Simplified Cost Options

ESF

Belgium - Flanders

A managing authorities perspective and experience
Cyprus
20/09/2013

Agenda

1. Why - Benefits
2. How - Flat rates & 3 P model
3. How - Standard scales & 4 examples
4. How - Lump sums
5. Risks
6. Experiences
7. Future use
8. Advice

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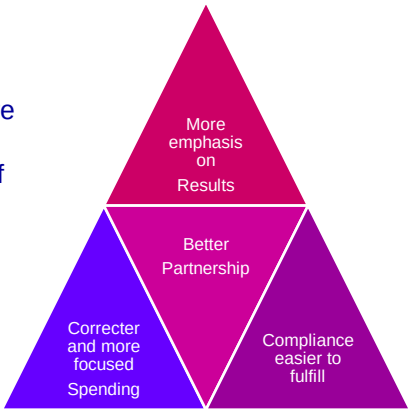
Why

- Final beneficiaries: reduce administration
  - no more collection and archiving of every (small) cost
  - no more discussion whether or not costs are linked to the project
  - no more discussing about the allocation of a % to the project
  - no more trouble about the privacy of documents like salary sheets …
  - legal certainty as a basis for a good partnership

Why

- ESF-Agency (MA-CA-AA)
  - Easy to communicate and to control
  - Less time consuming, so more time to develop - monitor – support content and results of projects and programmes
  - In general, the financial management and control becomes simple mathematic
    - Unit or result X agreed cost/unit
  - Contribute to a better partnership



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How - flat rates

- STEP 1 - Checking 2000-2005 payments on % indirect costs
  - Variation between 12% - 23%, depending the nature of projects
- STEP 2 : Checking definition of (in)direct costs used in the past
  - Cleared definition of (in)direct costs using the 3 types of process model for the future

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How - flat rates

- STEP 3 - comparing priorities OP 2000-2006 with priorities OP 2007-2013
  - Findings 2000-2006:
    - Projects on unemployment: 22% indirect costs
    - Adaptability of workers & enterprises: 12-17%
    - Innovation: 15-16%
    - Transnationality: 15-17%

How - flat rates

- STEP 4 - decision of Flemish Monitoring Committee
  - Clear definition of eligibility and nature of costs: every cost linked with the tertiary process is indirect
  - Defining two percentages in relation to Flemish OP
    - Unemployment 20%
    - Other priorities 15%
  - Applicable percentage to be included in every call for proposals
  - Possibility to vary per call for proposals on a motivated basis

How – flat rates

- STEP 5 - Letter explaining system to the EC, DG Employment, approval received
- STEP 6 - Immediate application of percentages in all calls for proposals of the OP 2007-2013
- STEP 7 - System in evaluation by external evaluator

STEP 2 – 3 P(rocesses) Model

- *Dynamic approach of structuring organisations*
- *3 main processes*
- *Client perspective*

3 P-model

– *Primary processes*

- *The hart of the matter, core business*
- *They show the transformation of input in output*
- *The process that delivers the contract f.i. evaluation*
- *What a client sees directly and pays for*
- *Is related to the mission of an organisation*

3 P-model

– *Secundary processes*

- *Direct support for the core*
- *Specialised processes that are to be considered as subprocesses of the primary processes*
- *Clients can judge the quality and accepts paying for them*
- *supportive actions to enable contractor to deliver the result and the qualitative content requested (survey)*

3 P-model

– *Tertiary processes*
- *Necessary to support, facilitate the other two processes*
- *What has to be included in the price, but of no intrest to client*
- *accompanying actions/measures/conditions to be able to deliver (management, administration, utilities, …)*

3 P-model

- *Check 3P against objective(s) of every call for projects*
  – *Determines the primary process of the projects*
  – *F.i. communication*

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How - standard scales of unit costs

- STEP 1 - define the nature of the requested projects/operations in the call
- STEP 2
  - Check the historical data (real costs) on similar projects/operations

  OR
  - Look for possible benchmarks
    - PES, education system, other experiences

  IMPORTANT : be your own “devils advocate”

How – standard scales

- STEP 3 - decision of Flemish Monitoring Committee
  - In principle we work with standard costs, preferably for the whole project except trainees salaries or activated social benefits
  - If needed the standard cost applies to some costs like for instance staff, others can be real costs, indirect costs always on flat rate
  - Only if there are NO data (historical or benchmarks) to justify a standard cost we use the real costs system for direct costs

Examples Standard scales

A. Training of workers

B. Career guidance

C. Innovation

D. Transnationality

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Standard scales - Training of workers

- *STEP 1a - We checked recent available data of similar finalised projects including intermediary reports and calculated a cost per trainee/hour (without trainees salaries)*
- *STEP 1b -We checked recent approvals of similar projects*
- *STEP 1c - We checked evolutions in costs per trainee/hour from original applications to final payment claims*

Cost driver

Standard scales - Training of workers

- *Decision:*
  - *Checking data from 2005 till 2010 resulted in an evolution of staff costs and direct cost from 11,47€ in 2005 to 18,38€ in latest approvals*
  - *Taken into account the average and the evolution of the index we decided to go for 15€ for staff and direct costs*
  - *We added the percentage for indirect costs (15%)*
  - *Final result : 15 + 2,25 = 17,25€ per trainee/hour*
  - *This was included in the call and project contracts*

Standard scales – Career guidance

- *STEP 1 - We calculated price per person of the final payment claims of the available data (2005-2009) from similar calls/projects*
- *STEP 2 - We checked Flemish legislation on accepted maximum costs*
- *RESULT - We compared the data and decided on the costs for the first 500 persons in a project and a lower price on the surplus*

Cost driver

Standard scales – Innovation

- *STEP 1 - cost driver = staff cost*
- *STEP 2 - Because every project has a different nature and needs other competences*
  - *We defined different competence levels that have been used in former projects*
    - *junior and senior staff and project leaders*
    - *Supporting junior and senior staff*
  - *We checked the average salary (as) in the public service for such competences (0-5y, 6-10y, +)*

Standard scales – Innovation

- *STEP 3 - we checked the average staff costs and the average direct costs (dc) paid for in past years to similar projects*
- *STEP 4 - we calculated the level of direct costs as a percentage of the staff costs*
  - *If staff=100 and direct cost=11 then dc=11%*
- *STEP 5 - we applied this percentage on every level of competence and added the two up*
- *STEP 6 - this sum was multiplied by 15% for indirect costs*

Standard scales – Innovation

- *RESULT :*
  Total standard cost to be used for every member of staff that is needed in the project according to the agreed project work plan =
  - *(AS + DC) + (AS+DC)X15%*

Standard scales – Transnationality

- *Because every project has a different nature and needs other competences, we took following steps*
  - *We defined different competence levels that have been used in former projects*
    - *junior and senior staff and project leaders*
    - *Supporting junior and senior staff*
  - *We checked the average salary (as) in the public service for such competences (0-5y, 6-10y, +)*

Standard scales – Transnationality

- *STEP 1 - cost driver = staff cost*
- *STEP 2 - Because every project has a different nature and needs other competences*
  - *We defined different competence levels that have been used in former projects*
    - *junior and senior staff and project leaders*
    - *Supporting junior and senior staff*
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Standard scales – Transnationality

- *STEP 3 - We foresee different types of projects (import/export), and we don't have enough relevant data (historic nor benchmark) => we apply the real costs for the direct cost as well as for the transnational costs*
- *STEP 4 -The indirect costs are a flat rate of 15% of the sum of staff costs, direct costs and transnational costs*

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How - Lump sums

- STEP 1 - define the nature of the project/operation and the result wanted
- STEP 2 - define a detailed list of items/actions that appear in a reasonable budget
- STEP 3 - Check historical data or look for benchmarks in public and private sector for the whole and for each item if possible

Lump sum - Transnationality

- *STEP 1 - the preparatory phase is limited in time and has clearly defined actions, goals and results (i.e. 3 months, desk research, define scoop of project and baseline study)*
- *STEP 2 - through benchmarks we defined the needed staff as junior academic level and check this with the average salary in the public service*
- *STEP 3 - we added necessary working costs and indirect costs*
- *RESULT - lump sum of 11.000€*

Lump sum - transnationality

- *Where peer review is needed and accepted at the grant decision, we use the lump sum*
- *Again data check and benchmarks learned us that following elements are needed:*
  - *People presenting the product(s), seminar package, moderator and rapporteur*
  - *The price was set after a benchmark and our own experiences at 10.000 € and the report is needed*

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Risks

- All risks are for the managing authority/intermediary body/executive promoter that defines the system in its calls for projects, no legal certainty until audit
- Difference standard costs – standard financing. The additionality principle stills stand in financing a project/operation.
  - So first deduct income and the national/regional/local/ … co financing money and only the rest is ESF
- Increased importance of registration of activities
- Retention of documents at MA/IB and or project beneficiary

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Experiences

- Flat rates:
  - Applied in ALL calls since 2007
  - Very much welcomed by beneficiaries although some loose money
- Standard scales:
  - Gradually applied since 2009
  - Welcomed by project promoters after a first hesitation due to references used (public service)

Experiences

- Lump sums:
  - Applied in all calls on Transnationality from 2010 on
  - Applauded by project promoters because of clear definition of result wanted, reasonable level and simple application of the system
- All:
  - Clear communication and training is needed, not only for project promoters, also auditors
  - Changing the mind-set around costs/subsidies/profit was thé internal trick

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Future use

- Evaluate current practice and where needed amend it
- Establish Flemish regulation with SCO where possible
- Public procurement where possible
- Salary plus 40% when caseload can be defined, including simplifying definition of salary

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Future use

- Lump sum for specific operations with clear targets and clearly definable and realistic results
- Simplifying administration through clear instructions on registration and documentation
- On going information and training of staff, AA and final beneficiaries

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Advice

- Be transparent in your communication on why – what – how
- Provide training for all stakeholders
- Change the mind-set around costs/profits/subsidies

Advice

- Stress the audit advantage for all involved partners
  - Final beneficiary: only registration and results and these can be digitalised what makes document retention a lot easier
  - MA: easier to communicate, monitor and control
- Think twice, have the guts and act
- Prepare for the future

Thank you very much for your attention

QUESTIONS?

References

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