

Working Paper on Financial Management

INTERREG financial management can be a source of considerable disagreement and differences of interpretation. It has, however, a far-reaching effect on programme implementation. The paper below introduces some of the most important aspects of programme financial management. It is intended to generate ideas rather than offer a comprehensive guide to the subject.

I Project Budget

Project costs and project funding are a core element of project application and implementation.

1. Project match-funding/ national co-financing

- Contributions from public budgets. Co-funding normally stems from the national, regional and/ or municipal level.

Example NL/DE EUREGIO, Euregio Rhein-Waal and rhein-maas-nord:

50% ERDF; 15% North-Rhine Westphalia; 15% Dutch provinces; (both from a special budget set aside for the co-financing of INTERREG projects); 20% applicant body's own fund.

- *Do special budgets exist to co-finance projects of your programme? Is there a specific application procedure?*
- *If not, what are the main sources for co-financing?*

2. Using staff costs as match-funding

- Such contributions are becoming more and more important for project financing since EC made clear that internal hours of project partners (public or private) are *not* considered as contributions in kind but as "paid expenditure" according to Rule 1.1 of Reg. 448/2004. There is no upper limit for reimbursement. Nevertheless, some programmes apply limits, partly only for public national staff.
- *Should there be information in the application form about the staff-cost share of every partner?*
- *Should the reimbursement of staff costs be limited?*
- *What is the most reliable accounting evidence for staff hours?*

3. In-kind contributions

- This kind of contribution can also play a role in project funding. For example:
 - Unpaid voluntary work: for example if members of a ski-club help to construct a ski jump

- Provision of equipment or material: office space and equipment, conference rooms, provision of timber for the ski jump
- *The value of in-kind contributions is often difficult to calculate. Do you provide guidance notes? Do you apply any restrictions (for example for the provision of equipment and material as under the IIIC programmes)?*
- *Do in-kind contributions play an important role in your programme?*

4. Information requirements in the application forms about match-funding

- Sometimes there is very little information on which budget the applicant's own funds come from.
- The match-funding can consist of cash, staff costs, contributions in kind, depreciation or overheads. There are projects nearly totally financed by staff costs.
 - *Should there be information about the staff cost share and the in-kind contribution of every partner?*
 - *How can programmes ensure that the limits for in-kind contributions are not exceeded?*

5. Contributions from the private sector

- Expenditures from private actors for a project are only eligible for reimbursement if the ERDF contribution for the programme is calculated in relation to *total eligible expenditure* (i.e. if the ERDF for the programme is calculated on the basis of the sum of total public and private contributions). Only a few programmes have done this, e.g. Bavaria/ Austria, Germany/ Austria/ Switzerland, Italy/ Austria, Belgium/ Netherlands.
- Some examples of private participation in INTERREG:
 - Cooperation of tourism federations or hotels to elaborate a joint tourism concept for the region
 - Cooperation of regional fair associations of both sides of the border.
 - Construction of a ski-trail by sport clubs
 - Cooperation of Technology Centres
 - Direct grants to SME's helping companies to learn about and operate on the other side of the border. The contribution of the firms can be regarded as co-financing.
- If *total public or public-similar eligible expenditure* is the basis for calculating the ERDF contribution to the programme in the financial tables, any private contributions to project funding must be regarded as receipts (i.e. they do not generate ERDF). If financial tables have been prepared in this way, the only way for private actors to contribute is with a 'public-similar' status. The question of a definition of "public-similar" therefore arises. As no EU-definition exists, national rules apply. EC, however, recommends using amongst others the following criteria for the assessment:

- Are the activities carried out by the private partner directed towards public interest?
- Are the expenditures generated by the private partner subject to public tender rules?
- How is their expenditures evaluated with regard to state aid?
- Are their expenditures subject to public controls de jure or de facto?
- These criteria are, however, a set of questions rather than a definition.
- Project partners often find it difficult to involve private partners in their project as public-similar. Thus it is important that the programme provide clear guidance on the conditions under which private partners can participate.

6. Other issues influencing private sector involvement

- In the case of the reimbursement of private expenses, state aid rules have to be followed. This should not cause a problem if:
 - The grant is subject to an approved state aid scheme
 - The grant falls under the block exemption system for SMEs, employment aid and training aid
 - The grant is qualified as “de minimis” aid
- Some programmes ask for bank guarantees from private actors: to assure their financial capacity and to reduce the danger of a Lead Partner filing for bankruptcy. The costs for the guarantee are eligible under the condition that ‘a guarantee is required by national or Community legislation or in the Commission Decision approving the assistance’ (Reg. 448/2004 Rule 3, §4). For example, in Germany such costs are ineligible while in Italy they are eligible because they are required by national law.
- Programmes are encouraged to foster Public-Private Partnerships (PPP). However according to the draft regulation (Article 51§ 2) only public match-funding will be eligible in the new funding period.
- *For which kind of projects can private participation be useful? What are your experiences with private participation in projects?*
- *How can the EC and the programmes make participation by private partners easier?*
- *Do you recognise public-similar match-funding in your programme? What definition of ‘public-similar’ do you use?*
- *Does your programme require bank guarantees?*
- *What implications could the proposal in the draft regulations on not allowing private match-funding have for your programme?*

7. Contracting procedure

- A key element for quick project start-up and avoiding delay in implementation is timely authorisation of the subsidy contract. The contract should include the projects tasks, budget, audit requirements, legal requirements and any special requirements of the Steering Committee.
- Under a Lead Partner system different contracting procedures are possible:
 - One joint contract for both the ERDF grant and the national grants from both sides (e.g. German-Dutch border)
 - One contract for the ERDF funds and additional contracts per partner for the national co-financing (e.g. PAMINA)
- If the Lead Partner principle is not applied (single-partner projects, mirror projects) different procedures are still possible:
 - One joint contract containing both the ERDF and the national grant (e.g. DE-AU Austrian side)
 - Separate contracts for the ERDF and the national grants (e.g. DE-AU German side)
- *How long does the contracting procedure take in your programme? What procedures are in use?*
- *How many contracts do you issue per project? If there is more than one contract: How do you organise coordination between them?*

8. Project costs

- There are very different requirements on level of detail of financial information in the application. In some programmes just one figure for the total project cost is requested, which gives the applicant full flexibility on how to spend the money but creates very little transparency about the use of funding.
- In most programmes the budget is split into ten or more budget lines. This makes it possible to assess whether the different budget lines correspond to the activities described in the application. Value for money can then be better assessed.
- Nearly all programmes also ask for annual budget targets, in total or per partner; some only for information (indicative), some as part of the subsidy contract, with the aim to avoid N+2 problems.
- Some argue that it is difficult to calculate the expense per budget line or per year already during preparation of the project. There is then a danger that some projects are over-budgeted, which could have several negative consequences: Project budgets cannot be exhausted; N+2 problems, low value for money, missing opportunities for spending money efficiently.
- Flexibility for budget changes can partly avoid these difficulties. Generally there are three kinds of possible changes:
 - Minor changes: JTS has to be informed; changes must be explained

- Major changes: approval by JTS necessary
- Big changes: decision by SC necessary
- *What financial information is asked for in the application form? Is your experience that this information is sufficient/ too little/ too much?*
- *Do you allow for budget changes?*
- *How do you avoid over-budgeting? If the decision of the Steering Committee requires budget cuts for a project, how are these cuts calculated?*
- *How binding are the annual spending targets? What actions do you take if targets are not met?*

II. Some eligibility issues

1. The main eligibility rule: national rules apply!

- This is stated in Reg. 1260/99 Art. 30/3 but it often seems to be overlooked. Many programmes and application forms refer only to Reg. 448/2004 but this regulation only settles specific (problem) cases. For most expenditure of INTERREG IIIA projects national rules apply.
- Problems may arise if national rules differ in the participating countries. Programme specific eligibility rules might then be needed.
- Currently a specific regulation on eligible costs for the future territorial cooperation objective is being developed.
 - *Does the programme issue eligibility guidelines? If not, how are eligibility rules decided on and explained to project developers?*

2. Starting date for eligibility/ preparation costs

- Different approaches:
 - Approval of programme
 - Date that programme receives application form
 - Decision date by Steering Committee (whether under condition or not)
 - Date when the subsidy contract/ public authorisation is issued
- If the decision of the Steering Committee or conclusion of the subsidy contract is the starting point, the problem of preparation costs arises. Programmes could introduce a specific starting point for preparation costs. In any case, such costs are only reimbursed if the project is approved.
- Some programmes set aside programme funds as *seed money* to support the development of project ideas, strengthen project partnerships, test the viability of particularly innovative ideas



etc. Seed money projects are small in terms of funding (up to 20.000 €). Their objective is to result in mature projects ready to submit an application for a 'full' project.

- *What is the start date for eligible costs in your programme? Are preparation costs eligible?*
- *Would you consider funding seed money projects in your programme to support project development?*

3. Advance payments

Advance payments could be used to kick-start project implementation.

- Advance payments from the Paying Authority (PA) to the project (final beneficiaries):

This type of advance payment should be possible by making use of the advance payment of 7% of programme funds from the EC. Such an advance payment to the project before it has submitted its first claim for payment would be a very effective way of speeding up project implementation. There would, however, also be a significant risk that financially unstable organisations might try to use ERDF as a lifeline or that first level control would later discover serious financial management problems. Moreover, it must be stressed that these payments cannot be included in expenditure declared to the EC and will then have no impact on avoiding de-commitment, unless the final beneficiary has actually paid out the advance. The PA would have to control this, which might lead to financial management problems. This seems to be the reason why not many programmes make advance payments to their projects.

- Advance payments from the national co-financing budgets to the project partner:

If the PA and the national co-financing body are different bodies, national funds could be used to make advance payments if this corresponds with national budget law.

- Advance payments from a project partner to a supplier must be distinguished from the above-mentioned options:

These contractual advances (payments from a project partner for the execution of works and services in accordance with normal commercial law and standard customs in the business concerned) are treated as expenditure actually paid out. They could be made use of to meet the annual budget targets.

- *Normally projects have to be pre-financed by their partnership until they receive the first payment (usually six to twelve months). Does this create difficulties? How do you work to overcome them?*
- *Are there programmes that use national contributions as a source for advance payments?*

III. The Lead Partner principle

- Not all IIIA programmes apply the Lead Partner principle at present. Reasons why some programmes are reluctant:
 - Projects are implemented with only one partner funding the project and they do not see the need for a Lead Partner.
 - Programme and project managers fear control problems.
 - Legal obstacles: Sometimes budget laws forbid spending money outside a partner's own territory.
- However, in the next funding period the Lead Partner principle will become obligatory. The arguments for why this is needed are:
 - A Lead Partner is seen as a guarantee for 'true' cooperation and coordination of activities.
 - The cross-border character of projects and programmes needs to be strengthened. This is why the four cooperation criteria have been introduced (c.f. Working Paper on Project Development, Selection and Monitoring) and to be properly implemented they require that a Lead Partner runs the project.
 - As all contact between the programme and a project will go through the Lead Partner, the programmes will have less partners to deal with and information activities, reporting etc can be handled more effectively.
- *Do you have to make changes to your programme to be able to apply the Lead Partner principle in the coming period? What preparations can you make already now?*

IV First level control

- There are very different ways of organising first level control:
 - Decentralised vs. centralised systems: In the decentralised system, invoices are checked at the premises of the partner or Lead Partner by an independent control body. In the centralised system all invoices must be sent to a central body that checks the whole programme or checks invoices from partners of the country concerned.
 - 100% control vs. sample checks
 - Public vs. private auditor
 - One controller for all (even public, e.g. German/ Dutch border) vs. different auditors for each project partner
- The decision on what control system to use depends on the desired degree of reliability and its proportionality in terms of the amounts being controlled and the duration of the control. With, for example, a centralised system it is important that there is enough manpower to do the

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checking to avoid bottlenecks and delays. However in a decentralised system programme bodies will still need to monitor procedures and methods used in the first level control.

- *What are the features of your first level control system? Do you allow projects to submit claims to the PA after everything has been certified by an independent auditor?*
- *Who does the first level control? On what grounds are the auditors chosen?*
- *Do you have experiences of centralised first level control?*
- *Experiences with external auditors?*