



FP7 rules of participation & financial guidelines

Tbilisi, 6-8/5/2009

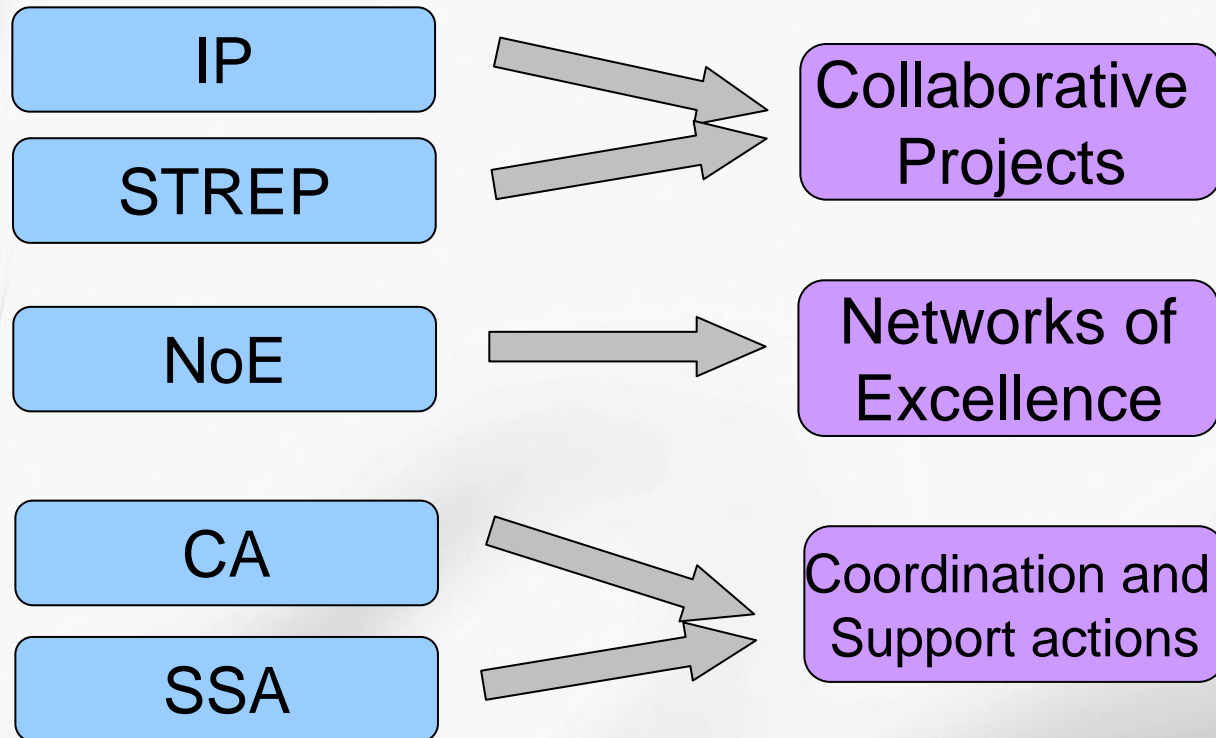


Funding Schemes (for indirect actions)

- Collaborative projects
- Networks of Excellence
- Coordination and Support Actions
- Research for the Benefit of Specific Groups
- Support for Frontier Research (ERC)
- Support for Training and Career Development of Researchers (Marie Curie)



Funding Schemes FP6–FP7



FP6
Instruments

FP7
Funding Schemes



Funding Schemes (1)

Collaborative projects

- Trans-national consortia
- New knowledge, technology, products or common resources for research
- Size, scope and internal organisation of projects can vary
- Small or medium-scale focused research projects / Large-scale integrating projects (Distinction made on budget – this distinction is also an eligibility criterion)



Funding Schemes (2)

Networks of Excellence

- Joint programmes by organisations integrating activities in a given field
- Longer term co-operation
- Formal commitment to integrate resources



Funding Schemes (3)

Coordination and support actions

- Networking, exchanges, trans-national access to research infrastructures, studies, conferences, etc.

Individual projects

- (Basic research via ERC – “Ideas” SP)

Training and career development of researchers

Research for the benefit of specific groups

- (in particular SMEs such as CRAFT – Feasibility Aw. reintroduced)

(Generally based on calls for proposals)



Other funding schemes

Joint technology Initiatives (large scale programmes/ projects of major European public interest)

ERA-NET/ ERA-NET PLUS (coordination of non-Community Research Programmes)

Risk sharing Finance Facility (through the European Investment Bank)



Minimum conditions for participation (1)

General:

- 3 independent participants from 3 different Member States (MS) or Associated countries (Ac)
- Natural persons may participate
- JRC may participate and is deemed to be from a different MS or AC (same principles for international European interest organisations and entities established under Community law)
- Additional conditions can be established by the work programme (WP) or specific programme (SP) (e.g. number or type of participant, place of establishment)
- Sole participants composed of members that meet the criteria above can participate



Minimum conditions for participation (2)

Specific:

- Frontier research actions (ERC): – at least 1 legal entity established in a MS or AC
- Coordination and support actions and actions in favour of training and career development of researchers – minimum of 1 legal entity (except actions to coordinate)
- Collaborative projects addressing the participation of international cooperation partner countries (ICPC) – minimum is 4 participants of which 2 in MS or Ac and 2 in ICPC countries unless otherwise foreseen in work programme.
- Participation of international organisations and participants from third countries possible if in addition to minima



New terminology

FP6 vs FP7

- “Contract” becomes “Grant Agreement”
- “Contractor” becomes “Beneficiary”
- “Instruments” become “Funding Schemes”
- “Audit certificate” becomes “Certificate on Financial Statement”
- Under eligible costs-‘necessary’ replaced with ‘used solely to achieve project objectives’
- INCO becomes “ICPC (International Cooperation Partner Country)”



Implementation and grant agreements

- Participants implement work jointly and severally towards the Community and carry out work of a defaulting partner unless the Commission relieves them of that obligation.
- But: no more financial collective responsibility \neq FP6
- Instead: establishment of a participant guarantee fund to cover risks.
- If implementation of the project is impossible or participants fail to implement it, the Commission shall ensure termination.
- Consortium agreements obligatory unless exempted by call for proposals
- Changes in consortium membership possible



Eligibility for funding

- Legal entities from MS and AC or created under Community law (and JRC)
- International European interest organisations
- Legal entities established in international cooperation partner countries (ICPC)

and

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



Forms of grants

- Reimbursement of eligible costs as the preferred method, particularly at the beginning of FP7
- Lump sum amounts, in particular as option for participants from ICPC (see next slides). Also for Marie-Curie actions and possibly for NoEs.
- Combination possible (will be used for ERANET-PLUS)
- Determination of forms of grants to be used in the work programmes and calls for proposals

Principle of co-financing and no profit



Reimbursement of eligible costs

- No cost models
- Possible “options” are:
 - % of all eligible direct and indirect costs (**actual overhead**)
 - % of all eligible direct costs with a simplified indirect cost rate (**simplified method**)
 - % of all eligible direct costs with flat rate for indirect costs



Eligible costs

Eligible

- actual*
- during duration of project
- in accordance with its usual accounting and management principles
- recorded in the accounts of beneficiary
- used for the sole purpose of achieving the objectives of the project
- = eligible direct + eligible indirect costs

*Average personnel costs may be accepted

Identifiable indirect taxes including VAT...are non eligible



Examples of 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)
- 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



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 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: $(26/60) \times €600,000 \times 25\% = € 65,000$



AC Model disappeared

NEW IN FP7

- Under FP7, there are no cost reporting models. FC, FCF and AC Models disappear
- Consequently, all costs of personnel working on a project may be eligible (no more difference between additional staff and permanent staff).



Third party contribution and subcontracts

Third parties carrying part of the work

- Subcontracts: tasks have to be indicated in Annex I
- Specific cases: EEIG, JRU, affiliates carry out part of the work (special clause)

Third parties making available resources

- “Third parties”: to be indicated in Annex I,
- Costs may be claimed by the beneficiary
- Resources “free of charge” may be considered as receipts



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



Indirect costs (1)

- Indirect costs, also called overheads, are all those eligible costs which cannot be identified by the beneficiary as being directly attributed to the project, but 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.
- All the structural and support costs of an administrative, technical and logistical nature 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



Indirect costs (2)

- The nature of an indirect cost is such that it is not possible, or at least not feasible, to measure directly how much of the cost is attributable to a single cost objective.
- Hiring or depreciation of buildings, water/ gas/ electricity, maintenance, insurance, supplies and petty office equipment, communication and connection costs, postage and costs connected with horizontal services such as administrative and financial management, human resources, training, legal advice, documentation, etc



Indirect costs (3)

For all:

- actual overhead or simplified method
- flat rate of 20% of direct costs minus subcontracting and 3rd parties not used on the premises of the beneficiary.

For Non profit Public Bodies, Secondary and Higher Education establishments, Research Organisations and SMEs unable to identify real indirect costs, flat rate of 60% for funding schemes with RTD.

After 2010 the flat rate will decrease to 40% (or close to 40%). Many Universities throughout Europe prepare themselves for applying actual overhead system

- For CSA: reimbursement of indirect eligible costs limited to 7% of direct costs
- For Marie-Curie actions a flat rate of 10% of direct costs



Indirect costs (4)

Actual indirect cost

- Beneficiaries which have an analytical accounting system that can identify and group their indirect costs in accordance with the eligibility criteria (e.g. exclude non-eligible 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.
- Whatever the method of calculation is, it must be in accordance with normal accounting practices and should be extracted from or reconciled with the official accounts.

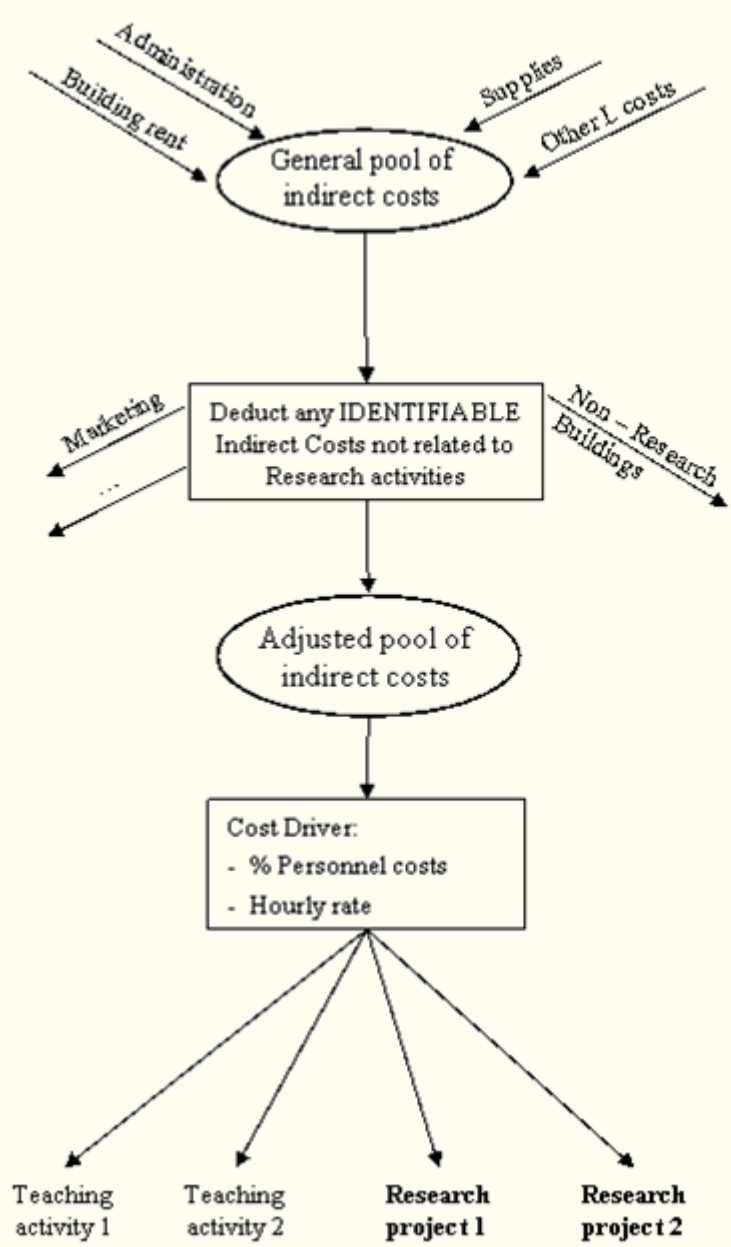


Indirect costs (5)

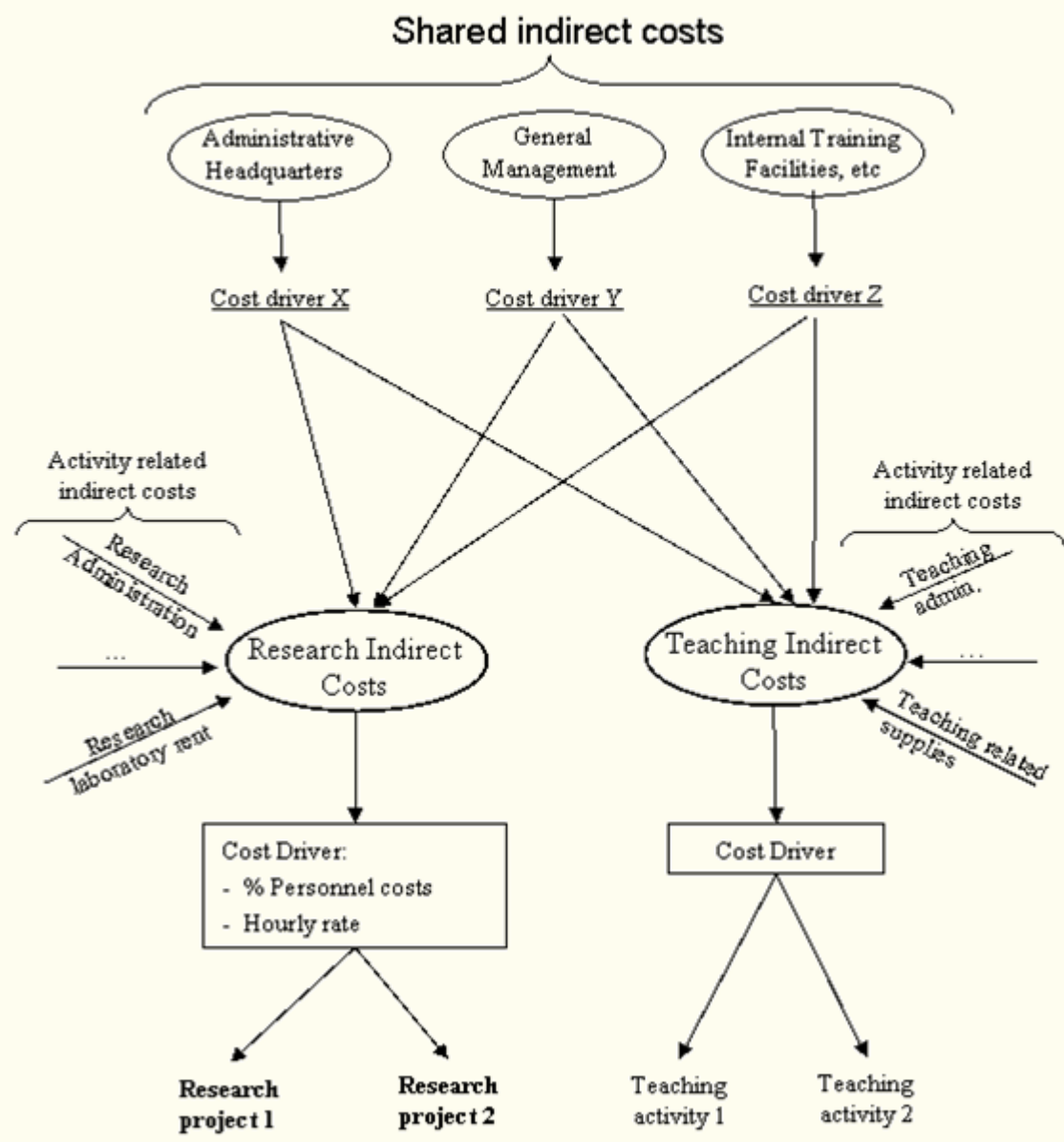
Simplified method

- A participant may use a simplified method to calculate its indirect costs at the level of the legal entity (taking into account all types of activities) if this is in accordance with its usual management and accounting principles
- In the absence of analytical accounting
- Requisites:
 - Be able to identify costs: in order to remove non-eligible costs
 - Be able to allocate them per project at the level of the legal entity
- Why this new approach?
to introduce a way to facilitate the transition from the Additional Cost model (abolished) towards the declaration of actual indirect costs

Simplified Method



Analytical system





Indirect costs (6)

- However possibility to “improve”: from a “flat rate” to “simplified” or analytical accounting system
- Single model of indirect costs declaration per beneficiary in FP7
- Exception: Special clause foreseen for one legal entity with departments/faculties with different accounting capabilities
- An organisation which used the FC model under FP6 is presumed to be in situation to be able to identify the real indirect costs and allocate them to the projects.



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%



Receipts

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



Maximum funding rates (1)

- Reimbursement according to the type of organisation, of action and/ or activity



Maximum funding rates (2)

- **Research and technological activities: up to 50% of eligible costs except for:**
 - Public bodies: up to 75%
 - Secondary and higher education establishments: up to 75%
 - Research organisations (non-profit): up to 75%
 - SMEs: up to 75%
 - Security related research for highly reliable capabilities with impact on security of European citizens and targeted to a limited number of public users: up to 75%.



Types of organisation

- Public body means any legal entity established as such by national law, and international organisations;
- Research organisation means a legal entity established as a non profit organisation which carries out research or technological development as one of its main objectives.
- Higher and secondary education establishments = Term used by Financial Regulation / Implementing Rules, includes universities, schools for applied sciences and similar.
- SMEs mean micro, small and medium-sized enterprises within the meaning of Recommendation 2003/361/EC in the version of 6 May 2003 (OJ L 124, 20.5.2003, p. 36).



Maximum funding rates (3)

- Demonstration activities: up to 50%
- Other activities: up to 100% including e.g. Management
- Frontier research actions: up to 100%
- Coordination and support actions: up to 100%
- Training and career development of researchers actions: up to 100%



“Other” activities

- Dissemination (website, presentation in conferences, drafting of scientific publications, etc)
- Networking
- Meetings for coordination
- Protection of IPRs
- Studies related to the exploitation of research results
- Management costs (not scientific coordination). No ceiling of 7% of the EC contribution for management costs
- Training activities (including cost of trainers not the cost of the trainees)



Summary of reimbursement rate

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% (****)

(*) Research and technological development includes operational activities directly related to the protection of foreground and coordination of research activities.

(**) Other activities means any "specific activity" covered by Annex I.

(***) For *beneficiaries* that are non profit public bodies, secondary and higher education establishments, research organisations and SMEs

(****) The reimbursement of indirect eligible costs, in the case of coordination and support actions, may reach a maximum 7% of the direct eligible costs, excluding the direct eligible costs for subcontracting and the costs of reimbursement of resources made available by third parties which are not used on the premises of the beneficiary.



Example budget (1)

General funding calculation example for a **university**

Activity	Direct Eligible Costs	Indirect Eligible Costs (60%)	Total Eligible Costs	Funding Rate (%)	Funding
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
TOTAL	400,000	240,000	640,000	N/A	500,000



Example budget (2)

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

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



Example: 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.		



Example with receipts

- 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
Otherwise: reduction of EC contribution

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



Payment modalities (1)

- Only one pre-financing (upon entry into force) for the whole duration. The pre-financing will include the amount to be transferred to the Guarantee fund (5% of total)
- Interim payments based on financial statements (payment = cost accepted * funding rate)
- Retention (10%)
- Final payment



Payment modalities example

Project duration 3 years, EU funding 3 m€

- Pre-financing (average EU funding 1m€/year, usually 160%) = 1,6m€
- 1st Interim payment 1m€ accepted, payment 1m€
- 2nd Interim payment 1m€ accepted, payment 0,1m€ (because of retention 10%)
- Final payment 0,3m€ (retention 10%)



Certification (1)

Certificate on financial statements (CFS)

- Mandatory for beneficiaries when its requested funding reaches 375,000 Euro (except for project of 2 years or less: CFS submitted at the end)
- If the EC funding for a beneficiary in a project does not reach the threshold, no obligation of CFS (not even at the end)
- If above the threshold, mandatory for every beneficiary, except if a certification on the methodology is provided



Certification (2)

Certificate on the methodology (NEW)

- Aims at certifying the methodology of calculating (average) personnel costs and overhead rates
- Valid throughout FP7, on a voluntary basis, must be accepted by EC
- Particularly aimed at legal entities with multiple participation

Consequences:

- Waives the obligation of certificates for interim payments
- Simplified certificate for final payments
- *Only 1 organisation in Europe has already a certificate on methodology....! (march 2009). Apparently the issue is not so important and the target population is limited.*



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.



Transfer of budget

- Transfer of budget between beneficiaries and categories of costs allowed without amendments if work carried out as foreseen in Annex I.
- In case of doubt about the need for an amendment to the GA, check with 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)

Lump sum contribution per ICPC country income group	
Economy of the ICPC	Contribution (€/researcher/year)
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
- The contribution for the ICPC participants is agreed as a budget during the negotiations, based on the lump sums approved by the Commission
- Their work is defined in Annex 1 together with the other participants. Payments are reported based on actual effort involved.
- Payments are released based on periodic reporting (as for all participants) but ICPC beneficiaries only have to report on the time devoted to the project and not on the costs incurred.



ICPC : Example

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 x 8000 € x 75% = **81,000 €**