



# HORIZON 2020

## Model Grant Agreement FINANCIAL ISSUES

# **H2020 Information Campaign**

⇒ ***Built on the experience in FP7***

⇒ ***Part of the ex-ante advice provided by the Commission services***

⇒ ***Targets the same main objective:  
→ error free financial statements***

⇒ ***Started in the earliest possible stage of H2020***

# Background: FP7 10 most common errors

1. Costs claimed are not substantiated or not linked to the project

2. Third parties and subcontracting costs not properly reported

3. Depreciation costs not correctly charged to the project

4. Indirect costs model not properly reflecting the entity's reality

5. Indirect costs – ineligible costs included

# Background: FP7 10 most common errors

6. Personnel costs – calculation of productive hours

7. Personnel costs – charging of hours worked on the project

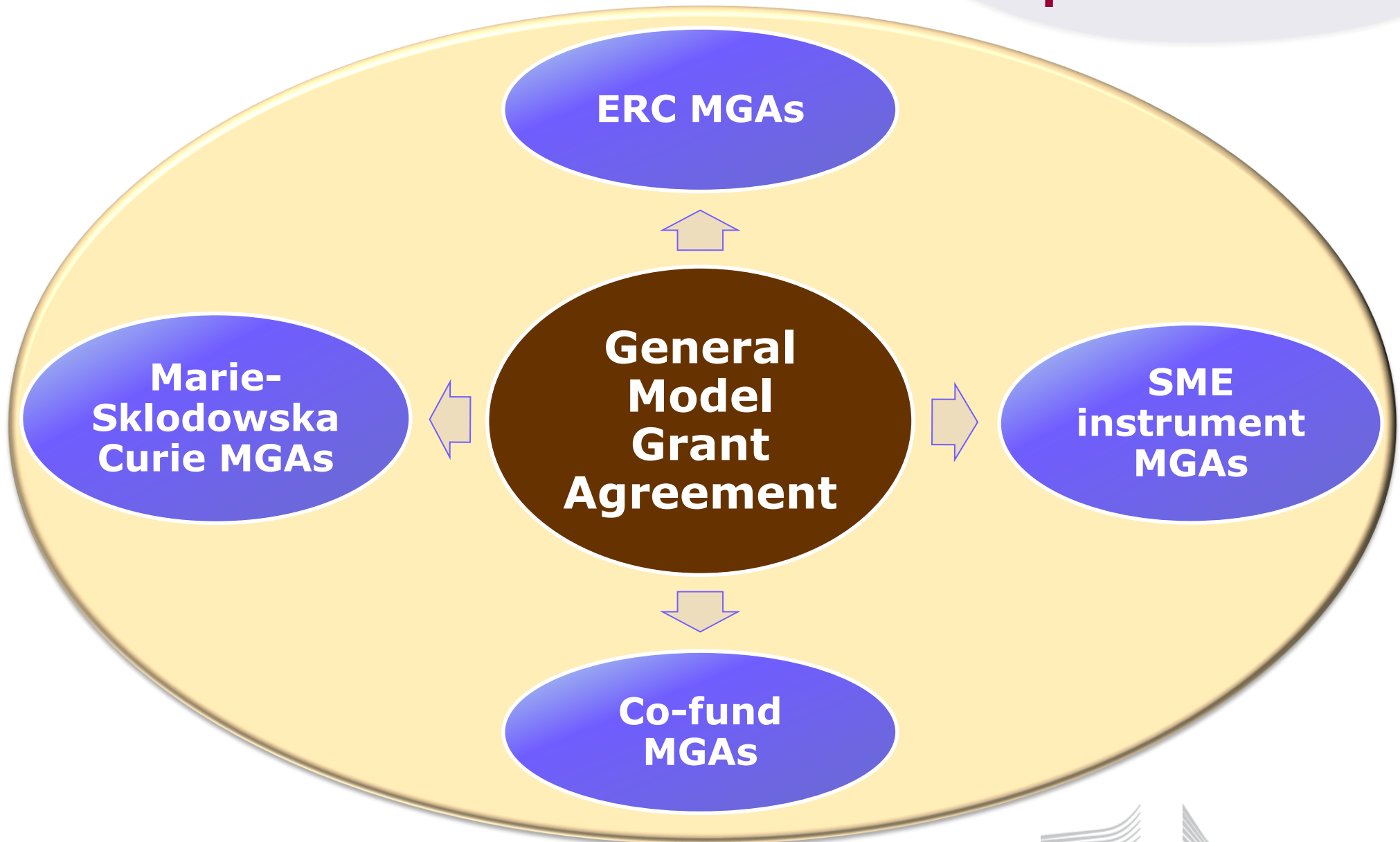
8. Personnel costs – use of average personnel costs

9. Payment of salaries to owner/managers of SME

10. VAT

# Horizon 2020 Model Grant Agreements

Specific models



# Horizon 2020 Model Grant Agreements

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## RESEARCH & INNOVATION

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### Reference Documents

This page includes all the H2020 & FP7 reference documents starting with legal documents and the Commission work programmes for research and innovation up to model grant agreements and guides for specific actions and horizontal issues. The documents are grouped by categories. It also includes reference documents of other EU programmes, as 3rd Health, Consumer, COSME and Research Fund for Coal and Steel programmes. To access a document:

- Click on a folder
- Click on ARROW to have more information about the document and its available translations

You can search a specific H2020 or FP7 document on the [Europa Search](#) service.

H2020 Other EU programmes FP7



- Grant agreements, contracts and rules of contest
  - Model grant agreements
    - General Grant Agreement**
      - H2020 General MGA - Multi
      - H2020 General MGA - Mono
    - European Research Council (ERC)
    - Marie-Sklodowska-Curie (MSC)
    - SME Instrument
    - ERANET Cofund
    - Pre-Commercial Procurement (PCP)/Public Procurement of Innovative Solutions (PPI)
    - European Joint Programme Cofund
    - Framework Partnerships
    - Lump sum

# MGA Amendment 27/02/2017: Most relevant novelties

## Article 6.2.A.1

- **Direct personnel costs:** new definition for additional remuneration

## Article 6.2.A.2

- **Direct contracts eligible as personnel costs:** new focus on the factual situation instead of the legal form of the contract

## Article 6.2.A.5

- **New budget category for Internal Invoices:** for the acceptance of internal invoices as direct costs

## Article 6.2.E

- **Indirect costs for beneficiaries with operating grants:** allowing beneficiaries with an operating grant to claim indirect costs under H2020 grants under some conditions

## Article 14a

- **New type of third party:** implementation of action tasks by international partners without EU funding

# Classifying workforce contracts

Is it an employment contract or another type of contract?

Is it the only contract with the person or are there several contracts?



Is the contract concluded with a person or with a company?

Does the contract establish the working time conditions?

And what about 'consultants'?



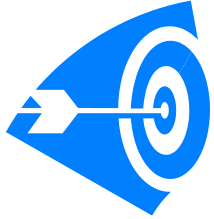
# What contract under what budget category

A. Direct personnel costs		B. Direct costs of subcontracting		C. Direct costs of fin. support]	D. Other direct costs	E. Indirect costs <sup>2</sup>			
A.1 Employees (or equivalent)	A.2 Natural persons under direct contract	A.3 Seconded persons	[A.6 Personnel for providing access to research infrastructure]	A.4 SME owners without salary	A.5 Beneficiaries that are natural persons without salary	D.1 Travel	D.2 Equipment	D.3 Other goods and services	[D.4 Costs of large research infrastructure]
Actual	Unit <sup>7</sup>	Unit <sup>8</sup>	Actual	Actual	Actual	Flat-rate <sup>9</sup>			

Workforce costs

# What contract under what budget category

## What can you declare under personnel costs?



### Persons hired by the beneficiary via an *employment contract*

(qualified as such under national law; and for whom the beneficiary pays social security contributions)

#### Other cases:

→ Natural persons hired **directly** via a contract other than an employment contract **if**:

- the person works under conditions similar to those of an employee (e.g. organisation or work, premises, etc.)
- The result of the work belongs to the beneficiary (exceptions may apply)
- The costs are not significantly different from those of an employee of the beneficiary doing similar tasks

**NEW !**  
(2017)

→ Employees of a third party seconded to the beneficiary (must be set in Annex 1!)

# What contract under what budget category

## What can you **NOT** declare under personnel costs?

- ❌ Contracts with companies to provide staff (e.g. temporary work agencies)
- ❌ Natural persons (e.g. consultants) not fulfilling all the conditions mentioned in the previous slide.
  - e.g. working systematically off-site while employees have to work in the premises of the beneficiary
- ❌ Natural persons (e.g. consultants) paid *for deliverables* rather than for *working time*



**In the cases above the costs may be eligible under 'Other goods and services' or under 'Subcontracting' but not as personnel costs**

# Personnel costs: Calculation



**Hours worked**



**Hourly rate**

EUR/hour



**Additional remuneration**



**Time records**



**Formula actual costs  
&  
specific unit costs**

**Applies only to  
beneficiaries with project-  
based remuneration schemes**

Only the hours actually worked on the action can be charged.

➤ Think of how you follow different projects

You cannot declare:

- Budgeted time (what you indicated for the budget)
- Estimated time (e.g. person 'guessing' at the end of the year)
- Time allocation (e.g. x % of the contractual time of the person)



**Hours declared to the action must be supported by reliable records and documentation !**



# Time records: supporting documents

⇒ **Depend if the person works exclusively on a H2020 action or not**

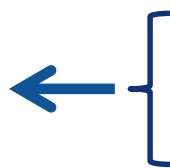
↳ For this purpose, "*working exclusively*" refers to an uninterrupted period of at least one full calendar month during which all the hours worked by the employee for the beneficiary were dedicated to the H2020 action.

Working exclusively	Records	Conditions (full details available in the AGA; page 160)
YES	Declaration on exclusive work for the action	<ul style="list-style-type: none"><li>→ only one per reporting period (per person)</li><li>→ covering one uninterrupted period of exclusive dedication of at least one calendar month</li></ul>
NO	Time records (i.e. timesheets)	<ul style="list-style-type: none"><li>→ dated and signed at least monthly by the person and his/her supervisor</li><li>→ <b>minimum conditions</b> and information needed are detailed in the AGA</li></ul>

# Declaration for persons working exclusively on the action:

## Model available in the AGA

- the whole reporting period
- from ...../...../.....<sup>3</sup> until ...../...../.....<sup>4</sup>  
(This period must cover at least one full natural month)<sup>5</sup>



### Declaration on a person working exclusively on a H2020 action

Action			
Title of the action (acronym)		Grant Agreement number	
Beneficiary's/linked third party's name			
Reporting period covered by this declaration <sup>1</sup>			
Reporting period number	from (date)	to (date)	

This document certifies that .....<sup>2</sup> has worked for the beneficiary/linked third party exclusively on the above-mentioned H2020 action during (chose one below):

- the whole reporting period
- from .....<sup>3</sup> until .....<sup>4</sup>  
(This period must cover at least one full natural month)<sup>5</sup>

Short description of the activities carried out during the period covered by this declaration	
Reference (e.g. work package)	Activities

#### SIGNATURES

For the beneficiary/linked third party (supervisor)  
 Name:.....  
 Date: ...../...../.....  
 Signature:

For the person working exclusively on the action  
 Date: ...../...../.....  
 Signature:

<sup>1</sup> Only one declaration can be made per reporting period for each person working in the action.  
<sup>2</sup> Insert name of the person.  
<sup>3</sup> Insert date.  
<sup>4</sup> Insert date.  
<sup>5</sup> The person must keep timesheets for any hours worked for the action outside the period indicated herein.

 **Only one declaration can be made per reporting period for each person**



# Time records: common errors

- ✘ Inconsistency with HR records
- ✘ Time sheets not properly dated or signed
- ✘ More than full time employment charged among different projects → double funding!
- ✘ Poor or limited information captured



# Auditor's advice: Time sheets

***I work 100% on the action  
so I do not have to fill in TS, correct?***

**Correct, but pay attention:**

- Did I spend a significant part of my time building up a network with other entities or other laboratories of my company, for future projects?
- Did I spend time in writing proposals for the next calls?
- Did I give lectures for the University?
- Did I travel for other unforeseen activities?

***I don't keep TS or they are inaccurate  
I can always go for the  
'alternative evidence option', correct?***

**YES but NO**

- First of all, why are your time sheets not in order? IT solutions exist.
- Secondly, why don't you fill them in?
- Thirdly: TS? I don't use them because in my specific case I use...

**What? How do you follow your actions?**

## **Do keep time records**

Time records should include, as a minimum:

- ✓ title and number of the action
- ✓ beneficiary's full name
- ✓ full name, date and signature of the person working for the action
- ✓ number of hours worked for the action
- ✓ supervisor's full name and signature
- ✓ reference to the action tasks or work packages of Annex 1



Information included in time-sheets must match records of annual leave, sick leave, other leaves and work-related travel.

## SME owner without a salary

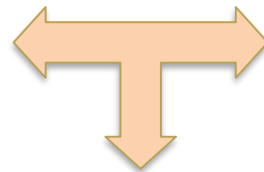
- Hourly rate (unit cost) fixed in the grant by the Commission

## Average personnel costs

- Average hourly rate (unit cost) calculated in accordance with the beneficiary's usual cost accounting practices

## Actual costs

**1.A** Salary is **NOT** project-based



**1.B** Salary is project-based

Per **full-financial year** or per **month**

If you are a **SME owner without a salary** or a **natural person without a salary**

Costs must be declared on the basis of the unit cost (hourly rate) fixed by Commission Decision C(2013) 8197 and indicated in Annexes 2 and 2a of the grant agreement.

In practice: SYGMA calculates the hourly rate for you by using the formula:

$$\frac{\text{Monthly living allowance for experienced researchers under the IF actions}}{143} \times \text{Country correction coefficient}$$



The SME owner or natural person may be remunerated by dividends, service contracts between the company and the owner, etc., but:

**Still, the unit cost must be declared if there is no salary**

## If you use average personnel costs

You calculate the hourly rate according to your usual cost accounting practice provided that:

- ↪ *You applied it in a consistent manner, based on objective criteria, and regardless of the source of funding*
- ↪ *You calculate the hourly rate using the actual personnel costs recorded in your accounts, excluding ineligible cost or costs included in other budget categories*
- ↪ *You use one of the options to determine the annual productive hours provided in the Model Grant Agreement*

## Actual costs

**1A - General case:** the salary does not depend on specific projects

$$\text{Hourly rate} = \frac{\text{Total personnel costs}}{\text{Total productive hours}}$$

**1B - Specific case:** project-based remuneration

$$\text{Hourly rate} = \frac{\text{Personnel costs for the H2020 action}}{\text{Hours worked for the H2020 action}}$$



Subject to the provisions on **additional remuneration**

# ACTUAL personnel costs: hourly rate



How do I know if I am in the general case 1A or in the specific case 1B?

If your remuneration for time worked in some projects is different from your remuneration for your other duties: you are in the **specific case (1B)**

For example:

- ↳ You get a supplementary employment contract to work in a project
- ↳ You get a bonus or premium for the time worked in a project
- ↳ Your contract fixes a specific hourly rate for work in specific projects

Otherwise, you are in the **general case (1A)**



# Hourly rate: CASE 1A (remuneration is not project-based)

$$\text{Hourly rate} = \frac{\text{Personnel costs}}{\text{Productive hours}}$$

**NEW !**  
(2016)

## Annual hourly rate

Hourly rates calculated per full financial year

$$\frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

**Two options**

## Monthly hourly rate

Hourly rates calculated per month

$$\frac{\text{Monthly personnel costs}}{\text{Monthly productive hours}}$$

# Hourly rate: CASE 1A (remuneration is not project-based)

$$\text{Hourly rate} = \frac{\text{Personnel costs}}{\text{Productive hours}}$$

## Eligible personnel costs

### ➤ **Include:**

- ✓ Salaries
- ✓ Social security contributions (employers' and employees')
- ✓ Taxes and other costs included in the remuneration if they arise from national law or the employment contract

### ➤ **Do not include:**

- ✗ Any ineligible item (article 6.5)
- ✗ Any costs included in other budget categories (e.g. indirect costs)

# Hourly rate: CASE 1A (remuneration is not project-based)

$$\text{Hourly rate} = \frac{\text{Personnel costs}}{\text{Productive hours}}$$

## Annual productive hours

### Advice

**1720 hours**

**!** you must use this option if the employment contract does not specify the working time conditions or if the "annual workable hours" cannot be determined

### Individual annual productive hours

• Formula: annual workable hours + overtime - absences

### Standard annual productive hours

• According to the beneficiary's usual accounting practices. Minimum threshold: annual productive hours  $\geq$  90 % of the standard annual workable hours

# Example: Individual annual productive hours

*The beneficiary has chosen option 2, individual annual productive hours:*

**annual workable hours + overtime - absences**

*Ms R. contract stipulates that she works 8 hours per day from Monday to Friday (the year has 52 weeks). She has 22 working days of annual leave + 8 days of public holidays.*

*In 2015 she worked 29 hours of overtime and was on sick leave for 5 days.*

Annual productive hours =

Annual workable hours = 365 days  
- 104 days (Saturdays and Sundays)  
- 22 days (annual leave)  
- 8 days (public holidays)  
= 231 days x 8 hours per day = 1 848

1848 (annual workable hours) + 29 hours (overtime) – 40 hours (sick leave: 5 x 8) = **1 837**

## Annual productive hours options: principles

- ❖ *Same option applied to all personnel working in H2020 actions; although... different options for different types of personnel are possible, if:*
  - ✓ the same option is applied at least **per group of personnel** employed under similar conditions (e.g. same staff category, same type of contract, cost center, etc.); and
  - ✓ the options are applied **consistently** (e.g. the choice of the option is not changed ad-hoc for specific employees)
- ❖ *keep the same option(s) for the full financial year*
  - ✓ Options **may be changed for the next financial year**

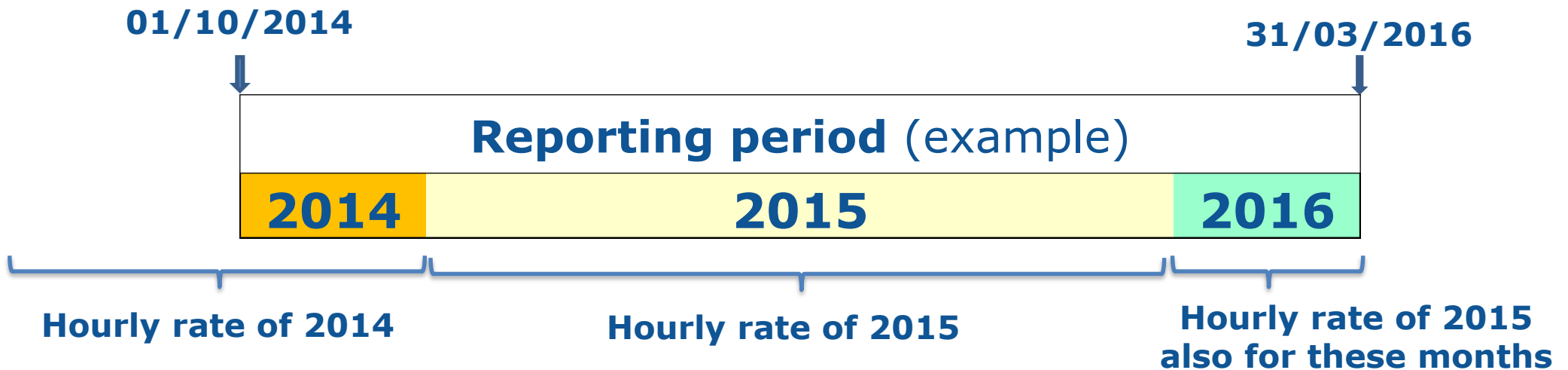
# Hourly rate: CASE 1A (remuneration is NOT project-based)

## Annual hourly rate specificities

$$\frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

⚠ The annual hourly rate must be calculated **per full financial year**

If the financial year is not closed at the end of the reporting period, the beneficiary must use the hourly rate of the *last closed financial year available*.



## Monthly hourly rate specificities

$$\frac{\text{Monthly personnel costs}}{\text{Monthly productive hours}}$$

One hourly rate **per each month the person works in the action**

↪ **Monthly productive hours** = 1/12 of the annual productive hours

⚠ Only options 1 (1720) and 3 (standard) are allowed. Option 2 (individual) is NOT allowed for monthly hourly rates.

↪ **Thirteen salary** (and similar) included in each month "pro-rata"; not in full in the month when they are paid.

↪ **Time spent in parental leave** cannot be deducted from the monthly productive hours. However, personnel costs incurred during parental leave may be charged in proportion to the time the person worked for the action.

# Personnel costs: double ceiling

## Beneficiaries must ensure that:

- the **total number of hours declared** in EU and Euratom grants for a person for a year is **NOT higher** than the number of **annual productive hours** used for the calculation of the hourly rate



$\Sigma$  hours declared  $\leq$  total annual productive hours

- the **total** amount of **personnel costs declared** (for reimbursement as actual costs) in EU and Euratom grants for a person for a year is NOT higher than the total personnel costs recorded in the **beneficiary's accounts** (for that person for that year).



$\Sigma$  cost declared  $\leq$  total personnel costs for the person



# *Example: Calculation of personnel costs (not project-based)*

Ms R. has worked in 2015 and 2016 for an H2020 action whose reporting period runs from 01/10/14 to 31/03/16.

## **How do we calculate the personnel costs to be charged to the action?**

1

**Calculate the hourly rate**

2

**Identify the hours worked for the action**

3

**Multiply the hours worked for the action by the hourly rate**

# Example: Calculation of personnel costs (not project-based)

$$\text{Cost} = \text{Hours worked for the action} \times \underbrace{\frac{\text{Annual personnel costs}}{\text{Annual productive hours}}}_{\text{Hourly rate}}$$

1.a

## Calculate the hourly rate: annual personnel costs

 As 2016 is on-going at the end of the reporting period, the 2015 hourly rate will apply also for the 2016 months of the reporting period

*Ms R. has a gross monthly salary of 2 500 EUR and the employer pays 30 % on top as social security*

$$\text{Annual personnel costs} = (2\,500 \times 12) + 30\% = 30\,000 + 9\,000 = 39\,000$$

# Example: Calculation of personnel costs (not project-based)

$$\text{Cost} = \text{Hours worked for the action} \times \frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

1.b

**Calculate the hourly rate:** annual productive hours

*Out of the three options offered by the H2020 grant agreement:*

- i. Fixed hours**
- ii. Individual annual productive hours**
- iii. Standard annual productive hours**

*The beneficiary applies option 1 for all its staff*

Annual productive hours of Ms R. = 1720



What if Ms R. would be a part time employee?

# Example: Calculation of personnel costs (not project-based)

$$\text{Cost} = \text{Hours worked for the action} \times \frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

## 2 Identify the hours worked for the action

Ms R. worked some hours in December 2015 (registered in a timesheet):

Reference e.g. work package	DAY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total
WP 2		8	8	8				4	8	8	8	8				8	8	8															84

And in 2016 she signed a declaration of exclusive work in the action covering the period:

- from 01/01/2016<sup>3</sup> until 15/02/2016<sup>4</sup>  
(This period must cover at least one full natural month)<sup>5</sup>

Hours worked for the action in 2016 = (1720 / 12 months) x 1,5 months = 215

## Example: Calculation of personnel costs (not project-based)

$$\text{Cost} = \text{Hours worked for the action} \times \frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

3

**Multiply the hours worked for the action by the hourly rate**

$$\text{Cost 2015} = 84 \times \frac{39\,000}{1\,720} = 84 \times 22.67 = 1\,904,28$$

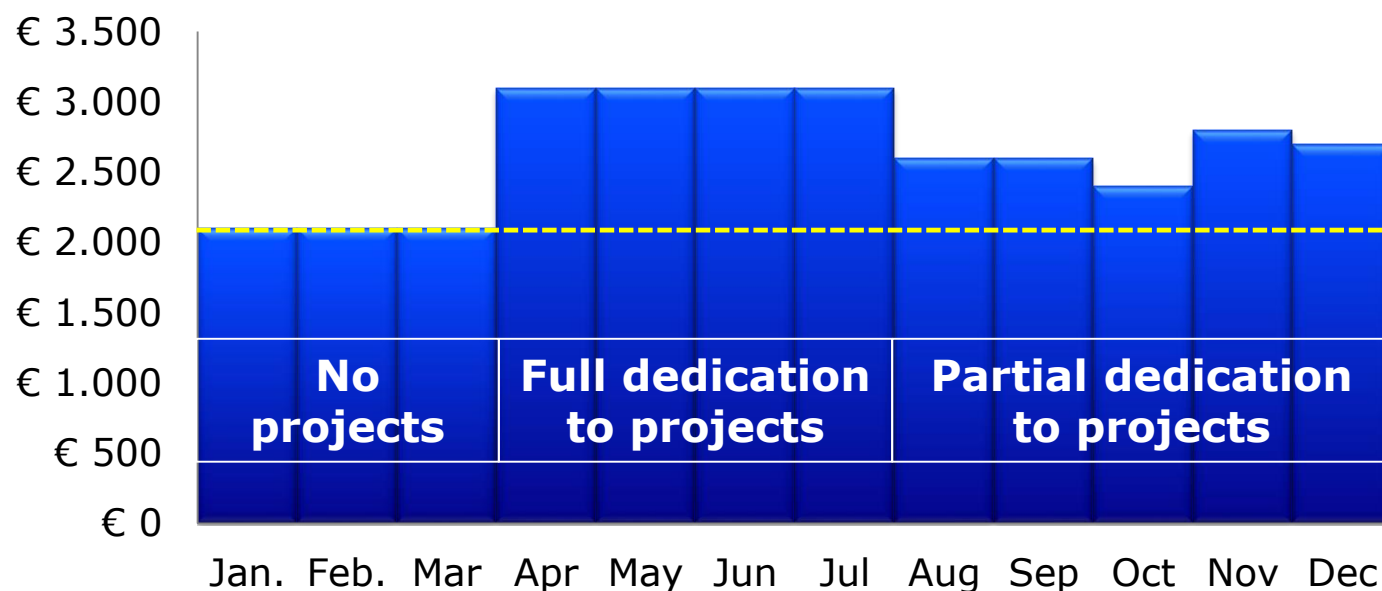
 As 2016 is on-going, the 2015 hourly rate will apply also for the 2016 months of the reporting period

$$\text{Cost 2016} = 215 \times 22.67 = 4\,874.05 \text{ EUR}$$

## The remuneration of Ms R. is composed of:

Gross annual salary fixed by contract: 24 000 EUR + family allowance fixed in the collective labour agreement: 100 EUR/month

Besides, when she works in externally funded projects she gets an extra remuneration of 1 000 EUR per month of full dedication



**Ms R. would be in the specific case 1B!** (her remuneration is project-based)

## 1 Additional remuneration?

Identify what part of the remuneration of the employee is 'basic' and what part is 'additional'

## 2 Hourly rate

Calculate the hourly rate of the employee using only the 'basic remuneration'

## 3 Personnel costs: 'basic'

Multiply that hourly rate by the number of hours worked in the action

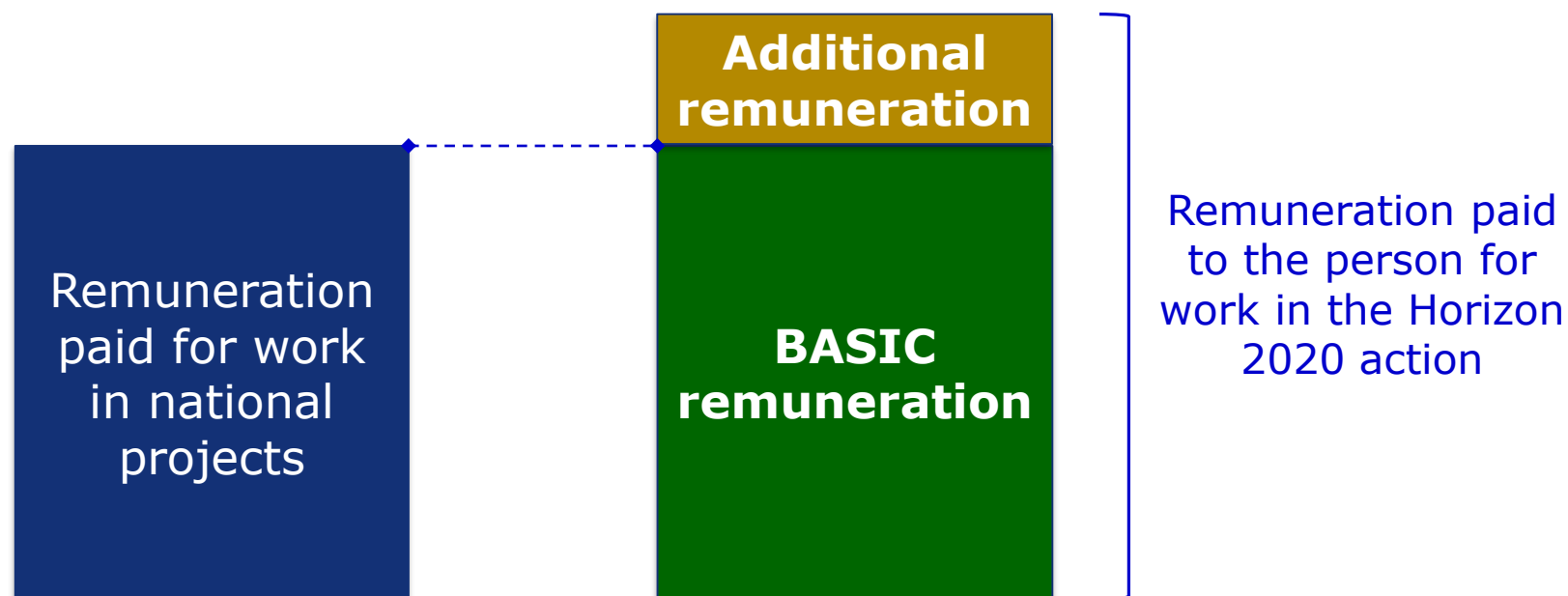
## 4 + Additional remuneration

Calculate what part of the additional remuneration identified in Step 1 is eligible & add it to the result of Step 3

### CASE 1B: FOUR STEPS TO CALCULATE THE PERSONNEL COSTS

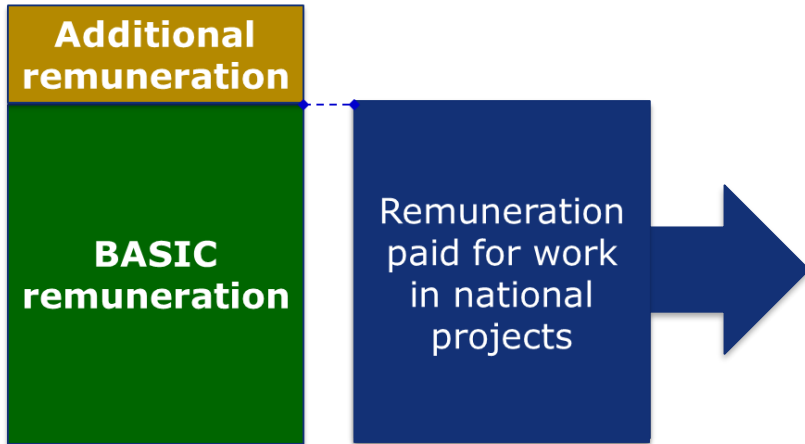
## What is additional remuneration?

Article 6.2.A.1: 'Additional remuneration' means any part of the remuneration which exceeds what the person would be paid for time worked in projects funded by national schemes.



Additional remuneration may only be eligible for non-profit legal entities





## What is considered as remuneration paid for work in national projects?

- ➡ Remuneration set out in national law or internal rules for work in national projects (it must have been paid at least once before the submission of the proposal to any employee of the entity)

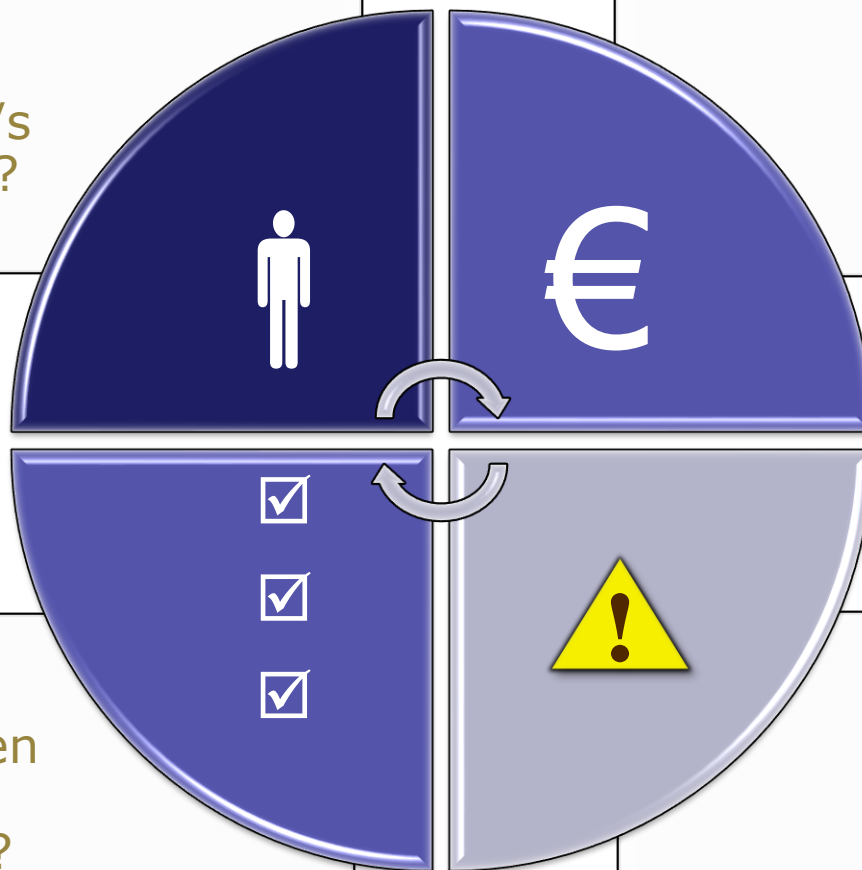
**Only if** there is no applicable national law or internal rules:

- ➡ Average of the salary of the person the previous year (excluding remuneration and time for work in H2020 actions)

## What do the internal rules have to say?

- **Who** can get the extra remuneration (e.g. which person/s or staff categories)?

- **How much** extra money will they get?

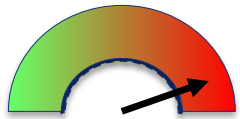


- **What** has to happen for them to get the extra remuneration?

- It can **NOT** apply only to EU actions !

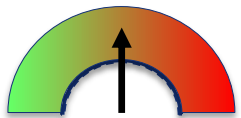
## What if the internal rules say...

- The director may decide an extra payment for any member of staff participating in projects*



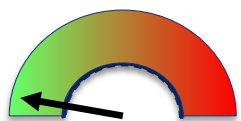
There would not be any objective condition and the extra remuneration would not be eligible at all

- Any researcher participating in projects receiving external funds will get an extra remuneration of 20 % of its salary*



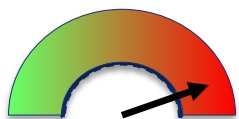
If the extra remuneration is the same regardless of the number of hours worked in the project, it would have to be divided by all the hours worked by the person (project and non-project) to calculate the eligible part.

- Any professor participating in a research project receiving external funds will get 10 € extra per hour worked in the project



✓ We know who will get how much when

- We do not have internal rules for the bonuses but we always pay the same bonuses in the same circumstances.



If you actually do so, write it down in your internal rules !

## ***Example (I): Identification of additional remuneration***

The remuneration of Ms T. is composed of:

- Annual basic salary: 18 000 €
- ✚ Fix annual complement for seniority: 3 500 €
- ✚ Variable complements depending on her participation in research projects. Those variable complements are paid based on the internal rules of the entity.

In 2016 she worked 860 hours in the Horizon 2020 action and she got 12 900 € extra for that work.

The beneficiary uses 1720 as annual productive hours and calculate annual hourly rates.

**Is any part of her salary 'additional remuneration'?**

**If so, how much?**

# Example (I): Identification of additional remuneration

## .... It depends on:

- What the internal rules say
- What the entity has paid in past for work in national projects

## Example (follow up):

- The internal rules say that employees working in externally-funded research projects **may get up to 2 500 € extra** per month of full dedication
- Due to budgetary restrictions, **the maximum paid** by the entity as extra to any person **is 1 433 €** per month of full dedication

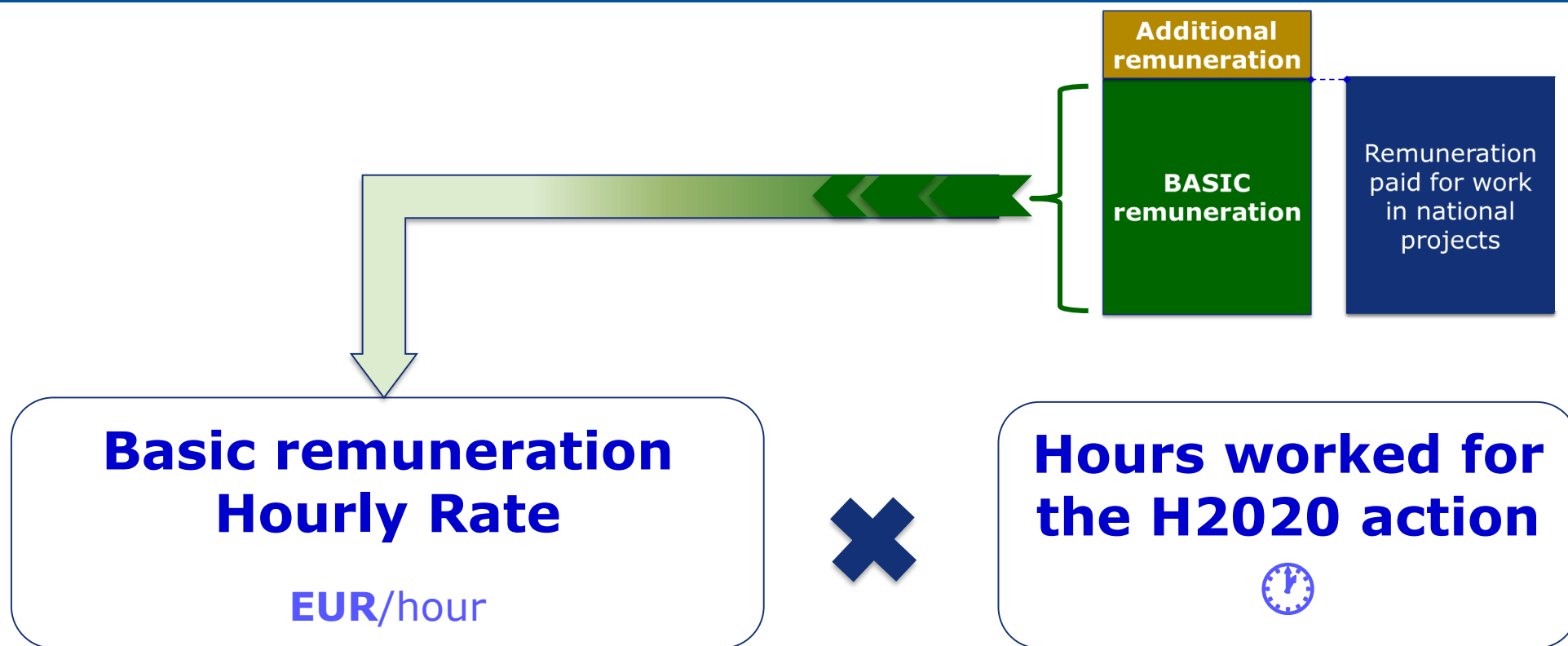
# Example (I): Identification of additional remuneration

## Additional remuneration =

Hourly rate of the person for work in the H2020 action (*action reference*)  
**minus** Hourly rate paid for national projects (*national reference*)

	Fix salary		Project bonus		
<i>Action reference</i>	$\frac{(18\ 000 + 3\ 500)}{1720}$	+	$\frac{12\ 900}{860}$	=	<b>27,5 €</b>
<i>National reference</i>	$\frac{(18\ 000 + 3\ 500)}{1720}$	+	$\frac{1\ 433}{(1720/12)}$	=	<b>22,5 €</b>

**Additional remuneration** = 27,5 – 22,5 = 5 €/hour x 860 hours = **4 300 €**



*Example (II): Calculate the 'basic' personnel costs*

$$\text{'Basic' personnel costs} = 22,5 \text{ €/hour} \times 860 \text{ hours} = \mathbf{19\ 350 \text{ €}}$$



# Additional remuneration ceiling



## Additional remuneration

Eligible additional remuneration is subject to a eligibility ceiling fixed at EUR 8 000 for a full-time employee working exclusively for the action during the entire year.

Occupation	Contract	
	hired full time during the entire year	NOT hired full time during the entire year
<b>working exclusively</b> for the EU action during the entire year	<b>EUR 8 000</b>	pro-rata amount of EUR 8 000
<b>NOT</b> working exclusively for the EU action during the entire year	{8 000 / annual productive hours FTE} * hours worked for the action over the year	



The ceiling covers the additional salary + all additional taxes, costs and social security contributions triggered by the additional salary.

## Example (III): Add eligible additional remuneration (Step 4)

'Basic' personnel costs = 22,5 €/hour x 860 hours = 19 350 €

Additional remuneration = 27,5 - 22,5 = 5 €/hour x 860 hours = 4 300 €

LEGAL  
ENTITY

If **for-profit**: eligible additional remuneration =  $\emptyset$

Personnel costs = 19 350 + 0 = **19 350 €**

If **non-profit**: additional remuneration eligible up to the pro-rata of the ceiling

Pro-rata =  $(8\ 000 / 1720) \times 860 = 4\ 000\ €$

Paid (4 300) > Pro-rata (4 000) → 300 € ineligible

Personnel costs 2016 = 19 350 + 4 000 = **23 350 €**


# Personnel costs: bonuses

## BONUSES

### Ineligible

- Arbitrary bonuses
- Bonus based on commercial targets (e.g. sales target), fund raising targets or representing profit distribution (dividends)
- Bonus applied only to EU actions

### Additional Remuneration

- Triggered by specific projects and resulting in a level of remuneration higher than under national projects
- Paid for additional work or expertise
- Part of the usual remuneration practices of the entity
- Based on objective criteria established in the internal rules
-  **Eligible only for non-profit legal entities**

### (also) Basic Remuneration

- If not triggered by specific projects OR if triggered by projects, up to the level of remuneration paid in national projects
- Scheme authorised by law, collective agreement of contract
- Determined using objective criteria established in the internal rules

# Direct costs for the action

**Direct costs** are costs that are directly linked to the action's implementation and can be attributed to it directly. They must not include any indirect costs

**Direct costs** are:

- costs that have been caused in full by the action
- or costs that have been caused in full by several actions and the attribution to a single action can, and has been, directly measured (e.g. not allocated via cost drivers)

# Direct costs for the action

- Must be justified by sufficient **persuasive evidence** showing the **direct link to the action**
- Must be **properly recorded** in order to allow direct measurement of the use for the action and to ensure auditability
- The measurement system used by the beneficiary must accurately **quantify** the cost
- Direct measurement of costs **does not mean** fair apportionment of costs through proxies, cost drivers or allocation keys. Once you use them, it's indirect cost!
- In principle, what was considered direct/indirect in FP7 remains the same in H2020 **But** → Now, it is even more important because Indirect Cost is calculated at 25% flat rate

# Examples (1)

A beneficiary uses a x-ray machine **for the action** for few hours and for the rest of the time the x-ray machine is used **for other activities**. The beneficiary charges the **full** depreciation costs for the period in the cost statement of the action.

**NOT ALLOWED!**

The allocation of the part of the annual depreciation to the H2020 action must be calculated based on the number of hours/days/months of actual use of equipment for the action. The **actual** use should be **directly measured** (logbook, etc.).

## Examples (2)

The **total consumables costs** are charged as **direct costs** on the H2020 action as **proportion** of the action hours to total worked hours in the laboratory.

**NOT ALLOWED!**

Even if the usual accounting practice of a beneficiary is to consider laboratory consumables as direct costs.

The costs of other goods and services should be declared as **actual** costs e.g. direct consumption for the action should be **measured**.

# Auditor's advice: direct measurement

*In FP7, energy and power supply was an indirect cost:  
can I charge it as direct in H2020?*

**Yes, if** I can measure it...

*Administrative staff members doing accounting for the action:  
can I charge them to the action?*

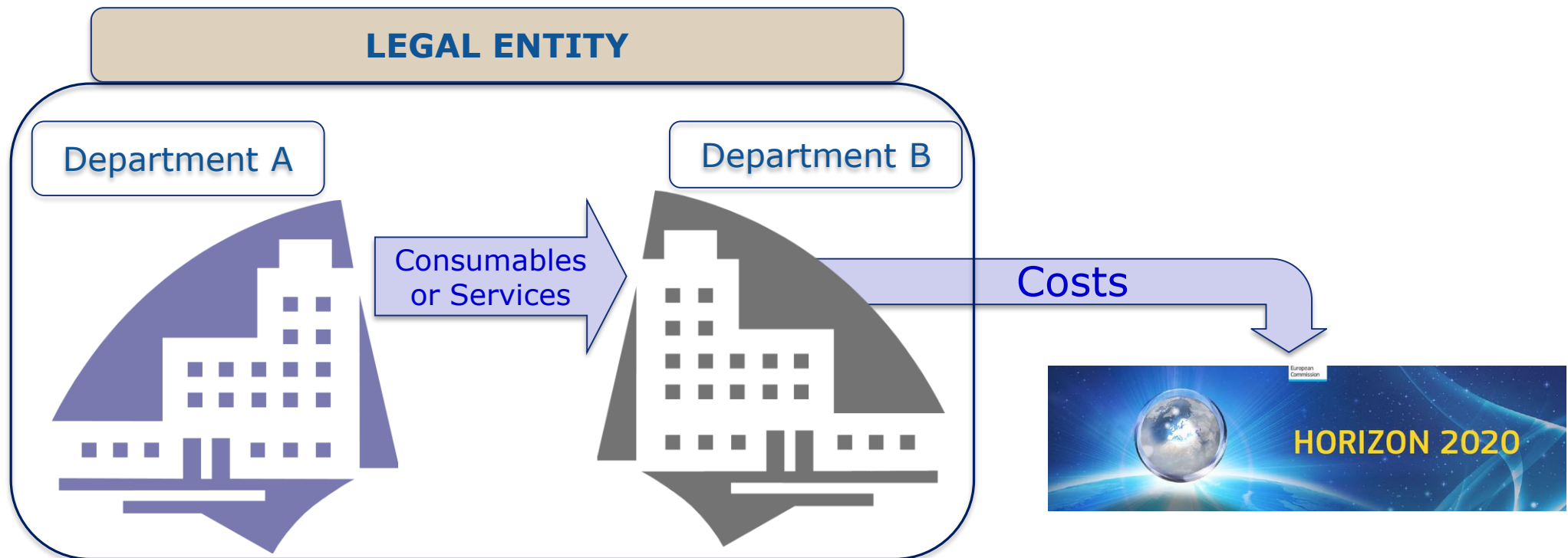
**Yes, with** time sheets and provided it is your usual practice...

*Multi-purpose equipment used for several activities/actions:  
can I charge its depreciation to an EU action as a % of  
total capacity based on my experience?*

**No.** I have to measure its use.



**Internal invoices** refer to costs of goods or services produced by the same beneficiary who use them directly for the H2020 action and calculated in accordance with its usual cost accounting practices



## EXAMPLES

### Self-produced consumables

- e.g. electronic wafers, chemicals, etc.

### Use of devices or facilities

- e.g. clean room, wind tunnel, supercomputer, etc.

### Specialized premises

- e.g. animal house, aquarium, etc.

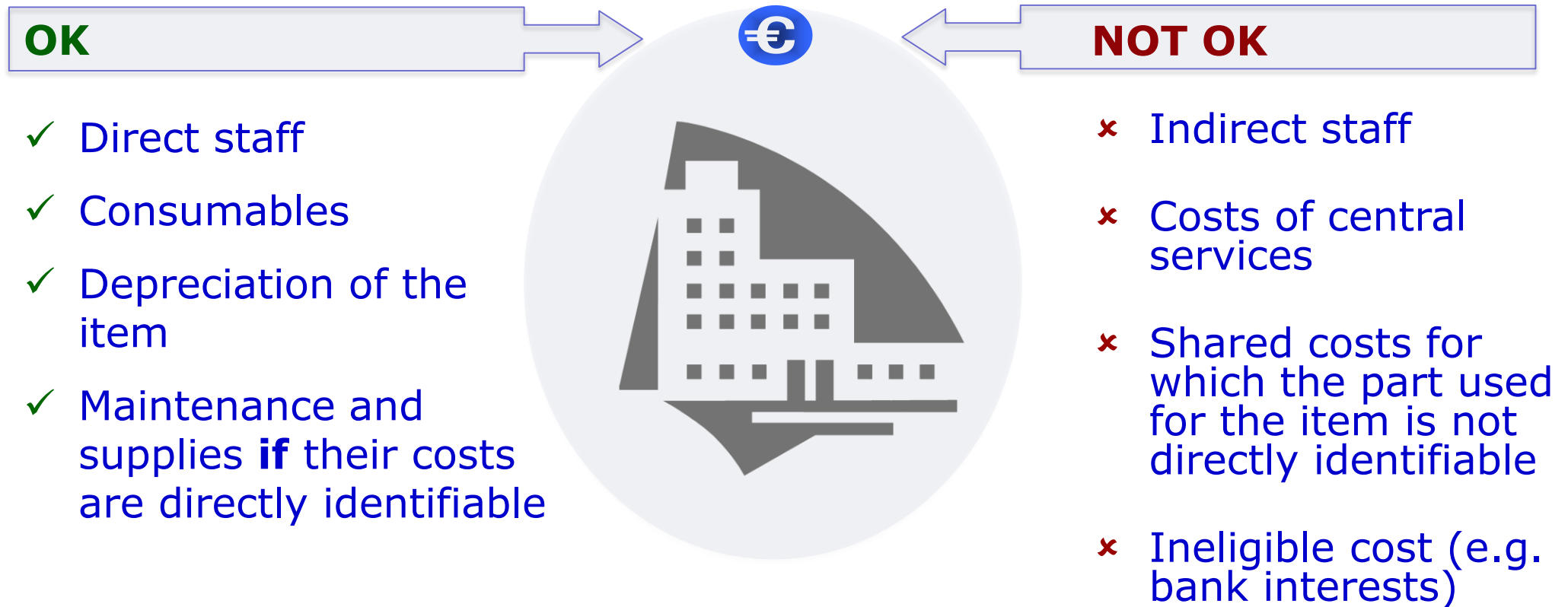
### Standardised processes

- e.g. genomic test, mass spectrometry analysis, etc.

### Hosting services for researchers

- e.g. housing and canteen costs for visiting researchers

**Internal invoices** must be calculated in accordance with the usual cost accounting practice of the beneficiary, but adjusted if needed to comply with the cost eligibility conditions



# Budget categories: budget transfers

Budget transfers and re-allocation	Amendment needed?
From one beneficiary to another	<b>NO</b>
From one budget category to another	<b>NO</b>
Re-allocation of Annex 1 tasks	<b>YES</b>
Transfers between forms of costs (actual costs, unit costs, etc.)	<b>YES</b> if the 'form' receiving the transfer was not included in the budget (a new unit cost under column F)
↪ Transfers within <i>personnel costs</i>	<b>NO</b>
↪ Transfers to costs of internally invoiced goods and services	<b>NO</b>
New subcontracts	<b>YES</b> (strongly advised)

**NEW !  
(2017)**

# Third parties: basics

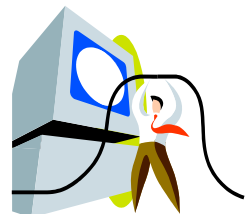
## ⇒ What is a third party?

↳ A legal entity which carries out work of the action, supplies goods or provide services for the action, but which did not sign the grant agreement

## ⇒ What types of third parties?



1. Third parties directly carrying out part of the work described in Annex 1



2. Other third parties: providing resources, goods or services to the beneficiaries for them to carry out the work described in Annex 1



3. Third parties receiving financial support (money) from the beneficiary as part of the action. Only when authorised in the call

# 1. Third parties carrying out work in the action

## Beneficiary

### Linked third parties

Affiliated entities

Third parties with a legal link

### Affiliated entity

- Under the direct or indirect control of the beneficiary
- Under the same direct or indirect control as the beneficiary
- Directly or indirectly controlling the beneficiary

'control' = >50 % shares or majority voting rights or decision-making powers


# 1. Third parties carrying out work in the action

## Beneficiary

### Linked third parties

Affiliated entities

Third parties with a legal link

- Similar to FP7 Special Clause 10
- Must be identified in the GA
- Same cost eligibility criteria than for beneficiaries
-  **NEW:** COM or Agency may request them to accept joint and several liability for their EU contribution

### Affiliated entity

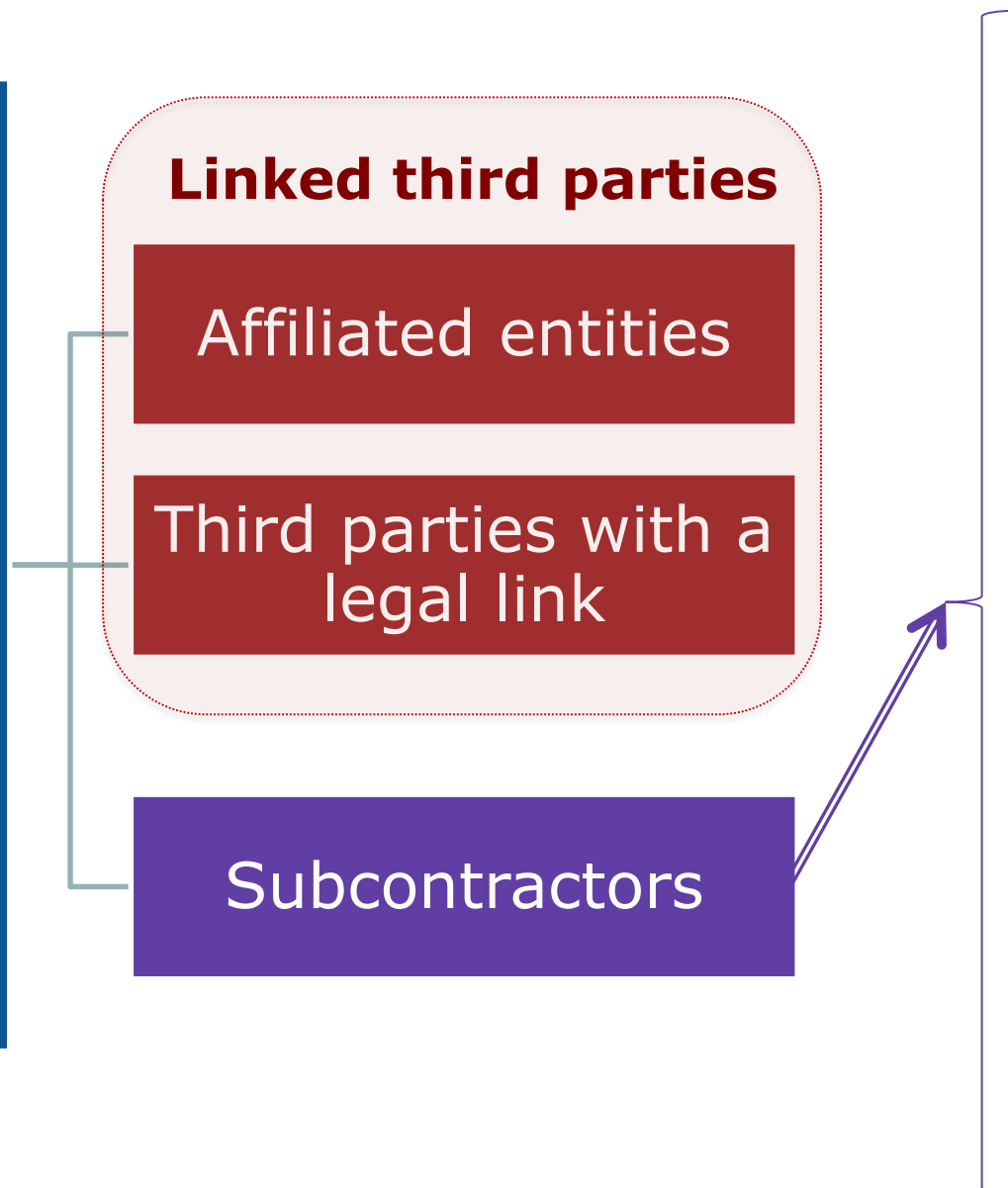
#### Legal link

A legally established relationship **not** specifically created for the Grant Agreement.

It may be in the framework of a legal structure (e.g. the relationship between an association and its members) or through an agreement or contract (not limited to the action).

# 1. Third parties carrying out work in the action

## Beneficiary

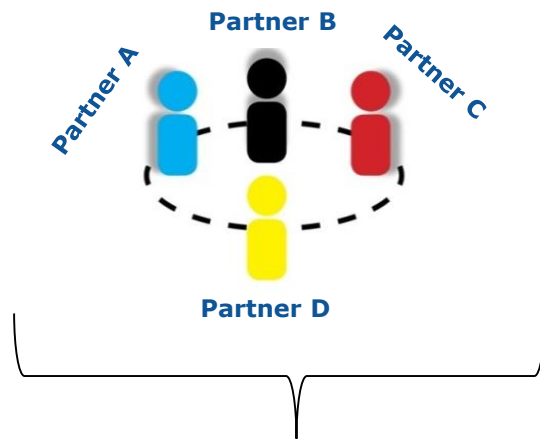


- Ensure best value for money and avoid conflict of interests
- ⚠ Subcontracting between beneficiaries is **not allowed**. Subcontracting to affiliates is generally not allowed either
- Estimated costs and tasks must be identified in the budget and in Annex 1
- **NEW**: if not identified in Annex 1, Commission may still approve them (beneficiary bears the risk of rejection)
- E.g.: Testing described in Annex 1 as action task

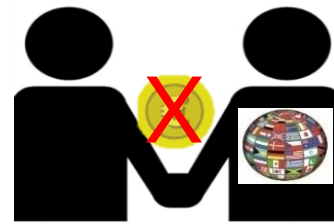


## "INTERNATIONAL PARTNERS"

H2020 project



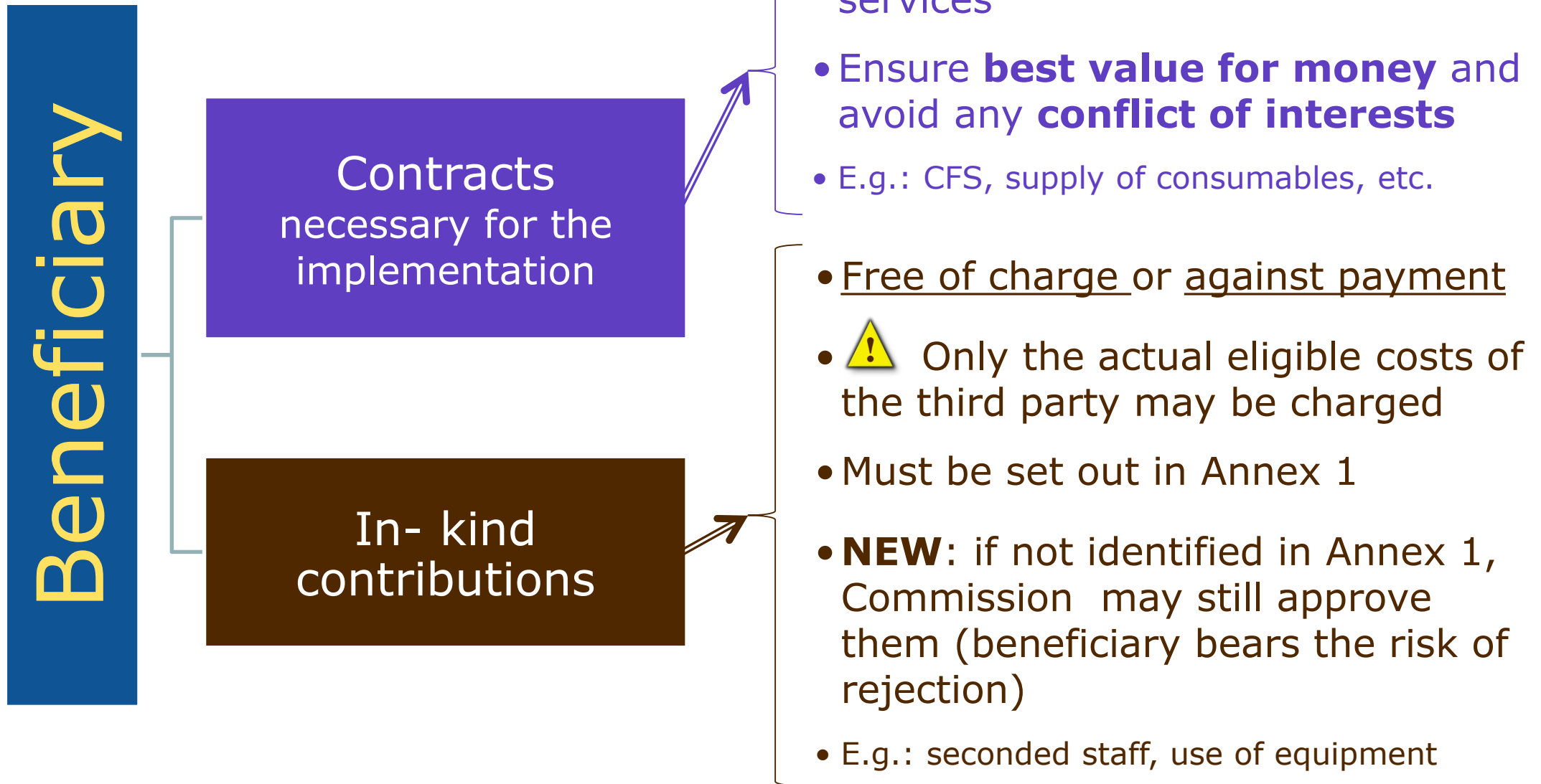
- Signatories of the GA
- May receive EU funding
- **Partner B** has one **International Partner**



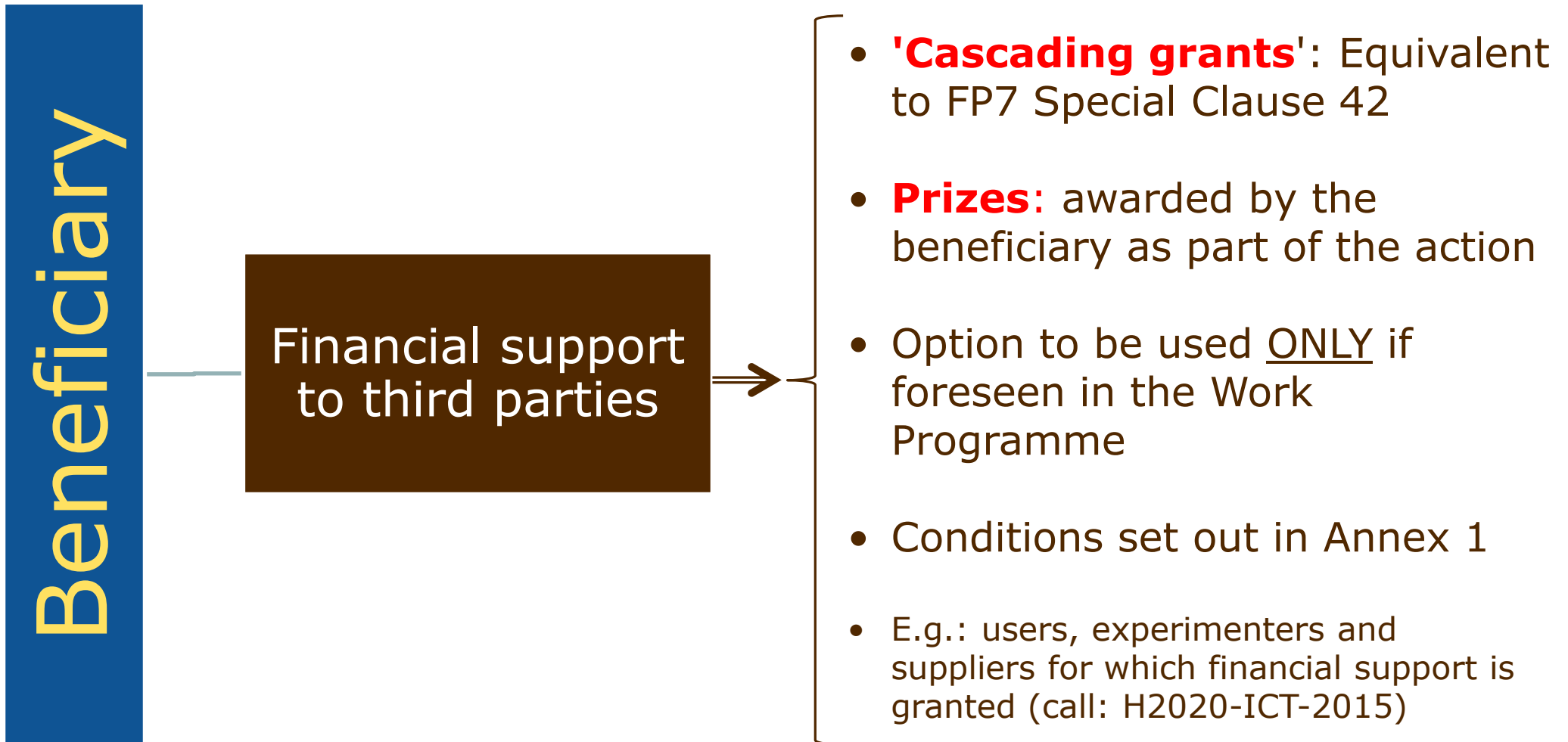
### International Partner:

- Linked to Partner B
- Participant Identification Code (PIC number)
- Not Signatory of the GA
- No EU funding
- Own (non EU) Budget
- Action Tasks in the Project
- No financial reporting

## 2. Other third parties



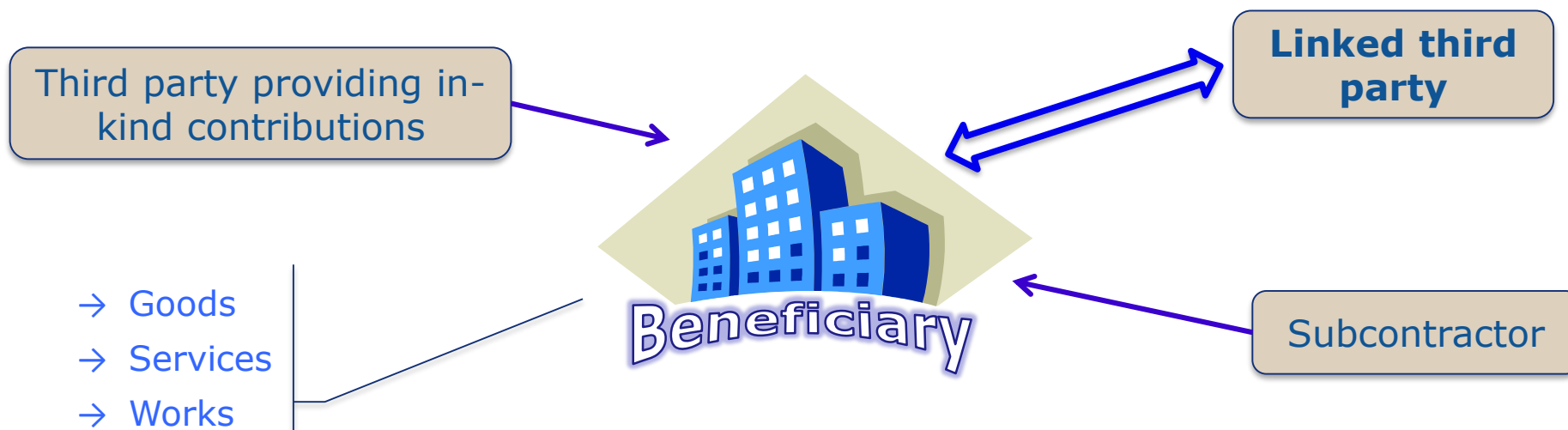
# 3. Financial support to third parties



# Third parties: summary

Types of third parties	CHARACTERISTICS						
	Does work of the action	Provides resources or services	What is eligible?	Must be indicated in Annex 1	Indirect costs	Selecting the third party	Articles
<b>Linked third party</b>	<b>YES</b>	<b>NO</b>	<b>Costs</b>	<b>YES</b>	<b>YES</b>	Must be affiliated or have a legal link	Article 14
<b>Subcontractors</b>	<b>YES</b>	<b>NO</b>	<b>Price</b>	<b>YES</b>	<b>NO</b>	Best value for money, avoid conflict of interest	Article 13
<b>International partners</b>	<b>YES</b>	<b>NO</b>	<b>No EU funding</b>	<b>YES</b>	<b>No EU funding</b>	Partner to one beneficiary	Article 14a
<b>In-kind contributions by third parties</b>	<b>NO</b>	<b>YES</b>	<b>Costs</b>	<b>YES</b>	<b>YES</b>	Not used to circumvent the rules	Articles 11 and 12
<b>Contractors</b>	<b>NO</b>	<b>YES</b>	<b>Price</b>	<b>NO</b>	<b>YES</b>	Best value for money, avoid conflict of interest	Article 10
<b>Financial support to third parties</b>	<b>Only if allowed in the call</b> The beneficiaries' activity consists in providing financial support to the target population			<b>YES</b>	<b>NO</b>	According to the conditions in Annex 1	Article 15

# Third parties: Warnings !



**The beneficiary retains the sole responsibility for the work and the costs declared !**

If something goes wrong with the third party, the beneficiary will be responsible



The beneficiary must ensure that Commission, OLAF and European Court of Auditors can audit its third parties including subcontractors and providers



In case of an audit to a 3<sup>rd</sup> party, the beneficiary is also in copy of all relevant communications (announcement of the audit, audit report, etc.)

# Subcontracts vs. Contracts

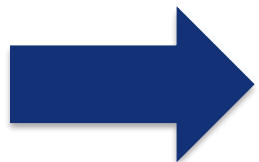
<b>Article 10</b> <b>Contracts to purchase goods, works or services</b>	<b>Article 13</b> <b>Subcontracts</b>
These contracts do not cover the implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.	Subcontracts concern the implementation of action tasks; they imply the implementation of specific tasks which are part of the action and are described in Annex 1.
Do not have to be indicated in Annex 1.	Must be indicated in Annex 1.
The price for these contracts will be declared as ‘other direct costs’ — column D in Annex 2 — in the financial statement; they will be taken into account for the application of the flat-rate for indirect costs.	The price for the subcontracts will be declared as ‘direct costs of subcontracting’ — column B in Annex 2 — in the financial statement; they will not be taken into account for the application of the flat-rate for indirect costs.

# Contracts in H2020 vs. FP7: What changed?

## The following are considered as contracts:

*(if not specifically mentioned in Annex 1 as action tasks)*

- Catering for meetings
- Translation services
- Setting up and maintenance of a project website



**To be reported as other direct costs**

# Subcontracting: characteristics

- Based on business conditions (includes profit)
- No hierarchical subordination, no direct supervision
- Responsibilities lie with the beneficiary
- No rights and obligations vs. the Commission/Agency or the other beneficiaries
- **BUT** the beneficiary must ensure that its subcontractors can be audited by the Commission/Agency, OLAF and the ECA
- Beneficiaries that are 'contracting authorities' must comply with applicable national law on public procurement



# *Subcontracting: additional eligibility conditions*

- Tasks and estimated costs should be set in Annex 1 for each subcontract
- Total costs per beneficiary should be set in Annex 2
- The need for a subcontract should be clearly justified in Annex 1
- Existing framework subcontracts are acceptable: in such cases the name of the subcontractor may be indicated in Annex 1



**These conditions do not lift the obligation to ensure best value for money!**

- Do not wait for an audit!
- At grant signature:  
Foresee and justify all subcontracts in Annexes 1 & 2
- During the grant execution:
  - Ask for amendment to include subcontracts
  - Justify subcontracts in the technical reports
  - Communicate clearly and in writing with the project officers



# Conflict of interests

## Avoid **conflict of interests** (Art.35 of the MGA)

*'The beneficiaries must take all measures to prevent any situation where the impartial and objective implementation of the action is compromised for reasons involving economic interest, political or national affinity, family or emotional ties or any other shared interest ('**conflict of interests**').'*

# Conflict of interests

## **Avoid conflict of interests**

(Art.35 of the MGA)

*The beneficiaries must formally notify the EC/Agency without delay any situation constituting or likely to lead to a conflict of interests and immediately take all the necessary steps to rectify this situation.*

*Non-compliance may have consequences (reduction of grant, termination).*

# Best Practice

You must demonstrate '**best value for money**' both, in sub-contracting and in purchases of goods

- Some level of tendering to demonstrate 'best value' – e.g. tender, three offers, market survey, etc.
- Naming the supplier in the grant does not mean that you do not have to demonstrate best value
- We will normally accept your standard practices, when properly used

**BUT**



Your accounting practices are not panacea!

(e.g. cash basis depreciation is not automatically accepted even if it is in line with your accounting practices)

# Common errors

- 'Best value' not demonstrated
  - no tender, no offers, no market survey
- Participants' own usual practices and procedures not applied
- Subcontracting between participants
- No documentation kept
- Public entities not applying public procurement rules
- Too high thresholds foreseen in the rules of the participant

# **Auditor's advice: Best value for money**

*I have named my subcontractor in the Annexes to the GA*  
**is it enough?**

- **No because** you are still deemed to have respected the best value for money

*My subcontractor is a friend*  
**is it a problem?**

- As such **not. But** you must be in a position to prove that his/her offer represents the best price-quality ratio
- The conflict of interests rule requires you to adopt every measure to avoid it (including family and emotional ties)

*I use the same IT provider since 20 years, with a written framework contract*

**is it ok?**

- **If** you use it for you and for us, then **ok**. However, maybe it is time to look for better prices ...

You must demonstrate 'best value for money' and take measures to avoid 'conflict of interests' in **Sub-contracting** and in **Purchase of Goods, Works, Services** (including durable equipment)

## **Recurrent errors**

- *'Best value' not demonstrated – no tender, no counter-offers, no market survey*
- *Participants' own normal practices not applied*
- *No documentation kept*
- *Conflict of interests overriding any competition*



## Article 37, H2020 Rules for Participation:

*"Cumulative funding: An **action** for which a **grant** from the Union budget has been awarded may also give rise to the award of a grant on the basis of H2020 provided that the grant does not cover the same **cost items**."*

A **cost item** is the amount declared as eligible for Union funding under a **budget category** which may be defined by activity (training, work package) or by nature (personnel costs, consumables, etc.) or by combination of activity and nature.

## Example

A beneficiary can be entitled to receive H2020 funding for the reimbursement of personnel costs (if they fulfil the cost eligibility conditions under H2020 rules) and to receive at the same time ESIF funding for the other costs (if they fulfil the cost eligibility conditions under ESIF rules), provided that personnel costs are not declared as eligible under the ESIF grant and that the other costs are not declared as eligible under the H2020 grant.

## Participant Portal

At: <http://ec.europa.eu/research/participants/portal/desktop/en/home.html>



### Horizon 2020 Annotated Grant Agreement

[http://ec.europa.eu/research/participants/data/ref/h2020/grants\\_manual/amga/h2020-amga\\_en.pdf](http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf)



### Horizon 2020 On-line Manual

<http://ec.europa.eu/research/participants/portal/desktop/en/funding/guide.html#>



### Questions? *Research Enquiry Service*

<http://ec.europa.eu/research/enquiries>



# HORIZON 2020

**Thank you  
for your attention!**

**Find out more:**

<http://ec.europa.eu/programmes/horizon2020/>

*Research and  
Innovation*