



European
Commission

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H2020 Financial issues

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**REA B5 - Spreading Excellence and Widening
Participation**

Research Executive Agency

*Research
Executive
Agency*

Horizon 2020 financial issues

- One set of rules for all actions, introduction of simplification measures:
 - Electronic submission of periodic/final reports, amendments
 - Reduced number of cost categories, reimbursement rates, indirect costs type, CFS
 - Wider acceptance of accounting practices of the beneficiary
 - Shorter delay for financial audit after the final payment
 - Confirmation of effective measures foreseen in FP7 (guarantee fund)

Budget transfers in H2020

- *Underspent budget can be transferred to another category*
- *Action to be implemented as described in Annex I*
- *If the change is significant an amendment to the GA is needed*
- *No transfer of lump sums*

Tip:

- *Contact the REA in order to discuss the typology and impact of change*

Some novelties and simplifications

- **Financial viability** (systematic check for coordinators when requested EU funding for the **action** is \geq EUR 500 000)

Tip: also in case of change of coordinator FVC is needed

- **Certificate on the financial statements**- only for **final payments** when total EU contribution claimed by the beneficiary on the basis of actual costs + unit costs for average personnel \geq EUR 325.000 (excluding e.g. flat rates)

Tip: ensure that independent auditors follow the template and guide on CFS

- **Certificate on the methodology:** Optional for average personnel costs (now under unit costs)

- * *Eligible Direct Costs/Indirect costs*
- * *Ineligible costs*
- * *Reporting & Payments*
- * *Cost Declaration*
- * *Third Parties/Linked Third Parties*
- * *Relevant Articles of the AGA*

ELIGIBLE COSTS



- *Actually incurred by the beneficiary*
- *Incurred during the action*
- *Connected to the action*
- *Identifiable and verifiable (accounting)*
- *In compliance with national law*
- *Reasonable, financially sound*

Tips:

1. *Be transparent*
2. *Treat all costs as you usually do in your business practice*
3. *Check for exceptions beforehand (PO, FO, ANGA)*

Personnel costs

- **Wider acceptance of average personnel costs**
- **Acceptance of supplementary payments**

for non-profit organisations of up to 8000 euros/year/person

- **Simplifying participation for SMEs**
- **Less requirements for time records**

Tips:

1. Rely on your usual accounting practices
2. Record hours devoted to the project

Subcontracting

- ✓ *Identified in annex I as action task*
- ✓ *Subcontract not foreseen in Annex I is in principle not eligible*
- ✓ *Based on business conditions*
- ✓ *Best value for money (no specific procedure)*
- ✓ *No supervision of the beneficiary*
- ✓ *Subcontractor has no rights vis-à-vis the EC/EAs, but can be audited*

Tips:

- *Discuss in advance with REA's staff about subcontracting not foreseen in Annex I*

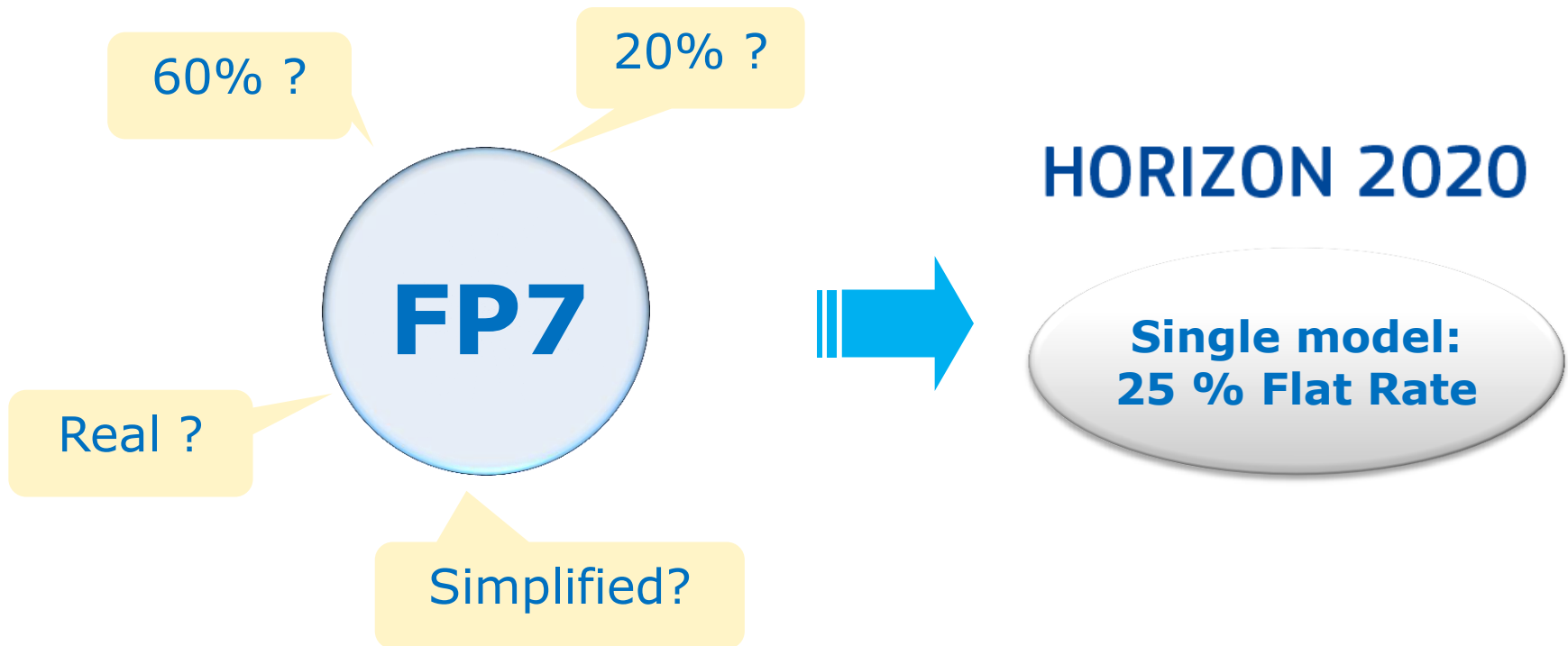
Other direct costs

- *Travel costs and subsistence allowance*
- *Equipment costs*
- *Consumables*
- *Dissemination costs*
- *CFS (!)*
- *Translation costs*
- *IPR costs*
- *Others*

Tips:

1. *Justify the main cost items included in this category*
2. *Stick to what you included in Annex I*

Single indirect cost model



INELIGIBLE COSTS



- *Identifiable taxes and duties*
- *Deductible VAT*
- *Interest owed*
- *Provisions for possible future losses/charges*
- *Exchange losses*
- *Bank charges*
- *Excessive or reckless expenditure*
- *Costs reimbursed in respect of any other EU project*
- *Others*

Tips:

1. *Discuss in advance with REA's staff any doubt about eligibility*
2. *Non-deductible VAT is an eligible cost (new!)*

REPORTING & PAYMENTS



- Payments will be made to the **coordinator** to the **bank account** established in the grant agreement
- Coordinator must distribute the payments to the beneficiaries without **unjustified delay**
- The coordinator will inform about the **distribution of the payments**: if the Commission/Agency requires it, in the event of a recovery at payment of the balance, if the participation of a beneficiary is terminated
- If the Commission/Agency does not pay within the deadline, the beneficiaries are entitled to a **late-payment interest**

REPORTING & PAYMENTS – Types of Payments



(ART 21)



One *pre-financing*



One or several *interim payments*



One *payment of the balance*

REPORTING & PAYMENTS – At the signature of the Grant

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One *pre-financing payment*

When

- Within 30 days from the signature of the grant or 10 days before the starting date, whichever is latest

How much

- Usually = maximum grant amount / number of periods
- Retention 5 % of maximum grant for Guarantee Fund

Characteristics

- It remains the property of the EU until the payment of the balance

REPORTING & PAYMENTS – After the end of



each interim period

Periodic report

⇒ submitted by coordinator 60 days after end of reporting period

Periodic Technical Report

- ✓ explanation of the work carried out
- ✓ overview of progress (milestones and deliverables)
- ✓ summary for publication
- ✓ plan for the exploitation and dissemination of results
(if required)
- ✓ answers to the questionnaire

Periodic Financial Report

- ✓ Financial Statement (individual & summary)
- ✓ Explanation of the use of the resources



An interim payment

When

- 90 days from reception of periodic reports

How much

- EU contribution corresponding to the eligible costs incurred in the reporting period
- Limit = 90 % of the maximum grant amount

Characteristics

- Ineligible costs will be rejected and not taken into account for the payment

REPORTING & PAYMENTS - After the end of the last reporting period



Final report

⇒ submitted by coordinator 60 days after end of last reporting period

In addition to the periodic report

Final Technical Report

- ✓ Summary for publication, containing:
- ❖ overview of results and their exploitation & dissemination
- ❖ conclusions of the action and its socioeconomic impact

Final Financial Report

- ✓ Summary Financial Statement
- ✓ Certificate on Financial Statement (if needed)

REPORTING & PAYMENTS –

After the end of the last reporting period

A payment of the balance

When

- 90 days from reception of final reports

How much

- Reimburses the remaining part of the eligible cost incurred
- Includes the release of the Guarantee Fund (GF)

Characteristics

- **If Σ payments made < final grant amount**
: *payment*
- **If Σ payments made > final grant amount**
: *recovery* → first by offsetting with GF released, if not enough, by a recovery order
- If applicable: receipts & reduction of the grant will be taken into account to determine the final grant amount

REPORTING & PAYMENTS – Reminders for the Financial Reports



- The reports must be in the language of the agreement: generally **English**
- The financial reports must be **in €**
- **Linked third parties** fill in a separate financial statement but only their beneficiaries can encode it in the IT system
- Don't forget to submit the **Certificate on the financial statements** (for beneficiaries and/or the linked third parties), if needed
 - * as part of the final report
 - * when total EU contribution claimed by the beneficiary on the basis of actual costs + unit costs for average personnel \geq EUR 325.000 (excluding e.g. flat rates !)



- Interim payments and payments of the balance are usually small given the fact that pre-financing is consistent and EU keeps 10% retention in any case
- REA has 90 days to pay from the submission of reports, late interest applies

Tips:

1. Timely delivery and quality of reports are key to speed up the payment process
2. If a financial/scientific report is missing or difficult to obtain consult your PO



- *It aims at covering the financial risks during the implementation of the project.*
- *Intervenes*
 - if a beneficiary does not reimburse any requested amount to the consortium or to the REA and
 - if the consortium accepts to continue the project at the same conditions without this beneficiary
- *An equivalent amount will be transferred to the coordinator to allow for the continuation of the project.*

Tips:

1. *Inform immediately the REA about possible financial risks*
2. *Keep track precisely about how the pre-financing and the EU funds have been distributed among the beneficiaries*

COST DECLARATION – Financial Statements



(Annex 4)

			Eligible costs (per budget category)								Receipts	EU contribution			Additional information		
			A. Direct personnel costs		B. Direct costs of subcontracting	[C. Direct costs of fin. support]		D. Other direct costs		E. Indirect costs	Total costs	Receipts	Reimbursement rate %	Maximum EU contribution	Requested EU contribution	Information for indirect costs:	
			A.1 Employees (or equivalent)	A.4 SME owners without salary				D.1 Travel	[D.4 Costs of large research infrastructure]			Receipts of the action, to be reported in the last reporting period, according to Article 5.3.3				Costs of in-kind contributions not used on premises	
			A.2 Natural persons under direct contract					A.5 Beneficiaries that are natural persons without salary									D.2 Equipment
			A.3 Seconded persons														
			[A.6 Personnel for providing access to research infrastructure]							Flat-rate 25%							
Benef. N°	Organisation Short Name	Fin. Stat. Type	Actual a	Unit Total b	No hours	Unit Total c	Actual d	Actual [e]	Actual f	Actual [g]	h=0.25x (a+b+c+f+[g]-o)	j= a+b+c+d+[e]+f+[g]+h	k	l	m	n	o



Cost categories where more details needed for "use of resources"

Personnel : actual or unit costs

- Number of PM broken down per WP
- Amounts and description if in kind contribution from third parties

Subcontracting : actual costs paid for subcontracts (usually in Annex 1) + Third parties – in kind contribution not used on the premises (Art 11&12 + Annex 1)

- Breakdown of total + explanation + if foreseen in Annex 1
- Details to be provided if not foreseen

→ explicit approval from the PO is required during the payment process (no need to process amendment before approving)

Other direct costs : actual incurred for

Travel & subsistence, Equipment, Costs of other goods and services, Costs of large research infrastructures

- Explanation needed if amount > 15% of personnel
 - Cost, description, WP, if foreseen in Annex 1, explanation if not
- Amounts and description if in kind contribution from TP

Direct costs of Fin Support to TP (Art. 15 + Annex 1)

- Breakdown per item in cost & description

Indirect costs : flat rate

- 25 % flat rate applied to total eligible direct costs minus:
 - sub-contracting
 - in-kind contributions incurred by third parties outside of the beneficiary's premises
 - costs of providing financial support to third parties (if option applies)
 - costs from specific cost categories that include indirect costs
(Article 6.2.e option d) applies to the GA)

Receipts

- ⇒ **Only to be declared in Final Reporting Period (or if beneficiary termination)**
- ⇒ **No-profit rule applied at project level (not per beneficiary) @ Payment of balance**
 - Final grant amount + \sum receipts \leq Total eligible costs of the action

⇒ What is a **third party**?

↳ A legal entity which carries out work of the action, supplies goods or provides services for the action, but which did not sign the grant agreement

⇒ What types of third parties?

1. Third parties directly **carrying out part of the work** described in Annex 1
2. Other third parties **providing resources, goods or services** to the beneficiaries for them to carry out the work described in Annex 1
3. Third parties **receiving financial support** (money) from the beneficiary as part of the action. Only when authorised in the call

THIRD PARTIES– Overview of Types



Types of third parties	CHARACTERISTICS						
	Does work of the action	Provides resources or services	What is eligible?	Must be indicated in Annex 1	Indirect costs	Selecting the third party	Articles
Linked third party	YES	NO	Costs	YES	YES	Must be affiliated or have a legal link	Article 14
Subcontractors	YES	NO	Price	YES	NO	Best value for money, avoid conflict of interest	Article 13
Third party providing in-kind contributions	NO	YES	Costs	YES	YES	Not used to circumvent the rules	Articles 11 and 12
Contractors	NO	YES	Price	NO	YES	Best value for money, avoid conflict of interest	Article 10
Financial support to third parties	Only if allowed in the call The beneficiaries' activity consists in providing financial support to the target population			YES	NO	According to the conditions in Annex 1	Article 15

... carrying out work in the action

Linked third parties

- Affiliated entities
- Third parties with a legal link

- Identified in the GA – **Article 14**
- Same cost eligibility criteria as beneficiaries
- Third parties send own signed Financial Statements to beneficiary
- Beneficiary responsible for submitting their + linked 3rd party FS to Coordinator via IT tool
- Beneficiary to keep signed Form C of third party with their project records



HORIZON 2020

**Thank you very much
for your attention!**

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Find out more:

www.ec.europa.eu/research/horizon2020

HORIZON 2020

Articles of the AGA regulating Financial Issues

Article 6 :

Eligible and Ineligible Costs

➤ **General Conditions**

➤ **Actual costs**

- Incurred by the beneficiary
- Incurred during the action duration
- Entered as eligible costs in the GA-Annex 2, under the relevant budget category
*** if not → they have been approved by the PO***
- Connected to the action
- Identifiable and verifiable
- In compliance with applicable national laws on taxes, labour and social security
- **Reasonable, justified** and must comply with the principles of sound financial management,

➤ **Flat rates**

- Right calculation: Flat rate applied to certain costs (i.e. actual costs excluding subcontracting)

➤ **Lump sums**

- Amount specified as lump sum in the GA-Annex 2
- **Work has been carried out**

Article 18 :

Keeping records – supporting documentation

- Description and that records must be kept for **five years after PoB** (3 years for LVG)
- Certificate on the methodology (COMUC) - optional for average personnel costs (Annex 6)

Article 19 :

Submission of deliverables

- Continuous reporting

Article 20 :

Reporting – Payment requests

- Deadline for submission of reports **60 days** after the end of the reporting period
- Periodic reporting requirements – technical & financial (Annex 4)
- Final reporting requirements – including CFS

Article 21 : Payments

- Deadline for payments: **90 days** after first submission (subject to approval of reports)
- If reports incomplete – Session back to coordinator → Suspension of the payment deadline

⇒ **Calculations:**

Interim Payments

- Based on financial statements (EU contribution= eligible costs approved * reimbursement rate)
- Limit = 90 % of the maximum grant (Retention 10%)

Payment of the Balance (4 steps)

- Step 1 → Based on financial statements (EU contribution= eligible costs approved * reimbursement rate)
- Step 2 → Limit to maximum grant (Article 5.1) - *minimum*
- Step 3 → Reduction due to the no-profit rule (deduction if : Step 2 + \sum Receipts – total eligible costs > 0)
- Step 4 → Reduction due to improper implementation or breach of other GA obligations @ PoB

Final Grant amount ⇒ Min | Step 3 | ; | Step 4 |

Article 22 : Checks, Reviews, Audits and Investigations, Extension of Findings

- *Project Monitoring : checks and reviews*
- *Emphasis on accountability of beneficiaries & ex-post audits*
 - AGA with many examples & explanations
 - Harmonised templates for periodic reporting available
- *Additional controls limited – targeted/risk based approach*

Articles Chapter 6 (1)

- **ARTICLE 42 – Rejection of ineligible costs**
 - linked to a reporting period – must be communicated in the payment letter with 30 days for observations
 - after the PoB – Recovery of undue amount (Article 44) with pre-information letter
- **ARTICLE 44 – Recovery of undue amount**
 - For example – negative PoB
- pre-information letter
- full or partial recover of contribution to the guarantee fund
- **ARTICLE 47 – suspension of payment deadline**
 - Formal notification if request for payment cannot be approved

Articles Chapter 6 (2)

Further information in future training/info sessions

- **ARTICLE 43 – Reduction of the grant**
 - improper implementation/breach of obligations
 - may occur at PoB or after with pre-information letter

- **ARTICLE 48 — Suspension of Payments**
 - Suspicion of substantial errors, irregularities, fraud or serious breach of obligations
 - Contradictory procedure before suspending a payment