Zoom in on the draft budget method

Q&A
July 2022

1. Where can we find presentations with programmes' examples presented at the event?

Presentations of all methods are available as the event material on our website.

2. Do we include a flat rate for personnel etc. to lump sums? Or can the flat rate be separate?

We assume that the question is about a lump sum set up using the draft budget method. It makes sense to put inside of the lump sum all costs of the project and establish a lump sum amount (although doesn't necessarily have to be a lump sum, can be any SCO) – the aim of the draft budget method is to simplify projects' implementation.

3. If the small project has several tasks and each task is a lump sum and has its own milestone, can we define output indicators on the level of the whole small project?

The aim of the draft budget method is to simplify projects' implementation. Thus, it is not recommended to create several lump sums with their own milestones as it only complicates project's implementation. It has to be as simple as possible: a single amount of the lump sum, with several milestones if a single concrete output cannot be defined (milestones could be seen as smaller lump sums themselves that trigger payment of a certain % of the total amount of the project's lump sum).

4. Do the milestones in these "small lump sums" have to be only the output indicators defined in Programme, or can they be other outcomes defined by the applicant?

No, they don't have to be. Milestones are intermediate deliverables that contribute to the delivery of the project's outputs.

5. Why have you set a flat rate of 5% for accommodation and travel? (Regulations allow up to 15%).

Indeed, with off-the-shelf flat rates Regulations allow "up to" a certain percentage. It is up to the programme whether to use the maximum % or lower. However, programmes should always ensure equal treatment of the beneficiaries and if there are differences, they should be duly justified.

6. How will you index the items in the benchmark catalogue year-on-year? (Inflation according to Eurostat, etc.)?

Up to the programme to decide on the frequency of the adjustment and on which data sources to use. It is advised, though, to use official sources (e.g., Eurostat, national statistics offices, etc.)

7. Does this mean that you determine either a lump sum or unit cost from the draft budget, depending on whether the milestone is countable?

Where it makes sense and where it is in line with the programme's and project's objectives, some milestones could be set as unit costs. This means in practice that the amount for such a milestone will depend on the number of units delivered. A question to think of in such a case is whether a programme wants to set the minimum/ maximum amount that can/ should be delivered by the project.

8. But practically talking - if we use JEMS and the project budget due to price increase will be increased, how will it look and what problems it might cause?

This question is not specific to the draft budget method and SCOs established based on it, but it is a question relevant for all types of projects and SCOs established using other methods (e.g., programme-specific SCOs). Normally, the draft budget method to establish SCOs will be used in small-scale and small projects that have a shorter implementation period than regular projects. Foreseeing or in-building adjustment methods in the methodology is advised to account for price increases.

9. Following the prices are rather an "accountancy" task, but it was said that JS doesn't need to do it, but focus on results. How to achieve that?

What we meant is: for the draft budget method, checking the plausibility of prices ex-ante is a task of the MA/JS (in the case of small-scale projects) or the SPF beneficiary (similarly to the assessment of the project's budget composed of real costs). Part of this work is to establish and update a catalogue of benchmarks or reference costs for recurring items and/or to request comparison offers or market research from applicants. When establishing the catalogue of benchmarks, the expertise of controllers might be useful. Please remember: the use of the draft budget means no more cost items with real costs after the application phase! Implementation is done following the SCO(s) established based on the draft budget method.

Checking ex-post the quality of outputs and stating that project objectives have been met, should be again the task of the MA/JS or the SPF beneficiary. Performing management verification according to a risk-based method established at the programme level by the MA or in accordance with minimum standards set by the MA for national controllers is a task of the controllers - this is then rather perceived as an accountancy task.

10. How is the audit trail ensured for the lump sum projects developed by the draft budget method?

The audit trail follows the same principles as the ‘regular’ lump sum (e.g., preparation costs in regular projects). It has to be agreed in advance on the output of the lump sum and how it has to be documented. If a project uses milestones, it should also be agreed on how to document the achievement of the milestone that triggers payment.

11. Prices of "things" is relatively easy to follow, but the services, especially when creative touch, mission impossible. Any tips?

Still, some of the programmes opting for draft budget work with the hourly rates – large parts of creative industries work in the end on the basis of hourly rates. In Austrian programmes, artists have to use the hourly rates of professionals such as facilitators. One could also use market research, 3 offers, award competition, two-steps approach (design and implement – the “implement” part is optional, subject to the availability of resources).

12. Isn't the difference for the draft budget method that here beneficiaries give real costs that have to be converted - the type of SCO can be off-the-shelf or any?

The draft budget method is one of five methods to establish SCOs (Article 53(3) CPR). The simple logic of the method is that the beneficiary provides a budget with real costs which are then converted to an SCO(s). Implementation of the project is done based on the SCO(s) established and not the original real costs. It makes no sense to ask the applicants for the real costs and then convert them into off-the-shelf SCOs – off-the-shelf SCOs are already established in the Regulations, and each programme can simply take and use them without there being a need for the programme to develop the methodology to justify numbers/ percentages and beneficiaries to provide real costs.

13. If a small-scale project budget is constructed by having cost category CC4 real costs + CC1, CC2, CC3 - flat rates, then a draft budget is not needed? What if adding CC5?

The draft budget method should be used for small-scale/ small projects (up to EUR 200 000 and EUR 100 000 respectively) for projects with a lot of small different activities that cannot be covered by the regular programme-specific/ off-the-shelf SCOs. Or it could also be an option where projects have unique activities, and the programme data is not available to set up other SCOs.

You could in-built off-the-shelf SCOs inside a draft budget method, where CC2 (indirect costs) could be a flat rate – so that your beneficiaries would not need to provide real costs for office and administrative costs. If you have a project where CC1, CC2 and CC3 are off-the-shelf flat rates, what is the point of using the draft budget method? If your intention is to establish a single lump sum amount for such a project (CC1, CC2, CC3 –

off-the-shelf SCOs, CC4 and CC5 – real costs), theoretically you could do so, but think about the intensity of work you (MA) would need to put in in the assessment of each draft budget application, conversion it in SCOs, proper documentation, etc.
See also answer to question 16.

14. Can the small project fund itself use the draft budget for the management costs?

This question is still under clarification with the EC colleagues. We will come back to you with the news in the SPF community as soon as we will get the answer.

15. Can you make a payment in advance, e.g., the milestone of "signed a grant agreement" triggers an initial payment of 30% of the grant?

If this makes sense to your project and programme's objectives, there are no legal provisions that prevent one from doing so. The logic is similar to the programme-specific preparation costs lump sum – upon the signature of the SC, a project gets a certain amount of money (lump sum for preparation costs) as it is acknowledged that preparing and submitting an application requires some work from the beneficiaries. To be discussed while drafting the programming procedure, what to do with a paid lump sum if projects' outputs will be not delivered, or the project will stop implementation. For the possible solutions, please have a look at the joint slides (slide no. 9) from our February event.

16. Is it possible to have staff costs as unit costs + flat rates (office & administration) + the draft budget part (milestones)?

We should not mix up such things. The draft budget method is a method to establish an SCO. Inside the method, you could use off-the-shelf flat rates to simplify the process for the beneficiaries (they will not need to provide real costs, for example, for office and administrative costs). You could have staff costs as programme-specific unit costs. For other cost categories, beneficiaries will have to provide real costs. Then, normally, the whole project, covering all cost categories, will be converted to a single SCO (e.g., lump sum) if you're using the draft budget method. Within this lump sum, milestones could be set up – to reduce the risk of no payments to the beneficiaries if the output of the lump sum is not delivered/ partially delivered. These milestones serve as payment triggers that trigger payment of a certain %/ amount of the total amount of the project's lump sum.

On the other hand, it is possible to use the draft budget method for the part of the project. However, you should remember the following:

- for small-scale projects and small projects, the whole project should be implemented using SCO(s) (e.g., it will not be enough to have staff costs as real costs and the rest of the project as the draft budget -> SCO). The situation described above will be sufficient: staff costs – SCOs (unit costs), office and administrative costs is a flat rate built on top of staff costs, rest – SCO(s) established using the draft budget method;

- using off-the-shelf flat rates – e.g., one cannot establish an SCO(s) using the draft budget method, and on top calculate a flat rate for indirect costs – as the basis for the flat rate is staff costs which in this specific case are hidden inside the draft budget SCO.

17. Could you provide some examples of "adequate" milestones?

There could be different approaches to setting up milestones. For example, process milestones, where delivery of a single output is done via several steps. Let's take a marketing campaign as an output. To do a marketing campaign, one needs to analyse the target group(s) and market and produce some inception report (milestone 1) and as a second step, we have delivery of the marketing campaign (milestone 2). Delivery of the inception report can trigger payment of 40% of the project's amount, and delivery of milestone 2 triggers 60% of the total amount.

Where it is not possible to identify a single output of the project, milestones could be independent of each other, however, still contribute to the objectives of the project. For example, milestone 1 – kick-off conference, milestone 2 – app, milestone 3 – strategy, etc.

It is advised not to establish too many milestones (2-3). Where the output of the project is clearly identified as a single output, it is not a must to even have milestones.

18. In the case of the marketing campaign as the payment trigger: is it enough to establish/check if it "is delivered" or is it needed to define some, e.g., quality criteria? (joint slides, slide 14).

One has to be careful with defining quality criteria for the delivery of milestones (if we talk about the draft budget method), but it is also applied to any programme-specific lump sum. Milestones should be transparent, fair and objective: not too detailed, but at the same time where different interpretations are not possible, not excessive (impossible to achieve), but not too simplistic. The overall objective of the draft budget method is to focus on results and outputs – a programme knows the best what change it wants to achieve, what the expected programme' results are, therefore, a programme should decide what the "sufficient" delivery of the outputs implies, at the same time not complicating the overall process for beneficiaries.

19. Can you explain again the draft budget method and de minimis relation again?

De minimis is not regarded as State aid. Thus, where we have projects with total costs under EUR 200 000 (for small-scale projects) and EUR 100 000 (for small projects) that implement activities under the de minimis scheme, the use of SCOs remains obligatory. Where such projects fall under any of GBER schemes (support for the project constitutes State aid), the use of SCOs is optional (can be used but is not a must).

20. I am not sure I understand why it is the most resource-intense method to set up? Isn't it the applicants who draft the draft budget in the AF?

It is the most resource-intensive method for the MAs to set up as with the draft budget the MA needs to ensure:

- case-by-case assessment of each project - it is much more resource-intensive, as beneficiaries provide all documents to justify the amounts they use in the application (contrary to the regular applications);
- conversion of the application / the project budget into SCO(s);
- documentation of the assessment approach and conversion to SCOs;
- pre-work – assessment guidance, ensuring equal treatment, producing cost benchmarks against which assessment is done, etc;.
- extra coordination work in case the method is applied by several SPF beneficiaries since coherence and consistency in the application of the method need to be safeguarded

21. Do MA/JS have to set milestones on a case-by-case analysis of the submitted budget?

Yes, indeed, milestones are specific for each project (so as SCO(s), established based on the draft budget proposals).

22. What is the catalogue of reference costs based on / how is it backed up? Are there any examples that we could examine?

The sources the MA uses to establish reference costs/ cost benchmarks can be different: it can be based on the programme historical data, market research, internet research, etc. See more examples in the presentation from Austria – Bavaria programme, here.

23. Example: Investment-reconstruction of a cultural monument What is controlled as OUTPUT? - item budget of the construction? - or just reconstruction as a whole?

It is up to the programme to set up outputs and audit trails (evidence) for such output. It will also depend on the type of SCO established based on the draft budget application. Again, a programme knows best what change it wants to achieve, and what the expected programme' results are.

What has to be remembered here is that verification of the SCOs does not include verification of the underlying expenditure "hidden" in the SCO. Verification will focus entirely on the outputs (lump sums), units (unit costs), and basis costs (flat rates). Checking the output means checking the result on-site or requesting proof of equivalent probative value such as pictures, and consent protocols that the reconstruction was done. Checking the invoice of the construction firm should not be done when checking outputs!

24. Article 24 states - support to projects of limited financial value. But there is no upper threshold for budget size defined. Do you have any info about limits?

It is up to the programme to define what projects of limited financial volume are, depending on, e.g., planned and desired type of activities, beneficiaries, outcomes, results, and financial volume of the programme as no definitions are provided in the Regulations. For transnational programmes, such support is optional. For internal CBC programmes, such support is mandatory and could be done through small-scale projects (total costs up to EUR 200 000 when the draft budget method is applied), small projects within SPF (total costs up to EUR 100 000 – again, when the draft budget method is applied), or both.

25. But prices are so rapidly changing now! if there is even less than a year since the decision and real implementation, prices are totally different. How to deal with it?

To ensure the methodology covers the regular adjustment of the reference costs and reality checks. In a volatile economic environment updates and adjustments of benchmarks will have to happen at shorter intervals. It makes sense to fix the amounts per project, so the reference costs do not change during the project implementation since it will lead to many project modifications.

We should bear in mind that:

- compared to other SCOs, SCOs established according to the draft budget method should usually be quite close to market prices;
- challenge of rapidly changing prices is far bigger for longer-term standard projects than for small-scale or small projects having usually a shorter duration.

26. How to deal with project changes which lead to payment trigger/milestone changes? Are they even possible within the draft budget system?

If a lump sum was established using the draft budget method, there is very little scope for project modifications (unless explicitly set out differently by the programme in each specific case). As a general idea, if a milestone is not delivered or is partially delivered, the payment should not happen (unless you set up a unit cost, which can be quantifiable, as a milestone – then payment will be based on the number of units delivered). Room for changes in small-scale or small projects should be limited.

27. Can you please confirm that off-the-shelf SCOs can be used to establish costs for some or all categories in a draft budget for small projects and SPF?

If one wants to use off-the-shelf SCOs for all cost categories of the small project, there is no added value to use on top of them a draft budget method as the aim of the draft budget method is to create an SCO(s)! For some cost categories, for example, indirect costs, one could use an off-the-shelf flat rate inside the draft budget method, to simplify the application process for the beneficiary – they will not need to provide documents and justifications for all small items covered by the office and administrative flat rate. The draft budget method could also be used to cover some parts of the project (where activities are unique, and no data is available to set up other SCOs). See answer to question 16.

28. What is the difference between a small project and a small-scale project?

A small project is a term coined for the small project fund (SPF, Article 25 of the Interreg Regulation). Small projects are different to programme's regular projects, and they do not have to fulfil all the partnership requirements that the regular projects should. Whereas small-scale projects (a term used in recital (26) and Article 17 of the Interreg Regulation) are regular projects, just smaller in size – they have to fulfil all partnership requirements of an Interreg programme. According to Article 24 of the Interreg Regulation (support to projects of limited financial volume), strand A (CBC) programmes have to provide support either for small projects or small-scale projects or for both (supporting projects of a limited financial volume is mandatory), whereas for transnational (strand B) and outermost regions programmes (strand D) it is optional.

29. What happens in your example if only 1 milestone is reached and the final output is not delivered?

If a milestone triggers a certain % of the payment of the project's total amount and if it is delivered, the payment should happen. However, if you set up your milestones in a way that each and single of them have to be delivered to receive the full payment, then the programme can leave to itself a right to claim back money paid (if any). When setting up milestones, a programme should think about what the acceptable delivery of milestones is and if all of them have to be delivered to get the final amount. This has to be clearly communicated to the applicant.

An example here with the more known lump sum for preparation costs – imagine a lump sum was paid, but the project was terminated during the implementation due to some reason. If a programme in the Subsidy Contract did not have a clause that the lump sum amount stays with the beneficiaries only if the final output of the project is delivered, there is no legal basis to claim the paid amount back (see also the answer for the question no 24).

30. Are the milestones independent? Can only one be met and still be reimbursed regardless of its serial number? (so these are key activities rather than milestones).

See the answer to questions 26 and 38.

31. Can milestones be used within a single final report (e.g., publication, workshop, celebration - three separate milestones)?

Only if it makes sense to a programme. Where a single project output can be defined clearly, it does not really bring any added value to divide it into 3 milestones – it makes things more complicated and the objective of the method is to simplify and focus on results.

32. Can you use progress report submissions as milestones/payment triggers?

Where/ if it makes sense in the project. But in essence use of a draft budget should be linked to output-oriented and short projects. A simplified project management cycle should be introduced welcoming also newcomers; i.e., inexperienced applicants and beneficiaries/recipients. In the spirit of simplification, we should go for 'reporting requirements light' for these types of projects; i.e., requesting to deliver evidence for outputs rather than requesting reports with annexed evidence for delivery of results.

33. What is the difference between a draft budget leading into a lump sum with 3 milestones and a draft budget leading into 3 lump sums? Or there isn't any?

Technically, milestones can be seen as smaller lump sums and the whole idea of setting up milestones for an SCO(s) built using the draft budget method is to reduce risks pertaining to the binary nature of the lump sums (i.e., all or nothing). If milestones are set up in a way that they trigger payment of a certain %/ amount of the total SCO(s), technically there is no difference between the draft budget with the set up of a lump sum and 3 milestones and a draft budget that leads to 3 lump sums.

NB: where the output of the project is easily identified as a single output, one does not have to set up milestones. Milestones are specific to each project and are a measure of reducing risks for beneficiaries of not getting paid if the output is not reached by 100%.