

## SPAIN

# Financial Instrument

### Location

Canary islands

### Programming period

2014 - 2020

### Funding (EUR)

n/a

### Duration

2015 – 2020

### Implemented by

Canary islands RDP  
Managing Authority

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### Website

n/a

The Canary Islands have implemented Simplified Cost Options in order to simplify RDP implementation and reduce the error rate.

## The challenge

The European Commission has extended the use of Simplified Costs in order to reduce the likelihood of error and the administrative burden, as the costs which are declared using them, are less error prone and individual supporting documents are not necessary for the audit trail of expenditure.

The application of Simplified Costs is included in Regulation 1303/2013 - Common Provisions regulation (CPR), which includes options for the European Structural and Investment Funds (ESI Funds), including EAFRD, to calculate eligible expenditure of grants and repayable assistance on the basis of real costs, but also on the basis of Flat Rate Financing, Standard Scales of Unit Costs and Lump Sums.

In this context, there is an important need to simplify the time in granting the subsidy and the payment for applicants wherever possible, and also to reduce the administrative burden for the Managing Authority and Paying Agency for EAFRD as well as achieve a lower error rate. This was recognised in the RDP of the Canary Islands approach for the Managing Authority, in introducing an approach for Simplified Costs which reflected real costs which can save time in granting awards and payments.

## Main steps and features

The Simplified Cost Options have been used across a range of measures in the RDP of the Canary Islands such as the following:

- Standard Scales of Unit Costs (SSUC) - used for measures 1, 4, 16 and 19
- Lump Sums – used for measures 16 and 19
- Flat rate financing – used for measures 1, 16 and 19

As an example, the procedure which was used for the calculation of the SSUC for measure 4.1.-“Support for investments in agricultural holdings” of the Canary Islands RDP can be summarized into four main points:

### 1. Specify the investments

Specify the investments which form part of the SSUC and classify them into groups like “Irrigation”, “Adaptation of Farms”, “Plant Material”, “Agricultural Machinery”, etc.

### 2. Define the essential elements

Define the essential elements of each type of investment, with homogeneous data. Therefore, for “Agricultural Machinery”, elements like a “Tractor”, a “Planter” or a “Shredder” can be associated.

### 3. Collection of data

The collection of data is a very important point of the procedure in order to get a real and updated cost. In this way, prices were gathered from different sources such as the following:

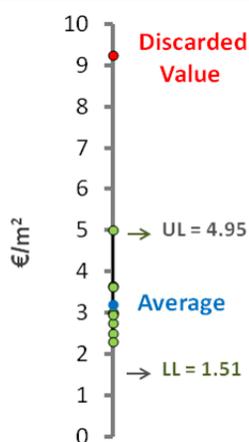
- Quotations from suppliers of goods and services;
- Invoices from files from previous calls;
- Self-prepared quotations or those commissioned from specialist external agents;
- Costs obtained through the official database.

### 4. Calculation of the Unit Costs

After specifying the investments, define the essential elements and the collection of data, in relation to the calculation of the Unit Costs, when the cost does not depend on the magnitude of the investment it is calculated by means of an arithmetic mean, however, when the cost does depend on the magnitude of the investment, it is calculated by means of the analysis of ranges of application.

In this way, for a specific element such as "Asphalting of Tracks", within General Infrastructure investment group, the Unit Cost was calculated by means of the arithmetic mean using 10 different values. Nevertheless, in order not to alter the calculation of the final cost of the investment significantly, the extreme values were discarded obtaining an average value and a Unit Cost of 3.20 € per m<sup>2</sup>.

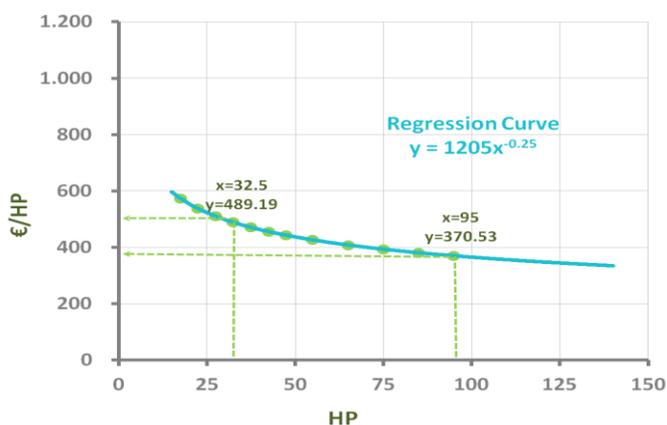
| €/m <sup>2</sup> | Analysis Results     |
|------------------|----------------------|
| 2.30             | Valid                |
| 2.50             | Valid                |
| 2.75             | Valid                |
| 2.96             | Valid                |
| 3.00             | Valid                |
| 3.00             | Valid                |
| 3.64             | Valid                |
| 3.67             | Valid                |
| 4.95             | Valid                |
| 9.24             | Discarded value      |
| 3.20             | Average (valid) -UC- |



| Description          | Range of application | Unit cost | Unit             | No. of data |
|----------------------|----------------------|-----------|------------------|-------------|
| Asphalting of tracks | NA                   | 3.20      | €/m <sup>2</sup> | 10          |

A different case was for example the investment in Agricultural Machinery, where the cost depends on the magnitude of the investment. In this case, the method of calculation consisted of the determination of a regression curve representing the variation in the Unit Cost according to the magnitude of the investment and defining the possible ranges of application. In this way, in order to calculate the Unit Cost, the average value of each range was used as an input for the formula of the regression curve, establishing a larger number of ranges in the areas with a greater steepness of the curve.

Therefore, for the "Purchase of a Tractor", 285 values were gathered applying the method described above in such a way that, for a tractor with a range between 30.01-35 HP the Unit Cost would be €489.19 / HP, while for over 90 HP, the value would come down to €370.53 / HP.



| Description | Range of application | Unit cost | Unit | No. of data |
|-------------|----------------------|-----------|------|-------------|
| Tractor     | 30.01-35 HP          | 489.19    | €/HP | 285         |
|             | > 90.01 HP           | 370.53    | €/HP |             |

## Results

With the application of Simplified Cost Options, specifically, SSUC, the Unit Cost of each investment in agricultural holdings could be calculated on the basis of real costs in advance of the calls for support. This option has made it possible to achieve the objective of the Managing Authority of the RDP of the Canary Islands in relation to reducing the administrative burden, and consequently the error rate.

Another important aspect to highlight was the traceability of the values reached as the information used in the calculation of the Unit Costs has been stored in a database where each one of the prices obtained has a code which makes it possible to trace it back to the original document which justifies it.

## Challenges and lessons

- ❑ One lesson learned is that the application of Simplified Cost Options, specifically the application of SSUC, takes time to develop as some investments do not have a prior and detailed definition in order to calculate the budgets, and at other times there may be lack of cooperation from sector suppliers, so it is necessary to resort to invoices from previous calls and self-prepared quotations or those commissioned from specialist external agents. It took longer than expected.
- ❑ However, the main lesson learned is that the work can be done, and the Simplified Cost Options can be implemented to more funds than they used to be, such as EAFRD, which implies reducing the administrative procedure allowing the human resources and administrative effort involved in management of the Fund to be focus more on the achievement of programme objectives, at the same time that they make it possible to reduce the likelihood of error and make better use of the Fund.
- ❑ All these aspects are important in order to continue working with enthusiasm on the application of Simplified Cost Options for measures of EAFRD. Therefore, in relation to the case described, the next steps will be considering new investments requested by the beneficiaries which are not covered in the SSUC tables in order to include them in the study of the costs for application in the next round of calls.
- ❑ In addition, it is also important to look at automating the process of the application of the SSUC together with the digitalisation of applications, which will allow us to continue working on the administrative simplification.

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## Additional information

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