

Briefing note: Manual on the draft budget method

Article 53(3)(c) CPR, Article 25(6) Interreg Regulation

Version 1, August 2022



The document sets out briefly the contents and key questions that should be covered in a manual on the draft budget method. This can be a manual for applicants and the same or a separate one for the programme management. For the sake of simplification and coherence, we would recommend having only one document for both parties. For those parts of the manual that might require an update or change more often (such as the list of reference costs), we recommend using an annex or a link/reference to the list published by the programme.

Please note that this is a working document. We started developing it from the few practical examples we can find today (August 2022). We consider it a living document and we are happy to receive your feedback on it!

We consider small projects¹ in the SPF and so-called small-scale projects² as the main options to apply this method.

¹ Small projects (a term that should be used exclusively in the context of the SPF) are basically managed by the SPF beneficiary. However, establishing SCOs is the responsibility of the managing authority (MA) – hence, MA and SPF beneficiary should cooperate closely when developing the draft budget method. Small projects are not operations in the sense of the Regulations (since the SPF is the operation) but Article 25 of the Interreg Regulation explicitly includes the option to apply the draft budget method for small projects up to 100 000 EUR total costs. Small projects are implemented by final recipients.

² With the term ‘small-scale projects’ we refer to option a) in Article 24 of the Interreg Regulation. Cross-border programmes (Strand A) must establish either an SPF or they have to provide the option for projects of limited financial volume or, as we call it, ‘small-scale projects’ directly managed by the MA/JS. The volume of small-scale projects is not defined in the Regulations. With a view to the use of the draft budget method, the limit is 200 000 EUR total cost. Small-scale projects are implemented by beneficiaries.

Section	Guiding questions/ reflection points	Considerations/ Comments
Introduction		
A few introductory words	Why use the draft budget?	<ul style="list-style-type: none"> • The draft budget method allows for a broad range of diverse projects since it has no limiting conditions upfront. • Another reason may be insufficient /incomparable programme data to establish programme-specific SCOs or long development periods for such solutions. • However, it requires a bit more work front-of-pipe: <ul style="list-style-type: none"> - for applicants/ final recipients: before contracting but tremendous savings of time and energy in implementation (no more financial reporting/simplified financial reporting and no lengthy control procedures (management verification) as it used to be); - for programmes/ SPF beneficiaries: developing the methodology, establishing and updating reference costs/cost benchmarks upfront, but significant reduction of work during the project implementation, monitoring, verification, and control.
Rationale & purpose of projects	What for are we introducing the draft budget?	<ul style="list-style-type: none"> - Major purpose of the projects. - Types of projects (type by contents [e.g., people-to-people (p2p)], financial limits per type, coverage in case of small-scale projects if for all or only for specific objectives, SOs, or even specific topics stemming from strategies (e.g., PO5), etc. - Reference to general rules (e.g., eligibility, application, reporting) which apply.

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Intro to the method	<p>How do we do it?</p> <p>A brief introduction outlining the principles of the calculation method with the aim to establish SCO(s)</p>	<ul style="list-style-type: none"> - Developing the methodology and a catalogue of reference costs for programme rules (MA/JS/SPF beneficiary).³ - Detailed budget provided by the applicant following the programme rules as a basis, transformed into one or several SCOs (lump sums, unit costs, flat rates). - Definition of inputs/ outputs as milestones (intermediate steps) where relevant, working as payment triggers (mainly for lump sums). - SCOs established based on the draft budget application are taken to the contracting document (the draft budget itself is documented by the MA/JS/SPF beneficiary). - Implementation, audit trail, verification and control of the project follow principles of established SCO(s) with all its consequences (e.g., no verification of underlying expenditure!)
Explanation of the procedure	<p>Who is doing what and when?</p> <p>A brief sketch of the procedures and responsibilities throughout all stages of the project life cycle: from application to closure.</p>	<ul style="list-style-type: none"> - Announcing call for proposals (dedicated or part of the general call for proposals) outlining principles of the calculation method – JS/MA/SPF beneficiary. - Preparation and submission of a detailed and factual budget following programme’s rules – in the hands of the applicant. - Checking the budget - JS/MA/SPF beneficiary. - Transforming the application into SCO(s) could be done before or after the selection of the project by the MC (depending on the programme’s approach to project generation, the number of incoming applications and approval rates, etc.) – done by JS/MA/SPF beneficiary (the applicant is informed or could be involved in the process). - Defining SCOs plus milestones⁴ – JS/MA/SPF beneficiary in close cooperation with the applicant (so that applicants know exactly what has to be delivered, what supporting information/evidence needs to be provided to generate payments, etc.).

³ The reference cost can be used to check the budgets, but we recommend using it also as a signal to applicants: in practice, it could mean that as long as the applicant uses these reference costs in the application, no further documentation for cost estimates is required to be provided by the applicant.

⁴ In this document we use the terms ‘milestone’ and ‘payment trigger’. We recommend using milestones as payment triggers and to limit their number.

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		<ul style="list-style-type: none"> - Defined SCOs and milestones should be reflected in the contract. - Implementing the project and reporting based on SCO(s) rules; i.e., mostly the delivery of results and evidence linked to milestones as a key task for the applicant. - Verification of results and control based on SCO(s) rules – SPF beneficiary/JS/MA/national controller. - Payment upon delivery of evidence for results/achievements/stages according to milestones – MA/SPF beneficiary.
Principles	<p>How to develop your project budget?</p> <p>Guidance for an applicant – to be part of the call for proposals when announcing calls for projects with the draft budget method.</p>	<ul style="list-style-type: none"> - Reminder for “value for money” or the three E (economy, efficiency, effectiveness) as an overarching rule! - Requirements to document the cost estimates used in the budget (e.g., reference costs, whether to use (several) comparisons offers, internet search) – submitted as part of the application. - ERDF co-financing rate and (in case of some programmes) additional requirements for match-funding (co-financing). - Handling of VAT (if deductible by applicants/final recipients).
Cost categories & eligibility		
Overarching reflection	<p>How to keep it simple?</p> <p>Further information on how to structure cost categories in the draft budget.</p>	<ul style="list-style-type: none"> - Indicate if general programme eligibility rules apply or if there are some differences (e.g., cost category infrastructure and works might not be eligible). - Top-down use of off-the-shelf/ programme-specific SCOs: a programme can decide from the outset that certain cost categories are reimbursed as SCOs (SCOs inside the draft budget method) to simplify the work for the applicants (no evidence and calculations have to be provided for cost categories/ items established by a programme as SCOs).

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		<ul style="list-style-type: none"> - A programme can also decide to use a lump sum for preparation costs for these projects (e.g., costs for a limited number of meetings and translation of the application); usually it is paid only if the project is approved/ selected. - The provisions on cost categories should include signals to prevent recurring problems spotted in the 2014-2020 period (e.g., too many laptops or cameras, too many hours to prepare a certain service, etc.). - Other specific, budget-related issues such as handling of revenues⁵.
Staff costs	How to get reimbursement for staff costs?	<p>Indicate whether general programme rules for staff costs apply or if there are some differences for these types of projects.</p> <ul style="list-style-type: none"> - An exhaustive list according to Article 39 of the Interreg Regulation illustrating eligible expenditures. - Clarify for which types of projects staff costs are eligible (e.g., it might be disproportionate in micro-projects up to 5 000 EUR with p2p actions); - As a simplification measure, a programme can offer using the 20% flat rate (off-the-shelf) or another programme-specific SCOs to reimburse staff costs inside the draft budget (e.g., standardised hourly rate, unit costs per functional groups, etc.) - Further clarifications, e.g., eligibility of costs of self-employed staff.
Office and administrative costs	How to get reimbursement for office and administration costs?	<p>Indicate whether general programme rules for office and administrative costs apply or if there are some differences for these types of projects.</p> <ul style="list-style-type: none"> - An exhaustive list according to Article 40 of the Interreg Regulation illustrating eligible expenditures.

⁵ Some programmes offer the option that revenues can be used as own resources for co-financing – we encourage you to consider this solution!

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		<ul style="list-style-type: none"> - As a simplification measure, a programme can establish a compulsory use of off-the-shelf flat rates⁶ inside the draft budget method (with the basis of staff costs or direct costs of a project) to reimburse indirect costs.
Travel and accommodation	How to get reimbursement for travel and accommodation costs of project staff?	<p>Indicate whether general programme rules for travel and accommodation costs apply or if there are some differences for these types of projects.</p> <ul style="list-style-type: none"> - An exhaustive list according to Article 41 of the Interreg Regulation illustrating eligible expenditures. - As a simplification measure, a programme can establish a compulsory use of an off-the-shelf up to 15% flat rate⁷ to reimburse travel and accommodation costs inside the draft budget method (based on staff costs). - Reference costs (e.g., mileage fee according to tax regulation or, a standard fee per km regardless of the chosen mode of transport; a standard fee for cost per night in a hotel) could also be used to simplify the work for applicants.
External expertise and services	What can be purchased?	<p>Indicate whether general programme rules for external expertise and services apply or if there are some differences for these types of projects.</p> <ul style="list-style-type: none"> - An exhaustive list according to Article 42 of the Interreg Regulation illustrating eligible expenditures. - Provide options to document cost estimates (e.g., comparison offers, market research).

⁶ Three options for flat rates on office and administrative costs are possible in Interreg – cf. Article 54 CPR.

⁷ Article 41 of the Interreg Regulation

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		<p>The programme could introduce reference costs for recurring cost items, for example:</p> <ul style="list-style-type: none"> - expert fees per hour; if required (owing to a bad experience in 2014-2020) introducing also a ceiling (maximum) for the number of hours for certain services (e.g., for a lecture); - costs for catering per person with/without rent of a venue; a clear definition of half-day and full-day events; clear provisions for online meetings; - costs for interpretation/ translation; - in-kind contributions if eligible, e.g., hourly rate for voluntary work (in several Member States (MS), one has established hourly rates from LEADER); - bus transfers (per km or per half-day/ full day, etc.); - print materials (per page, per type (e.g., flyer), etc.)s
Equipment	What can be purchased?	<p>Indicate whether general programme rules for equipment apply or if there are some differences for these types of projects.</p> <ul style="list-style-type: none"> - An exhaustive list according to Article 43 of the Interreg Regulation illustrating eligible expenditures. - Specify provisions on project-related equipment (reimbursed in full) versus equipment necessary for implementation but used for a different purpose after project end (ineligible or depreciation). - Provide options to document cost estimates (e.g., comparison offers, market research). - Hint that the check will include considerations on the proportionality (e.g., numbers of laptops and cameras per project).
Infrastructure and works	Which types of small-scale infrastructure can be funded?	<p>Indicate whether general programme rules for infrastructure and works apply or if there are some differences for these types of projects.</p>

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		<ul style="list-style-type: none"> - An exhaustive list according to Article 44 of the Interreg Regulation illustrating eligible expenditures. - Comment on items with a particularly <u>low</u> likelihood for approval (e.g., purchase of real estate ...) - Provide options to document cost estimates (e.g., comparison offers, market research). - Demarcation line towards other cost categories (e.g., planning would be budgeted under external expertise).
Ineligible cost	What cannot be funded?	<p>List according to Article 64 CPR/ any other programme-specific rules⁸.</p> <p>Provisions based on other EU and national laws (e.g., works of art, artist fees, catering for partner meetings without effect on project visibility, service providers in close economic/personal relationship).</p>
Draft budget in the project life cycle		
Assessment	How to assess the budget proposal?	<p>Assessment principles:</p> <ul style="list-style-type: none"> - Assessment is based on the cost benchmarks/reference cost catalogue to the widest extent; - case-by-case approach; - ensuring consistency of assessments across projects (equal treatment of applicants or beneficiaries and final recipients); - coherence and proportionality have to be verified;

⁸ The necessary ones, not the ones leading to imposing additional administrative obligations (no gold plating)!

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		<ul style="list-style-type: none"> - sound assessment of proposed budget and activities versus outcomes (value for money).
Transformation to SCOs	<p>Which SCO to choose? What is the best SCO for a particular project type? How many SCOs?</p>	<ul style="list-style-type: none"> - The method leads to a project-specific SCO; - all three types of SCOs can be established but in practice, they will be mostly lump sums; - options: to use a single or several SCOs (different types – lump sums, unit costs, flat rates) or a combination of SCOs (e.g., lump sums with unit costs); - SCO can be established for the whole or a part of the project (where there are certain non-typical activities which could be clustered into an SCO); - considerations on a number of milestones, related payment triggers and evidence.
Contracting	<p>What should be part of the contract between the beneficiary/ final recipient and MA/ SPF beneficiary?</p>	<p>It is recommended to use a standard template of the subsidy contract. We recommend an abridged version for small-scale/ small projects. The contract should include:</p> <ul style="list-style-type: none"> - duration of the project; - amount; - SCO(s) established using the draft budget method; - definition of outputs to be delivered; - conditions, milestones, percentage of the payment assigned to specific milestones and respective payment triggers (i.e., supporting documents and evidence for payments to happen).
Documentation of the method	<p>Why, what, how & who should document the process?</p>	<p>Why?</p> <ul style="list-style-type: none"> - To ensure the equal treatment of beneficiaries using the method; - for the future audit of the method (done by the AA);

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		<ul style="list-style-type: none"> - to establish programme-specific SCOs for recurrent items/activities and create a collection of future reference points. <p>What?</p> <ul style="list-style-type: none"> - Draft budget proposal with supporting documents (e.g., the historical data of the beneficiary, the amounts obtained by application of its usual cost accounting practices, any available data on market research); - established SCOs (e.g., the correctness of the calculation (whether the amount of lump sum/unit cost/flat rate results from the data used for the draft budget); - sources of the data used by the MA for analysis of the draft budget (e.g., reference costs in the cost catalogue); - evidence confirming that the amounts assessed by MA are reasonable. <p>How?</p> <ul style="list-style-type: none"> - E- monitoring system (MA/JS), separate decision for small projects. <p>Who?</p> <ul style="list-style-type: none"> - MA/JS/SPF beneficiary.
<p>Milestones and reporting</p>	<p>What is required to get the reimbursement?</p> <p>How to document the achievement of milestones?</p>	<p>Clarification if only the evidence for the achievement of milestones is required or if a crisp and concise project report will be requested. Reiterating in more detail the major elements to get expenditure reimbursed:</p> <ul style="list-style-type: none"> - rules for the definition of milestones (several options are possible; e.g., based on weight, stages, key outputs) – preferably a limited number of milestones to be used (3-5); - rules to define evidence for the achievement of milestones (several options: standardised or optional ones; fully / partly up to the applicant to propose; if several, clarify if it is either ... or OR if all evidence has to be delivered); - minimum performance scope of a project/small project (e.g., preparation of project and joint final conference is not enough);

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		<ul style="list-style-type: none"> - time schedule, payment frequency and arrangements (advance, interim payments, etc.) <p>The specific approach in Interreg Austria-Bavaria:</p> <ul style="list-style-type: none"> - So-called quantifiable milestones: in some cases, milestones might consist of elements that can be counted (e.g., for 10 workshops the aggregate budget assigned to this milestone can be divided by 10 and this gives you the cost per workshop – similar to the unit cost approach); - quantifiable milestones have to be earmarked in the application and will be taken to the contract; - not all milestones can be quantifiable – only where it makes sense! <p>Such an approach (quantifiable milestones) allows for reimbursement in the case of partial delivery (pro-rata amount). For example, if only 8 out of 10 planned workshops happen, the beneficiary/recipient would receive still 80% of the aggregate value for that particular milestone (if the milestone with 10 workshops accounted for 50% of the total project budget and only 8 workshops are delivered, the project will get 80% of the 50% of the initial value of the milestone).</p> <p>NB: a programme should consider the drawbacks of using quantifiable milestones. If the planned number of units is not delivered, this will affect the overall project spending, which will automatically affect programme’s spending levels (as costs were “booked” for a particular project).</p>
Publicity and communication	How to show your achievements?	Provisions on communication in accordance with Article 36 of the Interreg Regulation using the logo as provided by the programme.

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State aid	What if your project includes State aid-relevant activities?	Provisions on the handling of State aid-relevant projects. The most likely options for small-scale or small projects are: <ul style="list-style-type: none"> - de minimis (Regulation 651/2014) – not ranked as State aid!; - General block exemption rule (GBER), Articles 20 and 20a.
Annex		
Reference costs/ cost benchmarks		List of reference costs/cost benchmarks (or link to a list on the website); the validity date of the list should be indicated. <ul style="list-style-type: none"> - Given the current price increases and inflation more frequent updates than in the previous period might be required. - The list can be updated when/ if the MA/ SPF beneficiary spots other recurrent items in the draft budget applications that are worth taking up as reference costs or in other justified cases.