LLP Financial Management
Contractual and financial aspects to pay attention to

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What you must know on:

I. the contractual modalities (Partnership Agreement) to agree with each partner;

II. The rules for eligibility of costs;

III. The payments and reporting modalities (when and how).
To be signed with each partner with:

1. Clear **reference** to the grant agreement and application submitted;
2. Definition of detailed **rights and obligations** from each party;
3. Organisation of the **reporting** from both operational and financial point of view;
• 4. Organisation of the control and transmission of all justifying documents;

• 5. Definition of the modalities, delays and conditions for the transfer of funds to each partner;

• 6. Modalities in case of withdrawal of a partner:
  – settling of the accounts (financial statements & all justifying documents),
I. Partnership Agreement

- final report and documents produced,
- transfer of funds or repayment of funds to the coordinator;

7. Law applicable in case of litigation;

8. Measures in case of weak/non implementation of the action or non submission of probant justifying documents of one co-beneficiary.
II. Eligible costs (Art. II.14.1)

- Actual costs
- Duly recorded in accounts of each partner
- Incurred by beneficiaries
- Foreseen in the estimated overall budget of the action
- Generated during the eligibility period of the project
- Directly connected with execution of the project
- Necessary for implementation of the project
- Identifiable and verifiable
- Reasonable and justified
II. Ineligible costs (Art. II.14.4-6)

Costs may be ineligible

- By nature of costs, i.e. not linked to the project
- If not compliant with the 10% transfer rule (art. I. 4. 4 of the agreement)
- If not compliant with max. ceilings of some budget categories (equipment 10%, subcontracting 30% and indirect costs: fixed rate of max. 7%)
- If above the max. rates for Staff & Subsistence costs (rates of the Call 2011)
- Contributions in kind if not foreseen in the Special conditions of the grant
- List under art.II.14.4 of the agreement (debts, provisions for losses, exchange losses,…). **By derogation to Art II.14.4, VAT paid by public bodies shall never be an eligible cost**
II. Eligible costs - Staff costs

- Natural persons only (No companies!);
- Recorded under the payroll of the one cobeneficiary or assimilated to staff as per the national law
- Statutory costs = gross salary + social charges (no extra-legal advantages)
- Should respect the usual company remuneration’s policy
- Only Working days (no week-ends or holidays): average is 220 days;
- Based on usual salary/usual remuneration policy of the organisation (out of the EU grant)
- Report this actual costs even if above maximum eligible rate

⚠️ Actual costs spent for staff may be reduced in case of weak implementation. (art. I.11.6)
II. Eligible costs - Staff costs

Example (on the basis of 220 working days/year):
For Ms. X, the annual cost (21,632.60 EUR) is composed by the gross salary (16,000 EUR) and social security charges (5,632.60 EUR). We can calculate the daily cost as 21,632.60 ÷ 220 working days = 98.33 EUR/day

- Beneficiaries must keep full and accurate records
- Volunteer work is ineligible
- Only real cost should be reported

⚠️ Most frequently reasons for ineligible expenses:
- Confusion between staff costs and subcontracting costs;
- Use of the EU maxima ceilings instead of real salary;
- Invoice from a company instead of salary payslip.
II. Time sheet minimum requirements

- Time sheets to document the number of working days;
- Title and reference number of the EU project;
- For each staff member working on the EU project;
- Minimum on a monthly basis;
- Mention the hours and project activities spent on the EU project versus total working hours on other normal activities with indication of work package n° and tasks;
- Signed and dated by the staff member and by an authorised person;
II. Eligible costs

Travel & subsistence costs

Only for staff members!!

Travel costs:

- Travel costs to non LLP countries (USA,...) are ineligible, unless prior authorization by the Agency
- All means of travel within eligible countries; visa fees, travel insurance, cancellation costs are eligible costs

Subsistence costs:

- Subsistence costs (accommodation, meals, local travels) are based either on actual costs or fixed rates, in both cases maximum daily rates apply
- Based on usual internal regulations

Most frequently ineligible expenses ➔ part of subsistence costs exceeding maximum eligible daily rate, lack of supporting documents, miscalculation of length of journeys
To be reported on real basis:

- Based on reimbursement of **actual** costs (hotel invoice, meals receipts, attendance lists, etc.)

OR

- Based on **lump sum** (i.e. Per diem paid to the travelling staff)

OR

- A **mix** of both systems

- Subsistence rates: maximum number of days claimed = number of working days +1 day

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*Keep invoices and/or receipts signed by the staff receiving the reimbursement/subsistence.*
II. Eligible costs

Equipment costs

- **Limit:** up to 10% of total direct eligible costs
- *(Indirect costs → Equipment for administration purposes + equipment bought before eligibility period)*
- Only if **strictly necessary** for project’s core activities
- Check **rules on procurement** before buying
- Rate of **actual use** for the project
- **Depreciation:**
  - Beneficiary/national tax rules applicable
  - Rent/lease → no depreciation

⚠️ **Most frequent ineligible expenses:** lack of supporting documents and incorrect calculation of the usage, purchase before the start of the project
## II. Eligible costs

### Equipment costs

<table>
<thead>
<tr>
<th>Justification (&amp; reference to Work package)</th>
<th>Total Cost</th>
<th>Cost Date</th>
<th>Purchase or Rent/Lease?</th>
<th>Annual Depreciation rate (%)</th>
<th>Period of Use in the project (months)</th>
<th>Degree of use in the project (%)</th>
<th>Eligible costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC laptop</td>
<td>3000,00</td>
<td>1.03.2009</td>
<td>Purchase</td>
<td>25%</td>
<td>24</td>
<td>100,00%</td>
<td>1500,00</td>
</tr>
<tr>
<td>Printer</td>
<td>900,00</td>
<td>1.04.2009</td>
<td>Purchase</td>
<td>100%</td>
<td>24</td>
<td>100,00%</td>
<td>900,00</td>
</tr>
<tr>
<td>Digital camera</td>
<td>800,00</td>
<td>1.04.2009</td>
<td>Purchase</td>
<td>100%</td>
<td>24</td>
<td>50,00%</td>
<td>400,00</td>
</tr>
<tr>
<td>Projector</td>
<td>1500,00</td>
<td>1.05.2009</td>
<td>Rent/Lease</td>
<td></td>
<td></td>
<td>100,00%</td>
<td>1500,00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4300,00 €</td>
</tr>
</tbody>
</table>
Award the procurement contract to the tender offering best price-quality ratio (i.e. value for money) following the rules for procurement set in art. I.11. & Art. II.9 of the grant agreement

- < 12,500 € simply on presentation of an invoice (contract + invoice(s));
- between over 12,500 € and 25,000 € procedure involving at least three tenderers (contract, invoice(s), procurement procedure, 3 offers);
- between over 25,000 € and 60,000 € procedure involving at least five tenderers (contract, invoice(s), procurement procedure, 5 offers);
- > 60,000 € national rules to apply.
II. Eligible costs
Subcontracting costs

“Costs entailed by procurement contracts awarded by a partner to external body, organisation or individual for the purposes of carrying out a part of the action”

- **Limit** → up to 30% of total eligible costs;
- Only allowed if the beneficiaries do not have the skilled required;
- **No subcontracting** of the basic project activities such as management & general administration (financial follow up and coordination);
- Procurement contract to an external body, organisation or individual (self-employed);

⚠️ **Individual must not be an employee of the beneficiaries organisation.**
II. Eligible costs
Subcontracting costs

- Companies subcontracted may not be linked to any partner as company or individual

⚠️ Pay attention to conflict of interests (Art. II.2)

- All costs must be included and detailed in the subcontract (fees, travels, other reimbursable)

- **Most frequently ineligible expenses:** lack of supporting documents, absence of competitive quotes, splitting, confusion between staff costs and subcontracting costs, conflict of interest (partner or member of the same network and subcontractor)
II. Eligible costs

Other costs

- Distinction between subcontracting and other costs:
  
  Example: you want to produce a dissemination brochure
  - Subcontract: A supplier does all the work (lay-out, proofreading, etc.)
  - Other costs: If the brochure is done by internal staff (drafting, editing) the costs of stationary and photocopies are other costs (if costs are not normal administrative costs, as already covered under indirect costs).

- Examples of other costs
  - bank charges, travel and subsistence costs of third parties, hiring of conference halls, production/translation/publishing costs when performed by co-beneficiary organisation, dissemination, production of video, blank DVD, etc.

⚠️ Most frequent ineligible expenses ➔ lack of supporting documents, overhead costs claimed under other costs…
II. Eligible costs

Indirect costs

- **Normal overhead costs of the organisation**
  - Based on a flat rate fixed to the eligible budget of the agreement
  - BUT limited up to **7% of the total eligible direct costs**

- They must not be justified by supporting documents.
- Do not have to be detailed in the Final Report

- **Examples of indirect costs;**
  - All costs for equipment related to administration (PC’s, laptops, …)
  - Communication costs (phone, Internet), consumables (i.e. photocopies), office supplies,
  - Infrastructure costs (rent, electricity) of the premises where the project is carried out
II. Eligible costs

Third country

Non LLP countries

« Same » rules as for LLP countries BUT:

- Staff cost ceilings for third countries: Staff cost also reported on real daily staff cost rates, but must be broken down into categories 1 to 4 of the International Standard Classification of Occupations (ISCO). Under no circumstances may the eligible daily rate exceed the following maximum amounts

  Staff category 1 (maximum amount EUR 450/day)
  Staff category 2 (maximum amount EUR 300/day) – University Professors
  Staff category 3 (maximum amount EUR 250/day)
  Staff category 4 (maximum amount EUR 125/day)
II. Eligible costs
Third country

- Equipment and subcontracting costs are not eligible categories

- Only travel costs to LLP countries and within the third country are eligible:
  • Travel expenses on the basis of actual costs;
  • Travel costs to the third country are ineligible unless prior authorization by the Agency;

- Subsistence costs -> rules/ceilings apply as for LLP countries
  http://ec.europa.eu/europeaid/work/procedures/implementation/per_diems/index_en.htm
II. Costs of Associated partners

- NO direct funding from the project's EU grant.
- NOT in provisional budget of eligible costs
- They neither contribute to the eligible costs nor manage a portion of the grant funds
- They participate on the basis of their own contributions.

NEVERTHELESS

- Some costs (travel & subsistence) of their participation may be covered within the eligible budget
Conversion of actual costs (DKK, SEK, BG, HUF, PLN, etc.) into €:

Change towards 2010 contracts:

- Please use the monthly accounting rate established by the Commission for the FIRST MONTH of the eligible period (Art. I.11.1).

http://ec.europa.eu/budget/inforeuro/
II. Supporting documents

- **Staff costs** → employment contract, salary payslip (monthly or annual fiche), time sheets to check the number of days worked, annual accounts; proof of payment, etc.

- **Equipment costs** → contracts and invoices, proof of payment

- **Travel** → plane/train ticket, boarding pass, invoice from the travel agency, proof of payment

- **Subsistence costs**: internal rules pre-existing to the project, method of calculation, attendance list of participants, hotel/accommodation invoices, proof of payment

- **Subcontracting costs** → tendering specifications/terms of reference, offers received (dated and signed), evaluation report, award decision, notification letters, procurement contract, invoices, proof of payment

**NB**: Internal and non official documents (i.e self declaration) are not acceptable as justifying documents
How and when to establish detailed financial tables?

- In parallel with the initial budget
- From the start of the project
- To allocate the costs in the right budget heading.
- To be reported centrally on a regular basis (monthly)
III. Payments (Art. 1.5)

- **Pre-financing payments** 40% - 70% of the maximum grant (depending on project duration, grant per year, financial capacity, etc.);

- **Remains property of the Agency until final payment**;

- Paid within 45 or within 90 days unless request for clarifications/justifying documents;

- **Interests and any income** (i.e. fees, sale of publication) generated **must be reported** separately.
• Funds received by the coordinator must be transferred immediately to co-beneficiaries according to their participation in the action.

• However Partnership Agreement can define conditionalities and modalities in bilateral/partnership agreements
  ➢ in order to get the updated work plan and or report on implementation of activities (+ products)
  ➢ in order to get the financial work plan and financial statements together with all the justifying documents.

• Bank account must allow the track of funds and expenses.

• Change of bank account to be transmitted immediately to the Agency otherwise you loose time for payment + risk of funds return.
The following documents should be read, transmitted and discussed with each person involved in the project’s implementation:

- LLP 2012 call for proposal
- The grant agreement and its annexes
- The financial and Administrative Handbook
III. Audit ex-post (Art. II. 19)

Be aware that your project could be randomly selected for an audit

WHO? Agency, European Commission, European Court of Auditors, OLAF

WHOM? Beneficiaries

UNTIL? for a period of 5 years after final payment/recovery

- Register all correspondence, including emails
- Take note of all observations, including phone calls
- Keep all documentation (products, reports, publications and justifying documents)
Thank you for your attention and good luck!!