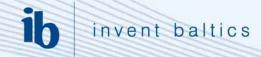


Finance in FP7 and budget construction



Project types in FP7

- Collaborative Projects (CP) aimed at research and development
 - Small or medium scale focused research actions (1-4 MEuro funding, 5-10 partners, 2-3 years)
 - Large-scale projects (4-25 MEuro funding, 10-20 participants, 3-5 years)
- Networks of Excellence (NoE) aimed at integration of research activities/capacities
 - Support the long-term integration of research resources and capacities
- Coordination and Support Actions (CSA) aimed at supporting collaboration, coordination & other activities (e.g. conferences and studies)
 - Coordination Action CA
 - Support Action SA



Instruments - Comparison

Instrument	Purpose	Primary deliverable
Collaborative project (large)	research	knowledge
NoE	tackle fragmentation	Structuring, new projects
Collaborative project small	research	knowledge
CA	co-ordination	co-ordination, new projects
CSA	support	Support, new projects

Activity types in FP7 projects

- Research and technological development activities
- Demonstration activities (prototype design and assembly; test bench validation; pre-certification for testing purpose - proving the viability of new technologies
- Other activities management activities, training, coordination, networking and dissemination (including publications)



Funding limits

- For **research and technological development activities**, the *Community financial contribution* may reach a maximum of 50% of the total eligible costs.
 - However, for *beneficiaries* that are *non-profit public bodies*, secondary and higher education establishments, *research organisations* and *SMEs*, the rate may reach a maximum of 75% of the total eligible costs. If these *beneficiaries* change their status during the life of the *project*, this reimbursement rate shall be applicable up to the moment they lose their status.
- For **demonstration activities**, the *Community financial contribution* may reach a maximum of 50% of the total eligible costs.
- For other activities not covered by paragraphs 1 and 2, management activities, training, coordination, networking and *dissemination* (including publications), the contribution may reach a maximum of 100% of the total eligible costs.



Comparison

Activity type	Large company	non-profit public bodies, secondary and higher education establishments, research organisations	SME
R&D	50 %	75 %	75 %
Demonstration	35 %	50 %	50 %
Other	100 %	100 %	100 %

Direct and indirect costs in a budget

- Direct costs are cost associated with the main activities of the organization
- Indirect costs are costs that support the implementation of the main activities
- Personnel directly employed by the contractor
- Materials/consumables
- Equipment Depreciation (durable equipment)
- Travel
- Participation fees
- Subcontracting avoid when possible
- Management cost
- Etc.



Eligible direct cost

- must be actual, economic and necessary for the implementation of the project; and
- must be determined in accordance with the usual accounting principles of each participant; and
- must be incurred within the duration of the project (unless otherwise specified in the contract); and
- must be recorded in the accounts of the participant that incurred them; and
- must exclude any identifiable indirect taxes (e.g. VAT), interest owed, costes incurred in respect of other projects etc.



Example: software and services company

- Direct costs:
- Cost of R&D personnel
- Cost of the sales & marketing department
- Cost of Services department
- Total cost = 500,000 Euro

Indirect costs:

- Cost of management, finance and administration personnel
- Cost of support services
- Eligible overhead costs excluding payroll
 - Electricity
 - Equipment
 - Rent of facilities
 - Communication
- Total cost = 150,000 Euro

Direct	Indirect	Overhead percentage
500,000	150,000	30%
ib invent baltics	Overhead rate indirect costs fr	for FP7 project: percentage of om direct costs

Cost models

- In FP7 cost models are used just to determine the rate of indirect cost for different organizations
 - Direct costs are cost associated with the main activities of the organization
 - Indirect costs are costs that support the implementation of the main activities
- Can your organization distinguish between direct and indirect cost on a project bases? Do you have a analytical accounting system?



Yes, we can distinguish our indirect cost

Actual indirect cost

 Beneficiaries which have an analytical accounting system that can identify and group their indirect costs (pool of 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.

Simplified method

 The simplified method is a way of declaring indirect costs which applies to organizations which do not aggregate their indirect costs at a detailed level (centre, department), but can aggregate their indirect costs at the level of the legal entity.

• Flat rate of 20 %

 flat rate is open to any beneficiary whatever the accounting system it uses. Accordingly, when this option is chosen, there is no need for certification of the indirect costs, only of the direct ones.



No, we cannot distinguish our indirect cost

• Flat rate of 20%

 flat rate is open to any beneficiary whatever the accounting system it uses. Accordingly, when this option is chosen, there is no need for certification of the indirect costs, only of the direct ones.

• Special Transition Flat Rate of 60 %

 Non profit public bodies, secondary and higher education establishments, research organisations and SMEs unable to identify their real indirect costs for the project, may opt for a flat-rate of 60% when participating in projects which include research and technological development and demonstration activities Applies to organizations that used AC cost model in FP6

Lump sums for International Cooperation Partner Countries (ICPC)



Actual indirect cost

- Will be calculated from personnel cost (usually)
- Has to be certified by an auditor
- Will reflect your real indirect cost
- Can be 100 % or even more
- Has to be able to identify their indirect cost at detailed level of the organization – centre, department, faculty), which is engaged in the project
- Has to have "fair driver" to allocate overheads for different projects



Simplified method

- Does not have to certified, can be based on the accounting reports of the company or institutions
- Accounting system has to be to identify its direct ineligible costs
- Has to have "fair driver" to allocate overheads for different projects number of productive hours.
- Example 1 fair driver = productive hours
- Total overheads of the organization 10 000 Euros
- Total number of hours worked at the level of the legal entity 2000
- Hourly overhead rate: 10 000 / 2 000 = 5
- Project 1: 600 hours 600 X 5 = 3000 Euros of indirect cost
- Project 2: 400 hours 400 X 5 = 2000 Euros of indirect cost
- Project 3: 1000 hours 1000 X 5 = 5000 Euros of indirect cost



Simplified method

- Example 2 fair driver = percentage from personnel cost
- Total overheads of the organization 10 000 Euros
- Personnel cost at the level of the legal entity 100 000
- Overhead rate: 10 000 / 100 000 = 0,1 (10%)
- Project 1: personnel cost (30 000) → 30 000 X 0,1 = 3000 Euros
- Project 2: personnel cost (20 000) → 20 000 X 0,1 = 2000 Euros



Special Transition Flat Rate of 60 %

- Non profit public bodies, secondary and higher education establishments, research organizations and SMEs unable to identify their real indirect costs for the project, may opt for a flatrate of 60% when participating in projects which include research and technological development and demonstration activities
- In reality to universities and public bodies not for SMEs
- To organizations that used AC cost model in FP6
- Rate will reduce to 40 % for projects that start after 2010



Lump sums for International Cooperation Partner Countries (ICPC)

- ICPC beneficiaries when participating in an FP7 GA have got the option between being reimbursed on the basis of eligible costs or on the basis of lump-sums.
- For a legal entity established in an ICPC, if the lump sum option is chosen, the contribution in a project is based on the amounts of full time people working in the project.
- The cost for a full time person is specified.



Lump sums for International Cooperation Partner Countries (ICPC)

- The maximum EC contribution is calculated by applying the upper funding limits of different activities (RTD, demonstration, management)
- This amount for a lump sum is all inclusive, covering support towards both the direct and the indirect costs.
- In other words, the lump sum is deemed to cover all costs of a participant from an ICPC country, including not only the costs of personnel and travel, but also, among others, equipment, consumables, subcontracts and indirect costs.



Salary levels

Table 1: Lump sum contribution per country income group

Economy of the ICPC	Contribution (EUR/researcher/year)
low-income	8,000
lower middle income	9,800
upper middle income	20,700

Lower middle income – Moldova; Belarus, Ukraine

Russia – upper middle income

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Example

- SME from ICPC country (low-income) having chosen a lump-sum, in a 3-year collaborative project GA with 6 researchers working on the project full-time and 3 working part-time at 50%
- Total researcher-years for the project: 3 years x 7.5 researchers/year= 22.5
- Funding for the SME: 22.5 researcher/year x EUR 8,000 /year= EUR 180,000 x 0,75 (75% reimbursement rate for an SME in a collaborative project)= EUR 135,000



Eligible Direct Costs / Non-Eligible Direct Costs

- Personnel directly employed by the contractor
- Materials/consumables
- Equipment Depreciation (durable equipment)
- Travel
- Participation fees
- Subcontracting avoid when possible
- Management cost
- Etc.

- Any identifiable indirect taxes, including VAT
- Interest owed
- Provision for possible future losses or charges
- Exchange losses
- Costs declared, incurred or reimbursed in respect of another Community project
- Debt and debt service charges
- Excessive or reckless expenditure



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Subcontracts

- Services which are not normally carried out by the contractor in the project
- Intellectual property rights to be with the contractor not the subcontractor
- Based on competitive tender
- Selection on basis of the best value for quality of service
- Core elements of projects, like **research and management** cannot be subcontracted
- Larger subcontracts have to be described in Annex I to the contract



Budget elements

- Project type the size of the budget
- Activity type funding rate of the activity, level of EU contribution
- Person-month rate budget size, EU contribution
- Cost model rate of indirect cost, budget size
- Eligible costs budget content
 - Personnel
 - Travel
 - Subcontracting
 - Subcontracting



Personnel cost

- 80 % of the projects budget is allocated to personnel cost lacksquare
- Personnel cost derives from the number of person-month allocated to the partner and the person-month rate of the partner
- Person-month rate should take into account different personnel categories working under the project and their respective effort

	Montly cost	Percent of the project total effort	Cost for this project
Professor	10000	10 %	1000
Senior reseracher	6000	20 %	1200
Engineer	4000	30 %	1200
PhD student	2000	40 %	800
Person-month rate for the	4200		



Budget content - Personnel cost

University (4200 EUR)	Person- month	Personnel cost (person month X person month rate)	Overhead – special transition flat rate (60 %)	EU contrib utio n (%)	EU contribution
Research and Development	40	168000	100800	75%	201600
Demonstration	0	0	0	50%	0
Management	10	42000	25200	100%	67200
Other	2	8400	5040	100%	13440
Total	52	218400	131040		282240



Difference with a flat rate – 70560 EUR

University (4200 EUR)	Person- month	Personnel cost (person month X person month rate)	Overhead - flat rate (20 %)	EU Contributio n (%)	EU contribution
Reserach and Developme nt	40	168000	33600	75%	151200
Demonstrat ion	0	0	0	50%	0
Manageme nt	10	42000	8400	100%	50400
Other	2	8400	1680	100%	10080
Total	52	218400	43680		211680

Person-month/rate/overhead

Participant number	1	2	3	4	5
Participant short name	APPRISE	INRIA	ТКК	KTH	WEBGATE
Overhead rate	20%	91%	60%	60%	20%
Derson months rote					
Person-months rate (without indirect costs)	5000	5308	5495	5000	4 000
TOTAL man-months for					
management	10	0,5	0,5	0,5	0,5
TOTAL man-months for					
R&D	31	32	30,5	31	25,5



Budget content

- Travel cost
 - PMB meetings / technical meetings every 6 month
 - Participation at conferences, workshops, dissemination meetings
 - Review meetings after each reporting period
- Equipment and Consumables (depending from the nature of the project)
- Subcontracting
 - Subcontracting expenses for PMB meetings (faclilities, meals)
 - Subcontrcting expenses for technical meetings
 - Subcontracting Website/ Consortium Agreement preparation
 - Subcontracting of audit



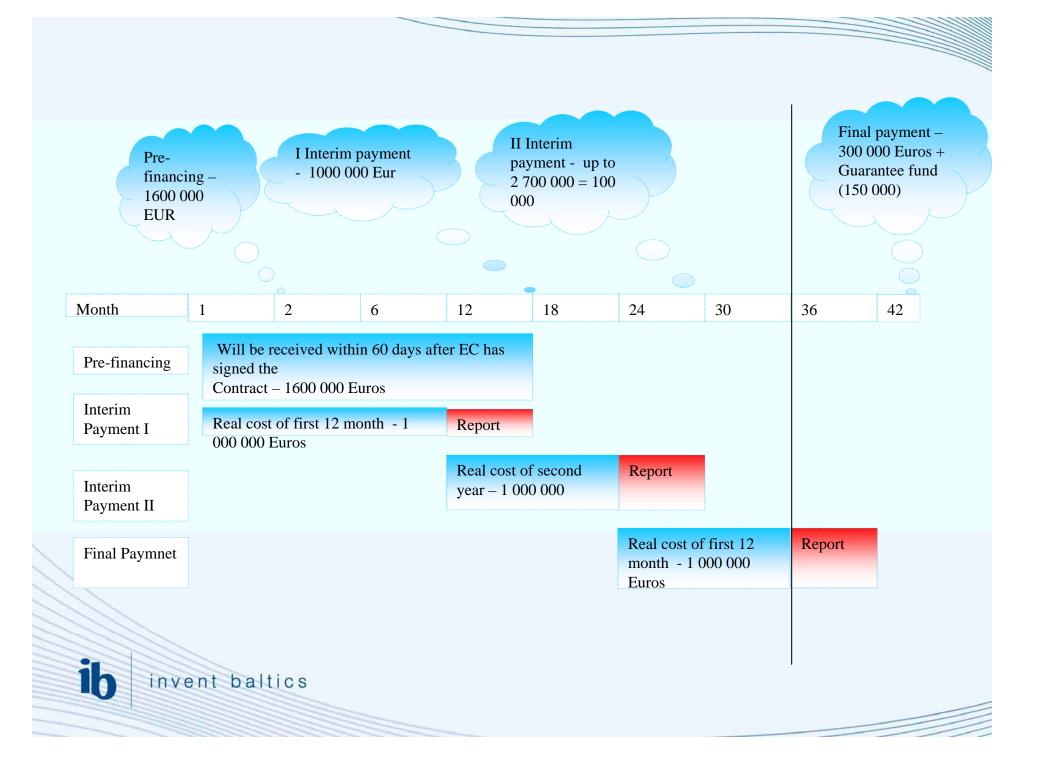
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invent halting		126880	226760	287900	346193	272080	125981

Getting the money – payment modalities

- Pre-financing 160 % of the estimated cost (EU contribution) for the first reporting period (12 month)
- Guarantee fund 5 % of total EU contribution, will be deducted from the pre-financing
- Interim payments after each 12 month, based on real cost
- At least 10 % of EU contribution will always remain as a final payment after the projects retention
- EU contribution 3 000 000 Euros
- Each year 1 000 000 Euros
- Pre-financing 160 % of 1 000 000 = 1 600 000
- Guarantee fund (5 % of 3 000 000) = 150 000
- Retention (10 of 3 000 000) = 300 000





Financial aspects in reporting

- After 12 month reporting period
- 60 days to present the report, 105 for the EU to review the reports and make the payments
- Audit sertificate
- Project income receipts
- Conversion rates



Certification of cost

- A certificate on the financial statements shall be submitted for claims of interim payments and final payments when the amount of the *Community financial contribution* claimed by a *beneficiary* under the form of reimbursement of costs is equal to or superior to EUR 375 000, when cumulated with all previous payments for which a certificate on the financial statements has not been submitted.
- Certificates on the financial statements shall certify that the costs claimed and the *receipts* declared during the period for which they are provided, as well as the declaration of the interest yielded by the pre-financing meet the conditions required by this *grant agreement*



Certification of costs

Example 1: A beneficiary in a project with a duration of 5 years:

Claim	Eligible	EC	Cumulative amount	CFS	
No.	Costs	contribution	for which a CFS has	required	
		@50%	not been submitted	_	
1	EUR 380,000	EUR 190,000	EUR 190,000	NO	
2	EUR 410,000	EUR 205,000	EUR 395,000	YES	(1)
3	EUR 500,000	EUR 250,000	EUR 250,000	NO	
4	EUR 350,000	EUR 175,000	EUR 425,000	YES	(2)
5	EUR 700,000	EUR 350,000	EUR 350,000	NO	(3)

- Spent time timesheets
- Spent resources contracts, invoices, cost articles
- Bank transfers for salaries



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Certification of costs

- The *Commission* may, at its sole discretion, accept at the request of a *beneficiary*, that it submits a **certificate on the methodology** for the calculation of costs, which it used to prepare its claims with regard to both personnel and indirect costs, and the related control systems.
- This certificate must be forwarded in the form of a detailed description verified as factual by its external auditor (Form E - Annex VII). When this certificate is accepted by the *Commission*, the requirement to provide an intermediate certificate on the financial statements for claims of interim payments shall be waived.



Financial aspects in reporting - Project Receipts

- How to deal with potential income to the project?
- A) Resources made available by third parties to the *beneficiary* by means of financial transfers or contributions in kind which are free of charge:
 - i. shall be considered a *receipt* of the *project* if they have been contributed by the third party specifically to be used on the *project*,
 - ii. shall not be considered a *receipt* of the *project* if their use is at the discretion of the *beneficiary*'s management.
- B) Income generated by the *project*.
 - i. shall be considered a *receipt* for the *beneficiary* when generated by actions undertaken in carrying out the *project* and from the sale of assets purchased under the *grant agreement* up to the value of the cost initially charged to the *project* by the *beneficiary*;
 - ii. shall not be considered a *receipt* for the *beneficiary* when generated from the use of *foreground* resulting from the *project*.



Financial aspects in reporting - Project Receipts

- Community financial contribution cannot exceed the total eligible costs minus the receipts of the project
- Meaning:
 - That a contractor cannot earn profit with receipts and when the amount of receipts exceed contractors contribution to total eligible costs the EU contribution will be lowered respectively
- Receipts can be used to cover co-financing
- Example:
- Contractor using FC model declares an amount of eligible costs of:
- 500,000 for R&D or innovation activities
- 100,000 for demonstration activities
- And declares 330,000 as receipts to the project



What will be the Community contribution?

- Total eligible costs: 600,000
 - R&D activities 500,000 X 50 % = 250,000
 - Demonstration 100,000 X 35% = 35,000
- Maximum allowable Community contribution 285,000
- Amount funded by the contractor 315,000 (600 000 285 000) minus receipts (330,000) will give a balance of – 15,000
- Total Community Contribution: 285,000 15,000 = 270,000



Financial aspects in reporting - Conversion rates

- report in EUR on the basis of the exchange rate that would have applied either:
 - on the date that the actual costs were incurred or
 - on the basis of the rate applicable on the first day of the month following the end of the reporting period.
- For both options, the daily exchange rates are fixed by the European Central Bank (ECB) and may be obtained at the following internet address: http://www.ecb.int/stats/eurofxref/ or, for the rate of the first day of the month following the reporting period.



Thank you!

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