

## IGLO “ERA in Action” Workshop National experiences in the preparation of the Full Cost model

### Summary Report of the Workshop

The meeting focussed on the transition from the Additional Cost (AC) model under FP6 to the new full eligible cost regime that will apply to all participants in FP7. The meeting was divided into three parts:

#### **1. Presentations**

The opening presentations showed different models of how institutions calculate their costs:

The **first presenter**, from an academic institution, pointed out three key points to be addressed when progressing to full eligible costs:

- the time for research and for education needs to be separated
- the eligible working hours (“productive hours”) need to be determined
- therefore, the introduction of detailed time sheets is necessary

The issue of personnel costs is central to the transition to the Full Cost (FC) model, as the time permanent staff spends on the project can be charged to the European Commission under this model.

The **second presenter** showed the difficulty of calculating the indirect costs at an academic institution, as overhead rates differ substantially between departments, or even between research groups.

The **third presenter**, from a research centre already using the FC model under FP6, underscored the financial advantage of being able to identify the indirect costs. Indeed, with this system, large overhead rates (close to 100%) can get reimbursed from the European Commission.

The **fourth presenter** pointed at the difficulties that universities can have if they are using a cameralistic (cash-based) accounting system. Such a system might have to be used by the universities according to national or state law and cannot be easily changed. It is the wish of the presenter that systems like the one at his university will be accepted by the European Commission, otherwise this will lead to large problems in certain countries for the participation of universities to FP7.

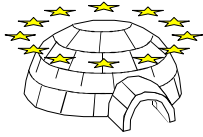
All presentations will be available on the IGLO website shortly ([www.iglortd.org](http://www.iglortd.org))

#### **2. General Discussion**

A **tour de table** amongst the participants showed that most institutions they represent were using the AC model under FP6, except for some research centres using the FP6 FC model. Nearly all institutions that used the AC model will choose the option of the temporary overhead flat-rate of 60% under FP7. Most of these institutions are however working towards the implementation of a simplified method, or of full eligible costs, and hope to introduce the new regime before the flat-rate will most likely go down to 40% in 2010.

Moreover, some countries are introducing accounting systems at national level for their universities. These accounting systems will be submitted to the European Commission for approval after having been certified (“certification of methodology”).

The general discussion was based on questions collected from the audience. The main issues were the following:



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- Can the **time recording** be restricted to the time spent on the project or does it have to encompass all the researcher’s activities?

Some participants would be in favour of just recording the time the researchers spend on the FP project. A complete time recording would represent too much of a “cultural shift” and would not be accepted by the researchers. Other participants argued that complete time recording is necessary for transparency and for an accurate determination of the productive hours. The institutions currently using the FP6 FC model are all using complete time recording.

- Is there a need to **distinguish between education and research** activities? How can this distinction be calculated?

For many universities, it is difficult to distinguish between education and research activities, as they often are intertwined. The time spent on education is sometimes hard to quantify and to record. Most researchers at institutions currently using the FP6 FC model participate only marginally in teaching activities, which makes these more easily quantifiable.

- Are there any guidelines or experiences with the **simplified method of indirect cost calculation**?

No experiences have so far been made with a simplified method of calculation for indirect costs. The guidelines for such methods are likely to be laid out in the Financial Guidelines, which should be published by the European Commission at the end of February. To set up a simplified method of indirect cost calculation allows these institutions to charge indirect costs which come closer to the real figure than the 60% flat-rate. Moreover, the flat-rate is likely to be reduced to 40% in 2010, making the introduction of a simplified method a necessity for most institutions.

- Do the **rates of indirect costs** (overhead) have to be determined at the level of the institution, of the department, of the research group or of the project?

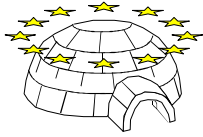
The participants generally agreed that the indirect costs will vary substantially between departments, or even between research groups, and will also be specific to the scientific field (e.g. mathematics vs. nuclear physics). One participant reported of three different overhead rates within a single legal entity; this method was accepted by the European Commission, since it was in accordance with the institution’s accounting practices. For most participants, the best way of calculating the indirect costs seems to be different rates determined at department/institute level.

The level at which indirect costs are determined will also be relevant for the aforementioned simplified method of indirect costs calculation.

### **3. Discussion with European Commission Officials**

Four points emerged from the discussion with the European Commission officials:

- **Time recording:** To claim time of staff spent on FP projects, it is advisable to record the entire time rather than just the time spent on the project. This allows an accurate definition of actual “productive hours” and is in accordance with standard accounting practices. Moreover, the definition has to take into account national laws (labour laws, e.g. maximum work hours in contracts). The definition of actual productive hours is important, because this can allow for a higher hourly rate to be charged to the European Commission (however, the Commission has a rule of thumb of about 1600 productive hours per year). To get the hourly rate, the employment costs of the researcher are divided by the productive hours and the actual hours worked on the project are charged. These productive hours (for research) should include other activities like teaching. Therefore, a full time recording is needed, because it is less prone to



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fraud and has a better chance of passing an audit. Time sheets should be signed at least once a month by the researcher’s superior. Estimates will not be accepted for time recording.

- **Average personnel costs:** According to the Rules for Participation, all institutions are entitled to use average personnel costs if this is the current practice at their institution. However, the system has to be in place already, and would be rather suited for large organisations. Different detailed personnel cost categories have to be defined and normal accounting practices have to be used. The method of calculation has to be certified by an auditor and accepted by the Commission. For this, the part of Form E of the Grant Agreement relating to personnel costs has to be used.
- **Indirect costs (overhead) - Simplified method:** The level at which the overhead rate will have to be determined (institution/department/research group/project) is a matter for the beneficiary and cannot be specified by the European Commission. The simplified method for calculating the overhead can take into account at least different overheads of the departments, if not even a more detailed way of calculation. To use a simplified method, the institution has to prove that they are unable to identify their indirect costs, e.g. that they do not have an full analytical accounting system., or are restricted by law to using cash accounting. The method should be “according to own accounting practices”. To determine the overheads, it will be acceptable to use allocations based on objectively verifiable data (e.g. use of the library could be allocated based on students vs. staff numbers).
- **Certification of methodology:** to go even further, an institution can have its methodology (personnel costs, and overheads) certified by an auditor. If the Commission accepts the institution’s methodology, there will be no need to submit interim audit certificates (even for Community contributions exceeding €375’000) and the cost calculation for personnel and overhead for every FP7 project will be automatically accepted by the European Commission, and verified at the final payment stage.. This “certification of methodology” (full Form E of the Grant Agreement) will most likely be reserved to large institutions participating in many FP7 projects (although the modalities are not defined yet).
- The “simplified method of indirect cost calculation” and the “average personnel cost calculation method” can be used independently, or in combination. **All these methodologies are not leading to a single overhead rate, but rather to a way of calculating this rate,** which will have to be constantly adapted throughout the FP project. All these calculation methods should be based on the **principle of actual costs** and should be well documented. In the words of one of the European Commission officials: “Participants should adopt a reasonable method, based on objective criteria in accordance with the contract, for apportioning costs and keep clear evidence to show how the costs for the project have been apportioned”.

### Further information:

IGLO website: <http://www.iglortd.org> (presentations of the meeting)

CORDIS FP7 website: [http://cordis.europa.eu/fp7/home\\_en.html](http://cordis.europa.eu/fp7/home_en.html) (FP7 documents)

Financial Helpdesk website: <http://www.finance-helpdesk.org/>

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