



THE FIFTH FRAMEWORK PROGRAMME

The Fifth Framework Programme focuses on Community activities in the field of research, technological development and demonstration (RTD) for the period 1998 to 2002

GUIDELINES ON MAJOR FINANCIAL PROVISIONS FOR COST REIMBURSEMENT RESEARCH CONTRACTS (RTD, DEMONSTRATION AND COMBINED PROJECTS)



This document can be downloaded from
URL: <http://www.cordis.lu/fp5/financial-guides.htm>

FOREWORD

Guidelines on major financial provisions - Final Version 30 July, 1999

Purpose of Guidelines

These guidelines have been prepared to help contractors to understand the financial provisions of the cost reimbursement model contract for Shared Cost Actions in the field of Research and Technological Development. Contractors should read the guidelines carefully together with the contract and its annex II.

Scope of the Guidelines

If these guidelines conflict with the provision of the contract (and its annexes), the latter shall prevail. The guidelines apply in general to Euratom contracts but they are not applicable to the European Coal & Steel Community (ECSC) RTD contract. The conditions and eligible costs for the latter are not the same. The Commission will amend these guidelines as necessary. They will be available on www.cordis.lu/fp5/financial-guides.html.

TABLE OF CONTENT

| | |
|---|-----------|
| TABLE OF CONTENT | 3 |
| 1. ACCOUNTING PRINCIPLES..... | 4 |
| 2. AN OVERVIEW OF COST REIMBURSEMENT RESEARCH CONTRACTS..... | 4 |
| 2.1. THE "FULL COST MODEL" | 4 |
| 2.2. THE "ADDITIONAL COST MODEL" | 4 |
| 3. ADVANCE PAYMENTS..... | 5 |
| 4. WHAT ARE ELIGIBLE COSTS?..... | 6 |
| 5. WHAT ARE <u>NOT</u> ELIGIBLE COSTS? | 7 |
| 6. COST CATEGORIES | 8 |
| 6.1. PERSONNEL..... | 8 |
| 6.2. DURABLE EQUIPMENT..... | 10 |
| 6.3. SUBCONTRACTING | 10 |
| 6.4. TRAVEL AND SUBSISTENCE | 10 |
| 6.5. CONSUMABLES | 10 |
| 6.6. COMPUTING | 11 |
| 6.7. INTELLECTUAL PROPERTY RIGHTS | 11 |
| 6.8. OTHER SPECIFIC PROJECT COSTS..... | 12 |
| 6.9. ADMINISTRATIVE AND FINANCIAL COORDINATION | 12 |
| 6.10. OVERHEADS | 12 |
| 7. PUBLIC FINANCE AND AUDIT | 13 |

1. ACCOUNTING PRINCIPLES

All organisations, including universities, must keep proper books of account and supporting documentation to justify any costs they charge.

Documentation should be kept for five years after the completion date of the contract, or longer if an audit procedure has started.

Explanations and justifications, especially concerning the allocation and apportionment of overheads, must be readily available for inspection by the Commission and its authorised representatives, and by the European Court of Auditors.

2. AN OVERVIEW OF COST REIMBURSEMENT RESEARCH CONTRACTS

Each prospective contractor must satisfy the Commission that it will have all the necessary resources as and when needed for carrying out the contract, as required in Article 8 of Council Regulation 1999/65/EC¹.

Research funding is based on cost-sharing contracts. This means that the Commission normally contributes up to 50% (or up to 35% for Demonstration projects) of the eligible costs incurred for the performance of the work defined in the contract. The main Cost Reimbursement Contracts (RTD, demonstration and combined) provide for two models of funding (cost participation basis):

2.1. The "Full Cost Model"

- The "**Full Cost Model**" (**FC**), where the Commission reimburses up to 50% of the total eligible costs. In this model all costs including overheads are based on actual costs and therefore the contractor must be able to identify with precision his direct and indirect costs. Even in this circumstance a contractor may nevertheless opt for the Full Cost Model with fixed overheads below.
- The "**Full Cost Model with Fixed Overheads**" (**FF**), where the Commission reimburses up to 50% of the total eligible costs. In this model overheads are based on a fixed contribution of 80 % of the eligible personnel costs. The contractor must be able to identify with precision his direct costs but cannot identify with precision its indirect costs or opts for the fixed overhead rate.

2.2. The "Additional Cost Model"

- The "**Additional Cost Model**" (**AC**), where the Commission reimburses 100% of the eligible costs incurred that are "additional" to the normal running (recurrent) costs of the

¹ See OJ L 26, 1.2.1999, p.46

contractor. Please note that this Model is applicable only in cases where the contractor cannot identify precisely the Full Costs related to the project.

The **Cost Model** applied by a contractor must be the same for all his cost-sharing research contracts and should apply throughout the Framework Programme. The Commission policy is:

One organisation (legal entity) – one accounting system – one cost-basis.

There are a number of reasons for this policy. The control function in an organisation should be separate from the operational departments. The development of different systems in each department of an organisation would weaken this separation and would inevitably be detrimental to the development of a satisfactory overall system.

3. ADVANCE PAYMENTS

A maximum of 40% of the Commission contribution will be provided as an advance fund to allow work to begin on the project. The advance payment will be recovered over the life of the project.

4. WHAT ARE ELIGIBLE COSTS?

Eligible costs must be **necessary for the project, incurred during its duration**², be determined **in accordance with the accounting principal** based on historic costs and consistent with the usual internal rules of the contractor. They must be **recorded in the accounts** of the contractor no later than the contract completion date and **exclude any profit margin**.

Budgeted costs are used as a guide for establishing a budget proposal. Actual costs should be used where possible on cost statements. It may also be acceptable to apply budgeted costs as long as they are adjusted to actual costs once the financial year is closed and actual rates are calculated. If there is a difference between actual and budgeted costs they must be indicated in the next cost statement as an adjustment.

Eligible costs shall be presented in the cost statements under the following headings:

- **Direct Costs**

1. Personnel
2. Durable equipment
3. Subcontracting
4. Travel and subsistence
5. Consumables
6. Computing
7. Intellectual property rights
8. Other specific project costs
9. Administrative and financial co-ordination

- **Indirect Costs**

10. Overheads

² Costs relating to the drawing up of the final report may be allowed if incurred by the co-ordinator within a maximum of two months after the end of the project (see Article 22.1 of Annex II). Also, durable equipment may be purchased or leased within the 6 months prior to the commencement date of the contract. Another exception is permitted (by Article 23.2 of Annex II) for equipment used for a previous contract with the Community for which the depreciation period has not been exceeded.

5. **WHAT ARE NOT ELIGIBLE COSTS?**

Costs calculated in accordance with other conventions e.g. "current costs", "notional rents", "opportunity costs", etc. are not eligible. Therefore, no notional costs should be charged, e.g. in respect of revaluation of buildings or capital equipment, estimated or imputed interest, estimated rentals, etc.

Other costs, which are not eligible, include in particular:

- "return on capital employed", including dividends and other distributions of profits
- provisions for possible future losses or charges
- costs related to any interest
- provisions for doubtful debts
- resources made available to a contractor free of charge
- value of contributions in kind
- unnecessary or ill-considered expenses
- marketing, sales and distribution costs for products and services
- indirect taxes and duties, including VAT³
- entertainment or hospitality expenses except such reasonable expenses as are wholly and exclusively necessary for carrying out the work under the contract
- any cost incurred or reimbursed in particular in respect of another Community, international or national project or internal not funded project
- internally own funded research
- costs of acquiring background information (pre existing know-how) for carrying out the contract.
- leasing costs (or part thereof) where the leasing arrangement has the effect of unnecessarily increasing the charge made to the project (e.g. where the cost without interest of the leased equipment is higher than if purchased).

³ VAT is not an eligible cost. Contractors should refer to national legislation.

6. COST CATEGORIES

6.1. PERSONNEL

For contractors using the "Full Cost" model

Personnel

- The costs (e.g. remuneration, pensions and other employment costs) of the hours directly spent on the project by scientific and technical personnel.
- The cost of “work contracts” where the person engaged on such a contract is a user of the overheads of the contractor. A “work contract” should fulfil the following criteria:
 - The work performed must be under the sole technical supervision of and at the premises of the contractor.
 - The contractor must have rights related to the ownership, exploitation and dissemination of the results, which are obtained from the work contract.
 - The work contract must be "economical" and not increase unnecessarily the cost of the project. If the employment on a work contract of a former employee increases the cost of the project, then the prior approval of the Commission must be requested.
- For the project co-ordinator: The costs of administrative personnel in charge of the administrative and financial co-ordination of the project (which are not included in the indirect costs). The costs of all other administrative support should be included in overheads.

Personnel Costs are calculated as follows:

The following three elements must be known in order to calculate the total personnel costs which can be charged to the project:

- a) **Number of hours to be charged** can only be determined from time records. The time records should be signed by the person doing the work and certified at least once a month by the contractor as provided for in the contract. Estimates of hours worked are not allowable.
- b) **Remuneration costs** charged should be taken from the payroll account and should be the total gross remuneration plus the employer's portion of social charges (e.g. holiday pay, pension contributions, health insurance and social security payments). Remuneration costs can be calculated individually for each

researcher or as an average by category of staff (the method should fairly represent actual labour costs).

In the case of “work contracts”, the costs excluding VAT, should be taken from the invoice received for the work performed. Invoices should indicate the project on which the persons have worked, the tasks carried out and the hours spent.

- c) **Productive time** is the total hours worked, excluding holidays, personal time, sick leave, or other allowances. In order to obtain an hourly rate, the salary costs must be divided by the productive time. Total productive hours can be obtained either on the basis of actual hours recorded in time sheets or on the basis of standard hours. In the latter they should represent the total workable hours based on the contract of employment less a provision for non-chargeable time such as holiday and sick leave (these must correspond to the actual situation of the contractor).

There are two overriding matters with regard to productive time:

- The time charged out by the participant should not exceed the productive time. Otherwise a participant would recover more than his actual personnel costs.
- On average, the Commission considers a figure of about 210 days per full-time employee per year to be reasonable. If the contractor uses a lower figure it may indicate that surplus staff have been charged to the project.

As a general rule, no overtime should be charged to Commission projects. In exceptional cases, overtime may be considered if this element has been taken into account in the calculation of the total productive hours.

For contractors using the "Additional Costs" model

The contract does not allow the cost of the personnel permanently employed on a full-time basis and paid from the participant's normal recurrent funds. Only the **additional** actual employment cost (gross remuneration, grants, etc.) of the scientific and technical personnel expressly engaged to carry out work under externally funded contracts is allowed. The costs of supplementary contracts, which seek to increase the publicly declared hours worked and the salaries of employees, are not eligible.

6.2. DURABLE EQUIPMENT

Durable equipment charged to the contract must be specifically required for the project, have an expected life equal to or greater than the duration of the work under the contract and must be capitalised in the books of the contractor according to the national accounting rules. Depreciation can be calculated on equipment which has been purchased after the commencement date of the contract or within the preceding six months or under a previous Commission RTD contract if the depreciation period has not already expired. For prototypes or manufactured equipment see Point 8 below.

Durable equipment costs are charged to the project by means of depreciation calculations as defined in the contract (Article 23.2 of Annex II).

6.3. SUBCONTRACTING

A copy of the invoice from each subcontractor (making reference to the project and providing a detailed description of the tasks or supply concerned), certified by the contractor, must be submitted to the Commission with the corresponding cost statement. Supporting documentation should be kept in the contractor's files and provided to the Commission if requested.

Subcontracts which cumulatively exceed 20% of the relevant contractor's estimated eligible costs or which exceed €100,000 are subject to prior written agreement of the Commission, unless sufficient details of the subcontracts have been included in Annex I of the relevant contract. In addition, subcontracts with entities located in a third country require EC approval (unless the contractor is also based in one of those countries).

Where it is necessary to set up affiliated or subsidiary companies then the relationship between these companies and the contractor must be based on good business practice. If there is a conflict of interest the Commission should be notified.

6.4. TRAVEL AND SUBSISTENCE

Contractors are requested to provide the actual cost for travel and subsistence outside the EU, Associated States or a third country where a contractor is established, unless such a destination is provided for in Annex I of the contract. The analysis of these costs with the supporting documentation should be kept in the contractor's files and provided to the Commission if requested. See Article 23.2 of Annex II of the contract.

6.5. CONSUMABLES

Consumables shall relate to the purchase, fabrication, repair or use of any materials, goods or equipment and software which:

- Does not have a life expectancy greater than the duration of the work under the contract;
- Are not placed in the inventory of durable equipment of the contractor;
- Are not treated as capital expenditure in accordance with the accounting conventions and policies of the contractor.

This category of costs covers access rights or licences for software but does NOT include office supplies, mailing, utilities, etc. which are covered in the overheads category. No direct charge shall be made for consumables where it is the usual practice of the contractor to include these costs in actual overheads.

6.6. COMPUTING

Computing costs may be charged as a direct cost where:

- The contractor can provide a detailed justification of these costs.
- A computer cost centre exists in which all the computer costs (direct and indirect) are recorded.
- A computer register is maintained which can substantiate the total usage of the computer service charged to the projects.

Without these three fundamental sources of information, it is not possible to calculate an acceptable chargeable computer rate. Otherwise computer costs should be included in overheads.

No direct charge shall be made for computing costs where it is the usual practice of the contractor to include these in actual overheads.

6.7. INTELLECTUAL PROPERTY RIGHTS

The costs associated with protecting knowledge generated during the life of the project can be charged to the project with the prior approval of the Commission. Fees for legal counsel will only be considered if an application has been filed for the granting of an industrial property right. There is a limitation on the EC contribution to fees for legal counsel of € 4,000 per industrial property right. The amount identified for protection of knowledge requires the approval of the Commission and should be negotiated at the time of creation of the contract. However, it may be possible to obtain EC approval during the life of the project for IPR protection costs if savings can be found from other cost categories.

The amount agreed for this category of cost can be transferred to another contractor for the protection of knowledge but cannot be used for any other purpose (i.e. no transfer between cost categories). The contribution is lost if at the end of the project the amount estimated for protection of knowledge has not been used by one of the contractors during the life of the project.

Where costs arise after the end of the project for the protection of intellectual property generated during the project there is a possibility to apply to the Commission for assistance.

Further information is available on www.cordis.lu/ipr-helpdesk.

6.8. OTHER SPECIFIC PROJECT COSTS

All other specific project costs, which cannot be included under the previous classifications of direct costs, may only be charged either with the prior written approval of the Commission or alternatively if these costs were foreseen in Annex I to the contract. These costs include such items, as creation of prototypes, seminars, workshops, conferences and charges for financial guarantees required by the Commission, etc.

6.9. ADMINISTRATIVE AND FINANCIAL COORDINATION

The Co-ordinator can charge to the contract the costs of administrative and financial co-ordination of the project. These costs may be charged directly or be included in overheads. If they are charged directly, then the same rules for the specific cost headings of other direct costs (i.e. personnel, travel, consumables, etc.) apply.

Where co-ordinators sub-contract administrative and financial co-ordination the related costs may not be charged as direct costs. They must be included in the overhead charged to the Commission. The sub-contracting of financial co-ordination does not relieve the co-ordinator of the responsibility to ensure the security and proper management of the Commission's contribution to the project.

Where possible, a co-ordinator outside the Euro zone should not transfer into his national currency that part of the Commissions contribution, which he must subsequently pay to contractors who are within the Euro zone. The maintenance of an Euro account for this purpose is recommended as the simplest way to avoid excessive bank charges.

6.10. OVERHEADS

For contractors using the “Full Cost” actual overheads model

Overheads should include all the indirect general costs necessary for carrying out the project under the contract.

Eligible overhead costs are those incurred to employ, manage, accommodate and support the productive personnel performing the work of the project.

Overhead costs must be:

- Eligible costs
- Reasonable and capable of verification, i.e. based on factual elements which can be proven by the contractor and verified by the Commission (for example global assumptions or existing commercial practice statements, or any other unsupported statements will not be accepted).
- Not included under direct costs

The following principles should also be respected:

- Overheads must in accordance to normal accounting conventions of the contractor.
- Overhead should be extracted from or reconciled with the official accounts
- Overheads which do not relate to EC research should not be included in overheads for EC-funded projects

Different methods and keys may be used for the distribution of overheads. However, no subjective or arbitrary keys can be accepted.

For contractors using the "Full Cost" fixed overheads model

A lump sum (which is not subject to audit) in respect of the overheads is fixed at 80% of the eligible personnel costs. The possibility exists for the payment of lump sum lower than 80%, if dictated by the contractor's internal rules.

For contractors using the "Additional Cost" model

To recover indirect costs, contractors may charge a lump sum (not subject to audit) of 20% of the eligible costs charged for personnel, equipment, travel and subsistence, consumables, computing, protection of knowledge, other specific project costs and administrative and financial co ordination. Direct costs of subcontracting should not be included in the calculation. The possibility exists for the payment of a lump sum lower than 20% if dictated by the contractor's internal rules.

7. PUBLIC FINANCE AND AUDIT

The Commission is committed to ensuring that its disbursements of public finance conform to the highest standards of financial management. To ensure that this is the case audits of contractor's records are provided for in the contract. Contractors will be selected for audit on an objective basis.

These Guidelines will highlight problems identified during audits or elsewhere during the 5th Framework Programme. In consequence it will be possible for contractors to make adjustments to their accounting systems where it is necessary.

In time the Guidelines will also seek to address "frequently asked questions" as a further assistance to contractors.