



FAME Support Unit

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Working paper EMFAF simplified cost options

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List of acronyms

AA	Audit Authority
EC	European Commission
CLLD	Community-led local development
CPR	Common Provisions Regulation
EAFRD	European Agricultural Fund for Rural Development
ERDF	European Regional Development 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
FNLTC	financing not linked to costs
MA	Managing Authority
MS	Member State
OtS	Off-the-shelf SCOs
PA	Paying Agency
SCO	Simplified Cost Options
ToO	Types 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 by the European Commission (EC) and the European Court of Auditors¹ as 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.

The 2007-2013 ESF Regulation introduced in 2006 an important simplification allowing the Member States (MSs) to declare indirect costs, i.e. overheads, on a flat rate basis: up to 20 % of direct costs of an operation. During the 2007-2013 programming period, some additional options were introduced (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 Commission proposed to retain the 2007-2013 options. The Commission also extended these possibilities, seeking more legal certainty for national authorities and more harmonisation among the ESIF, as well as with other EU Funds implemented by 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 that is being finalised. There is a significant increase in emphasis on the use of SCOs, and more “off the shelf” options are offered, building on the Omnibus regulation from 2018.

The main advantage of the use of simplified costs is that tracing every euro of co-financed expenditure to individual supporting documents is no longer required. According to the EC,² further benefits are:

- *they 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 verification and control of actually-incurred costs;*
- *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 error on transactions using SCOs, which means less interruptions and suspensions and faster reimbursement of expenditure.*

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 (MA) to develop national and regional cost options.

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

² See the Commission’s website on SCOs (European Social Fund/ESF, Simplified Cost Options): [https://ec.europa.eu/esf/main.jsp?catId=1434&langId=en#:~:text=Simplified%20Cost%20Options%20\(SCOs\)%20are,on%20process%2C%20outputs%20or%20results.](https://ec.europa.eu/esf/main.jsp?catId=1434&langId=en#:~:text=Simplified%20Cost%20Options%20(SCOs)%20are,on%20process%2C%20outputs%20or%20results.)

Experience from the past shows, however, that the implementation of SCOs is not straightforward – at any rate, when users do not rely on the simplest ready-made solutions – and requires intensive preparation.

Balancing potential gains and administrative costs

Table 1: outlines potential advantages and challenges when applying simplified costs. The MAs face the challenge of finding a good balance between, on the one hand, the necessary investment in modifying the methodology in advance, and on the other 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 with SCOs should follow logical rules and should not offset the associated potential gains.

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

Source: FAME based on a compilation of different sources, 2020

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 working paper aims to:

- summarise the lessons learned on the application of SCOs;
- 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;
- provide EMFF MAs with practical tools for developing and applying SCOs in EMFAF programmes.

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

In this working paper, however, it is not possible to clarify all technical questions concerning the application of SCO conclusively. SCOs are an "**open concept**" which will require many more clarification steps at European and national level over the next few years following the motto "paths are made by walking".

The working paper refers generally to the legal framework, but not specifically to the content of articles, as the legal framework is being finalised.

1.3 Structure of the working paper

This working paper, apart from the introductory chapter, contains five additional chapters.

Chapter 2 briefly describes the methodological steps and provides further reading. Chapter 3 examines the applicability of SCOs explicitly for EMFAF programmes. Chapter 4 offers an introduction to SCO application. Chapter 5 sums up with recommendations and examples for programme-specific EMFAF SCOs applied in the MS. Chapter 6 finally discusses the description of SCOs in the EMFAF programme template.

1.4 Acknowledgments

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2 Methodology

2.1 Methodological steps

The development of this working paper included the following steps in the period June-November 2020:

- desk research on relevant existing guides and papers (see section 2.3);
- interviews with EC, MAs and experts;
- analysis of Infosys 2014-2019 data and the new Infosys structure for 2021-2027;
- case study collection; and
- exchange during the FAME annual stakeholder meeting 2020 and the FAME peer review 2020 sessions.

2.2 Tools offered to support the application of SCOs in the EMFAF

Extensive work steps are necessary beforehand to establish SCOs, especially programme-specific ones.³ The working paper provides specific tools to better manage these steps.

Table 2: Working steps to establish SCOs

Key working steps to set up SCOs		Areas where SCOs need to be EMFAF-specific
Feasibility phase	Analyse programme needs and potentials: <ul style="list-style-type: none"> • analyse suitable types of operations (ToO) • analyse the possibility of using ready-made options and the need to develop programme-specific SCOs 	<ul style="list-style-type: none"> • Proposed criteria to analyse the applicability of SCOs • Test-analysis of suitable ToOs • Understanding the types of SCOs and their applicability
Design phase	Establish cost models for the most suitable ToO (display all costs, regardless of whether they are later covered by SCO or not; to avoid double counting)	
	Select an SCO and types of costs covered	
	Develop the calculation methodology	<ul style="list-style-type: none"> • Examples of how to establish the method of calculation for relevant SCOs as inspiration for MAs • Joint development of EU-level SCOs in a relevant area
	Discuss the methodology with the audit authority at an early stage	
	Describe the SCOs in the template for EMFAF programmes	<ul style="list-style-type: none"> • Guidance on how to implement SCOs in the intervention logic of EMFAF programmes
	Document the calculation methodology to be checked by the audit authority at some point	
Implementation phase	Provide guidance for (potential) beneficiaries on the use of SCOs	
	Include SCOs in the funding agreement	
	Verify achievements at operation level (also known as management verification)	<ul style="list-style-type: none"> • Raise open issues regarding controls (management verifications and audit)

Source: FAME based on a compilation of different sources, 2020

³ See for example the Interact working paper: Road map for a programme specific SCO, June 2020

2.3 Information sources

MAAs do not have to start from scratch when developing SCOs. There are already a lot of guidelines, tools and exchange platforms on the subject of SCOs; here are some examples:

- **European Commission**
https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/simplified-cost-options/#1
- **High Level Group on Simplification**
https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification/
- **Expert Group on European Structural Investment Funds (EGESIF)**
Guidance on Simplified Cost Options, revised edition for the 2014-2020 programming period (2021/C 200/01), published in May 2021
- **European Court of Auditors**
Special report 2018: New options for financing rural development projects: Simpler but not focused on results,
<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=45664>
- **ENRD**
https://enrd.ec.europa.eu/search/site/simplified%2520cost%2520options_en
- **Interact**
<http://www.interact-eu.net/search/node/simplified%20cost%20options>
<https://learning.interact-eu.net/course/scos-explained/> Online course, estimated time: 5 hours
- **FARNET**
Guide #19 (2020) Delivering CLLD effectively – A guide for EMFF Managing Authorities, including a section on Simplified Cost Options
https://webgate.ec.europa.eu/fpfis/cms/farnet2/sites/farnet/files/publication/en_farnetguide_19_fin.pdf
- **Guidance by programmes (in English)**
For example the “Detailed Guidance on using simplified costs” developed by the Welsh Government, Version 3 from May 2019
<https://gov.wales/sites/default/files/publications/2019-08/eu-structural-funds-2014-2020-using-simplified-costs-guidance.pdf>

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

3 Areas where SCOs are applicable in EMFF/EMFAF programmes

3.1 SCOs as part of the intervention logic

SCOs are a tool to implement certain actions more efficiently and to achieve the expected results. When considering the use of SCOs, therefore, practitioners propose to **start from the actions, the types of projects** (see also Infosys types of operations) and not from the costs.

In order to smartly implement SCOs in the intervention logic of the EMFF/EMFAF programmes, in this working paper SCOs are referenced to:

- Infosys “types of operations” (ToO) for the 2021-2027 period, and
- “SCO specific types of operations” (subgroup).

Further details on the terminology used are provided in chapter 6 (SCO terminology in Appendix 1 of the programme template).

3.2 General criteria for the applicability of SCOs

Choice and design of the 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 3 shows criteria that can be used for the analysis:

Table 3: Points to consider when exploring the need for SCOs

Criteria	Description
The ToO / operation is not fully / mostly procured	Simplified costs can only be applied to ToO or projects that are not outsourced/contracted through a procurement of works, goods or services. Projects or costs implemented through procurement must be deducted from total eligible costs before applying SCOs.
Large number of standardised operations	The ToO includes a higher number of repetitive operations (> 50 in our screening) that are stable in terms of conditions. “Repetitive” means that the action includes a high level of standardised operations; the more similar the operations, the more suitable for SCOs they are. On the contrary, complicated non-standardised projects seem inherently less suited to SCOs and are safer to run with real cost options that allow changes in the project plan during implementation.
Potential to reduce the administrative burden	The operations are particularly complicated to control based on the real costs (burdensome or error-prone). For instance, administrative expenses usually represent only a small part of the total costs, but checking many small cost items is time-consuming and 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 chapter 4.2). By contrast, “one invoice” operations do not lend themselves to SCO.
High presence of beneficiaries / partnerships with low administrative capacity	When there is a higher risk that accounting documents will not properly delivered in time by beneficiaries or partnerships of beneficiaries with low administrative capacity (e.g. small organisations), flat rates or lump sums may be a good solution.

Criteria	Description
Existence of reliable indicators on achieved outputs or results	Representative and consistent data on outputs or results (indicators) are available to verify the implementation, without reference to invoices to show spending. This is in particular relevant when calculating unit costs.
The ToO / operation has a large budget to achieve a high leverage effect	Ideally, the SCO introduction 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 time and work in setting up SCOs to cover specific costs with limited impact to reduce administrative cost and burden.

Source: FAME, 2020, based on a compilation of different sources

An important starting point for the introduction of SCOs is the identification of types of operations that are inherently **difficult to administer and to verify**. This can put off potential beneficiaries.

Box 1: Example of an administratively demanding action that leads to an SCO

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.

Source: MA Czech Republic, 2020

3.3 Identification of 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, where the use of SCOs provides a real benefit in administrative management.

Box 2: Methodology to identify suitable types of operations

To start this identification process of suitable areas, those types of operation (ToO) 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. Such ToOs were selected where the following criteria are fulfilled:

- SCOs are already used in **EMFF 2014-2020** or SCOs are planned and already under preparation for **EMFAF 2021-2027**, whereby cross-cutting SCOs and those used for specific ToOs were considered
- There is a **potential** for SCOs, which is assessed according to two criteria
 - Infosys data show higher case numbers (a minimum no of 50 operations per ToO);
 - A subjective expert judgment assumes a higher degree of standardised / very similar operations, where the achievements can be measured by indicators.

Source: FAME 2020

Table 4: shows the findings of the analysis. **The analysis is provisional, and provides only indicative results that need to be discussed with 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 18 ToOs (27 %) 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 “soft” (e.g. trainings) and “hard” (infrastructure, productive investment) measures.

Besides the more widespread application of SCOs for “data collection” and cross-cutting mechanism 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 4, it is noticeable that:

- SCOs individually designed by the programmes dominate, while only few off-the-shelf SCOs (OtS) – 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. Also a draft budget is 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 4: Applied and potential SCOs for suitable types of operations

Types of operations (ToO)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, subject to further revision)
(01) Investment in reduction of energy use and energy efficiency	Replacement of vessel engine	<ul style="list-style-type: none"> • Potential SCO: <u>Flat rate</u> for the installation of an engine as a percentage of engine costs. (Remark: covering the costs for the replacement of the vessel engine itself is easily managed by submitting an invoice on real costs reflecting different power classes.)
(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"> • EMFF 2014-2020: Netherlands national calculation: <u>lump sum</u> for staff costs to support the preparation of production and marketing plans (PMPs) of producer organisations (POs). (Remark: a PMP for a large PO with several hundred different vessels entails more work than for a small PO. SCO may consider fixed unit staff costs, but that has to be multiplied by the amount of time spent. The potential for the SCO is only for PMP preparation. Support for PMP implementation cannot be lumped as it depends on extent of measures foreseen.)
(10) Advisory services	Knowledge, innovation and technology	<ul style="list-style-type: none"> • EMFF 2014-2020: Ireland, Knowledge Gateway Scheme, funding for projects that promote knowledge, innovation and technology in the aquaculture sector. For projects undertaken by research institutions, overheads will be eligible at a <u>flat rate</u> of 25 % of eligible direct costs (excluding equipment, sub-contracting costs and vessel charter). Personnel costs are calculated by <u>unit costs</u> based total salary cost / 1,720 hours per annum. • EMFF 2014-2020: Ireland, Seafood Processing Innovation Scheme, <u>Lump sum</u> for hiring an Innovation Specialist (to be clarified). • EMFF 2014-2020: 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.

Types of operations (ToO)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, subject to further revision)
		<ul style="list-style-type: none"> • EMFAF 2021-2027: Greece: Flat rate (15% of staff cost for indirect costs) for innovation projects (Art. 26, 39, 47)
(14) Training to improve skills and develop human capital	Vocational training and skills acquisition	<ul style="list-style-type: none"> • Potential SCO: <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.
(17) Capacity building	Capacity building	<ul style="list-style-type: none"> • EMFF 2014-2020: Direct management of EMFF by the EASME agency: Indirect costs (also commonly known as overheads) are calculated at a <u>flat rate</u> of 7 % of the eligible direct costs (direct personnel costs, subcontracting and other direct costs).
(25) Restocking of aquatic species	Direct restocking	<ul style="list-style-type: none"> • Potential: <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 (350 EUR / kg). This is used not in EMFF but in a national aid scheme.)
(26) Retrieval and/or proper disposal of marine litter	Landing of marine litter	<ul style="list-style-type: none"> • Potential: <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.)
(27) Environmental services	Compensation	<ul style="list-style-type: none"> • EMFAF 2021-2027: Czech Republic: compensation for damage caused by fish-eating predators (mainly cormorants), with <u>unit costs</u> per hectare individually set up by the programme based on Hungarian calculation model (statistical data). • EMFAF 2021-2027: Czech Republic: compensation for non-production functions of ponds, <u>unit costs</u> per hectare individually set up by the programme for ponds of 2–5 hectares. • Potential SCO: <u>Unit costs</u> for the compensation of additional costs/loss of revenue for conversion to organic aquaculture, Article 53(3). • Potential SCO: <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).
(28) Specific investments for improving aquatic habitats and biodiversity	Compensation	<ul style="list-style-type: none"> • Potential SCO: <u>Unit costs</u> per weight for damage to catches caused by protected mammals and birds, Article 40(h); or a flat percentage rate for lost revenue (e.g. 5 % of annual revenue). • EMFF 2014-2020: Cyprus: lump sum to compensate fishers from losses by dolphins (to be clarified).
(29) Permanent cessation of fishing activities	Scrapping	<ul style="list-style-type: none"> • Potential SCO: <u>Lump sum / unit costs</u> by gross tonnage of decommissioned vessels, with adjustment for vessel age. • EMFF 2014-2020: France set a scrapping premium (<u>lump sum</u>) on the basis of vessel capacity and age.
(30) Temporary cessation of fishing activities	Temporary cessation	<ul style="list-style-type: none"> • Potential SCO: <u>Lump sum / unit costs</u> for temporary cessation of fishing activities, Article 33, EUR / day or EUR/kW/day (the latter would account for the size of the vessel). (Remark: the rate can be estimated with DCF data or logbook or catch declaration for small vessels and first sale prices of catches of the vessels involved. The advantage of logbook data is that seasonality could be accounted for in calculating the premium.) • EMFF 2014-2020: France: SCO for small vessels based on calculated average turnover across the fleet (different for Mediterranean and

Types of operations (ToO)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, subject to further revision)
		<p>Atlantic vessels). For other vessels, there is no SCO; premiums are paid based on actual and verifiable economic performance.</p> <ul style="list-style-type: none"> • Potential SCO: Article 55, public health – temporary suspension of farmed molluscs, <u>flat rate</u> (% of turnover as per Article 55(2)(b)).
(31) Compensation	Compensation	<ul style="list-style-type: none"> • Potential SCO: Article 70-72, compensation for additional costs in outermost regions, Determined by MSs in Commission-approved compensation plan (Article 72) based on standardised premium per unit weight according to species / groups of species.
(32) Productive investments for sustainable aquaculture	Revitalisation of ponds	<ul style="list-style-type: none"> • EMFAF 2021-2027: Czech Republic: mud removal in ponds, <u>unit cost</u> to remove 1 m³ of mud, individually set up by the programme based on project data.
(33) Gear selectivity to reduce unwanted catches	Testing activities	<ul style="list-style-type: none"> • Potential SCO: <u>Lump sum</u> to cover costs for testing on board, including equipment and direct labour to compensate for lost fishing revenues (EUR/day testing on board). • EMFF 2014-2020: 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. No standard rate across projects (subject to negotiations during programme preparation / depends on extent of foregone revenues).
(36) Use of unwanted catches	Investment in added value	<ul style="list-style-type: none"> • EMFF 2014-2020: Netherlands: lump sum for a limited list of eligible investments related to added value under Article 42.
(42) Water usage and water quality improvements	Investment in recirculating aquaculture systems	<ul style="list-style-type: none"> • EMFAF 2021-2027: Czech Republic: recirculating aquaculture systems, <u>unit costs</u> per m³ of breeding space depending on fish species, individually set up by the programme. • EMFAF 2021-2027: Czech Republic: investment in aquaculture, <u>lump sums</u> to cover specific costs, individually set up by the programme (the existing list of financial limits for eligible expenditure of OP Fisheries 2014-2020 can be used).
(46) Data collection	Data collection on board	<ul style="list-style-type: none"> • EMFF 2014-2020: Ireland / France: data collection scheme – <u>unit costs</u> for vessel days and overheads. • EMFF 2014-2020: Finland: purchase of fish samples for data collection, <u>unit costs</u>, individually set up by the programme. • EMFF 2014-2020: Czech Republic: <u>flat rate</u> for the calculation of indirect costs from the staff costs in data collection, individually set up by the programme (not off-the-shelf). • EMFF 2014-2020: France: data collection scheme, travel costs based on percentage of salary costs (4 % or 6 %). • EMFF 2014-2020: Croatia: <u>flat rate and unit costs</u> for data collection. • EMFF 2014-2020: Greece: <u>flat rate</u> for data collection. <p>(Remark: MAs are encouraged by the EC to use SCOs for data collection (Article 77).)</p>
(59) Animation and capacity building	Community animation, project development and awareness-raising	<ul style="list-style-type: none"> • Potential SCO: <u>Flat rate</u> off-the-shelf up to 40 % (e.g. 35 % is also possible) on staff costs to cover the costs of FLAG managers for community animation, project development and awareness-raising activities in FLAG areas. <p>(Remark: performance can be very well monitored through reports by the FLAG manager on the activities implemented, without proof of real costs.)</p>

Types of operations (ToO)	Examples of operations where SCOs are applied	Applied and potential SCOs (indicative, subject to further revision)
	activities in FLAG areas	
(56) Pilot projects (57) Socio-cultural development (58) Governance	CLLD small investments	<ul style="list-style-type: none"> • Potential SCO: <u>Lump sum</u> based on a draft budget for small investments in CLLD projects (e.g. <50,000 EUR).
(60) Preparatory actions	CLLD preparatory support	<ul style="list-style-type: none"> • Potential SCO: <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.
(61) Management	Running and animation costs of FLAGs	<ul style="list-style-type: none"> • EMFF 2014-2020: 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).
Cross-cutting (ToO not specified)	Indirect costs Staff costs	<ul style="list-style-type: none"> • EMFF 2014-2020: 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). (Remark: for FR, this SCO option is used for support to control operations by participating agencies). • EMFAF 2021-2027: Belgium: <u>flat rate</u> off-the-shelf to cover indirect costs, up to 15 % of eligible direct staff costs (since 2017). • EMFF 2014-2020: 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 <100,000 EUR. • EMFAF 2021-2027: Sweden: <u>flat rate</u> off-the-shelf to cover indirect costs, up to 15 % of eligible direct staff costs.

Source: FAME based on a compilation of different sources, 2020

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

In fisheries (Priority 1)

- investment in energy efficiency
- direct restocking
- production and marketing plans
- investments in adding value
- data collection and control
- landing of marine litter
- permanent and temporary cessation

In aquaculture (Priority 2)

- compensation for non-productive environmental services
 - revitalisation of ponds
- investments in aquaculture

In community development (Priority 3)

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

Across priorities

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

Obligatory use of SCOs for compensation

According to the EMFAF Regulation (Article 39)⁴ any **compensation** supported by the EMFAF **must take the form of a simplified cost option (but not FNLTC)**. This includes all types of compensations that the programme can have, e.g. permanent cessation, temporary cessation, compensation for additional costs or income foregone.

4 Understanding how SCOs work

4.1 Basic principles, types of SCOs and implementation options

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. SCOs are a **reliable proxy** for real costs, on average. The aim is to reduce these differences to acceptable levels. To achieve the required balance between under- and overcompensation, it is mandatory that all beneficiaries apply SCOs; 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 sum⁵) and five types of **implementing options** including financing not linked to costs (FNLTC), (Table 5).

⁴ 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

⁵ Please note: a “draft budget” is a calculation method of simplified cost options but not an SCO itself

Table 5: Types of SCOs and implementing options

Type of SCOs	Implementing options				
	Off-the-shelf	Programme-specific SCOs	Copy-paste	Jointly developed SCOs	Financing not linked to costs (FNLTC)
Flat rate	X	X	X	X	
Unit cost	X	X	X	X	X
Lump sum	not mentioned in the CPR	X	X	X	X

Source: FAME, 2020

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

- **“Off-the-shelf”**: ready-made SCOs developed by the EC from the CPR and Fund specific regulations. There is no need to perform any calculation, and specific rates and methods can be implemented directly (there is only one exception of a “do-it-yourself” flat rate offered by the CPR where the rate is calculated based on the Fair, Equitable and Verifiable principle (FEV)).
- **Programme-specific SCOs**: individually developed at programme level by the MA, with a specific methodology to be developed according to the FEV and with an early consultation with the audit authority. A “draft budget” <200,000 EUR of total costs can also be established 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. National schemes may be more difficult to copy-paste than European models developed by the Commission.
- **Jointly developed SCOs**: MAs can jointly develop EMFAF-specific SCOs, which can be made applicable at the EU level. Taking into account the small size of the fund, the exploitation of synergies seems a reasonable option.

Specific types of SCOs might be more suitable for specific actions than others. It is therefore important to understand the areas of application of the different types, which are briefly described below.⁶

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.

For example, a flat rate of 15 % may be applied to calculate indirect staff costs from direct staff costs. There is no need to justify the 15 % rate itself since it is specified by the EU Regulation.

⁶ Also consult:

Interact, Road map for a programme specific SCO June 2020.

Interact, SCOs – the Basics, Session for beginners and reminder for interested, July 2020.

Wales European Structural & Investment Fund Programmes 2014-2020, Detailed Guidance on using simplified costs, Version 3, May 2019.

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.

The MA needs to ensure a clear definition and distinction between the cost categories (i.e. 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) in order to avoid double counting.

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 dysfunctional 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/event, milestone/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 20,000 EUR 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. If the seminar is organised and its proposed content is delivered, the lump sum of 20,000 EUR can be declared as eligible costs. If the seminar is not organised or the content is not delivered, nothing is paid.

Lumps sums 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.

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. Instead, costs are calculated on a ‘binary’ approach in which the payment condition is either fulfilled or unfulfilled. A financial risk for the beneficiary can arise when there are no other choices than paying 0 % or 100 % of the grant, so when setting out the conditions for support in the funding agreement with the beneficiary, it is 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 6 summarises the pros and cons of each type.

Table 6: Summary of pros and cons when using different types of SCOs

Types of SCOs	Points to consider	Challenges
Flat rates	<ul style="list-style-type: none"> • Best suited to costs that are relatively low and for which verification is costly (e.g. indirect costs) • Need to strictly define direct and indirect costs • No focus on outputs or results • No calculation methodology must be provided by the MA by using off-the-shelf products CPR (excluding increased rate of 25 %) 	<ul style="list-style-type: none"> • Beneficiaries claim that 15 % flat rate for indirect costs is low • All the indirect expenses funded have to related to the funding purpose • How to deal with double funding?
Unit costs	<ul style="list-style-type: none"> • Can cover all the costs of an operation • Focus on process/outputs/results • Suited to operation with repetitive and regular outputs • MA has to design the methodology 	<ul style="list-style-type: none"> • Calculation of unit costs requires extensive analysis of funded projects (e.g. 1,700 audited projects in LEADER, Saxony) • Costs correspond to the median value; the actual costs may vary
Lump sums	<ul style="list-style-type: none"> • Can cover all the costs of an operation 	<ul style="list-style-type: none"> • All-or-nothing risk

Types of SCOs	Points to consider	Challenges
	<ul style="list-style-type: none"> • Focus on outputs/results • Suited to operation with irregular or single output • MA has to design the methodology (may be based on a draft budget) 	<ul style="list-style-type: none"> • Concrete requirements for draft budgets are not clear • Threshold for lump sums

Source: FAME based on a compilation of different sources, 2020

Financing (which is) not linked to costs

Another implementing option offered by the Omnibus regulation and the 2021-2027 CPR⁷ is “**financing not linked to costs**” (FNLTC). This financing option means, financing not linked to costs of the final beneficiary but linked to the fulfilment of conditions / results which are agreed between MS and the EC.

It is not a SCO in the narrow sense, but it is similar to standard SCOs since it operates through mechanisms such as unit costs, but it differs in that FNLTC agreements are made at the “higher level” between **MSs and the EC**, not between MSs and beneficiaries as for standard SCOs.

With FNLTC, 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 check compliance with (intermediate or final) ‘financing conditions’ for the reimbursement of EU funds.

Box 3: Austrian FNLTC pilot

An Austrian FNLTC pilot started in October 2019 in the area of energy efficiency and renewable energies (based on the Delegated Act 2019/694). It concerns an already existing and well proven funding measure in the ERDF OP and addresses for example energy saving in enterprises and thermal building refurbishment. In total around 2,300 funding projects should be supported.

A fixed ERDF contribution of EUR 250 per reduced ton of CO₂ was agreed with the EC and enshrined in the OP. The related reduction goal is 58,500 tons CO₂ per year until 2023. Intermediate financing conditions for achievements were also agreed with the EC which release ERDF funds (25% by 2019, 40% by 2020, 75% by 2021, 95% by 2022, and 100% by 2023).

The pilot FNLTC had a good start in 2019 and two financing conditions were met in 2019 and 2020.

Since there are no longer checks of single operations, a massive reduction of the administrative burden for the Intermediate Bodies could be achieved.

In the new Austrian ERDF/JTF programme for the 2021-2027 period it is planned to implemented at least 25%-30% of funds via the FNLTC approach. Other thematic areas for funding are under consideration. Thematically, in the 2021-2027 CPR there are no longer

⁷ 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

any restrictions to the area of energy efficiency and renewable energies as in the Delegated Act 2019/694.

Source: Johannes Rossbacher, ÖROK, Online-presentation at the 15 October 2020

In developing the methodology, MS are required to submit a proposal to the EC in accordance with Appendix II of the programme template. All basic principles are covered in the 2021-2027 CPR. There is no mandatory ex-ante assessment by the Audit authority but it is recommended. Support by international experts is advisable to develop the FNLTC methodology. Application in EMFAF may be further discussed in upcoming EMFF expert group meetings, as necessary.

4.2 Application of the “off-the-shelf” SCOs

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

For a proper calculation of SCOs 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 7). Note that off-the-shelf SCOs may be used in combination with real costs under the same operation.

Table 7: Examples of cost categories

Total costs of an operation	
Direct costs	Indirect costs
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. FAME, 2020

Table 8 below explores the practical application of the off-the-shelf SCOs.

Table 8: Overview of off-the-shelf SCOs and points to consider

Cost categories and related “off-the-shelf” SCOs	Points to consider
Indirect costs (overheads) , e.g. management costs, electricity, telephone, heating, office equipment, cleaning	
<ul style="list-style-type: none"> Flat rate up to 15 % of eligible direct staff costs used to calculate the indirect costs 	<p>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 this should be avoided since it would increase the need for explanations to the audit authority. Should an MA opt for a lower percentage e.g. 11,5%, it is not possible to change it midstream (e.g. going back to 15%). This can only be done in a separate, later step.</p>
<ul style="list-style-type: none"> Flat rate of up to 7 % on the direct costs to calculate indirect costs 	<p>An alternative to the 15 % flat rate.</p>
<ul style="list-style-type: none"> Flat rate of up to 25 % of all eligible direct costs to calculate the indirect costs 	<p>This flat rate is only applicable to a very limited extent, since it could result in very high indirect costs. According to an interviewee, it should only be used if personnel costs do not predominate.</p> <p>The 25 % flat rate is “almost” off-the-shelf because an underlying calculation method has to be provided.</p>
All other remaining eligible direct or indirect costs , e.g. room costs, travel costs, meals, information, salaries and allowances in addition to the direct staff costs	
<ul style="list-style-type: none"> Flat rate of up to 40 % for all other remaining eligible costs (whether indirect or direct) based on staff costs 	<p>According to an interviewee, the use of this flat rate for “normal” and heterogeneous projects is limited because performance is difficult to control. To give an example, in AT this flat rate (actually a reduced rate of 35 %) will be used in the future for CLLD management to cover the costs of awareness raising and animation. In CLLD management by LAGs, performance can be monitored well, e.g. through reports by the LAG manager on animation activity.</p>
Staff costs: internal and external staff costs, including taxes and social security contributions	
<ul style="list-style-type: none"> Flat rate of up to 20 % for staff costs, on all other direct costs (i.e. eligible costs including investments other than staff costs) 	<p>Not broadly applicable, because it results in very low amounts for personnel costs and so is not suitable for projects that are cost-intensive in terms of personnel. A reverse variant of the 40 % flat rate.</p>
<ul style="list-style-type: none"> Unit costs for staff costs: hourly rate based on 1,720 h per year 	<p>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)</p>
Travel and accommodation costs , not considered to be staff costs	
<ul style="list-style-type: none"> Flat rate up to 15 % of the direct staff costs of an operation for travel and accommodation costs 	<p>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.</p>

Source: FAME based on interview, draft CPR, draft ETC Regulation, 2020

Combined application

Note that 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 (Table 9). For example, it is possible to combine hourly unit staff costs based on the 1,720 h method with 15 % flat rate for indirect costs (= admin cost).

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 and double declaration of costs (e.g. the same costs cannot fall under two different cost categories).

Table 9: Combination 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 I Bratislava, Slovakia.

Ready-made SCOs available from draft CPR and ETC Regulation and the “almost” off-the-shelf 25 % flat rate are presented in the table.

Dark green = combination is possible; light green: combination is possible with conditions; red = no combination possible. DIY = “Do-it-yourself” off-the shelf solution

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:

- For the reimbursement of the EC to MS (SCOs are assessed by AA and EC)
- Payment of grants by the MS to the 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 a SCO in consultation with and assessed by the AA (by using FEV method or draft budget, as explained in the next chapter).

However, the programme-specific SCOs defined by the MA to reimburse beneficiaries **should not** be described in the EMFAF programme template. This means that the SCO is not “approved” by the EC as a formal part of the programme. Section 8 of the EMFAF programme template (which includes Appendix 1 and 2) only needs to be completed for SCOs that concern

the reimbursement of the Union contribution from the EC to the MS. In this case, the MS submits to the EC Section 8, Appendix 1 (as part of the programme) together with a positive AA assessment and the EC approves the programme including the SCO.

Since the EC checks and approves the methods, the scope of management verifications, audits, and EC audits is limited to what is specifically mentioned in Appendix 1. So, legal certainty for all involved players is enhanced. However, legal certainty through Appendix 1 is not applicable in retrospect, if not submitted for programme approval, but only in the course of a programme amendment⁸.

Figure 1: SCOs between EC- MS and MA- beneficiary, similar but different....

<p>SCO between EC and MS</p> <ul style="list-style-type: none"> • Formal part of the programme, addressed in section 8 • Assessed by AA • Approved by EC • Legal certainty 	<p>SCO between MA and beneficiary</p> <ul style="list-style-type: none"> • Not formal part of the programme • Assessed by AA • Not approved by EC
<ul style="list-style-type: none"> • BUT..... methods etc. can be the same as described in the FAME working paper 	

Source: FAME, 2021

4.4 Developing the methodology for programme-specific SCOs

The calculation methodology is the backbone of programme-specific 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 (FEV method). It is also important that the method is regularly reviewed (and 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 indexation 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 programme-specific SCO should be:⁹

- 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:

⁸ Interact (2021), SCOs and Appendix 2: what, when, how, 16 April 2021 I Online, Zoom

⁹ According to Interact (June 2020), Road map for a programme specific SCO, p 9.

- the 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 is to use the draft budget method (see below).

Use of statistical data and expert assessment

The 2021-2027 CPR allows not only the evaluation of recent statistical data and other objective information but also an expert assessment. Ideally, statistical data from the last three years is combined with an expert assessment.

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 200,000 EUR of public support. A draft budget is a calculation method and not an SCO in itself.

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

Box 4: Illustration of the draft budget approach

In Austria, draft budgets should be used in the new programming period for smaller LEADER projects (rural development, < 50,000 EUR). In the application phase, the applicant must submit a cost calculation for defined outputs (analogous to milestones).

The costs per output 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 upon if the authorising body considers the costs to be plausible.

If the beneficiary is able to achieve the output, the corresponding costs can be settled (without detailed cost checks). If an agreed output is not achieved, the corresponding costs cannot be invoiced either. 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. Usually, the predefined outputs cannot be changed in the draft budget, which limits the flexibility in project implementation. The costs of an output cannot be changed afterwards either.

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 a short implementation period, 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.

Source: Interview with Julian Gschnell (AT, BMLRT), 2020

In developing and structuring the method, the following points should be addressed (Table 10):

Table 10: Suggested methodology template for programme-specific SCOs¹⁰

Type of operation	Link SCOs to types of actions, and consequently to types of operations, when implementing them
Type of SCO	Flat rate / unit cost / lump sum
Type of projects covered	Subjects/type of projects which are covered by the SCO (e.g. educational event)
Type of beneficiaries covered	Indicate the type of applicants/beneficiaries to whom the SCO applies (e.g. farm managers, municipalities, SMEs, etc.)
Categories of costs covered by SCO	Indicate the types of <u>eligible</u> costs covered by the SCO (e.g. personnel costs, indirect costs (please specify), travel costs, etc.)

¹⁰ The methodology template here is a FAME **working tool** and independent of the EMFAF programme template, especially appendix 1 and 2.

Categories of costs NOT covered by SCO	Indicative which categories of eligible costs are not covered by SCOs
State aid	Indicate whether the SCOs are applied within aid schemes to which the State aid rules apply. If the answer is yes, please indicate whether the projects/objects are implemented under de minimis or GBER schemes
Public procurement law	Indicate whether the SCO is applied by applicants for subsidies which are subject to public procurement law
When SCOs are based on existing EU or national systems	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) Describe that the parameters used from the existing methodology (e.g. geographical scope) are also valid for the subjects/projects for which they are used.
Calculation methodology is based on	<ul style="list-style-type: none"> • fair, equitable and verifiable calculation method • draft budget • SCOs applicable in Union policies for a similar type of operation and beneficiary • SCOs applicable in MS policies for a similar type of operation and beneficiary.
Justification for the method selected	Why the selected method was the most suitable. Indicate why the SCO calculation is balanced: Some applicants or projects are not preferred to others. How is it ensured that the assumptions and data used to calculate them are based on average projects/applicants or that amounts or rates are based on objective justifications? Details can be presented via references to annexes (e.g. detailed description of calculations) with appropriate page number and chapter.
Source of data used to calculate the standard scale of unit costs, lump sums or flat rates	Statistical data, other objective information or an expert judgement. The verified historical data of individual beneficiaries. The application of the usual cost accounting practices of individual beneficiaries. Also, who produced, collected, and recorded the data; where the data are stored; cut-off dates; validation, etc.
Description of the calculation method and result of the calculation	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. Indicate the unit of measurement used for the SCO and the amounts / rates (e.g. unit costs of X EUR per research hour; flat rate of Y EUR for project preparation). Where relevant, statistical evidence and benchmarks should be used and attached.

<p>Exclusion of ineligible expenditure and exclusion of double funding (where different SCOs or real costs are combined)</p>	<p>Explain how you ensured that only eligible expenditure was included in the calculation of unit costs, lump sums or flat rates.</p> <p>(a) How is it ensured that double charging of cost items is avoided? If a combination of SCOs or different reimbursement mechanisms are used for the same operation, double charging must be excluded.</p> <p>(b) How is it ensured that a single type of expenditure can only be financed once for a single applicant for funding?</p> <p>(c) If a lump sum and unit costs are used for the same subject/project, how is it ensured 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 is it ensured that the category or categories of costs to which the flat rate is applied and the category or categories of costs reimbursed by the flat rate can be fully defined and clearly distinguished?</p>
<p>Adjustment method of the calculation methodology</p>	<p>How/ if it will be updated, how often, etc.</p> <p>Indicate the criteria for adaptation/updating of the methodology (if available) e.g. automatic adjustment based on economic indicators Please specify which index is used (e.g. gives several indices measuring inflation), if possible indicate the date of publication of the index and, in connection with this, the date and starting date of the adjustment</p>
<p>Possible risks and measures to minimise them</p>	<p>Indicate the possible risks and risk reduction measures, for instance to prevent dysfunctional behaviour</p>
<p>Management verification, verification of the “triggers” of the payment</p>	<p>(a) What documents are used to verify that the results have been achieved or that the payment has been triggered? (E.g. hourly records, annual payroll account, photos, reports...)</p> <p>(b) Describe what is checked during the administrative control (including on the spot) and by whom. Note: In the case of SCOs, it may also make sense for the administrative control to already carry out on-the-spot checks (there is an immediate on-the-spot control)</p> <p>(c) Describe what is checked during the on-the-spot check</p> <p>(d) What precautions have been taken to collect and store the described data / documents?</p> <p>It is NOT necessary to check the real costs underlying the expenditure.</p>
<p>Early feedback by the audit authority, certifying body</p>	<p>Please indicate whether the methodology has been assessed by the AA or Certifying Body (calculation method, amounts, verification arrangements, quality, collection and storage of data).</p> <p>If the assessment has been carried out, please indicate which areas.</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, consult with the audit authority if they consider that the SCO is likely to work before presenting it to beneficiaries. The audit authority acts in this case as an “advisory service” 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 programme-specific SCOs. Nevertheless, the EC offers resources to support the audit work, e.g. a checklist for auditing SCOs (see presentations under the link).¹¹

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

Since a sound methodology is key to SCO application, MSs need to make significant investments in resources and time to develop sound MS-specific SCO methodologies. Developing a methodology is time-consuming (consultations with stakeholders / auditors / approval procedures etc.). Close cooperation between MAs could help to lower this barrier, reduce the burden for the programme authorities and to achieve legal certainty for MS.

Box 5: Potential area for the joint development of an SCO

In the course of the FAME Annual Stakeholder Meeting on 7 October 2020, MAs suggested that a cross-programme, jointly developed SCO should be developed on an action of general interest (e.g. **compensation for non-productive environmental services in aquaculture**, in the form of a flat rate, e.g. percentage of revenue or turnover).

The SCO could then be applicable at a level higher¹² than the single EMFAF programme and would thus be a ready-made “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.

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 auditors will therefore focus more on outputs rather than on inputs and costs of projects.

The EGESIF Guidance on SCOs (2021/C 200/01), published in May 2021) describes in chapter 5 the general principles for audit and control when using SCOs. The guidance also explains the specific requirements for the management verification of the correct application of flat rates, unit costs, and lump sums.

The scope of management verifications (by the managing authority) and audits (by audit authority and Commission auditors) on the expenditure for reimbursement based on an SCO methodology will cover:

- outputs/deliverables for unit costs and lump sums, and
- “basis costs” in the case of flat-rate financing.

Management verifications and audits will not cover the individual invoices and specific public procurement procedures underlying expenditure reimbursed on the basis of SCOs.

¹¹ https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification/.

¹² 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 ESIF, 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”.

Consequently, these underlying financial or procurement documents shall not be requested with a view to checking the expenditure incurred and paid by the beneficiary.

The use of SCOs, however, does not necessarily mean that the on-the-spot controls are no longer carried out; for example, the compliance with publicity obligations (e.g. displaying the EU emblem) needs still to be checked.

The extent to which on-the-spot controls are necessary when moving from a real-cost practice to the use of SCOs should be clarified in a "risk management strategy" (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.

5 Recommendations and examples for programme-specific EMFAF SCOs

Based on the information available from the MSs, this section describes relevant examples of programme-specific SCOs according to a uniform classification. It will be expanded as more examples become available.

The examples should cover in particular the programme-specific SCOs already used in EMFF 2014-2020 or under preparation for EMFAF 2021-2027.

As with examples of good practice, the challenge is to obtain complete information.

5.1 Unit cost for compensation for damage caused by fish-eating predators (CZ)

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 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 assessments by the experts - reports are more or less estimates, 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.</p>
Type and mix of SCO, combination with real costs	<p>Unit cost of 23.2 EUR per ha per year.</p> <p>Combination with real costs – to be clarified.</p>
<p>Categories of costs covered</p> <p>Do these categories of costs cover all eligible expenditure for the operation?</p>	<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 ≥ 2 ha.</p>
Calculation method	<p>$30\% \text{ compensation} = 1,980 \text{ CZK/ha/year} \times 0.3 = 594 \text{ CZK/ha/year} = 23.2 \text{ EUR/ha/year}$</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>The calculation is based on the Hungarian model using statistical data originally collected for the Czech Republic. Sources were 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"> • cormorant (<i>Phalacrocorax carbo</i>) population in the Czech Republic: 16,000 • fishpond area: 40,000 ha • cormorant density on ponds: $16,000/40,000 = 0.4$ birds per ha • feeding days on ponds: 180 days/year (conservative estimate) • bird-days per hectare: $180 \times 0.4 = 72$ days/ha • daily consumption: 0.5 kg per bird

Type of operation	Compensation for damage caused by fish-eating predators
c) How many years have been considered for the data collection?	<ul style="list-style-type: none"> consumption per hectare: 0.5 kg × 72 days = 36 kg common carp average price: 55 CZK per kg (2.2 EUR/kg) cost of lost fish: 36 kg × 55 CZK = 1,980 CZK = 79.2 EUR
Involvement of the audit authority	The consultation process with the AA took a long time (around a year).
Experience with the implementation of the SCO (e.g. reduction of the administrative burden)	So far there is no experience in implementing this SCO.

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)

5.2 Lump sum method for production and marketing plans (PMPs, Article 66) (The Netherlands)

Type of operation	The composition 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 composition of the PMPs using the lump-sum method. The reasoning behind this decision was that:</p> <ul style="list-style-type: none"> the PMPs are an easily verifiable and controllable form of output; and not using SCOs would require the calculation of numerous small costs that individually have little or no impact on the output
Type and mix of SCO, combination with real costs	<p>Lump sum, calculated by an assessment of the expected costs for the years 2016–2022.</p> <p>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>The costs under the lump sum-subsidy of the PMPs cover all activities directly concerned with drawing up the PMPs, up to the moment the production and marketing plans 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	Producer organisations for the fisheries sector.
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 provided multi-year estimates of 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 was requested for each year:</p> <ul style="list-style-type: none"> • wages (in EUR) • working hours per year (in hours) • costs for materials, research, hiring of third parties, etc. (in EUR) <p>After this first request, additional data was requested:</p> <ul style="list-style-type: none"> • annual statements of functionaries (EUR) • distances to meeting locations (km) <p>The years covered are 2016 through 2022.</p>
<p>Involvement of the audit authority</p>	<p>The audit authority (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.</p>
<p>Experience with the implementation of the SCO (e.g. reduction of the administrative burden)</p>	<p>Using the SCO for this subsidy has led to a significant reduction of administrative burdens in the execution of this subsidy, for both the beneficiary and the Managing Authority. 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"> • recur annually; and • are reports that are easily verifiable in administrative terms. <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 the preparation of 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

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

Type of operation	Investment on vessels which enhance the quality of the fish caught
<p>Rational for the introduction of the SCO</p>	<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 for the execution of 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"> • alleviate the administrative burden for the subsidy applicants; and • alleviate the controlling burden on the controlling institution (MA). <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>
<p>Type and mix of SCO, combination with real costs</p>	<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"> • automatic preserving machines for langoustines; • automatic cooking kettles for shrimp; • sorting machines with a bar width of at least 6 mm; • plaice stripping machines; • slurry ice machines. <p>The next year, 2019, the list was expanded to cover:</p> <ul style="list-style-type: none"> • air purifiers; • cooling installation using CO₂ as the refrigerant; • outer drums of sorting machines with a band width of at least 6 mm. <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>
<p>Type of beneficiaries</p>	<p>Owners of fishing vessels</p>
<p>Calculation method</p>	<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 (Remark: the Omnibus Regulation deleted this limitation and allows to establish lump sums 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 most economically advantageous quotation 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 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</p>

	installations: one for systems in the range 10–16 kW, and the other for systems larger than 16 kW.
<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>To calculate the fixed amount for each type of equipment, three quotations were requested from suitably qualified suppliers and installers.</p> <p>All quotations were requested to be disaggregated, distinguishing the purchase cost of the equipment from the installation cost.</p>
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)	<p>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).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Another caveat is that the preparation of 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 was used for two recurring investment projects but is no longer in use.</p>

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

5.4 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"> • M1/Article 14 Knowledge transfer and information actions • M2/Article 15 Advisory services, farm management and farm relief services • M7/Article 20 Basic services and village renewal in rural areas • M10/Article 28 Agri-environment-climate • M16/Article 35 Co-operation • M19/ Article 42-44 LEADER /CLLD <p>When applying this SCO, important conditions must be observed:</p> <ul style="list-style-type: none"> • the SCO is only for projects up to 100,000 EUR • a clearly described budget is available • it is possible to define measurable targets • there is a low risk that target will not be met • the lump sum means a real simplification for the beneficiary. <p>An application of lump sums in the EMFAF is currently 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>Working step 1: Confirm the suitability of operations based on a checklist.</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>Working step 2: 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>Working step 3: 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 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>

Type of operation	Wide range of applications is possible
<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 beneficiary must submit a specified budget clearly describing its expenses.</p>
<p>Involvement of the audit authority</p>	<p>The audit authority has not been involved in the process.</p>
<p>Experience with the implementation of the SCO (e.g. reduction of the administrative burden)</p>	<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.</p> <p>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 LAG has made the assessment regarding lump sums in all of them (according to the procedure which is 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 MA for granting support. The assessment of whether lump sums based on a draft budget is suitable for each operation or not is done by the administrative officer at the LAG. If lump sums based on a draft budget is considered suitable in an operation, the LAG will also assess the reasonableness for every cost included in the draft budget to calculate the lump sum.</p> <p>The MA then clarifies in the document regulating the terms and agreement of the support what the agreed output is. In the same document it is also specified what documents the beneficiary has to present to the paying agency showing that the agreed output has been reached, in order for the beneficiary to receive payment of the granted support. If the MA doesn't agree with the assessment made by the LAG, it is possible to adjust or change the assessment and the lump sum set up, 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 11: Checklist used by the Swedish funding body

Checklist for suitability assessment of support in the form of lump sums (translated from Swedish)			
Journal number: XXXX-XX	Administrator:		
<p>Instructions: If you have received the answer <i>YES</i> on all points, go back to the routine 208 lump sums. If you have received <i>NO</i> on any of the questions, it is not advisable to grant support in the form of lump sums in the project.</p>			
	YES, YES.	NO. NO.	Justification
1. Is there a specific budget?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Justify your answer.
2. Are there activities or expenses in the budget suitable for one or more lump sums?	RESPECTIVELY.	RESPECTIVELY.	Justify your answer.
3. Are there (or is it possible to create) measurable targets for one or more lump sums?	RESPECTIVELY.	RESPECTIVELY.	Justify your answer.
4. Is there a low risk that the beneficiary will not reach the target of the lump sum?	RESPECTIVELY.	RESPECTIVELY.	Justify your answer.
5. Does the lump sum entail simplification for the beneficiary?	RESPECTIVELY.	RESPECTIVELY.	Justify your answer.
(Remark: "RESPECTIVELY" is supposed to be a series of checkboxes)			
1. Is there a specific budget?			
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.			
2. Are there activities or expenses in the budget suitable for one or more lump sums?			
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.			
3. Are there (or is it possible to create) measurable targets for one or more lump sums?			
Examine if 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, 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.			
4. Is there a low risk that the beneficiary will not reach the target of the lump sum?			
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.

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.
- 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

5.5 Programme-specific calculation of hourly unit costs for personnel expenditure (Saxony/Germany, RDP 2014-2020)

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 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 as well as for 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 cost is compulsory for beneficiaries.</p>

Type of operation	Knowledge, innovation and technology, knowledge transfer projects, including demonstration projects																																			
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 the rent of event rooms, the lease of 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>																																			
<p>Categories of costs covered</p> <p>Do these categories of costs cover all eligible expenditure for the operation?</p>	<p>The unit costs for staff include a <u>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 agents 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" data-bbox="507 1088 1391 1563"> <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> <tr> <td>15 % flat rate for indirect costs (overheads)</td> <td>1,042</td> <td>699</td> <td>488</td> <td>378</td> </tr> <tr> <td>Monthly amount</td> <td>7,986</td> <td>5,362</td> <td>3,739</td> <td>2,898</td> </tr> <tr> <td>Hourly unit costs (1,720 hours)</td> <td>56</td> <td>37</td> <td>26</td> <td>20</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	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
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<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 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.</p> <p><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. Holiday, 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</p>																																			

Type of operation	Knowledge, innovation and technology, knowledge transfer projects, including demonstration projects
	personnel cost rates include flat-rate indirect costs amounting to 15 % of direct personnel costs.
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 3 approved projects. As intended, the simplified cost options reduce the administrative burden and may have contributed to an improved acceptance of the funding instrument (in the form of 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 SCO terminology in the EMFAF programme template

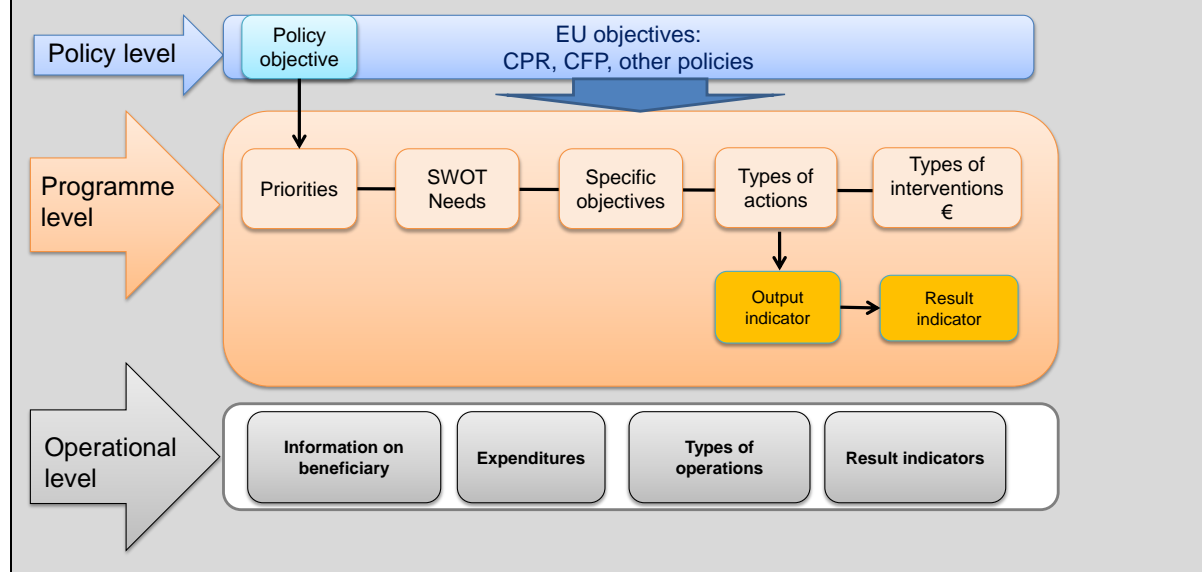
SCOs should play a key role in focusing on achieving results. Therefore, it is essential to smartly embed SCOs in the intervention logic of the programme.¹³

Box 6: Intervention logic

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

- 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: FAME 2020

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

¹³ For a detailed description of the intervention logic see the FAME working paper CMES 2021-2027.

Box 7: Glossary

Types of actions

Types of actions are new to the EMFAF 2021-2027. These are broadly-defined planned actions 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 to label single operations for EMFAF monitoring (Infosys). They will be set in a future implementing act¹⁴.

During implementation, MSs select for each operation 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 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).

Important note: Appendix 1 should include only SCOs for reimbursement by EC to MS.

Section 8 of the EMFAF programme template (which includes Appendix 1 and 2) only needs to be completed for SCOs that concern the reimbursement of the Union contribution from the EC to the MS. This covers basically costs related with the MA (e.g. Technical Assistance). In case Technical Assistance goes beyond 6% of the budget of the programme, MS needs to use FNLTC for the excess part (information given by the EC from 16 April 2021).

Section 8 does not concern the use of simplified cost options as a form of grant paid by the MS to beneficiaries. It is not required to include SCOs defined by the MA to reimburse beneficiaries. Also SCOs included in delegated acts or Off-the-shelf SCOs are not addressed in Section 8.

¹⁴ See also EUROPEAN COMMISSION – Directorate-General for Maritime Affairs and Fisheries, Unit D.3 (2021): FAME SU MEF 2021-2027, working paper, Brussels