



HORIZON 2020

Model Grant Agreement OTHER DIRECT COSTS

Direct costs for the action

Direct costs are costs that are directly linked to the action's implementation and can be attributed to it directly. They must not include any indirect costs

Direct costs are:

- costs that have been caused in full by the action
- or costs that have been caused in full by several actions and the attribution to a single action can, and has been, directly measured (e.g. not allocated via cost drivers)

Direct costs for the action

- Must be justified by sufficient **persuasive evidence** showing the **direct link to the action**
- Must be **properly recorded** in order to allow direct measurement of the use for the action and to ensure auditability
- The measurement system used by the beneficiary must accurately **quantify** the cost
- Direct measurement of costs **does not mean** fair apportionment of costs through proxies, cost drivers or allocation keys. Once you use them, it's indirect cost!
- In principle, what was considered direct/indirect in FP7 remains the same in H2020 **But** → Now, it is even more important because Indirect Cost is calculated at 25% flat rate

Examples (1)

A beneficiary uses a x-ray machine **for the action** for few hours and for the rest of the time the x-ray machine is used **for other activities**. The beneficiary charges the **full** depreciation costs for the period in the cost statement of the action.

NOT ALLOWED!

The allocation of the part of the annual depreciation to the H2020 action must be calculated based on the number of hours/days/months of actual use of equipment for the action. The **actual** use should be **directly measured** (logbook, etc.).

Examples (2)

The **total consumables costs** are charged as **direct costs** on the H2020 action as **proportion** of the action hours to total worked hours in the laboratory.

NOT ALLOWED!

Even if the usual accounting practice of a beneficiary is to consider laboratory consumables as direct costs.

The costs of other goods and services should be declared as **actual** costs e.g. direct consumption for the action should be **measured**.

Auditor's advice: direct measurement

*In FP7, energy and power supply was an indirect cost:
can I charge it as direct in H2020?*

Yes, if I can measure it...

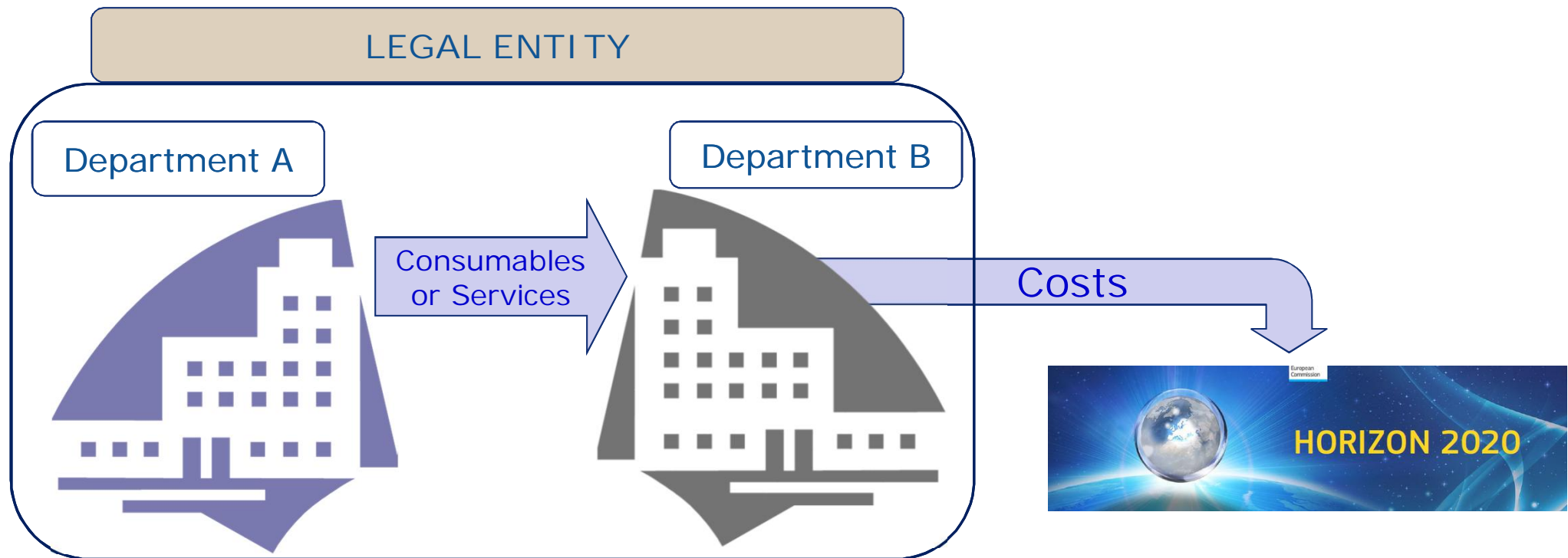
*Administrative staff members doing accounting for the action:
can I charge them to the action?*

Yes, with time sheets and provided it is your usual practice...

*Multi-purpose equipment used for several activities/actions:
can I charge its depreciation to an EU action as a % of
its capacity based on my experience?*

No. I have to measure its use.

Internal invoices refer to costs of goods or services produced by the same beneficiary who use them directly for the H2020 action and calculated in accordance with its usual cost accounting practices



EXAMPLES

Self-produced consumables

- e.g. electronic wafers, chemicals, etc.

Use of devices or facilities

- e.g. clean room, wind tunnel, supercomputer, etc.

Specialized premises

- e.g. animal house, aquarium, etc.

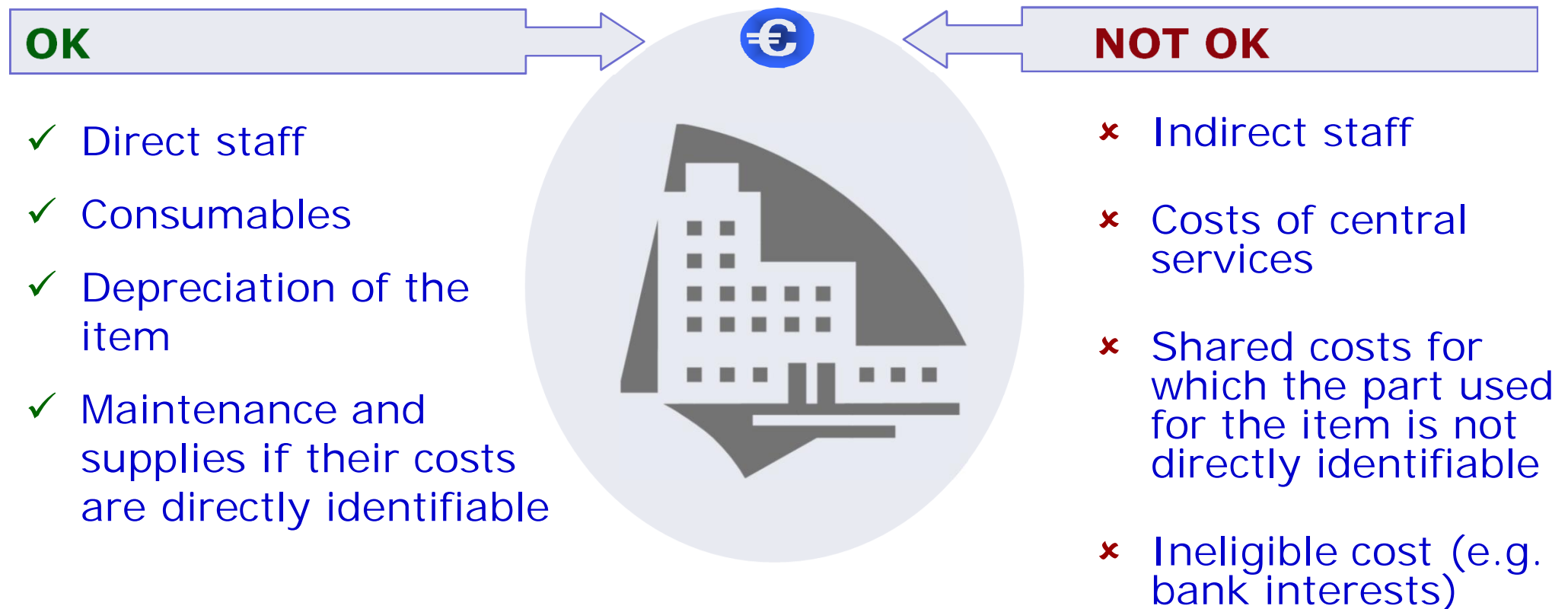
Standardised processes

- e.g. genomic test, mass spectrometry analysis, etc.

Hosting services for researchers

- e.g. housing and canteen costs for visiting researchers

Internal invoices must be calculated in accordance with the usual cost accounting practice of the beneficiary, but adjusted if needed to comply with the cost eligibility conditions



Subcontracts vs. Contracts

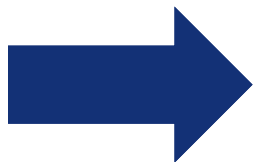
Article 10 Contracts to purchase goods, works or services	Article 13 Subcontracts
These contracts do not cover the implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.	Subcontracts concern the implementation of action tasks; they imply the implementation 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.

Contracts in H2020 vs. FP7: What changed?

The following are considered as contracts:

(if not specifically mentioned in Annex 1 as action tasks)

- Catering for meetings
- Translation services
- Setting up and maintenance of a project website



To be reported as other direct costs

Subcontracting: characteristics

- Based on business conditions (includes profit)
- No hierarchical subordination, no direct supervision
- Responsibilities lie with the beneficiary
- No rights and obligations vs. the Commission/Agency or the other beneficiaries
- **BUT** the beneficiary must ensure that its subcontractors can be audited by the Commission/Agency, OLAF and the ECA
- Beneficiaries that are 'contracting authorities' must comply with applicable national law on public procurement

Subcontracting: additional eligibility conditions

- Tasks and estimated costs should be set in Annex 1 for each subcontract
- Total costs per beneficiary should be set in Annex 2
- The need for a subcontract should be clearly justified in Annex 1
- Existing framework subcontracts are acceptable: in such cases the name of the subcontractor may be indicated in Annex 1



These conditions do not lift the obligation to ensure best value for money!

- Do not wait for an audit!
- At grant signature:
Foresee and justify all subcontracts in Annexes 1 & 2
- During the grant execution:
 - Ask for amendment to include subcontracts
 - Justify subcontracts in the technical reports
 - Communicate clearly and in writing with the project officers



Conflict of interests

Avoid **conflict of interests**
(Art.35 of the MGA)

'The beneficiaries must take all measures to prevent any situation where the impartial and objective implementation of the action is compromised for reasons involving economic interest, political or national affinity, family or emotional ties or any other shared interest ('conflict of interests').'

Conflict of interests

Avoid **conflict of interests** (Art.35 of the MGA)

The beneficiaries must formally notify the EC/Agency without delay any situation constituting or likely to lead to a conflict of interests and immediately take all the necessary steps to rectify this situation.

Non-compliance may have consequences (reduction of grant, termination).

You must demonstrate 'best value for money' both, in sub-contracting and in purchases of goods

- Some level of tendering to demonstrate 'best value' – e.g. tender, three offers, market survey, etc.
- Naming the supplier in the grant does not mean that you do not have to demonstrate best value
- We will normally accept your standard practices, when properly used

BUT



Your accounting practices are not panacea!

(e.g. cash basis depreciation is not automatically accepted even if it is in line with your accounting practices)

Common errors

- 'Best value' not demonstrated
 - no tender, no offers, no market survey
- Participants' own usual practices and procedures not applied
- Subcontracting between participants
- No documentation kept
- Public entities not applying public procurement rules
- Too high thresholds foreseen in the rules of the participant

Auditor's advice: Best value for money

I have named my subcontractor in the Annexes to the GA
is it enough?

- No because you are still deemed to have respected the best value for money

My subcontractor is a friend
is it a problem?

- As such not. But you must be in a position to prove that his/her offer represents the best price-quality ratio
- The conflict of interests rule requires you to adopt every measure to avoid it (including family and emotional ties)

I use the same IT provider since 20 years, with a written framework contract

is it ok?

- If you use it for you and for us, then ok. However, maybe it is time to look for better prices ...

Auditor's advice: Establishing systems from the start

You must demonstrate 'best value for money' and take measures to avoid 'conflict of interests' in Sub-contracting and in Purchase of Goods, Works, Services (including durable equipment)

Recurrent errors

- *'Best value' not demonstrated – no tender, no counter-offers, no market survey*
- *Participants' own normal practices not applied*
- *No documentation kept*
- *Conflict of interests overriding any competition*



HORIZON 2020

Thank you
for your attention!

Find out more:
<http://ec.europa.eu/programmes/horizon2020/>