the EMFF programmes of the 2014-2020 programming period and covers all three sectors: fisheries, aquaculture and processing. In almost all cases, additional costs (price increases caused by the war) are compensated. All three types of SCOs are used (flat rates, unit costs, lump sums), with flat rates and unit costs dominating.
- An important difference is whether compensation covers a bundle of cost components (e.g. PL, LV, HR) or only individual costs (e.g. HU, SI, ES). It is not possible to show this in the table, but details of the methods are available on request from the MSs.

**Table 9: Examples of compensation schemes grouped by type of SCO (flat rates, unit costs, lump sums)**

MS	Legal basis	What is compensated	Cost categories covered	Sector addressed	Type of SCO
RO	EMFF Article 68	Additional costs (increase in prices caused by the war)	Fuel, energy	Fisheries, aquaculture, processing	Flat rate (percentage of net value of sales)
PT	EMFF Article 68	Additional costs (increase in prices caused by the war)	Costs of raw materials sold and consumed	Processing sector	Flat rate (of 8.6% applied to the costs of raw materials sold and consumed, as included in the operator’s 2019 income declaration)
PL	EMFF Article 68	Additional costs (increase in prices caused by the war)	Increase in the price of fisheries materials, fuel and electricity; wage increases; increase in the other costs of fishing activities (e.g. training and staff certificates)	Fisheries (Sea fishing)	Flat rate (per boat, differentiating four segments of the fishing fleet)
BG	EMFF Article 68	Additional costs (increase in prices caused by the war)	Fuel, feed and raw material	Fisheries, aquaculture, processing	Flat rates (percentage of total turnover)

MS	Legal basis	What is compensated	Cost categories covered	Sector addressed	Type of SCO
ES	EMFF Article 68	Additional costs (increase in prices caused by the war)	A variety of cost components (5 for aquaculture and 11 for processing) from feed, oxygen, electricity to plastic packaging	Aquaculture, Processing	Flat rates (monthly eligible percentages, e.g. 10%, applied to the actual costs incurred)
SI	EMFF Article 68	Additional costs (increase in prices caused by the war)	Fish feed	Aquaculture	Flat rate (30% of purchase of fish feed)
MT	EMFF Article 68	Additional costs (increase in prices caused by the war)	Nylon and bait costs per vessel	Fisheries	Flat rates (11% for nylon fishing gear and 4.6% for fishing bait)
LT	EMFF Article 68	Additional costs (increase in prices caused by the war)	Feed costs and fuel costs	Aquaculture	Flat rate (in relation to the production value / turnover) <sup>19</sup>
EE	EMFF Article 68	Additional costs (increase in prices caused by the war)	Electricity, fuel	Fisheries (fuel), aquaculture, processing (electricity)	Unit costs (EUR compensation per unit of electricity or fuel consumed)
SI	EMFF Article 68	Additional costs (increase in prices caused by the war)	Fuel increase	Fisheries	Unit cost (kW of main engine x days at sea x the average liter fuel consumed per kW x the price difference per liter fuel between 2021 and 2022 in EUR)
LV <sup>20</sup>	EMFF Article 68	Additional costs (increase in prices caused by the war)	Additional costs related to energy (natural gas, liquefied gas, electricity, diesel for fishing vessels and heating),	Fishing vessels, aquaculture businesses, and fishery product processors	Unit cost (consumption in m <sup>3</sup> , tonnes or MWh) × average quarterly price increase 2021/2023 (EUR) × 0.5 × “additional support reduction coefficient” (≤1.0). <sup>21</sup>

<sup>19</sup> Calculation of flat rate for UAS aquaculture: share of feed costs (46% of income in a 3 years average 2019-2021) \* % of feed costs increase (+18.6%) + share of fuel costs (5% of income in 2021) \* % of fuel cost increase (+43%). Flat rate = 0.46 \* 0.186 + 0.05 \* 0.43 = 0.089 (= 8,9%) related to the current turnover of a business in the year 2022.

<sup>20</sup> In Latvia, there are three compensation schemes (additional costs related to energy and raw materials, on revenue foregone, in case of loss of export markets if the product outlets in 2021 were Ukraine, Russia, Belarus, and storage aid for frozen fish), of which only the first one on additional costs is listed in the table.

<sup>21</sup> The “additional support coefficient” is calculated from the share of revenue in the fishery sector compared to the total revenue and can reach a maximum value of 1. The compensation amount of metal and cardboard used for the packaging of fishery and aquaculture products and diesel for heating, fish feed and grain used for the feeding of fish is calculated with the same formula, with the exception that the “additional support coefficient” is not applied.

MS	Legal basis	What is compensated	Cost categories covered	Sector addressed	Type of SCO
			metal, cardboard, fish feed, and grains for feeding fish		
RO	EMFF Article 68	Income foregone (disruption/interruption of fishing activities because of the war)	Average daily value of catches/daily salary of fishermen	Fisheries	Unit costs (EUR per day per fleet segment)
HU	EMFF Article 68	Additional costs (increase in prices caused by the war)	Feed	Aquaculture (pond-farming, intensive fish production)	Unit costs (EUR per hectare or tonne)
PL	EMFF Article 68	Additional costs (increase in prices caused by the war)	Fees for the use of ponds (in close correlation with the increase in wheat prices); purchase of motor fuels – diesel fuel on the retail market	Inland fishing	Unit cost (per hectare of ponds used)
PL	EMFF Article 68	Additional costs (increase in prices caused by the war)	Purchase of feed for fish; the purchase of electricity; the purchase of motor fuels (diesel)	Aquaculture	Unit cost (based on the operator's revenue from the sale of fish and eggs in the reference year 2021)
ES	EMFF Article 68	Additional costs (increase in prices caused by the war)	Increased costs for diesel	Fisheries	Unit cost (a monthly price surcharge in EUR is multiplied by the variable diesel consumption in litres)
HR	EMFF Article 68	Additional costs	Operational costs (variable costs, salary costs, reparation and maintenance costs, unpaid work value estimation) and the fuel and energy costs	Fisheries	Unit cost (per fishing day on a monthly basis per fleet segment)
HR	EMFF Article 68	Additional costs	Fuel and energy costs, raw material costs, costs of purchased fish feed	Aquaculture	Unit cost (per kg produced per month and per type of product, e.g. white fish)



MS	Legal basis	What is compensated	Cost categories covered	Sector addressed	Type of SCO
HR	EMFF Article 68	Additional costs	Fuel and energy costs, raw material costs	Processing	Unit cost (per kg produced per month; the amount of compensation is independent of the size of the company)
IT	EMFAF Article 21	Additional costs (increase in prices caused by the war)	Fuels, electricity, feed, plastic materials	Fisheries and aquaculture sector	Unit cost (EUR per kW for fishing vessels, and EUR per tonne for aquaculture production)
PL	EMFF Article 68	Additional costs (increase in prices caused by the war)	Cost of purchasing fish raw material; Cost of purchasing electricity	Processing	Lump sum (per type of plant: micro, small, medium, or large fish processing company)
PT	EMFF Article 68	Additional costs (increase in prices caused by the war)	Average operating costs per type of vessel/type of aquaculture, excluding energy costs	Fisheries and aquaculture sector	Lump sum (by type of fleet segment or aquaculture production method, calculated by multiplying the daily costs by an inflation rate of 8.6%)
CY	EMFAF Article 21	Income foregone for temporary cessation	Value of tuna landings lost, running cost avoided, maintenance costs	Fisheries	Lump sum (EUR per category)

Source: FAMENET, 2023

The following points should be considered when developing a method:

- The target group should be defined precisely (which categories of vessels, which company sizes, etc.).
- The SCO type should be clearly defined; there are often ambiguities here. For example, a compensation schema based on data collected case-by case is not a real SCO. This is precisely the approach that should be avoided.
- The methodology to calculate the compensation should be based on reliable data, include only eligible expenditures and avoid the risk of overcompensation. A strong mechanism to avoid overcompensation is recommended.
- The methods should include only very few cost categories to enhance the transparency of calculation. A separate calculation for each cost category should be done instead of using a general index across costs.
- State clearly what kinds of documents will be requested from the beneficiary to release the payment. Avoid methods which cannot be clearly communicated upfront to the beneficiaries.
- Focus on methods that are administratively easy to implement.
- The Audit Authority should assess the methodology in advance, even though this often requires demanding coordination.

## 5.2 Example: Flat rate in the Bulgarian EMFF programme to compensate for the crisis caused by and Russia’s military aggression against Ukraine

<b>Type of operation</b>	<b>Flat rate to compensate additional costs in fisheries, aquaculture and processing (Measure 5.3 of the Bulgarian EMFF Operational Programme 2014-2020)</b>
Rational for the introduction of the SCO	Russia’s military aggression against Ukraine of 24 February 2022 is having a negative impact on the fisheries sector in Bulgaria. The effects consist of market disturbances caused by significant cost increases and trade disruptions. The economic situation is exacerbated by subsequent inflation and these circumstances call for action to preserve operators’ livelihoods from radical shocks. The adoption of Regulation (EU) 2022/1278 gives Bulgaria, as a Member State, the legal possibility to reallocate funds in the Maritime and Fisheries Programme 2014-2020 (MFP) to specific measures to address the situation. The objective of the MA is to provide a method of compensation to operators that is as simple and easy to apply as possible, through which grants can reach operators as soon as possible. The Managing Authority introduces simplified costs to calculate the compensation in the form of a flat rate.
Type and mix of SCO, combination with real costs	Programme-specific flat rate based on the share of the specific cost to the total costs, having in mind the inflation rate of each cost for the period March-December 2022. Every specific cost is related to the current turnover of a business in the year 2022.
Categories of costs covered Do these categories of costs cover all eligible expenditure for the operation?	The three main cost categories – fuel costs, feed costs and raw material costs – are addressed, with the following restrictions: <ul style="list-style-type: none"> <li>• for the fishing subsector, only fuel costs are eligible</li> <li>• for the aquaculture subsector, feed costs and fuel costs are eligible</li> <li>• for the subsector processing fishery and aquaculture products, raw material costs and fuel costs are eligible</li> </ul>
Type of beneficiaries	Fishing operators, aquaculture farms and processing enterprises
Calculation method	The calculation method is based on flat rates for three cost categories, applied to the sales revenue. The applicants only have to indicate their net revenue from sales (from income statement in 2022) for the calculation of the compensation amount, which simplifies the calculation very much. The compensation is granted retrospectively for the year 2022. The three main cost categories are fuel costs, feed costs and raw material costs. The three cost categories are included in the compensation calculation with percentage rates that differ between the various subsectors. For fisheries, for example, the flat rate for fuel costs is 35.2% of sales revenues, while in processing it is 2.75%, and in aquaculture it is just 0.5%. Adjusting the percentage rate of fuel cost compared to total production costs, in line with the sector and type of production, is essential. The various flat rates and the indices for cost increases are calculated on the basis of statistical data. The method uses an average inflation rate for the period 03.2022-12.2022 taken from the consumer price index for the previous 12 months.

	<p>The compensation amount for a given cost component is calculated as the inflation rate (e.g. 36.7%) multiplied by the flat rate for the cost component in question (e.g. 0.5%) multiplied by net sales revenue (e.g. BGN 100 000). The method seems plausible and can be recommended.</p> <p><b>Example of an aquaculture farm:</b></p> <ul style="list-style-type: none"> <li>• Turnover (2022) = EUR 100 000</li> <li>• Flat rate for feed costs = 39.7% of income (averaged 2019-2021)</li> <li>• Flat rate for fuel costs = 0.5% of income (average 2019-2021)</li> <li>• Increase in feed costs = +28.5%</li> <li>• Increase fuel cost = +36.67%</li> </ul> <p>Compensation for feed costs = EUR 100 000 × 0.397 × 0.285 = EUR 11 314.50 Compensation for fuel costs = EUR 100 000 × 0.05 × 0.3667 = EUR 1 833.50 Total compensation = EUR 11 314.50 + EUR 1 833.50 = EUR 13 148.00</p>
<p>Data</p> <p>a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market)</p> <p>b) Data source</p> <p>c) How many years have been considered for the data collection?</p>	<p>Data sources:</p> <ul style="list-style-type: none"> <li>• Statistical data submitted by the operators for 2019, 2020, 2021 under EU MAP</li> <li>• National statistical institute</li> <li>• Analysis of accounting information (initial papers and registers) provided by list of beneficiaries for 2021, 2020 and 2019</li> </ul>
<p>Involvement of the Audit Authority</p>	<p>Yes</p>
<p>Experience with the implementation of the SCO (e.g. reduction of the administrative burden)</p>	<p>None yet</p>

Source: Bulgarian Maritime and Fisheries programme 2014-2020, presentation at FAMENET Online Channel Session – 26 April 2023, [www.eufunds.bg/bg/pmdr](http://www.eufunds.bg/bg/pmdr), E-mail: [pmdr@mzh.government.bg](mailto:pmdr@mzh.government.bg).

## 6 Recommendations and examples of tailor-made SCOs from the MAs

Based on information available from the MSs, this chapter describes examples of tailor-made SCOs developed by the MA according to a uniform classification. It will be expanded as more examples become available, in particular to cover the tailor-made SCOs used in EMFAF 2021-2027.

As with all examples of good practice, the challenge is to obtain complete information. At present we have eight examples covering all three SCO types and various types of costs: investments, staff costs and travel costs.

The detailed examples do not only focus on EMFF and EMFAF. SCOs from Rural Development Programmes 2014-2022 and CAP-Strategic Plans 2023-2027 were also included as examples because they are potentially transferable to the EMFAF ("copy-paste") provided that beneficiaries and operations supported by the SCO are similar.

Table 10 summarises the data, and the following sections explain each of the eight examples in more detail.

**Table 10: Overview of SCO examples in MSs**

Type of costs	SCO type		
	Flat rate	Unit cost	Lump sum
<b>Mainly investment-related</b>			
Investment on vessels less than EUR 100 000 which enhance the quality of the fish caught			NL: Lump sum (EMFF)
All costs to implement small investments and services less than EUR 100 000			SE: Lump sum (RDP)
Implementation of LEADER/CLLD projects less than EUR 100 000			AT: Draft budget method for LEADER/CLLD (CAP-SP)
Compensation for lost fish		CZ: Unit cost per hectare (EMFAF)	
<b>Travel-related</b>			
Mission expenses (accommodation, travel, catering)	FR: Flat rate (EMFAF)		
<b>Mainly staff-related</b>			
Personnel for knowledge, innovation and technology, knowledge transfer projects		DE: hourly unit costs for personnel expenditure (1 720 h method) (RDP)	
LAG running and animation costs			DK: Lump sum (EMFAF)
All costs related to production and marketing plans			NL: Lump sum for PMPs (EMFF)

Source: FAMENET, 2023

### 6.1 Lump sum method for investment – added value, product quality and use of unwanted catches (The Netherlands, EMFF Article 42)

Type of operation	Investment on vessels that enhances the quality of the fish caught
Rational for the introduction of the SCO	<p>In the NL Operational Programme for the EMFF, part of the funds were made available to enhance the quality of the fish caught. In this case, an SCO alleviates the administrative burden of executing the subsidy, so a policy-based decision was made to subsidise this investment via the lump-sum method. The reasoning behind this decision was to:</p> <ul style="list-style-type: none"> <li>• alleviate the administrative burden for the subsidy applicants; and</li> <li>• alleviate the controlling burden on the controlling institution (MA).</li> </ul> <p>The subsidy for the investment is relatively small, and does not exceed the limit of 100 000 EUR which applies to the application of lump-sum SCOs.</p>
Type and mix of SCO, combination with real costs	<p>Lump sum. Combination with real costs: none.</p>
<p>Categories of costs covered</p> <p>Do these categories of costs cover all eligible expenditure for the operation?</p>	<p>Several investments to enhance the quality of fish caught have been made eligible for subsidies. After consultation with the fishery sector, a decision was made in 2018 to subsidise the following investments:</p> <ul style="list-style-type: none"> <li>• automatic preserving machines for langoustines;</li> <li>• automatic cooking kettles for shrimp;</li> <li>• sorting machines with a bar width of at least 6 mm;</li> <li>• plaice stripping machines;</li> <li>• slurry ice machines.</li> </ul> <p>The next year, 2019, the list was expanded to cover:</p> <ul style="list-style-type: none"> <li>• air purifiers;</li> <li>• cooling installation using CO<sub>2</sub> as the refrigerant;</li> <li>• outer drums of sorting machines with a band width of at least 6 mm.</li> </ul> <p>Eligible investments concern the purchase of machines, and in some cases the cost of installation too. However, the lump sum does not cover installation costs because these are not always known, or were found to differ between fishing vessels.</p> <p>A lump sum was set for each investment type.</p>
Type of beneficiaries	Owners of fishing vessels
Calculation method	<p>It was not possible to use earlier data or existing methods because an SCO for investments had not been used before. The choice was therefore made to request quotations from equipment suppliers, with a breakdown to satisfy the criteria of being fair, equitable and verifiable, as laid down in the regulation. Three quotations were requested for each eligible investment type, with the requirement that the public contribution does not exceed 100 000 EUR, as set out in Article 67(1)(c) Regulation 1303/2013 [the Omnibus Regulation deleted this limitation and allows lump sums to be used where the public support is above 100 000 EUR].</p> <p>In the final determination of the fixed amount (the lump sum) the quotations were first checked against the requirements. From those that qualified, the quotation with the lowest cost was used to determine the lump sum.</p> <p>Investment in cooling systems differs from the other categories because these consist of multiple machines instead of (more or less) standalone devices like the other investments. The price of a cooling installation is</p>

	largely determined by the power rating, which depends on the size of the cold room and thus of the fishing vessel. As a result, the SCO sets two different lump sums for cooling installations: one for systems in the range 10–16 kW, and the other for systems larger than 16 kW.
Data a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market) b) Data source c) How many years have been considered for the data collection?	To calculate the fixed amount for each type of equipment, three quotations were requested from suitably qualified suppliers and installers. All quotations were requested to be disaggregated, distinguishing the purchase cost of the equipment from the installation cost.
Involvement of the Audit Authority	The Audit Authority (AA) has been consulted on this SCO. In the project audit, no remarks or findings have been made by the AA.
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	The benefit of using an SCO for this subsidy scheme was that applicants for the subsidy were no longer required to deliver a substantiation of market conformity (i.e. they do not need to request different quotes from suppliers). However, for this subsidy the applicants still had to supply evidence in the form of invoices or proofs of payment, and this is checked by the MA. More details are checked when using the real cost method for the subsidy. So, for both methods (real cost and SCO), an invoice has to be supplied and checked. In the case of the SCO the checking is a little easier, but not enough to alleviate the administrative burden significantly. While the development of this SCO has contributed to our knowledge of SCOs, we will be extra critical of using an SCO for investment schemes in the future, given the time invested and the modest reduction of administrative burden obtained. Setting up an SCO takes time initially, but saves time after that. When we compare this to project subsidies based on the hours worked per application, it is clear that the SCO payments require less time per application – though it is important to note that this comparison is between two wholly different projects with different subsidies. Another caveat is that preparing an SCO requires more time than a regular subsidy, and this is not accounted for in the hours worked per application. To get a clear image of the benefit in hours worked when using an SCO would require a comparison between the same projects when using real costs and when using the SCO. We do not have this data readily available. This SCO was used for two recurring investment projects but is no longer in use.

Source: Martha Wurzer, Archana Kok (NL), October 2020

## 6.2 Lump sum based on draft budget (Sweden, Rural Development Programme 2014-2020)

Type of operation	Wide range of applications is possible
Rational for the introduction of the SCO	<p>The Swedish Rural Development Programme for the 2014-2020 programme period uses a total of 13 different off-the-shelf and programme-specific SCOs for a wide range of measures (a list is available).</p> <p>Lump sum based on a draft budget is a very flexible SCO that can be used in many measures of the Swedish RDP:</p> <ul style="list-style-type: none"> <li>• M1/Article 14 Knowledge transfer and information actions</li> <li>• M2/Article 15 Advisory services, farm management and farm relief services</li> <li>• M7/Article 20 Basic services and village renewal in rural areas</li> <li>• M10/Article 28 Agri-environment-climate</li> <li>• M16/Article 35 Co-operation</li> <li>• M19/Article 42-44 LEADER/CLLD</li> </ul> <p>When applying this SCO, important conditions must be observed:</p> <ul style="list-style-type: none"> <li>• the SCO is only for projects up to 100 000 EUR</li> <li>• a clearly described budget is available</li> <li>• it is possible to define measurable targets</li> <li>• there is a low risk that target will not be met</li> <li>• the lump sum means a real simplification for the beneficiary.</li> </ul> <p>An application of lump sums in the EMFAF is currently being considered by the MA.</p>
Type and mix of SCO, combination with real costs	Lump sum based on draft budget (Article 67(5)(aa) 1303/2013 (CPR)).
Categories of costs covered	All costs in an operation can be included in a lump sum.
Type of beneficiaries	A wide range of beneficiaries is possible.
Calculation method	<p><b>Working step 1:</b> Confirm the suitability of operations based on a checklist (see table 12).</p> <p>The case officer evaluates whether or not lump sums based on a draft budget are suitable for each project, while communicating with the beneficiary. This is done using a checklist (see below). It is important that the activities included in a lump sum based on a budget are clearly defined and easy to set up outputs for. The lump sum may cover a whole project, or only parts of a project, and lump sums can be combined with other SCOs and real costs in the same project.</p> <p><b>Working step 2:</b> If the lump sum approach is suitable, run a plausibility assessment on the costs.</p> <p>If lump sums based on a draft budget are considered suitable for the project at hand, the case office does a plausibility assessment on every cost included in the lump sum.</p> <p><b>Working step 3:</b> Agree on the outputs that form the basis for payments.</p> <p>The document regulating the terms and agreement of the support sets out what the agreed output is. It also specifies what documents the beneficiary has to present to the paying agency to show that the agreed output has been reached and to allow the support payment to be made. The paying</p>

Type of operation	Wide range of applications is possible
	agency checks only that the agreed output has been reached, and not any of the real costs for activities included in the lump sum.
<p>Data</p> <p>a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market)</p> <p>b) Data source</p> <p>c) How many years have been considered for the data collection?</p>	The beneficiary must submit a specified budget clearly describing its expenses.
Involvement of the Audit Authority	The Audit Authority has not been involved in the process.
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	<p>The budget limit is 100 000 EUR, so not many rural development projects have been able to take advantage of lump sums based on draft budgets. It is mainly projects within CLLD that are suitable for lump sums based on draft budgets, but this approach is still very new to the case officers and has not been widely used in many projects so far. The MA implemented this in the current programming period as a test for the next one.</p> <p>The Swedish RDP approved almost 2 400 operations within LEADER for supporting local projects and cooperation in this period in all four funds (ERDF, ESF, EAFRD and EMFF). Only 15 of these operations include lump sums based on a draft budget, and in all of them the LAG has made the assessment regarding lump sums (according to the procedure described above).</p> <p>It is possible for a LAG to decide on the application of lump sums based on draft budgets.</p> <p>In Sweden we have a joint administrative process between the LAG and the MA for granting support. The assessment of whether lump sums based on a draft budget are suitable for each operation is done by the administrative officer at the LAG. If lump sums based on a draft budget are considered suitable in an operation, the LAG will also assess the reasonableness of every cost included in the draft budget in calculating the lump sum.</p> <p>The MA then clarifies the nature of the agreed output in the document regulating the terms of the support. The same document also specifies what documents the beneficiary has to present to the paying agency to show that the agreed output has been reached in order to receive payment. If the MA does not agree with the assessment made by the LAG, it is possible to adjust or change the assessment and the amount of the lump sum, after a discussion with the LAG.</p>

Source: Anousch Muradyan, *Fiskeri- och marknadsstödsenheten, Jordbruksverket, October 2020*, Alma Blake Elmvall, *Handläggare för stöd inom lokalt ledd utveckling, May 2021*



**Table 12: Checklist used by Swedish funding body to establish the lump sum based on draft budget**

Checklist for suitability assessment of support in the form of lump sums (translated from Swedish)			
Journal number: XXXX-XX	Administrator:		
<p><b>Instructions:</b> If you have received the answer YES on all points, go back to the routine 208 lump sums. If you have received NO on any of the questions, it is not advisable to grant support in the form of lump sums in the project.</p>			
	YES	NO	Justification
• Is there a specific budget?	<input type="checkbox"/>	<input type="checkbox"/>	Justify your answer
• Are there activities or expenses in the budget suitable for one or more lump sums?	<input type="checkbox"/>	<input type="checkbox"/>	Justify your answer
• Are there (or is it possible to create) measurable targets for one or more lump sums?	<input type="checkbox"/>	<input type="checkbox"/>	Justify your answer
• Is there a low risk that the beneficiary will not reach the target of the lump sum?	<input type="checkbox"/>	<input type="checkbox"/>	Justify your answer
• Does the lump sum entail simplification for the beneficiary?	<input type="checkbox"/>	<input type="checkbox"/>	Justify your answer
<p><b>1. Is there a specific budget?</b></p> <p>In order for you as an administrator to determine whether or not the project is suitable for lump sums, the beneficiary must submit a specified budget where the expenses are clearly described.</p> <p><b>2. Are there activities or expenses in the budget suitable for one or more lump sums?</b></p> <p>Assess whether there are clear activities in the project. Clear activities mean that you can identify milestones in a project. This may involve different phases of the project, such as a pre-study, an investigation, and the development of something concrete, such as a bridge. Use the budget template, application or other documentation to determine whether there are clear activities. Even if you can't easily identify activities, they may still exist. Contact the applicant for further information.</p> <p><b>3. Are there (or is it possible to create) measurable targets for one or more lump sums?</b></p> <p>Check whether there are measurable goals for the activity/activities. The goals of the lump sums need not be the same as the overall goal of the project. Examples of measurable goals for an activity are to conduct a feasibility study, run a conference, produce marketing materials, or carry out an investment. A goal is not measurable if it is, for example, to generally create better conditions or increase awareness of an issue. A measurable goal does not necessarily have to be quantitative (when we measure a number) but must, on the other hand, contain data that can be followed up in a simple way.</p> <p><b>4. Is there a low risk that the beneficiary will not reach the target of the lump sum?</b></p> <p>It is of great importance that you as an administrator take into account the extent to which there is a risk that the beneficiary will not achieve the goals set for the lump sum. The risk that the beneficiary will not achieve the objective of the activity increases when the outcome of the activities is beyond the control of the beneficiary. For these activities there is a higher risk that the goals will not be met and they are therefore not suitable to grant in the form of a lump sum.</p>			

Examples of such situations are:

- the activity concerns an innovation whose outcome is uncertain,
- the activity depends on external factors, such as how many times a website was visited or how much of a food was sold,
- the activity depends on other actors for its implementation,
- the objective of the activity is too specific, or
- the activity has too many separate targets.

**5. Does the lump sum entail simplification for the beneficiary?**

The purpose of the introduction of lump sums is to simplify life for the beneficiary. It is therefore important that the assessment of suitability is carried out in the individual case with a focus on the applicant's circumstances.

Assess whether or not lump sums mean simplification for the beneficiary. Support in the form of lump sums means a simplification if:

- there are many small expenditures in the budget,
- the beneficiary is expected to submit many applications for payment, and
- it is easier to check that a target has been met compared to checking expenses.

When you assess whether or not lump sums mean simplification, it is important to have a dialogue with the applicant. However, it is you as an administrator, not the applicant, who makes the final assessment on whether or not the lump sum would simplify the case in question.

*Source: Anousch Muradyan, Fiskeri- och marknadsstödsenheten, Jordbruksverket, October 2020, Alma Blake Elmvall, Handläggare för stöd inom lokalt ledd utveckling, May 2021*

### 6.3 Draft budget method applied in LEADER/CLLD in the CAP Strategic Plan 2023-2027 (Austria)

Type of operation	Implementation of LEADER/CLLD projects in the CAP Strategic Plan Austria 2023-2027
Rationale for the introduction of the SCO	<p>An advantage of draft budgets is that they can be applied to a wide variety of projects. There are no restrictions regarding work packages, activities or cost categories. By setting milestones as payment triggers, the entire cost verification effort is eliminated after approval.</p> <p>As an disadvantage, to set up draft budgets requires significant resources at MA/beneficiary level for relatively small amounts – less than EUR 200 000 total costs.</p> <p>In the 2014-2020 period Austria had already gained initial positive experience in LEADER/CLLD through lump sums for small projects with total costs of up to EUR 5 700.</p> <p>In the period 2023-2027, Austria is using draft budgets to implement LEADER/CLLD projects up to a total cost of EUR 100 000.</p>
Type and mix of SCO, combination with real costs	It is possible to mix costs to be verified and SCOs within a draft budget.
<p>Categories of costs covered</p> <p>Do these categories of costs cover all eligible expenditure for the operation?</p>	<p>Draft budgets can be applied to a wide variety of cost categories. A major advantage is when the draft budget includes many small cost items that would otherwise cause a lot of verification work.</p> <p>It is important that:</p> <ul style="list-style-type: none"> <li>• costs are clearly and comprehensibly described and prepared</li> <li>• activities can be clearly distinguished from each other</li> <li>• milestones can sufficiently map the project</li> <li>• milestones can be verified by predefined evidence</li> <li>• similar projects have been successfully carried out in the past</li> <li>• there are many cost items in the draft budget that would otherwise have to be substantiated with individual invoices</li> </ul> <p>Draft budgets are less suitable for:</p> <ul style="list-style-type: none"> <li>• multi-year projects that are difficult to plan in advance</li> <li>• cost items that cannot be clearly assigned to milestones</li> <li>• major construction/investment projects (individual larger investment invoices can easily be settled in the classic way)</li> <li>• activities depending on external factors that cannot be influenced by the person applying for funding</li> <li>• projects that are likely to see changes during their course</li> </ul>
Type of beneficiaries	Local action groups (LAGs) and beneficiaries selected by the LAGs
Calculation method	<p>A project can be implemented either via a draft budget as a lump sum, or based on proven actual costs. A mixture is not possible.</p> <p>A draft budget is prepared on a case-by-case basis for each project and agreed in advance by the approving body with the applicant, based on four guiding questions:</p> <ol style="list-style-type: none"> <li>1. Is there a sufficiently defined budget and are the costs of project implementation reasonable?</li> </ol>

Type of operation	Implementation of LEADER/CLLD projects in the CAP Strategic Plan Austria 2023-2027
	<p>2. Are there, or is it possible to create, verifiable milestones for a lump sum based on a draft budget?</p> <p>3. Is there a low risk that the milestones of the lump sum will not be reached?</p> <p>4. Does the lump sum mean a simplification for the parties involved (funding applicant, LAG)?</p> <p>All four guiding questions must be answered “yes”. For the ex-ante assessment:</p> <ul style="list-style-type: none"> <li>• The applicant must submit a detailed budget with plausible costs. For the plausibility of costs, the same rules apply as for projects with “real cost” accounting.</li> <li>• The off-the-shelf flat rate for overheads (15% of staff costs) is generally not allowed for LEADER projects, including those using draft budgets. Other Austrian CAP-specific SCOs may be included in the draft budget (e.g. lump sums for events).</li> <li>• Up to five appropriate milestones must be defined. There is a payment for each milestone. If a milestone is not reached in the course of the project, the associated payment is zero, with no allowance for partial completion. For each milestone achieved, evidence is provided in the form of a report or other suitable documentation.</li> </ul> <p>The approving body can demand a revision of the budget or reject the draft budget altogether.</p> <p>After the (positive) decision as to whether the submitted draft budget is suitable, the draft budget is converted into a lump sum.</p> <p>The funding amount is calculated by applying the allowable funding rate for the project (e.g. 80%) to the lump sum (full costs).</p> <p>The approval letter specifies the milestones, the related budget and the evidence required.</p> <p>From this point on, substantial changes to the project are no longer possible. Milestones and evidence their achievement cannot be changed. This means that multi-year projects that are difficult to plan in advance are not suitable for draft budgets. Minor changes that do not affect the milestones are possible at any time.</p> <p>Payment is made after the beneficiary provides proof that a milestone has been achieved. No invoices are submitted at any time.</p> <p>Example:</p>

Type of operation	Implementation of LEADER/CLLD projects in the CAP Strategic Plan Austria 2023-2027																							
	<table border="1"> <thead> <tr> <th data-bbox="505 282 798 356">Milestones</th> <th data-bbox="798 282 963 356">Costs (EUR)</th> <th data-bbox="963 282 1362 356">Evidence</th> </tr> </thead> <tbody> <tr> <td data-bbox="505 356 798 533">Kick-off event</td> <td data-bbox="798 356 963 533">4.200</td> <td data-bbox="963 356 1362 533">Photo documentation Invitation/Programme Participation list</td> </tr> <tr> <td data-bbox="505 533 798 813">2 excursions* <i>*marked as quantified milestone, e.g. if only one excursion takes place due to weather, 4.900/2 can be credited</i></td> <td data-bbox="798 533 963 813">4.900</td> <td data-bbox="963 533 1362 813">Invitation/Program Photo documentation Participation list</td> </tr> <tr> <td data-bbox="505 813 798 1041">Closing event</td> <td data-bbox="798 813 963 1041">6.650</td> <td data-bbox="963 813 1362 1041">Invitation/Program Photo documentation Participation list Supporting material for the press conference, newspaper articles, posters</td> </tr> <tr> <td data-bbox="505 1041 798 1111">Hiking and Adventure App</td> <td data-bbox="798 1041 963 1111">13.550</td> <td data-bbox="963 1041 1362 1111">Link to the app</td> </tr> <tr> <td data-bbox="505 1111 798 1155">Hiking map</td> <td data-bbox="798 1111 963 1155">6.300</td> <td data-bbox="963 1111 1362 1155">Specimen copy</td> </tr> <tr> <td data-bbox="505 1155 798 1200"><b>Total</b></td> <td data-bbox="798 1155 963 1200"><b>35.600</b></td> <td data-bbox="963 1155 1362 1200"></td> </tr> </tbody> </table>	Milestones	Costs (EUR)	Evidence	Kick-off event	4.200	Photo documentation Invitation/Programme Participation list	2 excursions* <i>*marked as quantified milestone, e.g. if only one excursion takes place due to weather, 4.900/2 can be credited</i>	4.900	Invitation/Program Photo documentation Participation list	Closing event	6.650	Invitation/Program Photo documentation Participation list Supporting material for the press conference, newspaper articles, posters	Hiking and Adventure App	13.550	Link to the app	Hiking map	6.300	Specimen copy	<b>Total</b>	<b>35.600</b>			
Milestones	Costs (EUR)	Evidence																						
Kick-off event	4.200	Photo documentation Invitation/Programme Participation list																						
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Hiking map	6.300	Specimen copy																						
<b>Total</b>	<b>35.600</b>																							
Data a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market)	Potential beneficiaries submit “real cost” budgets as they would for a classic funding project. The costs presented must be checked for plausibility by the funding body (e.g. by comparing three offers).																							
Involvement of the Audit Authority	Not yet.																							
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	<p>A comprehensive draft budget guidance was developed for applicants: See: <a href="https://www.ama.at/getattachment/f4eb4458-e63c-4449-a714-26385e765787/Merkblatt_Draft-Budgets-LEADER_v1_ab_2023_07.pdf">https://www.ama.at/getattachment/f4eb4458-e63c-4449-a714-26385e765787/Merkblatt_Draft-Budgets-LEADER_v1_ab_2023_07.pdf</a></p> <p>The implementation of LEADER in the CAP-SP 2023-2027 only started in July 2023. There are still no approved projects and therefore no approved draft budgets. The MA expects that it will start relatively slowly and that classic small projects will be processed as draft budgets first.</p>																							

Source: AMA Guidance Document; Julian Gschnell, Federal Ministry of Agriculture, Forestry, Regions and Water Management (BML), Department III/7: Innovation, Local Development and Cooperation

#### 6.4 Unit cost for compensation for damage caused by fish-eating predators (Czech Republic, EMFAF 2021-2027)

Type of operation	Compensation for damage caused by fish-eating predators
Rationale for the introduction of the SCO	<p>The current compensation given by the Czech national legislation for losses due to cormorants is too complicated, and so demanding that smaller fish farmers do not ask for compensation.</p> <p>A great burden on fishers is the need for an expert opinion to prove the damage suffered. In the case of small breeding ponds, this often costs more than the compensation obtained. However, even the experts' assessments are more or less rough estimates. Their reports are drawn up on the basis of the number of fish stocked and the number of cormorants indicated by the injured party, but it is almost impossible to quantify the actual damage.</p>
Type and mix of SCO, combination with real costs	<p>Unit cost of EUR 23.2 per ha per year.</p> <p>Combination with real costs – to be clarified.</p>
Categories of costs covered Do these categories of costs cover all eligible expenditure for the operation?	<p>This is a one-off payment for income foregone resulting from damage to the production of fish as a result of their being eaten by cormorants. It is designed for fish production ponds of 2 hectares or larger.</p>
Type of beneficiaries	<p>Pond owners and tenants engaged in fish farming or the exercise of fishing rights, where ponds have an area of <math>\geq 2</math> ha.</p>
Calculation method	<p><math>30\% \text{ compensation} = 1\,980 \text{ CZK/ha/year} \times 0.3 = 594 \text{ CZK/ha/year} = 23.2 \text{ EUR/ha/year}</math></p>
Data a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market) b) Data source c) How many years have been considered for the data collection?	<p>The calculation is based on a Hungarian model using statistical data originally collected for the Czech Republic. Sources were the available literature, regional authorities, the Fisheries Association of the Czech Republic, and consultations. Some simplification was used to calculate the model.</p> <ul style="list-style-type: none"> <li>• cormorant (<i>Phalacrocorax carbo</i>) population in the Czech Republic: 16 000</li> <li>• fishpond area: 40 000 ha</li> <li>• cormorant density on ponds: <math>16\,000/40\,000 = 0.4</math> birds per ha</li> <li>• feeding days on ponds: 180 days/year (conservative estimate)</li> <li>• bird-days per hectare: <math>180 \times 0.4 = 72</math> days/ha</li> <li>• daily consumption: 0.5 kg per bird</li> <li>• consumption per hectare: <math>0.5 \text{ kg} \times 72 \text{ days} = 36 \text{ kg}</math></li> <li>• common carp average price: 55 CZK per kg (2.2 EUR/kg)</li> <li>• cost of lost fish: <math>36 \text{ kg} \times 55 \text{ CZK} = 1\,980 \text{ CZK} = 79.2 \text{ EUR}</math></li> </ul>
Involvement of the Audit Authority	<p>The consultation process with the AA took a long time (around a year).</p>
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	<p>So far there is no experience in implementing this SCO.</p>

Source: Presentation by Pavel Pojer, 18.09.2019; Eace (2020), Analysis and recommendations for the use of simplified reporting methods, Presentation of Věra Kohoutková on the 7 October 2020 (FAME ASM 2020)

## 6.5 Flat rate to cover mission expenses (EMFAF, France)

Type of operation	Application of a flat rate to personnel costs in specific actions to cover mission expenses
Rationale for the introduction of the SCO	Accounting for travel expenses is administratively very time-consuming because many small expenses have to be checked. The use of SCOs is therefore desirable.
Type and mix of SCO, combination with real costs	Flat rate.
Categories of costs covered Do these categories of costs cover all eligible expenditure for the operation?	All mission expenses for accommodation, travel and catering. These expenses can be directly linked to the implementation of the operation via a mission order.
Type of beneficiaries	Beneficiaries under specific types of action under the EMFAF programme: <ul style="list-style-type: none"> <li>• Research &amp; Innovation (SO 1.1, 1.6, 2.1 et 2.2)</li> <li>• Partnerships between Scientists and Fishers (SO 1.1)</li> <li>• Protecting and Restoring Biodiversity (SO 1.6)</li> <li>• Collective Actions (SO 1.1, 2.1 et 2.2)</li> <li>• Marine knowledge, maritime surveillance or coastguard cooperation (SO 4.1)</li> </ul>
Calculation method	Application of an overall rate of 6.3% to personnel costs to cover all mission expenses.
Data a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market) b) Data source c) How many years have been considered for the data collection?	Application of CPR Article 53 (rates may be determined on the basis of a fair, equitable and verifiable method of calculation) by using historical data from the EMFF based on the appraisal of applications. Average costs were calculated by removing extreme values. It is not necessary to provide supporting documents at the time of requesting payment. The beneficiary will be required to keep the supporting documents attesting to the trips (to prove that the project has been carried out for the purposes of checks such as on-site visits or checks on the operation). At the time the grant application and payment are examined, the department responsible for processing the application will check that the project requires travel. In addition, the materiality of documents may be verified during on-site visits or audits.
Involvement of the Audit Authority	Yes.
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	The MA encountered problems during audits, e.g. problems with supporting documents.

Source: Ministry of Ecological Transition – France; Manon Leloir, presentation at the FAMENET annual MA-meeting on 11 October 2023

## 6.6 Hourly unit costs for personnel expenditure in Saxony (RDP 2014-2020, Germany)

The following example presents a programme-specific calculation of hourly unit costs for personnel expenditure based on the 1 720 h method. The SCO is applied in the Rural Development Programme Saxony 2014-2020 and may be easily transferred to the EMFAF.

Type of operation	Knowledge, innovation and technology, knowledge transfer projects, including demonstration projects																				
Rational for the introduction of the SCO	<p>Funding is provided for conferences and specialist events, workshops and working groups, and related specialist excursions or demonstration events on relevant topics. The maximum duration of the projects is two years from the date of approval.</p> <p>The introduction of personnel cost rates for the accounting of personnel expenses is intended to <u>significantly reduce the workload for the beneficiaries and the administration</u> and to simplify the funding procedure. With the application of standard scales of unit costs, it is no longer necessary to trace each item of expenditure claimed by the beneficiary in the grant application back to the individual accounting records and supporting documents. The application of standard scales of unit costs is compulsory for beneficiaries.</p>																				
Type and mix of SCO, combination with real costs	<p>Personnel expenditure directly attributable to the project is eligible on the basis of <u>hourly unit costs based on the 1 720 h method</u>.</p> <p>In addition to personnel costs, <u>operational expenditure</u> is also eligible. This includes directly attributable expenses such as hiring event rooms, leasing demonstration areas, materials, third-party services, fees, travel expenses for fee-earners without board, and per diems. Operational costs are settled on the basis of costs actually incurred, which are checked for plausibility (e.g. by means of comparative offers).</p>																				
Categories of costs covered Do these categories of costs cover all eligible expenditure for the operation?	<p>The unit costs for staff include <u>a flat-rate overhead rate of 15% to cover indirect costs</u> for administration and management, tax consultants, office supplies, postage, office rent, photocopiers, telecommunications, IT, office equipment, low-value assets, energy costs, water, cleaning, and travel expenses for own staff.</p>																				
Type of beneficiaries	<p>The purpose of the support is to promote target-group-specific knowledge transfer projects, including demonstration projects for people working in Saxony's agriculture, food and forestry sectors, and for land managers.</p>																				
Calculation method	<p>Personnel cost rates for different qualifications in EUR (valid for applications submitted between July 1, 2019 and June 30 2020; the calculations are updated annually in the case of new calls):</p> <table border="1"> <thead> <tr> <th>Qualification profiles</th> <th>Employees in leading positions</th> <th>Distinguished specialists</th> <th>Specialists</th> <th>Semi-skilled and unskilled employees</th> </tr> </thead> <tbody> <tr> <td>Gross monthly earnings</td> <td>5 905</td> <td>3 889</td> <td>2 712</td> <td>2 102</td> </tr> <tr> <td>Non-wage labour costs (e.g. social security contributions)</td> <td>1 039</td> <td>774</td> <td>540</td> <td>418</td> </tr> <tr> <td>Total direct staff costs</td> <td>6 944</td> <td>4 663</td> <td>3 252</td> <td>2 520</td> </tr> </tbody> </table>	Qualification profiles	Employees in leading positions	Distinguished specialists	Specialists	Semi-skilled and unskilled employees	Gross monthly earnings	5 905	3 889	2 712	2 102	Non-wage labour costs (e.g. social security contributions)	1 039	774	540	418	Total direct staff costs	6 944	4 663	3 252	2 520
Qualification profiles	Employees in leading positions	Distinguished specialists	Specialists	Semi-skilled and unskilled employees																	
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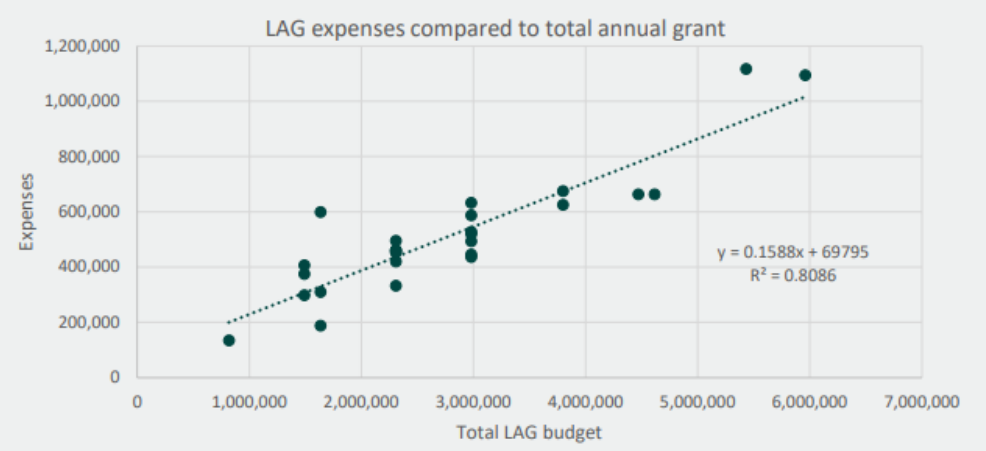


Type of operation	Knowledge, innovation and technology, knowledge transfer projects, including demonstration projects				
	15% flat rate for indirect costs (overheads)	1 042	699	488	378
	Monthly amount	7 986	5 362	3 739	2 898
	Hourly unit costs (1 720 hours)	56	37	26	20
<p>Data</p> <p>a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market)</p> <p>b) Data source</p> <p>c) How many years have been considered for the data collection?</p>	<p>The data basis for the personnel cost rates is the data from the German Federal Statistical Office on average gross monthly earnings, without special payments, for the economic sectors Manufacturing Industry and Services in Saxony for 2018. Ancillary wage costs are added on the basis of the ESF social security flat rates “Eligible costs and expenses” as of 1 January 2019. <u>These statistical data are used to calculate monthly and hourly rates for different qualification profiles of employees</u> (see table above). The different qualification profiles take into account the differences in wage payments depending on the employee’s area of responsibility, type of work and experience.</p> <p>The personnel cost rates thus cover gross remuneration including non-wage labour costs. Holidays, public holidays and sick days are already taken into account at a flat rate by the underlying standard working time of 1 720 hours. They apply equally to employees, salaried staff and self-employed persons. The personnel cost rates include flat-rate indirect costs amounting to 15% of direct personnel costs.</p>				
Management verification	<p>For employees who work exclusively on the funded project or on a part-time basis, <u>no time recording</u> is required for the settlement of expenses.</p> <p>In this case the grant recipient signs a declaration confirming that the staff member in question was working exclusively for the subsidised project during that period. The number of months of activity are then multiplied by the monthly rates. This gives the eligible staff expenditure to which the rate of assistance is applied.</p> <p>When calculating the costs for staff working part-time on the funded project with variable numbers of hours, proof of the hours actually worked is provided, normally by means of a time recording system. If a time recording system has not been set up, proof is provided on the basis of timesheets which the grant recipient submits with the application for payment. The hours actually worked and documented are multiplied by the hourly rate. This results in the eligible personnel expenditure to which the grant rate is applied. A maximum of 1 720 hours per year will be funded.</p>				
Involvement of the Audit Authority	The Audit Authority was not involved in the development of the SCO.				
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	The applications to date amount to three approved projects. As intended, the simplified cost options reduce the administrative burden and may have contributed to improved acceptance of the funding instrument, as shown by a slight increase in the number of applications submitted compared to previous years.				

Source: Merkblatt zur Einführung von Personalkostensätzen im Rahmen der Richtlinie LIW/2014, Teil Wissenstransfer, <https://www.smul.sachsen.de/foerderung/teil-b-ii-2-vorhaben-des-wissenstransfers-einschliesslich-demonstrationsvorhaben-4792.html>; Dr. Silke Neu, Saxon State Office for Environment, Agriculture, and Geology, December 2020

## 6.7 Lump sum for LAG running and animation costs (EMFAF, Denmark)

Type of operation	Lump sum for LAG running and animation costs																					
<p>Rationale for the introduction of the SCO</p>	<p>The MA wanted to alleviate the administrative burden by not having to trace every Euro of expenditure to individual supporting documents.</p> <p>26 LAGs receive lump sums for running and animation costs in 2023-2027.</p> <p>Money is paid based on the results delivered by the LAGs instead of on their actual costs. The MA differentiates between starting up the LAG and running the LAG in the long term. We are operating with two lump sums:</p> <ul style="list-style-type: none"> <li>• Lump sum for preparatory support. The amount is the same for each LAG, and is given when the local development strategy has been drawn up.</li> <li>• Lump sum for running and animation costs. The amount depends on the total budget of the LAG, and is paid twice a year when milestones are completed.</li> </ul>																					
<p>Type and mix of SCO, combination with real costs</p>	<p>Lump sum.</p>																					
<p>Categories of costs covered Do these categories of costs cover all eligible expenditure for the operation?</p>	<p>Salary, transport, advertising, office supplies, catering and premises rent.</p>																					
<p>Type of beneficiaries</p>	<p>LAGs.</p>																					
<p>Calculation method</p>	<p>The lump sum for each LAG is calculated as 19.2% of the total annual grant. The lump sum is paid out when predefined milestones (outputs) are complete.</p> <p><b>What should the LAGs deliver in order to get the lump sum?</b></p> <p>According to the Commission notice guidelines on the use of SCO (2021/C 200/01), a lump sum is paid if predefined activities and/or outputs are completed and the specific output or outcome is reached. The “all-or-nothing trap” can be mitigated by including staged payments related to the achievement of certain pre-defined milestones.</p> <p>The MA identified the most important tasks of a LAG and linked each task to an indicator and a deliverable:</p> <table border="1" data-bbox="421 1581 1398 2007"> <thead> <tr> <th>Task (purpose)</th> <th>Indicator</th> <th>The visual sign (to be delivered)</th> </tr> </thead> <tbody> <tr> <td>Seek out projects</td> <td>Someone is employed to do this</td> <td>Contract with a coordinator</td> </tr> <tr> <td>Help applicants</td> <td>Publicly available information and contacts</td> <td>LAG’s own website targeted at the local area</td> </tr> <tr> <td>Distribute grants</td> <td>Projects are assigned to the MA</td> <td>Annual statistics on how much of the amount allocated for projects has been assigned (85%)</td> </tr> <tr> <td>Encourage local involvement</td> <td>General assembly once a year - publicly announced</td> <td>Meeting minutes and print from the advertisement</td> </tr> <tr> <td>Use widespread local knowledge</td> <td>Board members represent 4 socioeconomic groups</td> <td>List of names and socioeconomic group</td> </tr> <tr> <td>Apply the local development strategy</td> <td>The strategy is a general guideline in relation to projects and is kept ‘up to date’</td> <td>Annual evaluation in a pre-printed form</td> </tr> </tbody> </table>	Task (purpose)	Indicator	The visual sign (to be delivered)	Seek out projects	Someone is employed to do this	Contract with a coordinator	Help applicants	Publicly available information and contacts	LAG’s own website targeted at the local area	Distribute grants	Projects are assigned to the MA	Annual statistics on how much of the amount allocated for projects has been assigned (85%)	Encourage local involvement	General assembly once a year - publicly announced	Meeting minutes and print from the advertisement	Use widespread local knowledge	Board members represent 4 socioeconomic groups	List of names and socioeconomic group	Apply the local development strategy	The strategy is a general guideline in relation to projects and is kept ‘up to date’	Annual evaluation in a pre-printed form
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Apply the local development strategy	The strategy is a general guideline in relation to projects and is kept ‘up to date’	Annual evaluation in a pre-printed form																				

Type of operation	Lump sum for LAG running and animation costs
	<p>The outputs or deliverables should be well defined, otherwise it becomes too difficult to assess whether or not they have been completed. In practice the milestones that trigger the lump sum payments are set up as shown in the following chart:</p>  <p>When defining the outputs (milestones), be careful about asking for too many statements, reports or evaluations – especially if you don’t have time to read them. It is much easier to come up with more and more requirements for output that the beneficiary needs to complete than it is to say: “That’s not necessary”.</p>
<p>Data</p> <p>a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market)</p> <p>b) Data source</p> <p>c) How many years have been considered for the data collection?</p>	<p>The calculation of the lump sum is based on EU Regulation 2021/1060, Article 53, paragraph 3: a fair, equitable and verifiable calculation method based on verified historical data from individual beneficiaries.</p> <p>The MA chose historical data from 2017, 2018 and 2019 to ensure a comprehensive dataset. They did not include 2020 because COVID-19 made this an atypical year. The MA found that the categories of expense items – salaries, transport, advertising, office supplies, catering and premises rent – were the same in every LAG, but the amounts were not comparable at all. To calculate an average cost and make that into a standard lump sum for every LAG would therefore not be fair.</p> <p>After checking the main reasons why the expenses differ so much between the LAGs, it was found that the running costs of a LAG are broadly proportional to the total annual grant:</p>  <p>As the next chart shows, on average it costs <b>19.2% of the total annual grant</b> to run a LAG, so this is the fraction of the total annual grant that is awarded as lump sums for running and animation.</p>

Type of operation	Lump sum for LAG running and animation costs
Involvement of the Audit Authority	<p>Yes. It's a good idea to involve stakeholders (e.g. audit authorities, paying agency, certified body) in order to spot weaknesses in the solution up front.</p>
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	<p><b>What have we gained from using lump sums?</b></p> <p>We wanted to alleviate the administrative burden by not tracing every Euro of expenditure to individual supporting documents.</p> <p>Time spent before using lump sum:</p> <ul style="list-style-type: none"> <li>• advance payments 4 times a year (1 week per LAG = 26 weeks)</li> <li>• settlements and review of attachments (2 weeks per LAG = 52 weeks)</li> <li>• total 78 weeks per year.</li> </ul> <p>Time spent after using lump sum:</p> <ul style="list-style-type: none"> <li>• approval of result documentation 1. milestone (4 weeks all LAGs)</li> <li>• approval of result documentation 2. milestone (10 weeks all LAGs)</li> <li>• total 14 weeks per year.</li> </ul> <p>Time saved: 78 – 14 = 64 weeks every year.</p> <p><b>Time to set up the lump sum:</b></p> <p>It does take time to set up the lump sum system, but everything has to be done just once. This is an investment that pays off year after year.</p> <p>Time spent developing our lump sum solution:</p> <ul style="list-style-type: none"> <li>• calculating a fair amount for the lump sum (4 weeks)</li> <li>• setting up indicators (8 weeks)</li> <li>• documenting and describing the new rules and regulations (8 weeks)</li> <li>• implementing, informing, teaching a new mindset (2 weeks)</li> <li>• total 22 weeks over a period of 9 months.</li> </ul> <p>By investing 22 weeks of work, we save 64 weeks every year, or 320 weeks over whole EU 2023-2027 programme period).</p> <p>The 22 weeks invested are already recovered within the first year.</p>

Source: Mette Andreasen, The Danish Agency for Planning and rural development, FAMENET Annual MA Meeting on 11 October 2023

## 6.8 Lump sum method for production and marketing plans (PMPs, EMFF Article 66, the Netherlands)

Type of operation	Creation of production and marketing plans by producer organisations
Rational for the introduction of the SCO	<p>In the NL Operational Programme for the EMFF, part of the funds were made available for producer organisations in the fisheries sector to draw up production and marketing plans (PMPs). These plans are an annually recurring obligation. In this case, SCOs alleviate the administrative burden for the execution of the subsidy, so a policy-based decision was made to subsidise the creation of the PMPs using the lump-sum method. The reasoning behind this decision was that:</p> <ul style="list-style-type: none"> <li>• PMPs are an easily verifiable and controllable form of output; and</li> <li>• not using SCOs would require the calculation of numerous small costs that individually have little or no impact on the output.</li> </ul>
Type and mix of SCO, combination with real costs	<p>Lump sum, calculated by assessing the expected costs for the years 2016–2022.</p> <p>Combination with real costs: none.</p>
Categories of costs covered Do these categories of costs cover all eligible expenditure for the operation?	<p>The costs reimbursed under the lump sum subsidy cover all activities directly concerned with drawing up the PMPs, up to the moment they are implemented. This may include wage and travel costs, material costs, the hiring of third parties, feasibility studies and market research.</p>
Type of beneficiaries	<p>Producer organisations for the fisheries sector.</p>
Calculation method	<p>To calculate the lump sum, an assessment by the producer organisations of the expected costs for the years 2016 through 2022 was used. The costs include hours worked and other costs.</p> <p>Based on the supplied assessments, average wages for each job level and an average number of hours for each activity were determined. These hours and wages were used to fix the labour costs for the lump sum.</p> <p>An average was calculated based on the costs expected to be incurred by each producer organisation.</p> <p>For meetings, an average number of hours was determined based on the supplied assessments. The same goes for the number of kilometres travelled to and from these meetings. The allowance per kilometre was derived from national subsidy schemes.</p>
<p>Data</p> <p>a) Type(s) of data used to support the calculation methodology (e.g. historical, administrative, statistical, market)</p> <p>b) Data source</p> <p>c) How many years have been considered for the data collection?</p>	<p>The calculation for the lump sum payment was based on the multi-year estimates provided by the producer organisations. These estimates consisted of costs made in the drafting of earlier PMPs. Supporting documents were delivered.</p> <p>In some cases, a further explanation or breakdown was requested in order to arrive at a fair, equitable and verifiable calculation method. Data requested for each year covered:</p> <ul style="list-style-type: none"> <li>• wages (EUR)</li> <li>• working hours per year (hours)</li> <li>• costs for materials, research, hiring of third parties, etc. (EUR).</li> </ul> <p>In a subsequent step, additional data were requested:</p> <ul style="list-style-type: none"> <li>• annual statements of functionaries (EUR)</li> <li>• distances to meeting locations (km).</li> </ul>

	The years covered are 2016 through 2022.
Involvement of the Audit Authority	The AA was consulted on this SCO, but formal approval was not requested. In the project audit, no remarks or findings were made by the AA.
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	<p>Using the SCO has significantly reduced administrative burdens in executing this subsidy, for both the beneficiary and the MA. There is no requirement to check invoices and receipts, and the remaining checks required are not as time-consuming. This is a good use of SCOs because PMPs:</p> <ul style="list-style-type: none"> <li>• recur annually; and</li> <li>• are reports that are easily verifiable in administrative terms.</li> </ul> <p>Setting up an SCO takes time initially, but saves time after that. When we compare this to project subsidies based on the actual hours worked, it is clear that the SCO payments require less time per application – though it is important to note that this comparison is between two wholly different projects with different subsidies.</p> <p>Another caveat is that preparing an SCO requires more time than a regular subsidy, and this is not accounted for in the hours worked per application. To get a clear image of the benefit in hours worked when using an SCO would require a comparison between the same projects when using real costs and when using the SCO. We do not have this data readily available.</p> <p>This SCO has been used for five recurring project cycles and is still being used this year.</p>

Source: Martha Wurzer, Archana Kok (NL), October 2020

## 7 SCO terminology in the EMFAF programme template

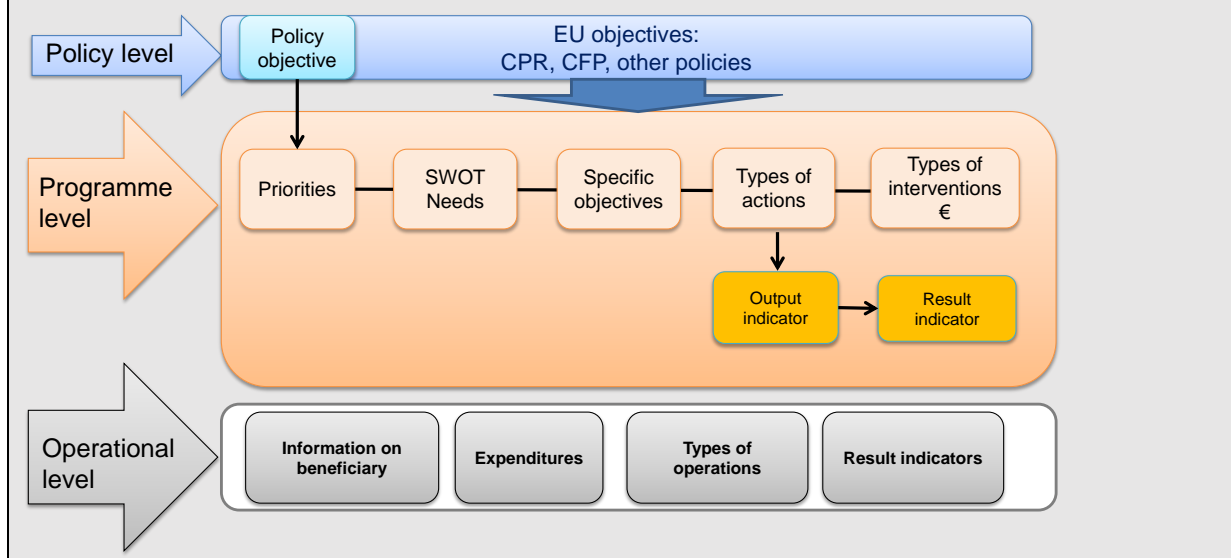
SCOs should play a key role in focusing on achieving results. It is therefore essential to embed SCOs smartly into the intervention logic of the EMFAF programme.<sup>22</sup>

### Intervention logic

The intervention logic outlines the reasoning behind EMFAF intervention into MSs' fisheries and aquaculture activities. It brings together all the EMFAF programme elements:

- SWOT (strength, weaknesses, opportunities, threats)
- needs
- policy objectives
- priorities
- specific objectives
- types of actions
- types of interventions
- output and result indicators
- types of operations (operational level).

The intervention logic should follow a clear and coherent structure, with a standardised style and format of reporting between MSs to ensure consistency and coherence.



Source: FAMENET, 2023

**As a result, it is important to link SCOs to types of actions, and consequently to types of operations (Infosys), when implementing them.**

<sup>22</sup>For a detailed description of the intervention logic see the FAME working paper CMES 2021-2027.

## Glossary

### Types of actions

Types of actions are new to the EMFAF 2021-2027. These are broadly defined actions planned to address the needs defined in the SWOT. MAs need to define types of actions according to their needs, separately for each specific objective, following the logic of the programme. Types of actions are not selected from a list.

The definition of types of actions helps in selecting types of interventions and common result indicators.

### Types of operations (Infosys)

Types of operations are precise thematic categories used to label single operations for EMFAF monitoring (Infosys). In the Commission Implementing Regulation (EU) 2022/79, Annex II, table 7, 66 types of operation are defined.

During implementation, for each operation the MS selects the most appropriate type of operation. Only one type of operation is possible per operation; complex operations must choose the most representative one.

The EMFAF programme template (CPR Annex V, Appendix 1) foresees the description of “types of operations” and “indicators” which should be linked to the types of actions of the programme. However, **the term “type of operation” in Appendix 1 of the EMFAF programme template should not be confused with the Infosys “type of operations”.**

The Infosys types of operations do not provide the level of detail at which an SCO will be implemented. It is therefore important to break down the operation into smaller sections.

The same applies to EMFAF common output or common result indicators and the “indicators” defined for SCOs (also Appendix 1 of the programme template).



## 8 Annexes

### 8.1 Annex 1: Application of FNLC (ERDF, Austria)

This case study addresses the application of financing not linked to costs (FNLC) in Austria's Operational Programme IWB/EFRE – Investments in Growth and Jobs 2014-2020 for refunding of the ERDF funds used in Measure 11 (Operational Investments in Renewable Energy and Energy Efficiency) through a pilot project under Common Provisions Regulation 1303/2013, Article 67(1)(e).

The pilot project aims at the reduction of CO<sub>2</sub> emission<sup>23</sup>. The application of FNLC demonstrates how funding can be managed in an efficient and simplified manner, allowing the project to focus on its real aim.

Since autumn 2019, projects processed by the intermediate body KPC (Kommunalkredit Public Consulting GmbH) in both Measure 11 and Measure 11-REACT (Investments in Renewable Energy and Energy Efficiency) have been implemented using the FNLC approach, thus triggering refunds from the EU budget based on financing terms instead of invoices (costs).

The pilot project will take the form of a single “project” according to Article 2 of Regulation 1303/2013 in priority axis A.3 and – from 2021 – in the new priority axis A.6 REACT-EU. The pilot project will thus now be implemented through two priority axes.

The MA has concluded a grant agreement with KPC as beneficiary, which will be continuously adapted as funding for FNLC is increased.

The roots of FNLC lie in reform of the EU Financial Regulation (“Omnibus Regulation”) in August 2018, which for the first time made it possible to trigger refunds from the EU budget – in this case from the ERDF – on the basis of milestones instead of invoices.

The first practical development of the FNLC method in the EU, based on the Austrian pilot project, took about 2.5 years, from the preliminary discussions in May 2017 to the launch in November 2019. It required coordination between the MA and representatives at European level.

The associated development effort was justified because M11 is a large-volume measure and the FNLC approach significantly simplified processing for both beneficiaries and the funding agency. In the latter case, a key advantage is the fact that only one set of rules applies to KPC clients, regardless of whether their projects are funded nationally or by the EU.

In addition, KPC has many years of experience in calculating CO<sub>2</sub> savings and a long time series of subsidy data to calculate the average cost of avoiding one tonne of CO<sub>2</sub> in a comprehensible way.

The applicable price of 250 EUR (ERDF funding costs) per tonne of CO<sub>2</sub> saved per year was determined using a fair, balanced and verifiable calculation method and frozen at this level for the remainder of the 2014-20 funding period, in agreement with the EC/DG REGIO.

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<sup>23</sup> KPC Annual Report 2023.

To avoid overcompensation and to build in a safety buffer even in case of calculation errors, payment was made at a reduced rate of EUR 250 per tonne of CO<sub>2</sub> instead of the full average cost of around EUR 346 per tonne of CO<sub>2</sub>.

Before the start of the application, a delegated regulation had to be issued by the Commission to enable the application of FNLC in Austria and other MSs.<sup>24</sup>

With this approach, ERDF funds are no longer refunded on the basis of audited invoices (costs), but instead by fulfilling so-called “financing conditions”. Both intermediate (project selection meetings, publication of calls, etc.) and final financing conditions (tonnes of CO<sub>2</sub> reduced) have been defined. The following financing conditions are currently foreseen for the pilot project:

- Project selection meeting of the UFI<sup>25</sup> Commission in autumn 2019: triggers almost EUR 3.7 million of the available ERDF funds (corresponds to 7.8%).
- Project selection meeting of the UFI Commission in autumn 2020: triggers just under EUR 2.2 million of the available ERDF funds (corresponds to 4.7%).
- 23.90% of the saved tonnes of CO<sub>2</sub> per year (2022/1st tranche): triggers EUR 14 million of the available ERDF funds (corresponds to 29.7%).
- 57.35% of the saved tonnes of CO<sub>2</sub> per year (2022/2nd tranche): triggers EUR 14 million of the available ERDF funds (corresponds to 29.7%).
- 95% of the saved tonnes of CO<sub>2</sub> per year (2023/1st tranche): triggers EUR 12 million of the available ERDF funds (corresponds to 25.5%).
- 100% of the saved tonnes of CO<sub>2</sub> per year (2023/2nd tranche): triggers approximately EUR 1.3 million of the available ERDF funds (corresponds to 2.8%).

The financial flow between the managing authority and KPC diverges from the refund flow of ERDF funds between the managing authority and the EC, and converges only in the course of the programme period.

It was agreed that the ERDF funds used, and – directly related to this – the annual tonnes of CO<sub>2</sub> saved, can be further increased in the course of project implementation if necessary.

Verification of fulfilment of the financing conditions is carried out by the administrative authority. Depending on the financing conditions, the MA is supported by external auditors. The latter already carry out annual random audits of KPC projects funded under Austria’s Environmental Funding Act (UFI).

The pilot project is expected to reduce the administrative burden on the individual project promoters (final beneficiaries) in particular, by helping them to meet the requirements of the UFI. The ERDF project selection criteria in terms of content continue to apply in the case of FNLC, but applying the formal criteria for project selection (“KO Criteria”) is simpler because under FNLC the project promoter is KPC, not the beneficiaries. This makes it easier to answer some formal criteria, such as “Beneficiary

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<sup>24</sup> *Delegated Regulation 2019/694 of 15 February 2019 supplementing Regulation (EU) No. 1303/2013 of the European Parliament and of the Council with regard to the form of financing which is not linked to costs of the relevant operations.*

<sup>25</sup> *Umweltförderung im Inland (“Domestic Environmental Funding Act”), an Austrian funding instrument.*

has the administrative, financial and operational capacity to fulfil the conditions”, or simply to mark other criteria as “Not applicable”.

Administrative simplification through FNLC also affects the role of the downstream audit bodies. Management verifications (FLC) at the funded companies are only carried out by KPC and there are no more audits (SLC) by downstream audit bodies (the Austrian Audit Authority or the DG REGIO auditors). KPC audits are limited to compliance with the agreed terms and conditions and are carried out in accordance with UFI requirements.

In an extremely “audit-driven” settlement system, the elimination of the SLC by the Audit Authority is a significant advantage.

At the national level, price adequacy must be demonstrated within the framework of the UFI. Likewise, a statement of account must be submitted. However, no separate ERDF standards have to be met (e.g. elaborate documentation and final invoice verification).

A shift of the M11 target group towards SMEs, away from the mainly large enterprises addressed in the early phase, was supported by the changeover to FNLC.

A challenge is the parallel handling of the two different systems caused by the introduction of FNLC in the middle of the ongoing 2014-2020 programme period. “Old” M11 projects funded before 2019 (called “ERDF Classic”) are audited by KPC according to the National Eligibility Rules, and are still subject to sampling by the Austrian Audit Authority/Audit Authority for the fiscal year under audit.

The audit by the Audit Authority does not apply to projects approved after 2019 (“ERDF-FNLC”). In the 2021-2027 programme period, consistent implementation will take place via FNLC.

*Source: Case study by Andreas Resch (m&e factory) in the context of the ex-post evaluation WP7, 2023, commissioned by DG REGIO.*