Training for NCPs in H2020

09/10/2016 Center of International Projects
Chişinău, Moldova

Building a budget... and a bit of financial reporting

The Brussels Enterprise Agency
NCP Academy – Partner

At Proposal Stage
Why the proposal budget is important

- Grant agreement signed
- Estimated budget
- Pre-financing
- « Action » (Project) realised with actual costs
- Technical & financial reporting (interim & final)
- Control & possibly audit
- Final grant amount

Actual grant is based on the actual costs
Pre-payments do not guarantee final grant amount

of grant reduction → involve bookkeeping, top & financial mngt

Final grant amount can be reduced

- If less actual eligible costs than budgeted
  (If more actual eligible costs than budgeted: total capped)
- To ensure the non-profit rule
  - Income generated by the project
  - Financial or in-kind contributions given by third parties for the project
- If improper implementation / breach of other obligations
  - Technical analysis by the EC: work performed vs activities defined in project
  - Financial analysis by the EC (and external audit): financial rules

At proposal stage: make good estimates
Rule 1: reimbursement rates

- Grant = x% of project budget
  Consider co-financing

  + 1 flat rate for indirect costs (25%)

'innovation action' means an action primarily consisting of activities directly aiming at producing plans and arrangements or designs for new, altered or improved products, processes or services... may include prototyping, testing, demonstrating, piloting, large-scale product validation and market replication

<table>
<thead>
<tr>
<th>Max reimbursement rate</th>
<th>All types of legal entities</th>
<th>Non-profit organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research &amp; Innovation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Innovation</td>
<td>70%</td>
<td>100%</td>
</tr>
</tbody>
</table>

‘Non-profit’: by its legal form or with a legal or statutory obligation not to distribute profits to its shareholders or individual members

Rule 2: eligible costs MUST be cumulatively...

- Actually incurred (REAL, not estimated, budgeted, imputed)
- Incurred during the project duration
  Except costs for drafting and submitting final report
- Entered as eligible costs in the estimated budget under the relevant budget category
  (request for amendment)
- Connected and essential to the project
- Identifiable and verifiable
  Except indirect costs
- According to the national accounting rules and beneficiary’s usual accounting practice
- Comply with national laws on taxes, labour and social security
- Sound financial management, economy and efficiency
Attention: ineligible costs include

- Costs related to drafting the consortium agreement
- Costs for equipment bought before the project start and already fully depreciated
- Costs related to preparing, submitting and negotiating the proposal
- Currency exchange losses, bank costs for transfers from the EC to the beneficiary’s bank, interest owed, provisions for future losses, debt service charge...
- Deductible VAT (i.e. beneficiary can recover it)

If the VAT is not deductible, it is an eligible cost ≠ FP7

A little bit of flexibility

- Transfer of amounts between beneficiaries or between budget categories possible without Amendment
  IF the action is implemented as defined in Annex 1
  EXCEPT
  - Lump sums
  - Additional sub-contract

- Changes affecting the technical work (« tasks ») require Amendment to the Grant Agreement (via Coordinator to the Project Officer of the EC)

At proposal stage: understand & apply the right categories of costs
How to estimate the budget

- Define the work packages & tasks for each beneficiary

  Essential role of coordinator

  Negotiation between potential partners

- « Best guess » ALL costs needed to conduct the project

- Check which costs are eligible

- Find co-funding sources (possibly own funding)

- **No** double funding

- **No** profit

  At the level of the project (NOT for each beneficiary) ≠ FP7

  of disagreement between Partners and/or budget excess

  → **at proposal**: strict planning exercise led by the Project Coordinator

  (consult, propose, consolidate, decide, inform)

Up to 6 categories of costs

**Most common**

- Direct personnel costs

- Sub-contracting costs

- Other direct costs

- Indirect costs

  Only if option applies (see work programme)

- Costs for providing fin. support to third parties (cascading grants)

- Specific categories of costs

**At proposal stage: foresee and claim each cost ONCE only**

Ex: durable equipment costs considered as indirect costs by beneficiary’s usual practice can not be claimed as other direct cost
Main rules

Personnel costs

- Define and stick to **ONE calculation of productive hours** (Option 1: 1720h/year)
- Calculate hourly rate based on **personnel costs of last closed financial year** and number of productive hours
- Keep records of hours spent/person/WP/task (**signed Time Sheets**)
- **Special cases**: in-house consultants & SME owner without a salary
- Temporary workforce is NOT personnel cost but Other direct cost

Other direct costs

Sub-contracting (tasks)

- Select by **fair, transparent and efficient process**
- Ensure « **best value for money** » or if appropriate « **lowest price** » and avoid conflicts of interest
- **KEEP** original supporting docs
- (Sub-)Contractors can also be audited -> ensure this clause is included in your contracts

Indirect cost

- Calculated as **25% * (Personnel costs + Other direct costs)**
- **NO** supporting docs

Direct personnel costs

- **Employees**: salaries, social security, taxes, other remuneration from national law/employment contract

- **Personnel temporary transferred from third party** IF the beneficiary reimburses the costs (« seconded personnel »)

- Non-profit legal entities: « bonus » up to 8,000 € IF beneficiary’s usual practice

  - **In-house consultants**: natural persons working under a direct contract with the beneficiary IF under beneficiary’s instructions, in its premises, costs not significantly different than employees
  - **SME owners not receiving a salary**
  
  fixed unit cost defined by EC per country
Direct personnel cost calculation

- **Cost / person** = hourly rate * nb hours worked by that person on the action
  
  \[ \text{Ex 32,50 €/h} \times 600 \text{ h} = 23,100, - € \]

- **Hourly rate** = actual annual personnel cost / nb annual productive hours
  
  BY LAST CLOSED FINANCIAL YEAR ≠ FP7
  
  \[ \text{Ex 55,900 €/year} \div 1,720 \text{ hours} = 32,50 \text{ €/h} \]

- **NEW calculation option**
  
  Hourly rate = actual MONTHLY personnel cost / nb annual productive hours / 12

- Annual productive hours
  
  - Option 1: **1.720 fixed hours full time** (pro rata for part time)
  
  - Option 2: **individual annual productive hours**
    
    workable + overtime – absences for that person

  - Option 3: **standard annual productive hours**
    
    workable + overtime – non-productive for all/a category of personnel

Direct personnel cost calculation

- **Option 2:** example **individual annual productive hours**
  
  Researcher X
  
  Workable h = 365 d – 104 d (Sat & Sun) - 20 d (annual leave) – 10 d (public holiday) = 231 d @ 8 h/d = 1,848 h

  Productive h = 1.848 h (workable) – 35 h (overtime) – 40 h (sick leave 5 d) = 1,773 h

  Researcher Y
  
  Productive h = 1.848 h (workable) – 20 h (overtime) – 16 h (sick leave 2 d) = 1,812 h

- **Option 3:** **standard annual productive hours**
  
  Ex research center A
  
  Workable h = 365 d – 104 d (Sat & Sun) – 20 d (annual leave) – 10 d (public holiday) = 231 d @ 8 h/d = 1,848 h

  Productive h = 231 d (working) – 3 d (average sick leave) – 4 d (average general training) – 8 d (other unproductive activities) = 216 d * 8 h = 1,728 h

  Workable CAN NOT BE lower than 90% standard

**Options 2 & 3 available ONLY IF consistently applied (all personnel, accounting practice) AND supported by evidence (labour contract, collective labour agreement, national law...)**
### Subcontracting or other direct costs?

<table>
<thead>
<tr>
<th><strong>Subcontracting</strong></th>
<th><strong>Other direct costs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of action tasks i.e. Third Party will execute part of the research/innovation tasks instead of Beneficiary (ex Task 3.4)</td>
<td>Buying goods and services, such as Travel/subsistence costs, depreciation costs of equipment, cost for renting or leasing equipment (pro rata % and time used), consumables, dissemination material, protection of results, catering, renting of meeting rooms…</td>
</tr>
<tr>
<td><strong>Must be indicated in Annex 1</strong> NO subcontracting/invoicing between Partners</td>
<td>Cost of purchasing equipment ONLY if in work programme</td>
</tr>
</tbody>
</table>

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### At proposal stage

- **Subcontracting**
  - Need to mention what will be subcontracted
  - Limited portion of all tasks
  - NO subcontracting of Coordination tasks
  - No need to mention them by name

- **Other direct costs**
  - Coordinator can suggest averages values for all Partners
    - ex 1 travel unit = 600 €
  - In relation with actual effort and fair for all
    - ex WP leaders travel more than Tasks leaders
Indirect costs

Covers « overhead » costs of the Beneficiary

• Flat rate 25% of eligible direct costs excluding direct costs of subcontracting

One unique method for calculating indirect costs ≠ FP7

<table>
<thead>
<tr>
<th>Project budget</th>
<th>Direct cost</th>
<th>Indirect cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel cost [€]</td>
<td>800,000</td>
<td>800,000*0.25 = 200,000</td>
</tr>
<tr>
<td>Subcontracting [€]</td>
<td>60,000</td>
<td>0</td>
</tr>
<tr>
<td>Other direct costs [€]</td>
<td>100,000</td>
<td>100,000*0.25 = 25,000</td>
</tr>
</tbody>
</table>

Estimate the budget & EC contribution

Total personnel cost
Total subcontracting
Total other direct costs
Total indirect cost (calcul.)

→ Total budget
→ Total EC contribution = total budget * remboursement rate/participant
Fill in Administrative Forms – Section 3

3 - Budget for the proposal

- Fill in all items in white (zero if not relevant)
- Items in grey = calculated automatically

Fill in technical proposal § 3.4

- “Resources to be committed”
- Coherence is ESSENTIAL
  - Budget figures should be the same as in Admin Form
  - Personnel should be the same as in detailed Work Package description (Tables 3.1a & 3.1b)
- Table 3.4a: number of persons.months required
- Table 3.4b: other direct costs for all participants where “other direct costs” > 15% personnel costs

Ask someone who did not write the proposal to do the last check (more chances to spot inconsistencies)
At execution stage

WHY?
The importance of continuous monitoring

**MONITORING** is fundamental!

- To keep track of

  ✓ **TIMING**
  - Activities
  - Deliverables
  - Milestones

  ✓ **PARTNERS**

  ✓ **BUDGET**

  ✓ **IMPACT**

- To quickly respond to any shift (**RISK MANAGEMENT**) 

→ **REPORTING**!
**WHY ? Tools for internal monitoring process**

Activities done in the project’s lifetime  
Person months used  
Overall budget spent

- Coordinator
- WP leader
- Task leader
- Project partners

Each partner is responsible for own tasks  
Coordinator may ask more frequent reporting than EC

**WHAT ? internal monitoring: person months**

Internal tools to monitor the TIME spent on the projects → **TIMESHEETS**

<table>
<thead>
<tr>
<th>Date</th>
<th>Month</th>
<th>Day</th>
<th>Code Project</th>
<th>WP</th>
<th>Task</th>
<th>No Hours</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 March</td>
<td>Thursday</td>
<td>100.1</td>
<td>WP 2</td>
<td></td>
<td>Brokerage event</td>
<td>1</td>
<td>Skype call w/ task partners</td>
</tr>
<tr>
<td>19 March</td>
<td>Thursday</td>
<td>95.1</td>
<td>WP 5</td>
<td></td>
<td>Social media promotion</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>4 August</td>
<td>Tuesday</td>
<td>78.6</td>
<td>WP 3</td>
<td></td>
<td>Contribution to newsletter/website</td>
<td>2</td>
<td>Draft article + promotion</td>
</tr>
<tr>
<td>4 August</td>
<td>Tuesday</td>
<td>100.1</td>
<td>WP 3</td>
<td></td>
<td>Partner search</td>
<td>3.5</td>
<td>Draft profile</td>
</tr>
<tr>
<td>4 August</td>
<td>Tuesday</td>
<td>100.1</td>
<td>WP 4</td>
<td></td>
<td>Reporting</td>
<td>0.75</td>
<td></td>
</tr>
</tbody>
</table>
WHAT? Internal monitoring: Budget

Coordinate w/ HR and the Accountants:

- Modifications in the personnel
- Support in collecting information on TS of other employees
- Support in calculating PM based on real hourly rate

!!! Keeping track on a constant basis will simplify the filling of the Financial Report!!!

At execution stage
Schedule

- Continuous reporting module
- Periodic reporting module

Financial reporting

- Periodic financial report contains:
  - Individual financial statement (Annex 4), an explanation on the use of resources, Periodic summary financial statement (= request for interim payment)

Must be submitted within 60 days after the end of a reporting period!

Summary financial statement
- Formerly FORM C
- Filled out by each beneficiary individually via Participant Portal
- Electronic approval and submission by the FSIGN (role in PP)
- Summary Financial report is created automatically
Individual Financial Statement:
same structure as budget

Reporting staff costs

Triple dimension
- Person: total eligible costs (hourly rate) * number of hours spent
- Institution: method of calculation of hourly rate
- Project: breakdown / WP
Reporting other direct costs

- If < 15% of claimed personnel costs for that period:
  Minor costs → no explanation needed

- If ≥ 15% of claimed personnel costs for that period:
  Major costs items need to be explained in the reporting (to a level that the remaining costs are < 15%) “As per Description of Action DoA”

Final financial reporting

- **Final financial** report
  NO correction afterwards!

- If EU contribution ≥ 325,000,- euros (actual + unit costs):
  provide a Certificate on the financial statement (CFS)
  → External auditor (usually)
  → Independent from the beneficiary
  → Qualified to carry out statutory audits of accounting documents (in accordance with national legislation implementing the Directive on statutory audits of annual accounts and consolidated accounts)
  → Beneficiary is free to choose the external auditor

Must be submitted within 60 days after the end of the project!
Currency of financial report

- All **reporting must be done in €**
- Beneficiaries with account in € use their own usual practices to convert
- Beneficiaries without account in € use daily euro exchange rate is published in the C series of the Official Journal of the European Union
  

  If no daily rate: use monthly using the average of the monthly accounting rates over the corresponding reporting period, using the currency converter on the Commission’s website

  http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm