



# *Framework Programme 7*

## **FINANCIAL ISSUES:**

**Eligible costs &  
Funding limits**

# Eligible costs in FP7 projects

## Overview

- **Eligible and non-eligible costs**
- **Different reimbursement rates**
- **Non-profit and co-financing, receipts**
- **Indirect Costs – based on the organisation's indirect cost model (ICM)**
- **Personnel costs**
- **Third parties**
- **Financial audits and damages**

# FP7 - Eligible and non-eligible costs

- *Eligible costs of the project (Art II.14)*
  - **Actual**
  - **Incurred by the beneficiary**
  - **Incurred during the duration of the project ...**
  - **Be determined in accordance with its usual accounting and management principles**
  - **Used for the sole purpose of achieving the objectives of the project**
  - **Recorded in the accounts of the beneficiary**
  - **Must be indicated in the estimated overall budget**
- *Non-eligible costs (identifiable indirect taxes including VAT, future losses, debts, excessive expenditure...)*



# FP7- Upper funding limits (Art II.16)

- *Rates according to type of participant, project and activity*

Maximum reimbursement rates of eligible costs	Research and technological development	Demonstration activities	Management of the consortium activities	Other activities
Network of excellence	50% 75% (**)		100%	100%
Collaborative project	50% 75% (**)	50%	100%	100%
Coordination and support action			100%	100%

\*\* certain organisations: non-profit public, education, research organisations, SMEs

## FP7- Upper funding limits (2) (Art II.16)

- *Research and technological development activities (50 or 75%)*
  - **includes scientific coordination**
- *Demonstration includes testing of products such as prototypes (50%)*
- *'Other activities' include dissemination, networking, coordination, intellectual property, ... (100%)*
- *Management include the activities mentioned under Art. II.2 (100%)*

# FP7 - No-profit and receipts

- *EU contribution cannot give rise to any profit for any beneficiary (see Art.II.18.3)*
- *Income generated by project (receipts) may reduce EU funding (see Art.II.17)*



# FP7 – Receipts (Art II.17)

- *Receipt may arise from*
  - **Resources made available by third parties by means of financial transfers or contributions in kind which are free of charge**
    - Shall be considered a receipt if contributed specifically to be used on the projects – it is not a receipt if the use is at the discretion of the beneficiary's management
  - **Income generated by the project**
    - Shall be considered a receipt when generated by actions undertaken in carrying out the project and from the sale of assets purchased under the grant agreement – it is not a receipt when generated from the use of foreground resulting from the project
- *To be declared at each reporting period by each participant – to be accounted for at the end of the project (no-profit)*

# FP7- Direct and indirect costs (Art.II.15)

- *Direct costs*
  - E.g. personnel, equipment, travel, consumables, etc.
- *Indirect costs following the indirect cost model (ICM) of each beneficiary*



# FP7- Indirect cost models – ICM (1)

## (Art II.15)

- a) *Actual indirect costs*
    - **simplified method under certain conditions**
  - b) *Flat rate of 20% of direct costs*
    - **minus subcontracting and 3rd parties not used on the premises of the beneficiary**
  - c) *Flat rate of 60% of direct costs*
    - **Only for funding schemes with RTD and Non profit Public Bodies, Secondary and Higher Education establishments, Research Organisations and SMEs unable to identify real indirect costs per project**
    - **minus subcontracting and 3rd parties not used on the premises of the beneficiary**
- *For Coordination and Support Actions (CSA): reimbursement of indirect eligible costs is limited to **max 7%** of direct costs (not a flat rate)*

# FP7- Indirect cost models –ICM (2)

## a) *Simplified method*

- A participant may use a **simplified method** to calculate its **indirect costs** at the level of the legal entity if this is in accordance with its usual management and accounting principles
- *Conditions:*
  - **Be able to identify costs in order to remove non-eligible costs**
  - **But cannot provide an analysis of the indirect costs at a detailed level (centre, department)**
  - **All indirect costs are to be allocated using a cost driver which accounts for all the productive hours of the entity and not only for the research productive hours**

# FP7- Indirect cost models – ICM (3)

- *Single model of indirect costs declaration per beneficiary in FP7*
- *Possibility to "improve": from a "flat rate" to "simplified" or analytical accounting system*
- ***Special case:*** *Special clause foreseen for legal entity using "flat rate" but departments/faculties with better accounting capabilities using "actual"*

# FP7- Personnel costs

- *Must be directly hired*
- *Work on the sole technical supervision and responsibility of the beneficiary*
  - **Special case: « In-house consultants »**
- *Be remunerated in accordance with the normal practices of the beneficiary*
- *Costs may be based on average rates (but not estimated or commercial rates)*
- *Special case for "SME owners"*

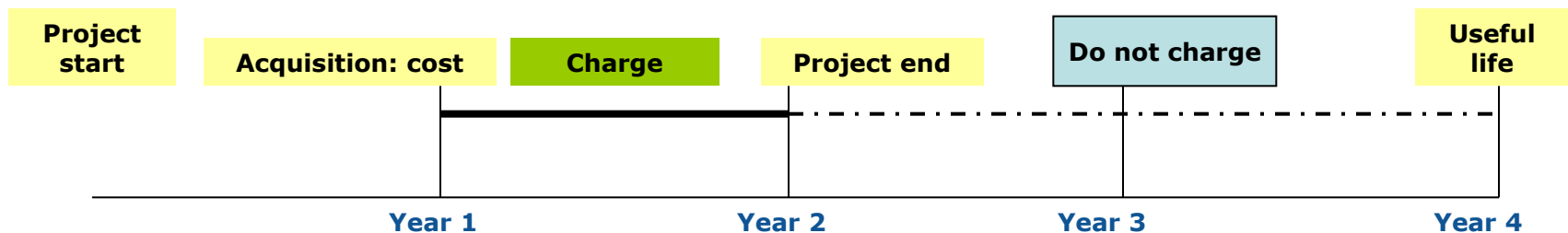


# FP7- How to calculate personnel costs?

- *Only the cost of the hours worked by the persons directly carrying out work under the project*
- *A reliable time recording needed for reconciliation of*
  - **Total hours where personnel works on several projects during the same period AND**
  - **Activity because of different reimbursement rates**
- *For details see the [Guide to Financial Issues relating to FP7 Indirect Actions](#):*
  - **Productive hours (!)**
  - **Overtime**
  - **Consultants, physical persons not receiving a salary and bonus payments,**
  - **...)**
- *Beneficiaries may opt to declare average personnel costs*
- *Use of estimated or commercial rates is **not** allowed*

# FP7- Durable equipment costs

- *Do not charge the full cost of equipment at acquisition*
  - **Depreciate durable equipment over its useful life**
  - **Spread cost over duration of the project**
  - **Do not charge any residual values**
  - **Claim only the share of use in the project**



# FP7- Who are Third parties?

- *Third parties carrying out part of the work*
  - **Subcontractors**
  - **Linked to beneficiary: EEIG, Joint Research Unit-JRU, affiliates carrying out part of the work (special clause 10)**
- *Third parties making available resources*



# FP7- Third parties – Subcontractors (Art. II.7)

- *In business contract between beneficiary, who is still bound by grant agreement*
- *Subcontracts may cover only a limited part of the project*
- *Tasks and costs have to be justified and indicated in Annex I*
- *Contracts must be awarded according to best value for money, transparency and equal treatment*
- *Subcontracts between partners of the project are not allowed*
- *External support services may be used for assistance in minor tasks*



# FP7- Third parties – linked to beneficiary

- *The case of EEIG, Joint Research Units or affiliates carrying out part of the work*
  - **Explicitly mentioned in the grant agreement under the special clause 10 and in the technical Annex I.**
  - **3rd parties under Special Clause 10 are supported by NEF**
  - **Data to be entered by the beneficiary they are linked to**
  - **3rd parties must submit cost according to their own “FP7 account data” as regarding reimbursement rates and model for indirect costs.**
  - **3rd parties submitting costs must be registered and validated**

# FP7- Third parties providing resources

- *Third parties making available resources*
  - **Indicated in Annex I**
  - **Costs may be claimed by the beneficiary**
  - **Resources “free of charge” may be considered as receipts**

# Controls and audits

- *Financial audits and controls (see Art. II.22)*
  - **At any time during the implementation of the project and up to five years after the end of the project**
  - **By external auditors, by the Commission services including OLAF or by European Court of Auditors**
- *Technical audits and reviews (see Art. II.23)*
  - **At any time during the implementation of the project and up to five years after the end of the project.**
  - **The Commission may be assisted by external scientific or technological experts**

# Controls and audits

- *Liquidated damages (see Art. II.24)*
  - **A beneficiary who overstated any amount and received an unjustified financial contribution from the Commission shall be liable to pay damages**
    - Liquidated damages = unjustified Community financial contribution x (overstated amount/total Community financial contribution claimed)
- *Financial penalties (see Art. II.25)*

# More information?

- *Grant Agreement*
  - **Core contract**
  - **Annex I Description of work**
  - **Annex II General Conditions (v6)**
- *Guide to Financial Issues to FP7 Indirect Actions*
- *Guidance notes for beneficiaries and auditors on certificates issued by external auditors*
- *Guidance notes on project reporting*
- [http://ec.europa.eu/research/participants/portal/page/fp7\\_documentation](http://ec.europa.eu/research/participants/portal/page/fp7_documentation)
- *Your Project Officer*

