Simplified Cost Options

ESF

Belgium - Flanders

A managing authorities perspective and experience

Dublin

27/01/2014
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
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
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

– Secondary 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 interest 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 cost for direct costs
Examples Standard scales

A. Training of workers
B. Career guidance
C. Innovation
D. Transnationality
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
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
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

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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 scope 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
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

• Change the mind-set around costs/profits/subsidies into subsidies/results at a fair price
• Involve all partners in developing and implementing SCO’s
• Be transparent in your communication on why – what – how
• Provide training for all stakeholders
Advice

• Stress the audit advantages for all involved partners
  – Final beneficiary:
    • only registration of units and results
    • these can be digitalised what makes document retention a lot easier and cheaper
  – MA:
    • easier to communicate – monitor and control
    • Value for money where we want an need it
Advice

- Think twice,
- BUT have the guts and act
- The future of successful use of Cohesion policy interventions through simplification has to start today
Thank you very much for your attention

QUESTIONS?
References

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