an introduction to financial issues
what is **HORIZON 2020**?

A fund of **80 billion €** [2014-2020]

R&I Framework Programme

A core part of Europe 2020 Strategy, the Innovation Union & European Research Area

It aims to respond to economic crisis, address people’s concerns, & strengthen EU’s global position
A SINGLE PROGRAMME bringing together 3 separate programmes / initiatives [FP7, CIP, EIT]; COUPLING RESEARCH TO INNOVATION; CHALLENGE-BASED APPROACH with a focus on societal challenges faced by EU society; SIMPLIFIED ACCESS, open to companies, universities, institutes in all EU countries & beyond.
Contents

- **COSTS**
  - Funding rates
  - Forms of costs
  - Eligible/ ineligible costs
  - Cost categories
  - Calculation of personnel costs

- **GENERAL FINANCIAL ISSUES**
  - Reporting
  - Payments
  - Records and supporting documentation
  - Audits & reviews
Funding Rates

One project – One funding rate

- Research & Innovation Actions (RIA)
- Innovation Actions (IA) (*not-for-profit organisations*)
- Coordination & Support Actions (CSA)
- MSC Actions (*unit costs*) (not COFUND)
- ERC Grants

- Innovation Actions (IA) (*for-profit organisations*)
- SME Instrument phase I (*lump sum*)
- SME Instrument phase II
Forms of Costs

- **ACTUAL COSTS**: real & not estimated or budgeted
- **UNIT COSTS** (only for personnel &/or specific categories of costs)
  - Calculation based on the total actual personnel costs recorded in the participant's accounts
- **FLAT-RATE COSTS** (only for Indirect costs)
  - calculated as a fixed percentage on another form of cost
- **LUMP SUM COSTS** (only for specific categories of costs)
  - fixed amount based on an estimation ➔ SME instr. Ph. 1 feasibility study
Forms of Costs

Costs = Direct & Indirect costs

- Direct costs
  - Employee costs, i.e. salaries (scientific personnel)
  - Project costs
  - Costs that are closely linked to the individual scientist (i.e. travel expenses, literature...)

- Indirect costs are all* other costs
  - Indirect costs are calculated and divided by number of scientific personnel
Direct Costs

- Costs directly related to the project, which can be clearly identified and justified by the accounting rules and principles of the beneficiary.

- Related to personnel working for the beneficiary under an employment contract & assigned to the action.

E.g.
- The cost of personnel assigned to the project
- Travel and subsistence allowances for project staff
- The purchase cost of durable equipment, consumables & supplies
- Subcontracting
- Conference fees
Indirect Costs

- Costs which are not directly related to the project, not identified as direct costs and which do not include any costs already directly charged to the project.

- Eligible as 25% flat rate of the beneficiary’s total eligible direct costs MINUS:
  - subcontracting
  - costs of in-kind contributions incurred by 3rd parties outside the beneficiary’s premises
  - costs of providing financial support to 3rd parties
## Indirect Costs

<table>
<thead>
<tr>
<th></th>
<th>Direct costs</th>
<th>Indirect costs</th>
<th>Total costs</th>
<th>% EU contribution</th>
<th>EU contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 / 25 Funding</td>
<td>100</td>
<td>25</td>
<td>125</td>
<td>100%</td>
<td>€125</td>
</tr>
</tbody>
</table>

E.g.

- General administration & management costs
- Ongoing professional training of staff costs
- Costs of office space, rent or depreciation of buildings & equipment, & all related expenditure such as water, heating, electricity, maintenance, insurance & safety costs
- Depreciation on common office equipment such as PC’s, laptops, office software
Eligible costs

must be...

• Actually incurred by the beneficiary

• Incurred in the period of implementation

• Indicated in the estimated budget

• In connection with the action as described in Annex 1

• They must be identifiable, verifiable & recorded in the beneficiary’s accounts

• Reasonable & justified

BEST VALUE FOR MONEY IS NOT ALWAYS THE CHEAPEST!!
Ineligible Costs

- Costs for **drafting the consortium agreement**
- Depreciation costs for equipment
- Costs for **preparing, submitting & negotiating the proposal**
- Bank costs charged by the beneficiary’s bank for transfers from EC
- Currency exchange losses
- Excessive or reckless expenditure
- Deductible VAT
- Costs declared under another EU grant
- Costs incurred during suspension of the implementation of the action

Don’t forget!
Subcontracting

- Best value for money OR Lowest price AND avoid any conflict of interest
- Subcontracting between beneficiaries NOT allowed
- Must cover only a limited part of the action & not CORE parts of the work
- The majority of the work done by the subcontractor(s) must be located in the EU MS/AC
Costs of other goods & services

- Consumables & supplies
- Dissemination
- Protection of results / IPR
- Organisation of meetings, events, workshops
- Certificates on the Financial Statements (if required)
- Translations & publications
Depreciation costs of equipment

- Only the part of the equipment’s ‘working time’ for the action may be charged (i.e. the % of actual use & time used for the action)

- May include costs necessary for first operation (e.g. site preparation, delivery & handling, installation, etc.)

- Costs of renting or leasing equipment are eligible if they do not exceed the depreciation costs of similar equipment.
Travel & Subsistence costs (Other Direct)

- Travel & subsistence costs for personnel and external experts.

- Lump sums or per diem payments paid to the employee directly by beneficiary are not ‘unit costs’ or ‘lump sum costs’, but actual costs.

- The amount of the per diem or lump sum paid by the beneficiary must be recorded in the beneficiary’s accounting system & will be checked in audit.

- No distinction between travelling in or outside of Europe.

- Not planned travels: require approval of PO.

Exceptions to the rule of “within the duration of the project”
VAT

- Non-deductible VAT is **ELIGIBLE**

- Deductible VAT is **NOT ELIGIBLE**

- Non-identifiable VAT is **ELIGIBLE**
## Exchange Rates

- Costs must always be reported in **EURO**

<table>
<thead>
<tr>
<th></th>
<th>Accounting records in €</th>
<th>Accounting records NOT in €</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs incurred in €</strong></td>
<td>No conversion</td>
<td>No conversion</td>
</tr>
<tr>
<td><strong>Costs incurred NOT in €</strong></td>
<td>Conversion according to own usual accounting practices</td>
<td>• Average daily exchange rate for the reporting period (source: ECB website)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Average monthly accounting rate for the reporting period (if no daily euro exchange rate is published) (source: ECB website)</td>
</tr>
</tbody>
</table>
Budget Transfers

• Between beneficiaries & cost categories

**Allowed if:**

- Needed & justified
- Annex I (description of the action) not affected
- May require Amendment
- Total EC contribution is not increased (*but different reimbursement rates taken into consideration*)

**Not allowed if:**

- Costs declared as Lump Sum
- Subcontracting costs not foreseen in Annex I *(approval)*
- Affects significantly Annex I challenging proper implementation
Reporting Responsibilities

- Periodic reports + Final report
- Technical + Financial reports
- Submission 60 days after the end of the reporting period
- Certificate on the Financial statement directly for beneficiaries requesting ≥ €325,000
- Financial Statement (FORM C) submitted exclusively online via the Participant Portal by appointment of the Financial Signatories (FSIGN)
1 MONTHLY TIMESHEET PER MEMBER OF STAFF WORKING ON THE PROJECT

Acronym: ENVICARE  Contract No: 66538
Name: Sue Brown  Partner no: 12
Partner Name: ENV Ltd

Project month: January 2015

<table>
<thead>
<tr>
<th>DAY</th>
<th>WP1</th>
<th>WP2</th>
<th>WP3</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>02</td>
<td>-</td>
<td>3</td>
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</tr>
<tr>
<td>05</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7</td>
<td>15</td>
<td>0</td>
</tr>
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</table>

Signature: SB  Date: 20.01.2015
Project Timesheets

• Time must be recorded through a reliable Time Recording system (time sheets or equivalent).

• Minimum requirements:
  • Updated & signed on monthly basis
  • Project title, number
  • Beneficiary’s name
  • Person’s name, date & signature
  • Hours per day declared for the action
  • Supervisor’s name & signature
  • Project task or WP
  • Short description of activities
Calculation of Hourly rate in H2020

Option A: opt for the Horizon 2020 standard of **1720** productive hours (for full timers)

Option B: use the actual formula to calculate your own productive hours

The *individual 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 hours**

The *individual annual productive* hours for Researcher X:

Annual working hours = 1 848
+ overtime (hours) = 29
- annual sick leave (e.g 5 days x 8 hours) = 40

**Individual annual productive hours for Researcher X = 1 837**
WHAT OTHER RATES DO WE NEED FOR THE FOLLOWING PROJECT?

**REPORTING PERIOD 1**
- **01.01.2015** to **30.06.2016**
- **18 MONTHS**

**PERSONNEL COSTS**

**SUE**
- **€24,000 + €2,800 IN ALLOWANCES**

**PABLO**
- **€24,000**

**REPORTING PERIOD 2**
- **30.06.2016** to **31.12.2017**
- **18 MONTHS**

GROSS YEARLY PAY FOR 2015, WITH INCREMENTS OF €500 YEARLY THEREAFTER
01 PERSONNEL COSTS

REPORTING PERIOD 1
01.01.2015
18 MONTHS

REPORTING PERIOD 2
30.06.2016
18 MONTHS

FINANCIAL YEAR 1
01.01.2015
FINANCIAL YEAR 2
30.06.2016
FINANCIAL YEAR 3
31.12.2017

NOT ALWAYS CALENDAR YEAR

RATES MUST BE BASED ON LAST CLOSED FINANCIAL YEAR!
[AT THE TIME OF REPORTING]

GROSS YEARLY PAY FOR 2015, WITH INCREMENTS OF €500 YEARLY THEREAFTER

SUE

PABLO

€24,000 + €2,800 IN ALLOWANCES

€24,000

01
Payments

• Pre-financing 30 days after the start of the action or the entry into force of the GA (whichever later)
  • Amount depends on action’s needs & EC priorities for the forthcoming period (~40-60% of total EC contribution)
  • No obligation to declare & return potential interest generated by the pre-financing
• 5% retained for Guarantee Fund

• Interim payments 90 days after report submission
  • 10% Retention

• Payment of the balance 90 days after submission of final report.
Cost of Payment Transfers

Is borne by the organisation whose bank is charging the transfer cost

OR

The organisation responsible for repeating a failed transfer
Keeping Records

Obligation to keep records & other supporting documentation

- Keep records & other supporting evidence & documentation to prove proper implementation & eligibility of costs for 5 years after the payment of the balance.

- No timesheets required for persons working exclusively in 1 project (with supporting statement by beneficiary).
Supporting Documentation

For ACTUAL costs:

- Contracts, subcontracts, invoices, time sheets, pay slips, ... ALL accounting & financial records.

For UNIT costs, FLAT RATE costs & LUMP SUM costs: (No need to identify the actual eligible costs covered)

- Keep adequate records & other supporting documentation to prove:
  - the number of units declared.
  - the eligibility of the costs to which the flat-rate is applied.
  - that the corresponding tasks or part of the action as described in Annex 1 were implemented properly.
Reviews & Audits

May be started up to 2 years after the payment of the balance

REVI EWS on the proper implementation of the action (including assessment of deliverables & reports).
→ “review report”

AUDITS on the proper implementation of the action & compliance with the obligations under the Agreement.
→ “draft audit report” & “final audit report”

Less audits in H2020 (max 7%), but more targeted.
Useful links

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