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The Director-General

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Subject: Message to researchers, innovators, participants and coordinators of European Union projects in the 7th Framework Programme and Horizon 2020

Dear Sir, Dear Madam,

Let me start by wishing you and the partners in your EU research and innovation project a happy and healthy New Year. Let 2015, however, also be an **'error-free' year!**

As you might know, many of the participants in projects financed under the EU Framework Programme make mistakes in their cost claims (invoices). These mistakes are detected during checks and audits carried out by the services of the European Commission and often result in recovery orders. This process is annoying and costly. Furthermore, it does damage to the reputation of the EU Framework Programme and to research in general.

In order to help you, my Directorate-General published, in March 2012, a note for beneficiaries of the 7th Framework Programme on *"How to avoid common errors identified in cost claims"*. You can find this useful and short document annexed to this mail and at http://ec.europa.eu/research/participants/data/ref/fp7/104049/avoid-finance-errors_en.pdf. Its content remains valid for the ongoing FP7 projects, and I urge you, and all partners in your project, as well as your own auditors, to read it again thoroughly.

For Horizon 2020, we have simplified the rules as far as possible to avoid errors and mistakes. Most guidance is already available in the Participant Portal, and more will follow. However, I would like to underline three key principles which remain:

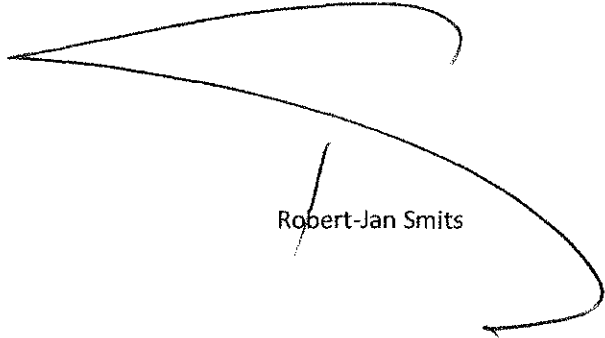
1. If the staff member works 100% on the project, for ERC grants and some SME lump-sum grants no time recording is necessary. (For other projects, the time spent on the project must be recorded, generally by timesheets);
2. The costs claimed must be those actually incurred on the project – and certainly not those budgeted for the project! (** there are exceptions when flat rates or averages are used)

3. Pay attention to the rules on subcontracting and remember that you must never subcontract work to another member of the consortium.

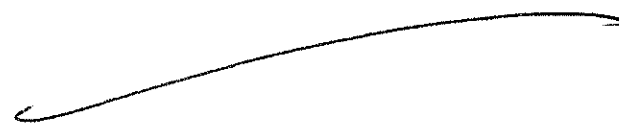
For Horizon 2020, full details can be found in the annotated Model Grant Agreement (see http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf).

Research and Innovation are vital for the creation of jobs, growth and competitiveness and for solving societal challenges in Europe. Through your participation in the 7th Framework Programme and Horizon 2020, you contribute greatly to the achievement of those objectives via the implementation of excellence-based research and innovation projects and their transformation into new products, processes and services.

I would be grateful if you could distribute this note among the participants in your project and to the concerned staff members in your organisation, or even better, discuss its content with them and help turn 2015 into an **error-free year**.



Robert-Jan Smits





Note for beneficiaries in the 7th Framework Programme for Research and Innovation

How to avoid common errors identified in cost claims

1. INTRODUCTION

As a beneficiary of grant support under the 7th Framework programme, it is in your interest to make sure that your claims for cost reimbursement are as error-free as possible. This will considerably speed-up repayment of your eligible project costs, and should prevent you having to reimburse some or all of the EU financial contribution received should errors be detected during the course of financial audits. These reimbursements may be increased by liquidated damages, which is a greater incentive to avoid the errors in the first place.

In fact, the vast majority of errors arise from misunderstandings of the rules or a lack of attention to the detail of the provisions of the grant agreements and associated guidelines: they are, therefore, mostly avoidable.

To help you, we have listed below 10 of the most frequently recurring errors along with some explanatory notes. More information on possible exceptions or unusual cases can be found in the Guide to Financial Issues relating to FP7 Indirect Actions¹ that you have already received (see especially Section 1: General Financial Provisions). This Guide remains the basic reference document for all financial issues. However, it is hoped that you will pay particular attention to the issues set out below when preparing your cost claims: it helps us and it will help you!

You are reminded that there is also a help desk to which you can address your questions on the EU research programmes. You can access the service via the Cordis website at http://cordis.europa.eu/fp7/get-support_en.html.

2. THE 10 MOST FREQUENT ERRORS IDENTIFIED

2.1. Costs claimed that are not substantiated or are not linked to the project

All costs claimed, with the exception of applicable lump sums and flat rates, should be based on the real costs incurred. They must be supported by evidence that they are real (recorded in the accounts of the beneficiary and supported by invoices for example), paid (supported by bank statements for example), and linked to the funded project. As a general rule, neither estimated amounts, nor budgeted amounts, are acceptable. Where these conditions are not met the amounts will be deemed to be ineligible.

¹ http://ftp.cordis.europa.eu/pub/fp7/docs/financialguide_en.pdf

For example the cost of consumables charged to the project needs to reflect the real cost of consumables used for the funded project in the course of each reporting period. Each set of consumables used needs to be substantiated by an invoice, indicating the unit price and the quantity used.

Any allocation/breakdown of consumables in a funded project must be substantiated by relevant supporting documentation (i.e. invoices or delivery notes).

2.2. Third parties and sub-contracting

The use of third parties and/or sub-contractors should generally be identified during the negotiations of the project, and be set out in Annex I ("Description of Work") to the grant agreement. **Otherwise any amounts claimed will generally not be eligible.**

If you wish to use third parties and/or sub-contractors that are not yet included in Annex I, you should send an amendment request through the project coordinator to the Commission service that signed the grant agreement. If this request is approved your grant agreement will be amended and the costs will then be eligible for inclusion in your cost claims.

In addition, it is underlined that sub-contracting between partners of the consortium is not permitted under any circumstances.

Furthermore, costs for sub-contracting and the costs of resources made available by third parties that are not used on the premises of the beneficiary cannot be used as a basis for calculating indirect costs. In both cases, the overheads are not incurred by the beneficiary but by the sub-contractor or the third party.

2.3. Depreciation

If you purchase equipment for your project then you are not, in general, entitled to claim the full cost of the equipment immediately.

Rather, you are entitled to charge to the project the corresponding depreciation of the equipment over the part of its useful economic life that falls within the project. The amounts that you can claim annually should be based on the amount of depreciation that is incurred annually for the equipment. You should use your usual depreciation policy. Moreover, only the part of the equipment (percentage used and time of use) dedicated to the project may be charged.

For example, a beneficiary participates in a project that lasts for 3 years. In the second year of the project it acquires a machine that costs €100,000, and has a useful economic life of 5 years. The normal accounting policy of the beneficiary is to apply "straight line" depreciation. The eligible amount would be €40,000, reflecting the depreciation charge for the 2 remaining years until the end of the project. The residual value of €60,000 cannot be charged to the project since it falls outside the project's period.

2.4. Indirect cost models

The FP7 indirect cost reporting methods are:

- Actual indirect costs; possibly using a simplified method, and
- Flat rates based on the real direct costs; 20% or 60% under limited circumstances.

If you use the "actual costs" reporting method, then this must be based on the real costs incurred, with evidence that they can be linked to the project.

If you have an analytical accounting system then you must charge the indirect costs that are calculated by this system or chose the 20% flat rate method.

If you can establish the "actual indirect costs", removing ineligible items and using fair and reliable cost drivers, but you do not have an analytical accounting system, then you may choose the simplified method for reporting indirect costs or use instead the flat rate system.

If you are unable to establish the actual costs then you should use a flat rate method, either the 20% flat rate - optional for any beneficiary - or the 60% flat rate if you fulfil the eligibility criteria².

2.5. Indirect costs - Ineligible costs included in the pool of indirect costs

If you use the actual indirect costs model then the indirect costs must have a relationship with the eligible direct costs attributed to the project.

There are a series of costs that do not meet the cost eligibility criteria or which cannot be linked to the direct costs of the project. These should be removed from the calculation of the actual indirect costs. The ineligible costs would include marketing and sales costs, financing costs, exchange rate losses, goodwill, etc; as well as those costs with no relationship to the project.

Many examples have been identified of companies including ineligible costs in their calculation of indirect costs. These have included the costs of purchasing other companies, costs of sales offices, costs of arranging loans, losses from exchange rate operations, etc. These are all ineligible items.

In general, beneficiaries are reminded that eligible indirect costs accepted are those costs that cannot be identified as directly attributed to the project, but which can be proved to be incurred in direct relationship with the eligible direct costs attributed to the project.

2.6. Personnel costs - Calculation of productive hours

The calculation of actual personnel costs requires the establishment of the productive hours for personnel. Productive hours should include all the time that the employee is available to undertake activities for the organisation (research and non-research activities). It should exclude weekends and holidays, but should include for instance teaching time, preparation of proposals, etc.

As a guide, 1680 hours per year is considered to be a benchmark for productive hours. If your productive hours deviate from this benchmark the difference has to be substantiated.

Please remember that productive hours may be very different from "billable" hours. The use of billable hours to calculate the hourly rates to be charged to EU research projects is not accepted by the Commission.

For example, staff at a beneficiary were contracted to work 36 hours per week. The calculation of cost charged to customers assumed 30 billable hours per week, and the 30 hours were used as the basis for calculating hourly rates. However, the 36 hours contracted per week should be used as the basis for calculating rates charged to EU projects.

² 60 % flat rate is reserved for non-profit public bodies, secondary and higher education establishments, research organisations and SMEs: without an analytical accounting system.

2.7. Personnel costs - charging of hours worked on the project

You must be able to produce evidence to support the number of hours that each person has worked on the project. This can be by the use of a reliable time recording system or adequate alternative evidence giving an equivalent level of assurance.

We have regularly identified time charged to the project while the staff member is on leave or attending conferences unrelated to the project, which puts into question the reliability of the time recording system as a whole. If timesheets are used, please ensure that they are completed in good time and are properly authorised.

2.8. Personnel costs - Use of average personnel costs

It is now permitted to use average personnel costs for the calculation of staff costs under certain conditions³. If you are unable to meet the criteria for the use of average personnel costs, you should declare real costs.

2.9. Payment of salaries to owner/managers of SMEs

Under the FP7 rules SME owners may decide on whether or not to pay themselves a salary. SME owners who do not have a salary registered in the accounts should claim a flat rate payment based on the "Marie Curie" rates. Please note that, even if as an SME owner you are remunerated by means of dividends or withdrawals, you still need to charge "Marie Curie" flat rates.

2.10. VAT

In the 7th Framework programme identifiable **VAT, whether recoverable or not, is totally ineligible**. Please ensure that VAT is always excluded from your cost claims.

3. CONCLUSION

It is in all our interest to avoid errors in cost claims. Please examine this note, and the Guidance on financial issues, carefully and let us all try to avoid errors.

³ See the four criteria for using average personnel costs, adopted by Commission Decision 174 of 24/1/2011, in the FP7 Guide to Financial Issues.