



EUROPEAN COMMISSION
Directorate-General for Education and Culture
Youth, Sport And Citizenship
"Youth in action"

Brussels, 11-12-2009
D2/GGM/VR/PLE/SF Ares(2009)3749/11

NOTE TO THE HEADS OF NATIONAL AGENCIES

Subject: Modalities for financial rules of the sub-Action 1.3 and sub-Action 5.1

I. INTRODUCTION

The funding rules applied under the Youth in Action Programme are largely based on the recourse to lump sums and flat rate financing. This system has been put in place with a view to allow promoters (generally small-scale NGOs) to identify in a simple way the sum they are supposed to receive from the EU as a contribution for the realisation of their projects. The only exception to this approach, among the sub-Actions managed by the National Agencies, is represented by sub-Actions 1.3 "Youth Democracy Projects" and 5.1 "Meetings of young people and those responsible for youth policy".

Indeed, the funding rules applied to these sub-Actions follow the more traditional approach of granting a sum that represents a percentage of the total eligible costs incurred by the project. This exceptional approach under the Youth in Action Programme is motivated by the fact that the Commission intends to preserve the originality and novelty of these sub-Actions from the point of view of project format. As a matter of fact, the use of lump sums and flat rate financing suggest that the Action is implemented through a big number of rather small and homogeneous grants supporting projects with a clearly defined project format; this is however not the case for the sub-Actions 1.3 and 5.1, and applying mechanisms of lump sums/flat rate financing would limit the possibility for project promoters to formulate projects with different formats and activities to be carried out. It would also make the promoters less attentive to the necessity of finding other sources of funding and could have consequences in terms of sustainability of the project in the medium and long term.

Following the request from the National Agencies, the purpose of this document is to provide a clarification on the existing funding rules to be applied under sub-Action 1.3 "Youth Democracy Projects" and sub-Action 5.1 "Meetings of young people and those responsible for youth policy" of the Youth in Action Programme.

This document provides the basic definition of what are the costs and income that can be defined as eligible or non-eligible under these sub-Actions; it will also provide clarification on the procedures to be followed by a National Agency in order to calculate the grant to be awarded to beneficiaries under these sub-Action.

PART A – EXPENDITURE

II. ELIGIBLE COSTS

II.1 General principles

The notion of eligible costs is a key concept in light of ensuring compliance with the principle of sound financial management and ensuring that the EU grant is used to reimburse actual expenses reasonably incurred within a project. Eligible costs are the only categories of costs to be taken into account for the determination of the maximum Community grant, expressed as a maximum amount and percentage of those costs.

In line with art.164 paragraph 1 g) of the Financial Regulation's Implementing Rules (IR)¹, eligible costs of a project must be described in detail in the budget section of the application form. They must be in line with the eligibility criteria set by the Youth in Action programme. It is important to note that in conformity with these defined criteria, the National Agency is responsible for retaining the final decision as to the nature and amount of costs considered eligible.

This decision must be taken first during the stage of analysis of proposals (with the aim of determining the budget to be annexed to the Grant Agreement), and later on when examining the statements of costs actually incurred at the final report stage (with a view to determining the final payment/recovery).

II.2 Where are the criteria for the eligibility of costs defined?

In the *Programme-Guide*, (call for proposals for decentralised actions): they are mentioned with all the relevant details (Article 167 IR), respecting the provisions of the Legal basis of the Youth in Action programme, the EU Financial Regulation (FR)² and the Annual Work Programme of DG Education and Culture. Based on the information provided in the Programme Guide, applicants may determine their detailed estimated budget within their application.

In the *Grant Agreement* signed between the National Agency and the beneficiary (hereinafter called "Grant Agreement"): the section "General Conditions" provide for general criteria that costs must meet in order to be considered eligible. The General Conditions are provisions that are set for any grant awarded under the framework of any programme of the European Union. The provisions might therefore be overruled or specified by provisions contained in the section "Special Conditions" which is a section drafted with the aim to taking into account the specificities of the Youth in Action programme.

¹ Commission Regulation (EC, EURATOM) No 2342/2002 of 23/12/2002 laying down **detailed rules for the implementation** of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities, available at http://ec.europa.eu/budget/documents/financial_regulation_en.htm#expand_collapse

² Council Regulation (EC, Euratom) No 1605/2002 of 25/06/2002 on the **Financial Regulation** applicable to the general budget of the European Communities, available at http://ec.europa.eu/budget/documents/financial_regulation_en.htm#expand_collapse

II.3 General definition of eligible costs

As stated in the model Grant Agreement, in order to be considered as eligible the costs must satisfy the following general criteria:

- they must be 1) connected with the subject of the agreement and 2) they must be provided for in the estimated budget annexed to it;

Concerning point 2) above: when determining the final grant, it is therefore impossible to accept items of costs which have not been indicated in the approved budget annexed to the Grant Agreement, unless these costs have been previously formalised through a written amendment to such agreement which modifies the budget notwithstanding the respect of the maximum amount and maximum percentage of co-funding indicated in the award decision. An exception to this general rule (necessity of written amendment) applies to any change brought to the agreement which implies a transfer between items that does not exceed 10% of the amount of each item of eligible costs for which the transfer is intended, and without exceeding the total eligible costs indicated in the Grant Agreement.

- they must be necessary for performance of the action covered by the agreement;

A beneficiary must necessarily bear these costs in order to implement the project. These costs would not occur if the project were not to be taking place.

- they must be reasonable and justified and they must accord with the principles of sound financial management, in particular in terms of value for money and cost-effectiveness;

The notion of correct correspondence between the planned costs and the expected deliverables of the project is a fundamental criterion: beneficiaries must provide reasonable information on the means they intend to employ in order to achieve the objectives set in their project. The Community grant must not be diverted to finance activities or items other than the ones for which the project has been selected.

- they must be generated during the lifetime of the action as specified in Article I.2.2 [duration] of the agreement;

This means that the costs linked to the project must be generated within the period of time between the date when the project starts and the date when the project ends (eligibility period). This period is not limited to the implementation of one or more activities foreseen in the project, but also includes the preparation and the final evaluation (including a reflection on a possible follow-up) of the project.

To be noted that the fact determining the occurrence of a cost must intervene within the eligibility period, which does not mean that the cost will have to be necessarily paid during the eligibility period of the project. In example, costs for the provision of services (e.g. translations, accommodation, food, travel, etc.) or supplying materials for the purpose of carrying out the project can be invoiced and paid prior to the start of the project or after the end of the project, provided that:

- a) the performance/delivery of such services/materials has been made within the eligibility period of the project and this is clearly listed on the invoice, and*
- b) such costs have not been incurred prior to the date of submission of the grant application.*

- they must be actually incurred by the beneficiary, be recorded in his accounts in accordance with the applicable accounting principles, and be declared in accordance with the requirements of the applicable tax and social legislation;

In the context of the Youth in Action programme, the partner promoters formally involved in the project (i.e. having signed a partnership agreement with the applicant) are equally considered as beneficiaries for the purposes of the eligibility of costs.

- they must be identifiable and verifiable.

The Grant Agreement also states that the beneficiary's internal accounting and auditing procedures must permit direct reconciliation of the costs and revenue declared in respect of the project with the corresponding accounting statements and supporting documents.

II.4 Direct costs

Direct costs are costs that are directly linked to the implementation of the project.

a) Items of eligible direct costs, as defined in the General Conditions of the Grant Agreement

According to the General Conditions of the Grant Agreement, the following direct costs are eligible provided that they satisfy the criteria set out in the previous paragraph:

- the cost of staff assigned to the project [under the conditions set in the Agreement];
- travel and subsistence allowances for staff taking part in the project [under the conditions set in the Agreement];
- the purchase cost of equipment [under the conditions set in the Agreement];
- costs of consumables and supplies, [under the conditions set in the Agreement];
- costs entailed by other contracts awarded by a beneficiary for the purposes of carrying out the project [under the conditions set in the Agreement];
- costs arising directly from requirements imposed by the agreement [under the conditions set in the Agreement];

b) Items of eligible direct costs, as defined in the Specific Conditions and Annexes of the Grant Agreement (to be applied to sub-Actions 1.3 and 5.1)

For projects supported under sub-Actions 1.3 and 5.1, the Special Conditions of the Grant Agreement define different items of eligible direct costs. From a legal point of view:

- 1) it is clearly stated in the "Introduction" part of the Grant Agreement (page 2 EN version) that "*The terms set out in the Special Conditions shall take precedence over those in the other parts of the agreement*".
- 2) On this basis, the Article I.3.3 of the Grant Agreement affirms that "*the categories of eligible direct costs as shown in Annex I, shall be financed [...] in accordance with the rules set and detailed in Annex III.*"
- 3) The models Annex III relevant for sub-Actions 1.3 and 5.1 identify the following items of costs direct eligible costs (in conformity to what indicated in the Programme Guide):
 - Travel costs
 - Accommodation/food costs
 - Organisation of seminars, meetings, consultations, activities
 - Publications/translations/information costs
 - Dissemination and exploitation of results
 - Other costs directly linked to the implementation of the project
- 4) Beneficiaries and potential applicants must therefore be informed that the items of costs that will be considered eligible are those identified in the sections "Funding Rules" of the Programme Guide, despite the fact that these items seem incoherent with what indicated in the "General Conditions" section of the Grant Agreement

II.5 Indirect costs

Indirect costs are those costs which are not identifiable as specific costs directly linked to the implementation of the project, but which might have nevertheless been incurred in connection with the eligible direct costs of the project. They cannot include any eligible direct cost. Examples for indirect costs are: electricity and internet bills, PCs in organisations, printers, permanent staff costs, costs for premises, etc.

The Community grant contribution for these costs is a flat rate representing 7% of eligible direct costs. Beneficiaries having received an operating grant from the EU (e.g. an operating grant awarded under sub-Action 4.1 of the Youth in Action programme) cannot claim this contribution for indirect costs.

II.6 Difference between total costs and total eligible costs of a project

A clear distinction must be made between:

- on the one hand, total costs of the project as set out a) in the detailed estimated budget which is presented by beneficiaries when submitting their application forms, or b) in the final budget presented by beneficiaries when submitting their final reports;
- on the other, total eligible costs of the project. These costs are defined by the National Agency following an assessment (both at application and final report level) regarding their compliance with the provisions highlighted in par II.3 and II.4 of this note. These costs constitute the reference for the calculation of the Community grant. A specific column of the "estimated budget" annexed to the Grant Agreement indicates those project costs defined eligible by the NA during the assessment of the application form.

III. INELIGIBLE COSTS

The following costs shall not be considered eligible:

- return on capital;
- debt and debt service charges;
- provisions for losses or potential future liabilities;
- interest owed;
- doubtful debts;
- exchange losses;
- VAT, unless the beneficiary can show that he is unable to recover it;
- costs declared by the beneficiary and covered by another action or work programme receiving a Community grant;
- excessive or reckless expenditure.

IV. CLARIFICATIONS REGARDING CERTAIN ITEMS OF COSTS

IV.1 Personnel costs

Cost for personnel are not clearly identified as items of eligible costs under sub-Action 1.3 and 5.1, as explained in par. II.4b above.

With this regard the National Agency has to take into consideration the following.

- 1) Is it possible to consider eligible costs linked to remuneration of permanent staff of the applicant or its partners?

No, it is not; neither under the heading "Organisation of seminars, meetings, consultations, activities" nor under "any other cost linked to the implementation of the project". These costs can only be partially supported as indirect costs, provided that the beneficiary is entitled to claim a contribution for indirect costs (cfr. par. II.5 of this note). The rationale behind lies in the generally encountered difficulty to clearly identify - within the ensemble of costs linked to permanent salaries - those costs that are directly linked to the implementation of the project.

- 2) Is it possible to take into account the remuneration of trainers, facilitators and other "service providers" or "task performers" hired specifically for the running of the project?

Yes, it is possible. Indeed, these categories of costs can be much better identified and verified with regard to their direct link with the implementation of the project. Therefore, you can consider eligible all those costs born in order to receive punctual job services from external providers (e. g. trainers, facilitators, project managers exclusively hired for the project, translators, bus drivers for local transports, technical assistance services, informatics..) provided that they are compliant with the general definition of eligible costs provided in par. II.3 of this note.

IV. 2 Costs related to the participation of decision-makers and experts

As stated in the Programme Guide, if the project under sub-Action 1.3 or 5.1 foresees the participation of decision-makers/experts, the costs directly related to their participation are considered eligible (provided that they are compliant with the definitions and items of costs described in this note); however, none of these costs can be covered through the Youth in Action grant. Such costs should be covered through other sources of financial contribution to the project (cfr. section "co-financing" below).

The basic rationale behind is that decision-makers and experts are usually individuals that are able to cover their costs of participation through their mission budgets or similar. In that way, they would contribute to the project in terms of co-financing and would thus support projects in favour of young people. Moreover, the philosophy of the Programme is to use the Community grant to support as much as possible those costs directly related to the participation of young people.

PART B – REVENUE

V. COMMUNITY GRANT

The Community grant provides for a partial financial support the costs of a project. Under sub-Actions 1.3 and 5.1 the Community grant must respect each of the two following conditions:

- the total amount is set at maximum € 50 000;
- the grant represents maximum 75% of the total eligible costs; cfr. par. II.6 describing the difference between total costs and total eligible costs of a project. Such contribution covers both direct and indirect costs; the contribution for indirect costs is a flat rate corresponding to 7% of the contribution for the direct eligible costs.

V.1 How to calculate the Community grant?

In order to calculate the Community grant to be awarded to a project under sub-Actions 1.3 and 5.1 a National Agency must carry out the following operations.

a) at application level

- make a financial verification of all applications proposed for award by any round of selection. Such verification should be aimed at a) assessing the eligibility of costs presented by the applicant in conformity with the provisions described in par II.3 and II.4 of this note; b) verifying that the Community grant requested by the beneficiary respects the two ceilings indicated in par. V; above and c) whereas necessary, recalculating the ceilings in relation to the definition of the total eligible costs;
- as annex to Grant Agreement, propose to the beneficiary an "approved estimated budget" of the project indicating the total eligible costs as well as the amount and percentage of the Community grant;
- if the beneficiary accepts and signs the Grant Agreement at the conditions proposed by the NA, pursue the project life-cycle management (notably issue a pre-financing payment) in respect of the provisions contained in the Grant Agreement;

b) at final report level

make a financial verification of the total actual costs incurred by a beneficiary as stated in the project's final report and accompanied by a list of justifying documents relating to all the costs of the project; any cost that cannot be justified is automatically considered as ineligible. Such verification should be aimed at a) assessing the eligibility of costs presented by the applicant in conformity with the provisions described in par II.3 and II.4 of this note; b) whereas necessary, recalculating the Community Grant respecting the two following principles: 1) the final grant amount cannot be higher than the amount defined by the Award Decision (and consequently indicated in the Grant Agreement); 2) the percentage of Community funding indicated in the Grant Agreement must be maintained.

VI.2 Example of calculation of the Community grant

An applicant submits a project with the following budget:

Total estimated costs:	110 KEur
Grant requested:	75 KEur
% of grant/total:	68%

After the verification at application level, the NA proposes the following budget:

Total eligible costs:	100 KEur (if 10KEur are considered not eligible)
-----------------------	--------------------------------------------------

Grant awarded: 50 KEur (in order to comply with maximum amount ceiling)
% of grant/total: 50%

At final report level, the beneficiary submits the following budget:

Total actual costs: 75 KEur
Grant requested: 50 KEur
% of grant/total: 67%

After the verification of the final report, the NA accepts the following budget:

Total actual eligible costs: 70 KEur (if 5 KEur are considered not eligible)
Grant awarded: 35 KEur (the amount is reduced in order to maintain the %)
% of grant/total: 50%

VI. CO-FINANCING

The co-financing principle is one of the basic principles for the award of grants referred to in Article 109 FR. According to Article 165a: "*Co-financing shall require that part of the cost of a project is borne by the beneficiary of a grant, or by contributions other than the Community contribution*".

The co-financing principle aims to make beneficiaries responsible for the operational and financial viability of their projects. These projects must not be financed entirely out of Community funds and the beneficiaries are asked to obtain additional financing from other sources. This means that (Article 113 FR): "*the grant may not finance the entire costs of the project*".

VI.1 What does co-financing cover?

The co-financing requirement applies to the total costs of the project. To realise equivalence between total expenditure and total revenue, any project cost not covered through the Community grant must be covered through income deriving from the following sources:

- own resources of the beneficiary body (self-financing);
- financial contributions from other donors;
- co-financing in kind from third parties under the conditions set out below.

Sources of financing other than a Community grant must not include a grant applied for or awarded under another Community financial instrument or programme. Article 111 FR states that "*one project may give rise to the award of only one grant from the [Community] budget to any one beneficiary, except where the relevant basic acts authorise otherwise*".

Accordingly, in order to avoid more than one grant being paid, beneficiaries submitting a grant application must declare any other Community grant received or applied for in the same financial year for the same project.

VI.2 Contributions in kind

A contribution in kind is considered as a provision of goods or services to the beneficiary free of charge by a third party (e.g. equipment donated to the beneficiary, individuals providing support on a voluntary basis, etc.). Contributions in kind do not therefore involve any expenditure for the beneficiary and are not entered in his accounts.

The use by the beneficiary of his own permanent staff for the purposes of implementing the project does not represent a contribution in kind since this use constitutes a cost for the

beneficiary and may consequently constitute an indirect cost of the project (not a direct eligible cost under sub-Actions 1.3 and 5.1 as explained in par. II.4 b above).

From an operational point of view, contributions in kind create two types of difficulties:

- difficulty in calculating the equivalent financial value of the contribution in the absence of accounting evidence, and
- difficulty in assessing whether the contribution in kind has indeed been provided, or, in other words, difficulty in ensuring that the contribution in kind was not declared falsely.

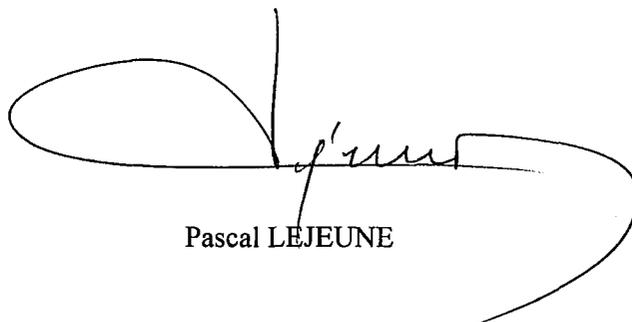
Both of these difficulties carry the same risk, i.e. that the budget of the project has been artificially inflated, which will in turn increase the amount of Community co-financing.

Co-financing in the form of contributions in kind may be accepted by the National Agency "if considered necessary or appropriate" (Article 172(2) IR). If a National Agency accepts contributions in kind, it must justify the reasons why these contributions are considered as necessary or appropriate (e.g.: due to the technical nature of the project, to the need to involve in the implementation of the project certain types of beneficiaries who would have difficulties in making financial contributions).

Finally, it should be noted that Article 172 of the IR specifically excludes the possibility for real estate to be considered as a contribution in kind (for example, making available land, buildings or premises). This includes premises offered to the beneficiary for free by third organisations/bodies for the purposes of carrying out project activities.

Although this note does not introduce new provisions or practices in relation to the management of the sub-Actions 1.3 and 5.1 of the Youth in Action programme, it still aims at providing clarifications on certain aspects that have shown to be unclear for some National Agencies.

The Commission hopes to provide National Agencies with a document which is first of all a reference and support tool for the application of the grant management procedures within the framework of the above mentioned sub-Actions.



Pascal LEJEUNE