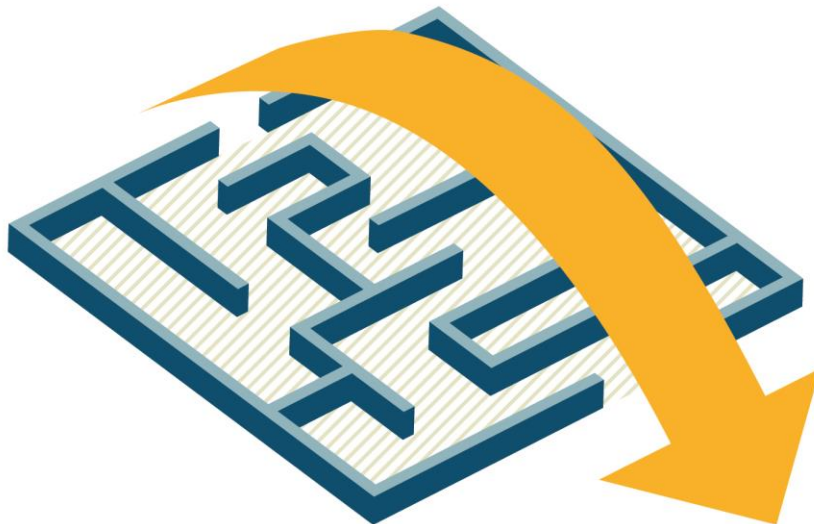


Road map for a programme-specific SCO in the 2021-2027 period

September 2021



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Please note: To ease of the internal links within this document, which provide easy access to and from the road map and the various sections, it is recommended to use a downloaded version of the file.

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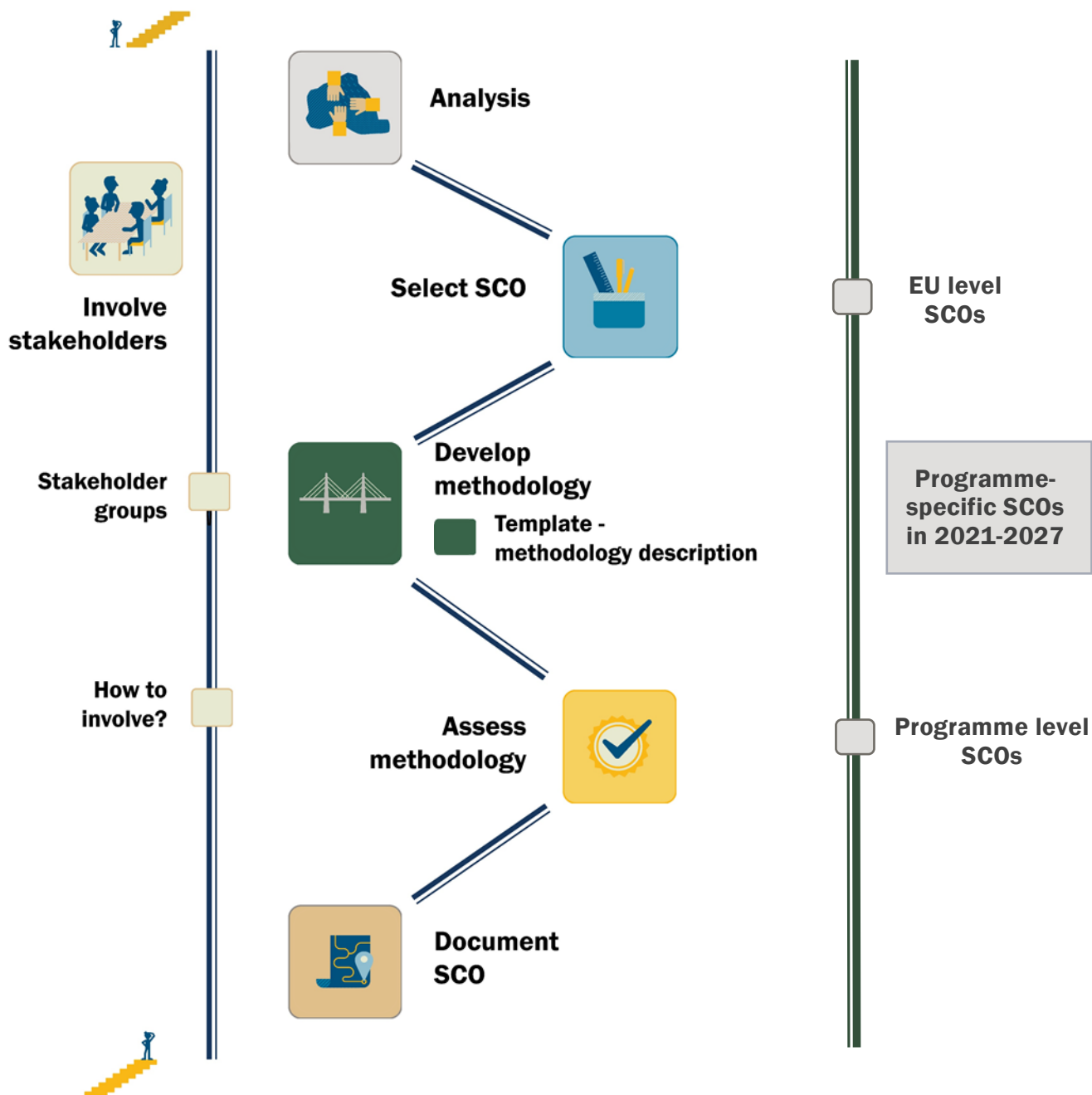
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Introduction

This roadmap presents an indicative scheme when developing a programme-specific simplified cost option (SCO). It is primarily designed for the managing authorities (MAs) who bear sole responsibility for the overall process. However, it will also be useful for staff of joint secretariats and other programme stakeholders wishing to get a comprehensive overview of the process.

Roadmap to a programme-specific SCO

Each of the rectangles is a hyperlink - click on it to access that step of the roadmap.



Analyse programme needs and potentials



What are the drivers behind the programme's decisions to start doing traditional things differently, to change rules, or implement something new? These could be stimulated by a wish to simplify planning, reporting and control requirements for your beneficiaries; to reduce mistakes and the programme error rate; to reduce project management and verification costs; to focus on content, outputs, results; to reduce the administrative burden for costs where small costs exist, but are time-consuming to report.

Before any action is taken, the MA needs to undertake a thorough programme analysis to identify areas, which have the potential for changes. To do that, the MA might want to conduct a beneficiaries' survey to spot the areas, which cause the biggest administrative burden for them and/ or make participation in Interreg projects unattractive. A similar consultation could be done with controllers. The MA could also analyse if projects are dealing with some costs, which are inherently difficult to administer and verify. Here the MA could also look at the ratio between time spent on administrating and working on the content of the project.

An analysis of the national regulatory system could shed light on the potential challenges of different beneficiary groups when dealing with the same types of costs (e.g., different taxable benefits offered to employees by private companies and public authorities; different arrangements for annual leave, working hours, etc.). It is also worth checking which measures/tools (including SCOs) exist at the national/ regional level to harmonise approaches and to ease the life of beneficiaries (by offering not too many different schemes). Finally, the MA should also investigate and take stock of the historic project's data availability. It might be very relevant at a later step. It is recommended that the MA also takes a closer look at the programme institutional capacity, time frame, the estimated number of projects, volume of the call(s), types of beneficiaries. Another source of inspiration (and in the spirit of harmonisation) could be to check simplification measures offered to beneficiaries by other Interreg programmes (when the specific territory is covered by more than one Interreg programmes). All these factors could contribute to the MA's decision on if/ how to move forward with SCOs or other simplification measures.

Based on the results of the analysis, you might conclude that you have other simplification measures at hand than SCOs. But for some of the issues you might decide to address them via SCOs (e.g., lifting the administrative burden, strengthening content, standardising activities/costs).

Once you have established that an SCO is the way forward to simplification, the next step would be to decide which one(s). The Regulations¹ establish 3 types of SCOs to choose from: flat rates, unit costs, lump sums. How to choose among these options?

First, we recommend that before choosing to establish your own programme-specific SCOs, you have checked for the possibility of using ready-made, off-the-shelf options.

Off-the-shelf SCOs are easy to implement as you as a managing authority do not need to develop a calculation methodology; the audit authority does not need to perform an early assessment of these SCOs, as they are offered in the Regulations and their legal certainty is, therefore, given. Regulations offer the following off-the-shelf SCOs:

- staff costs:
 - up to 20% of direct costs of an operation (Art. 39(3) Interreg Regulation);
 - by dividing the latest documented annual gross employment costs by 1 720 hours for persons working full time, or by a corresponding pro-rata of 1 720 hours, for persons working part-time (Article 39(3)(d) Interreg Regulation);
 - by dividing the latest documented monthly gross employment costs by the average monthly working time of the person concerned in accordance with applicable national rules referred to in the employment or work contract or an appointment decision (both referred to as the employment document) (Article 39(3)(d) Interreg Regulation).
- office and administrative costs:
 - up to 7% of eligible direct costs of an operation (Art. 54(a) CPR);
 - up to 15% of eligible direct staff costs of an operation (Art. 54(b) CPR);
 - up to 25% of eligible direct costs of an operation (Art. 54(c) CPR) – methodology is required (thus, it is not a fully off-the-shelf option);
- travel and accommodation - up to 15% of the direct staff costs of an operation (Art. 41(5) Interreg Regulation);
- all remaining eligible costs of an operation - up to 40% of eligible direct staff costs of an operation (Art. 56 CPR).

The Regulations also allow to use SCOs from other Union policies for the sake of not duplicating the efforts (Article 53(3)(c) CPR). You could also consider using the approach of ‘copy-pasting’ SCOs. However, certain conditions have to be ensured and documented (i.e., a copy-pasting method in full; copy-pasting only for similar projects, where you as a MA will have to prove such similarity; the reference to the copy-pasted method and updates of the method if any changes are made in the programme from where the SCO is copy-pasted). A copy-paste method is described in an individual fact sheet, which you can find [here](#).

¹ [CPR 2021/1060](#) and [Interreg Regulation 2021/1059](#).

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Once you are sure that your programme needs and/or the greatest improvement can be met best with a programme-specific SCO, find out details on how to do that in the next sections.

Select an SCO and types of costs covered



Some SCOs might be more suitable in certain places than others. As mentioned before, there are three basic types of SCOs:

- flat rate
- lump sum
- unit cost

When to use a flat rate?

In Interreg, flat rates are normally used to cover specific category(ies) of expenditures (not specific activities, even though it is possible).

Flat rates implicate three different areas of costs:

- the costs calculated as flat rate,
- the basis costs, on which a flat rate is calculated,
- other costs not covered in the previous two categories.

Thus, flat rates should be used only where it is possible to differentiate which types of costs are covered by a flat rate and which are not, to avoid double financing.

Flat rates are best suited to high-volume, low-value transactions, where verification is costly (for instance, administration costs). On the other hand, regulations do not limit flat rates only to specific categories of eligible costs; i.e., it can be applied to calculate any cost category(ies).

It is important to keep in mind that rules and verifications for the basis costs of a flat rate are solid, as every potential mistake in the basis cost will have a direct impact on the flat rate amount. In a worst-case scenario, these mistakes could contribute to an increase in a programme error rate. For example, you want to use an off-the-shelf 20% flat rate for your staff costs and on top of that you want to build a programme-specific flat rate 15% of staff costs for equipment. You need to be aware that any changes in cost categories to calculate flat rate for staff costs (in our case it would be external expertise and services, infrastructure and works) will cause changes in staff costs, which will also cause changes to equipment cost category (as it is a flat rate built on top of another flat rate).

When to use a lump sum?

Lump sums should be used where deliverables/ outputs and their values can be easily pre-defined (as a single unit).

A lump sum is an ex-ante appropriation of the actual costs based on expected deliverables/ outputs. For example, feasibility and other studies, project preparation costs, closure costs, new operating models and concepts, small projects, seminars, workshops, or other events.

Lump sums imply a 'binary' approach – if the agreed deliverable(s)/ output(s) is(are) delivered by the project, the lump sum is paid. If the agreed deliverable(s)/ output(s) is(are) not delivered or delivered only partially, then the lump sum is not paid (the amount a lump sum cannot be decreased proportionally should the final output be delivered partially).

This 'binary' situation is what you should consider carefully when designing a lump sum. It can pose some risks for the beneficiary and programme: objectives (content and financial) might not be achieved and in such cases, it can have a significant impact on the programme and project implementation. For example, if the outputs/deliverables are not delivered or not delivered in full, there is no reimbursement for projects. Hence, there might be an underachievement of the programme's targets and plans, which might have an impact on the overall programme's performance.

Where it is possible to pre-define intermediate milestones/ deliverables, it is possible to design few smaller lump sums: the payments will be linked to the delivery of those intermediate milestones. In this way, the risk for beneficiaries of not receiving any reimbursement will be decreased.

When to use unit costs?

Unit costs can be used for any type of project, activity or cost category where it is possible to easily identify and define:

- the expected quantities of a deliverable, output, activity,
- unit costs for these quantities.

Examples of unit costs are hourly rate for staff costs, the unit cost for organising meetings/ events (per participants/ day), the unit cost for delivery of training (per training delivered/ days), unit cost for participation in international fairs (number of fairs/ days), unit cost for travel (per kilometre travelled/ day), etc.

When establishing a unit cost, as a MA you should account in advance for a correlation between the realised quantities and the payments (e.g., decrease of the eligible costs if the declared quantities decrease); justification of declared quantities (some units are more difficult to justify than others, therefore, when deciding on the unit cost to be used, you should take into account its impact on simplification, administrative workload, and risk of errors); choice of the unit cost (it should clearly and directly reflect the activity(ies) of the project).

Is it possible to combine SCOs?

Different types of SCOs can be combined in the same project and for the same beneficiary, “provided that each form covers different categories of costs or where they are used for different projects forming a part of an operation or for successive phases of an operation” (Article 53(1)(f) CPR). This means that SCOs can be combined with real costs, as well as other SCOs. Other SCOs (off-the-shelf, programme-specific, and/or copy-paste SCOs) can be combined as long as they are applied to different cost categories or in different phases of a project. This condition is built in to prevent double financing of costs.

Some projects (where the total cost of a project does not exceed EUR 200 000) must be implemented entirely as SCOs (i.e., flat rates, unit costs, lump sums or combination of the three (Article 53(2) CPR)). That is why it is important to keep in mind specificities of different types of SCOs (as described above) when designing different combinations. You must always make sure that there are no overlaps in the costs covered; i.e., that same costs are not covered by more than one SCO or by SCO and real cost.

You can find out more on different combinations options in the Matrix of SCOs combinations, available [here](#).

Develop the calculation methodology



The calculation methodology is the backbone of your SCO. It requires a careful and thorough set-up and it can be a complex exercise.

To start with, the calculation methodology has to be developed in advance, preferably before you announce the call for proposals offering your programme-specific SCOs, and at the latest before signing off the subsidy contract with the lead partner. However, we recommend that you plan enough time to develop the methodology as you do not want to rush it or run out of time. Considering the potential implications of SCOs also on your monitoring system, you might want to have your programme-specific SCOs ready as early as possible in the programme implementation.

The calculation method of your programme-specific SCO should be²:

- fair, equitable, and verifiable, where:
 - fair – the method is realistic, reasoned and explained,
 - equitable – the method does not favour some beneficiaries or projects over others (differentiated treatment is possible, where and if properly justified),
 - verifiable – the method is based on documented evidence that can be checked. What has to be verifiable: the description of the methodology (including key steps of the calculation); the sources of the data used, including an assessment of the relevance and quality of the data; and the calculation itself.

or

- a draft budget method³.

The calculation method should be based on one of the following:

- statistical data, other objective information or expert judgement,
- the verified historical data of individual beneficiaries,
- the application of the usual cost accounting practices of individual beneficiaries.

² As provided in Article 53(3) CPR.

³ You will find a fact sheet on a draft budget method [here](#).

Below you will find a further explanation of the data sources, together with some examples⁴.

Statistical data or other objective information

These refer to verifiable data from documented sources. Historical data extracted from the programme's internal databases also falls under this category of data (e.g., MA's data originated from the previous project applications, payment claims, invoices for specific types of activities, etc.).

Examples of other sources of statistical data: data from Eurostat, ESPON, national statistical offices (e.g., minimum wage, rates for daily allowance), data from the labour office, ministerial national statistical surveys, statistics from universities, etc.

Other objective information can be obtained from market surveys (referring to a specific moment in time, not a period), benchmark analysis, rates set at national/ regional level, hourly rates set within a national labour contract, data on remuneration for equivalent work, etc. Here, a special focus should be placed on the selection of sources (e.g., in terms of reliability and credibility).

According to the EC's observations, this method (using statistical data available from the MA's databases) is generally the most preferred calculation method (easier to collect, classify, and process).

Expert judgement

This data source has been added with the amendments of the Omnibus Regulation (2018). Expert judgement is not an estimation, but judgement and should be based on specific data and expertise. For example, data based on a specific set of criteria or expertise which has been acquired in a specific knowledge area, application or product area, a particular discipline, industry, etc. Such expertise may be provided by a group or person with specialised education, knowledge, skills, experience, or training. It needs to be well documented and specific to the circumstances for each case. The MA needs to specify the requirements for a judgement to qualify as expert to ensure that there is no conflict of interests.

Verified historical data of individual beneficiaries

This data is collected from the past (documented) accounting practices of the beneficiary (for actual costs incurred for the category of eligible costs covered by the SCO) and it should cover at least 3 years (to account for possible yearly fluctuations).

⁴ For more details, you can also refer to the [EC Guidance on SCOs \(updated\)](#).

Examples of verified historical data of individual beneficiaries: this data source could be interesting for beneficiaries involved in many projects. The calculation method based on this data could cover some specific categories only (e.g., administration costs or unit costs for staff).

Usual cost accounting practices of individual beneficiaries

This method is based on data from day-to-day accounting practices of a beneficiary for all its usual activities and finances (not linked to EU support). In this case, there is no requirement as to the reference period (as in the 'verified historical data of individual beneficiary' method which should cover at least 3 years). The accounting practices of the beneficiary should be in line with the national accounting rules and standards.

Examples: this data source could be interesting for beneficiaries involved in many projects. The calculation method based on this data could cover some specific categories only (e.g., administration costs or unit costs for staff).

Draft budget method⁵

The draft budget is a calculation method, where the applicant (project) proposes a draft budget of their project, which is then assessed by the MA and upon approval converted into flat rates, unit costs, or lump sums (or their combination). The MA should assess each draft budget on a case-by-case basis. Projects should provide detailed information on each cost category and the methodology used to calculate the costs of each cost category. Based on the draft budget and its revision before contracting, the MA establishes the SCOs to be used. The project is then implemented and will be reimbursed according to the SCOs established (and not real costs as in the draft budget!). During the project implementation, no justification of real costs from the draft budget is required (only where flat rates are used – justification for the 'basis' costs for the flat rate calculation should be provided); costs are verified according to SCOs verification principles.

The application of the draft budget requires a solid stock of cost benchmarks since the budget proposed in the application has to be thoroughly checked before it can be transformed into an SCO. A systematic approach that will have to be developed is needed as the MA will have to provide the evidence that the method is correctly applied. Market research for frequent cost items in budgets as well as data from technical assistance (such as for venues, interpretation, and translation) or other historical data might be used to build a catalogue of cost benchmarks. The expertise of controllers could be used for the 'front-of-pipe' checks of the draft budgets since the workload for management verification 'end-of-pipe' will be drastically reduced with the consistent application of SCOs in projects using the draft budget method.

⁵ NB: the draft budget method can only be applied for projects of a certain budget: where the total costs of each project do not exceed EUR 100 000 for small project fund (Article 25(6) Interreg Regulation) and where the total cost of an operation does not exceed EUR 200 000 – for regular projects (Article 53(3)(b) CPR).

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Regarding the quality assessment, the budget should be assessed on the same basis as it is assessed when real costs are used. Also, the transformation from the draft budget to the finally applied SCOs have to be well documented, being able to see all the steps in-between.

Further details on how to structure your methodology can be found in the section '[Template for the description of the calculation methodology](#)'.

Template for the description of the methodology for a programme-specific SCO⁶

- a) Type of SCO (flat rate, unit cost, lump sum)
- b) Type of projects covered
- c) Type of beneficiaries covered
- d) Categories of costs covered by SCO
- e) Amount/ % for the SCO
- f) Indicator triggering reimbursement and its unit of measurement
- g) Calculation methodology is based on (a reference to Article in the relevant Regulation is recommended):
 - *fair, equitable and verifiable calculation method*
 - *draft budget*
 - *SCOs applicable in Union policies for a similar type of operation*
 - *SCOs applicable in Member State policies for a similar type of operation*
- h) Justification for the method selected (why the selected method was the most suitable)
- i) Source of data used to calculate unit costs, lump sums or flat rates (reference to Article in the relevant Regulation is recommended):
 - *statistical data, other objective information or an expert judgement,*
 - *the verified historical data of individual beneficiaries,*
 - *the application of the usual cost accounting practices of individual beneficiaries.*
 - *Also, who produced, collected, and recorded the data; where the data are stored; cut-off dates; validation, etc.*
- j) How the calculations were done (including any assumptions made in terms of quality or quantities). Where relevant, statistical evidence and benchmarks should be used and attached.
- k) Management verification – what will be checked during management verifications (including on-the-spot) and by whom; what documents will be used to verify the achievement of indicators/ milestones/ outputs; what arrangements will be made to collect and store relevant data/ documents.
- l) Adjustment method of the calculation methodology, how/ if it will be updated, how often, etc.

⁶ Can be used for the exchange with audit authorities, description in the management and control system or other programme internal documentation purposes.

We would not recommend using it for programme manuals. Probably, also useful to elaborate on a simpler format for exchanges with decision-making bodies or other stakeholders.

You can also use [Part B of Appendix 1 to Interreg Regulation](#) (use of Article 94 CPR) to see which elements to cover in your SCO description.

Involve stakeholders



As you might have already realised, developing a programme-specific SCO is not an easy task. To start with, it needs to answer a universal question, ‘Why do we need to do things differently, in a new way?’. To continue, designing and implementing a programme-specific SCO involves a significant number of stakeholders. So, it is not only the programme bodies who need to be convinced about the advantages of the SCO, but also programme beneficiaries so they know how to use them. And it is certainly not an easy task. So how do we do that and where do we start?

Before we continue with some practical **HOW-tips**, let’s acknowledge why we need to involve different stakeholders in the process of developing an SCO. Involving relevant stakeholders allows to:

- select the most relevant/ suitable project activities to be covered by the SCOs,
- avoid misinterpretations and ‘lost in translation’ situations,
- achieve a more exhaustive and precise knowledge of different practices related to SCOs,
- collect further ideas and suggestions from the first-hand experience of stakeholders,
- test and validate proposals and solutions,
- disseminate and explain your SCOs,
- reach an agreement among all involved parties,
- “be on one page” with different stakeholders when it comes to the SCOs interpretations during the implementation (e.g., understanding risks, consequences, etc.)

WHO needs to be involved? There are several groups of stakeholders, and they all need their specific share of communication and ‘say’. We differentiate between those directly and indirectly concerned. The key to stakeholder involvement is communication and being prepared to answer questions. Both issues are further elaborated below:

1. Stakeholder groups
2. Talking points

We like to highlight that all activities in that area should be carried out with a good sense of proportion, prioritising tasks, and related activities.

Stakeholder groups

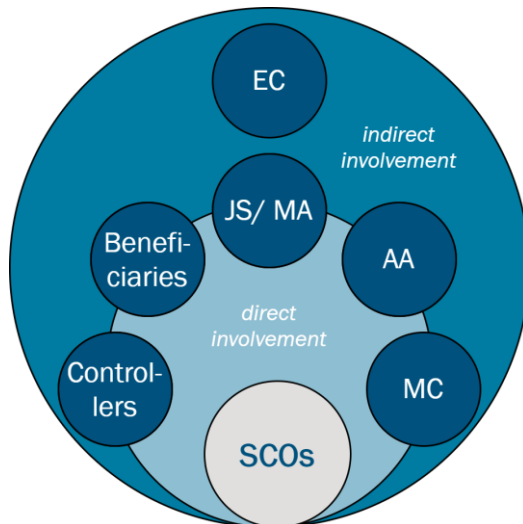


Figure 1. Stakeholder groups in the process of developing a programme-specific SCO

1) Directly involved stakeholders

- Managing authority and joint secretariat

While you are already aware of SCOs, but this might not equally apply to all colleagues working at the programme level in the managing authority, the joint secretariat, the monitoring committee and so on. It is useful to listen to people's concerns and ideas. In many cases, establishing a working group on SCOs can be helpful to get everybody on board. Brainstorming and regular meetings allow for a beneficial exchange and to advance the topic. Regular updates should be envisaged with all staff to ensure that everybody is on the same page.

If you are setting up a working group on SCOs, we recommend considering involving other stakeholders, like, beneficiaries, the audit authority, or controllers on a regular or occasional basis.

- Beneficiaries

Beneficiaries are the ones most directly 'concerned' by SCOs; thus, they deserve a proper attention. However, you should be careful to what extent their hesitation or caution can influence the decision making for or against SCOs. To put it straight-forward: you will never achieve a situation when everybody is equally happy with the application of SCOs. Moreover, and as already pointed out above, change is not always an easy thing, and sometimes it requires to 'push people through the door' (with very little force, of course). Programmes' experience shows that the active involvement of beneficiaries in the design of the SCOs allows them to develop better and more durable SCOs. The beneficiaries'

contribution to the definition of the scope of the SCOs system (i.e., selection of the types of projects/ activities most suitable for the uptake of SCOs) is important too. Beneficiaries can be involved in the process through public consultations, interviews, surveys, hearings, information workshops, and/ or dedicated meetings.

Before putting SCOs into practice, it might also be useful to extensively communicate your motivation to turn to SCOs, the advantages for the project implementation, and what changes come with it for beneficiaries. Nobody likes to be surprised or feel excluded.

- **Controllers**

When it comes to the verification of SCOs, there are significant changes for controllers' work compared to real costs. Therefore, it is important to work with them towards SCOs. MAs can benefit from their experience and their knowledge when setting-up SCOs (e.g., when identifying cost items which are burdensome to report). And as already pointed out for the other stakeholder groups, changes are not always appreciated and require a lot of communication. An early-stage involvement, a seat at the table but also general consultations are recommended measures for this stakeholder groups.

- **Audit authority**

Specific attention should be paid to the relationship between managing authorities and audit authorities. The involvement of the audit authority from the very beginning of the process of defining the SCOs system can be very beneficial to address the 'legal certainty' when it comes to the correctness of the calculation methodology. The relationship between the MA and the AA can be of informal or formal nature, but you need to remember that the AA has to keep their independence, hence, any activities and exchanges should take that into consideration.

It is recommended that the AA performs an early assessment of the programme-specific SCOs, meaning carrying out an audit of the methodology before such SCOs are implemented in the programme. More information on this in the section ['Have the SCO methodology assessed'](#).

If you decide to use SCOs at the EU level (more on this in the lesson "EU level SCOs"), your AA will have to do an ex-ante assessment of the SCOs as it is compulsory for EU level SCOs. That is why an early involvement of the AAs in the SCOs design is important to make the process as smooth as possible,

- **Monitoring committee**

Your monitoring committee is a crucial factor, if not a key stakeholder for the successful implementation of SCOs. Besides being responsible for the strategic direction for programmes, they usually also approve implementing rules. What makes the monitoring committee members different from other stakeholders, like beneficiaries or staff at the MA/JS, is simply that they are making the rules. Hence, you want to take a careful, early,

and comprehensive approach to involve your monitoring committee in the process of establishing SCOs. That does not necessarily mean that they are directly involved in discussions, but you should make sure to inform them continuously and early, hear their concerns and work on getting them on “your” side. It would be regrettable if your SCOs are ready but cannot be implemented because your MC members are not convinced in benefits of SCOs in the programme.

2) Indirectly involved stakeholders

- EU level

If you decide to use the programme-specific SCOs at the EU - programme level, the EC will review your SCOs which you will submit together with the Interreg Programme (IP) or as an amendment of the programme (more on this in the section “[EU level SCOs](#)”).

For the usual programme level SCOs (applied as in 2014-2020), even though the EC does not directly approve the SCOs methodologies in the 2021-2027 period, it is an important stakeholder. First and foremost, your desk-officer can be helpful to voice the advantages of SCOs in your monitoring committee. The EC (Better implementation unit) has made available a [checklist for audit authorities to assess the SCOs methodologies ex-ante](#) (which can also be used during audit of operations and system audits; also by the managing authorities). Based on this checklist, Interact together with the AA has developed an [Interreg-specific checklist](#), which should be used by the AA when performing the SCOs assessments (either ex-ante or during the programme implementation).

Now, let’s go back to the question of **HOW** to involve stakeholders? How to convince them of the benefits of SCOs? You will find examples of counterarguments and further explanations of why different stakeholders should embrace SCOs in the section ‘[How to involve stakeholders? – Talking points](#)’.

How to involve stakeholders? – Talking points

Right from the very beginning, you might be challenged with the questions, ‘Why do we need to do things differently’, ‘Is it not too lengthy and complicated to set up a completely new system?’ or ‘Who will be doing that, we do not have sufficient resources’.

Below, we have collected some common arguments used against the uptake of the SCOs. Each of them is complemented with the counterargument and further explanations of why that conclusion should not be regarded as a hurdle or constraint limiting the uptake of SCOs.

1. *Programme authorities and beneficiaries are used to real costs. Why reinvent the wheel and introduce something new?*

Introducing SCOs is not reinventing the wheel. It aims at simplifying the project and programme implementation, creating more efficiency, and increasing resources for content.

A novelty is quite often seen as a threat (e.g., internet, smartphones, driverless vehicles, cryptocurrencies, etc.). To start doing things differently requires a lot of analysis, changing mindset, as much as being willing to realise the benefits and/ or risks of the proposed new solutions. Under point 2, you will see a list of benefits of SCOs over real costs.

Enhanced dialogue and trust between authorities (in particular, the MA and the AA) and between authorities and stakeholders (beneficiaries or monitoring committee) are crucial steps in establishing SCOs.

2. *Benefits of SCOs are not so obvious.*

In fact, the benefits of SCOs are obvious (to name a few):

- SCOs reduce the administrative burden for both programme authorities and beneficiaries,
- SCOs allow speeding up reimbursements to beneficiaries (due to the different/easier nature of verifications),
- SCOs reduce the error rate,
- SCOs lower the risks in project implementation,
- SCOs simplify audit requirements.

3. *Reimbursement based on SCOs does not match real costs. How to account for that? How, then, to explain SCOs' benefits to beneficiaries?*

SCOs are meant to be a proxy of real costs. However, that also means that occasionally SCOs will lead to undercompensation and/or overcompensation. This logic should be kept in mind and accepted by beneficiaries and all other stakeholders!

The benefits that SCOs bring to beneficiaries (e.g., reduced administrative work, simplified audit trail, fewer audits and controls, focus on results and outputs) account for possible undercompensations. It is important to clearly communicate these to beneficiaries, as well as properly train them in using SCOs.

4. *It takes too much work to define the SCOs. Data collection and processing for setting up methodologies are too complicated; the historical data from the MA's internal databases is limited (costly to create new databases from scratch, reliability of external databases is questioned).*

Although, it requires more work for the MA as compared to real costs, setting up an SCO only involves a lot of work upfront. A significant amount of time will be saved afterwards, during and when the SCOs are implemented (for beneficiaries, MAs, controllers, auditors, etc.). In general, the ex-ante work becomes more important when working with SCOs. This applies to the design of SCOs, the assessment of projects, the aspect of value for money, and so forth.

Programme-specific SCOs require the most work from the programme, as a calculation methodology has to be developed by the MA/JS and ideally, assessed by the AA. However, the Regulations provide quite many off-the-shelf options (see the list on page 7 of this document). Off-the-shelf SCOs do not require a lot of work, as they can be simply used by the programme and they do not require any justifications (legal certainty is provided by the Regulations). Another option is to use the “copy-paste” SCOs from other Union policies/ national schemes⁷.

5. *MA staff does not have sufficient knowledge and capacity to design new SCOs.*

MAs do not have to start from scratch. There are already lots of tools and plenty of information available. We collected some below.

The EC provides a tool to facilitate the exchange of experience between MSs (and Interreg programmes) on ERDF issues. This tool is called [TAIEX-Regio Peer-to-Peer](#) (JS/ MAs of Interreg programmes are eligible beneficiaries). It is possible to apply for different types of exchanges: study visits, expert missions, workshops, etc.

Interact has published a variety of information in the library section [here](#). An online course, [SCOs explained](#), is also available at the [Interact online learning platform](#).

Interact has also set up an online platform (community Interreg SCOs) for programmes to work closely together on different SCOs, to exchange ideas, ask questions, and to learn

⁷ [Fact sheet “Application of SCOs from other areas \(EU programmes or MS schemes\)”, “copy-paste” SCOs.](#)

from each other. Reach out to sco@interact-eu.net to become a part of the community! Furthermore, both Interact and the EC are available for advisory services.

- 6. Legal uncertainty surrounds SCOs. A high risk/ fear of (systemic) errors in the calculation methodology and/ or in the implementation phase makes SCOs unattractive for us.*

An early (ex-ante) validation of SCOs by the programme's audit authority can be a solution for creating legal certainty for programme-specific SCOs.

If an early assessment is performed in a formal framework, the AA can use the results of its assessment for future (system) audits, while the MA has legal certainty before implementing the SCO. An early audit of SCOs methodology could potentially be more time-consuming, but in the end, it will reduce the workload of the AA over time (the AA would be able to rely on the results of its work and avoid further audits on the methodology; the correct application of the SCO will only be a subject of the further audits).

It is also important to keep in mind that systemic errors are not limited and are not entirely caused by SCOs!

Finally, off-the-shelf SCOs, Delegated Acts, and SCOs from other Union policies/ national schemes are 'safe' options, as the legal certainty is already provided by the EC.

- 7. SCOs are not suitable for my/this programme. SCOs contradict existing methods in MSs (national/ regional level). National rules do not allow SCOs or cancel out the simplification effect (by still requiring evidence of real costs).*

For SCOs to be suitable in the programme, during the design stage it is vital to involve national stakeholders and authorities (e.g., national/ regional MAs, national AAs, national courts of auditors, etc.). This can be done through:

- formal and informal initiatives to harmonise and coordinate rules and procedures between authorities (MAs/AAs): joint drafting of guidance notes/ Q&A; committees/ working groups/ meetings;
- internal training, joint/ crossed training between authorities;
- consultations/ dialogue/ training actions involving stakeholders and beneficiaries.

It can also be helpful to know more about such external obstacles and to see to what extent there can be exceptions or other mitigating measures applied (in the future). It should also not be forgotten that the Regulations for eligibility rules in Interreg in this programming period are designed in a way that the EU and programme rules (as long as not in contradiction with/going against existing national law) are "above" those national rules (the so-called "hierarchy of rules": EU level -> programme level -> national level).

8. *There is an uncertainty around the ex-ante assessment of the calculation methodology - is this the AAs' obligation? The CPR does not list such obligation among the AA's responsibilities.*

Currently, the AA does not have a legal obligation to perform an ex-ante assessment of the SCOs methodology (for the [programme level SCOs](#)), but many are willing to cooperate with the MAs to support and establish programme-specific SCOs. As part of the system audit, the AA will anyway be assessing the SCO calculation method, its documentation (audit trail), risk assessment (which are elements that should be checked when it comes to the correct establishment of the SCOs). Performing an early assessment of the SCO, the AA will simply shift its work from the system audit part to the 'upfront' assessment of the SCO.

For the off-the-shelf SCOs (listed in the CPR and Interreg Regulation), there is no need to perform an ex-ante assessment – this is an alternative way to proceed with the SCOs. The same goes towards the “copy-paste” SCOs – no need to perform an ex-ante assessment.

For the [EU level SCOs](#), the ex-ante assessment of SCOs methodologies is obligatory (Appendix 1, part C, point 5). Having such SCOs approved as part of the programme, the programme can use the same SCOs towards its beneficiaries (legal certainty is ensured by the EC's decision to approve the Interreg programme).

9. *It is difficult to set up the 'new' collaboration and communication schemes between the programme authorities as well as the programme authorities and beneficiaries when changing over to SCOs.*

Similarly, to anything new, a change is often perceived as a challenge. To ensure a high uptake of SCOs by beneficiaries, the programme has to clearly communicate all advantages and potential risks connected to SCOs.

First and foremost, programme authorities need to have a shared understanding of what simplification the introduced SCO will bring for beneficiaries in a first instance, and then for the programme itself. Secondly, programme authorities should have a clear understanding and agreement on what they are ready to give up achieving the desired simplification – a change in mindset is needed. Additional ex-ante work when setting up an SCO pays off later during the implementation stage.

10. *SCOs block the creativity of programmes and limit implementation options (especially if SCOs are the only available option and not a choice).*

In the end, Interreg is about projects and beneficiaries, not programmes. SCOs really do simplify life for beneficiaries (see point 2). Having said that, we cannot exclude that a limited bottom-up approach might seem less inviting to creative ideas or extraordinary

activities. The decision to be taken at programme level needs an honest conversation about what might be lost and if the loss outweighs the advantages and simplification it brings to project implementation.

11. We should make the programme-specific SCOs optional (beneficiaries are free to choose between real costs and SCOs). This will make beneficiaries and our monitoring committee members happy.

In principle, it is always good if everybody is happy. However, such an approach comes with a price tag (literally and figuratively). Too many options offered by the programme always increases the chances of errors, additional work, extra procedures to be set up to cover and to manage all the options.

It creates hurdles for beneficiaries, as they need to make themselves acquainted with different options and then choose the “right” one. Moreover, many beneficiaries participate in more than one programme: whenever programmes offer different options to reimburse the same costs, this creates additional burden and confusion for beneficiaries.

For the programme, it means to have in place and manage 2 systems (e.g., in the monitoring system and templates). It also means additional work in explaining beneficiaries the differences and assessing application. Such set-ups mean a lot of extra work for programmes.

Thus, reducing the number of options and a harmonised approach (to the extent possible) between programmes will ease the life of both beneficiaries and programmes. The use of programme-specific SCOs should be about simplification. If this element is lost, the application does not bring any added value to the programme and project implementation.

12. Beneficiaries do not like SCOs – they have already systems in place, they are used to their systems, beneficiaries want money to reflect their real expenses.

Beneficiaries do like SCOs – ask programmes which have established SCOs for a longer period already, they will confirm that beneficiaries appreciated the advantages of SCOs, even those who were not in favour of SCOs in the very beginning.

Benefits should be clearly communicated to beneficiaries (easier project implementation, easier reporting, easier audit trail, and retention of documents after the project end, etc.). It is also very important to properly train beneficiaries in using SCOs.

13. The motivation for establishing new methods is missing.

Interreg is losing relevant and important beneficiaries because the administration is too complex, and the outcomes do no longer outweigh the work. To find ways of simplification to raise (keep) the attractiveness of Interreg should be sufficient motivation for MAs.

Programme-specific SCOs in 2021-2027

1.1. EU level SCOs (Article 94 CPR)

In the 2021-2027 programming period, programme-specific SCOs can be implemented at 2 levels: EU – programme level (new) and programme – beneficiary level (used in the 2014-2020 period).

EU level SCOs mean that a programme may be reimbursed based on unit costs, lump sums and flat rates (previously there was no differentiation between SCOs and real costs). It is up to the programme to decide how it would like to be reimbursed: based on real costs only, or real costs and SCOs.

If a programme decides to use SCOs at the EU – programme level (Article 94 CPR), it has to submit to the EC together with its Interreg Programme (IP) Appendix 1 of the Interreg Regulation⁸. In Appendix 1 each programme-specific SCO should be described in detail (part A serves as a summary of all SCOs, part B focuses on methodology specificities, part C – on calculations and audit⁹). Provided the review of the Appendix 1 is positive, the programme will be approved together with SCOs submitted in the Appendix 1. Such SCOs become a part of the approved programme and are obligatory to be used.

Using SCOs at the EU – programme level brings certain advantages:

- It provides legal certainty – SCOs which are approved as part of the programme will not be subject to audits during programme implementation, neither by your AA, nor by the EC (a pre-requisite for the approval at EU level is a positive assessment of the methodology by the AA). Thus, such SCOs are “safe” to use and in practical terms no one, except for European Court of Auditors, can question their methodology.
- SCOs approved at the EU – programme level can also be used at the programme – beneficiary level¹⁰, which means that the legal certainty extends to the lower level too. Such SCOs are consequently also “safe” to be used by beneficiaries.

⁸ Since Appendix 1 requires a compulsory ex-ante assessment of SCOs by the AA, it might be a case that the programme does not have enough time to obtain the assessment from the AA. In such case, the programme can submit its Interreg Programme to the EC without Appendix 1, and later on when it is ready Appendix 1 can be submitted to the EC via programme modification procedure. NB: if SCOs are used before they are approved in the Appendix 1, the legal certainty to them does not apply in retrospect.

⁹ An example of filled in Appendix 1 with the detailed information on which information should be provided in different parts of Appendix is available for download [here](#).

¹⁰ SCOs from EU – programme level can be used at the programme – beneficiary level but it is not an obligation. Reimbursement at the 2 levels (EU – programme and programme – beneficiary) does not have to be mirrored. Although, in practical terms, it is quite logical to use the same forms of reimbursement at two levels not to create additional work when it comes for reporting and to make use of work put into development of SCOs for the EU – programme level.

If you decide to use programme-specific SCOs at the EU – programme level, remember that the ex-ante assessment of such SCOs by the AA is mandatory (a positive assessment is required in part C of the Appendix 1). If ex-ante assessment is not positive or is not provided in the submitted Appendix together with the Interreg Programme (IP), the IP will not be approved and will be returned to the programme.

For SCOs provided in the Regulations (off-the-shelf SCOs), SCOs from other Union or national policies, SCOs defined in delegated acts and SCOs which are planned to be used at the programme – beneficiary level, Appendix 1 should not be used.

1.2. Programme level SCOs (Article 53 CPR)

Programme-specific SCOs at the programme – beneficiary level are “regular” SCOs which programmes have been using in the 2014-2020 programming period and its predecessors. If you plan to use SCOs only at the level of programme – beneficiaries, you do not need to submit them in the Appendix 1 to the EC. An ex-ante assessment is not compulsory too for such SCOs (as in the case with EU-level), however, it is still highly recommended to be done by the AA before SCOs implementation.

If you develop your programme-specific SCOs and make them available for your beneficiaries, your calculation methodology can still be a subject to different audits and controls. There will be no legal certainty as in case with SCOs approved at the EU – programme level.

Have your SCO methodology assessed

Programme level SCOs (Article 53 CPR)



Once you have designed your programme-specific SCO, you will naturally want to make sure that it complies with the applicable regulations before you offer it to beneficiaries. It is your audit authority which can provide you with that legal certainty. It is important to keep in mind that the Commission does not carry out any assessment of your programme-specific SCOs (at the [programme – beneficiary level](#)).

Nevertheless, they make available important resources to support the audit work (e.g., specifically dedicated section to SCOs on the [DG Regio website](#); possibility to accompany national auditors on their audit mission for SCOs or a [checklist for auditing SCOs](#)). As a MA, you can also use the afore-mentioned checklist as a basis for the management verification and to “test” the methodology of your SCO.

The timing of when the SCO methodology is verified is crucial. In the best case, it happens before the programme-specific SCOs are implemented, as it significantly reduces the risk of systemic errors, financial corrections and/ or irregularities if there were errors in the calculation methodology (or, e.g., if the data sources were not relevant, outdated, etc.). Thus, you should aim at having your SCOs assessed by the AA prior to their implementation. In this context, it is important to keep in mind that the audit authority does not have a legal obligation to perform an early assessment of the SCOs methodology. However, many are willing to cooperate with the MAs to support the design of the programme-specific SCOs. However, sometimes it is simply factors, like limited resources available or timing which prevents your audit authority to carry out an early assessment. In such a case, you could agree with your audit authority to have an external audit firm assessing your SCO. In any case, early involvement and collaborative approach towards the AA is an important tool to safeguard a successful SCO application, early assessment or not.

The main task of the audit of SCOs is to confirm the legality, regularity, and eligibility of the SCO methodology. The early assessment of the SCOs means in practice that audit of the methodology as part of the system audit is simply “advanced”; i.e., confirming the appropriate and reliable methodology and verifiable records and documents before its implementation, once the method has been fully designed by the MA.

In more detail, the audit authority will check the SCO calculation method, its documentation (audit trail), risk assessment (which are elements that should be checked when it comes to the correct establishment of the SCOs).

Part of the audit concerns the calculation methodology of an SCO. The AA should focus on:

- whether the calculation methodology established used an appropriate method (is it based on the fair, equitable and verifiable calculation method or on a draft budget method),

- source of information/ basis for establishing the methodology (statistical data, other objective information, or expert judgement, the verified historical data of individual beneficiaries, the application of the usual cost accounting practices of individual beneficiaries),
- the documentation supporting the amounts established by the draft budget, if used (the AA will look into documents demonstrating that the MA assessed the budget/the sources of the data it used for analysis of the draft budget, the historical data of the beneficiary, the amounts obtained by application of its usual cost accounting practices, any available data on market research, etc.),
- risk assessment.

An early assessment of SCOs methodology could potentially be more time-consuming at that moment but in the end, it will reduce the workload of the AA over time (the AA would be able to rely on the results of its work and avoid further audits on the methodology; the correct application of the SCO will only be a subject of the further audits).

Having your SCO methodology positively assessed by the AA will give you the required legal certainty for the implementation.

EU level SCOs (Article 94 CPR)

As mentioned earlier, for the EU level SCOs a positive ex-ante assessment is mandatory (Appendix 1, part C of Interreg Regulation). If a positive assessment of the SCOs submitted as part of Appendix 1 is not provided, the EC will not approve the Interreg Programme (if Appendix 1 is submitted together with the IP for approval).

Once such SCOs are approved with the EC's approval of the programme, their calculation methodology should not be audited during the programme implementation. This concerns also the programme – beneficiary level if their use is extended to beneficiaries (which is a logical way to approach such SCOs). Only the correct application of such SCOs can be audited, for example:

- for flat rates: eligibility of the basis costs incurred and paid to which the rate is applied and ensuring that these are in accordance with the applicable methodology;
- for unit costs: checking the number of actual eligible units and confirming that the amount declared equals the standard amount per unit multiplied by the actual number of units delivered;
- for lump sums: checking that the requirements to declare the SCO amounts under audit have been fulfilled (the pre-defined deliverables/ milestones had been achieved).

Document the SCO



What should be documented and where?

The MA has to record the description of the calculation methodology (including key steps of the calculations), providing evidence for a fair, equitable and verifiable method used, or a draft budget method. The source(s) of the data used in the calculation methodology, including an assessment of the relevance and quality of data, should be documented as well. These all should be recorded in the programme internal documents (e.g., using a template for the description of the SCO methodology, described in the previous step of this roadmap). They will be checked by the audit authorities at some point. Documentation of SCOs concern both EU level SCOs and programme level SCOs. For EU level SCOs additional documentation tool is Appendix 1 of the Interreg Regulation.

The programme-specific SCOs should be included with relevant details in the following programme documents and templates (non-exhaustive list):

- the description of the management and control system,
- programme manual,
- calls for proposals,
- templates of the partnership agreement and subsidy control, if relevant.

It is recommended to use a 'simplified' description of the programme-specific SCOs when communicating it to programme's stakeholders, such as beneficiaries, decision-making bodies, etc. (e.g., omitting parts which describe in details how the calculations were done, but rather focusing on what simplifications the SCO brings, what will be checked during the management verifications and by whom, what documents need to be kept for the audit trail, etc.).

An example template for the documentation of the calculation methodology is provided [here](#).