

Financial Modalities of the Grant to the Budget in the 6th FP

WORKING DOCUMENT

WORKING GROUP ON FINANCIAL MODALITIES INSTRUMENTS TASK FORCE

1. INTRODUCTION

The grant to the budget will be the main financial instrument in the 6th FP. The modalities described in this paper shall apply to all FP instruments using the grant to the budget regime.

Based on the experience of the 5th and the prior framework programmes, the proposed modalities for the grant to the budget in FP6 intend to maintain proven strengths and to overcome at the same time considerable weaknesses of the past, which had led to major criticism both by participants and by independent evaluators and auditors.

The proposed modalities will help to achieve major overall improvements for the implementation of the European research programmes. They are conceived to fulfill simultaneously three essential criteria:

- **Administrative simplification for both participants and the Commission**
- **Legal security for both the participants and the Commission**
- **Overall financial neutrality compared to FP 5 funding regime**

The proposed modalities for the grant to the budget in FP6 are built on the real cost reimbursement approach, thus allowing to consider the important differences in cost levels amongst participants in different sectors, regions, member states/participating countries.

The actual cost approach will be maintained for personnel costs and costs relating to the specific technical nature of a project. Costs concerned will be itemised and fully taken into account. The proposed modalities will thus guarantee overall financial neutrality and at the same time assure a maximum of legal security for FP 6 participants.

The main simplification consists of introducing a flat rate component for those cost elements, which are not specific to the particular project. Thus it will be simpler both to establish and to verify cost statements of community funded research projects.

This will at the same time reduce substantially inherent risks for errors, which should then lead to better overall performance and less critical audit results.

It should be underlined, that the proposed modalities are largely based on recommendations of the European Court of Auditor's made in the context of the audit of the implementation of FP5.

2. GRANT - DEFINITION

- A grant is a financial contribution of a non-commercial nature by the Community to promote an EU policy aim through an action or project. The grant to the budget in the 6th FP corresponds to a share of the costs necessary for the implementation of the project/action. Any profit margin is to be excluded.

3. COST MODELS – GENERAL PRINCIPLES

- A cost model is the methodology that is applied in order to calculate a contractor's cost for the implementation of a project and, as a consequence, the Community's grant.
- Two cost models¹ - in principle carried forward from FP5, but with considerable modifications and simplifications, are proposed to the participants:
 - ❖ AC (Additional Cost model)
 - ❖ SFC (Simplified Full Cost model)
- The proposed costs models have the following **common principles**:
 - ❖ To be eligible, costs must simultaneously fulfil the following conditions:
 - Be actual², economic and necessary to carry out the project ;
 - Be incurred during the duration of the project (possible exceptions will be mentioned in the contract);
 - Be recorded in the accounts of the participant (or when provided for in the contract, in the accounts of third parties (*resources made available from third parties based on prior agreement*))
 - Exclude non eligible costs, according to the contract (i.e.: any indirect taxes, duties, interest and contribution to profit).
 - ❖ Under both cost models, eligible costs shall be grouped in three categories:
 - **Direct personnel costs**
 - **Other specific project costs**
 - **General costs covered by a flat rate**

¹ It is important to note that for *Integrated Initiatives for Infrastructures* and *Specific Support Actions*, the participants using the SFC model may also use a User Fee (UF) for their activities relating to access to infrastructures.

² As the costs will be justified and certified periodically, some of them will not be actual but estimated. See introduction to point 4.

- ❖ For the different instruments and according to the applicable cost model, the category “General costs covered by a flat rate” is calculated as follows:
 - ◆ Projects, Specific Targeted Research Projects, Specific Research Projects for SMEs, Integrated Initiatives for Infrastructures, some of the Actions to promote human resources and mobility):
 - **For the SFC cost model**, as an amount equal to **80% of the direct personnel costs**;
 - **For the AC cost model**, as an amount equal to **20% of direct personnel costs + other specific project costs (excluding those relating to services)**
 - ◆ For the other instruments (Coordination Actions, Specific Support Actions and the other Actions to promote human resources and mobility):
 - **For the SFC cost model**, as an amount equal to **7,5% of the direct personnel costs + other specific project costs (excluding those relating to services)**
 - **For the AC cost model**, as an amount equal to **7,5% of the direct personnel costs + other specific project costs (excluding those relating to services)**
- ❖ **Cost related to Consortium Management and Training** will be reimbursed at 100%.
- ❖ **Flexibility** shall be given to the projects, so that the real development of the implementation of an action, modified needs, gained experience or changes in market conditions/prices can be taken into account without delays and bureaucratic burdens.

This will mean that transfers between budgeted cost categories and items as well as between participants will be possible without prior approval of the Commission, if those changes are necessary and cost-effective in order to achieve the objectives of the project.

However, it is excluded that any costs, which are covered by the flat rate for general costs, are switched to personnel costs or to other specific project costs.

4. SIMPLIFIED FULL COST – MODEL (SFC)

The simplified full cost model is based on the actual cost principle, with the understanding that:

- due to possible time lag between the moment of reporting costs and the ex-post calculation of actual costs, the contractor is entitled to charge preliminary rates insofar the amounts are adapted to actual rates in the next reporting period,
- an exception on the general principle is made for general costs, which are expressed as a fixed percentage of personnel costs.

The simplified full cost model contains the following three categories of eligible costs: direct personnel cost, other specific project costs and general costs covered by a flat rate.

4.1. Direct personnel costs

- (a) Only the costs relating to actual hours worked by the persons carrying out scientific/technical work may be charged to the contract. Such persons must be under the sole technical supervision of the contractor.
- (b) Direct personnel costs refer in principle to staff directly employed by the contractor in accordance with his national legislation and remunerated in accordance with the normal practices of the contractor.

In addition, costs related to staff seconded by affiliated companies or organisations will be eligible, provided that:

- it is explicitly foreseen in the technical annex by listing the affiliated companies or organisations and
- the contractor is able to justify the personnel costs involved, they are traceable and can be audited by external auditors and/or the Commission services.

- (c) Personnel costs shall comprise the actual costs according to national legislation and labour conventions. It will include gross remuneration, social charges and contributions to pension schemes. Fringe benefits such as rental charges, cars, reimbursements in kind, are excluded.

Personnel costs shall be calculated on the base of the number of hours worked for the project, properly recorded in the contractor's time-recording system.

Labour costs per hour may take into account a flat amount of 10% of unproductive working time.

The annual number of hours charged to the EC project(s) must be consistent with and shall never exceed the contractor's calculated productive hours per year.

4.2. Other specific project costs

Other specific project costs are all substantial items without limitation to determined categories, which are specifically linked with the execution of the project and different from the costs covered by the flat rate for general costs.

Other specific project costs may contain costs for the purchase or the use of specific durable equipment, prototyping, project specific services, and travel & subsistence and any other costs, as soon as they are specific to the project/activity and different from general costs, which are common for RTD work and covered by a flat rate.

Durable equipment will include items usually covered under the cost category "overheads" in the 5th FP, as for example the use of fixed installations like wind-tunnels, clean rooms etc. Depreciation of durable equipment will be based on the

extent (percentage) of use for the project and its expected lifetime as specified in the technical annex of the contract. By default, the assumed lifetime will be 5 years. A different lifetime can be specified in the contract according to the internal accounting rules of the contractor, provided that these rules are sufficiently taking into account the historic cost principle and the actually expected lifetime of the specific equipment. as well as its percentage of use for the benefit of the project.

Prototyping refers to the cost necessary for the construction and fabrication of prototypes.

Services delivered by third parties may be eligible, if they are specifically necessary for the project or activity concerned. This may include the cost for audit certificates.

Travel and Subsistence will be a cost which is a generally recognised specific cost item. Costs will be eligible for necessary travel and subsistence on the base of the usual rules of the contractor.

4.3. General Costs covered by a flat rate

The General costs will be calculated as a fixed percentage of the direct personnel costs.

This fixed percentage will cover all general costs, which are in principle common to all organisations when carrying out necessary work to achieve the objectives of an indirect action, such as:

- costs related to general administration and management (excluding consortium management which is an eligible direct cost)
- use of space (i.e. rent or depreciation) and all related expenditure such as heating, electricity, maintenance, insurance's and safety.
- communication expenses, network charges, postal charges and office supplies;
- logistics for meetings;
- common pieces of equipment such as PC's, laptops, office software;
- costs for the publication of project results, leaflets, production of CD-rom's
- miscellaneous consumables
- other general costs (like insurance fees, costs related to the protection of knowledge etc.)

The "General Costs covered by a flat rate" do not cover costs dedicated to implement tasks of consortium management activities (such as: audit certificates; competitive calls; meetings of the relevant management boards; insurance fees for JSL; running management costs of a legal common structure; project manager or small team of project managers).

5. ADDITIONAL COST MODEL (AC)

The AC model is equally based on the same three categories of cost, i.e. direct personnel costs, other specific project costs and general costs covered by a flat rate.

The particularity and the difference to the SFC model is, that only additional cost will be eligible.

For the different cost categories the particularities will be as follows:

- Direct personnel costs are covering actual costs (gross remuneration and related charges) of additional personnel employed on the project (same specifications as in 5th FP: no permanent staff, only additional staff).
- Other specific project costs: same principles as in SFC model. The need for specificity of costs is consistent with the criteria of additionality.
- General Costs are fixed as a flat rate of 20% on direct personnel costs + other specific project costs (excluding those relating to services) for instruments with an important research activity.

The additional cost model (AC) will be used exclusively by public organisations/ universities and physical persons.

6. DETERMINATION OF THE EC – CONTRIBUTION

The grant to the budget in FP 6 applies to a series of instruments with different provisions as far as the allowed maximum EC co-funding is concerned.

With a view to

- a) the need for substantial administrative simplification,
- b) the particular need to reduce the risk for errors and to assure legal security, and
- c) the provision of a flat rate for general costs

it is intended to make use of the allowed maximum percentages of EC co-funding in the following manner:

❖ For instruments with an important research activity component (Integrated Projects, Specific Targeted Research Projects, Specific Research Projects for SMEs, Integrated Initiatives for Infrastructures, some of the Actions to promote human resources and mobility):

- For the **SFC** cost model: 50% for RTD activities, 35% for demonstration activities, 100% for training activities and 100% for consortium management activities. The costs of the activities are equal to the sum of labour costs + other specific project costs + general costs covered by a flat rate (80% of the labour costs).
- For the **AC** cost model: 100% for all the activities. The costs of the activities are equal to the sum of additional labour costs + other additional specific project costs + additional general costs covered by a flat rate (20% of the additional labour costs + other additional specific project costs (excluding those relating to services)).

- ❖ For the other instruments (Coordination Actions, Specific Support Actions and the other Actions to promote human resources and mobility):
 - For the **SFC** cost model, up to 100% for all the relevant activities. The costs of the activities are equal to the sum of labour costs + other specific project costs + general costs covered by a flat rate (7,5 of the labour costs + other specific project costs excluding those relating to services).
 - For the **AC** cost model, up to 100% for all the relevant activities. The costs of the activities are equal to the sum of additional labour costs + other additional specific project costs + general costs covered by a flat rate (7,5 of the additional labour costs + other additional specific project costs excluding those relating to services).

7. CONCLUSIONS

The new elements of the proposed modalities for the grant to the budget are conceived along three criteria, which are simultaneously fulfilled:

- **Administrative simplification for both participants and the Commission**
 - by applying a flat rate to cover general costs, thus excluding the most complex area of justification and verification of costs in the full cost model under prior FPs
 - by a lump sum component to calculate productive working time, whilst using the actual cost principle for gross remuneration and social charges
 - by abolishing micro-management elements of FP 5 and providing flexibility for budget re-allocation without administrative burden, whilst excluding misuse by strictly applied general principles
- **Legal security for both participants and the Commission**
 - for participants by fixing and pre-defining of a few, but key parameters essential to establish the definitive amount of the grant (flat rate for overhead, lump sum component for productive working time), thus excluding a wide range of potential errors and disputes
 - ex-ante itemising of other specific project costs
 - former overhead components (e.g. for equipment, unproductive working time), leaving so far potentially high appreciation margins to ex-post audits, are in future taken into account by fair and transparent contractual agreement.
- **Overall financial neutrality compared to FP 5 funding regime**
 - by maintaining the actual cost approach for personnel costs and other project specific costs, i.e. for those specific cost elements, where substantial deviations amongst projects and participants are typical

- by providing that other specific project costs will cover also cost elements, which were main sources of substantial variations in the level of overhead rates in the 5th and in prior FPs.

The modalities rely on the actual cost approach, where it is appropriate to take into account project specific type of cost and where there is important variation of cost amongst participants, in particular with respect to deviations of cost levels between different sectors, regions and states (especially personnel cost).

The flat rate for general cost will cover those costs, which occur in all research projects independent from sector or technical specificity.

Under other specific project costs shall be itemised all specific cost elements of a particular research project, especially those for the use of specific technical equipment, by experience the major reason for substantial variations in overhead rates used under the current system in FP5. Thus it will be possible to achieve overall financial neutrality of the FP 6 funding modalities compared to the current system under FP 5.

Thus the proposed modalities are an adequate response to the management challenges for FP6 and they are fair for participants. Overall they will help to improve the effectiveness of the European research programme and help to assure value for taxpayer's money.