



Master of Finance Series

# **Part 1: Essentials of the financial rules in Horizon 2020 and Horizon Europe**

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*Co-Founder and CEO of Europa Media Trainings*

15 February 2022

# Welcome!

- 14:00– 15:30 | Presentation
- 15:30 – 16:00 | Q&A session



# The Master of Finance series:

- 1. Part One – The Essentials**
2. Part Two – Personnel costs (**16 Feb**)
3. Part Three – Third Parties, Other costs and horizontal issues (receipt, CFS, exchange rates, payments) (**17 Feb**)

# SPEAKER

## Gábor Kitley

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*(but with a nice message)*
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# Chapter One

The Hitchhiker's guide to Financial Reporting



# Accounting or Reporting

***„all cost reported must be in line with the beneficiary’s usual cost accounting practices”***

*(H2020 GA; Art.6.1.a – HE GA; Art.6.1a)*

Compare the following:

**Do I have to do** anything differently compared to normal businesses?

VS

**Can I do** anything differently compared to normal businesses?



# Chapter Two

Budgeting or Reporting

# Reporting costs

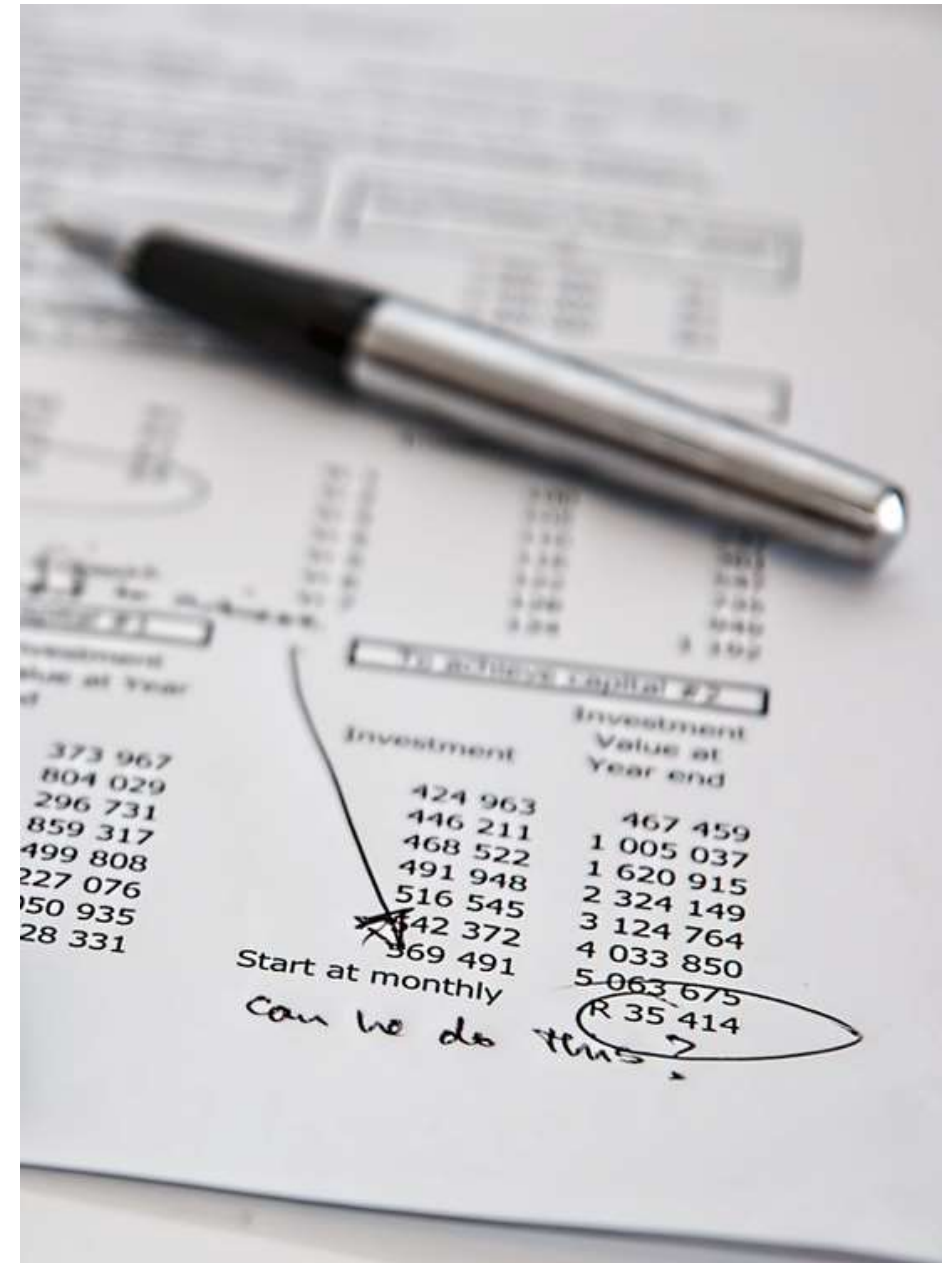
- „Budget-based, mixed actual cost grant” (HE Art. 5.1)
  - In 95% of the actions **funding is based on actual/unit-based direct costs incurred** and reported
  - Apart from:
    - Flat-rate financed costs (indirect costs)
    - Pre-fixed unit-cost grants (e.g., MSCA)
    - Lump-sums financed actions (e.g., IA-LS)

# Budgeting

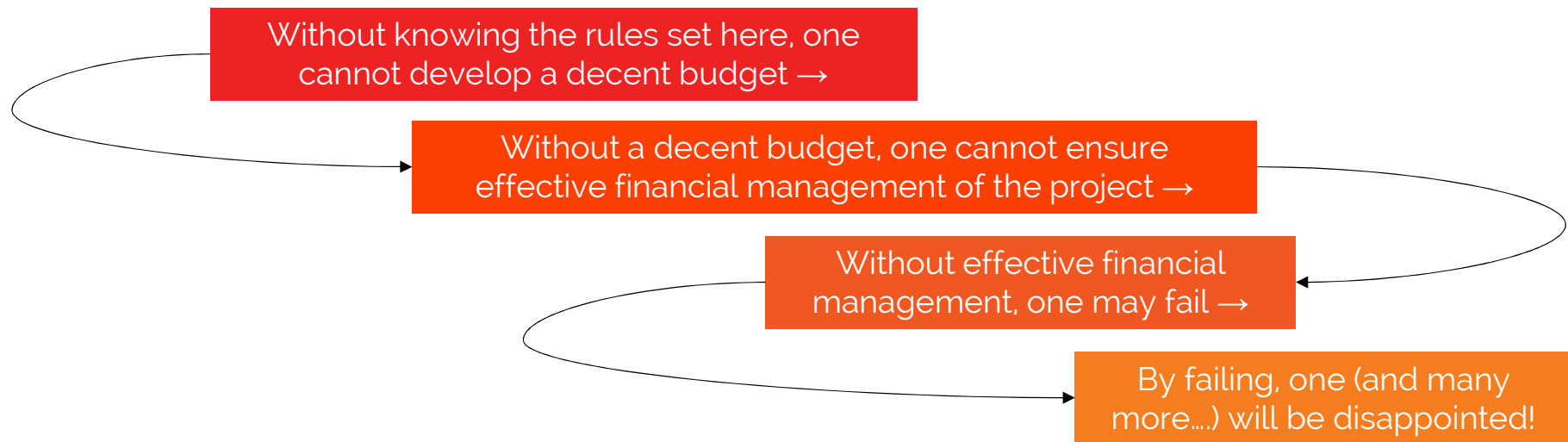
- **Budgeting is NOT reporting!**
- **Budget is an estimation** (H2020 Art.4.1 vs. HE Art. 5.4)
- Budgeted amount and Reported costs **will never be the same**: it would be actually quite suspicious...
- **Budget flexibility?** How much is too much?
  - Same as in H2020 – significant vs substantive
- Does the budget matter?
- **Can one exceed the maximum EC contribution referred in the call text?**

VS.

- **Can one exceed the maximum EC contribution stated in the GA?**



# Why should I read all these now?



# Good to know

- **'No negotiation'** policy on the Grant Agreement or Annex 1 (DoW/DoA) → no financial comments or cuts (?) by the evaluators or by the EC
- **Easy-to-understand rules**, clear and concise, but need certain time to understand how exactly to use them!
- **New forms of funding** such as lump-sums, prizes, unit-cost financing, dedicated loan and equity instruments
- **Simplified cost reimbursement system** with enhanced use of lump sums, flat rates and scale of unit costs.
- The Budget in the Grant Agreement is defined as **"Estimated Budget"**
- Even easier **budget transfers** than before?
- **"One project - One rate principle"** The funding rate is the same for the entire project but can vary between legal entities!
- **No cost models:** full actual (or unit-based) direct costs reporting with an additional 25% flat-rate indirect costs model for all entities
- Non-deductible **VAT is now eligible**

**No joint financial responsibility but joint technical responsibility!**

# Chapter Three

3 basic financial principles

# Basic financial principles

in the context of Horizon 2020/Horizon Europe (1)

## Rule #1:

**We are spending the “Taxpayers’ money”:**

**Horizon 2020 is a public grant!**

As a minimum, all parties must respect the principles of good accounting and “housekeeping” as set by their own national legislation.





# Basic financial principles

## in the context of Horizon 2020 / Horizon Europe (2)

### Rule #2:

#### Cost vs Price: What is the difference?

- It is called **COST reimbursement** for a good reason...
- What if I can't identify the cost? Can I use **internal rates**?
- Examples:
  - Using a **nearby hotel** to host the meeting
  - Using our **own premises** meeting room
  - How can we report these expense?



# Basic financial principles

in the context of H2020 / HE (3)

## Rule #3:

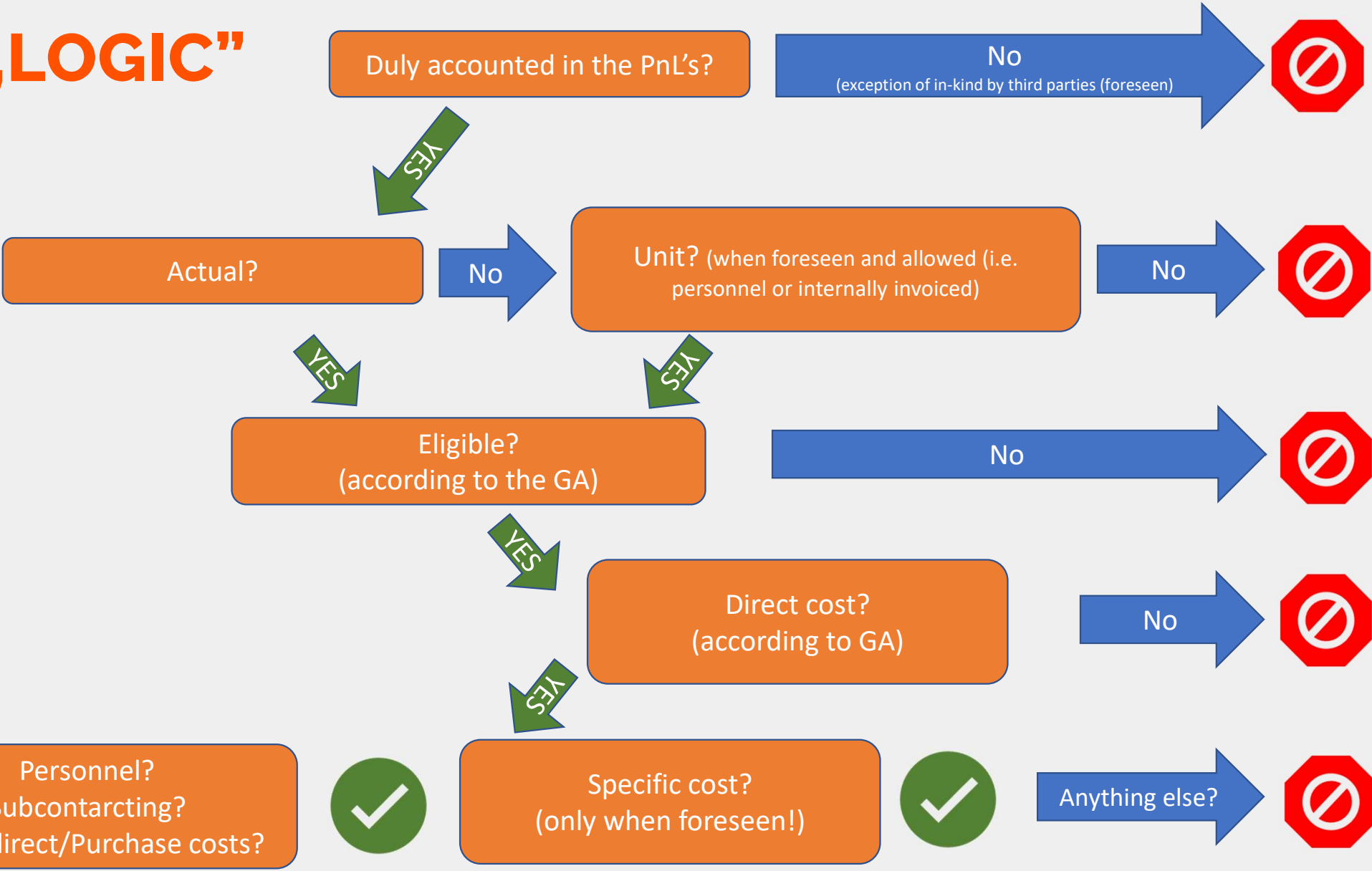
All costs to be reported to the project must be:  
**ELIGIBLE**



**So, what makes a cost eligible?**



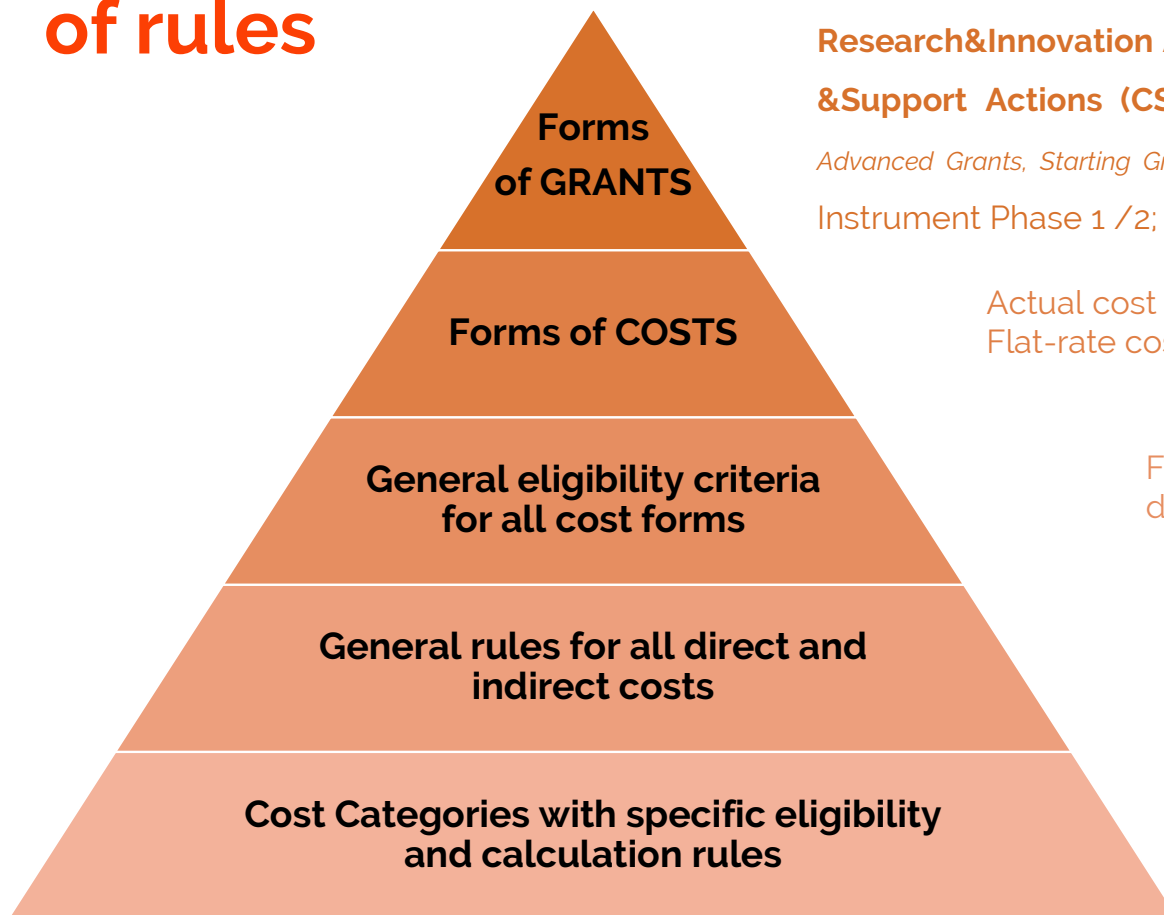
# The „LOGIC”



# Chapter Four

## Hierarchy of rules

# The hierarchy of rules



**Research&Innovation Actions (RIA), Innovation Actions (IA) and Coordination &Support Actions (CSA)** (*Complementary Grants; Jointly funded actions*); **ERC Grants:** *Advanced Grants, Starting Grants, Proof of Concept*; **MSC Grants:** *ITN/IF/RISE/COFUND*; *SME Instrument Phase 1 /2*; **ERA-NET**; *PCP-PPI; EJP; KIC; RIA-LS; IA-LS; CSA-LS*

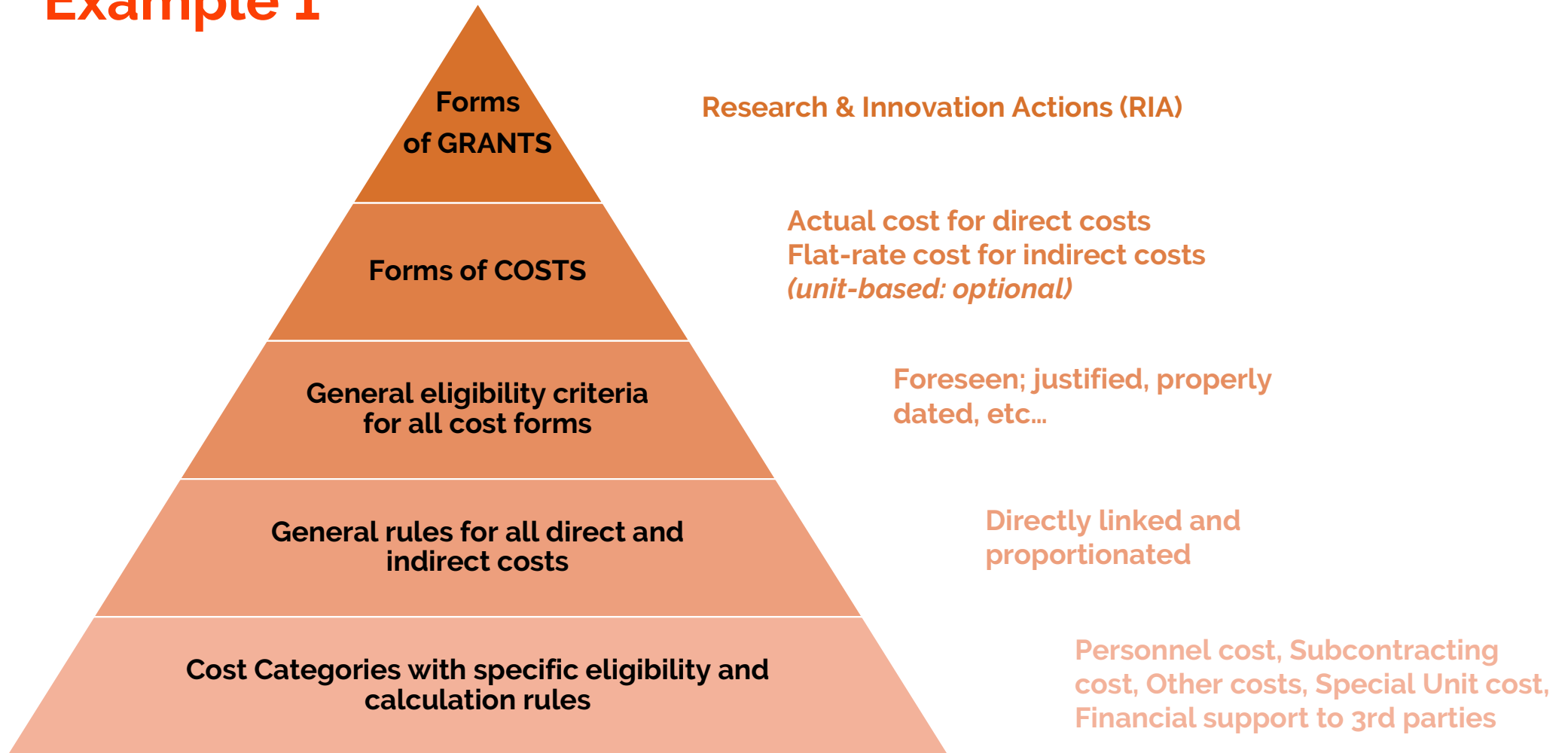
Actual cost / Unit-based cost /  
Flat-rate cost / Lump-sum

Foreseen; needed, justified, properly  
dated, value-for money, etc...

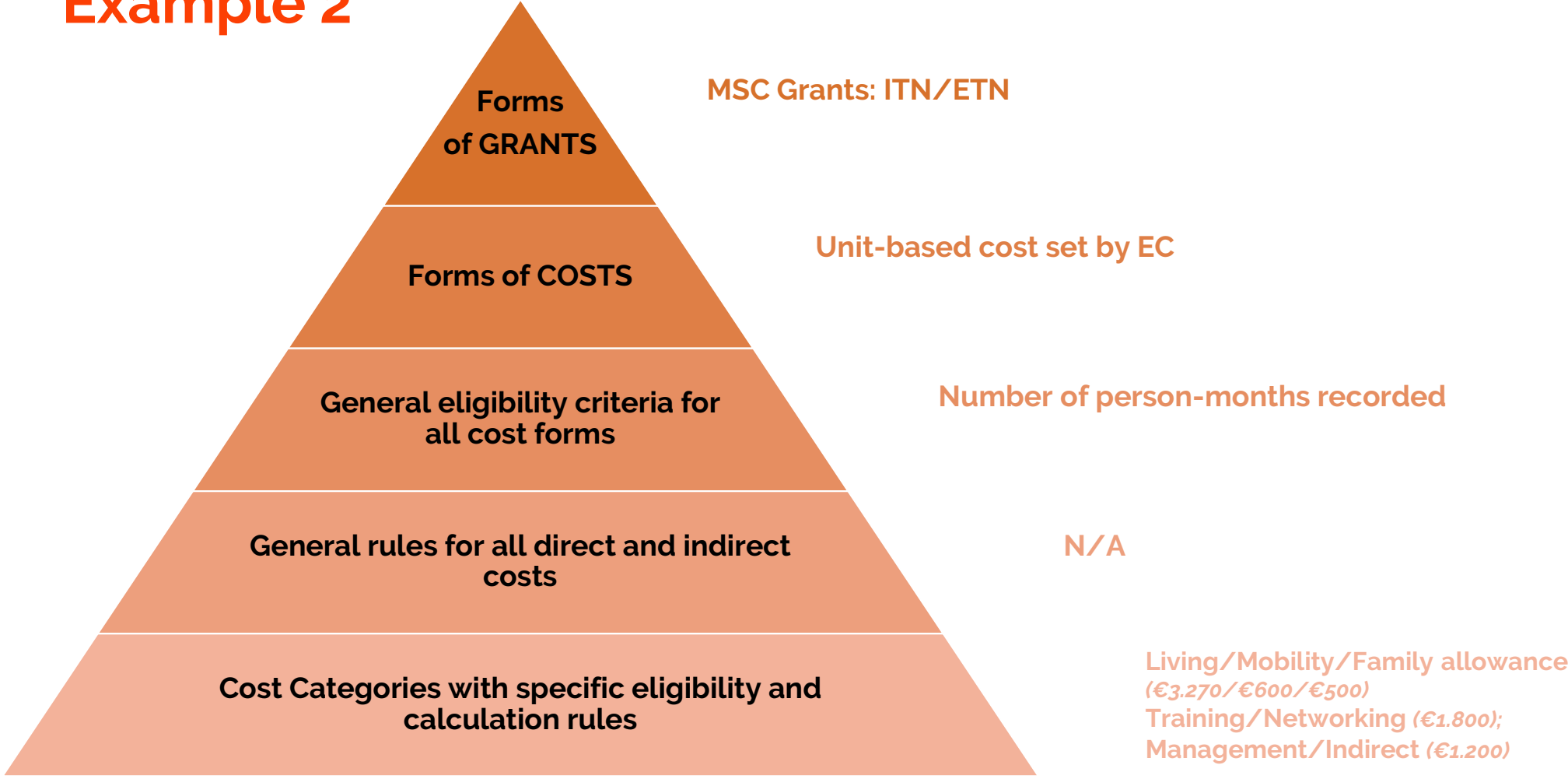
Directly linked and proportionated

**Personnel cost, Subcontracting cost, Other  
costs, Special Unit cost, Financial support to  
3rd parties**

# Example 1

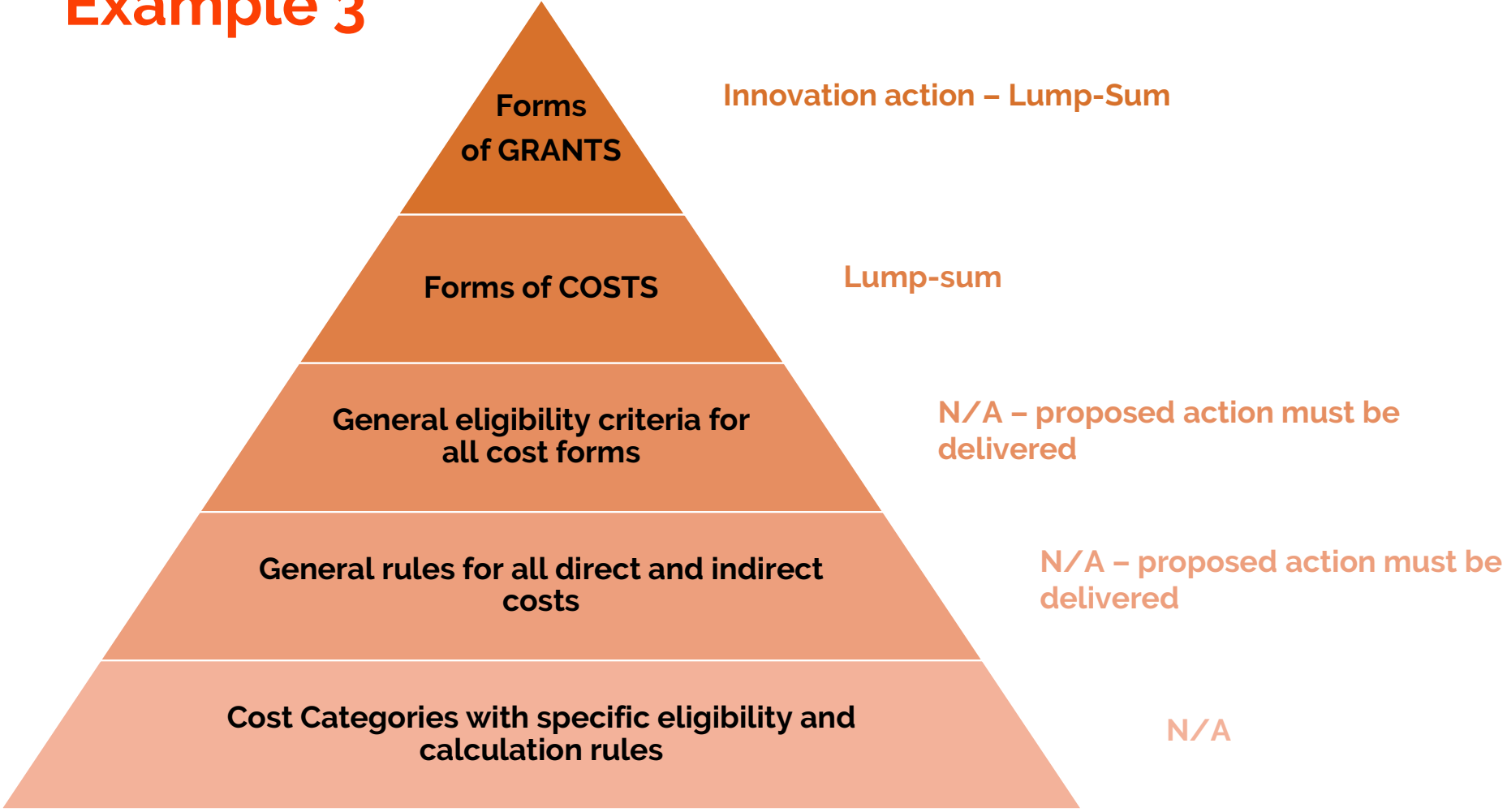


# Example 2





# Example 3



# Chapter Five

Actual or Unit

# Actual-cost versus Unit-cost



€86.000

-----= €50/hour x 100 hours on project = €5.000  
1720 Hours



€77.400

-----= €45/hour x 100 hours on project = €4.500  
1720 Hours



€94.600

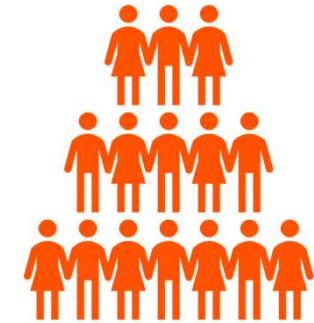
-----= €55/hour x 100 hours on project = €5.500  
1720 Hours



€82.560

-----= €48/hour x 100 hours on project = €4.800  
1720 Hours

Total actual personnel cost: €19.800



Team: Researchers:

Unit cost: **€ 50/hour\***

Total hours spent on  
the project by Team  
Researchers: **400**

Total unit-based  
personnel cost:  
**€20.000**

# Chapter Six

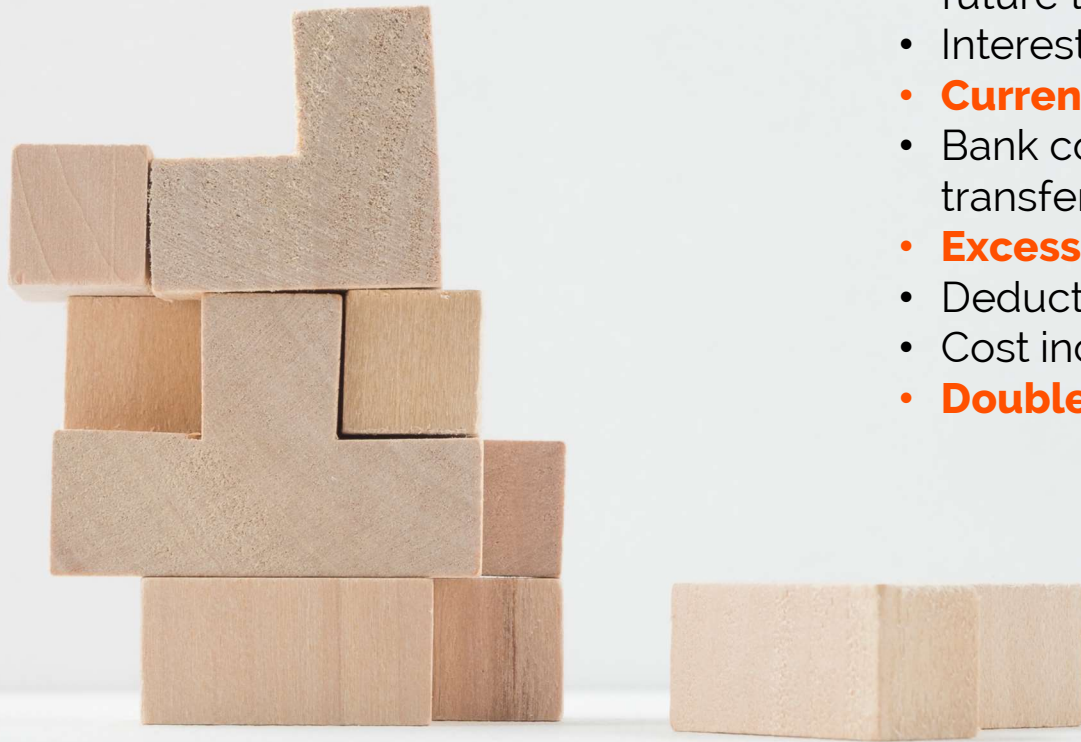
Eligible or ineligible?

# What makes ANY cost ELIGIBLE?

- It is duly accounted in the Beneficiary's Profit & Loss Accounts
  - ? Exceptions?
- Incurred during the implementation of the project
  - ? Exceptions?
- In accordance with the Beneficiary's usual accounting and management principles
  - ? Exceptions?
- In compliance with the relevant applicable national laws
- Foreseen in the project's budget
- Needed for and linked to the project's implementation
- Reasonable, justifiable – efficiency



# What makes a cost **NON-ELIGIBLE**?



- **Not foreseen** in the proposal/GA (particularly the subcontracting!)
- Related to return on capital, debt and debt-service charges, future losses or debts
- Interest owed, future liabilities
- **Currency exchange losses**
- Bank costs charged by the Beneficiary's bank for receiving transfers of grants from the EC
- **Excessive or reckless expenditure**
- Deductible VAT
- Cost incurred during suspension of the action
- **Double funding** – no mixing of EU Grants!

# Chapter Seven

Direct or Indirect?



# What makes any costs **DIRECT** costs?

## Can be directly linked with the project

The Beneficiary has to **prove the link** between the project and the costs

Example: travel costs to Brussels - link: project meeting in Brussels, reported in the (periodic) reports

## Can be proportionated to the project

The Beneficiary must provide evidence on the **“usage-rate”**

Example: salary cost of a staff member - timesheets show the link and help identify the involvement level



# What makes any costs INDIRECT costs?

**Cannot be measured directly due to practical or administrative reasons:**

- Overheads or running costs
- Equipment or staff costs, if cannot be proportionated or linked to the project
- Any other costs with no linked to the project (i.e. travel "forgotten" to be reported; Equipment fully depreciated, etc.)



# Sum up

- Some simple key facts:
  - Only eligible direct costs can be reported
  - Cost before/after GA dates are not to be reported
  - Internal rates, pricelist are typically not eligible
  - Even if foreseen, all costs must be justified
  - Actual cost by default, unit-based reporting are optional
  - Flat-rate indirect cost contribution
  - No joint financial responsibility



# Upcoming episodes:

1. Part Two – Personnel costs (**16 Feb 2022**)
2. Part Three – Third Parties, Other costs and horizontal issues (receipt, CFS, exchange rates, payments) (**17 Feb 2022**)

# THANK YOU!

*for your attention*

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