Wales European Structural & Investment Fund Programmes 2014-2020

Detailed Guidance on using simplified costs

Version 3
May 2019
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SECTION 1: Introduction and overview

Purpose of guidance

The purpose of this document is to provide detailed operational guidance on the simplified costs applicable to the ESI Funds in Wales, with a view to encouraging their widest possible use to secure simplification for beneficiaries.

The options and examples provided are for illustrative purposes only and their inclusion should not be interpreted as a recommendation or requirement for similar operations.

Importantly, the only simplified costs available at a particular point in time, for the 2014-2020 ESI Funds managed by the Welsh Government, are those described in the Wales national eligibility rules ‘Rules and Conditions for support from the European Structural and Investment Funds 2014-2020’.

The Welsh national eligibility rules set out the cases where the EU Regulations mandates the use of simplified costs (small operations) as well as the cases where the Welsh Government has decided to offer, or mandate, some of the other possibilities provided by the Regulations.

The guidance document is based on guidance prepared by the European Commission [EGESIF_14-0017, September 2014] but modified to reflect the planned use of simplified costs in Wales and local terminology, currency etc.

Why use simplified costs?

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 European Court of Auditors as a better way of calculating eligible project costs because, when compared to the traditional ‘real costs’ reimbursement method, it reduces the likelihood of error and corresponding administrative and audit burden on beneficiaries.

For the 2014-2020 period, the EC is therefore expanding the range of simplified costs for the European Structural and Investment Funds (ESI Funds) as well as for other EU funds (Horizon 2020, Erasmus + for instance). In relation to the European Social Fund (ESF), the EC is aiming for simplified costs to be used for up to 50% of ESF transactions by 2017, excluding those projects not eligible for SCOs because they are fully implemented through a tendering procedure.
Advantages of simplified costs

Where simplified costs are used, eligible costs are calculated according to a predefined method based on activities, outputs, results or as a fixed percentage of some other costs.

The tracing of every pound of expenditure to individual supporting financial documents - such as purchase orders, invoices and bank statements - is no longer required: this is the key point of simplified costs as it significantly alleviates the administrative burden.

Using simplified costs means also that the human resources and administrative effort involved in management of the ESI Funds can be focused more on the achievement of policy objectives instead of being concentrated on collecting and verifying financial documents.

It could also facilitate access of small beneficiaries and/or wider participation of the private sector to the ESI Funds thanks to the simplification of the management process.

Simplified costs also contribute to more correct use of the ESI Funds (lower error rates). For many years the European Court of Auditors has repeatedly recommended to the EC to encourage and extend the use of simplified costs, especially as regards the ESF.
SECTION 2: Optional or mandatory?

This guidance concerns the 2014-2020 European Structural and Investment (ESI) fund programmes managed by the Welsh Government, namely:

- European Agricultural Fund for Rural Development (EAFRD)
- European Regional Development Fund (ERDF)
- European Social Fund (ESF)

The EU legislation only insists on the use of simplified costs for small operations. Beyond this, the relevant programme authorities (i.e. in Wales, the Welsh Government) determine the extent that simplified costs will be used and whether they are optional or mandatory.

Details of the simplified costs available in the Wales programmes, and whether they are optional or mandatory, are set out in the ‘Rules and Conditions for support from the European Structural and Investment Funds 2014-2020’ and are subject to change throughout the programme period, with any changes taking effect only for new operations approved from that point forward.

In cases where the use of simplified costs is mandatory for some but not all operations or where differentiated SCOs are offered, the scope to be applied - i.e. the type of operations/ projects and activities of beneficiaries for which simplified costs are to be applied - will be clearly specified and published in accordance with the general principles of transparency and equal treatment.

When simplified costs are approved for an operation, all relevant terms and conditions are set out in the funding agreement/ award letter (the document from the programme managing authority that sets out the conditions for support).

Meaning of a ‘small operation’ and exceptions

Small operations must declare all expenditure using simplified costs. In the context of simplified costs, ‘small’ operations are defined by the EC as ‘grants and repayable assistance for which the public support does not exceed EUR 100,000’.

This amount has to be considered as the maximum public support that will be paid to the beneficiary, as specified in the WEFO Funding Agreement. The amount therefore includes both the expected EU contribution and the corresponding public match funding that will be paid to the beneficiary.

Therefore, the amount does not include any public contribution provided by the beneficiary itself (own match funding and therefore not ‘paid to’ the beneficiary) or any salaries/ allowances disbursed by a third party for the benefit of ESF participants (e.g. employers contributions in-kind).
This assessment is only required at funding approval stage i.e. based on forecast/programmed expenditure. The public support actually paid to the beneficiary at closure of the operation has no influence on the rule.

**Exceptions**

Simplified costs are not mandatory in small operations where, either:

- Where the operation does not qualify for the use of simplified costs because the operation, or a project forming part of the operation, is to be fully procured; or

- When the operation is receiving support within the framework of a state aid scheme: the rules of the state aid scheme must be applied and so, before mandating the use of simplified costs, WEFO must ensure that state aid rules do not prevent the application of simplified costs in such schemes.

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**EAFRD – Note for Welsh Government staff administering the Rural Development Programme**

The managing authority must ensure that the relevant calculations as regards simplified costs are adequate and accurate if established ‘in advance on the basis of a fair, equitable and verifiable calculation’ [this methodology is explained in Section 6].

To this end, a body that is functionally independent from the authorities responsible for implementing the programme and possesses the appropriate expertise will perform the calculations or confirm their adequacy and accuracy.

A statement confirming the adequacy and accuracy of the calculations must be included in the rural development programme (RDP) [see Article 62, EU 1305/2013].

Such calculations and the above statement do not have to be performed or submitted if the managing authority uses one of these methods to establish the simplified costs:

- in accordance with the rules for application of corresponding scales of unit costs, lumps sums and flat rates applicable in EU policies for a similar type of operation and beneficiary [see Section 6]

- in accordance with the rules for application of corresponding scales of unit costs, lumps sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary [see section 6]

- Rates established directly by EU Regulation 1303/2013.
Specific methods for determining amounts established in accordance with the EAFRD fund-specific rules.

The RDP should only include the methodology used for calculating the payments based on simplified costs. If this methodology does not vary throughout the programming period, the programme would not have to be modified. If a system of Simplified costs is introduced as a payment mechanism under a specific measure, the programme should be accordingly modified.

Please refer to the Annex 3 for a list of EAFRD measures which fall under the scope of simplified costs.
SECTION 3: Applicability: when can simplified costs be used?

**Rule 1:** Simplified costs are only to be used only in the case of grants or repayable assistance. Other types of financial support from the ESI Funds, such as Financial Instruments (repayable investments such as loans, equity, guarantees etc.), cannot therefore use simplified costs [EU 1303/2013 Articles 67 and 68].

**Rule 2:** When an entire operation is implemented exclusively through procurement, simplified costs must not be used.

**Rule 3:** Where a project, forming part of a wider operation, is implemented exclusively through procurement, simplified costs must not be used for that particular project. Other projects in the operation can continue to use Simplified costs if not implemented exclusively through procurement.

Other than these core qualifying rules, simplified costs can be considered for all operations, especially:

- to help focus more on outputs and results instead of inputs (spending);
- when ‘real costs’ are difficult to verify and to demonstrate (many small cost items with little or no singular impact on the expected output of the operation, complex apportionment methodologies needed etc.);
- when there is a heightened risk that accounting documents will not be properly retained (by small organisations or temporary collaborations for instance); or
- when the operation already aligns with a standard national funding framework or when simplified costs are already established for similar types of operations and beneficiaries under national public funded schemes (UK/ Wales or local).

**Meaning of ‘fully procured’**

This means outsourced/ contracted with project activity implemented exclusively through the procurement of works, goods or services [EU 1303/2013 Article 67(4)].

The beneficiary retains the core EU project management and administration tasks – for example, carrying out the procurement procedures, managing contract performance, paying invoices, submitting payment claims to the EU programme authorities - but the responsibility for delivering the associated project activity is performed by contractors, suppliers or service providers.

Although full procurement means that ESI fund simplified costs are not applicable, it is still possible for contractual payments, from the beneficiary to the contractor, to be based on agreed unit costs, lump sums or flat-rates if this is agreed as the preferred
pricing terms for the contract. The invoices paid through such contracts still constitute ‘real costs’ (actually incurred and paid by the beneficiary) even though it may be defined in the contract itself as a standard scale of unit costs, lump sum or flat-rate amounts. The simplified cost provisions set out in the EU Regulations and this guidance do not apply as they are considered to be ‘real costs’ - not simplified costs.

### Example (ESF)

If a beneficiary implements a training course via procurement, it is possible that in the call for tenders the beneficiary asks the bidders to make a price offer on the basis of a unit cost per trainee gaining certification at the end of the course.

The terms of the contract could therefore be: one trainee certified = £1,250 payable to the contractor.

If, at the end of the course, 10 trainees are certified, the beneficiary can declare £12,500 of eligible expenditure to WEFO.

This £12,500 will be considered as ‘real cost’ basis, being the amount paid to the contractor. Therefore a control or audit of this expenditure will consist in a check of the procurement procedure and observance of the terms of the contract (in this example, that there is proof of a trainee certified for each unit cost paid). The underlying costs of the training incurred by the contractor (renting of facilities, staff costs…) will not be checked as the contract does not provide for reimbursement on this basis.

Where simplified costs are available to an operation, because the operation is not fully procured, it then has to be determined whether they can be applied to all or only some elements of the operation.

In order to assess to which projects, within a wider operation, that simplified costs can be applied to, it is necessary to define the projects at the lowest possible level.

In Wales, an operation consists of, and is implemented through, one or a group of projects. For more details of the meaning of ‘project’ in Structural Funds operations, please see separate guidance document ‘WEFO Delivery Models 2014-2020’. Similarly, the Wales Rural Development Programme clarifies meaning of ‘operation’ in relation to investments supported by the EAFRD.

For application of the ‘fully procured’ rules, the separate ‘parts of the operation’ could be projects (different beneficiaries) or separate activities within a project (same beneficiary) – see ERDF example below.
If the beneficiary outsources the entire delivery of some of the projects or activities in an operation via procure contracts, simplified costs cannot be applied to those projects or activities that are subject to procurement. The remaining projects or activities remain eligible for simplified costs because they have not been outsourced.

**Example (ERDF):**
A local authority receives an ERDF grant award for a maximum amount of £ 1m eligible costs for the construction of a road. For this the local authority will award a public works contract of an estimated value of £ 700k. In addition the local authority incurs related costs of £300k itself as a beneficiary (expropriations, litigation costs, monitoring of the progress on the ground, environmental studies carried out by local authority staff, campaigns, tests for the acceptance of the road etc.).

In order to assess to which projects the simplified costs can be applied to, it is necessary to define the projects at the lowest possible levels. In this case, there are two distinct activities of the operation a) construction of road by a contractor b) related support activity undertaken by the local authority.

**Part 1** - for the amount of £700k of procured costs, these cannot be considered for simplified costs as they are a ‘fully procured’ activity.

**Part 2** - For the amount of £ 300k of direct costs (activities that are not fully procured) and insofar as these costs are eligible under the Welsh and EU provisions, simplified costs can apply e.g. the local authority’s indirect costs could be calculated on a flat-rate basis (percentage of beneficiary’s direct staff costs).

**Contracted costs in projects or activities that are not ‘fully procured’**
If the beneficiary itself directly delivers a project (meaning keeping full control of the management and implementation of the project – not outsourcing/ not fully procured), the simplified costs remain available, even if some of the costs within the project need to be contracted (e.g. some of the project implementation costs like cleaning services, external expertise, purchase of furniture, etc.).

In the case of flat rates for indirect costs in eligible ‘research, development and innovation’ operations (based on the Horizon 2020 rate of 25% of direct eligible costs), the value of all procured costs must be deducted from total eligible direct costs before applying the 25% rate.

In addition, the costs of resources made available by third parties which are not used on the premises of the beneficiary, and any costs of financial support to third parties, must also be excluded from the costs on the basis the rate is to be applied to calculate the eligible amounts (excluded from ‘type 1’ costs as explained in Section 4).
Fully procured ‘public’ contracts or all contracts?

The EU Regulations on simplified costs refer to ‘public procurement’ in terms of ‘fully procured’ operations and projects. This means that procurement by private beneficiaries and/ or contracts not falling within the definition of a ‘public contract’ (per EC Public Contract Directives) could still participate in simplified costs. However, the EC recommends extending the rule to cover all fully procured implementation – not just public contracts - in order to respect the intention to restrict the simplified costs to grants and remembering that beneficiaries are free to invite bidders to make a price offer on the basis of unit costs, lump sums and flat-rates.

The Welsh Government’s approach is to accept the Commission’s recommendation to exclude all fully procured implementation of projects/ operations from using simplified costs, **whether or not those contracts fall within the definition of a ‘public contract’**.

Beneficiaries are encouraged to actively consider unit costs, lump sums and similar output/performance-based payment arrangements when negotiating terms and conditions with contractors.
SECTION 4: How do ‘flat-rates’ work?

In the case of flat rates, specific categories of eligible costs - which must always be clearly identified before the costs arise/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 the percentage does not change during the implementation of the operation.

Defining the categories of costs

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

- **Type 1**: categories of eligible costs (contributing to the calculation of ‘type 2’)
- **Type 2**: categories of eligible costs that will be calculated using a flat rate;
- **Type 3 (where relevant)**: other categories of eligible costs: the flat-rate is not applied to them and they are not calculated with the flat rate.

When using flat rates the programme managing authority must identify, at funding approval stage, the categories of costs falling under each type: the proposed flat-rate calculation method must ensure that all cost categories are included in one — and only one — of the three types.

Note that in some cases, one type can be defined by opposition to another type or the other types (for instance, in a system where there are only direct (type 1) and indirect costs (type 2), indirect costs could be considered as all the eligible costs that are not eligible direct costs).

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

Defining ‘direct’ costs, ‘indirect’ costs and ‘staff’ costs

The use of simplified costs requires clear definitions of the direct and indirect costs and the staff costs. These definitions are included in the ‘Rules and Conditions for support from the European Structural and Investment Funds’. These definitions comply with the general principles provided by the EC:

- **Direct costs** are those costs which are directly related to an individual activity of the entity (beneficiary) and where the link with this individual activity can be demonstrated (for instance though direct time registration).
• **Indirect costs**, on the other hand, are usually costs which are not or cannot be connected directly to an individual activity of the entity in question. Such costs would include administrative expenses, for which it is difficult to determine precisely the amount attributable to a specific activity (typical administrative/staff expenditure, such as: management costs, recruitment expenses, costs for the accountant or the cleaner, etc.; telephone, water or electricity expenses, and so on).

• **Staff costs** are the costs deriving from an agreement between employer and employee or service contracts for external staff (provided that these costs are clearly identifiable and separated from other costs in the corresponding invoices). For example, if a beneficiary contracts the services of an external trainer for its in-house training sessions, the invoice needs to identify the different types of costs. The salary of the trainer will be considered as external staff costs. However, teaching materials or travel and subsistence costs included in the same invoice for example cannot be taken into account. Staff costs include the total gross salary costs together with any other related eligible staff costs as set out in the Welsh national eligibility rules e.g. employers’ national insurance contributions and pension scheme contributions.

- Contracts with individuals, or via staffing agencies, can be considered as external staff but not contracts with firms/companies, even if small ‘one person’ limited company. ‘Contracts with individuals’ is therefore intended to cover, for example, self-employed unincorporated traders, freelancers/piecemeal/portfolio workers, independent consultants etc.

- Costs of **business trips** are not staff costs for the purposes of simplified costs.

- Salaries or allowances disbursed for the benefit of **ESF participants** are also **not** considered to be staff costs for the purposes of simplified costs.

**Indirect costs: flat rates provided by the EU Regulations**

**Calculation methods for indirect costs**

The EU Regulations include certain specific flat rates and methodologies for indirect costs:

- **Up to 25% of all eligible direct costs** if suitably justified in advance according to one of the calculation methods under Article 67(5) (a) and (c) of EU 1303/2013.

- **Up to 15% of eligible direct staff costs** to calculate the indirect costs. The 15% may be used directly by the managing authority, **without any justification**.
• Re-use a flat rate for indirect cost schemes existing in EU policies, based on those used under Horizon 2020 (25% of eligible direct costs) and under LIFE (7% of eligible direct costs).

Other Flat rate options

• **Flat-rate up to 40% applied to eligible direct staff costs** to calculate all other eligible costs (whether indirect or direct costs)

A flat-rate of up to 40% can be offered by the managing authority without any justification of the rate.

All costs other than direct eligible staff costs – both direct and indirect – are considered to be covered by the flat-rate calculation, including contributions in kind such as salaries or allowances disbursed by third parties for the benefit of ESF participants.

The rate to be used in Wales ESIF programmes is set out in the Wales national eligibility rules.

If WEFO decides **not to apply the same percentage rate to all beneficiaries, or not make the flat-rate available to some beneficiaries**, the EC requires the managing authority to be able to prove that the principle of equal treatment was respected – the flat rate cannot be arbitrarily withheld from selected beneficiaries/operations.

• **Flat-rate up to 20% to calculate staff costs**

Staff costs can be calculated at a flat rate of up to 20% of the direct costs (i.e. eligible costs other than staff costs). The flat-rate can be used without there being a requirement for the managing authority to perform a calculation to determine the applicable rate. Where this option is used, no other direct costs can be calculated using a flat-rate (direct costs must be ‘real costs’ to form the basis of the staff costs flat-rate calculation). This flat rate is available to ESF, ERDF and ERDF European Territorial Cooperation Operations.
SECTION 5: How do ‘unit costs’ and ‘lump sums’ work?

General principles

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 a standard scales of unit costs, agreed at funding approval stage.

This possibility 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.

Standard scales of unit costs apply typically to easily identifiable quantities and could be:

- process-based – such as hourly staff costs - aiming at covering through a best approximation 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.

A managing authority can set out different scales of unit costs applicable to different activities.

Example (ESF output-based unit costs):

For advanced IT training of 1,000 hours provided for 20 trainees, the eligible costs could be calculated on the basis of a [cost per hour of training] x [number of hours of trainees]. The cost per hour would be defined in advance by WEFO and shown in the WEFO Funding Agreement that sets out all conditions for support.

Assuming for example that WEFO sets the training cost at, say, £ 7 per hour of training per x trainee, the maximum eligible expenditure allocated to the project would be capped at 1,000 hours x 20 trainees x £ 7 /hr. / trainee = £ 140,000.

At the end of the operation the final eligible costs will be set on the basis of the actual number of hours for each trainee (and this could potentially include some justified absences if agreed in advance with WEFO), according to actual participation of trainees and delivered courses. There will still be a need for accurate attendance sheets of trainees detailing the reality of the training activities and certifying the actual presence of trainees.
If at project completion, only 18 people participated in the training, 6 of them for 900 hours, 5 of them for 950 hours, 5 of them for 980 hours and the remaining 2 for 1,000 hours, the number of total hours x trainees will be equal to:

900x6 + 950x5 + 980x5 + 1000x2 = 17,050 total hours of training x trainees.

The eligible expenditure will be: 17,050 hours of training x £ 7 unit cost = £ 119,350.

Example (ERDF output-based unit costs):

The beneficiary, a Chamber of Commerce, organises an advisory service for the SMEs of the region.

This service is supplied by the advisors of the Chamber. Based on past financial accounts of the ‘advisory’ department of the Chamber, a day of advice is estimated at £ 350/day. The eligible costs will be calculated on the basis of the following formula: [number of advice days] x £ 350. Grant will be paid to the beneficiary based on this eligible expenditure at the applicable grant intervention rate (national match-funding provides the remaining amounts).

There will still be a need for accurate timesheets and related documents to evidence the reality of the advisory activity and the presence of advisors.

Example (ESF result-based unit costs):

A job-search assistance programme lasting 6 months ('the operation') could be financed on the basis of standard scales of unit costs (say, £ 2,000/ person) for each of the 20 participants in the operation who gets a job and retains it for a pre-established period, for example six months.

Calculation of the maximum eligible expenditure allocated to the operation: 20 persons x £ 2,000 /placement = £ 40,000 eligible expenditure.

The final eligible costs are calculated on the basis of the real outputs of the operation: if only 17 persons were placed on the labour market and retained their jobs for the requested period, the final eligible costs, on the basis of which the grant payable to the beneficiary will be calculated, would be 17 x £ 2,000 = £ 34,000.
Example (EAFRD): ‘Investments in forest area development and improvement of the viability of forests’ (RDP Art. 21)

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

Therefore the total eligible costs would be:

\[ 3 \text{ha} \times 2000 \text{£/ha} + 3 \text{ha} \times 600 \text{£/ha} + (3 \text{ha} \times 500 \text{£/ha}) \times 6 \text{years} = £ 16,800 \]

Unit costs for beneficiary staff costs (hourly unit costs)

Article 68(2) of EU 1303/2013 introduces a new rule to facilitate the use of hourly unit costs for calculating staff costs related to the implementation (management and delivery) of an operation:

\[
\text{Hourly staff unit cost} = \frac{\text{latest documented annual gross employment costs}}{\text{Annual productive hours (or if preferred, 1,720 hours without justification)}}
\]

The 1,720 hours is a standard annual ‘working time’ that can be used directly, without there being a requirement to perform any calculation or justification.

However the numerator, the latest documented annual staff costs, does have to be justified, as does the ‘annual productive hours’ if not using the 1,720 option.

In the case of a project implemented over several years, the same hourly rate applies throughout the whole implementing period. Alternatively, the managing authority may choose to update the hourly staff cost once new data is available – the approach in Wales is to undertake a review of the rate every 24 months if so requested by the beneficiary, as set out in the Wales national eligibility rules. When the rates are revised in this way, an updated Funding Agreement will be issued.

The numerator is only related to the people working directly on the operation. It could be based on the real salary of each individual working on the operation or the average of the eligible employment costs of a larger aggregate of employees, those of the same grade or some similar measures that correlates roughly to

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salary level. The latter option is likely to be the more practical method unless the beneficiary knows with some certainty the named individuals who will work on the project(s) throughout their implementation.

Once the rate is agreed, only the hours actually worked must be used for the calculation of the eligible staff costs during the implementation of the operation. However, paid leave such as sick leave (non-recoverable element only), paternity and/or maternity leave, jury service etc; can also be included in the calculation of the eligible staff costs during the implementation of the operation, where (a) the individuals are employed to implement/deliver the operation (b) the standard terms of their contracts enable the payment of these entitlements and (c) the paid leave was not taken into account when the hourly rate was initially calculated. Annual leave/paid public holidays are therefore excluded from the calculation of the eligible staff costs during implementation of the operation, as these are already included in the calculation of the hourly staff costs.

‘Implementation of an operation’ covers all the steps of an operation. There is no intention to exclude staff costs related to specific steps of an operation, for example the pre-delivery ‘mobilisation’ phase used in many WEFO operations.

The Wales national eligibility rules specifies what is covered by eligible gross employment costs.

Where a beneficiary chooses not to use the standard annual working time of 1,720 hours the latest annual gross employment cost (as documented via the employing beneficiary’s accounts, payroll records, etc) – i.e. the latest information at the point of approving funding and not up to the beneficiary’s last financial year-end for example, together with the proposed annual productive hours will need to justified to and verified by WEFO. This will enable WEFO to agree the staff hourly rates to be used by a beneficiary, the rates subsequently being listed within the approval for the operation.

Employment costs based on historical data of the beneficiary is not usable given that the EU Regulation refers to latest documented annual gross employment costs. Latest document annual gross employment costs implies to have a past reference period of one year (12 consecutive months). It is not possible to use the data of periods after the signature of the document setting out the conditions for support (the grant agreement/funding agreement);

The added value of this methodology is that the 1,720 hours cannot be questioned during verifications and audits.
Example (ERDF):

Certain types of projects targeted at SMEs in the field of R&D and innovation often involve personnel costs as a key element. The application of standard scales of unit costs as an option is a welcome simplification for these SMEs.

The unit cost for activities is expressed in this case as an hourly rate applied to hours effectively worked by the staff. It is defined in advance in the document setting out the conditions for support that fixes the maximum amount of eligible expenditure as the maximum worked hours allowed multiplied by the unit cost (the calculated costs of the staff involved).

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

\[
\text{Hourly staff cost} = \frac{\text{gross annual salary}}{\text{average contractual working hours (taking annual leave into account)}}.
\]

For example: Hourly staff cost = £ 60,000 / (1,980 hours – 190 hours of annual leave) = 60,000/1,790 = 33.52 £/hr.

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

**Alternative example:** Same as above but the hourly staff cost is based on 1,720 hours without justification of the annual hours.

Hourly staff cost = latest documented gross annual salary divided by 1,720 hours (without justification).

For example: Hourly rate = £ 60,000 / 1,720 hours = 60,000/1720 = 34.88 £/hr.

**Lump sums**

Lumps are very similar to ‘unit costs’ in that all eligible costs, or part of eligible costs, of an operation are calculated on the basis of a pre-established lump sum (the setting up of the lump sum should be justified by the managing authority), in accordance with predefined terms of agreement on 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 the production of a toolkit, the organisation of a small local seminar, etc.

Lumps sums are, in effect, a unit cost with an expected quantity of one unit e.g. a seminar to be delivered; a toolkit to be produced.

Lumps sums are ‘binary’ in nature - the grant is paid in full if the predefined terms of agreement on activities and/or outputs are completed but none of the grant is paid if incomplete/ partially complete.

The lump sum possibility is an application of the proportionality principle aiming at alleviating the administrative workload for small operations and giving non-governmental organisations (but not exclusively NGOs) better access to ESI Funds.

**Example (ESF):**

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

On the basis of a draft detailed budget and in comparison to similar operations, the managing authority grants a lump sum of £ 47,500 covering all these eligible costs. At the end of the operation, this amount would be paid to the NGO on the basis of the output; if a conventional number of additional (10) children were looked after.

It would therefore not be necessary to justify the real costs incurred in relation to this activity.

It means however that if only 9 children were looked after, the eligible costs would be zero and the lump sum amount would not be paid.

**Example (ERDF):**

In order to promote local products, a group of small enterprises wishes to participate jointly in a commercial fair.
Due to the low cost of the operation, the managing authority decides to use a lump sum for calculation of the public support. For this, the group of enterprises is invited to propose a budget for the costs of renting, setting up and running the stand. On the basis of this proposal, a lump sum of £ 20,000 is established.

The payment to the beneficiary will be made on the basis of proof of participation at the fair. The agreed budget of £ 20,000 should be kept for audits (verification of the ex-ante calculation of the lump sum).

**Example (EAFRD):** ‘Quality schemes for agricultural products, and foodstuffs’ (Art. 16)

A group of farmers who have received support to cover new participation in a recognised quality scheme wants to organise a promotional activity for their products. The managing authority has calculated the cost of the activity as a lump sum (e.g. £ 15,000 / seminar min. 50 participants). The group of farmers has to provide evidence of carrying out the activity and the number of participants (at least equal to 50).
SECTION 6: Establishing and justifying the flat-rate percentage, the unit cost or the lump sum

This section explains the full range of methods permitted by the EU Regulations but remember that the simplified costs available in Wales, including the rates and methodologies that will be considered, are only those set out in the ‘Rules and Conditions for support from the European Structural and Investment Funds’ document.

The EU Regulations [Article 67(5) EU Regulation 1303/2013 and Article 14(3) ESF] introduce several methods for calculating simplified costs: some of them are based on statistical data, others on data of the beneficiaries or elements included in the EU Regulations.

Some give a lot of flexibility, while others offer strong legal certainty or can be established with a limited administrative burden.

It is important to ensure a proper assessment in advance and related documentation of the method applied, where necessary, since it is only the control of the achievements that is considered during the implementation of the operation – not the real costs incurred and paid.

**KEY REQUIREMENT: simplified costs must be established in advance**

It is important to communicate to the beneficiaries, in the document setting out the conditions for support (funding agreement/ grant agreements), the exact requirements for substantiating the declared expenditure and the specific output or outcome to be reached.

Therefore, simplified cost have to be defined in advance (before the supported activities commence and/or the corresponding real costs are incurred, if earlier) and must be included in any call for proposals or, if open calls are used, at the latest in the document setting out the conditions for support.

The relevant methods and conditions must be incorporated in the Welsh national eligibility rules document.

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**Once simplified cost rates are established, they cannot be changed during or after the implementation of an operation to compensate for an increase in costs or underutilisation of the available budget.**

Given that the simplified costs have to be defined in advance, a retroactive application for operations that are already being implemented on the basis of real costs must be avoided and would entail a significant workload for the national authorities in order to ensure equal treatment between beneficiaries.
Exceptionally, in the case of multiannual operations it is possible to settle the accounts and the corresponding activities of the operation after a first part of the operation has been carried out and then to introduce the option of flat rate financing, standard scales of unit costs or lump sums for the remaining part/period of the operation.

For example, WEFO operations may declare eligible costs related to ‘mobilisation phase’ activities on a real costs basis and then select simplified costs for the delivery stage. In such cases, the period for which real costs are declared should be clearly separated from the period for which costs are declared on the basis of simplified cost options, in order to avoid project costs being declared twice.

Contributions in kind

When using simplified costs there is no need to justify the real costs of the categories of expenditure covered by the simplified costs including, where applicable, ‘real costs’ in the form of depreciation charges and contributions in kind.

Indeed, contributions in kind as defined by Article 69 EU Regulation 1303/2013 can be taken into account for the calculation of the value of a flat rate, a standard scale of unit cost or a lump sum. However, once the flat-rate/ unit cost has been agreed, there is no need to verify the existence of underlying contributions in kind during the implementation of the operation.

Methodology 1: ‘A fair, equitable and verifiable calculation’

It must be fair:

The calculation has to be reasonable, i.e. based on reality, not excessive or extreme. If a given standard scales of unit cost has in the past worked out at between £ 10 and £ 20, the EC would not expect to see a scale of £ 70.

From this point of view the method used for identifying the unit cost or the flat rate or the lump sum will be of the utmost importance. The managing authority must be able to explain and to justify its choices. An ‘ideal’ fair calculation method could adapt the rates to specific conditions or needs. For example, the execution of a project may cost more in a remote region than in a central region because of higher transport costs; this element should be taken into account when deciding on a lump sum or rate to be paid for similar projects in different regions and/or urban-rural differences.

In any event, simplified costs should not be misused (e.g. should not systematically lead to inflation of the costs of operations or artificial splitting of operations in order to bypass the lump sum maximum amounts).
The objective of audit and verifications work will be to examine the basis used for establishing the rates and whether the rates finally set are indeed in line with this basis.

**It must be equitable:**

The main notion underlying the term ‘equitable’ is that it does not favour some beneficiaries or operations over others. The calculation of the Simplified costs has to ensure equal treatment of beneficiaries and/or operations.

Examples would be differences in rates or amounts that are not justified by objective features of the beneficiaries or operations, or by express policy objectives.

Managing authorities and auditors from the audit authority and the EC will not accept calculation methods which unjustifiably discriminate against particular groups of beneficiaries or types of operations.

**It must be verifiable:**

The determination of Simplified costs should be based on documentary evidence which can be verified. The managing authority has to be able to demonstrate the basis on which the simplified cost option has been established. It is a key issue to ensure compliance with the principle of sound financial management.

Where Methodology 1 is used to develop Simplified costs, the managing authority should document and retain an audit trail of at least:

- The description of the calculation method, including key steps of the calculation;
- The sources of the data used for the analysis and the calculations, including an assessment of the relevance of the data to the envisaged operations, and an assessment of the quality of the data;
- The calculation itself to determine the value of the simplified cost option.

**Methodology 1 in practice**

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

- The use of statistical data or other objective information

Statistical data or other objective information can take for instance the form of surveys, calls for proposals, benchmarking with similar types of operations.

This will result generally in standard systems applicable to many operations / beneficiaries.
One source of data could be the certified expenditure from the past. In case the data used is not certified, it should be verified by the managing authority.

As an alternative, calls for proposals could also be introduced: a Member State would publish in advance the basis on which it is going to calculate lump sum grants and which is, again, *fair, equitable and verifiable*. This means that applicants should know the criteria on which the grant will be based, and that these criteria should be standardised and apply to all applicants for the same types of projects.

For example, in the case of a call for proposals, the managing authority should be able to answer such questions as: “Is the call for proposals complete in the details needed? Are the elements needed to determine the lump sum well specified and explained in advance? Does the managing authority check that the costs included in the draft detailed budget submitted, for example, are reasonable and acceptable in view of determining the lump sum in the document setting out the conditions of support?”

Another solution could be that the Member State fixes a lump sum for a specific activity and issues calls for proposals on the basis of this amount, funding the best proposals.

- **The use of beneficiary-specific data**

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

The verified historical data of individual beneficiaries:

This will result in an ad hoc system that is beneficiary-specific. Where necessary, these data should cover only the cost centre or department of the beneficiary that are related to the operation.

This method is based on the collection of past accounting data from the beneficiary, for actual costs incurred for the categories of eligible costs covered by the simplified costs. This, in fact, implies the existence of an acceptable analytical accounting system at beneficiary level. It furthermore implies that any ineligible expenditure is filtered out from any calculation supporting the simplified cost options.

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

- the categories of costs covered;
- the calculation method used;
- the length of the series to be obtained: accounting data **over at least three years** must be obtained so as to identify any potential exceptional circumstance which would have affected actual costs in a specific year as well as the tendencies in the cost amounts. The three-year reference period is used to take into account the yearly fluctuations;

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

- adaptations, if any, that are needed to update the reference amount.

**Application of the ‘usual cost accounting practices’ of individual beneficiaries:**

Usual accounting practices are practices which the beneficiary uses to account for all of its **usual day to day activities and finances** (which are not linked to EU support). These methods should be in compliance with **national accounting rules and standards**. The length of use is not critical.

An accounting method is **not ‘usual’ if it has been customised for a particular operation or for EU support**.

It is important to differentiate between:

- actual (real) costs; and

- costs determined according to the usual cost accounting practices of individual beneficiaries.

So, ‘costs actually incurred’ by the beneficiary means costs calculated as exactly as possible, normally meaning per physical person for the time period of the operation. In practice, for hourly staff costs, use of standard hours as denominator is accepted (see for instance the 1,720 hours in unit costs section above), but the numerator for the purpose of calculating ‘actual costs’ is the total eligible staff costs for each particular person assigned to the action.

In contrast, an hourly cost based on the beneficiary’s **cost accounting practices** could be calculated on the basis of an average of the remuneration costs of a larger aggregate of employees. This is normally a grade or some similar measure, which correlates roughly to salary level, but it can also be a cost centre or department (related to the operation) where salary level may vary considerably within the aggregate group of employees.

This means that the cost amounts obtained by application of cost accounting practices generally:
- deviate from the actual costs;
- are beneficiary-specific (or even department-specific) for a given operation;
- for a given period (a short period - data used relates to one year).

Therefore, to ensure equal treatment and that the grant does not cover ineligible costs, the document setting out the conditions for support authorising beneficiaries to use their cost accounting practices must provide for minimum conditions.

Those minimum conditions will aim at ensuring that the cost accounting practices result theoretically and practically in a fair and equitable system. This implies the existence of an acceptable analytical accounting system at beneficiary level. It furthermore implies that any ineligible expenditure is filtered out from the calculation.

Common requirements for the use of individual beneficiary-specific data (historical data or usual cost accounting practices)

Depending on the assurance obtained from the beneficiary’s internal management and control system by the managing authority, it may be necessary for beneficiary-specific data to be certified by an external auditor or, in the case of public bodies, by a competent and independent accounting officer, so as to ensure reliability of the reference data used by the managing authority.

Certification of historical data may take place as part of statutory audits or contractual audits. Any certification carried out in this manner would require in-depth knowledge, by the external auditor or independent accounting officer, of the ESI Funds Regulations in respect of e.g. the audit trail, the eligibility of the underlying costs and applicable law.

Where the risk of error or irregularity in the past accounting data used is deemed low, the calculation method may be based on data not audited in advance. The managing authority would need to be able to demonstrate, in an objective manner, that the risk is indeed low and why it considers that the beneficiary’s accounting system is reliable, complete and accurate. In any case, the managing authority will have to assess and validate these individual beneficiary-specific data through a case-by-case approach at the latest when establishing the document setting out the conditions for support to the beneficiary.

The individual beneficiary-specific methods described above require careful consideration before being implemented by managing authorities. It may be burdensome to develop these ad-hoc systems and the managing authorities are therefore recommended to use this system only in cases where significant parts of the programme(s) are implemented by one beneficiary, e.g. government departments, Universities, Department of Work and Pensions/Jobcentre Plus.
Methodology 2: Using standard scales of unit costs, lump sums and flat rates established in other areas

- Replicate other EU policies

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

When re-using an existing EU method the managing authority must ensure and document:

- that the totality of the method is re-used (for instance the definition of direct / indirect costs, eligible expenditure, scope) and not only its result (the rate of X %);
- that the method has to be applied to similar types of operations and beneficiaries;
- the reference to the method used in other EU policies.

Articles 20 and 21 of the Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 provide for applicable flat rates for indirect cost methods applied in other EU policies and the scope for their application in the EU Regulation 1303/2013:

- For Horizon 2020: the Delegated Regulation defines the conditions under which a flat rate of 25% for indirect costs may be applied to operations under the ESI Funds corresponding to the possibilities offered in Horizon 2020. All relevant elements of the methodology for the application of the flat rate set out in this regulation must be applied. Direct costs for subcontracting and the costs of resources made available by third parties, which are not used on the premises of the beneficiary, as well as financial support to third parties must be excluded from the costs on the basis the rate is to be applied to calculate the eligible amounts (excluded from type 1 costs).
- For LIFE: the Delegated Regulation defines the conditions under which projects similar to LIFE could make use of the flat rate of 7% of direct costs as set out in Article 124(4) of the Financial Regulation.

In both cases, a reference should be made to the Commission Delegated Regulation and the relevant article in the document setting out the conditions for support (Funding Agreement/ Grant Agreement).
Replicate UK grant schemes (UK, regional or local)

The principle is exactly the same as for options used in EU policies but instead of being a copy of EU policies’ methods, it is a copy of national, regional or local methods: flat rates, unit costs or lump sums used under national support schemes (such as scholarships, daily allowances) can be used without additional calculations.

The national methodology used will not be subject to audits, only its application.

All the applicable national methods could be used for similar operations and beneficiaries supported by the ESI Funds on the condition that these methods are also in use for operations supported exclusively by national funds, outside any sort of EU support or external aid. In other words, methods used only for the purpose of an ESI Fund programme are not considered as national. Methods used for national operations and for those supported by the programme are acceptable.

National methods that have been discontinued will not be usable.

If the method is modified / discontinued during the programming period then the same modification should apply but only to the ESI Funds projects selected after that modification / discontinuation.

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

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

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

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

- the method has to be applied to similar types of operations and beneficiaries;

- justification that this method is in use for operations supported exclusively by national funds.

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

As a general principle, all elements of the method that could have an impact on the unit cost / lump sum / flat rate should be taken into consideration. If an operation and its beneficiary were eligible under another scheme, the existing calculation
method and the corresponding unit costs / flat rates / lump sums of this other scheme may be used. Beyond that, a case by case examination is necessary.

Example (ERDF/ESF):

In the area of research, a flat rate scheme supports networking of universities on the condition that the operation concerns universities of at least 3 Member States that have published at least 10 publications during the last three years. The criterion of the number of publications does not have any impact on the flat rate, but the other criteria do have an impact: research, networking, universities of at least 3 Member States. For operations fulfilling these criteria the same method could be used.

Methodology 3: Using rates established by the ESI EU Regulations

The EU Regulations provide a number of ready-made ‘off the shelf’ systems. These are intended to give the maximum of legal certainty and to reduce the initial workload or the need for available data to establish the system because there is no requirement to perform a calculation to determine the applicable rates. However, such methods lack flexibility and are not suited to all types of operations.

For operations giving rise to indirect costs, the indirect costs can be calculated as 15% of eligible direct staff costs [Article 68(1) (b) EU Regulation 1303/2013]

This rate is available for all the ESI funds. This rate is a maximum rate. Member States can use the 15% rate, or a lower rate, without having to carry out a specific calculation.

Nevertheless, if the managing authority decides not to apply the same rate to all beneficiaries, it should be able to prove that the principle of equal treatment was respected.

Changes to flat-rate percentages, unit costs and lump sum values during Programme implementation

Managing authorities may change the simplified costs rates available for new operations at any time during programme implementation.

The EU Regulations do not specify any provision on the adaptation of simplified costs. Therefore adaptation is not compulsory. However, the managing authority may consider it necessary to adapt the simplified costs when launching a new call for proposals or it may do so periodically in order to take account of an indexation or economic changes e.g. in energy costs, levels of salaries, etc.

The EC suggests enshrining in the methodology some automatic adaptations (based on inflation, or evolution of salaries for instance).
Adapted rates should apply only to projects to be implemented in the future, not retrospectively.

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

**Additional methodologies for certain operations**

Article 67(5)(aa) adds a specific possibility for certain operations, involving a calculation by reference to a draft budget in the case of grants below EUR 100,000 of public support. This amount has to be considered as the maximum public support to be paid to the beneficiary, as specified in the document setting out the conditions for support to the beneficiary. It does not include either the public contribution provided by the beneficiary itself, if any, or the allowances or salaries disbursed by a third party for the benefit of the participants in an operation.

This very flexible possibility is designed to facilitate implementation of the compulsory use of simplified cost options for small operations. In fact this method allows some simplified costs to be calculated even if no general system has been created or if the operation is very specific. The draft budget will be used to calculate the specific simplified costs related to this operation or project. This budget will be archived by the managing authority as a supporting document to justify the simplified costs used. The financial management, the management verification of the operation / project will be based only on simplified cost options, not on the budget itself.

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

The draft budget and the supporting documents demonstrating that the managing authority has assessed the budget should be archived by the managing authority with the documents related to the project supported. The draft budget is not part of the document drawn up between the managing authority and the beneficiary setting out the applicable rules.

When supporting the same beneficiary several times it is recommended to compare the draft detailed budget with previously supported operations.
SECTION 7: Applying simplified costs in collaborative operations and operations that manage grant schemes

Simplified costs in collaborative operations (Structural Funds)

Please meaning of ‘collaborative’ operation is described in the separate guidance document ‘WEFO Delivery Models 2014-2020’. In brief, these operations comprise a lead beneficiary and one or more joint beneficiaries who help the lead beneficiary to manage and/or implement the operation. In Wales, each beneficiary is considered to be managing a distinct project within the wider operation.

Flat-rates

Some flat-rates are determined by the activities undertaken by the project e.g. the research, development and innovation 25% rate for indirect costs that replicates Horizon 2020. Therefore, it is feasible that only some projects or activities within an operation would qualify for that specific rate. The ‘other’ projects or activities may use flat-rates that align to the activities they are undertaking and so, for example, may use the indirect cost rate of 15% (of direct staff costs) if they qualify.

This means that each project in an operation could be applying a different flat-rate. Conversely, if all projects are qualifying RD&I operations then all projects would be using the 25% rate that replicates Horizon 2020 (or all projects could use the 15% of direct staff costs option).

Where the flat-rates used are based only on the eligible real costs of a particular beneficiary/project (of group of beneficiaries/projects), it is essential that the lead beneficiary ensures that the calculation schedules are retained for future examination by verifications and audit staff. The schedules must demonstrate the applicable rates were correctly applied only to the corresponding beneficiary costs.

The funding agreement/ grant agreement must set out simplified costs approved for the operation including, if applicable, which beneficiaries/ projects each SCO relates to.

If flat-rates are developed based on the historic data of beneficiaries or the usual cost accounting practices of the beneficiary [see Section 6], this brings particular challenges in collaborative operations – this is covered in the next section on unit costs/ lump sums.

In no circumstances can ‘average’ flat-rates be set for the entire operation.
Unit costs/ lump sums

The approach is essentially the same as for ‘flat-rates’ – where simplified costs are being used only for the activities of some of the projects (beneficiaries) in an operation, calculation schedules must be retained and the funding agreement will confirm which beneficiaries/ projects each SCO relates to.

It is possible for unit costs/ lump sums to be established for activities/ outputs/ results achieved by a number (or all) of the beneficiaries/ projects in an operation. However, the methodology used to establish the rate must be carefully considered [see Section 6]. While methodologies that refer to external cost benchmarks (e.g. statistical data; national funding schemes etc.) are straight-forward, methodologies that develop a cost based on the historical data of the beneficiary or the usual cost accounting practices of the beneficiary are clearly more problematic.

These latter two methodologies are available in such cases but the historical data/ usual practices of each relevant beneficiary would need to be considered. It is not acceptable to develop an ‘average’ unit costs/ lump sums based on this methodology or to consider solely the lead beneficiary’s records and practices.

Due to the administration burden and complexity of these specific methodologies, it is strongly recommended not to consider this method for developing unit costs or lump sums.

Unit costs for hourly staff rates

Each beneficiary in an operation is able to calculate their staff costs utilising either the unit cost basis or the ‘real costs’ basis e.g. lead beneficiary could elect to choose ‘real costs’ and joint beneficiary the unit cost basis. All beneficiaries will need to be mindful of the applicable management, control and audit requirements associated with each chosen methodology.

40% flat-rate

This rate can only be used if all qualifying projects/ beneficiaries in the operation calculate eligible costs using the 40% flat-rate. If non-qualifying projects are not applying the 40% rate (e.g. fully procured project, not compatible with State aid rules etc.) then the remaining projects may still use the 40% rate.
SECTION 8: Management, control and audit

This section is aimed primarily at applicants/beneficiaries – Welsh Government programme authority staff should refer to the full details provided in the EC guidance document EGESIF_14-0017

From an audit and control point of view, simplified cost options signify a departure from the principle of ‘real costs’. Simplified costs involve approximations of costs, determined in advance and based, for example, on averages and surveys of historical data or market prices.

As estimations of future costs will never equate precisely to actual costs, it is inherent in such fixed rates that they, by definition, overcompensate or undercompensate the actual costs incurred for the operation.

Beneficiaries will therefore need to consider how a potential shortfall between actual amounts paid out and the amounts calculated using the SCO approach. Similarly, beneficiaries will need a mechanism to handle a potential surplus i.e. eligible expenditure calculated using SCO turns out to be more than amounts actually paid out. Beneficiaries accounting, reporting and governance arrangements will need to be able to accommodate such eventualities.

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

General approach to controlling and auditing simplified costs

Where simplified costs are used, for the purposes of determining the legality and regularity of expenditure, verifications and audits will not verify the real costs underlying categories of expenditure calculated using the simplified costs approach.

The SCO calculations will be checked, for accuracy and adherence to the terms set out in the funding agreement/grant agreement, and the legality and regularity of the operation will continue to be examined. Nonetheless, these audits will be carried out in a different manner, on the basis of the calculation method used to set the simplified costs and not on the basis of supporting financial documents per project.

The audit and control methodology that will be applied will consist of the following verifications:
1. Verification of the calculation method for establishing the SCO. This verification could take place at managing authority level or/and at beneficiary level (for systems based on beneficiaries’ own data).

2. Verification of the correct application of the established method through examination of outputs/outcomes of the project in the case of unit costs and lump sums;

3. In the case of flat rate financing, verification on the basis of the ‘real cost’ principle of categories of eligible costs to which the rate is applied (or of their calculation where other simplified cost options are used to calculate them) and, where relevant, of other categories of eligible costs not taken into account in the flat rate financing system.

**The simplified cost options do not waive the obligation to fully observe all applicable EU and national rules, such as publicity, public procurement, equal opportunities, sustainable environment, state aids, etc.**

Compliance with other applicable rules will take place on a risk-basis, including examination of procurement procedures. However, the purpose of such checks will be restricted to verifying whether procurement rules and procedures have been respected, not to audit the amounts paid related to the procured contract.

If breaches of procurement procedures are noted, a flat rate financial correction could be applied, and if public procurement rules are breached, an infringement procedure could be launched by the EC, even if the contract costs are declared as eligible expenditure on a ‘real cost’ basis.

Verifications and audits will focus on verifying the fulfilment of the applicable SCO conditions and will not question the reasons why the programme authorities SCO method over another. It is the programme managing authority’s responsibility – not the beneficiary’s – to keep adequate records of the calculation methods and basis on which the approved Simplified costs were decided.

In the case of combination of Simplified costs in a single operation, in addition to the checks required for the individual types of ‘simplified costs’ described above, verifications and audits will verify that the methodologies used ensure that parts of expenditure of an operation have not been charged using more than one type of option, thus leading to a **double declaration of costs**.

**Unit costs**

When using unit costs or lump sums, the basis for calculating the unit costs or lump sums used in an operation should be clear and refer to one or several of the approved methodologies described above.

Given that payments will be calculated on the basis of quantities/ reality of the project or operation, it is essential to get assurance that the activities or the outputs claimed were in fact realised. In particular, declared quantities/ proof of completion of
the project or operation must be declared by the beneficiary, justified and archived as core records for future verifications and audits. Verifications and audits will require supporting documents to justify the quantities declared by the beneficiary.

In addition to ‘cost eligibility’ considerations, all other aspects of eligibility and compliance will be examined and are outside the scope of Simplified costs, for example:

- Eligibility of individual participants (including, fit with specific profile of participants targeted by the operation);
- Geographic eligibility (of activities, participants or funding recipients);
- Proof of attendance (attendance sheets; enrolment forms etc.);
- State aid rules;
- Procurement rules;
- Correct treatment of revenue/ receipts;
- Supporting documents for all outputs and results declared;
- Reality of activities and assets (inspections, observations).

Remember that costs calculated and reimbursed on the basis of a unit cost/ lump sum are considered to be ‘proved expenditure’ in the same way as real costs supported by invoices. This also means that the expenditure will be declared as ineligible if adequate supporting documents are not made available during verifications and audits in order to prove the reality of declared quantities/ achievement of SCO conditions.

When declared quantities decrease (in comparison with the maximum initially approved), the eligible costs will decrease, independently of the underlying real cost of the project or operation. However, sometimes the anticipated quantities are not achieved because of external factors outside of the beneficiary’s control, rather than because of the beneficiary. On an ‘exceptions’ basis, these planned activities could be considered as eligible expenditure but only if:

- The circumstances to be treated as exception must be clearly agreed in advance between the beneficiary and the programme managing authority;
- Full details must be recorded in the he document setting out the conditions for support (funding agreement/ grant agreement) or another document with equivalent legal effect; and
- The programme managing authority must offer all similar operations the same conditions, demonstrating equal treatment of all beneficiaries.
For clarity, if the Welsh Government programme authorities introduce such exceptions, the Welsh national eligibility rules will be updated so that all potential beneficiaries are informed of the rules.

**Example (ESF):**

If the payment is made on the basis of ‘hours x trainees’, it could be agreed in advance that eligible costs will not be reduced because of the specified **justified absence** of participants, for instance due to **sickness**.

Moreover, the document setting out the conditions for support should clarify the maximum number of authorised absences, the minimum number of training hours to be justified for a trainee to remain eligible, the type of training scheme (compulsory participation from the start of the training, replacement of trainees who leave the training, etc.).

Some types of unit costs could be more **difficult to justify** than others. Therefore the choice of the unit cost to be used will have an important impact in terms of simplification, administrative workload and risk of errors.

**Example (ESF):**

If unit costs are set to calculate the costs for the number of people who get a job and retain it for an agreed period, the only supporting evidence required would consist of the justification of the eligibility of the person against predefined eligibility criteria, the proof of the initial employment of the person placed and his/her employment during at least 6 months. These types of scales are clearly ‘result’ oriented and easier to justify, but cover only one aspect of the operation.

As a general principle, the choice of the standard scales of unit cost should reflect the planned activities of each operation. It would not be appropriate to calculate the costs of an operation according to a given result if the funded activity is not **directly linked** to this result, while this result could be affected by many other external events.

Pure ‘result-based’ unit costs may prove to be particularly risky. If part of the result **does not depend on the outputs and quality** of the operation, there is a risk of **underpaying** operations and beneficiaries. It is particularly relevant in the case of operations dedicated to vulnerable groups: expected results are generally low.

On the other hand, care is needed with the ‘quality’ of the unit cost payment triggers. For example, if training costs are exclusively covered by unit costs defined as the
number of participants **entering** the course, there is no quality incentive. Such a practice would not comply with the principle of sound financial management. Indeed the beneficiary might receive full reimbursement on ‘day one’ while all the trainees could drop out on day two. Therefore the design of such a unit cost system should be defined in such a way as to pay for participants entering the course for a predefined (sufficiently long) period.

‘Results-based’ unit costs are, in effect, a payment by results approach and could potentially lead to dysfunctional behaviour e.g. prioritising or targeting participants deemed the most capable of reaching the desired results (rather than harder to reach/ more challenging interventions) or lowering standards to reach the targeted results.

Finally, well-designed unit cost systems should ideally enable the beneficiary to be reimbursed for its fixed costs, not just the variable costs linked to the effective delivery of the project or operation.

In conclusion, the design of a unit cost system is of utmost importance and should take into account all potential advantages and disadvantages. **An ideal unit cost could include the following qualities:**

- clear and direct link with the operation’s planned activities;
- quantities are easy to justify/ evidence;
- addresses the risk of dysfunctional behaviour (reduction in quality, ‘creaming’ easiest participants etc.)

**Flat-rates**

Where flat-rates are calculated in reference to certain other ‘real’ costs, the real costs will continue to be audited in full. If the ‘real costs’, on which the flat-rate is applied, cannot be evidenced by adequate supporting documents (purchase orders, invoices, bank statements etc.) then the flat-rate cannot be applied.

Any reduction of the amount accepted following these verifications and audits for the categories of eligible costs on which the flat rate is applied (e.g. in relation to the discovery of ineligible ‘real costs’ expenditure or following a financial correction) will affect proportionally the amount accepted for the flat rate calculations.

Where flat-rates are used, the definitions of type 1, type 2 and type 3 costs [see Section 4] needs to be clear for all costs included in the approved financing plan/ delivery profiled. This must be agreed in advance, and there must be no overlap between them e.g. if a flat-rate is used for indirect costs, no ‘real cost’ indirect costs can be declared for that beneficiary.

There should also be no overlap between simplified costs and real costs in a project or operation. The EC has given a broad definition of direct costs, indirect costs and
staff costs and these have been further defined and explained in Welsh national eligibility rules ‘Rules and conditions of support for the European Structural and Investment Funds’.

Lump sums

Although the general principles of ‘unit costs’ equally apply to lump sums, there are further issues to consider.

The main difference between lump sums and unit costs is that the calculation of costs is not proportional to quantities. In the case of unit costs, when quantities decrease, the eligible costs decrease proportionally. In the case of lump sums, this ‘proportional link’ between quantities and payments does not apply. The calculation of the costs will be based on a ‘binary’ approach i.e. payment condition is fulfilled or unfulfilled.

Such an approach has an important consequence: even if it is not compulsory the possibility to have several stages corresponding to different costs should be envisaged in order to escape from a ‘too binary’ approach.

For small operations where some quantities could be defined, it is usually best to choose unit costs rather than lump sums.

The document setting out the conditions for support for the beneficiary should be drafted very carefully in order to define the basis on which costs will be calculated and how they will be reduced if the objectives are not reached. This issue of reduction of the costs is crucial in the case of lump sums because of the potential problems that could be created by a binary approach where there are no other choices than paying 0% or 100% of the grant.

Specific attention should be given to the possibility of applying in practice the payment of the lump sum. Given that some lump sums could be totally independent of quantities, there is a risk of too general or too qualitative wording about activities/outputs/outcomes to be implemented or reached to trigger the payment, that could make it impossible to effect payment on a transparent or fair basis.

Directly linked to the problem of wording of activities/outputs/outcomes is the question of supporting documents necessary to assess them: they should also be specified in the document setting out the conditions for support. In the case of smaller operations this point is of the utmost importance in order to give guarantees that an operation was actually organised.

The choice of activities/outputs/outcomes covered by a lump sum should reflect the type of operation funded, trying to mitigate external factors that could affect the implementation of the operation.
Purely ‘outcome’ based lump sums are extremely risky and should not add to the risk of a ‘too binary’ approach.

In conclusion the choice of appropriate lump sum(s) should take into account all potential advantages and disadvantages, including the question of whether to use lump sums rather than unit costs, real costs or flat rate financing. **An ideal lump sum could include the following qualities:**

- clear and direct link with the operation’s planned activities;
- easy and unequivocal way to justify the activities/ outputs/ outcomes;
- addresses the risk of dysfunctional behaviour (reduction in quality, ‘creaming’ easiest participants etc.).

**Example (ESF):**

Instead of using a single output-based unit cost of £ 7 per hour of training per trainee, it is possible to **combine this output unit cost with a result-based unit cost**, e.g. the number of participants gaining a qualification upon leaving.

20 % of the final eligible costs calculated using ‘unit costs’ (the 20 % rate does not need to be justified) would be reimbursed on the basis of the **result**, based on a minimum ‘success rate’ of say 75 % (the 75 % rate should be based on experience and is part of the audit trail that the managing authority needs to ensure).

If a single output-base unit cost is used, at appraisal/ approval stage the maximum eligible costs allocated to the project is **capped** at 1,000 hours x 20 trainees x £7/ hr. / trainee = £ 140,000.

If a combination of outputs and results is used, the same capping applies but on different assumptions:

- 20 % x 140,000 = 28,000 of eligible costs for achieving results: 75 % of 20 trainees (15 trainees) should get a qualification upon leaving. The eligible costs for every trainee getting a qualification is then 28,000 / 15 = 1,867 £/person qualified.

- 80 % x 140,000 = 112,000 is paid for the planned 20,000 hours x trainees, resulting in a unit cost of £ 5.60 /hr. / trainee.

At the end of the operation the final eligible expenditure for these activities will be determined by the real number of hours for each trainee and the number of trainees getting a qualification:

For example, the final calculated costs could be:

- 17,050 hours of training x £ 5.60 = £ 95,480 for the outputs.
- 13 participants qualified x £1,867 = £24,271 for the results.

Final eligible costs = £95,480 + £24,271 = £119,751
SECTION 9: Other important issues

Combination of simplified costs in the same operation

Simplified costs may be combined subject to the following rules designed to prevent any double financing of the same expenditure:

(1) Each simplified cost must cover different categories of eligible costs; or
(2) Each simplified cost must be used for different projects in the same operation; or
(3) Each simplified cost must be used for successive phases of an operation.

See Section 3 for approach in Wales regarding defining operations and projects within operations.

Where option 3 is used (successive phases – see example below), this possibility must be offered to all beneficiaries in the same or similar situation (transparency & equal treatment to all beneficiaries and operations).

It could create some administrative burden because of the need to amend the document setting out the conditions for support (funding agreement/grant agreement), if this was not anticipated at the initial appraisal/funding award stage and included in the funding agreement/grant agreement at that time.

A detailed description of the operation must be clearly drawn up for each distinct phase and agreed by the programme managing authority. The operation should be divided into at least two distinct, identifiable financial and ideally physical or development stages corresponding to the phases concerned. This is to be done with the aim of ensuring transparent implementation and monitoring and to facilitate controls.

Example: different projects/ actions within the same operation

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

The costs related to the training could be paid on the basis of unit costs (for example £ 1,000 / day of training). The seminar would be paid on the basis of a lump sum.

Given that there are two different projects/actions forming part of the same operation, there is no risk of double financing as each project’s costs are clearly separated.
Example:  Successive phases of an operation

Example of an already started operation managed on the basis of real costs that the managing authority and beneficiary now wants to continue to manage on the basis of simplified costs.

Two phases will have to be clearly defined. The first phase could be calculated on the basis of real costs until a given date. The second phase, for future expenditure, could be calculated on the basis of a unit cost, for instance, if the unit cost does not cover any of the previously supported expenditure.

Assessing thresholds – small operations

Two specific methods set thresholds related to the simplified costs:

- the possibility to use a draft budget to establish Simplified costs on a case-by-case basis for grants if the public support does not exceed EUR 100,000;

- the mandatory use of simplified cost options for grants if the public support does not exceed EUR 100,000.

For these thresholds, the amounts taken into account will be the ones specified in the document setting out the conditions for support for each operation / project. Any salaries/ allowances to be disbursed by third parties for the benefit of ESF participants must not be included in the threshold assessment.

The amount taken into account is the amount of public support awarded to the beneficiary, as specified in the document setting out the conditions for support, and so excludes public funding by the beneficiary itself as its own match funding contribution.

Compatibility with State aid rules

It should be emphasised that the EU State aid rules are of general application and so whenever funding is capable of constituting state aid, those rules must be complied with when calculating and administrating simplified costs. Programme managing authorities must therefore ensure the eligibility of the costs which simplified costs apply not only under the ESI fund rules but also, if applicable, under the corresponding State aid rules.

In general, simplified cost options must use methodologies which make it possible to identify clearly the eligible costs used to set the value of the option chosen and to exclude any costs which are ineligible under state aid rules.
Since the methodology used must comply with sound financial management and with the co-financing principle, programme managing authorities need to ensure there is a reasonable and prudent approach in place in order to ensure that simplified costs represent a reliable proxy for the real costs.

That will facilitate demonstration of compliance with any maximum aid intensity, maximum aid amounts or notification thresholds under State aid rules.

SCO methodologies are therefore subject to audit to ensure that it is in line with both the applicable ESI Fund rules and the State aid rules.

Further details are provided in Annex 2.

**Simplified costs in operations that generate net revenue**

First of all it must be remembered that simplified costs are simply a way to calculate the costs, the ‘expenditure side’ of an operation, exactly the same as when real costs are used.

Therefore, in theory, the use of simplified costs should be independent of whether an operation generates revenue or not. However, in order to preserve the simplification impact, the EU Regulations introduces some additional rules for operations generating revenue if they use lump sums or unit costs.

Note that the full details of the rules applicable to revenue generating projects, and the treatment of receipts in projects not classified as ‘revenue generating’, is covered in detail in the Welsh national eligibility rules. This section solely addresses the simplified costs implications.

**Operations generating net revenue after their completion**

Net revenue does not have to be taken into account, in accordance with Article 61(7) (f) EU Regulation 1303/2013. In fact, the lump sum / unit costs should already include the revenue (see next paragraph).

There are no special rules if flat rates are used, i.e. paragraphs 1 to 6 of Article 61 apply as normal.

**Operations generating net revenue during implementation and to which paragraphs 1 to 6 of Article 61 EU Regulation 1303/2013 do not apply**

Net revenue does not have to be deducted if:

- The public support takes the form of lump sums or of unit costs; and

- The net revenue has been taken into account in advance in the calculation of the lump sums or unit costs (according to Article 65(8) (f) EU Regulation 1303/2013).
If the net revenue was not taken into account in advance in the calculation of the lump sums or unit costs, then the eligible expenditure co-financed by the ESI Funds will have to be reduced not later than at the final payment claim submitted by the beneficiary, pro rata of the eligible and non-eligible parts of the costs.

Where flat rates are used, any net revenue not taken into account at the time of approval of the operation and directly generated during the implementation of the operation has to be deducted from the eligible expenditure co-financed by the ESI Funds (having applied the flat rate) not later than at the final payment claim submitted by the beneficiary.

**Example (ESF)**

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

The organiser expects to attract 200 visitors. The expected revenue to be generated is therefore £3 x 200 = £600.

The conference proves to be a great success and the number of visitors exceeds the expectations (300 people). As this operation is supported by the ESF, Article 61 EU Regulation 1303/2013 (revenue generating projects) does not apply. However, Article 65(8) EU Regulation 1303/2013 does apply and so net revenue directly generate during the implementation of the operated needs to be deducted from eligible expenditure.

- **Option 1:** the revenue generated is taken into account in advance at the funding award stage

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

  The public support of this operation takes the form of a lump sum and revenue has been taken into account in the definition of the lump sum. Even if the revenue exceeds the forecast, this will not affect the payment of the lump sum.

  The audit trail will require proof of implementation of the conference and the price of the entrance ticket.

- **Option 2:** the revenue generated is taken into account in advance at funding award stage but the conditions change during implementation
The lump sum defined is that if the conference takes place, the total eligible cost of the operation will be £ 70,000 – £ 600 = £ 69,400. The public support of this operation takes the form of a lump sum and revenue has been taken into account in the definition of the lump sum.

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

The total eligible costs will be £ 69,400 – £ 900 = £ 68,500

- **Option 3: the revenue generated is not taken into account in advance at funding award stage**

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

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

In this case, the eligible costs for the lump sum will be £ 70,000 – £ 900 = £ 69,100.

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**ERDF and ESF ‘cross-financing’ (cross-fund flexibility)**

In line with the EU Regulations [Article 98(2) EU Regulation 1303/2013], ERDF and ESF ‘cross-financed’ actions will apply the eligibility rules of the other Fund.

Specifically for flat rates in cases of cross-financing, two flat rates could be needed for the ‘ESF’ and ‘ERDF’ parts of the operation. For example, the ERDF part could qualify for the 25% indirect costs flat-rate, replicating Horizon 2020, and the ESF part qualify for the 15% indirect costs flat-rate available for all operations (15% of staff costs).

**Using an average of the two flat-rates is not permitted** because the relative share of each part could vary during implementation.

The application of the simplified cost options still requires the programme managing authorities to respect the 10% ceiling for each priority axis (by Fund and category of region where relevant). The ‘cross-financed’ amount should be recorded and monitored, operation by operation, on the basis of the data used to define the simplified cost options.
**Example of ESF-ERDF cross-financing with unit costs-lump sums**

If the unit cost of £ 6 / hour x trainee (ESF type expenditure) includes purchase of infrastructure (ERDF type expenditure) for £ 0.50 / hour, the **cross-financed amount** will be £ 0.50 x number of ‘hours x trainee’ realised.

The same principle applies for lump sums: if the draft detailed budget includes some ‘cross-financed expenditure’, it will be accounted and monitored separately. For example, within a £ 20,000 lump sum funded by an ESF programme, ERDF type expenditure represents £ 5,000.

At the end of the operation the cross-financed amount (the amounts subject to ERDF rules) will be the amount defined in advance at funding award stage (£ 20,000 out of which £ 5,000 of ERDF type expenditure) or ‘zero’ if the grant is not paid because the conditions are not fulfilled. The binary principle of lump sums (conditions met in full or not at all) also apply to cross-financed expenditure.
Example of ESF-ERDF cross-financing with flat rates

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

For example, within a £ 15,000 operation funded by an ERDF programme, the ‘ESF type’ direct costs represent £ 3,000 and indirect costs are calculated as 10% of direct costs (£ 300).

The cross-financed amount (amounts subject to ESF rules) would be £ 3,300.

If at the end of the operation the direct costs are reduced, the cross-financed amount would be reduced according to the same formula.

Reporting and auditing of match funding (national co-financing)

Eligible expenditure declared on the basis of simplified costs is treated as ‘real costs’ expenditure incurred and paid out by beneficiaries.

So, assuming that the sole source of match funding is from the beneficiary itself (self-financing) at the rate of 25% (grant rate 75%):

Real costs approach

- Real costs £100,000
- EU contribution £75,000
- Match funding £25,000

Assurance on the reality of the match funding is obtained during verifications and audits indirectly, by testing the reality of the real costs expenditure. In other words, if it can be demonstrated that the beneficiary did in fact pay out £100,000 of eligible costs and the EU reimburses £75,000, the beneficiary must have contributed the funding gap of £25,000 (in the absence of any known third party funder).

Simplified costs

- Eligible costs calculated using simplified costs £100,000
- EU contribution £75,000
- Match funding £25,000
Eligible expenditure declared on the basis of Simplified costs is treated as if actually incurred and paid out by the beneficiary. If verifications and audits conclude that the Simplified costs are correctly calculated and applied, the funding gap (£25,000) is declared as the beneficiary’s match funding contribution without the need to examine any supporting financial documents.

**Third party financial contributions (match funding)**

Actual receipts of funding from third parties (any source other than the beneficiary’s own financing) should continue to be declared as the actual amounts received. This remains fully auditable and must comply with the general rules for match funding e.g. must be national source of funding, not from European public funds.

Third party funders who commit to provide support based on the operation’s eligible expenditure (rather than a fixed sum regardless of costs) should be advised that Simplified costs are being used and the values declares should not be interpreted as being the precise ‘real costs’ of the beneficiary.
ANNEX 1: Further worked examples

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

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

<table>
<thead>
<tr>
<th>Total Direct costs</th>
<th>45,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Staff costs</td>
<td>30,000</td>
</tr>
<tr>
<td>Room costs</td>
<td>4,000</td>
</tr>
<tr>
<td>Travel costs</td>
<td>5,000</td>
</tr>
<tr>
<td>Meals</td>
<td>1,000</td>
</tr>
<tr>
<td>Information / Publicity</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Indirect costs</strong></td>
<td><strong>5,000</strong></td>
</tr>
<tr>
<td>Indirect staff costs</td>
<td>4,000</td>
</tr>
<tr>
<td>Electricity, phone, etc.</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Possibility 1: unit costs

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

For the seminar, a unit cost of £1,000 per person attending the seminar could be established, and the draft budget becomes:

- Maximum number of persons attending the seminar = 50
- Unit cost / person attending the seminar = £1,000/ person
- Total eligible cost = 50 x 1,000 = £50,000.

If 48 people attend the seminar, the final eligible cost is: 48 x 1,000 = £48,000

**Key audit trail:**
- Managing authority retains documentation of the methodology used to determine the value of the unit cost;
Managing authority ensures that the document setting out the conditions for support (funding agreement/grant agreement) sets out the agreed unit cost and the triggering factors for payment; and

Beneficiary retains proof of attendance at the seminar (attendance sheets).

**Note:** In this case the eligibility of participants does not need to be verified as it is open to all. Whenever the targeted participants have to comply with a specific profile, their eligibility must still be verified.

### Possibility 2: Lump sums

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

A lump sum of £50,000 could be established for the ‘organisation of the seminar’ (independently of the number of participants) to present new implementation tools.

The draft budget would become:

- Objective of the lump sum = organising a seminar to present new implementation tools
- Total eligible cost = £50,000

If the seminar is organised and new implementation tools are presented, the lump sum of £50,000 can be declared as eligible costs. If the seminar is not organised or new implementation tools are not presented, **nothing is paid**.

**Key audit trail:**

- Managing authority retains documentation of the methodology used to determine the value of the unit cost;
- Managing authority ensures that the document setting out the conditions for support (funding agreement/grant agreement) sets out the agreed unit cost and the triggering factors for payment; and
- Beneficiary retains proof of delivery of the seminar and its content is necessary (newspaper articles, invitation & programme, photos...etc.).
Possibility 3: Flat rates

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

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

**Option 1: flat rate for all costs other than direct staff costs**

A flat rate of 47% is applied to all direct staff costs to calculate the other costs:

<table>
<thead>
<tr>
<th>categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts (type 1)</th>
<th>Staff costs = 34,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>the flat rate itself</td>
<td>47%</td>
</tr>
<tr>
<td>categories of eligible costs that will be calculated with the flat rate (type 2)</td>
<td>All ‘other costs’ = 47% of staff costs = 47% × 34 000 = 16,000</td>
</tr>
</tbody>
</table>

=> Total eligible costs = 34,000 + 16,000 = 50,000.

The draft budget takes the following form:

| Staff costs (type 1) based on real costs: | 34,000 |
| Other costs (type2) = 47% x staff costs | 16,000 |
| **Total eligible costs** | **50,000** |

**Key audit trail**

<table>
<thead>
<tr>
<th>categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts</th>
<th>Direct staff costs = proof of these costs (pay slips, timesheets, bank statements etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>the flat rate</td>
<td>- Managing authority needs to retain the document proving the calculation method for the 47% rate; - Managing authority ensures that the document setting out the conditions for support (funding</td>
</tr>
</tbody>
</table>
agreement/ grant agreement) sets out the agreed SCO terms and conditions.

categories of eligible costs that will be calculated with the flat rate

No justification needed.

Option 2: flat rate for indirect costs

Applying a flat rate of 15% to calculate the indirect cost is applicable only to the direct staff costs. There is no need to justify the 15% rate itself given that it is specified by the EU Regulation.

categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts (type 1)

direct staff costs = 30,000

15% (no justification needed)

Indirect costs (calculated) = 15% of Direct staff costs = 15% x 30,000 = 4,500

Other direct costs (Room costs, travel costs, meals, info, pub.) = 15,000

Total eligible costs = Direct staff costs + calculated Indirect costs + Other direct costs = 30,000 + 4,500 + 15,000 = 49,500

The draft budget takes the following form:

<table>
<thead>
<tr>
<th>Direct staff costs (type 1)</th>
<th>30,000</th>
<th>Indirect costs (type 2) = 15% direct staff costs</th>
<th>4,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>(calculated)</td>
<td></td>
<td>(based on real costs)</td>
<td></td>
</tr>
<tr>
<td>Other direct costs (type 3):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Room costs</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel costs</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meals</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information / Publicity</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total eligible costs 49,500
### Key audit trail:

| **categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts** | Direct staff costs =  
- proof of salary costs (pay slips, timesheets if relevant, bank statements, detailed invoice of external staff provider etc.) |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>the flat rate</strong></td>
<td>Reference to EU Regulations (Article 68 (b)) is needed in the document setting out the conditions for support.</td>
</tr>
<tr>
<td><strong>categories of eligible costs that will be calculated with the flat rate</strong></td>
<td>No justification needed.</td>
</tr>
<tr>
<td><strong>categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate</strong></td>
<td>Other direct costs such as room costs, travel costs, meals, information and publicity should be justified with relevant invoices and proof of delivery if relevant.</td>
</tr>
</tbody>
</table>

### Option 3: flat rate financing for ESF operations

Applying the 40% flat-rate provided by the EU Regulations (only to the direct staff costs to calculate all the other costs of the operation). There is no need to justify the 40% rate itself given that it is specified by the Regulation.

<table>
<thead>
<tr>
<th><strong>categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts (type 1)</strong></th>
<th>Direct staff costs = 30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>the flat rate</strong></td>
<td>40% (no justification needed)</td>
</tr>
<tr>
<td><strong>categories of eligible costs that will be calculated with the flat rate (type 2)</strong></td>
<td>All other costs = 40% of direct staff costs = 40% x 30,000 = 12,000</td>
</tr>
<tr>
<td><strong>categories of eligible costs to which the rate is not applied and that are not calculated with the flat rate (type 3)</strong></td>
<td>Not relevant</td>
</tr>
</tbody>
</table>

Total eligible costs = Direct staff costs + all other calculated costs = 30,000 + 12,000 = 42,000

The draft budget takes the following form:
Direct staff costs (type 1) 30,000 => All other costs (type 2) = 40% of direct staff costs 12,000
(based on real costs) (calculated)

Total eligible costs 42,000

Key audit trail:

<table>
<thead>
<tr>
<th>categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts</th>
<th>Direct staff costs = proof of salary costs (pay slips, timesheets if relevant, bank statements, detailed invoice of external staff provider etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>the flat rate</td>
<td>Reference to Article 14(2) ESF Regulation is needed in the document setting out the conditions for support</td>
</tr>
<tr>
<td>categories of eligible costs that will be calculated with the flat rate</td>
<td>No justification needed.</td>
</tr>
</tbody>
</table>
ANNEX 2: Compatibility of simplified costs with State aid rules – a worked example

A company obtains a grant under a state aid scheme to implement a training project for its staff.

The public support amounts to £2 million. This aid is lower than the EUR 2 million threshold laid down in Article 4(1) (n) of the Regulation (EU) No 651/2014 and therefore the General Block Exemption Regulation (GBER) applies.

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

Article 31 GBER states the following regarding Training aid:

1. Training aid shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempted from the notification requirement of Article 108(3) of the Treaty, provided that the conditions laid down in this Article and in Chapter I are fulfilled.
2. Aid shall not be granted for training which undertakings carry out to comply with national mandatory standards on training.
3. The eligible costs shall be the following:
   4. (a) trainers’ personnel costs, for the hours during which the trainers participate in the training;
   5. (b) trainers’ and trainees’ operating costs directly relating to the training project such as travel expenses, materials and supplies directly related to the project, depreciation of tools and equipment, to the extent that they are used exclusively for the training project. Accommodation costs are excluded except for the minimum necessary accommodation costs for trainees’ who are workers with disabilities;
   6. (c) costs of advisory services linked to the training project;
   7. (d) trainees’ personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training.
4. The aid intensity shall not exceed 50% of the eligible costs. It may be increased, up to a maximum aid intensity of 70% of the eligible costs, as follows:
   9. (a) by 10 percentage points if the training is given to workers with disabilities or disadvantaged workers;
   10. (b) by 10 percentage points if the aid is granted to medium-sized enterprises and by 20 percentage points if the aid is granted to small enterprises;
   11. Where the aid is granted in the maritime transport sector, the aid intensity may be increased to 100% of the eligible costs provided that the following conditions are met: a. (a) the trainees are not active members of the crew but are supernumerary on board; and (b) the training is carried out on board of ships entered in Union registers.”
The managing authority decides to establish unit costs to determine the eligible expenditure of the projects. It is using statistical data (according to Article 67(5) (a) (i) EU Regulation 1303/2013) on similar type of training in a given geographical area.

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

<table>
<thead>
<tr>
<th>Direct costs (in million £)</th>
<th>Indirect costs (in million £)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trainer — travel costs</td>
<td>0.1</td>
</tr>
<tr>
<td>Trainees—remuneration</td>
<td>1.4</td>
</tr>
<tr>
<td>Trainees—accommodation</td>
<td>0.55</td>
</tr>
<tr>
<td>Trainees—travel costs</td>
<td>0.25</td>
</tr>
<tr>
<td>Non-depreciable consumption goods</td>
<td>0.2</td>
</tr>
<tr>
<td>Publicity</td>
<td>0.2</td>
</tr>
<tr>
<td>Organisation costs</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total direct costs</strong></td>
<td><strong>4.1</strong></td>
</tr>
<tr>
<td>Total eligible costs</td>
<td>50 000</td>
</tr>
<tr>
<td>Administration</td>
<td>0.175</td>
</tr>
<tr>
<td>Rent</td>
<td>0.15</td>
</tr>
<tr>
<td>Overheads</td>
<td>0.125</td>
</tr>
<tr>
<td><strong>Total indirect</strong></td>
<td><strong>0.45</strong></td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td><strong>4.5m</strong></td>
</tr>
</tbody>
</table>

When processing the data, the managing authority takes out all ineligible costs under both the ESI fund rules and the State aid rules.

The following costs are not eligible in relation to Training aid according to Article 31 of Regulation 651/2014:

> Trainees’ accommodation costs as the trainees are not workers with disabilities (£ 0.5 million).

Therefore the unit cost cannot include the trainees’ accommodation costs. The calculation is as follows:

<table>
<thead>
<tr>
<th>Total eligible costs of the training</th>
<th>£ 4.5m – (£ 0.55m) = £ 4m</th>
</tr>
</thead>
</table>

| Expected number of participants completing the training | 2,000 |
| Costs per participant completing the training (standard scale of unit cost) | £ 4m / 2,000 participants = £ 2,000 / participant |
The provisional funding is for £4m of eligible costs, funded as follows:

**Public funding (national + ESF)**  £ 2 million  
**Private funding (self-financing)**  £ 2 million  
**Intensity of state aid**  50%  

Article 31(4) of Regulation 651/2014 **limits the aid intensity to 50%** of the eligible costs defined in the document setting out the condition for support of the project, therefore the provisional budget is in line with this requirement.

After implementation of the project, the eligible cost will be based on the real number of participants completing the training. If only 1,500 participants complete the training, the aid will be as follows:

**Total eligible costs to be declared to the EC**  £ 2 000 x 1,500 = £ 3 million  
**Public funding (national + ESF)**  £ 1.5 million  
**Private funding (self-financing)**  £ 1.5 million  
**Intensity of state aid**  50%
ANNEX 3: Simplified costs for EAFRD measures

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

<table>
<thead>
<tr>
<th>Measure under Regulation (EU) No 1305/2013 or Regulation (EU) No 1303/2013</th>
<th>Code</th>
<th>Sub-measure for programming purposes (when relevant)</th>
<th>SCO (Yes/No)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 14</td>
<td>knowledge transfer and information actions</td>
<td>1</td>
<td>support for vocational training and skills acquisition</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for demonstration activities and information actions</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for short-term farm and forest management exchange as well as farm and forest visits</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 15</td>
<td>advisory services, farm management and farm relief services</td>
<td>2</td>
<td>help in benefiting from the use of advisory services</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for the setting up of farm management, farm relief and farm advisory services as well as forestry advisory services</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for training of advisors</td>
<td>No</td>
</tr>
<tr>
<td>Article 16</td>
<td>quality schemes for agricultural products and foodstuffs</td>
<td>3</td>
<td>support for new participation in quality schemes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for information and promotion activities implemented by groups of producers in the internal market</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 17</td>
<td></td>
<td>4</td>
<td>support for investments in agricultural holdings</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 18</td>
<td>restoring agricultural production potential damage by natural disasters and introduction of appropriate prevention</td>
<td>investments in physical assets</td>
<td>support for investments in processing/marketing and/or development of agricultural products</td>
<td>Yes</td>
</tr>
<tr>
<td>-----------</td>
<td>--------------------------------------------------------</td>
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<td>------------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td></td>
<td></td>
<td>support for investments in infrastructure related to development, modernisation or adaptation of agriculture and forestry</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>support for non-productive investments linked to the achievement of agri-environment-climate objectives</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Article 18</td>
<td>5</td>
<td>support for investments in preventive actions aimed at reducing the likely consequences of natural disasters, adverse climatic events and catastrophic events</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>support for investments for the restoration of agricultural land and production potentially damaged by natural disasters, adverse climatic events and catastrophic events</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Article 19</td>
<td>6</td>
<td>business start-up aid for young farmers</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td></td>
<td>farm and business development</td>
<td>support for investments in creation and development of non-agricultural activities</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>payments to farmers eligible for the small farmers scheme who permanently transfer their holding to another farmer</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Article 20</td>
<td>7</td>
<td>support for drawing up and updating plans for the development of municipalities and villages in rural areas and their basic services, and protection and management plans relating to Natura 2000 sites and other areas of high nature value</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for investments in the creation, improvement or expansion of all types of small-scale infrastructure, including investments in renewable energy and energy saving</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for broadband infrastructure, including its creation, improvement and expansion, passive broadband infrastructure and provision of access to broadband and public e-government</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for investments in the setting-up, improvement or expansion of local basic services for the rural population including leisure and culture, and the related infrastructure</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for investments for public use in recreational infrastructure, tourist information and small-scale tourism infrastructure</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for studies/investments associated with the maintenance, restoration and upgrading of the cultural and natural heritage of villages, rural landscapes and high nature value sites including related socio-economic aspects, as well as environmental awareness actions</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for investments targeting the relocation of activities and conversion of buildings or other facilities located inside or close to rural settlements, with a view to improving the quality of life or increasing the environmental performance of the settlement</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>others</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for afforestation/creation of woodland establishment and maintenance</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for establishment and maintenance of agro-forestry systems</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 21</td>
<td>investments in forest area development and improvement of the viability of forests</td>
<td>8</td>
<td>support for prevention of damage to forests from forest fires and natural disasters and catastrophic events</td>
<td>Yes</td>
</tr>
<tr>
<td>Article</td>
<td>Description</td>
<td>Yes/No</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>27</td>
<td>Support for restoration of damage to forests from forest fires and natural</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>disasters and catastrophic events</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Support for investments improving the resilience and environmental value of</td>
<td>Yes</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>forest ecosystems</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Support for investments in forestry technologies and in processing,</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>mobilising and marketing of forest products</td>
<td></td>
<td></td>
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<tr>
<td>27</td>
<td>Setting up of producer groups and organisations in the agriculture and</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>forestry sectors</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>28</td>
<td>Payment for agri-environment-climate commitments</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Support for conservation and sustainable use and development of genetic</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>resources in agriculture</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>29</td>
<td>Payment to convert to organic farming practices and methods</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payment to maintain organic farming practices and methods</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Compensation payment for Natura 2000 agricultural areas</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compensation payment for Natura 2000 forest areas</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compensation payment for agricultural areas included in river basin</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>management plans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Compensation payment in mountain areas</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compensation payment for other areas facing significant natural constraints</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compensation payment to other areas affected by specific constraints</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Payment for animal welfare</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Article 34</td>
<td>forest-environmental and climate services and forest conservation</td>
<td>15</td>
<td>payment for forest-environmental commitments</td>
<td>No</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------------------------------------------------------</td>
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<td>-----------------------------------------------</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for the conservation and promotion of forest genetic resources</td>
<td>Yes</td>
</tr>
<tr>
<td>Article 35</td>
<td>cooperation</td>
<td>16</td>
<td>support for the establishment of operational groups of the European Innovation Partnership for agricultural productivity and sustainability</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for pilot projects and for the development of new products, practices, processes and technologies</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>cooperation among small operators in organising joint work processes and sharing facilities and resources, and for developing and marketing tourism</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for horizontal and vertical cooperation among supply chain actors for the establishment and development of short supply chains and local markets and for promotional activities in a local context relating to the development of short supply chains and local markets</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for joint action undertaken with a view to mitigating or adapting to climate change and for joint approaches to environmental projects and ongoing environmental practices</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for cooperation among supply chain actors for sustainable provision of biomass for use in food and energy production and industrial processes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for non-CLLD strategies</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>support for drawing up forest management plans or equivalent instruments</td>
<td>Yes</td>
</tr>
<tr>
<td>Article</td>
<td>Description</td>
<td>17</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
<td>----</td>
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<td>----</td>
</tr>
<tr>
<td>Article 36</td>
<td>risk management</td>
<td>crop, animal and plant insurance premium</td>
<td>No</td>
<td>No simplification (only administrative costs of setting up the mutual fund)</td>
</tr>
<tr>
<td>Article 36</td>
<td></td>
<td>mutual funds for adverse climatic events, animal and plant diseases, pest infestations and environmental incidents</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Article 40</td>
<td>financing of complementary national direct payments for Croatia</td>
<td>financing of complementary national direct payments for Croatia</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Article 35</td>
<td>support for LEADER local development (CLLD)</td>
<td>preparatory support</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Article 35</td>
<td></td>
<td>support for implementation of operations under the CLLD strategy</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Article 35</td>
<td></td>
<td>preparation and implementation of cooperation activities of the local action group</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Article 35</td>
<td></td>
<td>support for running costs and animation</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Articles 51 to 54</td>
<td>technical assistance</td>
<td>Support for technical assistance (other than National Rural Network)</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Articles 51 to 54</td>
<td></td>
<td>support for establishing and operating the NRN</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>
## VERSION HISTORY

<table>
<thead>
<tr>
<th>Version</th>
<th>Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>February 2015</td>
<td>Publication of Version 1</td>
</tr>
<tr>
<td>2</td>
<td>August 2016</td>
<td>Amendments to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Section 5, ‘Unit costs for beneficiary staff costs (hourly unit costs) – to clarify the applicability of paid leave i.e. sick, paternity, maternity in the calculation of eligible staff costs during implementation of an operation</td>
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<td></td>
<td></td>
<td>- Section 7, ‘Unit costs for hourly staff rates’ – enabling lead and joint beneficiaries in the same operation to use differing methodologies for the calculation of their respective staff costs</td>
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<td>- Section 7, ‘Operations managing grant schemes to deliver direct financial support to enterprises or individuals (State aid schemes and ‘no-aid’ financial support’ – availability of simplified costs)</td>
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<tr>
<td>3</td>
<td>May 2019</td>
<td>Updates to reflect changes to Structural Fund Regulations following the adoption of the ‘Omnibus’ Regulation 2018</td>
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</table>