



# HORIZON 2020

H2020

OTHER DIRECT COSTS



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- General principles
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- H2020 novelties / (Sub)contracting
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# Direct costs for the action

**Direct costs** are defined as:

- Attributable directly to the action
- Linked directly to the action implementation
- Exclusive of any indirect costs

**Direct costs** are used, in full, for:

- the action

OR

- several actions AND directly measurable by action (e.g. not allocated via cost drivers)

# Direct costs for the action

Art. 6.1 (a) – Eligibility criteria in practice

- Evidence the direct link to the action  
(sufficient and persuasive evidence/indicative audit programm)
- Keep records which establish the direct measurement of use
  - NOT fair apportionment through proxies, cost drivers or allocation keys. It's indirect cost
- Demonstrate that the measurement system accurately quantifies costs (identifiable and verifiable)
- Overall, what was considered direct/indirect in FP7 remains the same in H2020

# Examples (1)

## NOT ALLOWED!

The **full** depreciation costs of an x-ray machine are declared in the periodic reporting.

Only some hours of total usage goes **to the action**.

## ALLOWED!

The **actual** use should be **directly measured** (logbook, etc.):

The part of the annual depreciation to the H2020 action is calculated based on the number of hours/days/months of actual use of equipment for the action.

## Examples (2)

### NOT ALLOWED!

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

### ALLOWED!

They may be declared as **actual** costs *e.g. direct consumption for the action should be **measured*** (actual consumables used).

Even if it is the usual accounting practice of a beneficiary, these are considered indirect costs.

# 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...

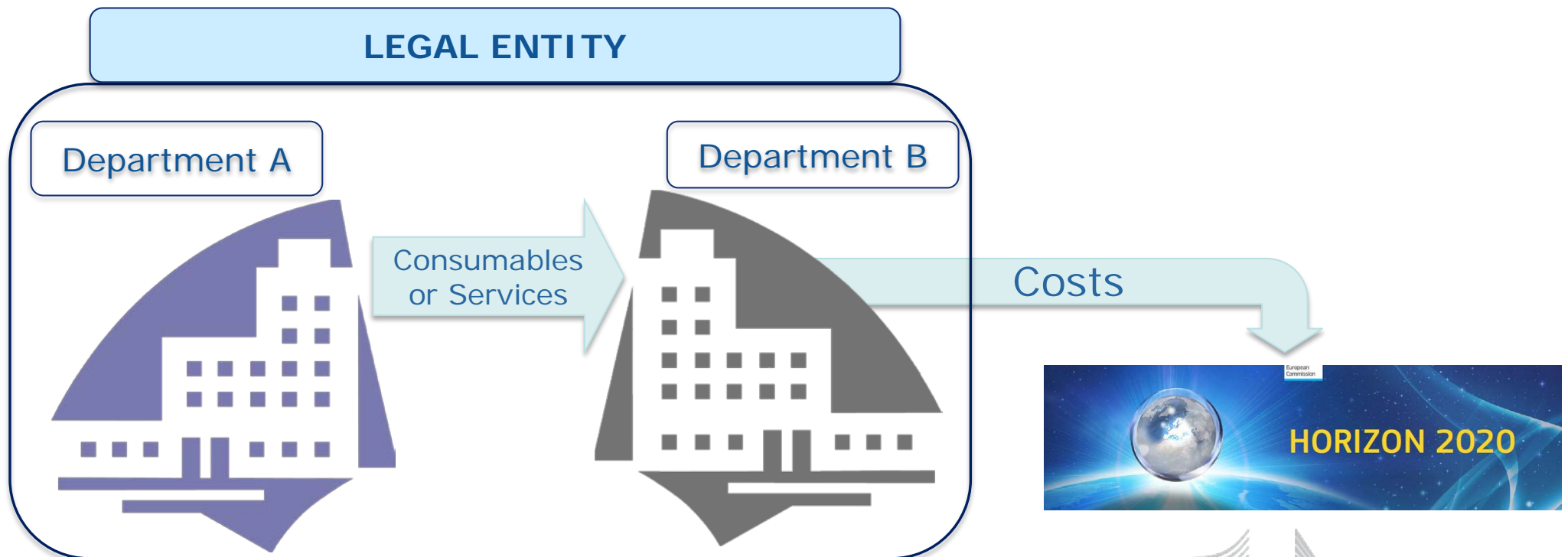
*Multi-purpose equipment used for several activities/actions:  
can I charge its depreciation to an EU action as a % of  
its capacity based on my experience?*

**No.** I have to measure its use.

# Internal invoices unit cost

## Internal invoices:

- inter-services cost of use (invoice)
- of internal goods or services
- used directly for the action
- at a unit cost calculated in accordance with usual cost accounting practices





# Internal invoices unit cost

## 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<sup>2</sup>

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

# Internal invoices unit cost

## Internal invoices:

- Calculated according to usual cost accounting practices
- BUT, adjusted to comply with eligibility criteria.



# Subcontracts vs Contracts

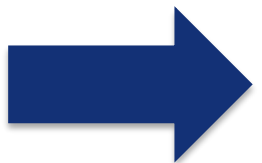
<b>Article 10</b> <b>Contracts to purchase goods, works or services</b>	<b>Article 13</b> <b>Subcontracts</b>
These contracts do not cover the implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.	Subcontracts concern the implementation of action tasks; they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

# *(Sub)contracting: characteristics*

- Business transaction (profit margin)
- Independent worker (No subordination/ supervision<sup>o</sup>)
- The beneficiary bears sole responsibility to the EU  
INCLUDING:
  - Ensure that its (sub)contractors can be audited by the Commission/Agency, OLAF and ECA
- “Contracting authorities” must comply with applicable national law on public procurement
  - In principle: EU directives
- Responsibilities to EU lie with the beneficiary
- **Best value for money**
- **Prevent Conflict of interest**

# Subcontracting: additional eligibility conditions

- Tasks and estimated costs:
  - in Annex 1 for each subcontract
- The need for a subcontract:
  - in Annex 1
- Total costs per beneficiary:
  - in Annex 2
- Existing framework subcontracts are acceptable:
  - indicate the name of the subcontractor in Annex 1



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

You must demonstrate  
'best value for money'

and

take measures to avoid  
'conflict of interests'

# Auditor's advice: Best Practice

## How to demonstrate 'best value for money'

- 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 a panacea!

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



# Auditor's advice: Common errors

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

# Auditor's advice: 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**').'*

# Auditor's advice: 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).*

# Auditor's advice: Examples

*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 ...

# Best Practice

- 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





# HORIZON 2020

**Thank you  
for your attention!**

**Find out more:**

<http://ec.europa.eu/programmes/horizon2020/>

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