



Finance in FP7 and budget construction



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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

<i>Instrument</i>	<i>Purpose</i>	<i>Primary deliverable</i>
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, costs 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

500,000

Indirect

150,000

Overhead percentage

30%



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Overhead rate for FP7 project: percentage of indirect costs from 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 be certified, can be based on the accounting reports of the company or institutions
- Accounting system has to be able 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 – $600 \times 5 = 3000$ Euros of indirect cost
- Project 2: 400 hours – $400 \times 5 = 2000$ Euros of indirect cost
- Project 3: 1000 hours – $1000 \times 5 = 5000$ 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) $\rightarrow 30\,000 \times 0,1 = 3000$ Euros
- Project 2: personnel cost (20 000) $\rightarrow 20\,000 \times 0,1 = 2000$ 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 flat-rate 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

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

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
- 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 this specific project			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 ution (%)	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	TKK	KTH	WEBGATE
Overhead rate	20%	91%	60%	60%	20%
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 (facilities, meals)
 - Subcontracting expenses for technical meetings
 - Subcontracting Website/ Consortium Agreement preparation
 - Subcontracting of audit

Budget example

Participant number	1	2	3	4	5	TOTAL
Participant short name	Invent	ELIKO	KTH	TUM	InAccess	
Overhead rate	60%	20%	60%	60%	60%	
Person-months rate (without indirect costs)	5000	5000	5150	5495	5000	
TOTAL man-months for management	10	1	1	1	1	
TOTAL man-months for R&D	4	38	41	46,5	39	182,5
Equipment						
passive RFID readers + tags		3000				
active RFID components		1000				
home gateway controllers				750	750	
TOTAL equipment	0	4000	0	750	750	
PMB						
Number travels of PMB meetings	2	2	3	3	4	
Cost of travels to PMB meeting	1500	1500	1500	1500	1500	
TOTAL PMB	3000	3000	4500	4500	6000	
Travel to conferences, workshops						
Number	4	4	3	3	3	
Cost of travel (including conference fees)	2000	2000	2000	2000	2000	
TOTAL travel to conferences, workshops	8000	8000	6000	6000	6000	
Travel to technical meetings (integration)						
Number	1	1	1	1	0	
Cost (5 days)	3000	3000	3000	3000	0	
TOTAL travel to technical meetings	3000	3000	3000	3000	0	
Travel to review meetings						
Number	2	2	2	2	2	
cost	1200	1200	1200	1200	1200	
Other costs						
Consumables (smart home devices), incl SW	0	2000	2000	5000	5000	
IPR costs	0	15000	0	0	0	
Subcontracting						
Subcontracting expenses for PMB meetings	0	2000	1000	1000		
Subcontracting Website/ Consortium Agreem	0	4000				
Subcontracting of audit	2000	2000	2000	2000	2000	
Subcontracting expenses for technical meet					2000	
Exploitation Committee						
nr of travels		4				
cost of travel		1500				
Direct costs						
Cost of Flyers, brochures		2000				
Management costs	Invent	ELIKO	KTH	TUM	InAccess	TOTAL
Management personnel	5000	5000	5150	5495	5000	70645
Travel	3000	3000	4500	4500	6000	21000
Total direct	53000	8000	9650	9995	11000	91645
Subcontracting	2 000	8 000	3 000	3 000	2 000	18000
Total subcontracting	2 000	8 000	3 000	3 000	2 000	18000
Total Indirect	31800	1600	5790	5997	6600	51787
Total Management	86 800	17 600	18 440	18 992	19 600	161432
R&D costs						
R&D personnel	20000	190000	211150	255518	195000	871668
Travel	13400	19400	11400	11400	8400	64000
Equipment	0	4000	0	750	750	5500
Consumables	0	2000	2000	5000	5000	74000
Other costs	0	17 000	0	0	0	17000
Total direct	33400	232400	224550	272667,5	209150	972168
Subcontracting	0	0	0	0	0	0
Total Indirect	20 040	46 480	134 730	163 601	125 490	490341
Total RTD	53 440	278 880	359 280	436 268	336 640	1464508
TOTAL	140 240	296 480	377 720	455 261	356 240	1626941
Share	9	18	23	28	22	100
ELIGIBLE Management	86 800	17 600	18 440	18 992	19 600	161432
EU contribution R&D	40000	209100	269450	327201	252400	1098381
ELIGIBLE R&D	53 440	278 880	359 280	436 268	336 640	1464508
TOTAL EU contribution	126880	226760	287900	346193	272080	1259813

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

Pre-financing – 1600 000 EUR

I Interim payment - 1000 000 Eur

II Interim payment - up to 2 700 000 = 100 000

Final payment – 300 000 Euros + Guarantee fund (150 000)

Month	1	2	6	12	18	24	30	36	42
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Pre-financing Will be received within 60 days after EC has signed the Contract – 1600 000 Euros

Interim Payment I Real cost of first 12 month - 1 000 000 Euros Report

Interim Payment II Real cost of second year – 1 000 000 Report

Final Paymnet Real cost of first 12 month - 1 000 000 Euros Report

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 certificate
- 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:

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

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

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 $500,000 \times 50\% = 250,000$
 - Demonstration $100,000 \times 35\% = 35,000$
- 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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