

The methodology of the lump sum for preparation costs 2021-2027

Background

Projects directly benefit from the use of simplified cost options because it lowers the need for resources for administration. The number of requirements and documents necessary for reporting and proving the eligibility of the costs is significantly reduced. In addition, project partners, the controllers, and all programme bodies, benefit from a simplified monitoring and reporting scheme.

According to the Article 53 (1)(c) of the Regulation (EU) No 2021/1060 grant provided to beneficiaries (project partners) may take the form of lump sum that is established based on a fair, equitable and verifiable calculation method based on statistical data, other objective information or an expert judgement.

- The calculation method must be fair: it must be reasonable, based on reality, not excessive or extreme. The managing authority must explain and to justify its choices. A fair calculation method could adapt the rates to specific conditions or needs.
- The calculation method must be equitable and ensure equal treatment: it does not favour some beneficiaries or operations over others. The calculation of the lump sum must ensure equal treatment of beneficiaries and/or projects. Any differences in the amounts or rates should be based on objective justifications.
- The calculation method must be verifiable: the determination of lump sums should be based on documentary evidence that can be verified. The managing authority must be able to demonstrate the basis on which the simplified cost option has been established.

The body determining the simplified cost option method should document as a minimum:

- the description of the calculation method, including key steps of the calculation;
- the sources of the data used for the analysis and the calculations, including an assessment of the relevance of the data to the envisaged operations, and an assessment of the quality of the data;
- the calculation itself to determine the value of the simplified cost option.

Project preparation consists of all the work necessary to ensure that a proposed project is feasible and appropriate and that it can be successfully implemented.

Preparation work is mainly social, technical and financial in nature. Preparation activities include: the identification of funding sources, needs assessments, negotiations and agreements, participative planning, preliminary design, estimates for operational costs.

Thanks to the lump sum of the preparation cost Programme increases efficiency of the project(s) preparation, as the projects come up with detailed estimates for all the project activities and costs. Project preparation needs to be properly managed and co-ordinated and is a lead partner function/responsibility. Therefore, it is necessary that preparation funds are available so that project objective is clearly defined, project budget appears proportionate to the proposed work plan and the main outputs and results aimed for, sufficient and reasonable resources are planned

to ensure project implementation, project partners are adequately briefed, and quality of the application is performed.

As the preparation of the project application covers same types of activities, the eligibility period and output/outcome are same, it is not reasonable to differentiate between projects according to the number of partners or amount of budget.

Type of organisations covered

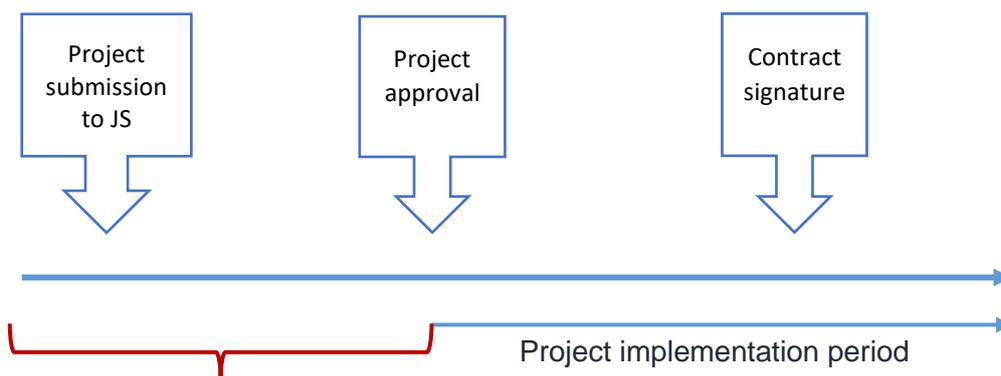
Lump sum is applied to all types of projects and organisations in the 2021-2027 period within all specific objectives, financed by the Programme: private companies/SMEs, NGOs, regional and national state institutions, municipalities, planning regions, development centres, R&D institutions and other public bodies etc.

Categories of costs covered by SCO

The amount of the lump sum covers the costs incurred during the preparation period of the project application and the eligibility period is before the start of the project. The project budget is used to cover costs incurred by the project after the date of approval. Preparation costs are granted to cover all costs from the time before approval such as the travel and staff costs involved in planning, meetings and writing the application. Programme does not reimburse any preparation costs as real costs.

Avoiding the risk of double financing

Preparation costs are granted to cover all costs from the time before approval of the project. Costs of the project (except for preparation costs) are only eligible between the start and end date as set in the approved Application Form and defined in the Subsidy Contract. Therefore, there is no risk of double financing as the costs incurred before the project implementation. All other cost that controllers verify will be incurred during implementation of the project.



Eligibility period of the preparation cost

Amount for the SCO

The Managing Authority proposes to use €6000 to cover all preparation costs for the period 2021-2027.

Basis of the calculation methodology

Article 53 (1)(c) of the Regulation (EU) No 2021/1060. The lump sum is established in line with Article 94(2) as a fair, equitable and verifiable method on the basis of expert judgements.

The primary evidence used in this methodology was gathered from responses to a survey among the lead partners of the Estonia-Latvia programme, conducted in January and February 2022.

Justification for the method selected

Preparation cost covers all the costs which are made during the development of the project separately from the project implementation costs. It is most reasonable to use the lump sum approach and pay the preparation cost out as a single payment, with the criterion for deciding eligibility of the lump sum on the basis of the selection of the respective project for financing. Lump sum payment provision is a good alternative to the traditional real cost, unit cost or flat rate. Implementation of the real cost approach increases the bureaucracy. The flat rate approach requires basis of the calculation of the flat rate, but preparation cost is separately from the rest of the project. When comparing the lump sum to the unit cost, it is more reasonable to use lump sum because with lump sum we can use the criterion to easily define the eligibility of the lump sum and focus payments directly to the projects which are selected.

There is no historic data about real costs as regards preparation costs on programme level because the lump sum was used for preparation costs during 2014-2020 period, therefore statistical analysis is not possible. We do not consider copying the preparation cost methodology from other programmes because the development of the Estonia-Latvia programme project covers mainly cross-border cooperation between the organisations in relatively close geographical location. According to the Interact survey on 5 July 2020, 30 cooperation programmes in the 2014-2020 period used a lump sum for preparatory costs. The value of the ERDF co-financing for the lump sum varies for different programmes from 1.000 € up to 45.000 €. Therefore Estonia-Latvia programme 2021-2027 does not take over methodologies of other programmes.

The aim is to continue with lump sum for preparation costs in the Estonia-Latvia programme 2021-2027 similarly to 2014-2020 practice. To establish the lump sum for the preparation cost, the programme conducted from January to February 2022 a survey among the lead partners of the financed projects to include their experience and expectations related to the preparation costs. The lead partners are considered to be experts who have experience in preparing the projects in the Estonia-Latvia programme 2014-2020.

Lump sum covers all preparation costs which are analysed and identified on programme level with the current document and its annex I in advance.

Source of data used to calculate the lump sum

An expert judgement is based on a specific set of criteria and/or expertise that has been acquired in a specific knowledge area, application, or product area etc. The CPR does not define the expert judgment necessary for this exercise. It is up to the managing authority to specify the requirements for a judgment to qualify as expert.

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Expert judgment for establishing the lump sum of the preparation costs is based on a specific set of expertise that has been acquired.

The main steps of methodology of the creation of the lump sum for preparation costs were:

1. to identify the experts in the EE-LV programme;
2. to identify relevant survey questions;
3. to identify how general expert judgment methods can be adapted to programme needs;
4. to extract and synthesise the responses.

Expertise inventory took place, and it was decided between Managing Authority and Joint Secretariat that all lead partners of the projects of the Estonia-Latvia programme 2014-2020 would be contacted in January 2022. The primary evidence used in this lump sum methodology is gathered from responses to a survey conducted among Estonia-Latvia Programme experts in January and February 2022. All the lead partners of the Programme were contacted and had a possibility to participate in the survey as the expert of the Estonia-Latvia programme.

The analysis of the results of experts' opinions about the period 2014-2020 showed that the use of preparation cost is still relevant and that the need to cover the types of costs within the preparation cost has not changed.

Population and sample

As a sample for experts' opinions, the managing authority decided that it is important to cover at least 20% of all projects and include all POs.

From the experts, a representative sample of project lead partners replied to the questionnaire. The survey was responded by 13 experts (9 from Latvia, 4 from Estonia) from all Policy Objectives (PO), giving a response rate of 23.63% of the representatives of the population of all 55 implemented projects that exceeded the planned 20% response rate. All replies were considered when analysing the results of the survey.

| PO | No of projects | Experts responded | % |
|-------|----------------|-------------------|-------|
| PO1 | 29 | 5 | 17.24 |
| PO2 | 22 | 5 | 22.73 |
| PO3 | 2 | 2 | 100 |
| PO4 | 2 | 1 | 50 |
| Total | 55 | 13 | 23.63 |

Lump sum data

The calculation of the lump sum is based on expert judgement and the summary of the survey is Annex I of this document. Documentary evidence of the survey can be provided by the Managing Authority.

Calculation

To eliminate too high or too low extreme values we used the statistical median measure, which is a measure of central tendency. The median is the value separating the higher half from the lower half of a data sample, a population, or a probability distribution.

The main steps of finding the median:

1. Arranged the data in ascending order (from the lowest to the largest value).
2. Determined whether there is an even or an odd number of values in the dataset.
3. Considering the results of the previous step, further analysis may follow two distinct scenarios:

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- if the dataset contains an odd number of values, the median is a central value that will split the dataset into halves;
- if the dataset contains an even number of values, find the two central values that split the dataset into halves. Then, calculate the mean of the two central values. That mean is the median of the dataset.

Experts proposed following minimum and maximum amounts for preparation costs:

| Minimum proposed preparation costs | Maximum proposed preparation costs |
|------------------------------------|------------------------------------|
| 0 | 0 |
| 1000 | 0 |
| 3000 | 6000 |
| 5000 | 8000 |
| 5000 | 8000 |
| 5000 | 10000 |
| 6000 | 10000 |
| 7000 | 10000 |
| 7000 | 10000 |
| 8000 | 10000 |
| 8000 | 10000 |
| 10000 | 13000 |
| 10000 | 30000 |

Based on the main steps of finding the median we removed the lowest and highest values from the calculation.

Minimum median is 6000 and maximum median is 10000. The costs of the preparation of the project application depend on sophistication of the template, number of partners involved and complexity of the planned activities. As the Joint electronic monitoring system (Jems) application process will be simplified, the EE-LV programme plans one-stage calls for proposals and wider use of simplified cost options, there is no need to use proposed maximum preparation cost.

Based on experts' opinions and compared to the period 2014-2020, the managing authority proposes to increase the preparation cost from €5000 in 2014-2020 period to median of the experts' opinions in the amount of €6000 to cover all types of preparation costs for the 2021-2027 period.

Management verification

According to the regulation in the case of lump sums, all eligible costs are calculated on the basis of a pre-established amount duly justified by the managing authority, which is paid if predefined outputs are completed.

Pre-defined output for the eligible lump sum for preparation costs in Estonia-Latvia programme 2021-2027:

- project must be selected by the Monitoring Committee; and
- the Subsidy Contract between the LP and the MA must be concluded.

Preparation cost is paid out on the basis of lump sum project report, which is submitted as the first report in Jems after conclusion of the Subsidy Contract.

The verification consists of checking whether the agreed steps of the project have been completed and the project is approved in line with the conditions set by the programme, which means that

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the joint secretariat must verify that the criteria for the payment of the lump sum are fulfilled. Selected and approved projects receive the payment as part of their first project payment.

The actual costs borne by the project partner in relation to the delivered outputs are not checked; therefore, there is no obligation to present any supporting cost documents to prove these costs.

State Aid

The programme grants State aid in accordance with the Articles 20 and 20a of the Commission Regulation (EU) No 651/2014, of 17 June 2014 declaring specific categories of State aid compatible with Article 107 and 108 of the Treaty (the State aid General Block Exemption Regulation, the GBER).

According to the Article 20 of the GBER, the aid for costs incurred by undertakings participating in European Territorial Cooperation projects covered by Regulation (EU) 2021/1059 shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty.

Article 20a of the GBER stipulates that, the total amount of aid granted to an undertaking per project shall not exceed EUR 20 000.

Based on the Article 4 of the GBER, the notification thresholds shall not apply to aid which exceeds the following thresholds:

- for aid for undertakings participating in European Territorial Cooperation projects: for aid under Article 20, EUR 2 million per undertaking, per project; for aid under Article 20a,
- the amounts laid down in Article 20a(2) per undertaking, per project.

According to the Article 7(1) of the GBER the amounts of eligible costs may be calculated in accordance with the simplified cost options set out in Regulation (EU) No 2021/1060, whichever is applicable provided that the operation is at least partly financed through a Union fund that allows the use of those simplified cost options and that the category of costs is eligible according to the relevant exemption provision.

During the preparation of the project application the project partners analyse whether a project or some of the project activities may contain State aid. During the project application assessment, the JS checks whether the project activities fall under the State aid or not.

When a project partner has received state aid, all documents related to project costs and activities must be safely and orderly kept for 10 years from the date on which the aid was granted.

In case of unlawful state aid the support shall be recovered.

Audit

Auditors verify the methodology developed by the managing authority to establish that the lump sum is correct. The auditors verify whether or not the lump sum is set up in compliance with the requirements for calculation methods specified in Article 53(3) CPR and relevant provisions defined by the programme authorities for such simplified cost option.

The auditors check:

- information on the calculation method and used data is documented, traceable and applied consistently;

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- justification of the relevance;
- description on the steps performed for establishing the lump sum for preparation costs.

Adjustment method of the calculation methodology, how/ if it will be updated, how often, etc.

The €6000 is applied for the whole implementation period of Estonia-Latvia programme 2021-2027.

Survey of the preparation cost of the Estonia-Latvia programme

Introduction

The primary evidence used in this lump sum report was gathered from responses to the questionnaires sent to Estonia-Latvia Programme experts with an aim to cover all Policy Objectives with the replies for thorough understanding of the projects' actual needs for preparation costs.

An expert judgement is based on a specific set of criteria and/or expertise that has been acquired in a specific knowledge area, application, or product area etc. The Common provisions regulation does not define the expert judgment necessary for this exercise. It is up to the managing authority to specify the requirements for a judgment to qualify as expert.

All lead partners, who serve as experts in this context, were approached, because of their experience in Estonia-Latvia programme, they have knowledge and information of the preparation of the Estonia-Latvia programme project(s).

The main characteristics specific to the experts:

- experience and expertise in the Estonia-Latvia programme;
- experience in preparation of a project application in the Estonia-Latvia programme;
- expertise in different Policy Objectives and experience in preparing application(s) and implementing the project(s) in both countries.

The survey comprised a range of preparation of the application topics for which experts were asked to provide their opinion. This was supplemented with free-text answers where experts could provide specific opinions. The survey was carried out using the questionnaires in the Latvian and Estonian language. The survey was conducted via, <https://forms.gle/he4qqii8PjG3fioQ6>, in January and February 2022.

The objective of the survey was to identify on programme level the sufficient amount to cover the costs necessary for the preparation of one project application, with the aim to develop a methodology for setting the amount for lump sum for the preparation costs for the Estonia - Latvia Programme 2021-2027.

The scope of the survey included five different areas with the purpose:

1. to identify how big was the actual preparation cost in the period 2014-2020;
2. to identify how long was the preparation time in the period 2014-2020;
3. to identify what type of costs did the preparation cost include in the period 2014-2020;
4. to update the amount the preparation cost in the Estonia-Latvia programme 2021-2027;
5. to identify which costs should be covered by the preparation costs in the period 2021-2027.

Results of the survey

The survey was responded by 13 experts from all POs: 9 from Latvia, 4 from Estonia, giving a response rate of 23% of all the lead partners. Questions asked and answers received are described below.

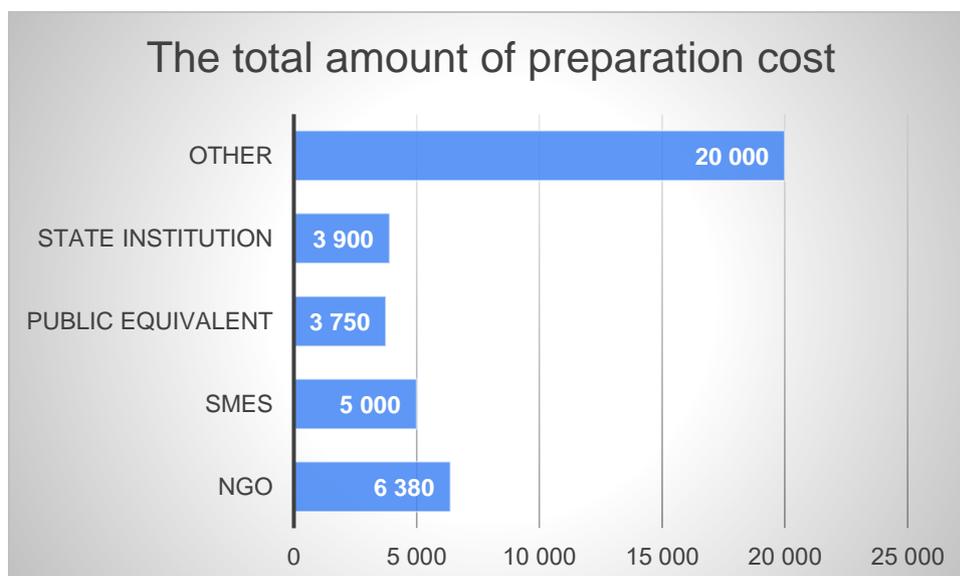
The type of your organisation

The respondents represent 2 state institutions, 3 public equivalent, 2 SMEs, 5 NGOs and one respondent marked the type of organisation other.



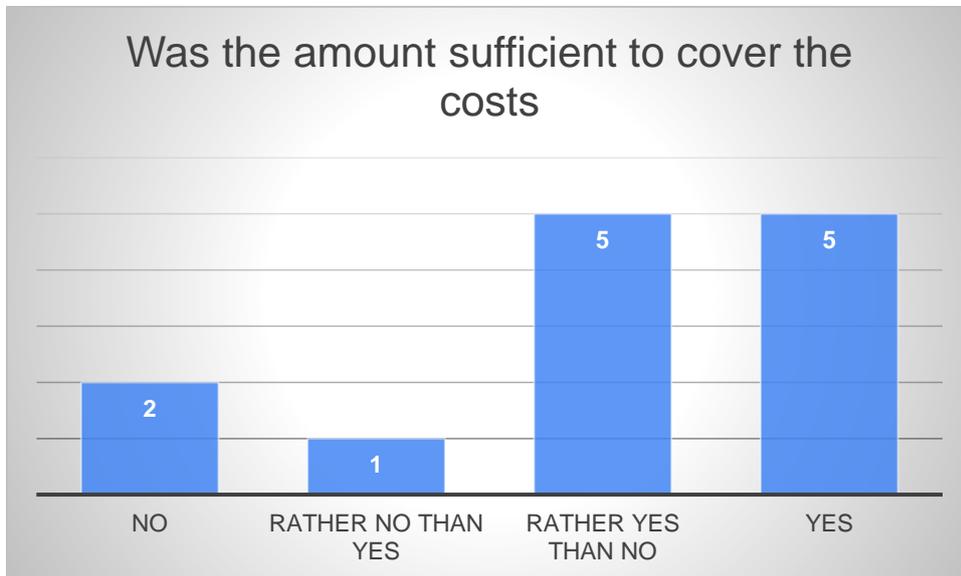
What was the total amount of your preparation costs?

NGOs average preparation cost was €6380, for the state institutions it was €3750, for public equivalents the average preparation cost was €3900, and for the SMEs it was €5000. The preparation cost for the other organisation's complex project application with large partnership was extremely high – 4 times higher than the existing preparation cost (€5000). The total average preparation cost in the 2014-2020 period was **€6720** according to the survey. Median of the 2014-2020 period was equal to the total of the preparation cost lump sum, as used by the programme for all types of organisations, €5000 per project.



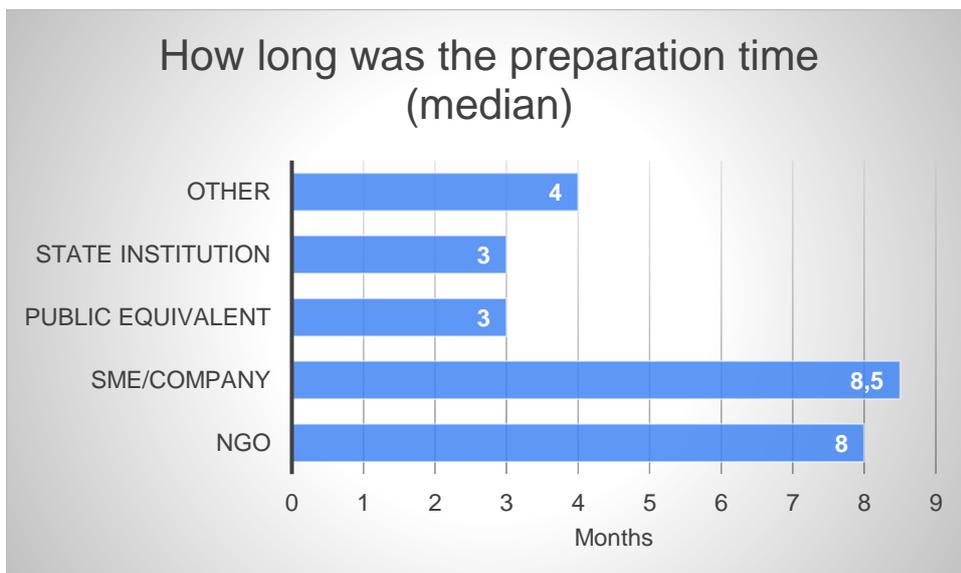


Was the amount of 5000€ sufficient to cover the costs necessary for the preparation of your application to Estonia-Latvia programme 2014-2020?



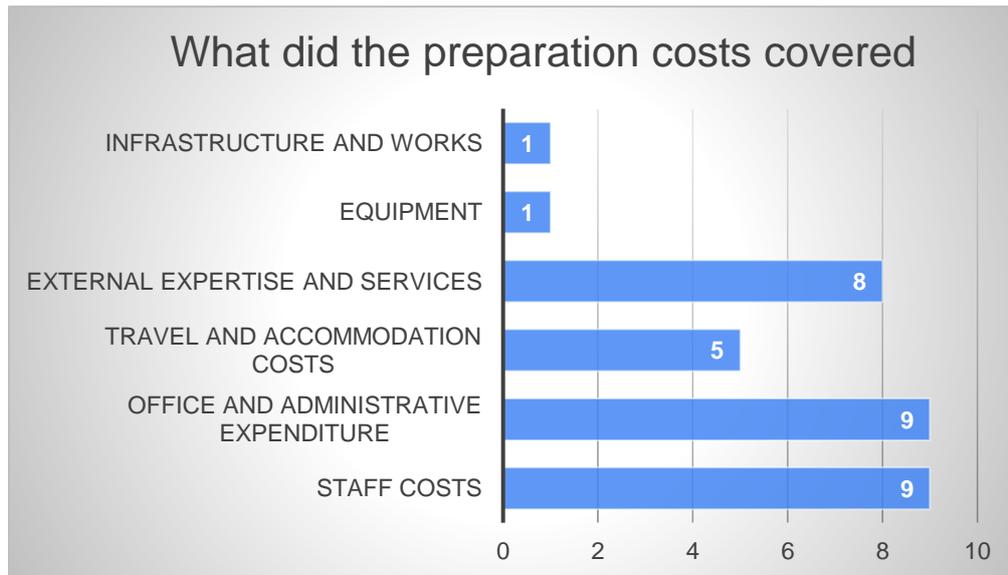
The experts were in the opinion that the amount of €5000 was sufficient for this programming period. One NGO and other organisation said that the €5000-preparation cost was not sufficient. One public equivalent with very large partnership said that the amount was rather not sufficient. One expert brought out that: *'For that period amount of 5000€ was sufficient, however at current period of time the amount should be a little bit higher.'* and one expert explained that: *'In principle, if the project preparation does not require additional research, market analysis or development of model solutions for implementation, then the amount of EUR 5000 was sufficient for the proposal development, but those mainly were LP costs'*.

How long was the preparation time for your project (in months)?



Median average time for preparation of the project was 5.3 months. In three cases, it could be said that since the project had more than 20 partners, preparation took almost a year, 10 months in average.

What did the preparation costs cover?



Study shows that so far, the partners have covered mainly staff costs, office and administrative expenditure, external expertise and services. In some cases, also equipment and infrastructure and work budget lines have been brought out.

External expertise cost items primarily are meeting room rent, catering, technical equipment; but also the translation of the documents, outsourced consultant(s), thematic experts, legal experts for preparing the application and other related documents for the project content or construction.

Most of the respondents agreed that in the 2021-2027 programming period the preparation costs should cover the staff costs, office and administrative expenditures, travel and accommodation costs, external expertise and services.

One respondent added that preparation cost covered an equipment cost as well.

Some of respondents have brought out further prospects to add

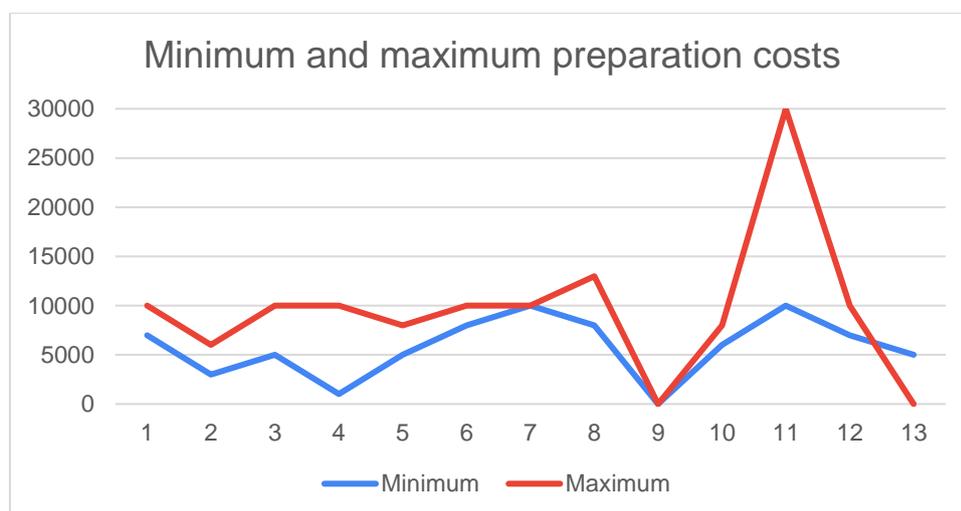
'If it would be possible, would be great to have preparation cost cover program. That would mean, the applicant apply for project preparation grant before the preparation of the project proposal. Like two stage grants. And the funding would be available not only for approved projects, but for serious initial project ideas and relevant organizations (lead partners). In a lot of cases cash flow is crucial'.

'We used some of the lump sum as a reserve for later in case we have unforeseen expenditures which are not foreseen in application form (once you don't have budget line in approved AF flexibility occasionally is hard to find). I would advise for future projects to do the same if they can. From JS point of view, if you can introduce more flexibility within project implementation phase then likely you can reduce lump sum (although it will not be popular move among implementers but you know that yourself as well).'

In your opinion, what is the MINIMUM amount of preparation costs needed for a project in the Estonia-Latvia programme 2021-2027?

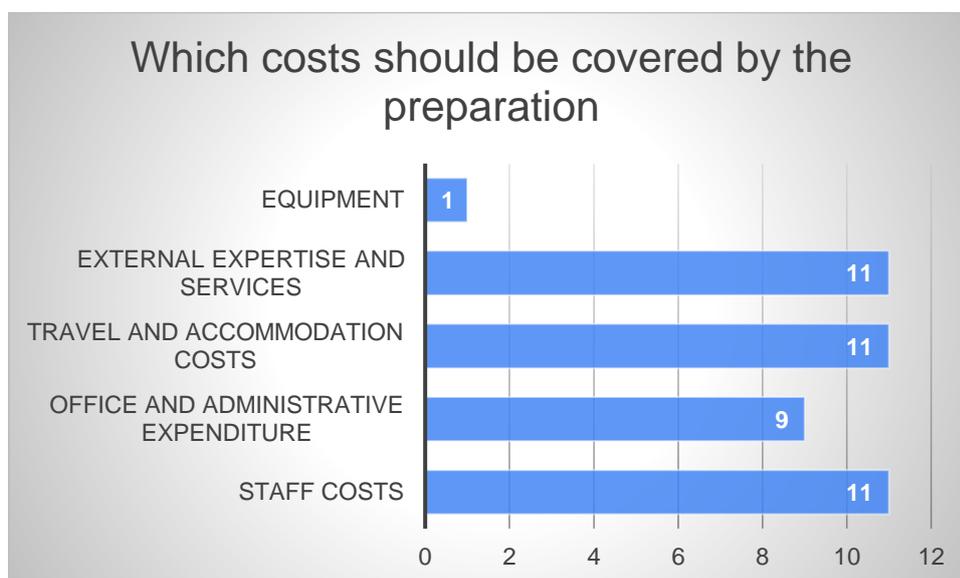
In your opinion, what is the MAXIMUM amount of preparation costs needed for a project in the Estonia-Latvia programme 2021-2027?

The following chart shows the replies of each expert, as regards the minimum and maximum amount of preparation costs needed for a project in the Estonia-Latvia programme 2021-2027.



In general, most of the experts see that the preparation cost should be higher. According to the medians of their proposals, the preparation cost varies from minimum **€6000** to maximum **€10 000**.

Which costs SHOULD be covered by the preparation costs of the new programme?



Most of the experts are in the opinion that main costs like staff costs, travel and accommodation costs, external expertise costs, office and administrative cost should be covered by the programme in the 2021-2027 period.

Some of the experts added comments and proposals.

'If it would be possible, would be great to have preparation cost cover program. That would mean, the applicant apply for project preparation grant before the preparation of the project proposal. Like two stage grants. And the funding would be available not only for approved projects, but for serious initial project ideas and relevant organizations (lead partners). In a lot of cases cash flow is crucial.'

and

'We used some of the lump sum as a reserve for later in case we have unforeseen expenditures which are not foreseen in application form (once you don't have budget line in approved AF flexibility occasionally is hard to find). I would advise for future projects to do the same if they can. From JS point of view, if you can introduce more flexibility within project implementation phase then likely you can reduce lump sum (although it will not be popular move among implementers, but you know that yourself as well).'

Conclusion

Overall, the survey confirmed that the preparation cost lump sum implemented in the 2014-2020 period was appreciated as simplification.

In conclusion, based on experts' opinions the managing authority proposes to increase the preparation cost to €6000 to cover all types of preparation costs.

Annex II

Questionnaire

Estonia-Latvia programme: Lump Sum Project Preparation Costs

The Managing Authority of the INTERREG V-A Estonia-Latvia programme kindly asks to share your experience of your institution regarding the preparation costs of a project for participation in the Estonia-Latvia programme 2014-2020.

The aim is to continue with lump sum for preparation costs in the 2021-2027 programme similarly to our current practice. To establish the concrete amount, we need your contribution based on the experience in 2017-2021. Currently, the programme covers preparation costs as a lump sum of 5000€ for one approved project, to cover all the costs incurred during the preparation period of the project application, e.g., staff costs, travel, meetings and events and preparation of documents.

If you have been a project manager of several projects, please submit a separate form for each project.

1. Your email (to contact you to clarify the answers, if needed) *¹

2. Your region *

Please choose the region you represent. Palun valige piirkond, mida te esindate. Lūdzu, norādiet reģionu, kuru pārstāvat.

3. Organisation *

Please choose the type of your organisation. Palun valige, mis tüüpi organisatsiooni te esindate. Lūdzu, norādiet organizācijas veidu, kuru pārstāvat.

4. Name of your project. *

5. How long was the preparation time for your project (in months)? *

In the below sections you can indicate the project preparation costs and comment on the respective topic.

Allolevates osades märkige projekti ettevalmistamise kulud ja kommenteerige vastavat teemat.

Turpmākajās sadaļās norādiet projekta sagatavošanas izmaksas, kā arī savus komentārus par šo tēmu.

6. Was the amount of 5000€ sufficient to cover the costs necessary for the preparation of your application to Estonia-Latvia programme 2014-2020? *

Yes

Rather yes than no

Rather no than yes

No

Muu²:

¹ * kohustuslik-obligatory

² Muu-other

7. What was the total amount of your preparation costs? *

8. What did the preparation costs cover? *

Please indicate all preparation costs according to the existing budget lines of the programme. If necessary, choose "Other" to indicate extra group(s) of costs.

Staff Costs

Office and administrative expenditure

Travel and accommodation costs

External expertise and services

Equipment

Infrastructure and works

Muu:

9. External costs

If you chose "External expertise and services" in the previous questions, please mark the specific costs they included. If necessary, choose "Other".

Meetings (room rent, catering, technical equipment)

Translation of the documents

Outsourced consultant(s)/company for preparing the application and other related documents

Outsourced thematic experts for legal advice, project content or construction related activities and documentation

Muu:

10. In your opinion, what is the MINIMUM amount of preparation costs needed for a project in the Estonia-Latvia programme 2021-2027? Please explain. *

11. In your opinion, what is the MAXIMUM amount of preparation costs needed for a project in the Estonia-Latvia programme 2021-2027? Please explain. *

12. Which costs SHOULD be covered by the preparation costs of the new programme? *

Please indicate all preparation costs according to the existing budget lines of the programme. If necessary, choose "Other" to indicate extra group(s) of costs.

Staff costs

Office and administrative expenditure

Travel and accommodation costs

External expertise and services

Equipment

Infrastructure and works

Muu:

13. Any other comments and proposals.

Muud kommentaarid ja ettepanekud. Citi komentāri un priekšlikumi.