

Acknowledgement

The preparation of this Guide has been a truly collaborative effort. It would not have been possible without the valuable direct contributions and suggestions by, and the many valuable discussion with, the staff of the CBC Unit of the *Sector for Programming, Management of EU funds and Development Assistance*. Equally, the initiative, leadership and guidance of the EC Delegation to Serbia were of utmost importance for the finalisation of this Guide.

We believe that the present version of this Guide will make a valuable contribution to the clarification, appreciation and understanding of EC procedures for grant budget formulation and management in the context of IPA funded CBC programmes (External Aid rules). However, just as our experience and understanding of correct and appropriate use of EU rules is constantly evolving, so there is always an opportunity to describe procedural guidelines more precisely and to provide more graphic and more detailed examples and cases.

We therefore named this version of the Guide **VERSION 1.0**, indicating that we are looking forward to continued collaboration with the CBC Unit and the EC Delegation for the updating and improvement of the Guide in due course.

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Team Leader

Inter-Regional Co-operation Support Programme



This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the CBC Unit of the Ministry of Finance of the Republic of Serbia and the technical assistance project “Serbia Inter-regional Cooperation Support Programme”, and can in no way be taken to reflect the views of the European Union.

Good Budget Formulation & Management Guide

For grant projects, co-financed by the European Union in Serbia

“ *The project budget is always an estimate.
How many pages will the project final report have?
How much will heating prices increase over the project lifetime?
These types of questions are impossible to answer at the start of the project.
Good planning can only mean that the estimate is more accurate* ”

(INTERACT – Financial Management Handbook, March 2007).

PURPOSE OF THIS MINI-GUIDE

The effective formulation and management of EU co-financed grant budgets is often a challenge for project beneficiaries. Even among contracting authorities, practices and opinions about the best approach to take may differ.

There are plenty of sources on sound financial management. However, we were not able to find a single document which can answer all the detailed and specific questions on the appropriate way to formulate the EU's standard grant budget template.

In any case, the goal should be to formulate and manage the grant budget in a way that **it fully complies with EU contractual and sound financial management rules in line with the EU's Financial Regulation**, while **allowing the grant beneficiary maximum flexibility – within the rules – in order to facilitate the efficient implementation of the project**. Such a balance is often not easy to reach, however this guide attempts to do so, in a practical manner.

“HOW TO GET THE PROJECT BUDGET RIGHT”

We would like to refer to the **Financial Management Handbook** prepared by the EU programme INTERACT for guidance on financial management of CBC programmes and projects. The relevant section for grant budget formulation is (pp. 86-93). It provides a very useful explanation on how to plan the project budget, including a useful debate on “budget detail vs. Flexibility”. *The Guide can be downloaded here:* http://www.interact-eu.net/ec_guidance_financial_management/199





Note: The information and recommendations contained in this guide are mostly based on a series of **European Commission Guidance Notes**, for internal use by EC staff. These notes, in turn, are based on the **EU's Financial Regulation**. In addition, direct experience of grant budget management by the European Commission to Croatia, whose practices had been reviewed by the European Court of Auditors has contributed to this guide.

STRUCTURE OF THIS GUIDE

This guide has four interrelated sections:

- General budget planning principles
- Preparing the budget
- Managing the Grant Budget
- Financial Reporting

The following INDEX shows in which sections you questions are likely to find an answer:

	Main Section	Your questions answered	Text reference
	Budget Planning	How to plan the grant budget?	1.1
		Which costs are eligible?	1.2
	Budget Formulation	How to complete the standard EU Grant Budget template?	2.1
		How to budget salaries correctly?	2.2.1
		How to budget daily subsistence allowance?	2.2.2
		How to use global sums, flat rates and lump sums?	2.2.3
	Budget Management	How to handle non-substantial budget changes?	3.1.1
		How to deal with changes between budget headings?	3.1.1.1
		How to manage changes between items within the same budget heading?	3.1.1.2
		What to do in cases of substantial budget changes?	3.1.2
		What if the beneficiary needs to modify the number of units?	3.2.1
		Modification of unit rates by the beneficiary?	3.2.2
		How to modify unit rates when total expenditure exceeds the maximum amount of the budget item?	3.2.3
		How to deploy the contingency reserve?	3.2.4
	Financial Reporting	How to deal with exchange rates when filling in the financial reporting template?	4.1
		How to fill in the Cash flow and Budget forecast template?	4.2
		When to report?	4.3
		How to use the reporting template? How to prepare an audit trail?	4.4
		What to do in case the project did not spend all the pre-financing?	4.5
		How to justify flat-rates?	4.6
		Accrued Accounting – When is a cost actually incurred?	4.7
		How to deal with interest accrued from pre-financing?	4.8

GOOD BUDGET FORMULATION & MANAGEMENT GUIDE

For grant projects, co-financed by the European Union in Serbia

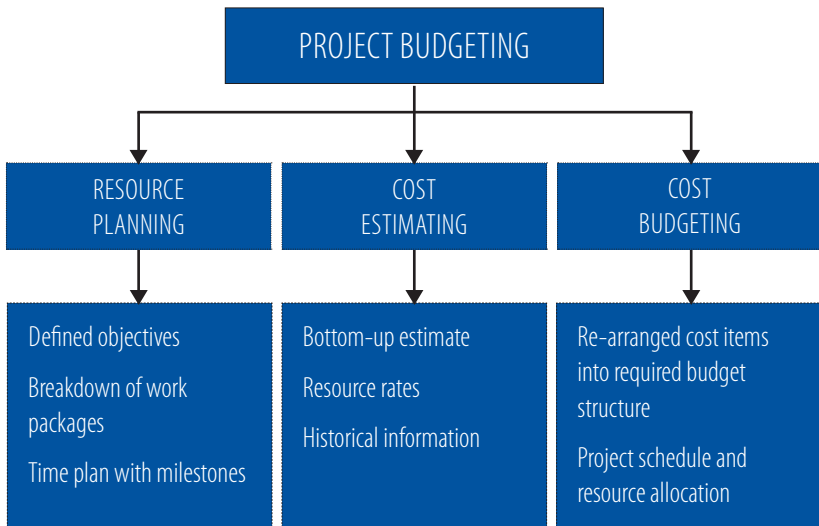
1

GENERAL PROJECT BUDGET & MANAGEMENT GUIDE

1.1 BUDGET PLANNING

The effective way to plan is to start from the activities envisaged and then move to budget them, through a three step system, as illustrated in the graphic below¹:

Three-step project budgeting



It is vital that projects start to consider financial issues from the beginning. Even though an estimation of the funds potentially available can be an important factor in defining the scope of the project, experience has shown however that saving time on proper budgeting almost always results in tensions with the programme management. Finance staff needs to be aware of such practices and develop application, assessment and monitoring procedures that keep them to a minimum.

The more effective way to plan is to start from the activities envisaged and then move to budget them. And there is a three step process that should provide the right level of accuracy: resource planning, cost estimation, cost budgeting. These steps form the basis for cost control once the project is operational.

¹ With kind permission of the EU INTERACT programme

Resource planning consists of:

- identification of the objectives and sub-objectives of the project;
- defining the work packages and determining how the project objectives will be achieved, by whom and what physical resources (people, equipment, material, etc) will be needed;
- defining a time plan with milestones;
- identifying the additional tasks required for the effective cooperation of the partnership followed by allocation of the resources to the partners who will incur these costs.

Cost estimating consists of:

- developing an approximation of the costs of the resources needed to complete the project activities. Whereas some costs are reasonably easy to calculate (e.g. cost of staff), others are more difficult to estimate at the start (for instance when they are based on a preparatory work / research to be carried out as part of the same project) and is better to define a realistic maximum price for the activity;
- aggregating the "bottom-up" estimate costs of individual activities to get the total estimated amount.

Cost budgeting consists of:

- re-organising the information gathered so far (main activities, the estimated start and end dates, the approximate resources (budget) required) into the main categories of expenditure according to the structure of the budget template - the budget headings, lines and sub-lines;
- scheduling the project and allocating resources per individual activities and partners. The schedule includes planned start and end expected finish dates for the components of the project to which costs have been allocated.

1.2 COST ELIGIBILITY

The eligible costs of the action must satisfy the eligibility criteria laid down in the grant contract (General Conditions, art. 14).

There are six eligibility criteria:

1. The costs are incurred during the duration of the action or of the work programme, with the exception of costs relating to final reports² and audit certificates.
 - ☑ **The cost must be generated** during the lifetime of the action, which does not necessarily mean that the cost has in fact to be paid during that lifetime.
 - ☑ Considering that **costs should be registered when they are incurred** (date of delivery, or date of invoice, as normally the invoice accompanies the delivery) and not when they are actually paid for (date of cash disbursement), the **financial reporting** of the Beneficiaries should be **consistent** with this approach.
2. The costs are indicated in the estimated overall budget of the action or work programme. When the final grant will be determined it will not be possible to include, in the eligible cost base, costs which did not appear in the estimated budget (unless a supplementary budget estimate was presented, in which case the grant award decision and the principle of equal treatment of applicants must be complied with).
3. The costs are necessary for the implementation of the action or of the work programme which is the subject of the grant. To be considered eligible, all costs must be connected with the subject of the agreement, the activities programmed and the results expected.
4. They are identifiable and verifiable, in particular being recorded in the accounting records of the beneficiary and determined according to the applicable accounting standards of the country where the beneficiary is established and according to the usual cost-accounting practices of the beneficiary. This also means that:
 - Costs must ultimately be incurred by the beneficiary (or its partners).
 - Supporting documents must be produced for all costs. The beneficiary (and its partners) must enter costs in its accounts in accordance with the applicable rules.
 - Costs which cannot be justified are, as a matter of principle, to be considered not eligible.

However, when the grant agreement allows the beneficiary of an action grant to charge indirect costs (overheads or administrative costs) at a flat rate, these do not need to be supported by accounting documents (see Article 14.4 of the general conditions).

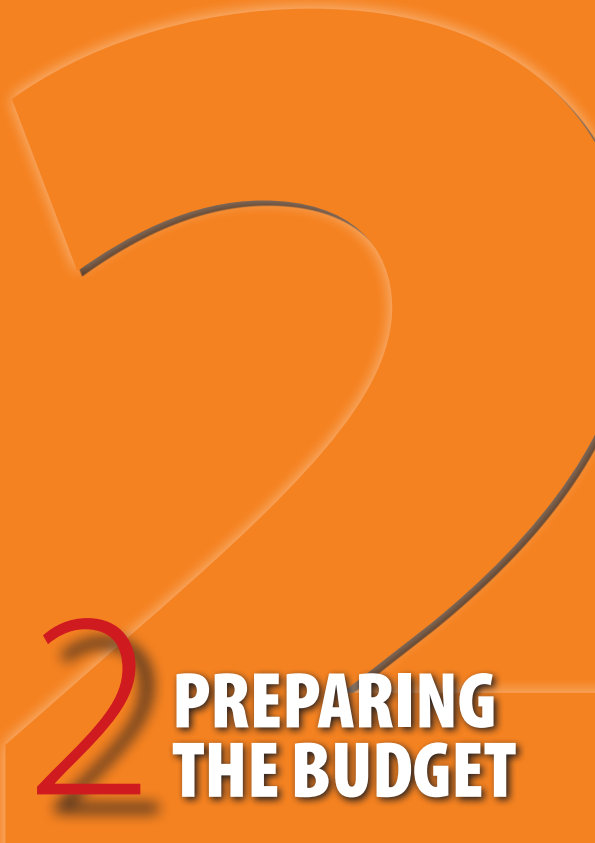
5. They comply with the requirements of applicable tax and social legislation.
6. They are reasonable, justified, and comply with the requirements of sound financial management, in particular regarding economy and efficiency.

The concept of correctly matching estimated costs and expected achievements is a fundamental criterion: the beneficiary must be able to justify the resources used to attain the objectives set in line with the objectives of the grant agreement/decision.

² These costs are limited to the actual production of the final report (printing or publication), and not staff or rent or other expenses

GOOD BUDGET FORMULATION
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A large, stylized number '2' is centered on the page. The top part of the '2' is a light orange color, while the bottom part is a darker orange. The number is outlined in a thin, dark orange line.

2 **PREPARING
THE BUDGET**

2.1 USE OF THE EU GRANT BUDGET TEMPLATE

The EU External Aid standard grant budget template³ contains eight main budget headings, numbered as follows:

1. Human resources
2. Travel
3. Equipment and supplies
4. Local Office
5. Other costs, services
6. Other
8. Provision for Contingency Reserve
10. Administrative Costs

Please note that all other lines are called “budget items” regardless of their numbering or their hierarchical subordination from the respective heading (i.e. there is no such thing as a sub-item or sub-sub-heading).

³ See: http://ec.europa.eu/europeaid/work/procedures/implementation/grants/index_en.htm

The standard template already contains **a number of explanatory notes** on how to complete it. The table below, in addition, provides additional recommendations on how to complete the budget template in an appropriate manner.

Budget Line	Budget item	Point of Attention																	
1. Human Resources	Salaries	<p>Indicate the total months a person works on the project, and indicate the total gross salary per full month. In case somebody works part time (e.g. 50%) on a project of 12 months, indicate 6 months' salary (i.e. don't indicate 12 months half the salary). When reporting staff salaries, and somebody worked half a month, indicate 50% of working time (i.e. 0,5 unit).</p> <p><u>Note:</u> This is the <u>only</u> exception to the rule of not to use fractions of a unit.</p> <p>In case somebody works only sporadically (e.g. average 5 days per months), it is also possible to use "days" as units, instead of months.</p> <p>Also refer to section 2.2.1 about appropriate indication of salaries.</p>																	
	Per diems	<p>For international subsistence allowance, indicate the per diem rate per country you are going to travel to, by adding sub budget items, e.g.:</p> <table border="1" data-bbox="456 608 919 751"> <thead> <tr> <th>Costs</th> <th>Unit</th> <th># units</th> <th>Unit rate</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>1.3.1 Abroad</td> <td>Per diem</td> <td></td> <td></td> <td rowspan="3">automatically generated</td> </tr> <tr> <td>1.3.1.1 Croatia</td> <td>Per diem</td> <td>12</td> <td>235</td> </tr> <tr> <td>1.3.1.2 Hungary</td> <td>Per diem</td> <td>8</td> <td>222</td> </tr> </tbody> </table> <p>For local subsistence allowance, use an appropriate per diem rate that is in line with the per diem normally paid by you organisation, or alternative recover direct costs. It might be appropriate to introduce separated lines if, for instance, the applicant uses different rates for single-day missions or for sleep-over missions.</p>	Costs	Unit	# units	Unit rate	Total	1.3.1 Abroad	Per diem			automatically generated	1.3.1.1 Croatia	Per diem	12	235	1.3.1.2 Hungary	Per diem	8
Costs	Unit	# units	Unit rate	Total															
1.3.1 Abroad	Per diem			automatically generated															
1.3.1.1 Croatia	Per diem	12	235																
1.3.1.2 Hungary	Per diem	8	222																
2. Travel	International travel	<p>As appropriate, break down flights per country.</p> <p>Consider if possible to use railways as an alternative to travel by plane, if appropriate.</p> <p>For international travel by car use km to be travelled as unit. A suitable unit rate should be applied (which includes fuel, car depreciation and road tolls). The current unit rate will be published by the CBC unit after confirmation with the EC Delegation.</p> <p>If you expect mixed travel arrangements, e.g. flight and then train, introduce additional sub items accordingly.</p>																	
	Local travel	<p>Whenever appropriate use the railways for local travel.</p> <p>If travel by car is necessary, indicate km to be travelled as unit. A suitable unit rate should be applied (which includes fuel, car depreciation and road tolls). The current unit rate will be published by the CBC unit after confirmation with the EC Delegation.</p>																	
3. Equipment & supplies	General	<p>Carry out a market assessment for equipment before indicating costs for equipment. The Contracting Authority is aware of current market prices, so don't inflate rates for standard items such as computers, cameras, etc., because you will be asked to adjust them during budget clearing. Obviously if there is a special need to purchase a special item for which a higher cost than usual has to be indicated, the cost can be considered eligible, as long as the applicant/beneficiary submits a justification for this.</p>																	

4. Local office	General	<p>Beware of varying monthly rates: e.g. electricity or gas bills in summer and winter. The unit rate to be indicated in the budget should consider the natural variations due to several factors, including seasonal ones (e.g. the cost of heating is raising the bills during winter). The budget should therefore indicate the average rate for 12 months, and should be calculated taking into account such variations. Sometimes, when a more accurate calculation is impossible, a global price may be indicated in the budget, to cover the entire period of implementation of the project (see also section 2.2.2). Consider however that the Contracting Authority may object to have exceedingly large amounts indicated as global price, unless adequate justification is provided.</p> <p>For administrative ease, whenever possible, include any office maintenance costs in the Administrative costs (Budget heading 10).</p>
5. Other costs, services	Publications	<p>Use cost “per item” (e.g. unit = cost per item, # units = 1000, unit rate = € 3, Total = € 3000)</p> <p>If there will be more than one publication, add sub-lines to indicate the per item cost for each publication, don't use an average.</p>
	Studies/ Research	<p>If you have more than 1 study, don't use an average, but breakdown into sub-lines per study. It is ok to use global price per study. The price of the study should be value-for-money in relation to its scope and output.</p>
	Expenditure verification	<p>Check Article 15.6 of the General Conditions, if your grant requires and expenditure verification.</p> <p>Only indicate a budget if the grant sought from the EC is above € 100,000.</p> <p>Appropriate audit cost is about 2.75% of budget value, but of course this percentage may vary according to the complexity of the financial management of each project.</p> <p>Note: It is possible to include budget verification also if the grant is below €100,000. But the contractor has to explain why, and the auditor will have to be subcontracted according to Annex IV of the PRAG!</p>
	Translation/ Interpretation	<p>For translation use “per page” as unit (check market prices for unit rates)</p> <p>For interpretation use “per day” or “per hour” (also check market prices)</p> <p>Introduce sub-lines as appropriate for translation and for interpretation.</p>
	Conferences/ Seminars	<p>Indicate the cost per participant as an appropriate unit (e.g. unit: cost per participant, # units: 50, unit rate: € 20, total = 1000)</p> <p>Introduce sub-lines in case there are more conferences with varying numbers of estimated participants</p>
	Visibility Actions	<p>First of all, do include a budget for visibility actions. The Contracting Authority will otherwise ask you to do it during budget clearing.</p> <p>Breakdown visibility actions into sub-lines, including for example, press releases, material, events, etc.</p> <p>Possible units are:</p> <p>TC spot – per time slot or per minute</p> <p>Publication, Press Release – per publication or per page</p>
6. Other	General	<p>Indicate as appropriate, using the principles of clear accountability, as above.</p>
7. Sub-total	n.a.	

8. Contingency	General	Do include an amount for contingency (we recommend between 2-5% of the grant amount). It can be useful for the application of Article 9.2 of the General Conditions (i.e. for any necessary budget changes without addendum).
9. Total direct costs	n.a.	
10. Administrative costs	General	<p>Please refer also to section 4.4.</p> <p>Make sure you indicate a realistic amount of actual overheads. This will be checked on an ex-ante basis.</p> <p>Make sure you don't exceed 7% of the total eligible cost of the action.</p> <p>It is advisable to use the actual % by calculating line 10 divided by line 9, using % as the unit.</p>

2.2 ADDITIONAL CLARIFICATIONS & DEFINITIONS

2.2.1 BUDGET HEADING 1 – HUMAN RESOURCES: HOW TO BUDGET SALARIES

The staff assigned to the action can either be permanent or temporary staff employed by the beneficiary (or the associated beneficiaries). When using outside service providers for the implementation, the corresponding costs must be presented as subcontracting costs

According to Article 14.2 (General conditions - GC), the cost of the staff assigned to the action, *comprising actual salaries plus social security charges and other statutory costs included in the remuneration are eligible* (i.e. gross salaries), provided that this does not exceed the average rates corresponding to the beneficiary's usual policy on remuneration.

- ☑ If staff are not working full time for the Action, the percentage should be indicated in the description of the corresponding item and reflected in the number of units. For instance, on a project lasting for 12 months one staff member is planned to work only half a month every month. In this case the budget will show the normal monthly salary for that person/position (e.g. € 1,000), the number of units will be 6 (months) = 50% per month * 12 months, and under the description of the item it will be specified that the person will only be involved 50% of the time.

Please note that if the staff member is not working for the entire period of project implementation, however he/she will work full time for the period in which it will devote his/her activities to the project, than this should be indicated as a full time employment. For instance, an expert working on a specific task for 6 months only (out of the 12 indicated above) will be indicated as a full time employment for 6 months.

2.2.2 BUDGET HEADING 1 – PER DIEM

Per diems as direct costs:

Since per diems should not exceed the rates normally borne by the beneficiary (GC Article 14.2), it is also possible to account per diems on direct costs basis. In this case one should add budget lines for accommodation, subsistence, etc.

Per diem for non staff members:

In line with item 1.3.3 of the budget template, per diems may also be paid for non-staff (for example for lecturers invited to speak in a conference). As with all per diems, they shall not exceed those normally borne by the Beneficiary or its partners, as the case may be. (GC Article 14.2). In any case, the costs must be reasonable, justified and comply with the requirements of sound financial management, in particular regarding economy and efficiency. The amount of per diem is to be established on the basis of average costs (e.g. depending on the country, city...). The contracting authority may request reducing the per diems if they think the Beneficiary (or any of its partners) wants to pay too high per diems that are not in line with the above text: it is not usual to pay per diems to all the participants of conferences, but to key persons, like professors giving a lecture for instance. Costs borne by conference participants (general audience) should be reimbursed on real cost basis, and should not receive a per diem.

2.2.3 USE OF GLOBAL SUMS, FLAT RATES AND LUMP-SUMS

The budgets for action grants funded by the European Commission can be designed in different ways, each of which is subject to specific rules.

First of all, we need to clarify some terms:

Type of Unit	Definition & Typical Use
Global Sum (also referred to as "Global price")	<p>Whenever precise determination of the unit cost for certain individual activities (or budget items) cannot be made at the time of the preparation of the budget, a global amount should be estimated and introduced in the budget to cover the overall activity. For instance when a pre-paid mobile phone is exclusively used for the implementation of the action (thus this cost cannot be considered an indirect cost), it is not possible up-front to know how many times it will be necessary to re-charge the credit, and consequently it is not possible to indicate a number of units (and associate it with an adequate average unit rate). In such a case a global sum can be used to indicate the total amount which will be spent during the entire project implementation to cover that cost.</p> <p>The contractor will then be obliged to provide proof of payment of each single re-charge, to justify the amount claimed at the end of the project.</p> <p>Although the use of global sums is not restricted, the Contracting Authority may object to have exceedingly large amounts indicated as global prices, unless adequate justification is provided.</p>
Lump sum	<p>Lump-Sum is a fixed amount intended to cover in global terms certain costs necessary for carrying out a specific type of activity. From a budgeting point of view it "looks" similar to a "Global price", but legally it differs considerably, because lump sums do not require the submission of financial justifications (statements), as they represent a fixed amount which is paid once the associated activity is carried out (regardless of the actual amount spent to implement that activity). Due to this special Characteristic, lump sums must be authorised ex-ante by the European Commission, which is not currently the case with CBC Programmes.</p>
Flat rate	<p>Flat rate financing is intended to cover specific categories of expenditure which are clearly identified in advance, either by applying a % fixed in advance or applying a standard scale of unit cost.</p> <p>The use of flat-rates, similarly to lump sums, is restricted and subject to prior authorisation of the European Commission. In the case of CBC programmes, the Commission has authorised the use of:</p> <ul style="list-style-type: none"> • A fixed percentage (of total direct costs) to cover indirect costs (also called "Administrative Costs" or "overheads"). • A standard scale of unit cost to cover the costs of daily subsistence (or "per diem"⁴) while on mission.

Note: The Final Eligible amount of the "direct costs" will influence the amount of "indirect cost"/"overheads"/"administrative cost" actually spent (i.e. the amount of indirect costs actually paid by the Contracting Authority at the end of the project will be calculated as a percentage of the direct costs recognised as being eligible in the final report).

⁴ http://ec.europa.eu/europeaid/work/procedures/implementation/index_en.htm

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3 MANAGING THE GRANT BUDGET

Even the best prepared budget is only a planned estimate. Reality often turns out different as planned. The following explains how to match the estimate with spending reality, in line with EU rules:

3.1 OVERVIEW OF BUDGET CHANGE RULES

The Grant contract offers the possibility to make changes to the budget, as detailed in **Article 9 of the General conditions**. Any substantial change to the budget will require a contract addendum, while for “non-substantial” changes a notification to the Contracting Authority is needed, as further explained below.

3.1.1. NON-SUBSTANTIAL CHANGES

Two types of “non-substantial” changes to the budget can be made:

- between main budget headings (up to 15% of the amount originally indicated);
- between items within the same budget heading.

3.1.1.1 Changes between budget headings

The grant beneficiary may transfer between headings within the limit of 15% of the initial amount (as set out in the contract or as modified by a formal addendum) of every budget heading concerned (boosted as well as reduced), provided that such changes do not affect the purpose of the Action.

- The 15 % is calculated on the total eligible cost (i.e. EC contribution + Beneficiary's co-financing, not only the EC contribution!).
- The 15 % is calculated on the amount of the budget heading containing the individual budget item concerned by the modification, and not on the amount of the item itself.
- The 15 % is calculated on the amount of both the budget heading which is decreased (from which the financial amount is withdrawn) and the budget heading which is increased (to which the financial amount is added).
- The 15 % is calculated on the initial amount of the budget heading, i.e. before the amount to be transferred is subtracted or added to/from each of the two affected headings.
- If for at least one of the budget headings affected by modification the 15 % limit is exceeded (i.e. substantial change, see section 3.1.2), then the unilateral change by the Beneficiary is not allowed and an amendment in the form of an addendum is necessary!
- The modifications to the budget made by the Beneficiary under article 9.2 (GC) are taken into account in a cumulative way! It is therefore not possible to proceed this way to several reallocations of 14.9 % each.
- As soon as the cumulated amount of the changes made by the Beneficiary exceeds 15% of the initial amount of a budget heading, an amendment in the form of an addendum, is necessary!
- In all cases of such unilateral change the Beneficiary must inform in writing without delay the Contracting Authority!
- The procedure cannot be used to modify headings for indirect costs or contingency reserve!

Annex III. Budget for the Action ¹	All Years				
	Costs	Unit	# of units	Unit rate (in €)	Costs (in €) ³
1. Human Resources					
1.1 Salaries (gross salaries including social security charges and other related costs, local staff) ⁴					
1.1.1 Technical	Per month	10	300		3000
1.1.2 Administrative/ support staff	Per month	20	350		7000
1.2 Salaries (gross salaries including social security charges and other related costs, expat/int. staff)	Per month				
1.2.1 Trainers					
1.2.1.1 Expert on CSO capacity building	Per day	10	200		2000
1.2.1.2 Expert on management of participative consultation processes	Per day	20	200		4000
1.2.1.3 Expert on statistic analysis of public consultation	Per day	30	200		6000
1.2.2 CSOs management coaching expert	Per month	4	2000		8000
1.2.3 Expert on Fundraising for social initiatives	Per month	2	2000		4000
1.2.4 Expert on visibility initiatives for social action	Per month	2	1500		3000
1.3 Per diems for missions/travel ⁵					0
1.3.1 Abroad (staff assigned to the Action)	Per diem				0
1.3.2 Local (staff assigned to the Action)	Per diem				0
1.3.3 Seminar/conference participants	Per diem				0
Subtotal Human Resources					37000
2. Travel⁶					
2.1. International travel	Per flight				0
2.2 Local transportation	Per month				0
Subtotal Travel					0
3. Equipment and supplies⁷					
3.1 Purchase or rent of vehicles (2 vehicles x 10 months)	Per vehicle per month	20	300		6000
3.2 Furniture, computer equipment					
3.2.1 PC Workstation	per item	1	600		600
3.2.2 multifunction printer unit	per item	1	500		500
3.2.3 video projector	per item	1	500		500
3.2.4 digital video camera	per item	1	400		400

3.3 Machines, tools . . .	per item	20	100	2000
3.4 Spare parts/equipment for machines, tools	per item	20	100	2000
3.5 Other (please specify)				0
Subtotal Equipment and supplies				12000
4. Local office				
4.1 Vehicle costs	Per month			0
4.2 Office rent	Per month			0
4.3 Consumables - office supplies	Per month			0
4.4 Other services (tel/fax, electricity/heating, maintenance)	Per month			0
Subtotal Local office				0
5. Other costs, services⁸				
5.1 Publications ⁹	per page	1000	2	2000
5.2 Studies, research ⁹	per study	1	1000	1000
5.3 Expenditure verification	global sum	1	3000	3000
5.4 Evaluation costs				0
5.5 Translation, interpreters				0
5.6 Financial services (bank guarantee costs etc.)				0
5.7 Costs of conferences/seminars ⁹				0
5.8. Visibility actions ¹⁰				0
Subtotal Other costs, services				6000

Let's now see three possible scenarios:

Situation 1 - re-allocation of 1000 € from item 1.2.3 (part of budget heading 1) to item 3.4 (part of budget heading 3):

The transferred amount (1000 €) represents only 2.86% (<15%) of the budget heading 1 (37,000 €) where the money is taken from and 8.33% (<15%) of the budget heading 3 (12,000 €) where the money is transferred to.

For neither of the two budget headings concerned the 15% limit is exceeded.

The reallocation can be done by the Beneficiary.

The Contracting Authority must be notified – without delay – of the changes made (but no prior authorisation is required). Nevertheless the Contracting Authority may reject the proposed change, if it believes it is unjustified or leading to substantial alterations of the nature and scope of the project.

Situation 2 - re-allocation of 3000 € from item 1.1.2 (part of budget heading 1) to item 3.1 (part of budget heading 3):

The transferred amount (3000 €) represents only 8.57% (<15%) of the budget heading 1 (35,000 €), where the money is taken from. However, the amount equals to 25% of the budget heading 3 (12,000 €) where the money is transferred to.

For one of the budget headings concerned the 15% limit is exceeded. In this case the reallocation cannot be done unilaterally by the Beneficiary. If the Beneficiary believes the preconditions for a change to the contract are present (see art. 9 of the General Conditions), it has to apply for a Contract Addendum, at least 30 days before the moment in which the addendum has to enter in to force.

It is important to remember that the Contracting Authority is not obliged to accept the request, and usually accepts it only when it is strictly motivated by the need to achieve the project's objectives, and due to reasons which could not be foreseen when the budget was originally designed.

Situation 3 - re-allocation of 1500 € to item 1.2.2.2 (part of budget heading 1) partly (500 €) from item 3.4 (part of budget heading 3) and partly (1,000 €) from item 5.3 (part of budget heading 5):

The "received" amount (1500 €) represents only 4.29% (<15%) of the budget heading 1 (35,000 €) where the money is transferred to. The amounts transferred from the two "donating" budget headings represent 4.17% (<15%) of the budget heading 3 (500 € out of 12,000 €) and 16.67% (>15%) of the budget heading 5 (1000 € out of 6,000 € total).

For at least one (no. 5) of the three budget headings concerned the 15% limit will be exceeded. In this case too the reallocation cannot be done unilaterally by the Beneficiary. The planned change can only be achieved through a Contract addendum.

Note that budget changes without addendum accumulate. Several budget changes over time, each of less than 15% need to be added together. As soon as the subsequent intended change would produce a change in budget heading of more than 15%, a contract addendum is required.

3.1.1.2 Changes between items within the same budget heading

The grant beneficiary may reallocate freely the funds between items within the same budget heading, including deleting items or inserting new ones, provided the purpose of the action is not affected.

- In all cases of such unilateral change the Beneficiary must inform in writing without delay the Contracting Authority!
- Also in this case the Contracting Authority may reject the proposed change, if it believes it is unjustified or leading to substantial alterations of the nature and scope of the project
- The procedure cannot be used to modify headings for indirect costs or contingency reserve!

3.1.2 SUBSTANTIAL CHANGES

All other changes not covered above shall be made through an official **contract addendum**.

3.2 SOME SPECIFIC BUDGET MANAGEMENT ISSUES

3.2.1 BUDGET PREPARATION AND MANAGEMENT: UNITS VERSUS UNIT FRACTIONS, MODIFICATION IN THE NUMBER OF UNITS

When preparing and submitting the budget for its approval, the Beneficiary is in fact declaring the amount of resources (be they human, technological, physical, etc.) needed to implement the action, with an approximate estimation of the corresponding costs to be incurred in order to make those resources available. The allocated units are providing the quantification of each resource needed for the implementation. When approving the budget and signing the contract, both parties agree that the amounts of resources indicated in the budget are needed for the implementation of the action and the achievement of the expected results, neither more nor less. Thus *the number of units* provided for in the contract budget have to be considered as the maximum the Beneficiary can dispose of.

It is also worth noticing that except in the cases specified below the number of units in the budget shall be given in integer units; The first consequence of this principle is that fractions of an allocated unit may never be used, neither in budgeting nor in reporting. One unit is allocated per one occurrence of a particular item or event (1 flight, 1 audit, etc.).

One occurrence means one unit spent, regardless of the actual amount involved. The actual costs incurred when spending the related units will be indicated in the financial reports

The rule of reporting integer units can be disregarded only when the resource considered can materially or logically be split into fractions. Such case can for instance be made for the personnel costs: whenever a person working for the action and budgeted under the human resources heading does not actually work a full month (considering that one month represents one unit) then this can be reported as a fraction of a unit (see also table section 2.1, Staff salaries).

If it is necessary to increase or decrease the number of units, this has to be done following the same procedures and principles as described in **3.1 Overview of Budget Change Rules**, and immediately notify the contracting authority about the budget modification.

3.2.2 UNIT RATES / MODIFICATION OF UNIT RATES BY THE BENEFICIARY

A cost item is the result of the number of units of a resource allocated to implement an activity, multiplied by the expected average cost of each of these units. This average cost is called "unit rate". See for instance the following example:

Costs	Unit	Number of units	Unit rate	Costs (in €)
2.1 Travel costs	per flight	5	500	2,500

As specified in the previous section, *the number of units* provided for in the contract

budget have to be considered as the maximum the Beneficiary can dispose of (in the example above =5). Likewise the cost item (= unit x unit rate) is considered a maximum the beneficiary can dispose of (=2,500).

The unit rates instead are considered an average, and exceeding the indicated unit rate for one or more units spent is allowed, as long as after spending all units the overall expenditure does not exceed the indicated cost for the budget item⁶.

In the example above, when booking your flights you realize that three flights cost 400 each, but two flights cost 650, so your actual cost for the budget item would remain 2500 $(=(3 \times 400 + 2 \times 650) / 5)$. In this case, as the overall average is respected, the Contracting authority does not need to be informed.

The unit rates must however always meet the definition of eligible costs in Article 14.1 (GC): they must therefore be necessary for the implementation of the Action and complying with the principles of sound financial management, in particular value for money and cost effectiveness.

3.2.3 MODIFICATION OF UNIT RATES WHERE TOTAL EXPENDITURE EXCEEDS THE MAXIMUM AMOUNT OF THE BUDGET ITEM

If the total expenditure envisaged for a specific item is expected to exceed the maximum amount for that budget item at the end of the project, **before incurring the cost** and as soon as the Beneficiary becomes aware that the current unit rate is not sufficient (for instance when contacting Travel Agents to obtain quotes about the costs for the planned travels), the beneficiary should amend the unit rates following the same procedures and principles described in section **3.1 Overview of Budget Change Rules**, subject to available savings on other budget items, and immediately notify the contracting authority about the budget modification.

Again with reference to the example above, when booking your flights you realize for example that three flights cost 400, but two flights cost 700, so your actual cost for the budget item would be 2,600 (with an average unit rate of 520). In this case, if you want to recover the exceeding amount spent, you will need to reallocate 100 from another budget item in which you had a saving, immediately informing the Contracting Authority in accordance with the rules for reallocation described under sect. 3.1.1.

3.2.4 USE OF THE CONTINGENCY RESERVE

Another possible way to exceed the costs originally envisaged for a single budget item is to seek for the authorisation from the Contracting Authority to use the contingencies.

The contingency reserve is meant to cover costs that unexpectedly appear during implementation of the action, impossible to foresee at the time of grant agreement signature.

⁶ Please note that in the event that the beneficiary manages to spend less money than planned when all the allocated units to a budgeted item are purchased (for instance, in case there is a general decrease in flight prices), it is not automatically free to increase the number of units and spend the "saved" amounts. The beneficiary is still subject to the declaration implicitly made at the start of the project, i.e. that the objectives will be achieved using the declared amount of resources. The savings, thus, belong to the contracting authority, and additional items can only be purchased if there is a justified reason to do so.

- ☑ **Bear in mind that you can use the contingency reserve only following the written approval of the Contracting Authority (not through notifications)!**

When the need becomes obvious, the Beneficiary should prepare a duly justified request, explaining the objective reasons that led to the need for additional funds, and send it to the Contracting Authority for approval.

DO NOT USE contingency reserve funds before the Contracting Authority approves this, otherwise the funds will surely be considered not eligible.

ONLY USE (or ask to use) contingency reserve when there are no savings on other budget items, and you are still able to make budgetary transfers in line with art. 9.2 (GC), see 3.1.1.1.

Possible examples of cases in which the contingency reserve may be used are:

- When, following a tender procedure, the recommended tender exceeds the budget available and through negotiations it cannot be reduced to fit within; then, if there are no savings on other lines and co-financing funds are not available to cover the difference, a request to the CA should be made to use part of contingencies;
- When it becomes apparent that the unit rate for a certain budget item is insufficient (e.g. flight ticket costs more than the rate in the budget for one flight, organisation of an event costs more than initially foreseen etc.) and there are no savings or co-financing available, the beneficiary can apply to the contracting authority for the use of contingencies to cover the difference.
- When additional units of a certain item are needed (e.g. more flights, more per diems, more conferences, more pages of translation etc.) and their eligibility in terms of opportunity and relevance to the action can be demonstrated, unless there are savings on other budget items, the beneficiary can apply to the CA for approval to use part of contingencies to cover the cost of additional units.

GOOD BUDGET FORMULATION & MANAGEMENT GUIDE

For grant projects, co-financed by the European Union in Serbia

4 FINANCIAL REPORTING

4.1 HOW TO DEAL WITH EXCHANGE RATES WHEN FILLING THE FINANCIAL REPORTS

The financial reports allow to report both costs incurred in EUR and costs incurred in local currency.

Expenditures incurred in *Republic of Serbia Dinars* are therefore reported in Dinars. At the end of your financial reporting period, you need to calculate the average official EURO exchange rate for the reporting period and use this exchange rate for calculating the EURO equivalent of your expenditures in Dinar.

The average monthly EURO rates can be found on this website: <http://ec.europa.eu/budget/infoureuro/index.cfm?Language=en>

The average EURO / Dinar exchange rate for the reporting period is calculated by adding up the average monthly exchange rate for each month of the reporting period and dividing it by the number of months. So, you only use one exchange rate for the entire reporting period independent at what time during the reporting period the cost was incurred.

4.2 HOW TO FILL IN THE CASH-FLOW AND BUDGET FORECAST TEMPLATE

The template on “forecast budget & follow up” is a separate MS Excel worksheet template within the template for the grant financial report. This template has been introduced in the PRAG only recently, and its use may still be a bit unclear. It is divided in three parts:

1. the leftmost side – i.e. the “previous period” columns - reports the planned amounts as they were envisaged in the previous forecast report;
2. the center column – “real previous period” - contains the actual budgetary commitments incurred during the same period;
3. the right side – i.e. the “following period” columns – will include the planned amounts envisaged to be incurred in the following reporting period.

It is important to understand that this table is essentially a planning and monitoring tool: the figures you introduce in the right side of the template are not committing you or your institution to faithfully follow that spending pace. Nevertheless you should fill in the template using good faith and the best available knowledge at the moment of filling it in.

- ✓ Please note that the **“Forecast Budget & Follow-up” table is not part of the official financial reporting**, as described in the following paragraphs.

Naturally, the persons in charge of monitoring your project (be they Local Officers, Programme Officers or the EC Programme Manager) may ask you to clarify what are the reasons for big inconsistencies between what was expected to spend in a certain period, and what has actually been spent (comparing two successive forecast reports), but that should only be seen as an additional way to offer you support and guidance in case of difficulties encountered during the implementation.

The “forecast budget & follow up” should, therefore, be also useful to the Project Manager in your organisation, as an *early warning system* in case the rhythm of project spending does not match with expected plans.

4.3 WHEN TO REPORT

Financial reporting is regulated by Article 2 and 15 of the General Conditions. For projects of less than one year duration or where EU funding is less than 100,000, there will only be one *final financial report* at the end of the project.

Longer (i.e. lasting more than 12 months) or larger projects (i.e. for which the EC provides more than €100,000) will require one or more *interim financial reports*, followed by a *final financial report* upon the conclusion of the project's implementation. For example, the beneficiary can report at least once every 12 months (but in case at least 70% of the first pre-financing was spent earlier, they may report sooner than that).

4.4 REPORTING TEMPLATE & AUDIT TRAIL

Budget modifications mentioned in section 3 above also need to be reflected in the financial reporting template. The standard financial reporting template can be downloaded here: http://ec.europa.eu/europeaid/work/procedures/implementation/grants/index_en.htm

The beneficiary reports against the contractual budget, using average unit rates (in case of varying unit rates) as necessary.

Do not modify the budget template for the financial report. Any modification of the budget template (e.g. a breakdown of budget items) would require a prior notification to the Contracting Authority. As emphasized above, the more detailed the original budget is in the first place, the easier it will be to report.

In case of **global sums**, report the amount of money spent to date, while leaving the space for the number of units blank.

The beneficiary must list every single item of expenditure in an audit trail (see GC 2.1).

We strongly recommend using an **electronic spreadsheet based audit trail**, where every single project expenditure is recorded. This will make financial reporting much easier. The beneficiaries can obtain the electronic version from the respective programme officer in the PCMU, Ministry of Finance, or the JTS.

4.5 IN CASE THE PROJECT DID NOT SPEND ALL THE PRE-FINANCING

In case a project did not manage to spend all of the 80% of pre-financing paid by the European Commission, the project beneficiary should in any case send an invoice for the amount spent on the project. Once the Contracting Authority has cleared the pre-financed amount actually spent, it will initiate a recovery procedure.

Let's make an example concerning a project requesting a grant contribution of € 100,000, which received € 80,000 in pre-financing.

Project financial data	Budget Eur %		Reported expenses at the end of implementation
Total Cost	118,000.00		90,000.00
EC Grant Amount	100,000.00	84.7%	76,271.19
Co-financing	18,000.00	15.3%	13,728.81

Pre-financing	80,000.00
Amount actually spent	76,271.19
Recovery order	3,728.81

At the end of the project's implementation, the Beneficiary only managed to spend € 90,000, and will send an invoice to the ECD claiming such amount. Although the amount spent is actually higher than the received pre-financing, the invoice has to cover all direct and indirect eligible costs incurred by the project, including the co-financing part to be covered by the Beneficiary. The pre-financing is instead only covering the EC Grant contribution share.

Applying the co-financing % to the total amount of the invoice, the project spent only € 76,271.19 of the co-financing: this is the amount the Contracting Authority will clear out of the initial pre-financing. Once this has been done, the Contracting Authority will initiate a recovery procedure, following which the beneficiary will have to pay-back a total amount of € 3,728.81.

4.6 JUSTIFYING FLAT-RATES

As the lump sums and terms for flat-rate financing (incl. level of the unit costs) have been **subject to an ex-ante assessment**, whereby the respect of the requirements of co-financing and no-profit were also verified, it is no longer necessary to check a detailed statement of costs actually incurred when establishing the final amount of the grant. **Therefore, the step of verifying that the costs actually incurred correspond to the pre-established rates is eliminated.**

In order to receive **per diems** the Beneficiary has to present: travel documents displaying destination (to show the travel actually took place) and duration (to enable calculating the number of units/rate of realisation) of the travel + agenda of the event that constituted the purpose of the travel or other justification of the opportunity of the travel (to show the relevance within the framework of the action);

The **indirect costs** may be claimed by the Grant Beneficiary within the maximum limit of 7% of the direct eligible costs entered in the budget⁷. The 7% applies to the direct costs accepted as eligible at the end of the project and the Beneficiary does not have to provide any justification.

⁷ Please note that Grants funded by IPA funds may partially derogate from this rule, in that the applicable % may actually be higher. However the rule can only be derogated by a decision of the institutions involved in the preparation of the Guidelines for Applicants, and a different applicable % would, in such a case, be indicated in the Guidelines for Applicants. Missing any such indication, all Grant Beneficiaries are bound by the 7% limit.

4.7 ACCRUED ACCOUNTING – WHEN IS A COST ACTUALLY INCURRED?

Financial reporting has to happen on the basis of actually incurred costs, and **not on the basis of bills paid**. When is a cost actually incurred?

Three elements have to be taken into account to determine when costs have actually been incurred:

- the contract-award procedure (for sub-contracting);
- the use of the goods (be they purchased or rented);
- the payment (disbursement of funds).

The main criterion is the use of the services or goods purchased with the project funds: the goods or services must have actually been contracted and delivered. In other words, costs are incurred when the beneficiary has become liable for their payment. So, for example:

- when the beneficiary receives an invoice from a supplier;
- a staff "salary" is incurred at the contractually agreed due date of the regular salary.

If these cases are not applicable, then the third case applies (i.e. the actual disbursement of funds).

4.8 HOW TO DEAL WITH ACCRUED FROM PRE-FINANCING?

According to Article 15.9 of the General Conditions, any interest or equivalent benefits accruing from pre-financing paid by the Contracting Authority to the Beneficiary shall be mentioned in the interim and final reports.

Any interest accruing from pre-financing equal or **below EUR 250,000** paid by the Contracting authority shall **not** be due to the Contracting authority and may be used by the Beneficiary for the Action.

Any interest accruing from pre financing **of more than EUR 250,000** paid by the Contracting authority shall be assigned to the Action and deducted from the payment of the balance of the amounts due to the Beneficiary, unless the Contracting Authority requests the Beneficiary to reimburse the interest generated by pre-financing payments before the payment of the balance.

The above means that beneficiaries do not have to pay back the money from the interest in cases the pre-financing was below €250,000, but they have to report it anyway no matter how high the pre-financing is.