

## **3rd Meeting of the ESF Committee Ad-Hoc Group on the Future of the ESF**

**2 March 2010, Brussels**

### **Delivery systems (2)**

#### **1. Objectives of the meeting**

The objective of the second meeting of the Ad-Hoc Group on the Future of the ESF was to discuss the future delivery systems for implementing the European Social Fund. The discussions on the delivery system will continue during this third meeting.

There was broad consensus emerging in the Ad-Hoc Group that the different scenarios presented in January would need to be more detailed to allow for more in-depth discussions. In line with this demand the present paper gives additional details on two of the three scenarios presented in January, scenario (b) "refunding on the basis of outputs of programmes" and scenario (c) "budget support combined with result based management". Scenario (a) is not detailed as it corresponds largely with the current delivery system. However, experts of the Ad-Hoc Group are invited to contribute to a SWOT table also for this scenario.

#### **2. A discussion arrangement**

2.1. As far as the scenarios are concerned (see point 3) it is proposed that **you contribute to a SWOT analysis scenario by scenario (including the current system) and that you send it back to the secretariat of the Ad-Hoc Group by 24 February.** The analyses will be synthesised by the secretariat and used as basis for the discussions of the 2 March meeting.

The group will also be invited to pursue the discussions on the delivery systems and in particular to discuss the following issues:

2.2. During the period 2007 2013 the strategic approach is declined through a cascade of documents, from EU level (Lisbon Integrated Guidelines and strategic guidelines on cohesion) to national level (national strategic reference framework) then to thematic / geographic level (thematic or regional Operational Programmes). The same organisation applies also for EAFRD and a slightly different one for the EFF (National Strategic Plan / Operational Programme).

- *How should the strategic approach be translated in terms of programming? Is there a need for additional types of documents, for more or less revisions? Could there be a more direct link with EU policies, in particular Europe 2020?*
- *To what extent could the coordination between all the relevant EU policies and Funds be enhanced via a single EU strategic framework? Via a single national framework?*

2.3. The operational documents substantially changed between the two programming periods: they are now characterised by a higher concentration of documents (one OP vs CSF / Programme / Programming Complement or SPD / Programming Complement) and by a more strategic general approach in the formal content of these documents, and putting more emphasis on reporting and indicators.

- *What is the scope for improving the current operational documents by additional simplifications or, on the contrary, by the reintroduction of a more detailed structure (measures)?*
- *How should the strategic approach be translated in terms of reporting? What would be the added value of the introduction of common core indicators linked to the different priorities of the ESF Regulation? Should those be introduced in addition to indicators specific to the Programmes or replace them? To what extent should and could the strategic reporting be included in the reporting on implementation?*

2.4. Proportional intervention is one of the horizontal principles of assistance of the Funds. As defined in Article 13 of regulation (EC) No 1083/2006 it relies on the total amount allocated to programmes (and the co-financing rate in the case of audit strategy). It has an impact on the choice of indicators, on evaluations, on implementation reports and on a few principles of the management and control systems.

"Small" operations could also apply different rules. There are already some examples in the current legal framework: in the treatment of revenues, by application of lump sums (grants < 50 000 euro) or in the case of state aids (de minimis rule).

- *What could be the scope for an extension of the proportionality principle: to programming documents, to reports, to management and control systems and to operations (differentiation of eligibility rules, of control and audit, ...)? Apart from amounts allocated which other criteria could be used to apply a proportionality principle?*

2.5. All the authorities in charge of the management of the Funds share the same goals of sound financial management, minimising rates of error and achieving positive assurance for their programmes. The successive simplifications, the improvement of the national systems and a restrictive position of the Commission on payments had positive effects on the error rates. However reducing the error rate by interrupting/suspending the reimbursement to the Member States is not an optimal solution from a policy perspective.

- *How could the error rate in expenditure declared to the Commission be durably reduced? To what extent could (elements of) the rural development delivery system (where the error rate is lower than for structural funds) be used for the ESF?*

### 3. The three broad alternative scenarios

#### a. Refunding on the basis of actual expenditure of operations:

Community funds are paid out on the basis of the real eligible expenditure paid to operations by the national authorities (the payment to operations could be based on real expenditure of beneficiaries or on outputs of an operation in the case of lumps sums for example).

#### SWOT Scenario (a)

Strengths	Weaknesses

Opportunities	Threats

#### b. Refunding on the basis of outputs of programmes:

This system requires setting target output levels for an operational programme in the same way as contracts are designed. Community refunding would be done against agreed outputs while their real expenditure will not be examined. This would allow shifting the focus of programme managers from disbursement to outputs.

Under this approach the operational programme will become the most critical point of the system; the national authorities and the Commission would have to be able to set and agree on concrete output targets for the outputs for the operational programmes and clarify what the conditions for payments are.

A payment claim would still be based on aggregation of data operation by operation. However it would not be calculated by addition of reimbursements to beneficiaries (as in the current system, even in the case of standard scale of unit or lump sums) but on the addition of outputs operations by operations, independently of the real payments made by MSs.

What would be the pre-requisites of this system?

- 1) the outputs of the OP have to be predefined.
- 2) the unit cost of the outputs have to be agreed between the Commission and the Member States. This unit cost multiplied by the output reached will give the amount that the Commission has to reimburse.
- 3) the quantification has also to be negotiated

Theoretically, two main options are possible:

- Standard outputs ("core" outputs) and unit costs defined at EU level (with the possibility to adapt the costs according to countries and fields of intervention), closely linked to the activities / objectives of the ESF.
- Outputs and unit costs negotiated OP by OP between the Commission and the national authorities linked to the activities / objectives of the OP.

This arrangement could be reflected in the agreements with the beneficiaries (use of standard scale of unit costs with the same output and prices for example), but this would not be a precondition for the system to work. The audit trail would be based only on the outputs and their justification, not on payments from Member States to beneficiaries: the beneficiaries would thus declare outputs, not the expenditure. It needs to be noted that the basic elements of an output-based system are already available in the current programming round: the unit costs and lump-sums are newly available with the recent amendment of the ESF Regulation. These are however implemented between Managing Authorities and the beneficiaries or project promoters.

For example:

- *OP level*

In the framework of a priority of 72 million Euro aimed at increasing the employment rate, the following data could be defined and agreed between the Commission and the OP:

Output	Unit costs	Target
number of young people trained	€1,000 / young people trained	50,000 young people trained over the period
Number of older workers trained	€1,100 / older worker trained	20,000 older workers trained over the period

- *Implementation of operations*: The national authorities would implement several operations with the following outputs:

Operation A = 347 young people trained

Operation B = 227 young people trained + 115 older workers trained

Operation C = 246 young people trained

Operation D = 250 older workers trained

Payments from the Member States to the operations would not be taken into account, only the outputs.

- *Certification of expenditure and payment claim*

It would be based purely on outputs. It could have the following form:

Strategic priority	Output	Unit cost	Quantities certified
SP 1	- number of young people trained	€1,000	820
	- number of older workers trained	€1,100	365

The quantities certified are the sum of the outputs for every operation (820 = 347 + 227 + 246; 365 = 115 + 250).

The ESF claimed would be  $820 \times \text{€}1,000 + 365 \times \text{€}1,100 = \text{€}1,221,500$

- *Audit trail*: The verification and audits would target the outputs only, operation by operation: it needs to be demonstrated that 347 young people were trained in operation A (Was the operation related to the strategic priority? Were there 347 people trained? Were they young? ...). All the financial relationships between the Member State and the beneficiary remain under the sole responsibility of the Member State.

**SWOT Scenario (b)**

Strengths	Weaknesses
Opportunities	Threats

**c. System combining elements of budget support and results-based management:**

Another possibility would be to deliver the ESF through a combination of sector budget support and results based management

Results based management is the way an organisation applies processes and resources to achieve targeted results. Results may not be fully controlled, but the authorities have a very strong direct influence on what happens. Although it is impact that we may wish to change, it would be unrealistic to seek short-term changes at this level; in contrast focusing on results ensures that changes take place in those areas where governments can have a direct influence.

Sector budget support would entail the transfer of ESF resources to the Treasury of a Member State, following a prior agreement on a policy to be pursued in the given sector. The financial resources thus received are earmarked to help finance the agreed sector expenditure plan and are disbursed and accounted for through Government systems. It could be earmarked to a sector as a whole, or to critical categories of expenditures within the sector to ensure that the Member State gives adequate priority to certain spending categories.

Under this scenario, ESF resources would be transferred directly to the Treasury. The MS would report the achievements against the agreed targets. The transfers would depend on the agreed results being achieved.

A payment claim would be based on results reached and would not consist any more in an approach operation by operation. The relationships between the Commission and the Member States would concentrate only on the definition of the strategy and of measurement of the results, but not on the way they were reached. The audit trail would stop at the aggregated level, the general result being verifiable / auditable independently of the financing of operations. The relationship between the European Commission and the national authorities stop at Member State level (instead of beneficiary level as in the current system).

What would be the pre-requisites of this system? They are relatively similar to the system on refunding on the basis of outputs of programmes nevertheless with a stronger emphasis on the quantification of the expected results. An analogy could be made with a public tender where there is a pre-defined contractual price to execute specific works or services, the provider being in that case the Member State. The pre requisites would be the following ones:

- 1) the results expected from the OP / strategic priority have to be predefined.
- 3) the quantification of the expected results has also to be predefined.
- 2) the costs to be agreed between the Commission and the Member States in case the results are reached (or partially reached). It could be based on lump sums or unit costs.

2 main options are possible:

- Standard results ("core" results) and related costs defined at EU level (with the possibility to adapt the costs according to the areas), strongly linked to the objectives of the ESF and Europe 2020.
- Results and costs negotiated OP by OP between the Commission and the national authorities linked to the objectives of the OP.

For example:

- *OP level*

In the framework of a strategic priority aimed at increasing the employment rate, the following data could be defined and agreed between the Commission and the OP:

Result	Quantified target	Pre agreed cost
Number of young people in employment 6 months after a training	40,000	€ 50 million
Number of older workers in employment 6 months after a training	15,000	€ 22 million

- *Implementation of operations*: No requirement from an EU perspective. The national authorities would implement operations under their own responsibility.

- *Certification of expenditure and payment claim*

It would be based purely on results. It could have the following form, considering (for example) that the payments are made on the percentage of quantities certified compared to targets.

Strategic priority	Result	Quantities certified
SP 1	Number of young people in employment 6 months after a training	12,732
	Number of older workers in employment 6 months after a training	7,201

The quantities certified result from the collection of data by the Member States statistical systems of follow up.

The ESF claimed would be:

$$(12,732/40,000) \times 50 \text{ million} + (7,201/15,000) \times 22 \text{ million} = \text{€}26.476 \text{ million.}$$

- *Audit trail*: The verification and audits would target the results only, without any links to the underlying operations. Member States would have to justify 12,732 young people were trained (Were there 12,732 people in employment after 6 months? Were they trained? Were they young? ...). The audit work would evolve towards audits of statistics and reporting systems.

**SWOT Scenario (c)**

Strengths	Weaknesses

Opportunities	Threats