



Master of Finance Series

**Part 3: Third-parties, Subcontractors, and other
direct costs in Horizon Europe and Horizon 2020**

Speaker: Gábor Kitley

Co-Founder and CEO of Europa Media Trainings

5 May 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*
3. **Part Three – Third Parties, Other costs and horizontal issues (receipt, CFS, exchange rates, payments)**

SPEAKER

Gábor Kitley

- Contact me on [LinkedIn](#)
(but with a nice message)
- On [Twitter](#) as @KitleyGabor
- Write to gabor.kitley@europamedia.org



Third party assistance

More than „just” subcontracting

Third parties can:

- **provide access** to their resources
Personnel cost or other costs
- **carry out** part of the work
Other cost or subcontracting
- **be linked** to the Beneficiary
Full cost report
- **receive financial support**
Sub-granting/cascade funding



Direct Costs

Third Party Assistance in H2020

Why is it called Third Party?

It's neither the EC, nor any of the Beneficiaries but a third party to the Grant Agreement

There are 4+2 types of third-party assistance:

- **Purchase of goods, works or services (Article 10)**
- In-kind contribution provided by third parties against payment (Article 11)
- In-kind contribution provided by third parties free of charge (Article 12)

Third party **makes its resources** available to the Beneficiary

- Implementation of actions/tasks by subcontractors (Article 13)
- Implementation of actions/tasks by linked third parties (Article 14)

Third party **provides a service** to the Beneficiary

- **Financial support to third parties (Article 15)**



Third party involvement

What are the preconditions?

- Any third-party assistance **must be foreseen in the proposal**. Your last resort is during Grant Agreement Preparation (**GAP**) so it can be inserted in the Description of Action (**DoA**)
- It must be declared as **actual costs**. **No unit cost** is accepted here.
- The tasks that are subcontracted should be described in DoA. The subcontractor itself does not have to be identified, except when using resources of linked third parties



How to select any Third Party?

Award criteria

Third parties are awarded according to the following principles:

- best value for money
- transparency
- equal treatment
- and/or public procurement procedure:
 - (public) procurement in case the Beneficiary is obliged to do so based on their usual protocol, or
 - at least 3 offers for 3 independent suppliers



Third Parties: Article 13

Outsourced activities/tasks implemented by subcontractors

Only for limited parts of the project!

- The contract is based on business conditions, subcontractors are not directly supervised by the beneficiary, no access to IPR
- Subcontracting has to be mentioned, estimated and justified already in **DoA** (Annex 1: use of resources). If not, the cost can be rejected.
- Only from a third party: Invoicing between Beneficiaries **is not eligible!**
- **The costs** - the price of the service/s provided - **is paid and reported by the Beneficiary**
- Subcontractors must be bound by certain requirements of the EC (e.g. subcontractor may also be audited!)
- Not included for indirect cost calculation



Third Parties: Article 14 (1)

Outsourced activities/tasks implemented by linked third parties

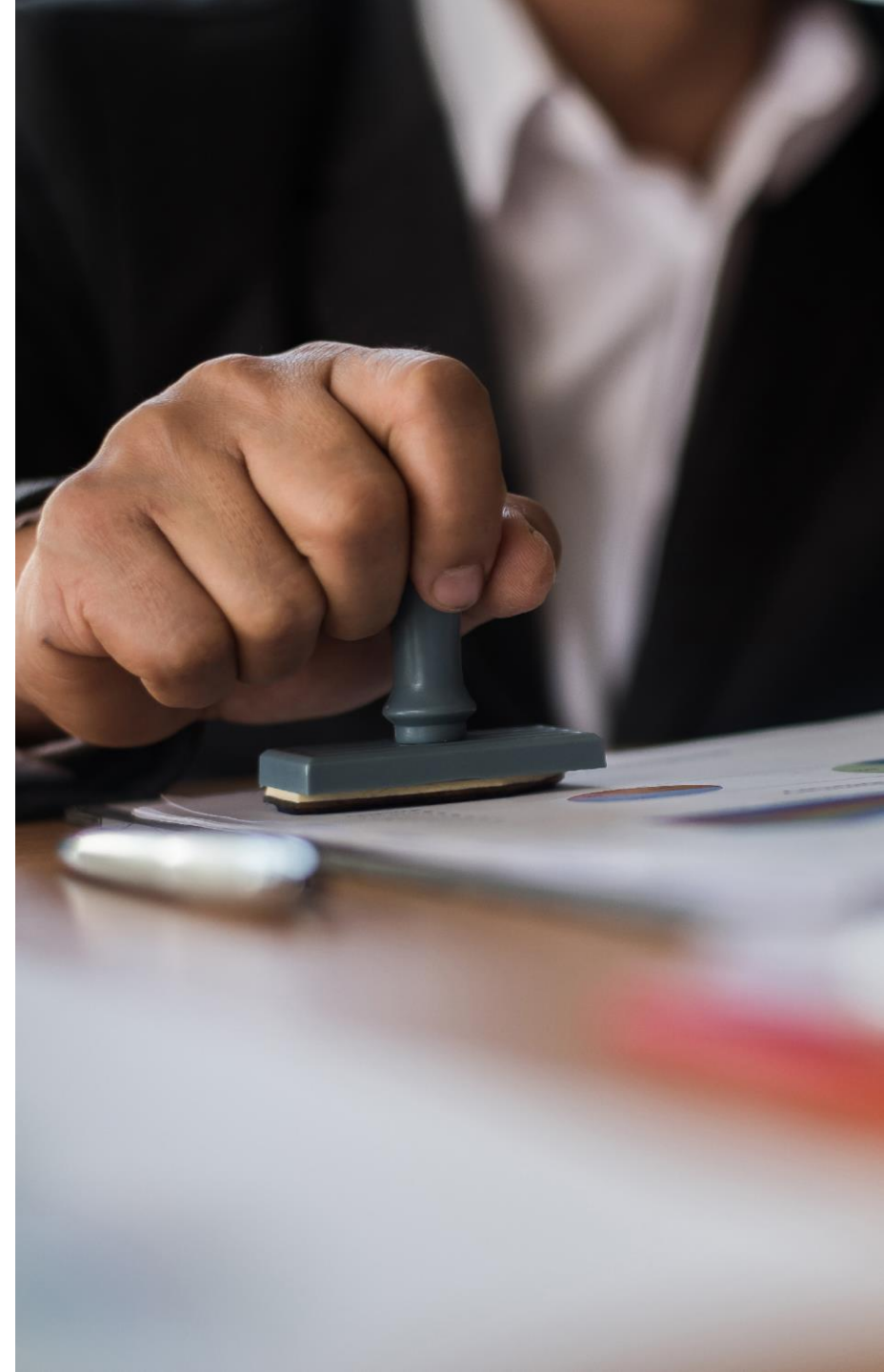
WHO IS CONSIDERED LINKED?

Entities with legal link to the Beneficiary

- Under direct or indirect control of the Beneficiary
- Under the same direct or indirect control as the Beneficiary
- Directly or indirectly controls the Beneficiary
- Associations, foundations with members
- EEIG/JRUs



So what's the difference between Article 13 and 14?



Third Parties: Article 14 (2)

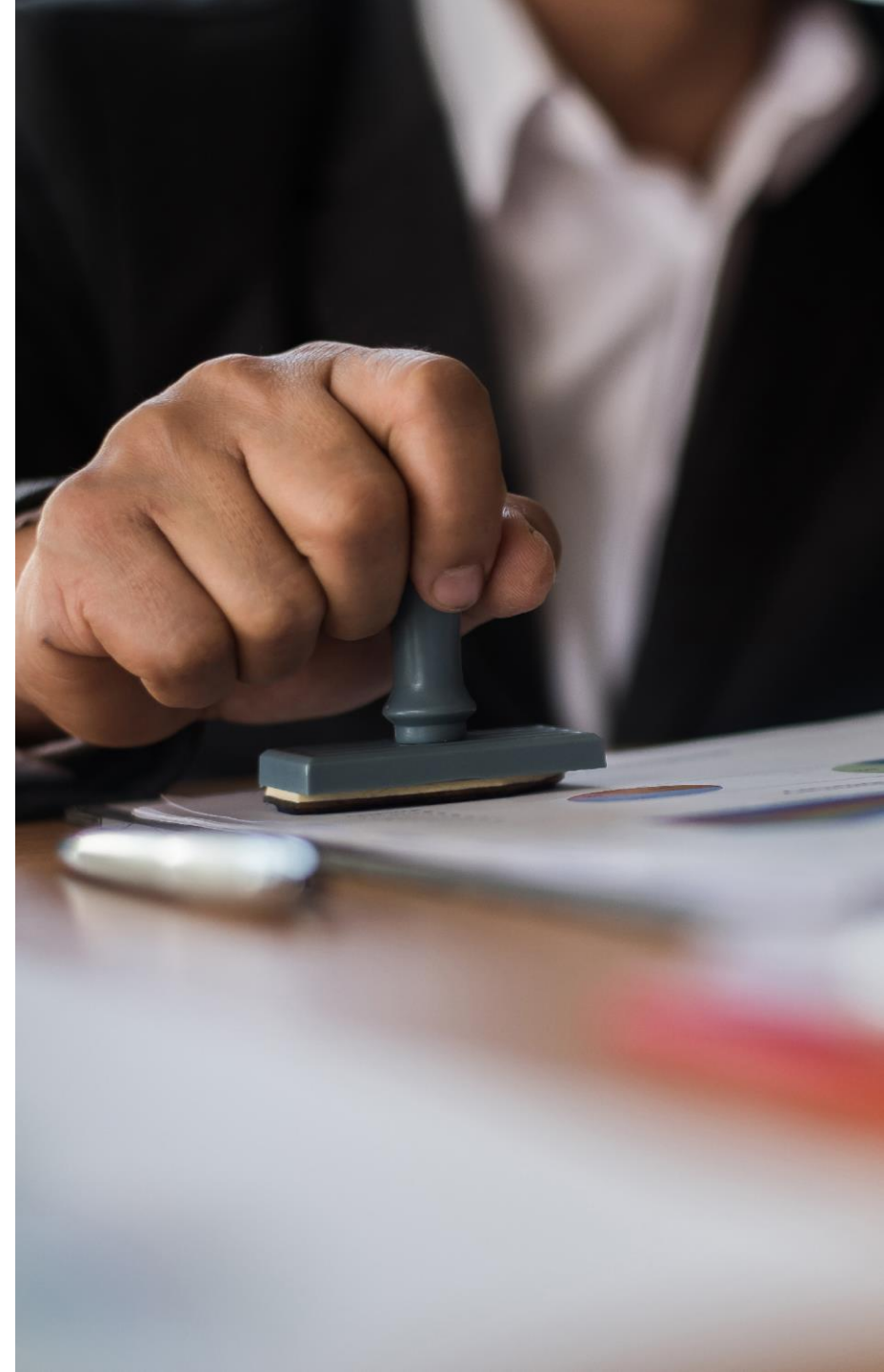
Outsourced activities/tasks implemented by linked third parties

HOW TO USE IT?

- The Linked Third Party **must be named and specified** in the GA
- Certain actions/tasks are implemented by the Linked third party
- The Linked third party does not invoice the Beneficiary!
- The Linked third party declares the costs of its work on its own Form C – same rules applies as for the Beneficiary
- The Beneficiary submits the Form C of its Linked Third Party
- The EC reimburses the Linked Third Party via the Beneficiary
- The Linked Third Party may also be audited!



So what's the difference between Article 13 and 14?



Changes in TPs in Horizon Europe

1. Third party makes its resources available to the Beneficiary against payment (H2020 Art. 11)

No special article - simply charge as your own personnel costs or other costs (equipment, other goods and services)

2. Third party makes its resources available to the Beneficiary free of charge (H2020 Art. 12)

Article 9.2 in HE – no particular changes, COST-only!

3. Subcontracting (H2020 Art. 13) →

Article 9.3 in HE – no change

4. Linked third parties (H2020 Art. 14) →

Affiliated entity in HE (Art. 8) – no change

Part 3 / Chapter Two

Other costs in H2020 / Purchase costs in HE

Other direct costs H2020

Everything other than personnel or subcontracting comes here:

- Travel costs
- Equipment and assets
- Other goods and services
- Internally invoiced other goods and services

Special other cost categories for certain projects, like:

- Large infrastructure
- Energy efficiency measures
- Clinical trial cost
- Access to research infrastructure

Purchase costs Horizon Europe

Everything other than personnel or subcontracting comes here:

- Travel costs
- Equipment and assets
 - depreciation only, as default
 - full costs, if opted in by the GA
 - mixed, if opted in by the GA
- Other goods and services

Specific costs - Other Costs

Financial support to Third Parties (FSTP) (D1)

Internally invoiced goods and services (D2)

Transnational access cost to Research Infrastructure (D3)

Virtual access cost to Research Infrastructure (D4)

PCP/PPI (D5)

Euratom Cofund staff mobility costs (D6)

ERC Additional funding (D7)

ERC Additional funding – SC, FSTP, IIGS (D8)

Travel costs

- Actual travels costs, in accordance with the Beneficiary's account principles and travel policy - **you must have a travel policy!**
 - Business or Economy?
 - Per-diem or actual cost?
- The travel must be linked to the action, reported in the periodic report – **have a mission report form** with a written abstract what and why happened!
- No distinction between travelling in or outside of Europe!
- Travel costs are primarily eligible for the personnel working on the project
 - External experts? Invited lecturers?
- Proportionate travel costs in case of multiple purposes (*e.g. between projects, or between professional and private reasons*)
- Make sure **your travels are in line with your timesheets!**



Equipment and other assets



What is eligible?

- **Depreciation cost** for equipment, infrastructure or other assets (new or second hand) recorded in the Beneficiary's P&L can be reported.
- **Cost of installation**, site preparations, delivery etc.
- **Cost of renting or leasing** equipment, infrastructure or other assets (including related duties, taxes and non-deductible VAT) can be reported, if they do not exceed the depreciation costs of a similar asset and do not include any financing fees.
- The only portion of the cost related to an action can be reported i.e. costs which corresponds to the duration of the activity and rate of actual use for the purpose of the activity (**usage-rate records!**).



When it is eligible?

- Foreseen and needed to carry out the activity
- In accordance with:
 - the Beneficiary's accounting practice,
 - national/ local tax and accounting rules
 - **International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)**



What are the special cases?

- Financing costs related to leasing contracts
- Buy-out costs related to leasing contracts
- Prototypes/Pilot plans?
- Full cost option in HE
- Full capitalised cost?
- Equipment bought before the project?

Other goods and services: Article 10

Subcontracting or Other service?

It's neither the EC, nor any of the Beneficiaries = a third party to the GA

- Any costs needed for the implementation of the action
- Consumables, material costs, dissemination costs, IPR protection fees, Certificate on Financial Statement, translations, proofreading, legal advice, publications costs, printing costs, meeting costs like catering and hotel costs, website design and development costs, etc.
- No need to foresee them one-by-one in the GA!

Article 10 Contracts to purchase goods, works or services	Article 13 Subcontracts
These contracts do not cover the implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.	Subcontracts concern the implementation of action tasks; they imply the implementation of specific tasks which are part of the action and are described in Annex 1.
Do not have to be indicated in Annex 1.	Must be indicated in Annex 1.
The price for these contracts will be declared as 'other direct costs' — column D in Annex 2 — in the financial statement; they will be taken into account for the application of the flat-rate for indirect costs.	The price for the subcontracts will be declared as 'direct costs of subcontracting' — column B in Annex 2 — in the financial statement; they will not be taken into account for the application of the flat-rate for indirect costs.



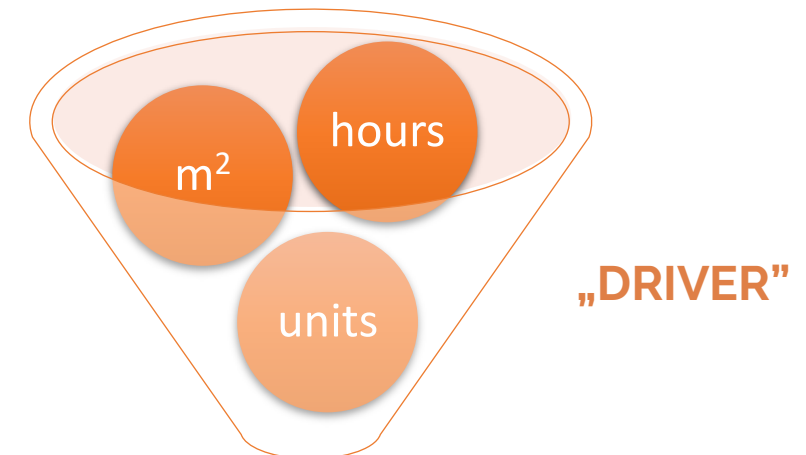
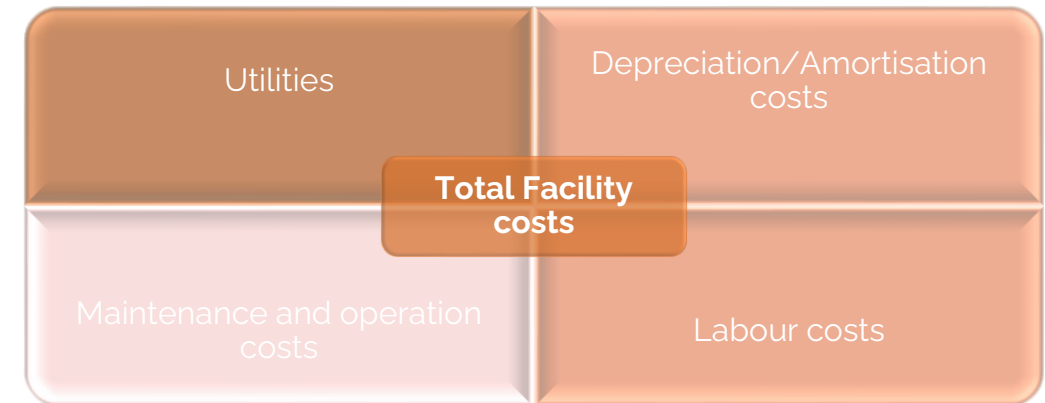
Key word: Providing assistance to a non-complete task(s) of the action!

Internally invoiced goods or services

Based on unit-cost calculation (H2020)

- **What is this for?**
 - Self produced consumables or goods
 - Use of internal facilities or specialized premises
- **What's not?**
 - Cleaning, general accounting, HR/PR, admin, etc.
 - Costs that are already charged as direct costs (e.g., personnel?)
- Based on actual costs (!) only, excluding any internal overheads, profit or rates – it's a case-by-case calculation!
- Beneficiary has to ensure that the justification and/or calculation is available to prove that **"no-profit"** is kept
- The calculation itself is recorded in the accounts
- Goods/services internally invoiced are directly linked to the project concerned

„POOL”



Unit cost x number of units utilized on the project = eligible costs

Horizon Europe - internal rates (?) with overhead included (!)

Part 3 / Chapter Three

Indirect Costs in H2020

Indirect Costs

FLAT-RATE overhead costs calculation applies

For all Beneficiaries: 25% on the top of the total direct eligible costs, excluding:

- Subcontracting
- Costs of in-kind contribution provided by third parties, that are not used on the beneficiary's premises
- Costs of providing financial support to third parties
- Lump-sums or unit costs includes indirect costs
- **Specific cost categories (including internally invoiced goods and services) in HE**

It's automatically added to the reported direct costs.



Part 3 / Chapter Four

Funding rates in H2020

Funding rates

One project – One Rate principle

- No distinction between the activities (e.g. research, management, other)
- 100% reimbursement for all in Research and Innovation Actions (RIA) and in Coordination and Support Actions (CSA)
- 70% reimbursement for profit making entities in Innovation Actions (IA) with the exception of:
 - 100% funding for non-profit entities in IA
- Special funding rates for some grants, like:
 - ERA-NET
 - MSCA – COFUND
- The funding rate is always applied on the reported and accepted eligible costs, taking into account the funding ceiling



Part 3 / Chapter Five

Receipts in H2020

Receipts (1)

What are they?

A receipt is:

- A **dedicated** financial or in-kind contribution directly given to the project (**other than the EU contribution**), or
- An **Income** generated by the project, such as:
 - Participation fee on a project event
 - Equipment bought by and reported to the action sold before the end of the project



Exploiting the project results (foreground) is NOT a receipt
Receipt(s) can only be reported at the end of the project



Receipts - HE

Corporate approach with HE derogation

Financial Regulation

Article 192(2) FR

[...] **receipts are limited to the Union grant and the revenue generated** by that action or work programme.

Article 192(3)(c) FR

→ **non-profit** organisations are **NOT** concerned by receipts.

HE derogation

- Income generated by the exploitation of the results shall **NOT** be considered as receipts of the action (Art 36(2) HE RfP → continuity with H2020)

Part 3 / Chapter Six

Certificates in H2020

Certificate/s of Costs

What is a CFS?

- It must be provided by the concerned Beneficiaries individually, whenever requested
- It is to validate the Beneficiary's financial statement(s)
- All costs must be cross-checked, in exceptional cases "sampling" can be accepted
- CFS must be provided using the official template provided in the GA

When is it due?

- H2020: The requested "accumulated" funding on actual costs and unit costs (i.e. excluding the 25% indirect costs) reaches **€325,000**
- HE: The requested "accumulated" funding on total reported costs reaches **€430,000**; or *€725.000 for those having a **System and Process Audit***
- To be submitted STRICTLY at the end of the project

Who can provide?

- Qualified, independent auditors under the 8th Directive
- Public bodies, secondary / higher education establishments and research organisations may opt for a competent public officer

Part 3 / Chapter Seven

Payments and Exchange rates in H2020

The Guarantee Fund

What is it?

- Guarantee Fund is to cover risks and recover lost grants
- All beneficiaries must contribute with 5% of their total calculated EU contribution
- Financial interest generated will cover risks (e.g. in case of bankruptcy)
- Will be reimbursed at the end of the project (1% may be deducted – from private entities)

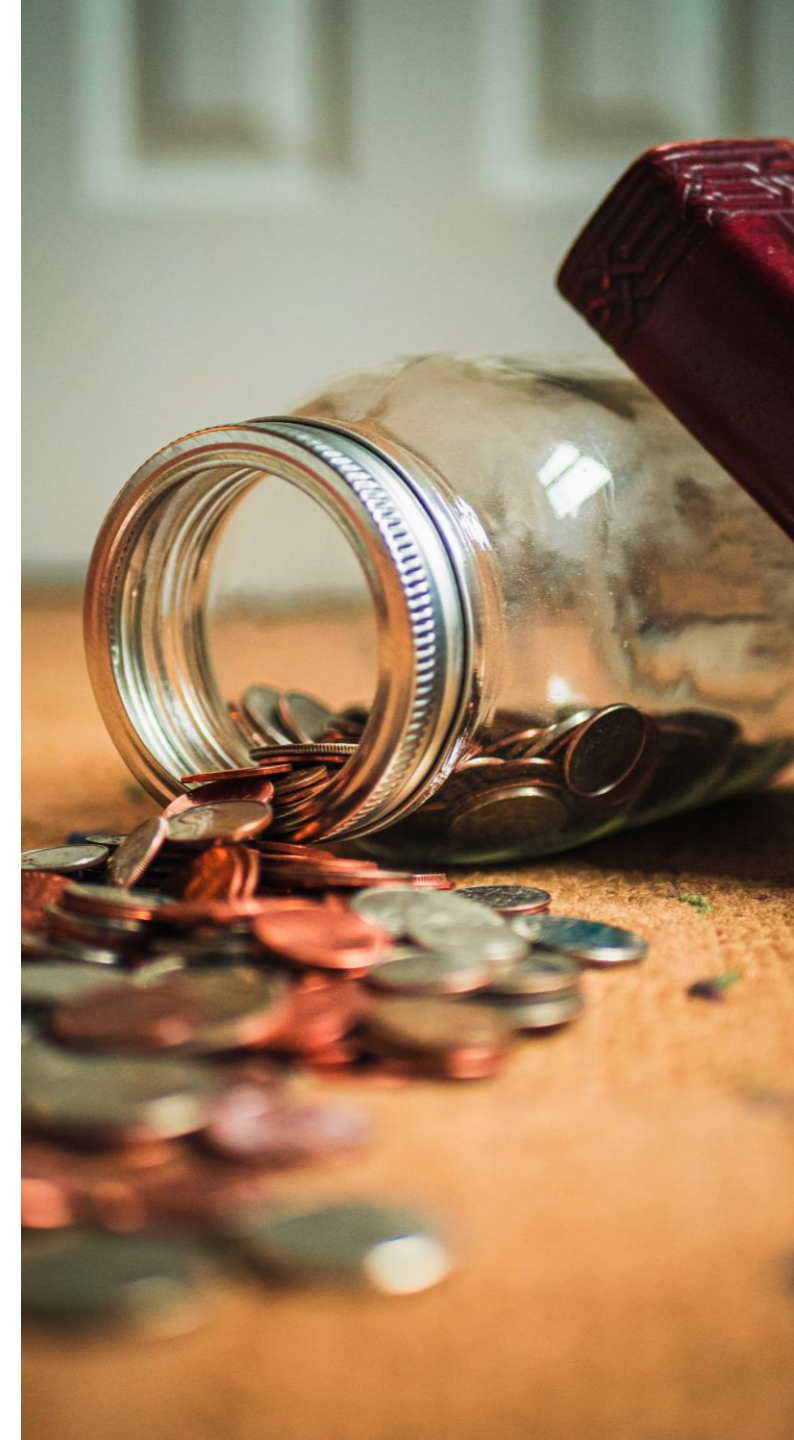


Mutual Insurance Mechanism

Replacing the Guarantee Fund in Horizon Europe

5% Contribution to the Mechanism:
but it can be more, or less.

- Actions require a **5% contribution** by the Beneficiaries.
- **Periodic evaluation** may change it and bring it up to 8% or reduce it under 5%.
- The Mechanism may be extended to **beneficiaries** of any other directly managed **Union programme**.
- It can be offset from the **initial pre-financing** and be paid to the Mechanism on behalf of the beneficiaries.



Payments from the EU

Explaining the different types

- **Pre-financing**, amount set by the EU in the GA, in 30 days after signing the GA
 - General advance-payment calculation: Total requested funding / number of reporting periods
 - **Minus 5% of the maximum grant amount to be transferred to the GF**
- **Interim payment(s)**, in 90 days from the date the EU received the Periodic reports
- **Payment of the Balance** (Final payment), in 90 days from the date the EU received the Final Periodic Reports + release of the GF contribution
- Suspension of payment may apply whenever needed

Total Budgeted Cost	1 000 €
Total Foreseen EC Contribution	1 000 €
Advance payment	550 €
<i>To Guarantee Fund</i>	50 €
Advance payment received	500 €
Reported and accepted cost after RP1	350 €
EC Contribution received	350 €
Reported and accepted costs after RP2	350 €
EC Contribution received	- €
Reported and accepted costs after RP3	300 €
EC Contribution received	150 €

Exchange rates (1)

Beneficiary with accounts in **EUR**, must report all costs accounted directly from their accounts

Beneficiary with accounts **other than in EUR**, must use the average of the daily exchange rate of the concerned currency over Euro, published by the European Central Bank.



Exchange rates (2)

Norwegian krone (NOK)

2 February 2022

EUR 1 = NOK 9.9228 -0.0410(-0.4%)

Change from 1 April 2020 to 29 October 2021

Min (26 October 2021)	Max (22 April 2020)	Average
9.6828	11.6775	10.4824



Select: EUR vs. NOK

Period: 01/04/2020

31/10/2021

Zoom:

1m

6m

1y

10y

all



THANK YOU!

for your attention

Gabor Kitley

gabor.kitley@europamedia.org

 [@KitleyGabor](https://twitter.com/KitleyGabor)

 [@gaborkitley](https://www.linkedin.com/in/gaborkitley)

europamediatrainings.com

info@europamediatrainings.com

   [@EuropaMedia](https://twitter.com/EuropaMedia)



VISIT

europamediatrainings.com

for more

Things you wished you knew about Horizon 2020 and Horizon Europe



info@europamediatrainings.com