



# HORIZON 2020

## Model Grant Agreement FINANCIAL ISSUES

*Research and  
Innovation*

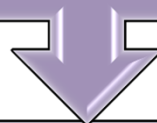
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# **Background: FP7 Information Campaign**

## **Objectives**

*Improve reliability of ex ante certificates*



*Improve the quality of cost reporting*



*Contribute to error free financial statements*

# **Background: FP7 Information Campaign**

⇒ ***24 events with overall 3100 participants***

⇒ ***Participant portal now regrouping all guidance***

⇒ ***Distribution, end of 2014, of the guidance on the 10 most common errors to all 23 000 FP7 participants***

⇒ ***Very positive feedback***

# ***H2020 Information Campaign***

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

⇒ ***Part of the ex-ante advice to be 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

# Background: H2020 vs. FP7 – What changed?

## Main changes (1)

- **Single reimbursement rate**
- **More flexible rules for third parties and subcontracting costs**
- **Differentiation between contracts and subcontracts**
- **Unique flat rate of 25% for indirect costs**
- **Introduction of the concept of Large Research Infrastructure**



# Background: H2020 vs. FP7 – What changed?

## Main changes (2)

- **3 options for determining annual productive hours**
- **Clearer and simpler obligations on time records**
- **More flexibility for average personnel costs**
- **Provisions on additional remuneration**
- **Eligibility of non-deductible VAT**
- **Common Support Centre (CSC)**



I, the undersigned Director-General, declare that the information contained in this report gives a true and fair view [1].

I state that I have reasonable assurance [...] which is based on my own judgement and on the information at my disposal [...]

However the following reservation should be noted:

*Reservation concerning the rate of residual errors with regard to the accuracy of financial statements in the Seventh Framework Programme (FP7) grants.*

Brussels, 31 March 2014

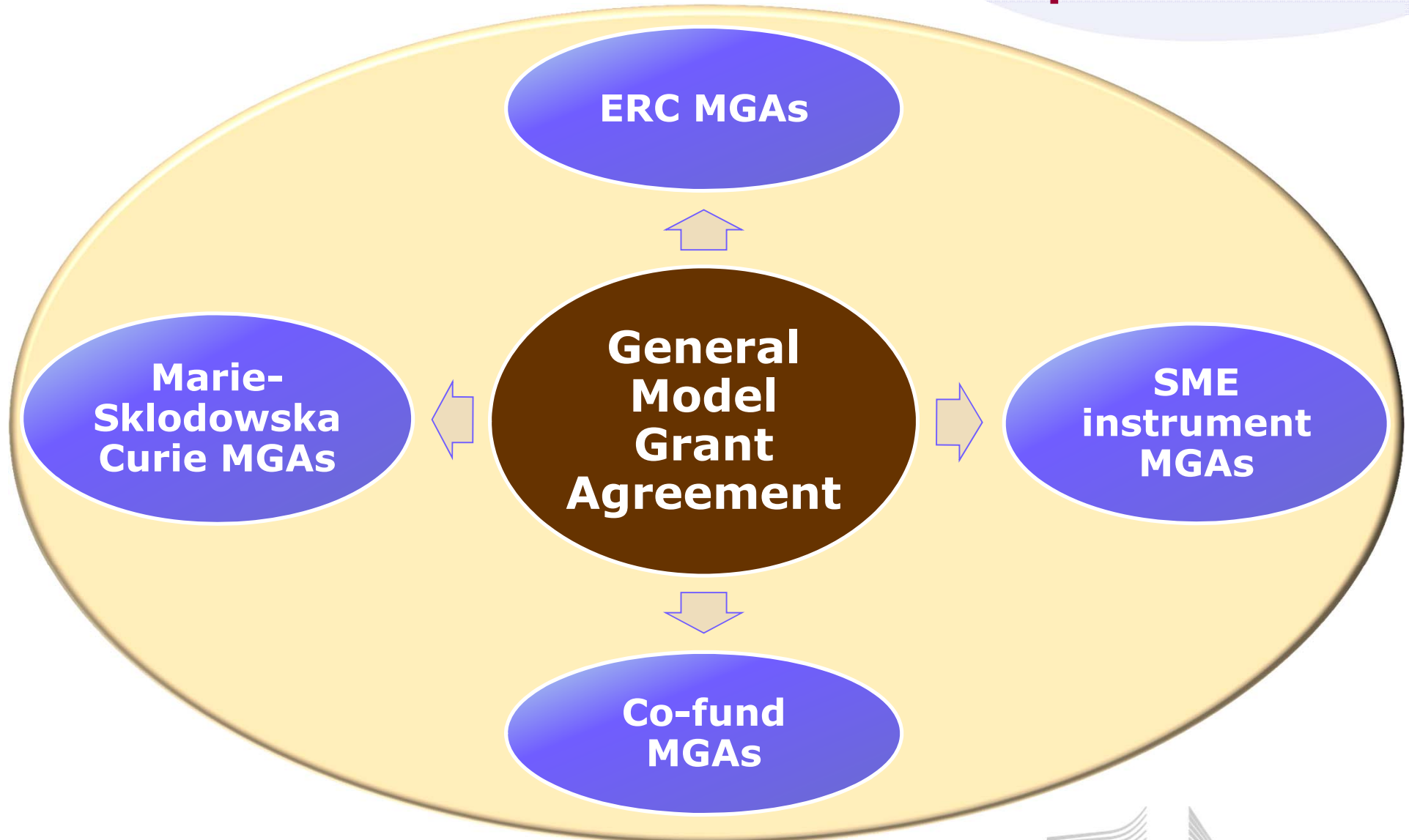
"Signed"

The Director-General

*[1]→ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.*

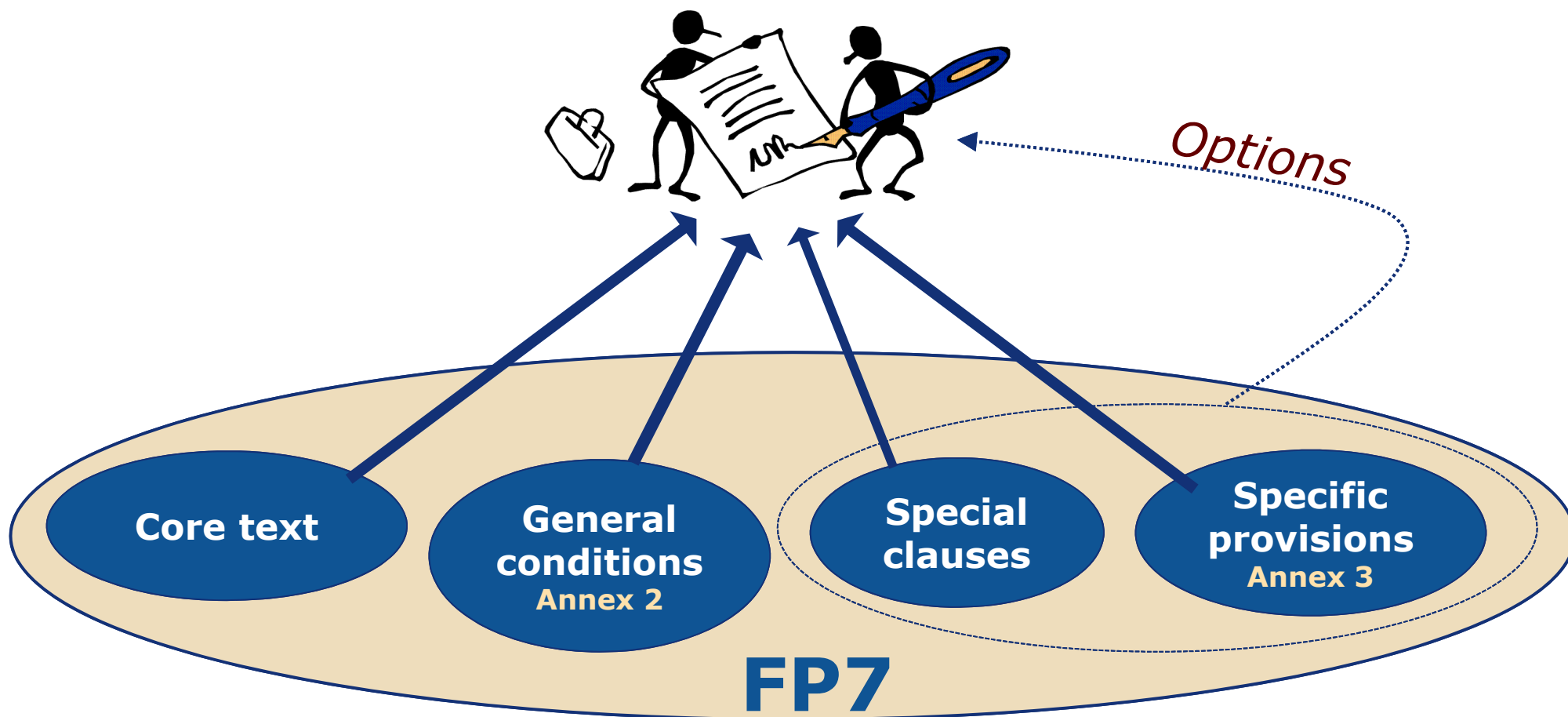
# Horizon 2020 Model Grant Agreement

Specific models



# Horizon 2020 Model Grant Agreement

A single document with all provisions



# Horizon 2020 Model Grant Agreement

## Annexes to the grant

Annex 1: **Description of the action**

Annex 2: **Estimated budget**

Annex 3: **Accession Forms, 3a & 3b**

Annex 4: **Financial statements**

Annex 5: **Certificate on the financial statements**

Annex 6: **Certificate on the methodology**

# Forms of costs

## Actual costs

- Costs actually incurred, identifiable and verifiable, recorded in the accounts, etc.



**NEW:** non-deductible VAT paid is also eligible

## Unit costs

- A fixed amount per unit determined by the Commission  
Example: SME owners' unit cost
- For average personnel cost (based on the usual accounting practices – with or without Certificate)

## Lump sum

- A global amount to cover one or several cost categories  
Example: Phase 1 of the SME instrument

## Flat rate

- A percentage to be calculated on the eligible costs  
Example: 25 % flat rate for indirect costs

# Budget categories and Forms of costs

FORMS OF COSTS	BUDGET CATEGORIES					
	DIRECT COSTS				INDIRECT COSTS	SPECIFIC CATEGORIES OF COSTS
	Personnel	Subcontracting	Financial support to 3rd parties	Other		
<b>Actual costs</b>	✓	✓	✓	✓	✗	✗
<b>Unit costs</b>	<b>Yes for</b> - Average personnel costs - SME owners & natural persons without a salary	✗	✗	<b>NEW! (2017)</b> <b>Yes for</b> Internal Invoices	✗	<b>Yes if</b> foreseen by Comm. Decision
<b>Flat-rate costs</b>	✗	✗	✗	✗	✓	✗
<b>Lump sum costs</b>	✗	✗	✗	✗	✗	<b>Yes if</b> foreseen by Comm. Decision

# Budget categories: budget transfers

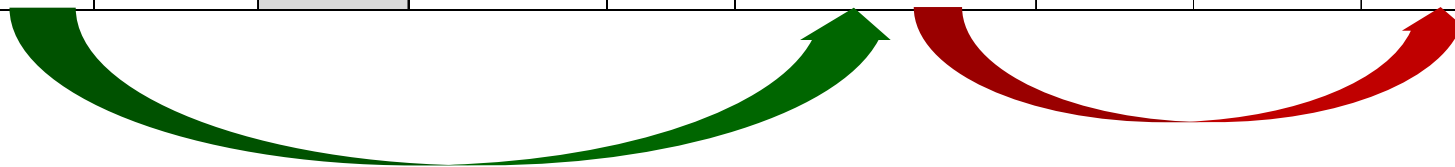
Budget transfers and re-allocation	Amendment needed?
From one beneficiary to another	<b>NO</b>
From one budget category to another	<b>NO</b>
Re-allocation of Annex 1 tasks	<b>YES</b>
Transfers between forms of costs (actual costs, unit costs, etc.)	<b>YES</b> if the 'form' receiving the transfer was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

**NEW !  
(2016)**



# Budget categories: budget transfers (example)

Estimated budget for the action											
A. Direct personnel costs				B. Direct costs of subcontracting	[C. Direct costs of fin. support]	D. Other direct costs		E. Indirect costs	[F. Costs of...]		
Form of costs	Actual	Unit	Unit	Actual	Actual	Actual	Unit	Flat rate 25 %	Unit	[Unit] [Lump sum]	
	(a)	Total (b)	No hours								(c)
Beneficiary 1	500.000	0	100	3.213	150.000	0	325.000	0	207.053	0	0
Beneficiary 2	0	300.000	0	0	0	0	125.000	0	106.250	0	0



# 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?

Does the contract establish the working time conditions?

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



And what about 'consultants'?

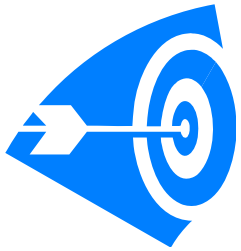
# What contract under what budget category

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.4 SME owners without salary			D.1 Travel	
A.2 Natural persons under direct contract	A.5 Beneficiaries that are natural persons without salary			D.2 Equipment	
A.3 Seconded persons				D.3 Other goods and services	
[A.6 Personnel for providing access to research infrastructure]				[D.4 Costs of large research infrastructure]	
Actual	Unit <sup>7</sup>	Unit <sup>8</sup>	Actual	Actual	Flat-rate <sup>9</sup>

Workforce costs

# What contract under what budget category

## What workforce contracts can you declare under personnel costs?



**Standard case: persons hired by the beneficiary via an employment contract**

(qualified as such under national law; and for whom the entity 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 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

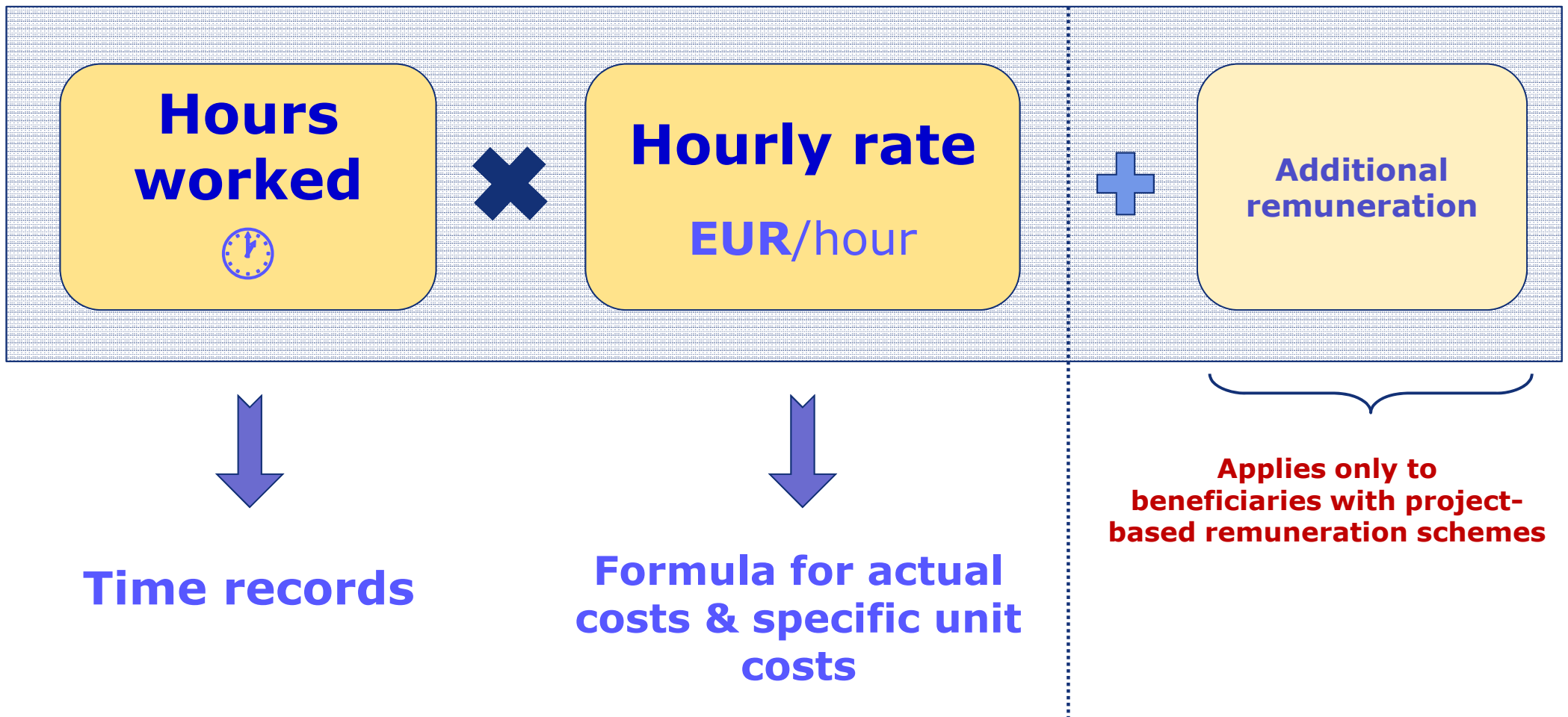
## What you can **NOT** declare under personnel costs?

- ❌ Contracts with companies (e.g. temporary work agencies) to provide staff
- ❌ Natural persons (e.g. consultants) not fulfilling any of 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*



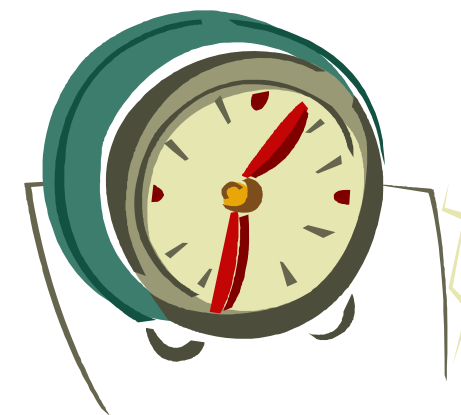
**In the cases above the costs may be eligible under 'Other goods and services' or under 'Subcontracting' but not as personnel costs**

# Personnel costs: Calculation



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.

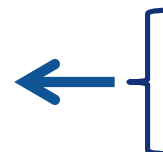
Working exclusively	Records	Conditions (full details available in the AGA; page 160)
YES	Declaration on exclusive work for the action	<ul style="list-style-type: none"><li>→ only one per reporting period (per person)</li><li>→ covering one uninterrupted period of exclusive dedication of at least one 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  
(version 19/12/2014)

- 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 (choose 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: \_\_\_\_\_



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



<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.

# Exercise

## TIMESHEET

Monday ..... 4 hours  
Tuesday .....4 hours  
Thursday.....  
Friday.....2 hours

Monday .....8 hours  
Tuesday .....8 hours  
Friday.....4 hours

Monday ..... 4 hours  
Tuesday .....3 hours  
Wednesday.....8 hours  
Thursday.....8 hours  
Friday.....2 hours

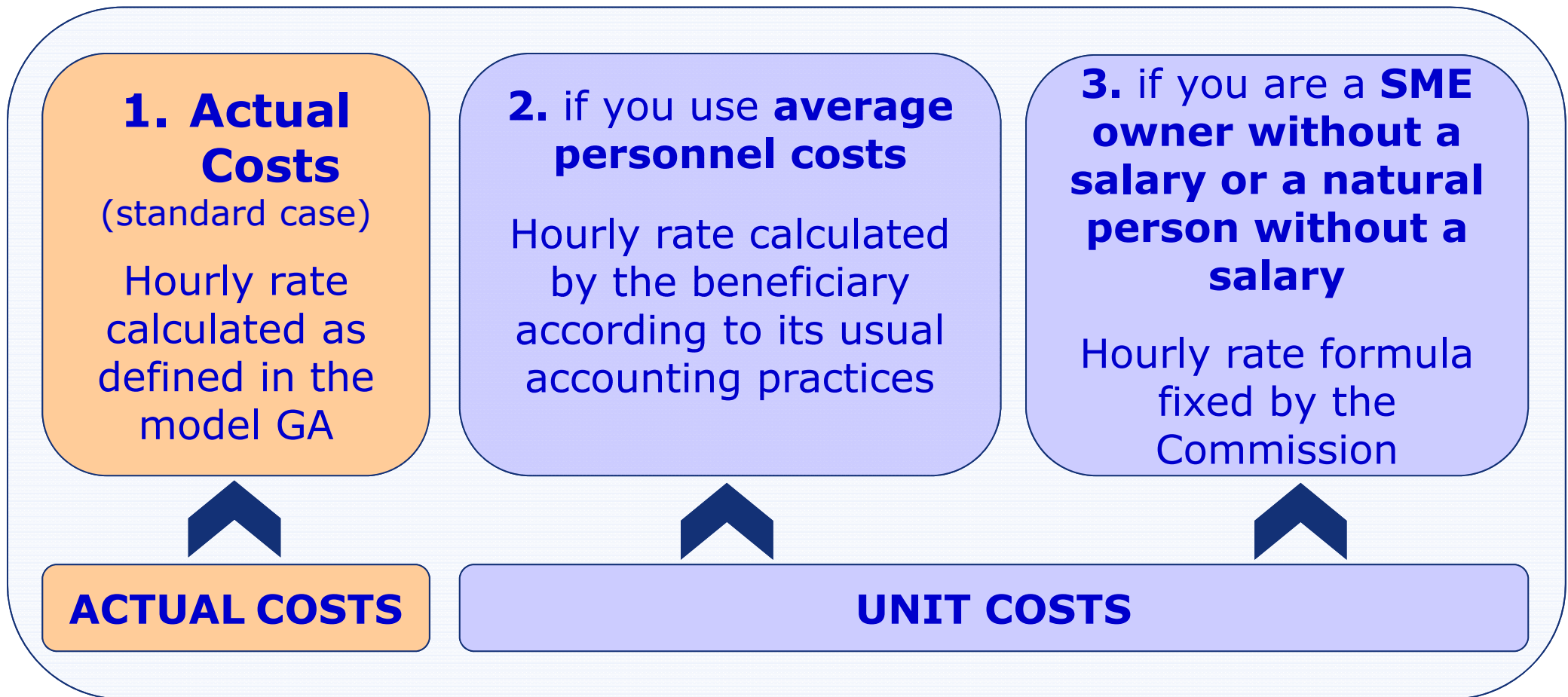
**Total month .....57 hours**

**What information is missing in this timesheet?**

# Time recording: 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

## How to determine the Hourly Rate



# Personnel costs: hourly rate




## 3: 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 GA.



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. **Still, unit costs must be declared.**

## 2: if you use average personnel costs

You calculate the hourly rate according to your usual 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 of the Grant Agreement to determine the annual productive hours*

# Personnel costs: hourly rate

## 1: 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

$$\text{Hourly rate} = \frac{\text{Basic remuneration for the H2020 action}}{\text{Hours worked for the H2020 action}}$$

**NEW !**  
(2017)



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

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



# Case 1A (general case): hourly rate calculation

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

**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

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

# Case 1A (general case): hourly rate calculation

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

## 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)

# Case 1A (general case): hourly rate calculation

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

## 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

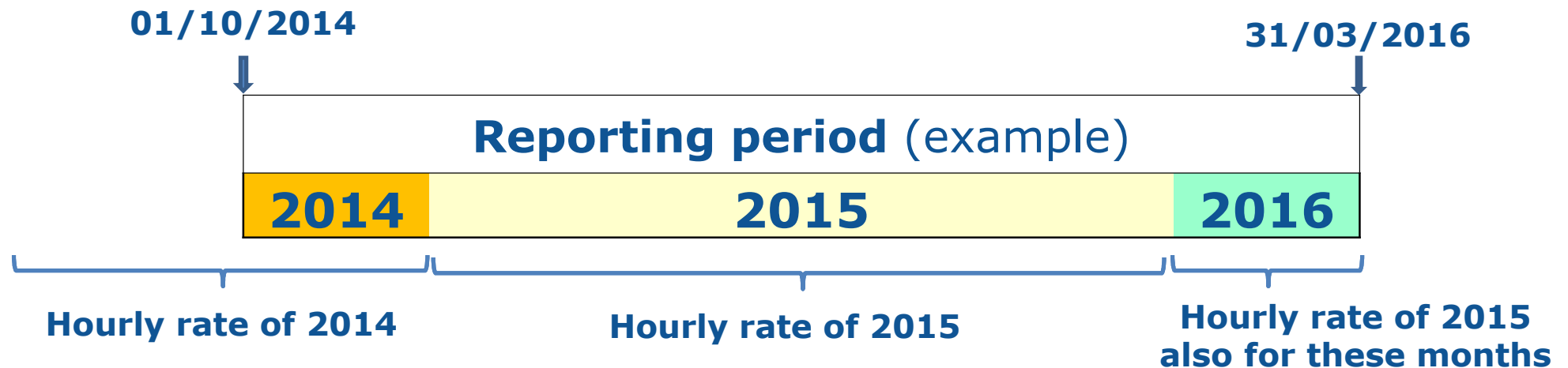
# Case 1A (general case): hourly rate calculation

## Annual hourly rate specificities

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

 The annual hourly rate is to be calculated **per full financial year**

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



# Case 1A (general case): hourly rate calculation

## 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.



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

*Gross annual salary fixed by contract: 20 000 EUR + family allowance fixed in the collective labour agreement: 100 EUR/month*

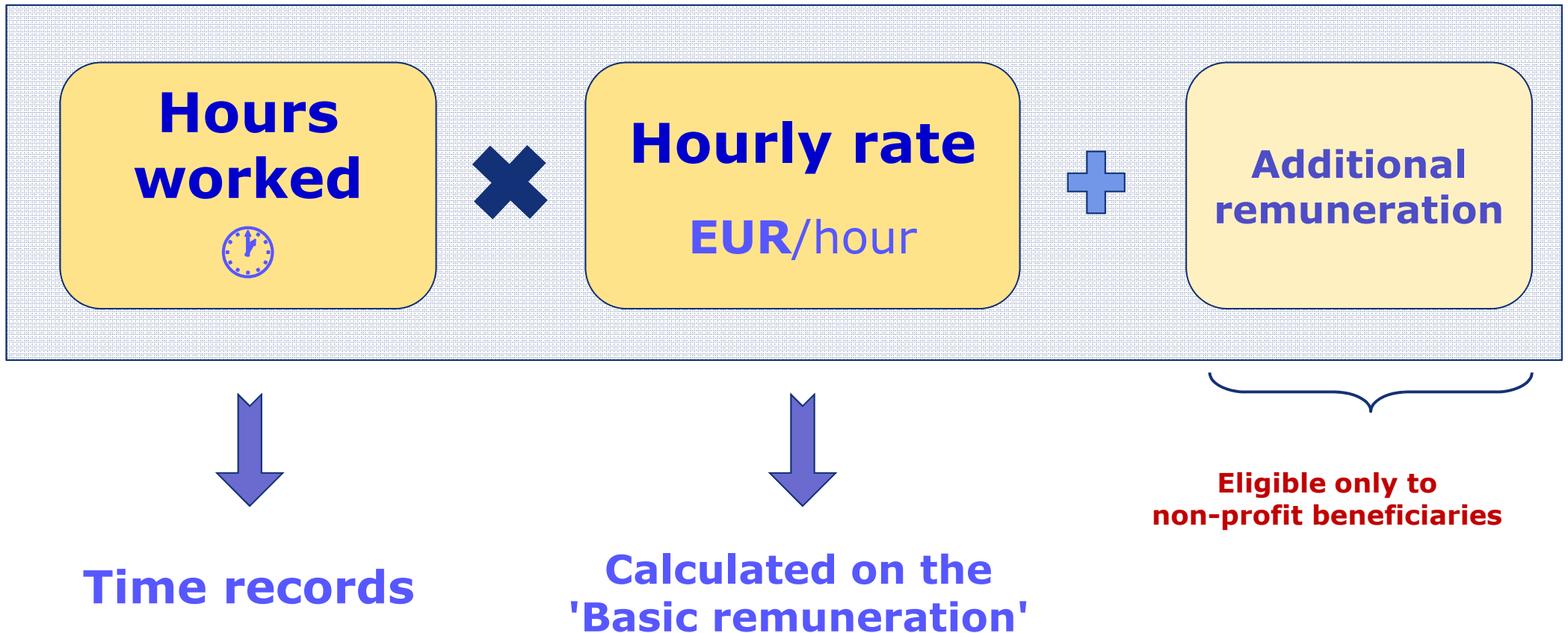


Besides, when she works in externally funded projects she gets an extra remuneration of 1 000 EUR per month of full dedication

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

- **The specific calculation of the hourly rate applies to her**
- **And the beneficiary must check if any part of her salary qualifies as additional remuneration**

# CASE 1B (project-based): personnel costs



$$1B. \text{ Hourly rate} = \frac{\text{Basic remuneration for the H2020 action}}{\text{Hours worked for the H2020 action}}$$

➤ **Includes:**

- ✓ 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

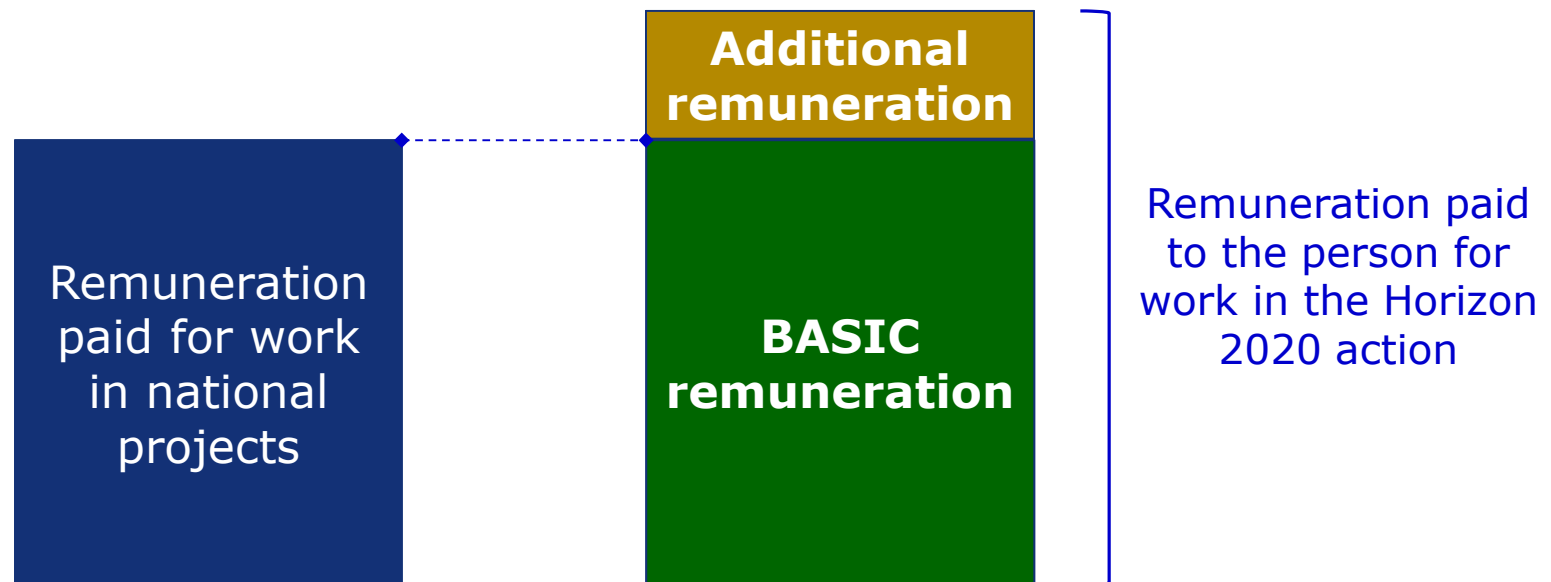
➤ **Do not include:**

- ✗ Any ineligible item (article 6.5) and costs included in other budget categories (e.g. indirect costs)
- ✗ Any part of the personnel costs that qualifies as **Additional Remuneration**

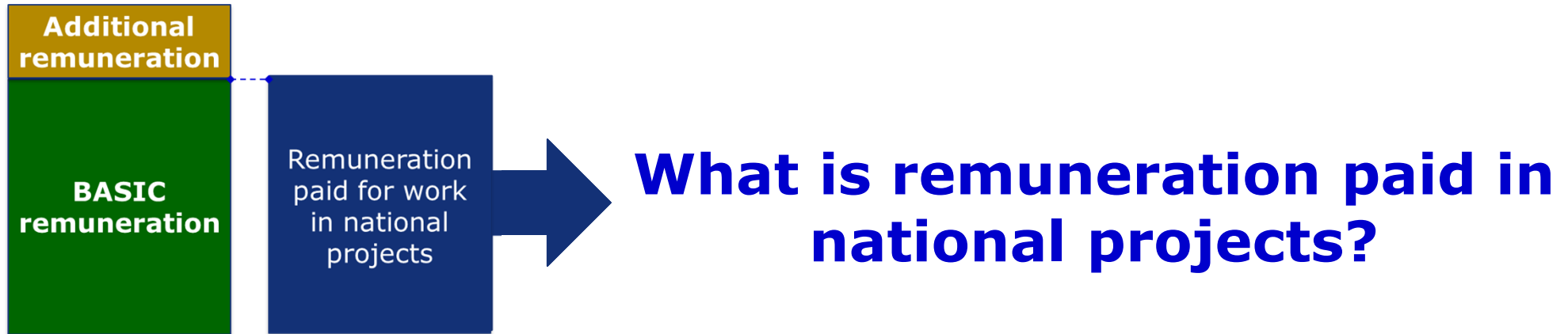


## What is additional remuneration?

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



- Remuneration set out in national law or internal rules for work in national projects (it must have been paid at least once before the proposal)

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

- Average of the salary of the person the previous year (excluding any part corresponding to H2020 actions)

# Additional remuneration ceiling



## Additional remuneration

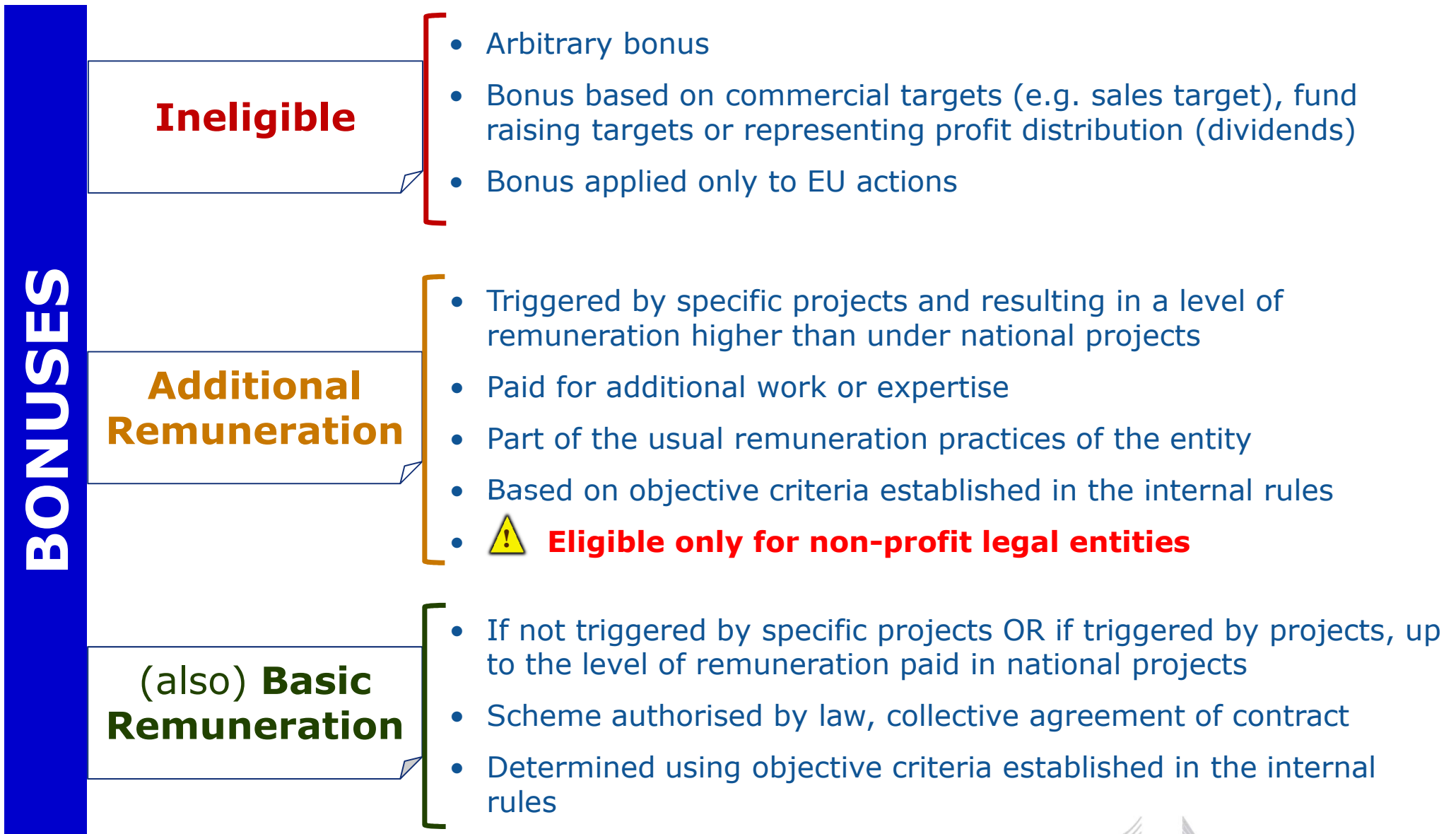
Eligible additional remuneration is subject to a eligibility ceiling fixed at EUR 8 000 for a full-time employee working exclusively for the action during the entire year.

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	$\{8\ 000 / \text{annual productive hours FTE}\} * \text{hours worked for the action over the year}$	



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

# Personnel costs: bonuses



# ***Exercise: Calculation of personnel costs (general case)***

Ms R. has worked in 2015 and 2016 for the 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?**

**Step 1**

**Calculate the hourly rate**

**Step 2**

**Identify the hours worked for the action**

**Step 3**

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

# Exercise: General calculation of personnel costs

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

## Step 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*

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

# Exercise: General calculation of personnel costs

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

## Step 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?

# Exercise: General calculation of personnel costs

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

## Step 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



# Exercise: General calculation of personnel costs

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

Step 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

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

# Exercise: 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 + eight days of public holidays.*

*In 2015 she worked 29 hours of overtime and was on sick leave for five 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**

# 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)

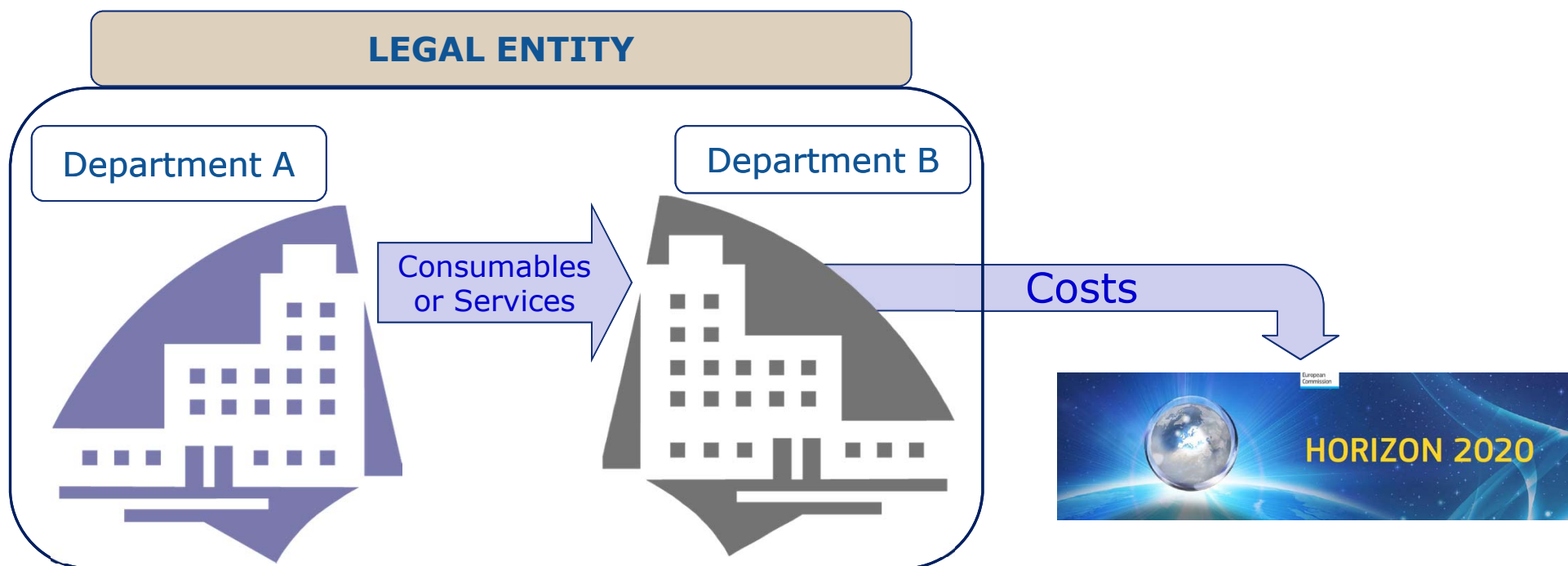
The **total consumables costs** are charged as **direct costs** on the H2020 action as **proportion** of the action hours to total worked hours in the laboratory.

**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**.

**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

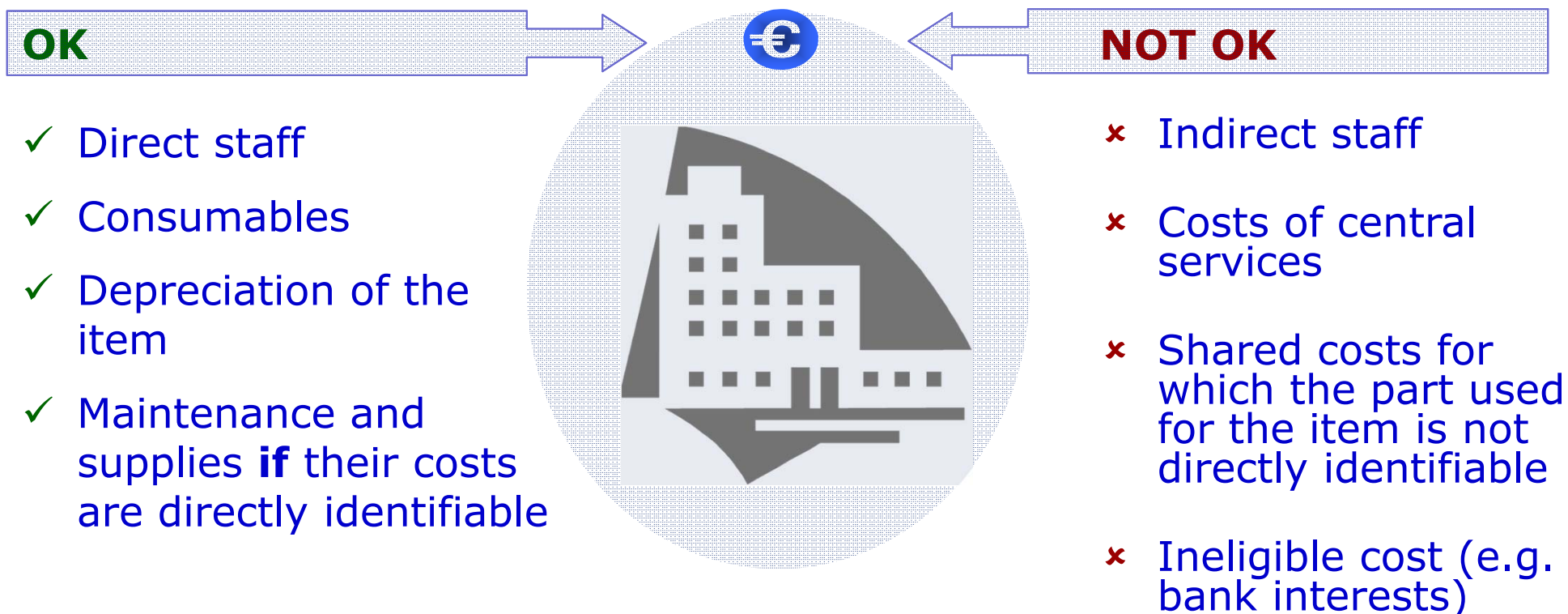
- e.g. genomic test, mass spectrometry analysis, etc.

### 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



# Third parties

Article 23.3  
H2020 Rules for  
Participation

**They [the participants] shall have the appropriate resources as and when needed for carrying out the action.**

However, where it is necessary for the action, the participants may:

- award subcontracts for carrying out certain elements of the action
- call upon linked third parties to carry out work under the action
- use resources made available by third parties

***... according to the conditions set out in the grant agreement.***

# Third parties: basics

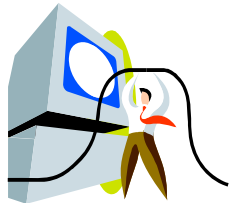
## ⇒ What is a third party?

↳ 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

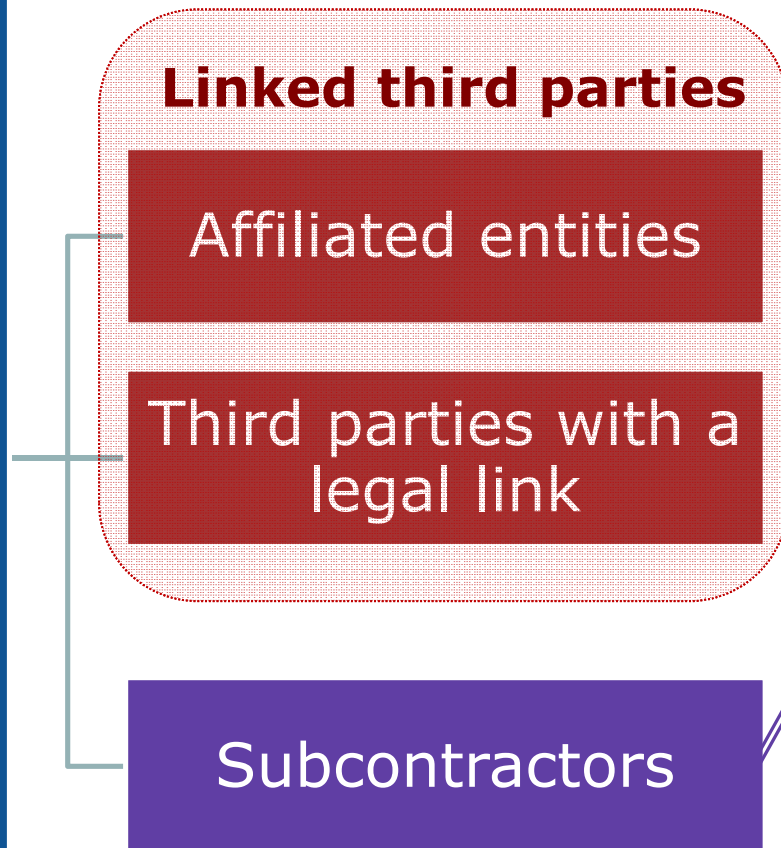
### Legal link


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

## 2. Other third parties

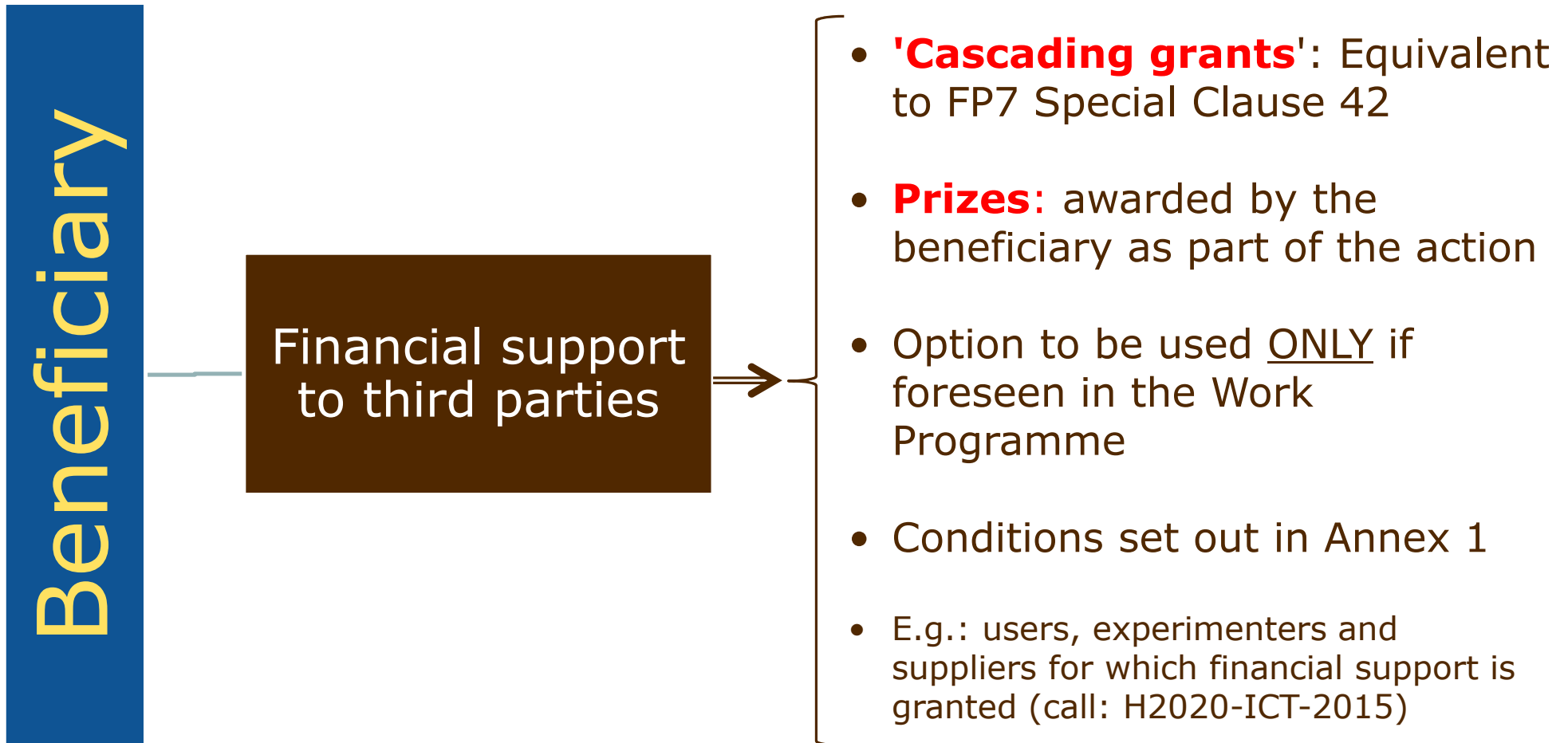
# Beneficiary

Contracts  
necessary for the  
implementation

In- kind  
contributions

- For the purchase of goods, works or services
  - Ensure **best value for money** and avoid any **conflict of interests**
  - E.g.: CFS, supply of consumables, etc.
- Free of charge or against payment
  - ⚠ Only the actual eligible costs of the third party may be charged
  - Must be set out in Annex 1
  - **NEW**: if not identified in Annex 1, Commission may still approve them (beneficiary bears the risk of rejection)
  - E.g.: seconded staff, use of equipment

# 3. Financial support to third parties

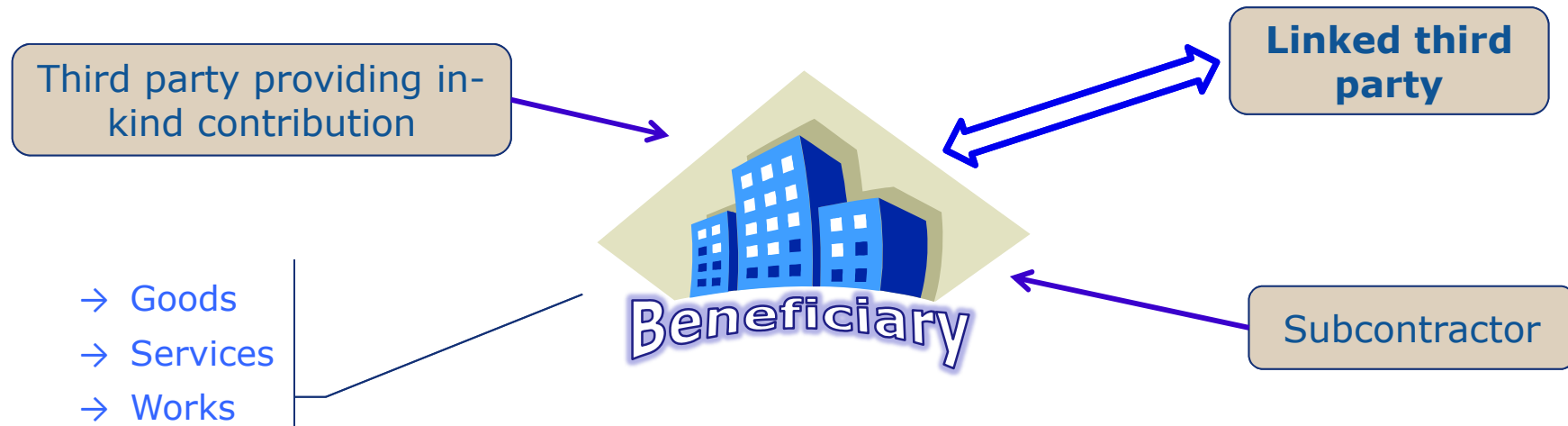




# Third parties: summary

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	<b>Article 14</b>
<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	<b>Article 13</b>
<b>Third party providing in-kind contributions</b>	<b>NO</b>	<b>YES</b>	<b>Costs</b>	<b>YES</b>	<b>YES</b>	Not used to circumvent the rules	<b>Articles 11 and 12</b>
<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	<b>Article 10</b>
<b>Financial support to third parties</b>	<b><u>Only if allowed in the call</u></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	<b>Article 15</b>

# 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

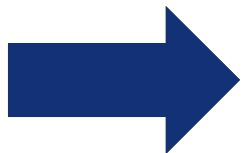
<b>Article 10</b> <b>Contracts to purchase goods, works or services</b>	<b>Article 13</b> <b>Subcontracts</b>
These contracts do not cover the implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.	Subcontracts concern the implementation of action tasks; they 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!**

# *Subcontracting in H2020 vs. FP7: what changed?*

Subcontracts not set out in Annexes 1 & 2 are not eligible but the Commission/Agency **may** approve these costs without an amendment:

- On its own discretion
- If costs are duly justified in the periodic technical report
- If there is no breach of principle of equal treatment of applicants
- If this does not entail changes to the Grant Agreement which would call into question the decision awarding the grant

# Best Practice

- 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

## Example (1)

**Beneficiary A** lacks resources and subcontracts action tasks to **Beneficiary B**. The subcontracting costs are declared by **Beneficiary A**.

**NOT ALLOWED!**

The subcontracting between beneficiaries in the same grant agreement is not allowed under any circumstances. In the above case, the tasks should be allocated to **Beneficiary B** and the costs should be declared by **Beneficiary B** (at cost basis).

## Example (2)

**Beneficiary A** is the consortium's coordinator and subcontracts coordinator's tasks.

**NOT ALLOWED!**

The coordinator's tasks listed in Article 41.2.b cannot be subcontracted.

(e.g. monitor proper implementation, act as intermediary for communication, request and review documents, submit deliverables, ensure payments, produce funds distribution report).

# Synergies: Objective

The EC aims at ensuring **coordination, synergies and complementarities between actions** funded by the European Structural and Investment Funds (ESIFs), Horizon 2020 and other EU directly managed programmes in the area of research, innovation and competitiveness.

## ESIFs are:

ERDF – European Regional Development Fund, Cohesion Fund

ESF – European Social Fund

EAFRD – European Agricultural Fund for Rural Development

EMFF – European Maritime and Fisheries Fund

## 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.**

# Other issues

Consortium Agreement

Controls and audits

Exchange rates

Final grant amount

Payments

Receipts

## 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*

# Consortium Agreement (CA)



- **CA is mandatory unless otherwise specified in the work programme**

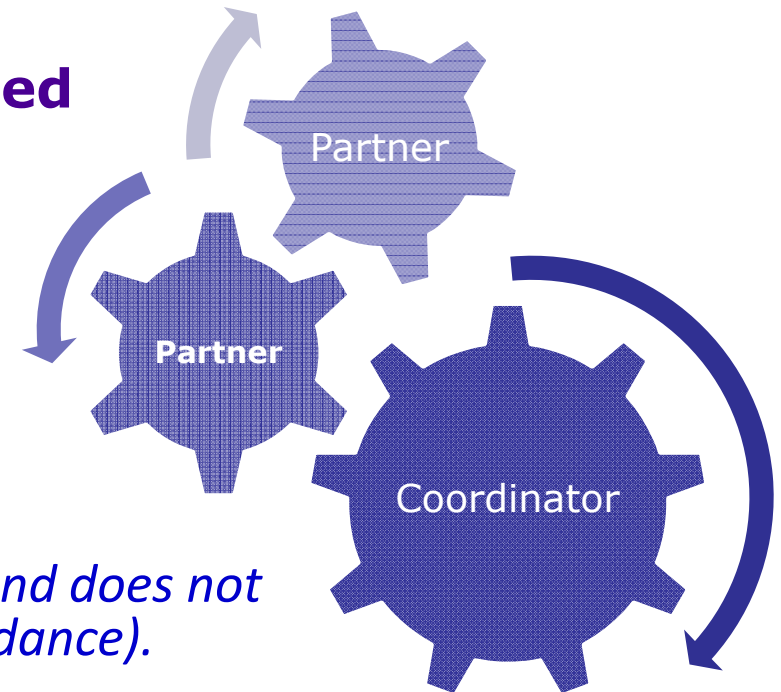
*Article 41.3 of the H2020 Model Grant Agreement*

- **Characteristics**

- *It is a private agreement between the beneficiaries and does not involve the EC/Agency (which, however, provides guidance).*
- *Deals with the rights and obligations of the beneficiaries amongst themselves.*

*Examples: internal organisation, distribution of EU funding, additional rules on IPR, settlement of disputes, etc.*

- *In principle to be concluded before signing the Grant Agreement*





## Financial viability

- ⇒ Most beneficiaries exempt from detailed analysis; only systematic check for coordinators when requested EU funding for the action is  $\geq$  EUR 500 000

## Certificates

- ⇒ **Certificate on the financial statements:** Only for final payments when total EU contribution claimed by the beneficiary on the basis of actual costs + unit costs for average personnel + unit costs for internal invoices  $\geq$  EUR 325.000 (excluding e.g. flat rates !)
- ⇒ **Certificate on the methodology:** Optional for average personnel costs (now under unit costs)



## Ex-post audits

- ⇒ Audits of the Commission limited to **two years** after the payment of the balance
  - ... but documents must be kept for 5 years

## Extension of audit findings

- ⇒ Former 'extrapolation' (FP7) now included in the MGA
- ⇒ In the case of systemic or recurrent errors, irregularities, fraud or breach of obligations

## ➤ **Beneficiary's accounts in Euro**

For purchases in other currencies ⇒ conversion into Euro according to its usual accounting practice

## ➤ **Beneficiary's accounts in other currencies**

Average of the daily exchange rates published in the Official Journal of the EU calculated over the reporting period



**Calculation shortcut:** you may use the editable charts on the website of the European Central Bank at:

<http://www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html>



# Final grant amount: Calculation



## Step 1 — Application of reimbursement rates to eligible costs

Total approved eligible costs (*actual costs, unit costs, flat rate and lump sum costs, if any*) X reimbursement rate (*100 % for research actions, 70% for innovation actions*)

## Step 2 — Limit to the maximum grant amount

The grant amount obtained in Step 1 is capped at the maximum grant amount set out in the GA

The grant amount following Steps 1 and 2 is the lower of the two amounts.

## Step 3 — Reduction due to the no-profit rule

Profit of the action = Grant amount obtained in Step 2 + Receipts – Total eligible costs of the action

If Profit > 0 → grant amount obtained in Step 2 is reduced

If Profit < or = 0 → grant amount obtained in Step 2 is not reduced

## Step 4 — Reduction due to improper implementation or breach of other obligations under the GA at the payment of the balance

**Final grant amount** is the lower of the following two amounts:

Amount obtained following Steps 1 to 3 ⇔ Amount obtained in Step 4

# Final grant amount: Example



EXAMPLE				
Maximum grant amount	Approved eligible costs	Funding rate	If Receipts	If Reduction
<b>200</b>	<b>220</b>	<b>100%</b>	<b>30</b>	<b>20</b>

## Step 1

Total approved eligible costs X reimbursement rate

$$220 * 100 \% = 220$$

## Step 2

The lower between Step 1 and the maximum amount of the grant

$$\text{Lower between } (220; 200) = 200$$

## Step 3

Step 2 - profit of the action (Profit **(only if positive)** = Step 2 + receipts - Eligible cost)

$$200 - (200 + 30 - 220) \Rightarrow 200 - 10 = 190$$

## Step 4

The lower between Step 3 and the reduced maximum grant amount (if any reduction)

$$\text{Lower between } (190; (200 - 20)) \Rightarrow \text{Lower between } (190; 180) = \mathbf{180}$$



	Time-to-Pay	From
<b>One Pre-financing</b>  → Retention 5 % of maximum grant for the Guarantee Fund	<b>30</b> days	From: entry into force or 10 days before the starting date (whichever is the latest)
<b>Interim Payments</b>  → Based on financial statements (EU contribution= eligible costs approved * reimbursement rate)  → Limit = 90 % of the maximum grant (Retention 10%)	<b>90</b> days	From reception of periodic report
<b>Payment of the Balance</b>	<b>90</b> days	From reception of final reports

Income generated by the action  
(except for action's results)

Income generated from the sale of assets purchased in the GA

## Receipts

In-kind contributions:  
-specifically for the action  
-received free of charge

Financial contributions specifically assigned by the donors to finance the eligible costs



**No-profit rule applied at project level, not per beneficiary!**



# HORIZON 2020

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