01.09.2023

Indexation of the hourly rates

1. Background

At the 3rd Monitoring Committee (MC) meeting in Malmö, the MA/JS presented the evaluation of the practical implementation of the hourly rates. The initial evaluation was based on the feedback from the projects, our own experience gained during the assessment of the applications and monitoring of the submitted progress reports from the 1st call of the small projects.

At the same time, the MA/JS promised to review the labour costs index once the data for 2022 are published and to review the practical implication of the hourly rates system after the first reporting round of the 1st call of the projects (core, small and strategy support).

2. Calculation of hourly rates with a new index

The MA/JS prepared an update of the methodology based on the 7-year index, resulting from the latest available data from the Eurostat. The latest available annual labour cost index (LCI) data are for the year 2022. Therefore the new 7-year index covers the years 2016-2022 (in the initial methodology the period 2013-2019 was used).

This update is shown in Table 2.

Table 2 Calculation of updated index and new hourly rates.

Country	BSR average hourly rates 2015-2020	7-years-Indexes		Programme hourly rates 2021-2027		Differences in initial rates based on new index
	Historical data	Initial % 2013-2019	Updated 2016-22 %	Implemented hourly rates	Updated hourly rates	
Denmark (DKK)	338.05	10.76	12.76	374	381	+2%
Germany	40.73	18.77	21.99	48	50	+3%
Estonia	19.06	52.53	62.23	29	31	+6%
Latvia	16.87	44.23	57.29	24	27	+9%
Lithuania	15.49	41.79	78.77	22	28	+26%
Poland (PLN)	73.44	25.95	46.10	92	107	+16%
Finland	35.71	1.51	6.69	36	38	+5%
Sweden (SEK)	432.48	15.86	18.42	501	512	+2%
Norway (NOK)	477.48	14.42	17.60	546	562	+3%

As can be seen, based on the new index there is a significant increase for Lithuania and Poland (26% and 16% respectively), Latvia is following with a 9% increase, while for all other countries, the increase will be in the range of 2%-6%.

3. Feedback from the 1st reporting round:

Up to now, the MA/JS received all progress reports from the small projects and from the PAC support projects (including Strategy Point) and 24 out of 31 progress reports from the core projects. So far, MA/JS has not received any official feedback or complaint from the contracted projects that simplified cost options (hourly rates and corresponding flat rates) are not sufficient to cover personnel costs, office and administration costs and travel and accommodation costs.

However, in order to fully evaluate the performance of the new financing system the MA/JS will launch the survey this year, after the first round of reporting is over, and around 90% of 1st progress reports are paid. The survey will be more complex and shall provide feedback from the partners on how rates cover real costs, how it is with the registration of working time, if our guidance and support are enough, how is BAMOS+ reporting working, how they find our monitoring etc. In addition, this evaluation will assess the verification and payment time and errors found during the monitoring.

4. Feedback from the Audit Authority

The MA/JS contacted the Audit Authority and discussed a potential update of the methodology. The Audit Authority position was a bit reserved mainly due to the potential unequal treatment of the project partners from the running calls and the fact that the initial hourly rates were calculated in a way to cover the core implementation period of our Programme, i.e. the period from 2023 to 2027. Nevertheless, the Audit Authority understands the impact of the high inflation on labour costs and will assess the methodology for updating the Programme hourly rates.

5. Feedback from other Interreg Programmes

The MA/JS contacted seven Programmes that implemented hourly rates in this programming period to check if they are planning an update of the hourly rates and what is their point of view. Based on the unofficial exchange we see the following tendency among the Programmes:

Two Programmes are planning to update the hourly rates, two Programmes are depending on our methodology, one Programme does not plan any update and one Programme already applied a yearly indexation system to all running projects.

The biggest factor triggering the need for an update of the hourly rates is, without any doubt, recent high inflation and visible salary increases across Europe. Because of the rises in wages in the last two years, the amounts that have already been calculated to cover the usual rises in wages for the entire programme period may turn out to be too low in the next few years. In addition, some of the Programmes indicate, that a higher hourly rate would make the Programmes more attractive for the project partners. There were also voices opting against the update of the hourly rates since the hourly rate is seen to be sufficient.

6. Summary

When deciding about the update of the methodology for hourly rates for the upcoming calls the MA/JS suggest the MC consider the following observations:

- Until now, MA/JS has not received any official feedback or complaint from the contracted projects that simplified cost options (hourly rates and corresponding flat rates) are not sufficient to cover personnel costs, office and administration costs and travel and accommodation costs. More complex evaluation with the survey from project partners will be done as explained earlier in point 3.

- The rates that had already been calculated to cover the personnel costs over the coming years may turn out to be too low in the next few years because of the rises in wages in the last two years.

- New (higher) hourly rates could keep the Programme attractive for the applicants for future calls.

- Higher hourly rates increase the average budgets of the core projects, However, it seems not to be such a large-scale impact. To back it up with some figures, the MA/JS prepared a simulation of the budgets of approved projects from the first two calls using new hourly rates:

    - In Call 1 we committed almost 81 million € or Programme funds (ERDF+Norway). With the new hourly rates, we would commit almost 86 million € (an average increase of 6.6%).

    - In Call 2 we committed a bit more than 67 million € - which would increase to almost 71 million € (an average increase of 5.3%)

  The average of both calls is a 6.0% increase.

- Following the previous bullet point – an increase in the budget of core projects could potentially reduce the number of projects we could approve for the last call of application due to the limited remaining funds.

- There would not be a real impact on small projects or strategy support projects as their overall budget is fixed.

- Any modification of the hourly rates cannot be applied retrospectively to the approved projects (1st call and 2nd call). The new hourly rates would have to be implemented for the 3rd call of the projects.

- Following the previous bullet point – different (higher) hourly rates for future calls might raise voices of unequal treatment and discrimination towards the already approved and running projects.

7. Next steps and timeline

1. The MA/JS will prepare and send the update of the methodology to the Audit Authority right after the TF meeting. It is crucial to give AA sufficient time to check the update and issue an opinion.
2. The MA/JS is ready to discuss the pros and cons of the update of the hourly rates and answer the questions of the countries' representatives during the Task Force meeting at the beginning of October this year.
3. The MC may take the decision during the MC meeting in December this year or through a written procedure after the Task Force meeting.
4. By the time the decision is taken the MA/JS expects to have the opinion of the Audit Authority ready.

5. If the MC approves the update of the hourly rates, MA/JS will prepare for the upcoming call, and update the Programme Manual, guidance and tutorials accordingly.