
E-MANUAL

**TOOLKIT – GUIDE TO PLANNING EU PROJECTS IN THE HEALTH AND SOCIAL
HEALTH SECTOR**

2.6 THE BUDGET.

Each project must possess **economic sustainability** that enables the implementation of activities and the achievement of goals. This economic sustainability is provided by the Budget.



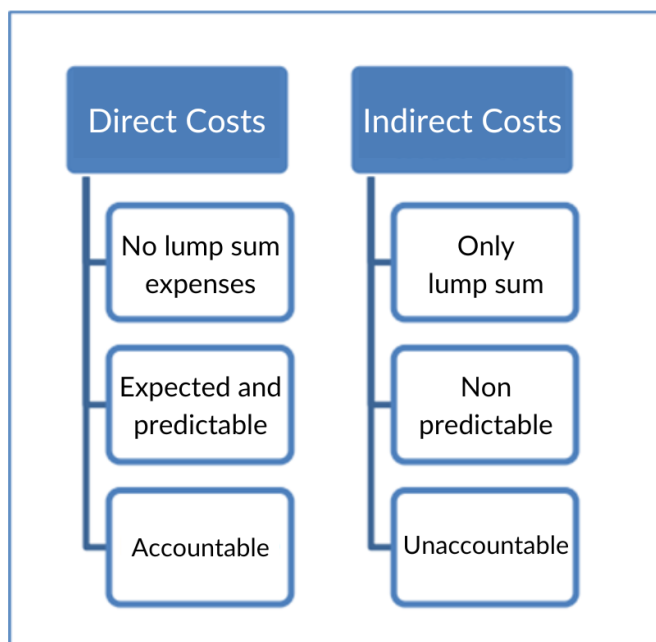
The **Budget** is a **tool by which income and expenses related to the project are defined**, i.e., it is the expression, in monetary terms, of its activities.

For this reason it must be:

- **Consistent with planned activities:** use the logic of "minimum means and maximum result", keeping in mind that the ability to maximize the result of a cost will also be evaluated, not the logic of savings. Be careful. Saving on a financed cost is penalizing because it shows poor foresight and poor management.
- **Detailed:** normally, attachments to calls for proposals have formats to produce a meticulous budget; therefore, it should be filled out in as much detail as possible. If you do not know the value of an asset, or the cost of a performance/service, it is useful to turn to the internet.
- **Zero:** is the result that must eventually give the total income with the total expenditure, including co-funding. This is combined with accounting principles but especially with the categorical rule that *the project to be financed must not make a profit*.
- **Expressed in Euro:** It is good to remember that in Europe we have not all adopted the single currency, and some partners still use the national currency.

DIRECT AND INDIRECT COSTS

The Budget is divided into two macro-parts:



1) Direct Costs: costs incurred directly for the project and uniquely related to it. This category includes, for example, personnel costs, travel costs, service costs (translations, websites, graphics and typography, lecturing, room rental, etc.), equipment costs (PCs, video projectors, etc.). These costs must all be accounted for, that is, proof must be provided that they were incurred through invoices, receipts, pay stubs, receipts, tickets, etc. Costs of a lump-sum nature are excluded from this category.

2) Indirect Costs: costs incurred by the beneficiaries for the ordinary operation of the business activity but not directly attributable to the project itself, they fall under the so-called overhead costs. In practice, these are costs that cannot be predicted or measured. Thus, they are, unlike direct ones, lump sum in nature. Their measure is expressed in monetary and percentage terms (be careful not to exceed the percentage always stipulated and indicated in the call). Indirect costs do not have to be *accounted* for, i.e., there is no need to bring proof that they were incurred (they are, usually, "certified" with a written statement signed by the legal representative). The only consideration to be made is that these costs cannot exceed the values of the overhead costs that the company incurs and that are shown in the budget.

HOW TO BUILD A BUDGET

When we intend to construct a budget for a project we refer only to the **eligible costs** (Eligible costs) which are always listed, of course not exhaustively, in the relevant call for proposals. Therefore, the first thing to do before tackling a budget is to read the guidelines (financial guidelines for applicants) **carefully**.

Before addressing the technical part of constructing a Budget, it is necessary to highlight some basic steps to keep in mind:

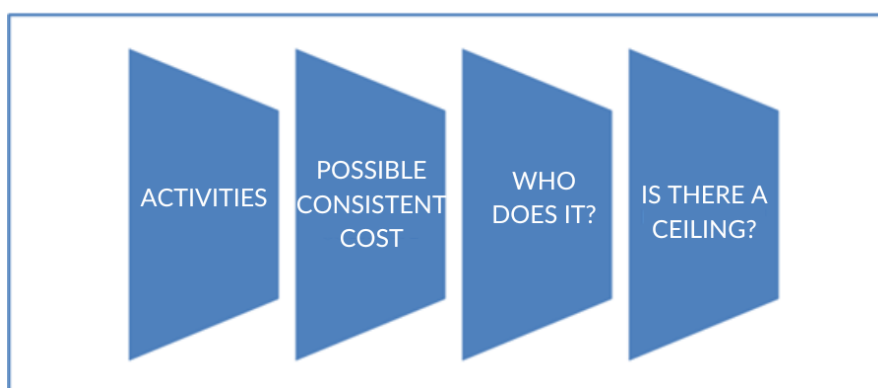
- **Expenditures:** must be reportable: any type of expenditure you plan to incur must be reportable, that is, documentable. For example, there may be some public agencies that have difficulty producing certain documents, either because of red tape or because of the inability to prove a direct cost. (Example: if you plan to host the kick-off meeting in the Region and you identify the cost of "room rental" but then carry out the event in the Region's own convention centre, you have to take into account the fact that you will not be able, at the reporting stage, to prove the expense incurred).
- **Use Excel (or any other spreadsheet):** the complexity of some cost breakdowns implies the use of appropriate tools, such as spreadsheets. Divide costs by WP: Generally, in the budget templates found in European calls for proposals you will find, at the end, some summary sheets of expected costs divided by WP and also (but not always), an Expenditure Timeline (what expenditure you will incur and when you will incur it).
- **Check the percentage limits of macro-items:** there are some calls that place percentage limits on certain macro-items of expenditure (e.g., personnel costs cannot exceed 30 percent of total eligible costs). Each call has a budget scheme but generally all contain the direct cost categories listed below:
 - ⇒ **Personnel Costs:** means only personnel registered in the single book (formerly the payroll book) and receiving payroll thus: temporary and permanent contracts.
 - ⇒ **Travel costs:** this refers to the transportation costs required to conduct a specific activity (workshop, kick-off meeting, meeting, final event, etc.) at a given location.
 - ⇒ **Board and lodging** costs: these are the costs for the hotel and those included in the per day.
 - ⇒ **Equipment:** tools to be purchased for the project (ex: video camera; PC; gadgets).
 - ⇒ **Consumable** goods: these are goods that can only be used once such as stationery; CD-ROMs; etc.
 - ⇒ **Services/subcontracts:** any service (i.e., not the purchase of a good) that generates a tax invoice/receipt for a specific activity not included in the previous items. So: room/room rental; consultants (invoices and notations); translation service etc.

A PRACTICAL EXAMPLE OF HOW TO PREPARE A BUDGET

The preparation of a Budget is accomplished through a series of logical (and also mathematical) processes, which we see below starting with a practical and simplified example.

Suppose the project involves "good practice research activities to be developed and shared among 5 partners.

PROCESS ANALYSIS



Process analysis simplifies how to approach the definition of spending. So assuming that one of the activities in the project is the "search for best practices" among partners, the possible costs consistent with this activity may be:

- *specialized in-house personnel* who conduct interviews/research, or *outside professionals experienced* in interviewing and processing results, *in-house personnel dedicated to coordinating activities* ;
- *Travel expenses and room and board* for meetings with partners.

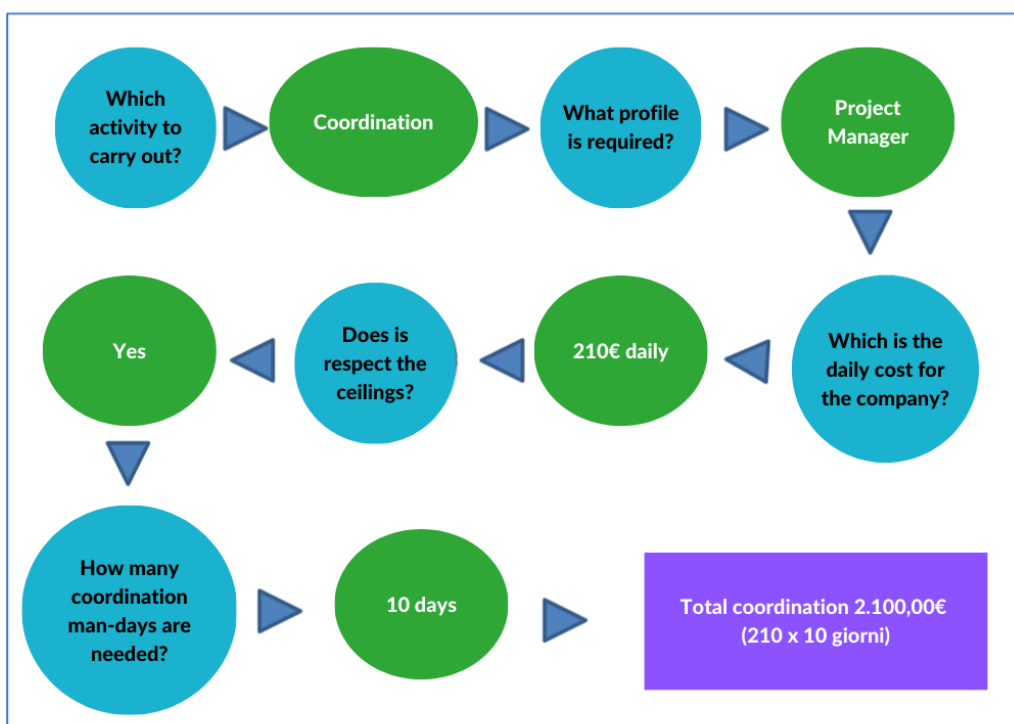
It is important to understand whether this activity is the responsibility of one, some, or all partners. Once the type of cost is defined and it is verified who will bear it, it is necessary to quantify the cost (after checking whether there are, in the "funding guideline" ceilings of expenses with respect to the items we intend to include).

Quantifying the cost: once it has been defined what costs will be incurred and the partner who is to bear them, the total value for that cost item must be identified.

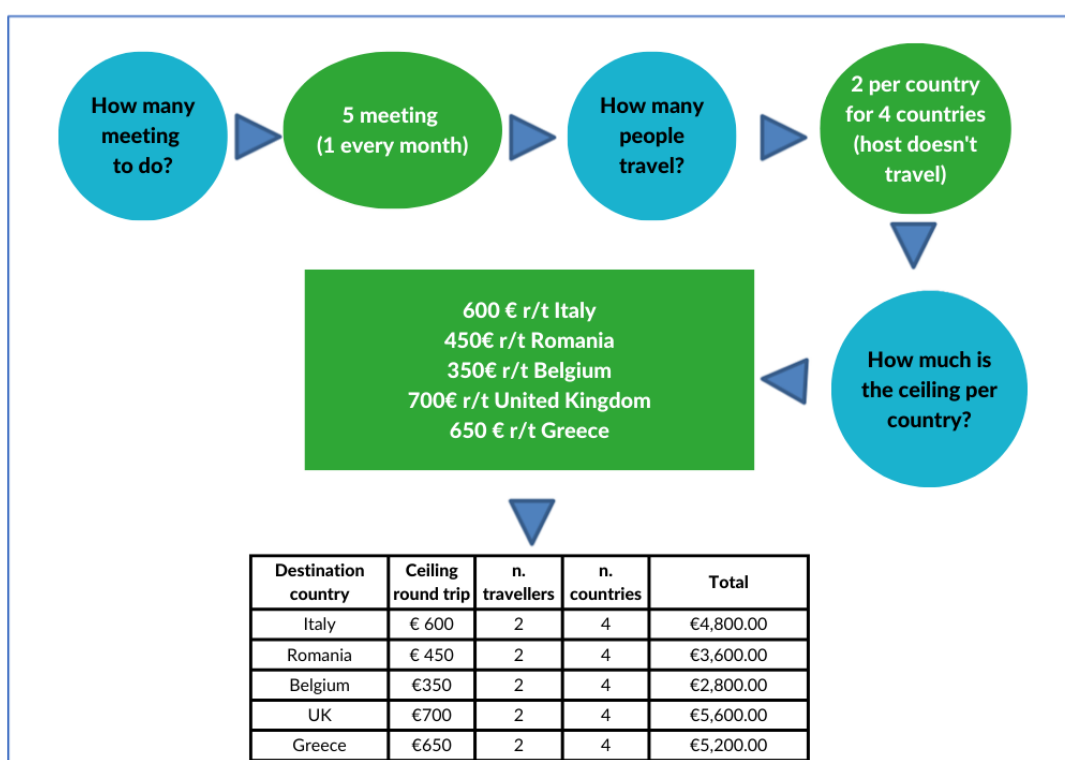
Example: if we consider the personnel cost item for "coordination," this cost is part of the expenses under the Lead partner and is present in every project. Once the activity to be implemented ("coordination") has been identified, the job profile (project manager) needs to be determined. Assuming a company cost (gross cost plus the costs to be borne by the company) of 210 € per day; it needs to be checked whether the cost meets the ceiling stipulated in the call guidelines. Having checked that the ceiling is met, the number of person-days needed to coordinate the project must be assessed (assumption 10 days).

210 € x 10 days implies a total coordination cost of 2,100 €.

The diagram below summarizes the quantification process:



The same scheme can also be used for other costs, such as evaluating travel expenses:



Finally, there are some considerations to keep in mind as you evaluate the costs of a budget:

- *Always involve Partners in cost evaluation* (to know the exact cost of each partner's staff);
- the use of currency other than the euro by some Partners could create misunderstanding of values or difficulties in retrospective reporting;
- it is important to make explicit the type of expenditure you intend to include (e.g. type of "employees" you may consider, type of employee relationship or not);
- pay attention to V.A.T.: all costs in the budget may include VAT in case VAT is a cost to the person incurring the expense (it is not recovered);
- Refer to what is written in the financial guidelines.

Ineligible costs: Not all costs are eligible in a project. There are, in fact, some costs, which cannot be budgeted, let alone accounted for.

Broadly speaking, these are the following costs:

- Costs that are generally unquantifiable and therefore not susceptible to invoice or receipt (such as loaned materials/equipment or volunteer labour)
- Capital investment costs
- Financial charges
- Interest expense
- Losses due to currency exchange
- VAT if it is a recoverable cost
- Excessive, irrelevant and reckless spending
- Expenditures whose cost has already been covered by another European Union funding
- Any kind of sanction

CONCLUSIONS

Once the process leading to the monetization of all costs of the planned activities, including indirect costs, has been completed, the **co-funding** to be committed will also need to be highlighted.

The evaluation of co-funding should be done together with the partners using, for example, a criterion such as percentage. According to this principle, you decide on the percentage, out of the total budget, that you are going to co-finance, then you calculate it out of the total budget remembering to check that there is no minimum and maximum amount that can be financed or a minimum expression in co-funding percentage.

In general, the lead partner has a larger slice of the budget and, in principle, also supports a larger amount of co-funding. In this regard, we highlight the desirability of verifying that the budget of the entities involved in the project confirms the actual ability of that entity to co-fund.

The co-funding of the partners can be provided in equal parts, but the route of dividing the co-funding according to jointly defined criteria and variables can also be chosen.

