

Simplified Cost Options (SCOs) - Positives and Negatives

Positives (+)

- + **Streamlined administrative processes:** SCOs simplify the cost calculation and reporting procedures, reducing administrative burdens for beneficiaries.
- + **Flexibility and cost predictability:** SCOs provide beneficiaries with flexibility in cost allocation, enabling them to allocate resources according to project needs and priorities. This flexibility allows for better cost predictability, as beneficiaries can estimate and plan project expenses more accurately, ensuring efficient resource utilization.
- + **Reduced documentation requirements:** SCOs often involve simplified documentation requirements compared to “traditional” cost reimbursement methods. This reduction in paperwork eases the administrative burden and allows beneficiaries to focus on project delivery rather than extensive documentation and reporting.
- + **Faster reimbursement and cash flow:** SCOs generally facilitate faster reimbursement processes, enabling beneficiaries to receive funds more quickly.
- + **Increased accessibility for smaller organizations:** SCOs can benefit smaller organizations or entities with limited administrative capacity or resources. The simplified procedures and reduced documentation requirements make it easier for these organizations to participate in EU-funded projects, promoting inclusivity and widening access to funding opportunities.
- + **Enhanced efficiency and effectiveness:** By simplifying cost calculations and reporting, SCOs promote efficiency and effectiveness in project management. Beneficiaries can focus on delivering project objectives rather than getting caught up in complex financial processes, leading to improved project outcomes and overall performance.
- + **Reduced audit requirements:** SCOs often involve reduced audit requirements compared to “traditional” cost reimbursement methods.

More specifically, in the social sector the stakeholders pointed out the following advantages of SCOs:

- + **Flat rates for indirect costs:** Implementing flat rates for indirect costs significantly simplifies budgeting and administration. As overhead costs are challenging to plan in detail and in advance, using flat rates provides a more realistic and practical approach to allocating these costs, reducing administrative complexities.
- + **Lump sums useful for simple training projects:** Lump sums work effectively for straightforward training projects, offering simplicity in budgeting and implementation. However, it is important to note that for more complex projects or when specific needs of target groups arise, lump sums can limit the ability to amend, add, or change project elements accordingly.
- + **Focus on project achievements rather than spending:** Lump sums are evaluated based on the outcomes and deliverables of the project, rather than solely on how the funds are spent. This approach places more responsibility on the beneficiary to achieve project objectives, rather than putting the risk on taxpayers.
- + **Efficiency of unit costs for travel expenses:** Utilizing unit costs for travel expenses significantly saves on bureaucracy and simplifies procedures. By setting predetermined rates for travel expenses, beneficiaries can streamline the reimbursement process and avoid the need for detailed expense claims.
- + **Flexibility of unit costs compared to lump sums:** Unit costs offer greater flexibility than lump sums, allowing for partial pay-outs even if the full project objectives are not fully achieved. This

flexibility provides beneficiaries with the opportunity to receive funds proportionate to the progress made, fostering a more adaptable approach to project implementation.

- + **Simplified checks on procurement:** SCOs may involve reduced checks on procurement by the Managing Authority or Intermediary Body. However, it is important for beneficiaries to comply with the general rule of efficiency, effectiveness, and economy (3E), as well as national and institutional procurement rules, ensuring transparency and fairness in the procurement process.

Negatives (-)

- **Unclear archiving requirements:** Lack of clarity on necessary documentation for audits and tax purposes.
- **Cost inaccuracy:** SCOs, especially lump sums, may lead to imprecise cost estimates affecting financial management.
- **Limited adaptability:** SCOs hinder flexibility for adjustments and unforeseen changes, impacting project responses.
- **Misallocation risk:** SCOs shift risk of improper spending to beneficiaries, jeopardizing project objectives.
- **Reduced transparency:** SCOs decrease expenditure transparency, challenging proper fund use oversight.
- **Inadequate cost coverage:** SCOs might not match actual costs, risking underfunding and quality compromise.
- **Diminished accountability:** SCOs may lower financial accountability and control, risking misuse.
- **Inconsistent application:** Varying SCOs lead to inconsistent cost assessment and comparison.
- **Competition fairness risk:** SCOs like unit costs might compromise fair procurement practices.
- **Audit and eligibility risks:** Inadequate documentation can lead to audit issues and eligibility concerns.

More specifically, in the social sector the stakeholders pointed out the following drawbacks of SCOs:

- **Inflation and adaptation:** SCOs struggle with changing prices, impacting project financial alignment.
- **Unit costs limitations:** SCOs don't accommodate special needs in social services, risking financial strain.
- **Limited innovation reflection:** SCOs fail to capture dynamic project costs accurately.
- **Flat rate inadequacy:** Predetermined flat rates may not align with actual expenses.
- **Innovation project challenges:** SCOs hinder precise cost calculation for innovative projects.
- **Consortia risk:** Lump sums risk project failure due to non-performing partners.
- **Predefined targets:** Lump sums limit adaptability in defining project objectives.
- **Double funding risk:** Flat rates might cause double funding conflicts with other sources.
- **Complex work packages:** SCOs complicate measuring success for intricate work packages.

Sectoral Application of the Positives and Negatives of SCOs

This section incorporates feedback from five social service sectors: Families in Poverty and Children in Protection, Work Integration, Persons with Disabilities, Poverty and Homelessness, and Elderly. The positives and negatives of SCOs have been reviewed by experts across these sectors. The gathered feedback suggests the following improvements to meet sector-specific needs.

- **Positive Impact of SCOs for Smaller NGOs:** many smaller NGOs within the sector lack budgeting experts. The use of Simplified Cost Options (SCOs) is seen as beneficial, reducing the necessity to hire budgeting experts for EU funded projects.
- **Challenges with Fixed Percentages and Unit Rates:** fixed percentages or unit rates may be insufficient to cover costs, particularly when working with vulnerable groups with special needs. This raises the risk of not fully covering all project costs when SCOs are used.
- **Complexity and Challenges with Volunteers:** potential difficulties in using SCOs for projects and organizations that heavily rely on volunteers. Address the need for more nuanced approaches to account for volunteer-based contributions.
- **Financial Flexibility and Support:** The required self-financing share in co-financing is too high for many organisations. This could steer projects to fewer organisations. It is recommended to allow for lower self-financing rates or more flexibility, and alternatively, explore solutions to provide support in creating self-financing; possible through voluntary work (in NGOs).
- **Increased Budget Flexibility:** increased budget flexibility for organizations and projects working with vulnerable target groups. Calls for projects using SCOs should account for this flexibility, especially in scenarios of extreme inflation or other unexpected circumstances affecting prices and costs.