

# Forms of costs

## 1. Direct costs

‘Direct costs’ are specific costs directly linked to the performance of the action and which can therefore be directly booked to it.

## 2. Indirect costs

This budget category covers all costs for the action that are not directly linked to it. Indirect costs’ are costs that cannot be identified as specific costs directly linked to the performance of the action.

# Forms of costs

## Actual costs

Real, not budgeted or estimated numbers

## Unit costs

Personnel costs for SME owners/Natural persons not receiving a salary

Usual costs accounting practice of the Beneficiary for average personnel costs

Internally invoiced goods and services

LRI

Flat rate for indirect costs 25% of direct eligible costs

Lump sum

# No double financing rule

Each action may give rise to the award of only one grant, there can be no duplicate European Community funding of the same expenditure. The applicant must indicate the sources and amounts of any other funding received or applied for in the same financial year for the same action or for any other action and for routine activities

# No double financing rule

## Avoid double funding

-costs that are already included in other budget categories (double funding of the same costs, see [Article 6.1\(a\)\(i\)](#)).

Example: The beneficiary uses internal invoices for water chemistry analyses, based on a unit cost per water sample analysed. The methodology to calculate the unit cost includes the cost of the staff carrying out the analysis. However, the costs for those persons are already charged to the action under direct personnel costs (category A.1). The cost of the staff must therefore be removed and the unit cost must be recalculated without them.

# Application of the "double ceiling"

As a result,

If the actual expenditure turns out to be lower than the expenditure you budgeted, the actual grant will also be reduced in application of the percentage contribution which will remain the same. If the actual expenditure turns out to be higher than the expenditure budgeted, the Community grant will not be increased. It is therefore in the applicant's interest to submit a realistic estimate of expenses.

# No-profit rule

The Community grant may not have the purpose or effect of producing a profit for the beneficiary.

Profit is defined as a surplus of total actual receipts over the total actual costs of the action. Any income of the action must be indicated in the estimated budget and the final financial statement. The amount of the grant will be reduced by the amount of any surplus.

## Receipts

Incomes generated by the action

Sales of Assets

Fin. Contr. by third parties for the action

In-kind contribution by third parties for free, and declared as a cost

Open question: How is then verified?



# Personnel costs (all Programmes)

Personnel costs are the largest type of costs claimed and reimbursed under Horizon Most of the errors identified in audits involve personnel costs, with a total of 70,5% of all errors leading to adjustments in favour of the EU budget. This breaks down as follows:

# Personnel costs (all Programmes)

- 19,9% were due to incorrect time working on the action claimed
- 15,1 % were due to the incorrect calculation of productive hours
- 14,4 % were due to incorrect remuneration costs for both actual personnel costs and unit costs for personnel (for example: budgeted costs or estimates were claimed rather than actual costs)
- 8,6% were due to invalid supporting documents or unreliable/missing time sheets
- 6,1% were due to double charging or double funding
- 6,4% were due to other reasons, for example ineligible additional remuneration, indirect costs claimed as direct costs





# Personnel costs (all Programmes)

- Costs for employees (or equivalent) (see Article 6.2.A.1)

Reminder Hourly rate H2020

3 options:

- 1720 fixed

For full-time working personnel

Pro-rata for non full-time working personnel

- Individual annual PH - based on workable hours for the year

Workable hours +overtime-absences

- Standard number of annual PH Usual Beneficiary's accounting practices

At least 90% of standard workable PH



# Personnel costs (all Programmes)

- Costs for employees

This budget category covers the costs for employees or equivalent that worked in the action, i.e. persons working for the beneficiary on the basis of an employment contract or equivalent appointing act.



# Personnel costs (all Programmes)

- Costs for employees

They must be limited to salaries [additional OPTION for programmes with parental leave: (including net payments during parental leave)], social security contributions, taxes and other costs linked to the remuneration, if they arise from national law or the employment contract (or equivalent appointing act).

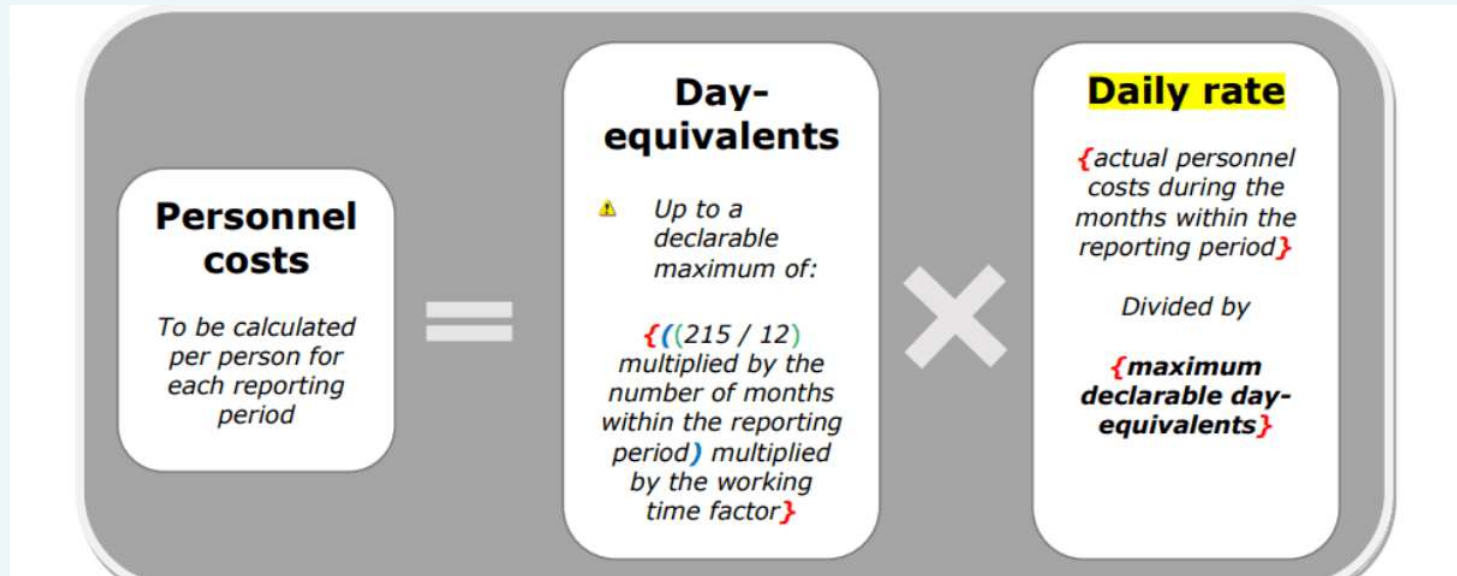
Up to what is beneficiary's usual remuneration practice  
Up to what is beneficiary's usual remuneration practice

It should be calculated on the basis of the costs actually incurred, in accordance with the following method :

# Personnel costs (all Programmes)

- Costs for employees

The total number of day-equivalents declared in EU grants, for a person for a year, cannot be higher than 215





# Personnel costs (all Programmes)

daily rate

IF YOU CHOOSE TO WORK WITH CONVERSIONS FROM HOURS TO DAYS.....

There are 3 conversion rules to convert hours worked into day-equivalents. The choice has to be made based upon your practices:

Fixed conversion: 8 hours=1 day-equivalent




# Personnel costs (all Programmes)

## daily rate

- Average number of hours that the person must work according to his/her contract
- If the contract it says 37,5 hours per week over 5 working days, then 1 day-equivalent= 7,5 hours
- Based on usual cost accounting practice determining the standard number of annual productive hours, then calculate the day equivalent accordingly

(the higher between the standard number of annual productive hours of a full-time employee and 90 % of the standard annual workable hours of a full-time employee) divided by 215}



# Personnel costs (all Programmes)


## Costs for employees-additional remuneration

Beneficiaries that are non-profit legal entities may also declare as personnel costs additional remuneration for personnel assigned to the action (including payments on the basis of supplementary contracts regardless of their nature), if:

(a) it is part of the beneficiary's usual remuneration practices and is paid in a consistent manner whenever the same kind of work or expertise is required;

(b) the criteria used to calculate the supplementary payments are objective and generally applied by the beneficiary, regardless of the source of funding used.

'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.



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# Personnel costs (all Programmes)

- Costs for employees

Question : End-of-contract indemnities. Question is eligible?



# Personnel costs (all Programmes)

- Costs for employees

Since the entitlement to end-of-contract indemnities is most often generated over a period of time longer than the reporting period or the action, you may charge the indemnity in the reporting period in which the employee's contract ends. However, you will have to do this outside the calculation of the daily rate (i.e. separately and on top of the personnel costs declared on the basis of the daily rate) AND you can only charge the part of the indemnity that corresponds to the time worked by the person on the action



# Personnel costs (all Programmes)

- Costs for employees

Not eligible

- any part of the remuneration which has not been an actual cost for you (for example, salaries reimbursed by a social security scheme or a private insurance in case of long sick leave or maternity leave)
- payments of dividends to employees (profit distribution in the form of dividends)
- variable complements based on commercial targets or fund raising targets (because neither incurred in connection with the work of the action, nor necessary for its implementation)
-



# Personnel costs (all Programmes)

- Costs for employees

Not eligible

- arbitrary bonuses (i.e. bonuses which are not paid based on objective conditions set out, at least, in the internal rules of the beneficiary or bonuses that are not paid in a consistent manner)
- bonuses that depend on budget availability on the specific project



# Personnel costs (all Programmes)

- Costs for employees

## Remark

### “Policy for recruiting and selecting researchers” MSCA

- vacancies and funding opportunities are publicly advertised
- in English
- clear job description
- requirements and selection criteria
- appropriate time period for applications
- clear rules for the composition of the selection
- adequate feedback to applicants •



# Personnel costs

Costs for natural persons working under a direct contract

- Self-employed natural persons (e.g. some types of in-house consultants) who work on the action for the beneficiary under conditions similar to those of an employee, but under a contract that is legally not an employment contract.

Eligibility: From Art. 6.2.A.2

- General criteria
- Direct contract
- Output/product owned by the beneficiary



# Personnel costs

Costs for natural persons working under a direct contract

The result of the work carried out (including patents or copyright) must in principle belong to the beneficiary

if (exceptionally) it belongs to the person, the beneficiary must (just like for employees) obtain the necessary rights from the person (transfer, licences or other), in order to be able to respect its obligations under the GA



# Personnel costs

Costs for natural persons working under a direct contract

- Similar working conditions

The beneficiary must organise and supervise the work of the person in a way similar to that of its employees

The person is subject to similar presence requirements as the employees.

- Costs not significantly different (50% higher, p.33 IAP)

the comparison must be done with national salary references of the country where the beneficiary is located, for the staff category to which the person belongs in the sector of activity of the beneficiary

- The remuneration must be based on the working time (not on output)





# Personnel costs

Personnel seconded by a third party against payment

(Horizon Europe)

- This budget category covers the costs of persons that worked on the action and that were seconded by a third party as an in-kind contribution against payment

## Additional eligibility criteria:

- The beneficiaries must ensure that the Commission/Agency, the European Court of Auditors (ECA) and the European Anti-Fraud Office (OLAF) have the right to carry out checks, reviews, audits, and investigations on the third parties (see Article 22), and in particular audit their underlying costs.
- They must also ensure that the Commission/Agency has the right to make an evaluation of the impact

# Personnel costs

Costs for SME owners not receiving a salary and for beneficiaries that are natural persons not receiving a salary

Working time remuneration/compensation is composed of:

- dividends,
- service contracts
- other non-employment contracts between the company and the owner
- Declared as unit costs (hourly rate) fixed by Commission and set out in Annex 2 and 2a of the GA
- EUR 4 880 for calls under Work Programme 2018-2020
- $\text{EUR } (5080/18) * (\text{Country Specific Correction Coefficient})$  for Horizon Europe
- The total number of hours declared for an SME owner for a year (i.e. a financial year) can NOT be higher than 1 720



# Personnel costs

- Costs for volunteers - Other personnel costs

This budget category allows to recognise the contribution of volunteers in the project, i.e. when persons work for the beneficiary, on a non-compulsory basis and without being paid

# Personnel costs

Double ceiling — Beneficiaries must ensure that:

- the total number of hours worked 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 (see below) Example: Beneficiary using 1 720 as annual productive hours.

According to the time-records, during the financial year 2017 employee Z worked 900 hours in a H2020 action and 900 hours in another EU project. The total hours worked for EU projects by employee Z would therefore be 1 800 (900 + 900). However, the beneficiary cannot declare more than 1 720 hours, since this is the number of annual productive hours it used for the calculation of the hourly rate. Therefore, for 2017, the beneficiary can only charge 820 hours to the H2020 action (i.e.  $1\,720 - 900$  hours declared to other EU grant), even if the person worked 900 hours in the action.



# Personnel costs

Double ceiling — Beneficiaries must ensure that:

- 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).



# Subcontracting costs

## Characteristics of subcontracting

Beneficiaries may award subcontracts covering the implementation of certain action tasks described in Annex 1.

- Subcontracting may cover only a limited part of the action.
- Beneficiaries/linked third parties may NOT subcontract tasks to other beneficiaries/linked third parties
- The tasks to be implemented and the estimated cost for each subcontract must be set out in Annex 1 and the total estimated costs of subcontracting per beneficiary must be set out in Annex 2



# Subcontracting costs

## Characteristics of subcontracting

### Characteristics of subcontracting

- The subcontractor charges a price, which usually includes a profit (this distinguishes it from linked third parties)
- works without the direct supervision of the beneficiary and is not hierarchically subordinate to the beneficiary ( this distinguishes it from action tasks implemented by in-house consultants;
- Responsibility towards the EU/Euratom for the subcontracted work lies fully with the beneficiary.



# Subcontracting costs

## Characteristics of subcontracting

- The beneficiary remains responsible for all its rights and obligations under the GA, including the tasks carried out by a subcontractor.
- Subcontractor has no rights or obligations towards the Commission/Agency or the other beneficiaries (it has no contractual relation with them).
- No refundable VAT charged
- Right to carry out the checks, reviews, audits and investigations on the subcontractor





## Subcontracting costs

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# Subcontracting costs

## Conditions

- fulfil the general conditions for costs to be eligible (i.e. incurred/used during the action duration, necessary, linked to the action,
- be based either on the best value for money (considering the quality of the service, good or work proposed, i.e. the best price-quality ratio) or on the lowest price

competitive selection procedures

- In order to provide a good analysis of the price-quality ratio, the criteria defining quality must be clear and coherent with the purposes of the action task that is subcontracted



# Subcontracting costs

## Conditions

### Obligation to avoid a conflict of interests

- 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').
- formally notify to the Commission the 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.
- Commission may verify that the measures taken are appropriate and may require additional measures to be taken by a specified deadline.



# Subcontracting costs

## Consequences of non-compliance

- If a beneficiary breaches any of its obligations under this Article, the grant may be reduced (see Article 43) and the Agreement or participation of the beneficiary may be terminated



# Subcontracting costs

## Specific cases

### Simplified approval procedure (new subcontracts)

- If the need for a subcontract was not known at GA signature, the coordinator must request a GA amendment in order to introduce it in the Annex 1 (see Article 39) or flag it in the periodic report (simplified approval procedure; for details, see Article 6.1). In the latter case, you bear however the risk that the granting authority might not approve the new subcontract and reject the costs.
- The new subcontract must be included and explained in the technical periodic report (in the section 'unforeseen subcontractor



# Subcontracting costs

## Checks

### Recording in accounts

- Potential double funding (list of other EU funded project) 5 other projects
- Measures for avoidance of conflict of interest (procedure with specific criteria)
- Conformity with national law on PP
- Latest version of Annex 1 – description of works
- Periodic technical report (justification of costs for not-foreseen subcontracting)



# Subcontracting costs

## Checks

- Verification of EC approval for unforeseen subcontracting
- Underlying documentation (invoices, debit notes, credit notes, proofs of delivery)
- Costs paid by the beneficiary
- No ineligible elements
- Delivery date



# In-kind contributions:

Definition ? Ex ?





# In-kind contributions:

Any direct expenditure of a partner in the consortium (other than providing financial support to third parties) for activities of the partnership are, in principle, in-kind contributions.

- use in-kind contributions provided by third parties free of charge
- use in-kind contributions provided by third parties against payment

Exemples :

## Point

The beneficiaries must ensure that the bodies mentioned in Article 25 (e.g. granting authority, OLAF, Court of Auditors (ECA), etc.) can exercise their rights also towards the third parties giving in-kind contributions.



# Linked third parties

## Art. 14 Ga

- The linked 3rd parties implement part of the action
- Their action tasks are indicated in the GA, Annex 1
- They must be named in Article 14 and their action tasks and estimated costs must be set out in Annexes 1 and 2 already at the moment of the GA signature (or if the linked third party is added later, through an amendment).
- The beneficiaries must make special arrangements regarding results produced by the linked third parties (in order to be able to fully comply with their obligations under the GA; see Article 26.3).

# Linked third parties

- Linked third party does not charge a price, but declares its own costs for implementing the action tasks.
- Linked third party itself performs certain action tasks directly and is responsible for them towards the beneficiary. Linked third parties do NOT sign the GA (and are therefore not beneficiaries).
- The beneficiary remains responsible towards the Commission/Agency for the work carried out by the linked third party. Moreover, the beneficiaries are financially responsible for any undue amount paid by the Commission/Agency as reimbursement of costs for their linked third parties — unless the GA foresees joint and several liability (see Article 44.1).



# Linked third parties

- Work is attributed to the linked third party (in Annex 1) and is usually carried out on its premises.
- Work is under the full and direct control, instructions and management of the linked third party, who carries out this part of the action (with its employees).



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- Work is attributed to the linked third party (in Annex 1) and is usually carried out on its premises.
- Work is under the full and direct control, instructions and management of the linked third party, who carries out this part of the action (with its employees).

## Point

Art. 14 Ga

- There is NO simplified approval procedure for the inclusion of a linked 3rd party in the implementation of the action. Linked third parties



# Linked third parties

## affiliated entities

- 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

or

## entities with a legal link to a beneficiary

- established legal relationship
- broad and not specifically created for the work in the GA that goes beyond the action duration and usually pre-dates and outlasts the GA

# Affiliated entity - Rules for Participation

## Art. 2, (paragraph 1, (2)

- affiliated entity<sup>2</sup> - any legal entity that is under the direct or indirect control of a participant, or under the same direct or indirect control as the participant, or that is directly or indirectly controlling a participant.
- Control may take any of the forms set out in Article 8(2)



# Affiliated entity - Rules for Participation

What is not an affiliated entity?

Rules for Participation, Art. 8, par. 3

- the same public investment corporation, institutional investor or venture-capital company has a direct or indirect holding of more than 50 % of the nominal value of the issued share capital or a majority of voting rights of the shareholders or associates;

or

- the legal entities concerned are owned or supervised by the same public body.





# Internally invoiced goods and services

eligibility conditions:

What? This budget category covers the costs for goods and services which the beneficiary itself produced or provided for the action.

- fulfil the general conditions for unit costs to be eligible (i.e. units must be used during the action duration, necessary for the action, identifiable and verifiable, etc; see Article 6.1(b))

- be in line with the beneficiary's usual cost accounting practices

It must be the usual practice of the beneficiary to calculate a unit cost for that good or service. The unit cost is the internal cost per unit that is charged between departments of the same entity;

it is not the price charged in the context of commercial sales or to grants from other fund providers



# Internally invoiced goods and services

‘Internally invoiced goods and services’ means goods or services which are provided within the beneficiary’s organisation directly for the action and which the beneficiary values on the basis of its usual cost accounting practices.

Could you please provide some examples ?



# Internally invoiced goods and services

## Examples

- self-produced consumables (e.g. electronic wafers, chemicals)
- use of specific research devices or research facilities (e.g. clean room, wind tunnel, supercomputer facilities, electronic microscope)
- specialised premises for hosting the research specimens used for the action (e.g. animal house, greenhouse, aquarium)
- standardised testing or research processes (e.g. genomic test, mass spectrometry analysis)
- hosting services for visiting researchers participating in the action



# Internally invoiced goods and services

## Examples

Example (ineligible): If you set up a new unit cost which applies only to EU actions, the internally invoiced costs based on that new unit cost would be ineligible as they would not be your usual cost accounting practice.

Example (eligible): If you make adjustments to comply with the Grant Agreement because the usual methodology includes an ineligible cost item, the adjusted methodology will still be considered as your usual cost accounting practice and not as a new unit cost.



# Other direct costs

## Travel

Travel and subsistence costs relate to the personnel of the beneficiaries. They may also relate to experts that participate in the action on an ad hoc basis (e.g. attending specific meetings), if:

- the experts' participation is foreseen in Annex 1 or
- their participation is specifically justified in the periodic technical report and the Commission/Agency approved it without formally amending the GA (simplified approval procedure).

Best practice: Beneficiaries may contact the Commission/Agency to ask whether a particularly expensive travel plan would be accepted or not



# Other direct costs

## Travel

Conditions :

- during the action
- necessary ;
- linked to the project ,
- adequately recorded in the accounts, complies with travel policy of the beneficiary
- Foreseen in the budget

The Daily subsistence allowances (DSA) are paid in addition to costs for accommodation as a flat-rate amount and are considered to cover breakfast and two main meals, local transport, the cost of telecommunications and all other sundries



# Other direct costs

## Equipment costs

- depreciation costs of equipment, infrastructure or other assets
- full purchase costs of equipment, infrastructure or other assets (if option applies)
- costs of renting or leasing of equipment, infrastructure or other assets
- costs of equipment, infrastructure or other assets contributed in-kind against payment



# Other direct costs

## Equipment costs

They must be calculated according to the following principles :

- the depreciable amount (purchase price) of the equipment must be allocated on a systematic basis over its useful life (i.e. the period during which the equipment is expected to be usable). If the equipment's useful life is more than a year, the beneficiary can NOT charge the total cost of the item in a single year
- depreciated equipment costs can NOT exceed the equipment's purchase price
- depreciation can NOT be spread over a period longer than the equipment's useful life
- if the beneficiary does not use the equipment exclusively for the action, only the portion used on the action may be charged. The amount of use must be auditable





# Other direct costs

## Equipment costs

As a general rule, beneficiaries cannot charge the total purchase price of equipment to the action, unless the GA explicitly foresees that option. The beneficiaries may therefore normally only charge the annual depreciation costs that corresponds to the part of the equipment's use for the action. This depreciation must be calculated in accordance with international accounting standards (i.e. notably spread over the equipment's useful life).



# Other direct costs

## Catering

The total amount calculated according to the above mentioned rules regarding Daily subsistence allowances shall constitute a maximum. If catering services are provided by the organisers, the DSAs directly paid to participants must be reduced accordingly.



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# Other direct costs

## Costs of services

Information dissemination, publications costs can be taken into account provided that they are directly related to the action. Please give, for each publication and/or other materials, a description, an estimate of the number of pages and copies planned the frequency and language of publication, an indication of the production costs per copy as well as an estimate of the distribution costs where appropriate.



# Other direct costs

## Costs of services

Translation costs must include the following details: the number of languages, the number of pages to be translated, the rate applied per page. These rates may not exceed the most reasonable market rates. Translation in-house is not an eligible cost. Please note that you are required to provide a summary of your activities in 3 languages

Interpretation: the different components must be specified. In particular, the number of languages, the number of interpreters, the number of days and the daily rates must be specified. The accepted daily fee of an interpreter may not exceed 700 EURO (including VAT). Interpreters should be hired locally. For their travel and subsistence expenses to be covered by the grant, it must be impossible to hire them locally and it must be explained why this is so.



# Other direct costs

## Costs of services

Evaluation: if the proposal supported requires some form of evaluation, monitoring and evaluation methods, as well as tools to assess, on an on-going basis, the progress of the action in relation to the objectives defined at the beginning and to benchmark the results, the cost of such work will be regarded as eligible expenditure



# Other direct costs

## Costs of services

Other eligible administrative costs are:

rent of meeting rooms (coffee breaks included), rent of interpretation booths, communications' costs, charges for financial services, costs relating to a bank guarantee and to external audits, etc. Indicative amounts for rental of booths, excluding

technical equipment: 750€ (excluding VAT) per day.

Rental of booths with equipment and technical assistance: 1200€ (excluding VAT) per day



# Non eligible Costs

- ❑ Contributions in kind: these are contributions that are not invoiced, e.g. voluntary work, equipment or premises made available free of charge;
- ❑ Return on capital;
- ❑ Debt and debt service charges;
- ❑ Doubtful debts;
- ❑ Provisions for losses or potential future liabilities;
- ❑ Interest owed;
- ❑ Exchange losses;
- ❑ VAT, unless the beneficiary can show that he/she is unable to recover it.





# Non eligible Costs

It should be noted that VAT paid by a public body to operators who are subject to VAT (when purchasing goods or supplying services within the framework of the implementation of the co-financed action) is not eligible. The VAT thus collected by operators liable for tax will in fact be returned to accounts of the Member State of the public body.

❑ Excessive or reckless expenditure ?

❑ costs declared by the beneficiary and covered by another action or work programme receiving a Community grant.

❑ Recruitment costs.

❑ The cost of purchasing infrastructure equipment, including buildings, land and second- hand equipment (except up to the amount of the annual depreciation of the equipment purchased)