

ANNEX K

GUIDELINES for SIMPLIFIED COST OPTIONS

for Union financed GRANT CONTRACTS

1. Introduction

Simplified cost options may take the form of:

- **unit costs:** these cover all or certain specific categories of eligible costs which are clearly identified (as indicated in the budget at proposal stage) and are expressed in amounts per unit.
Example: unit cost per working month for personnel costs based on internal policies and average (payroll) costs; unit costs for small local transportation or other expenses in rural areas (often in expense categories with many small value items and/or with poor documentation), per diems¹ etc.
 - **lump sums:** these cover in global terms all or certain specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage).
Example: global cost for the organisation of an opening event, global cost for the production of information videos etc.
 - **flat-rate financing:** this covers specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage) and are expressed as a percentage of other eligible costs.
Example: local office costs and related expenses (maintenance, security, a shared car etc.) charged as a percentage of staff costs, indirect costs, etc.
- a combination of these forms

Simplified cost options can apply to one or more of the direct cost headings of the budget (i.e. cost headings 1 to 6), or to sub-cost headings or to specific cost items within these cost headings.

Simplified costs options (SCOs) are divided in two categories:

1/ "output or result based SCOs": this category includes costs linked to outputs, results, activities, deliverables in the framework of a specific project (for example the determination of a lump sum for the organization of a conference, or for the realisation of a determined output/activity). Where possible and appropriate, lump sums, unit costs or flat rates shall be determined in such a way to allow their payment upon achievement of concrete outputs and/or results. This type of SCO can be proposed by the Beneficiary (no threshold is applicable) at proposal's stage. In case the evaluation committee and the contracting authority are not satisfied with the quality of the justification provided reimbursement on the basis of actually incurred costs is always possible.

2/ "other SCOs" are only applicable to pillar assessed entities. This second category entails simplified cost options embedded in the cost accounting practices of the beneficiary, for which an ex-ante assessment is necessary, considering the need of a consistent application of the conditions required. In order to enable the use of these SCOs, the beneficiary's cost accounting practices need to have been positively assessed by an audit firm based on standard ToRs provided by the Commission. To obtain reimbursement of this category of SCOs, the beneficiary shall make reference to the previously obtained ex-ante assessment in the budget justification sheet (annex e3c).

¹ Per diems are not considered to be a simplified cost option for the purposes of Union financing when a beneficiary reimburses a fixed amount to its staff in accordance with its staff rules and requests for the reimbursement of that amount in the action budget. Such per diems are considered actual costs.

Applicants can propose simplified cost options at proposal stage. The evaluation committee and the CA will decide whether such costs can be accepted during the contracting phase on the basis of the budget submitted. The CA will base its decision on an analysis of the budget presented against the conditions set in these guidelines.

In case the evaluation committee and the contracting authority are not satisfied with the quality of the justification provided, reimbursement based on actually incurred costs is always possible. In this case the budget shall be adapted accordingly.

Other SCOs that have been positively assessed ex-ante still need to be reflected in the budget and mentioned in the budget justification sheet; the evaluation committee and the CA will verify the positive result of the assessment and assess if the budget includes the appropriate level of detail.

2. Provisions applicable to both output or result based SCOs and other SCOs :

In line with Article 181(4) of the 2018 Financial Regulation the authorisation of SCOs can be granted if the following elements are present:

- a) Justification concerning the appropriateness of such forms of financing with regard to the nature of the supported actions, as well as to the risks of irregularities and fraud and costs of control;
- b) Identification of the costs or categories of costs covered by lump sums, unit costs or flat-rate financing, which shall be considered eligible in accordance with Article 14.1 and 14.2 of the GC and which shall exclude ineligible costs under Article 14.11 of the GC;
- c) Description of the methods for determining lump sums, unit costs or flat-rate financing. For SCOs that are not output or result based, those methods shall be based on one of the following:
 - statistical data, similarly objective means or an expert judgement provided by internally available experts in the Commission or procured in accordance with the applicable rules; or
 - beneficiary-by-beneficiary approach, by reference to certified or auditable historical data of the beneficiary or to its usual cost accounting practices;
- d) Where possible, the essential conditions triggering the payment, including, in case of output or result based SCOs, the achievement of outputs and/or results;
- e) for other SCOs where lump sums, unit costs and flat rates are not output based and/or result based, a justification on why an output based and/or result based approach is not possible or appropriate.

The methods referred to in point (c) shall ensure:

- the respect of the principle of sound financial management, in particular the appropriateness of the respective amounts with regard to the required outputs and/or results taking into account foreseeable revenues to be generated by the actions or work programmes;

- compliance with the principles of co-financing and no double funding.

When the SCOs are not output or result based these checks together with additional requirements specified in the ToRs will be performed by an external auditor in the framework of an ex ante assessment.

The authorisation decision shall apply to the specific contract concerned in case of output or result based SCOs, while, in case an ex-ante assessment is obtained, it will also apply to future contracts.

3. Provisions applicable to other SCOs only:

Criteria for acceptance of other SCOs are defined by the Commission and translated in standardised ToR provided by the Commission and to be followed by external auditors.

Specific guidelines on the procedure to be followed to assess ex-ante other SCOs and on how to reflect them appropriately in the Budgets of the action will be provided to the services.

Once the ex-ante assessment is completed a designated service in the Commission shall be informed of the outcome. Upon validation of the results by the Commission the relevant information will be made available on the Commission intranet.

- Beneficiaries shall keep adequate records and documentation to prove that the costs are declared according to the ex-ante assessed methodology and that the qualitative and quantitative conditions (if any) have been respected.
- If a verification/audit reveals that the calculation methods used by the beneficiary(ies) or its affiliated entity(ies) to determine unit costs, lump sums, flat-rates do not correspond to the ex-ante assessed methodology, the CA may establish such costs as not eligible and recover up to the amount of the cost declared in the simplified form.

Positively assessed practices can be used for all specific projects by means of transparent indication of the corresponding costs in the budget proposed and for project offices, by adding a clear reference in the description of the action of the need of such project office. The responsible authorising officer can verify on the intranet whether practices suggested for use in specific projects have been positively assessed.

4. Provisions applicable to output or result based SCOs only:

- Once simplified cost amounts (as specified in the action budget) have been assessed and approved by the evaluation committee and the contracting authority such costs will not be subject to an ex post verification of actual underlying cost data. Hence, auditors will not be required to check supporting documents to verify the actual costs incurred but they will verify the correct application of the method and formula for the calculation of the cost based on related inputs and relevant quantitative and qualitative information.
- Beneficiaries shall keep adequate records and documentation to prove that the costs are declared according to the agreed method and formula and that the qualitative and quantitative conditions have been respected.
- If a verification/audit reveals that the calculation methods used by the beneficiary(ies) or its affiliated entity(ies) to determine unit costs, lump sums or flat-rates are not in line with relevant conditions or

factual information (e.g. the generating events have not occurred), the CA may establish such costs as not eligible and recover up to the amount of the simplified cost options used.

5. Cost accounting practices accepted by national authorities

In addition to the above mentioned options, the responsible authorising officer may consider that the usual cost accounting practices of the beneficiary are compliant with the conditions set out at point 2, if they are accepted by national authorities under comparable funding schemes². In this case the grant beneficiary shall demonstrate that the national authority accepted the cost accounting practices and will have to specify in which context this acceptance is given.

The Commission will then assess if the funding scheme is comparable and in case of positive outcome will consider these practices as if they were ex-ante assessed by an external auditor.

²Article 185 (3) FR.

NB: Information to be included in the action budget in case of simplified cost options

Applicants proposing simplified cost options must clearly indicate in the first worksheet of the action budget, each heading/item³ of eligible costs concerned by this type of financing, i.e. state in capital letters ‘UNIT COST’ (per month/flight etc.), ‘LUMP SUM’, ‘FLAT RATE’ in the Unit column, as in the example below.

Budget for the action	All years			
	Unit	# of units	Unit value (in EUR)	Costs (in EUR)
1. Human resources				
1.1 Salaries (gross salaries including social security charges and other related costs, local staff) ⁴				
1.1.1 Technical	per month	12	4.000	48.000
1.1.2 Administrative/ support staff	UNIT COST	12	3.500	42.000
1.3 Per diems for missions/travel ⁵				
1.3.1 Abroad (staff assigned to the action)	per diem	60	100	6.000
1.3.2 Local (staff assigned to the action)	per diem	200	20	4.000
Subtotal Human resources				100.000
2. Travel⁶				
2.1. International travel	per flight	5	1.000	5.000
2.2 Local transportation	per month	12	200	2.400
Subtotal Travel				7.400
4. Local office	FLAT RATE		3%	2.700
4.1 Vehicle costs				
4.2 Office rent				
4.3 Consumables - office supplies				
4.4 Other services (tel/fax, electricity/heating, maintenance)				
Subtotal Local office				2.700
5. Other costs, services⁸				
5.1 Publications ⁹				
5.2 Studies, research ⁹	LUMP SUM			8.000
Subtotal Other costs, services				8.000

In the above example:

- The costs for 1.1.1. Technical staff will be reimbursed on the basis of actual costs incurred. The costs for 1.1.2 Administrative/ support staff will be reimbursed on the basis of an ex-ante assessment UNIT COST per month. In case of ex post control, the auditor (or the official in charge) will verify the actual payroll data and other documents related to the amount charged for 1.1.1. Technical staff whereas for the amount charged under 1.1.2 Administrative/ support staff he will only check the quantitative data (i.e. number of months and staff concerned) and whether the unit cost is the one which was approved as an ex-ante assessed simplified costs option.

³ Use different lines for each type of simplified cost options and per beneficiary.

- *The cost for the local office (heading 4) expressed as an ex-ante assessed flat rate will be reimbursed by calculating the 3% on the final cost of salaries (1.1.1 and 1.1.2 Salaries) Additional information is provided in the justification sheet.*
- *If the study is carried out in accordance with the conditions agreed, a lump sum of EUR 8 000 will be reimbursed. This would typically be a result based SCO.*

Moreover, applicants must in the second column of the justification sheet and for each corresponding budget item or heading:

- describe the information and methods used to establish the amounts of unit costs or lump sums for the costs to which these refer, for output or result based SCOs.
- explain the formulas for calculation of the final eligible amount for output or result based SCOs.⁴
- in case of other SCOs the reference to the ex-ante assessment successfully carried out shall be mentioned.

⁴ *Example:*

- *Specific costs related to the organization of an event: number of participants at the event * total cost per participant etc.*