

## Simplified Cost Options

29 April 2014

### KEY FACTS

#### 1. Regulations

All cost types:

- a) Unit costs
- b) Flat Rate Models
- c) Actual costs
- d) Lump Sums

Scottish Government is proposing to use only a, b and c.

However, actual costs will only be eligible where they are procured. Procurement is an actual cost option however it is regarded as “simplified” as it streamlines delivery. Actual costs may also be used for eligible land purchases, if these are incorporated into the national rules.

Lump sums carry too high a risk (100% correction if delivery not 100% achieved).

An “operation”<sup>1</sup> can have a mix of types but *not applied to the same costs* and you cannot state you are using procurement on a unit cost basis (prohibited) although you can have “an operation using public procurement procedures which result in payments by the beneficiary to the contractor based on pre-defined unit costs”.

**Example of mixed cost type use:** *operation involves a business development programme to encourage use of ICT. Operation uses procurement for consultancy services to provide face-to-face in-depth support to businesses, unit cost for running workshops and a flat rate finance model for managing the whole programme including pulling together all the performance information, reviewing progress, redeveloping etc.*

More detailed ESF guidance, through a delegated act, is awaited from the European Commission and is expected after May: types of operations covered, definitions, calculations and adjustment methods.

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<sup>1</sup> Projects are referred to as operations in new regulations

## 2. Unit costs

This is a model to calculate the cost of purchasing particular outcomes: a model is developed defining X outcome for Y cost.

**Example of unit cost use:** ESF operation “purchases” 1 SVQ module qualification for £200. ERDF operation “purchases” 1 workshop providing e-commerce business advice for £800.

Main forms of evidence to be fair and equitable<sup>2</sup>:

- Historical data - verified
- Accepted current accounting practices
- Statistical data or other objective information (e.g. representative samples, information from other EU funded or national programmes)

Audit is undertaken “exclusively” on verifying that the **conditions** for reimbursement have been fulfilled not the costs themselves.

Rates can be adjusted e.g. according to geographical context or target groups.

## 3. Flat Rate Financing Models

The regulations allow for varying % calculations to be applied to a “baseline” which either reflects eligible direct staff costs or eligible direct project costs:

Baseline	Flat Rate	Applicability	Restrictions
Direct <b>Staff</b> Costs	+ up to 40%	Only ESF	No requirement to perform calculation to determine rate.
Direct <b>Staff</b> Costs	+ up to 15%	All ESI Funds	No requirement to perform calculation to determine the rate
Direct <b>project</b> costs	+ up to 25%	All ESI Funds	Requires a fair, equitable, verifiable calculation method or method applied under schemes for grants funded by a Member State for similar type of operation and beneficiary
(Horizon 2020) Direct <b>project</b> costs	+ 25%	For ESI funds where they invest in appropriate RTDI activity (detailed in fiche)	Restrictions on the type of costs that are included under “direct”

*Any other flat rates in operation under any other Commission fund e.g. Life can be applied if for similar activities.*

<sup>2</sup> Fair - duly justified, reasonable, based on reality and not excessive. Equitable - not favouring some types of operations or beneficiaries over others. Verifiable - based on documentary evidence

Staff costs included in calculations above can be calculated using hourly rates based on dividing latest documented annual gross employment costs by 1720 hours.

The direct staff/project costs (in baseline column above) are subject to audit and full paperwork trail. This means for staff costs that are not 100% applied to an operation we still need full and proper timesheets along with full financial evidence.

## **WORK PROGRAMME**

### **4. Unit Costs**

A number of unit cost models, including draft models submitted by stakeholders, are currently under review. This process involves:

- Collating and analysing the unit costs submitted by stakeholders alongside others that are currently utilised for implementing similar activities.
- Grouping/combining similar unit costs
- Identifying and plugging gaps - liaising closely with stakeholders on new ones
- Determining geographical and target group (multiple disadvantaged under ESF) adjustments to baseline models
- Testing work as it progresses with stakeholders and audit

### **5. Flat Rate Financing**

Draft direct staff cost guidance and direct project cost guidance is being developed as part of the National Rules work. The practical application of flat rate models is under review: the types of activities they would be suitable for, rates and evidence for non-standard models.

There have been substantial issues with the audit of staff costs under the current programme that are not 100% on a project (whether part or full-time). Weak and incomplete timesheets and incorrect hourly calculations continue to result in error rates. The only staff costs that will be eligible as “direct” for the appropriate flat rate models will be those that are 100% working on the project (note: they do not need to be full-time staff).

## Annex 1

### Possible Examples

This is not an exhaustive list but examples to illustrate the types of cost options that could be applied to different types of activities.

***All unit costs would require verification to meet terms of regulations.***

Activity	Model	Issues
Lead partner implementation and management	Unit cost	There may be varying degrees of complexity depending on the level and type of activities being managed.  Geographical variance only needed.
Lead partner implementation and management	Flat Rate (up to 15% on staff cost for ESF and ERDF)	
Training (all types)	Unit Cost	Need to collate and condense models where similar, test, verify. Geographical and target group variance needed.
Training (all types)	Procurement	
Employability support	Unit Cost	Need to collate and condense models where similar, test, verify. Need for target group and geographical variance.
Employability support	Procurement	
Employability support	Flat Rates	Case for these?
Placement Programmes	Unit Cost	Test assumptions behind current models - variances. Consider more than one unit cost dependent on placement type
Marketing	Procurement	
Capital Build	Procurement	
Business Advice/Support	Procurement	
Business Advice/Support	Unit Cost	Workshops, seminars, daily rate for face-to-face support etc could all lend themselves to unit cost model Geographical variation, possible target variation (if for example in a more technical field where costs may be higher e.g. innovation, low carbon)
Grant Schemes	Unit Cost	Test out - standard grant approach (a unit for a type of investment and based on averages for similar schemes operating for similar activities and businesses, similar objectives).  <i>Challenge funding approaches need reviewed and what cost models would be appropriate and practicable.</i>