

## FP7 - financials



*Dealing with money....*

*or*

*A practical guide for understanding EC funding*



18<sup>th</sup> November, Puebla, Mexico

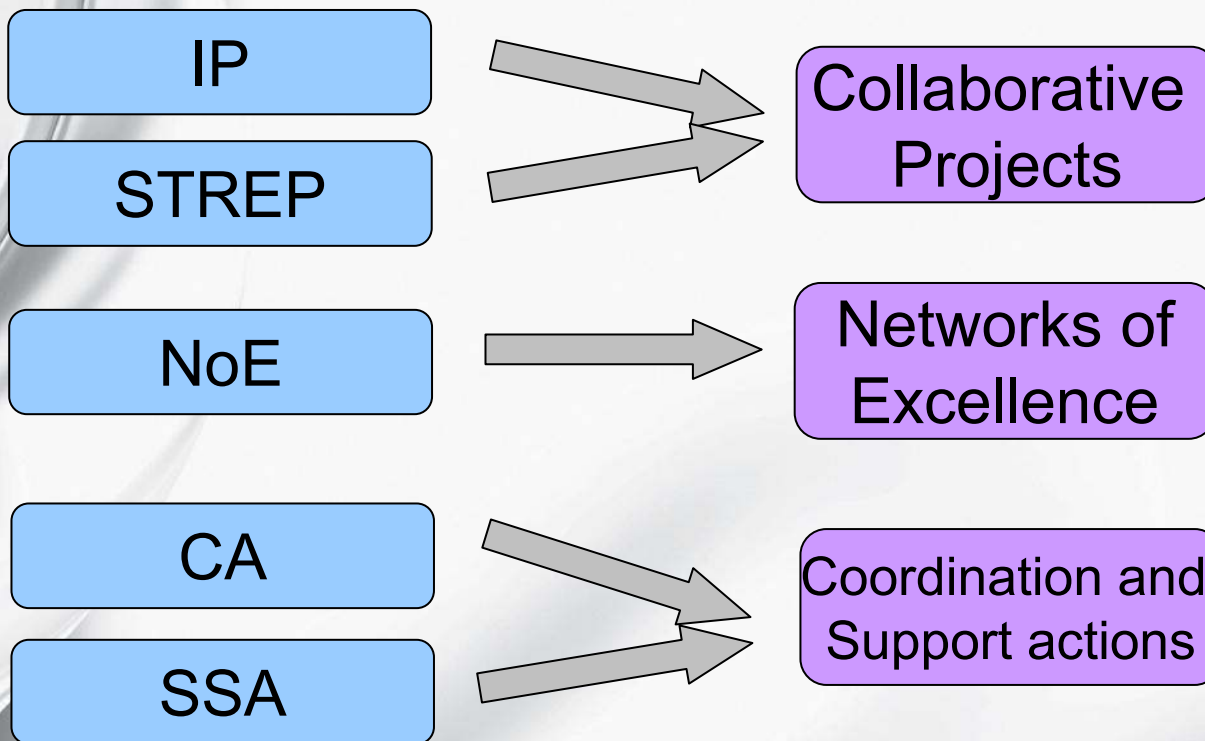


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# Funding Schemes FP6 – FP7

FP7 – Co-operation



FP6  
Instruments

FP7  
Funding Schemes



## Terminology from FP6 to FP7

- **Instruments** *become* **Funding Schemes**
- **Financial Guidelines** *become* **Financial Rules**
- **Model Contract** *becomes* **Model Grant Agreement**
- Under eligible costs - 'necessary' *replaced with* '**used solely to achieve project objectives**'
- **INCO** *becomes* **ICPC (International Cooperation Partner Country)**



## From Instruments (FP6) to Funding Schemes (FP7)

<b>Funding Scheme FP7</b>	<b>FP6 Keyword</b>	<b>'Optimum' Size? (as per FP6)</b>	<b>'Optimum' Budget? (as per FP6)</b>
<b>Collaborative Projects (CP)</b>	(IP/STREP) <b>Deliverables New Knowledge</b>	3-20 participants	€0.8-25 Million (average < €10 Million)
<b>Network of Excellence (NoE)</b>	(NoE) <b>Integration</b>	6-12	€4-15 Million (€7 Million)
<b>Co-ordination and Support Actions (CSA)</b>	(CA) <b>Co-ordination</b>	13-26	€0.5-1.2 Million (€1 Million)
	(SSA) <b>Laying the Groundwork</b>	1-15	€0.03-1 Million (€0.5 Million)



## Funding Schemes - Characteristics

<b>Funding Scheme</b>	<b>General Description</b>
<b>Collaborative Projects</b>	<ul style="list-style-type: none"><li>• Consortia with participants from different countries</li><li>• New knowledge, technology, products or common resources for research</li><li>• Size, scope and internal organisation of projects can vary</li></ul>
<b>Networks of Excellence (NoE)</b>	<ul style="list-style-type: none"><li>• Joint programmes by organisations integrating activities in a given field</li><li>• Longer term co-operation</li><li>• Formal commitment to integrate resources</li></ul>
<b>Coordination &amp; Support Actions</b>	Networking, exchanges, trans-national access to research infrastructures, studies, conferences, etc.



## Eligibility for Funding



Eligibility for **Funding** :

1. Legal entities from Member States and Associated countries or created under Community law (and JRC)
2. International European interest organisations
3. Legal entities established in international cooperation partner (ICPC) countries

and

- International organisations, third countries other than ICPC,
  - if provided for in specific programme or work programme;
  - or if essential for carrying out action;
  - or provision for funding is provided for in a bilateral agreement between Community and the third country



## Funding principles

**Based on :**

- **co-financing**
- **no-profit**

**NO** cost models like FP6 (AC/FC/FCF)

- 1. Usual method to be reimbursement of eligible costs**
- 2. May also use flat-rate and lump sum financing**



## Reimbursement of Eligible Costs

- **No cost models**
- **Possible options (?) appear to be:**
  - % of all eligible direct and indirect costs
  - % of all eligible direct costs with flat rate for indirect costs
  - % of all eligible direct costs with an average/simplified indirect cost rate for public bodies etc
- **Flat rate for indirect costs is under discussion (after 2010, 40% ?)**



## Flat Rate / Lump Sum

- **Lump sum**

In particular as option for participants from ICPC (see next slides). Also for Marie-Curie actions.

- Determination of forms of grants to be used in the work programmes and calls for proposals



## Upper Funding Limits (1)

- Research activities: **50%** of eligible costs, except for:
  - **SMEs: 75%**
  - **Non-profit public bodies: 75%**
  - **Secondary and higher education establishments: 75%**
  - **Research organisations (non-profit): 75%**
- Demonstration activities: **50%** of eligible costs
- “Frontier” research actions: **100%**
- Coordination and support actions: **100%**
- Training and career development of researchers actions: **100%**
- Other activities (management, training, etc): **100%**

**Receipts to be taken into account**



## Upper Funding Limits (2)

	<b>FP6</b>	<b>FP7 Industry</b>	<b>FP7 Public Bodies, Universities, SMEs, etc.</b>
<b>RTD</b>	<b>50%</b>	<b>50%</b>	<b>75%</b>
<b>Demonstration</b>	<b>35%</b>	<b>50%</b>	<b>50%</b>
<b>Other*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>ERC</b>	<b>Proposing 100% direct costs plus 20% flat rate for indirect costs</b>		

\* Co-ordination and Support Actions, Training, Management



## Eligible Costs


- **Participants charge direct and indirect costs (option of flat rate for those who do not or cannot charge real indirect costs)**
- **Costs must be:**
  - actual;
  - incurred during the project; (not before or after)
  - determined according to the usual accounting and management principles/practices;
  - used only to achieve project objectives;
  - consistent with principles of economy, efficiency and effectiveness;
  - recorded in accounts and paid (or the accounts of third parties);
  - exclusive of non-eligible costs.
- **Average personnel costs may be used if consistent with above and do not differ significantly from actual**



## Direct Costs (1)

### Examples of eligible direct costs

- The cost of personnel assigned to the project. Working time to be charged must be recorded by any reasonable means (e.g. timesheets)
- Hired external consultants
- Travel and subsistence allowances for staff taking part in the project
- The purchase costs of durable equipment (depreciated cost, the portion of the equipment used in the project may be charged)
- The cost of consumables and supplies
- Subcontracting
- Certificate on the methodology and certificate on the financial statement

**New in FP7:** Under FP7, there are no cost models. FC, FCF and AC Models disappear. Consequently, all costs of personnel working on a project may be eligible if they fulfill the conditions of the Grant Agreement (art. II.14). 

**No more difference between additional staff and permanent staff.**



## Direct Costs (2)

### Example: Equipment Depreciation

- Equipment was purchased in May 2005 for €600,000 , with a depreciation period of 60 months, according to beneficiary's accounting practices.
- If the Grant Agreement of the Project NATASA is signed in March 2008, the equipment would be 34 months old, and therefore, 34/60 financially depreciated.
- Also suppose that the equipment will be used for this 36-month project 25% of the time. Under these conditions, the beneficiary can declare the depreciation costs incurred under the project for the remaining "lifetime" of 26 months, pro rata their use, so for 25%.
- The amount than can be charged to the project NATASA is:  
 $(26/60) \times €600,000 \times 25\% = € 65,000$



## Indirect Costs (1)

**Indirect costs** (overheads) are all those structural and support **eligible** costs of an administrative, technical and logistical nature:


- which cannot be identified as being directly attributed to the project.
- which can be identified and justified by its accounting system as being incurred in direct relationship with the eligible direct costs attributed to the project.
- which are cross cutting for the operation of the beneficiary body's various activities and cannot therefore be attributed in full to a specific project.

### Examples

- Hiring or depreciation of buildings,
- water/ gas/ electricity,
- Maintenance,
- Insurance,
- Supplies and petty office equipment,
- Legal Advice,
- Communication and connection costs,
- Postage,
- Administration and financial management,
- Human resource, training
- Documentation



## Indirect Costs (2)

- **Eligible costs = direct costs + indirect costs**
- Indirect Costs, also called **overhead costs**, are costs that cannot be directly attributed to the project work but are necessary to support the overall project.
- For all:
  - either **actual overhead** or **simplified method**
  - flat rate of **20%** of direct costs (excluding subcontracting)
- Non-profit Public Bodies, Secondary and Higher Education establishments, Research Organisations and SMEs **unable to identify real indirect costs**, may apply for a flat rate of **60%** for **funding schemes with RTD**.
  - after 1st January 2010  $\Rightarrow$  tbd but  $> 40\%$
- For **CSA** limit of **7%** of direct costs 
- For **Marie-Curie** actions a flat rate of **10%** of direct costs.



## Indirect Costs (3)

### Real Indirect Costs:

- Beneficiaries with analytical accounting system that can identify and group their indirect costs must report their **real indirect costs** - or choose the 20% flat rate option
- A fair and reliable **cost driver** to allocate indirect cost from the 'pool of costs' into the different projects should be used.
- Personnel costs** is the most common cost driver. Indirect costs are often expressed as a % of personnel costs.
- The method of calculation must be in accordance with normal accounting practices



## Indirect Costs (4)

### Simplified method

- A participant may use a **simplified method** to calculate its indirect costs at the level of the legal entity, and not at a detailed level (centre, department)
- if this is in accordance with its usual management and accounting principles
- If no analytical accounting system
- Based on actual costs of the last closed accounting year
- Does not require previous certification by EC



## Indirect Costs (6)



### Simplified method - example

SST is an industrial company with **600 employees**, of which **200 are considered indirect** (management, human resources, financial administration, supporting services, etc). SST has €72M annual sales and is involved in a number of FP7 projects. SST's overall annual overheads are €19M, of which €3M is non-eligible (marketing and sales, and other commercial costs).

The **400 direct employees** work a total number of **640,000 productive hours** per year. The total salaries of the direct employees, including social security costs, are **€20M**.

**Method 1: Calculation of Indirect costs as a fixed hourly rate of the personnel costs.** The calculation method is based on the eligible indirect costs (per year) divided by the annual productive hours: Overhead= €16M/640,000= €25/productive hour

**Method 2: Calculation of Indirect costs as a percentage of the personnel costs.** The overheads are allocated as a percentage of the direct personnel hours.  
Overhead= €16M/ €20M = 80%



## Subcontracts



Subcontractors charge a price, which **usually includes a profit** (different from third parties, which charge only the costs of the activity)

- Tasks have to be indicated in **Annex I**
- awarded according to **best value for money** principle
- shall **not** be a “**core**” **part of the work** (based on qualitative criteria more than quantitative – in fact there is no upper limit)
- **Can be under framework contracts**
- Public entities: must follow national procurement principles
- Private entities: should follow the rules that they usually apply for the selection of procurement contracts e.g. submission of several quotes



## Receipts (1)



**2 kinds of receipts** must be taken into consideration to avoid any profit:

- **Transfers from third parties to the beneficiary** (if specifically attributed to the project and not reimbursed):
  - Financial transfers
  - Contributions in kind.

***Example 1.** An expert from the ministry of Environment is allocated to work free-of charge 2 days per week for a project in the University of East Anglia. This is a receipt of the project.*

***Example 2.** An expert from the ministry of Environment is allocated to work free-of charge 2 days per week in the ENV school in the University of East Anglia. UEA can decide how to use the expert, so this is not a receipt of the project, because the expert is considered to be an “own resource” of UEA.*

- **Income generated by the project.** e.g. from service provision



## Receipts (2)

At final payment the EC contribution will take into account any receipts of the project.

For each beneficiary:

**the eligible costs  $\leq$  EC contribution + the receipts for the project**

*Otherwise: reduction of EC contribution!*

### Examples

Eligible Costs (budgeted)	Budgeted EC contribution	Eligible Costs (actual)	Project Receipts	Reduction of EC contribution	Actual EC contribution
€100,000	€50,000	€100,000	€25,000	None	€50,000
€100,000	€75,000	€100,000	€25,000	None	€75,000
€100,000	€50,000	€90,000	€40,000	5,000 reduction due to lower eligible costs	€45,000
€100,000	€75,000	€100,000	€40,000	15,000 reduction to secure non-profit principle	€60,000
€100,000	€75,000	€110,000	€40,000	5,000 reduction to secure non-profit principle	€70,000



## Example Calculations (1)

General funding calculation example for a **university**

<b>Activity</b>	<b>Direct Eligible Costs</b>	<b>Indirect Eligible Costs (60%)</b>	<b>Total Eligible Costs</b>	<b>Funding Rate (%)</b>	<b>Funding</b>
RTD	250,000	150,000	400,000	75%	300,000
Demonstration	50,000	30,000	80,000	50%	40,000
Management & Coordination	80,000	48,000	128,000	100%	128,000
Other	20,000	12,000	32,000	100%	32,000
<b>TOTAL</b>	<b>400,000</b>	<b>240,000</b>	<b>640,000</b>	<b>N/A</b>	<b>500,000</b>



## Example Calculations (2)



CSA project funding calculation example for a **Company with real indirect costs**

<b>Activity</b>	<b>Direct Eligible Costs</b>	<b>Actual Indirect Costs</b>	<b>Eligible Indirect costs (7%)</b>	<b>Actual Total Costs</b>	<b>Funding Rate (%)</b>	<b>Eligible for Funding Total Costs</b>
CSA	90,000	99,000	6,300	189,000	100%	96,300
Subcontracts	10,000	0	0	10,000	100%	10,000
<b>TOTAL</b>	<b>100,000</b>	<b>99,000</b>	<b>6,300</b>	<b>199,000</b>	<b>N/A</b>	<b>106,300</b>



## Maximum EC contribution

Article 5 in Annex I of the Grant agreement defines the maximum Community Financial Contribution in absolute numbers.

### Example

	Budgeted	Accepted at the end of the project
Total eligible RTD costs	750,000€	800,000€
Upper funding rate (RTD activities)	50%	
Upper funding reimbursement (RTD activities)	375,000€	400,000€
Total eligible management costs	50,000€	47,500€
Upper funding rate (management activities)	100%	
Upper funding reimbursement (management activities)	50,000€	47,500€
Total eligible costs	800,000€	847,500€
Maximum EC contribution, article 5	425,000 €	425,000€*

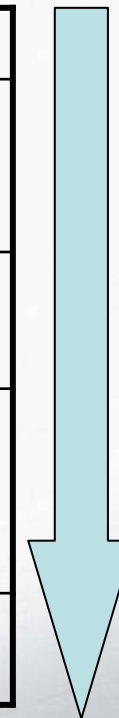
The Total EC funding is limited to **425,000 €** indicated in article 5, Annex I.



## Payment Modalities (2)

**Example: Project with duration of 3 yrs, and EU funding of 3 m€**

Payments	Total money received
• Pre-financing (average EU funding 1m€/year, usually 160%) = <b>1,6m€</b>	<b>1,6m€</b>
• 1st Interim payment 1m€ accepted, payment <b>1m€</b>	<b>2,6m€</b>
• 2nd Interim payment 1m€ accepted, payment <b>0,1m€</b> (because of retention 10%, 0,3m€)	<b>2,7m€</b>
• Final payment 0,3m€ (retention 10%)	<b>3m€</b>



Project  
timeline

End of 1<sup>st</sup> year

End of 2<sup>nd</sup> year

End of 3<sup>rd</sup> year



## Certification (1)

2 types of certificates:

- **certificate on financial statements** (CFS) (Form D)- expenditure verification
- **certificate on the methodology** (Form E) - system verification – Personnel & Overheads

N.B.: The submission of a certificate does not waive the right of the Commission to carry out its own audits (Article II.22 of the FP7 model grant agreement).



## Certification (2)

### **Certificate on financial statements (CFS)**

Mandatory for a **beneficiary** when its requested funding for the **project** is equal or more than 375,000€

–exception for project of 2 years or less: no intermediate CFS submitted, only at the end



## No financial collective responsibility

- Replaced by Guarantee Fund
- GF = 5% of EC contribution paid at the moment of the pre-financing
- Each beneficiary financial responsibility limited to its own debt
- At the end of the grant agreement, up to 1% of EC Contribution may be deducted (except for public bodies, education establishments, entities guaranteed by MS or AS)
- However, there is "technical responsibility" to carry out the project jointly and severally vis-à-vis the Commission.



## ICPC special (1)

- ICPC participants may alternatively **opt for** the EC financial contribution to take the form of a lump sum financing.
- The lump sum covers all the costs of an ICPC participant, not only personnel and travel, but also equipment consumables and indirect costs.
- Upper funding limits are applied per funding scheme (75%, 100%, etc)

<b>Lump sum contribution per ICPC country income group</b>	
<b>Economy of the ICPC</b>	<b>Contribution (€/researcher/year)</b>
Low income	8,000 €
Lower middle income	9,800 €
Upper middle income	20,700 €



## ICPC special (2)

- **No audit certificates** will be requested. Only a declaration that the money were actually spent.
- The relevant **Time Sheets** should be in place

### Example

- In a 3 year research project , 3 researchers are spending 50% of their time and 3 are working full time.
- Total researcher working years are 3 years x (3+1,5) =13,5
- Lump sum for Low income country is 8000 €/researcher/year
- EC maximum contribution is 75% for Universities, so lump sum funding for the organisation=  $13,5 \times 8000 \text{ €} \times 75\% = \mathbf{81,000 \text{ €}}$



**More info**



## **Guide to Financial Issues**

[ftp://ftp.cordis.europa.eu/pub/fp7/docs/financialguide\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/financialguide_en.pdf)

## **International Cooperation**

[http://cordis.europa.eu/fp7/capacities/international-cooperation\\_en.html](http://cordis.europa.eu/fp7/capacities/international-cooperation_en.html)