Horizon 2020 Condensed

The Legal and Financial Basics

Contents

This UKRO Factsheet aims to give an overview of the most important legal and financial rules of Horizon 2020. It is divided into three parts – starting with the legal foundation and summaries of the most important documents, a section on the main rules for participation in Horizon 2020 projects, and finally a summary of the financial rules relevant for managing Horizon 2020 projects.

This is not an exhaustive document but is meant to be a useful summary. At the same time, the aim is to help future beneficiaries of Horizon 2020 funds to navigate through the European Commission's guidance documents available online. The table of contents provides an overview of the issues covered in this factsheet.

To help subscribers who want to consult the official Commission guidance documentation on a specific subject, UKRO provides a handy overview table at the end of this document. This allows you to search for information by specific issue rather than having to navigate through the 600 page-long Annotated Model Grant Agreement. Please also keep in mind that your UKRO European Advisor can provide further guidance and explanations on the issues highlighted below.

The Legal Foundation of Horizon 2020

The **Regulation** laying down the rules for participation and dissemination in Horizon 2020 is the most important legal text for the implementation aspects of the programme. This EU Regulation lays down both the specific rules for participating in Horizon 2020, as well as the rules for dissemination and exploitation of project results.

The Model Grant Agreement

When participating in Horizon 2020 projects, all beneficiaries need to sign a grant agreement (GA) with the Commission. This document is based on a standard Model Grant Agreement (MGA), which is a substantive document of over one hundred pages. The Commission can modify the MGA, for example introducing new simplification measures which would make it easier for beneficiaries to manage their grants. Some of the changes apply retroactively and can be applied to projects which are already up and running at the time when the modifications are introduced by the Commission. Other changes only apply to future grant agreements signed with the new version of the MGA. Some important changes to the MGA were introduced in July 2016 (e.g. monthly calculation of personnel costs), in February 2017 (e.g. additional remuneration and new option for using international partners as third parties under Article 14a) and in June 2019 (e.g. changes to the evidence required for internally invoiced goods and the addition of access costs for providing virtual access to research infrastructure).

Under the previous Framework Programme, FP7, different grant agreement models were used depending on the programme or project type. However, for Horizon 2020 there is one overall MGA which is only adapted in certain places to suit the specific programme or project type. There is one model for multi- and one for mono- beneficiary grants (for example for ERC grants where only one beneficiary is usually involved). A model also exists for lump-sum grants, initially piloted in 2018.

This being said, the MGA actually consists of a "catalogue" of documents, including a number of annexes. There are also models of the texts inserted for specific actions, such as for European Research Council (ERC) projects or for the Marie Skłodowska-Curie Actions (MSCA). Furthermore, additional annexes exist for some specific schemes, such as the ERA-NET Cofunds.

The main annexes are:

- **Annex I, Description of the Action (DoA)** – the technical details of the implementation of the project, transferred from the original proposal.
- **Annex II, Budget** – this is the table of the estimated budget for the Horizon 2020 project. The table gives details for each beneficiary and will, depending on the type of action or project, list personnel and other direct costs, subcontracting costs, third party costs and indirect costs. The table also summarises each beneficiary's total costs and gives the amount of requested EU contribution.
- **Annex III, Partners' Accession Forms** – for each project, the GA is signed by the project Co-ordinator and the European Commission. Project partners, known as 'beneficiaries' then accede to the GA by each signing an Annex III accession form.
- **Annex IV, Model Financial Statements** – this form is completed by the beneficiaries at the end of each reporting period and builds on the budget table included in Annex II.
- **Annex V, Model for the Certificate on the Financial Statements (CFS)** – this is the model for the audit certificate. In Horizon 2020 projects, the CFS is only due at the end of the project and only when a beneficiary claims at least €325,000 in EU contribution.
- **Annex VI, Model for the Certificate on the Methodology** – this is for beneficiaries that wish to obtain certification on their methodology for charging direct personnel costs declared as unit costs.

European Commission guidance

The European Commission has made guidance on legal and financial matters available on its Funding and Tender Opportunities Portal. Perhaps the most important guidance document is the Annotated version of the Model Grant Agreement (AMGA), which provides clarifications on individual articles. Although a complete version of the basic Annotated MGA is already available online, further annotations will be added with time, as Horizon 2020 progresses. Additional guidance on legal and financial matters is provided in the Horizon 2020 Online Manual on the Funding and Tender Opportunities Portal. Subscribers also get regular updates on Horizon 2020 legal and financial aspects through the UKRO Portal News, including answers to frequently asked questions and clarifications on the guidance that UKRO obtains.

Participation Basics

For the exact eligibility criteria and conditions we recommend consulting the **General Annexes (A-L)** to the Work Programme 2018-2020. It is also important to read the specific Calls for Proposals that are published by the European Commission, as they might include additional eligibility criteria.

The General Annexes are:

- **Annex A:** List of countries that are eligible for funding
- **Annex B:** Standard admissibility conditions, page limits and supporting documents
- **Annex C:** Standard eligibility conditions
- **Annex D:** Types of action: specific provisions and funding rates
- **Annex E:** Specific requirements for innovation procurement (PCP/PPI) supported by Horizon 2020 grants
- **Annex F:** Model Rules of Contest (RoC) for Prizes
- **Annex G:** Technology Readiness Levels (TRL)
- **Annex H:** Evaluation rules
- **Annex I:** Budget flexibility
- **Annex J:** Actions involving classified information
- **Annex K:** Actions involving financial support to third parties
- **Annex L:** Conditions related to open access to research data

How much will be reimbursed?

Horizon 2020 will use a simplified funding model compared to FP7. For research and innovation actions and coordination and support actions, there is only one funding rate for non-profit entities that will see a reimbursement of 100% of direct costs, with a 25% flat rate for indirect costs. Other entities, such as SMEs, will also receive a reimbursement of 100% of direct costs for research and innovation actions, and coordination and support actions, but **only 70% for innovation actions**.

Who is eligible for funding?

28 EU Member States	Associated Countries	Third Countries
• Legal entities from the UK remain eligibile until the country's official departure from the European Union.	• Similar list to FP7 • 16 countries are fully associated to Horizon 2020 as of 1 January 2017. Further information on the Associated Countries can be found in our dedicated **factsheet**.	• Only countries mentioned in Annex A to the Horizon 2020 Work Programme are automatically eligible for EU funding. • BRIC (Brazil, Russia, India, China) and Mexico are no longer automatically eligible for EU funding. • Under certain conditions, legal entities from other third countries may be eligible for funding, for example if their participation is necessary for the success of the project due to their access to expertise, data or infrastructures that cannot be found in Europe.

Who can participate?

In principle, consortia must include a minimum of three legal entities, independent of each other, and each established in a different Member State or an Associated Country.

Exceptions to this rule include mono-beneficiary grants, including the European Research Council grants, Co-ordination and Support Actions (CSAs), or the SME instrument.

What main types of actions are available and how are they funded?

RIA: Research and Innovation Actions	'Traditional' multi-national, multi-partner collaborative research and innovation projects – funding rate 100%.
IA: Innovation Actions	Actions which might include limited research and development activities but where the main focus is on innovation, including new or improved products, processes or services – funding rate 70% (non-profit legal entities 100%).
CSA: Coordination and Support Action	'Traditional' multi-national, multi-partner support actions or accompanying measures. CSAs do not provide funding for the actual research costs but for example for co-ordination of research policies, networking activities or, in some cases, studies and events – funding rate 100%.
SME Instrument	Designed specifically for Small and Medium-Sized Enterprises (SMEs) – research can be subcontracted to HEIs but they would not be full project partners receiving an EU contribution. Different phases are supported – funding for phase one is a lump sum of EUR 50k and the funding rate for phase two is 70% (or 100% where the research component is predominant).
ERA-NET Cofund	Research programmes run by a network of national funders in a specific field and part funded by the EU from Horizon 2020. ERA-NETs under Horizon 2020 must launch at least one transnational call, for which they can receive top-up funding from Horizon 2020 – funding granted is a maximum of 33% of the total eligible cost of the action.
Prizes	Specific competitive calls – content varies – funding in form of a lump sum.
PCP: Pre-contractual procurement	Public sector buys R&D to steer development of solutions to its needs.
PPI: Public procurement of innovative solutions	Public sector acts as the launching customer / early adopter / first buyer for innovative products and services that are newly arriving on the market (i.e. not widely commercially available yet)

Prizes

Prizes are a new feature in Horizon 2020 (FP7 piloted a prize under the Health theme). Many prizes have been awarded under Horizon 2020, with several more still to be published on the Funding and Tender Opportunities Portal. They include prizes in the area of ICT, energy, transport and health (managed by mainly by DG CNNECT or DG RTD).

Horizon 2020 prizes are simply 'challenge' prizes (also known as 'inducement' prizes) offering a cash reward to whomever can most effectively meet a defined challenge. In a prize competition, the Commission will ask for a solution to a particular challenge, without defining the way of solving the problem. The goal will be to go beyond the current state of the art in research and innovation.

There are no eligible or non-eligible costs for prizes. As such, no co-financing and no financial reporting will be required. Prizes of a specific value will be awarded solely on the basis of the results, irrespective of the costs incurred.

Prizes are either managed directly by the European Commission, or they can be outsourced to the Executive Agencies. In both cases, the Commission will set out the rules of the contest and the evaluation. Prizes will be launched separately from the standard calls for proposals or calls for tenders and can be awarded any time until the end of the current Multiannual Financial Framework.

How to get started?

UKRO provides subscribers with a separate, detailed factsheet on **Applying for Horizon 2020 Funding**

Registering an organisation

Getting started with a Horizon 2020 proposal requires getting set up on the Funding and Tender Opportunities Portal. Detailed guidance on the portal is available through the Horizon 2020 Online Manual.

Under Horizon 2020, each organisation that wants to participate in Horizon 2020 actions must register on the Beneficiary Register through the Funding and Tender Opportunities Portal. Upon completing registration, a provisional 9-digit Participant Identification Code (PIC) will be issued. This number must be quoted in any proposal and correspondence with the Commission. Unlike in FP7, a PIC is needed to start a proposal in the system, and will be required for every project partner at this stage. A preliminary PIC is issued immediately after registration (shown as 'declared') and can be used for proposal preparation. It will only be validated during the grant agreement preparation phase of the organisation's first successful project. A PIC must only be created once rather than per research proposal submitted.

It is strongly recommended that each organisation participating in a Horizon 2020 project, either as a beneficiary or a third party, has at least a declared PIC, although it is mandatory only for beneficiaries and linked third parties.

Legal Entity Appointed Representative (LEAR)

Once an organisation has been registered and validated, the Legal Entity Appointed Representative (LEAR) will have to be appointed. Traditionally this is someone involved in the organisation's central administration. As the LEAR's roles and responsibilities have expanded in Horizon 2020, LEAR mandates from FP7 do not cover Horizon 2020 and thus 'old' LEARs will need to be re-appointed. The LEAR appointment procedure is described in the Horizon 2020 Online Manual.

Once appointed, the LEAR, among other things, will be able to change the organisation's details, see details of the organisation's projects and proposals, delegate access to colleagues and most importantly, appoint legal signatories (LSIGN) and financial signatories (FSIGN).

Managing Horizon 2020 projects

European Commission grant management

Under Horizon 2020, the Commission largely outsources grant management to its Executive Agencies. While this was done for some FP7 grants (for example ERC grants were managed by the European Research Council Executive Agency – ERCEA, Marie Curie Actions (MCA) by the Research Executive Agency – REA etc.), additional agencies are used under Horizon 2020.

Internally, the Commission has also set up a **Common Support Centre** – an internal structure, which ensures greater consistency in the interpretation of rules across all Directorates and Commission units involved in Horizon 2020. The CSC includes: the Common Legal Support Service, Service for Business Processes, Common Service for Horizon 2020 Information and Data, Common Audit Service and IT Service.

Grant preparation and Time-To-Grant (TTG)

Unlike in FP7, there is no significant grant negotiation phase and the Commission is not be able to suggest any major changes to the proposal before the signature of the grant agreement. Proposals will be evaluated on their own merit, meaning that what is submitted will be evaluated and, in general, Horizon 2020 actions will be expected to start within eight months from proposal submission. The revised interpretation of the time-to-grant rule allows for the extension of the standard three-month period for grant preparation, thus reducing the pressure on both, beneficiaries and the Commission services, provided that the eight-month overall TTG reference period is complied with.

During this period, beneficiaries are also expected to sign and evidence a Consortium Agreement (CA), where necessary. Although, as the CA is a consortium's internal document, in principle, the Commission should not be asking for a copy.

Consortium Agreement

Where applicable, a Consortium Agreement will be required before the signature of the GA. The CA describes the roles and responsibilities of each consortium partner together with other arrangements, such as dispute resolution and Intellectual Property management. A DESCA Model Consortium Agreement for Horizon 2020 is available on **www.desca-2020.eu** and other, sector specific, model documents can also be obtained from relevant stakeholders and various umbrella organisations. The DESCA model was widely used by institutions participating in FP7 and continues to be popular. However, it is up to each individual project consortium to agree on the most appropriate template and wording for their own Consortium Agreement.

Pre-financing and the Horizon 2020 Guarantee Fund

In Horizon 2020, there will be no standard amount or percentage of pre-financing and the exact sum is fixed in each GA. This marks a substantial difference to the practice under FP7.

Normally, the pre-financing will be up to 100% of the average EU funding per period (i.e. the maximum grant amount divided by the number of periods) for actions with at least two reporting periods. Pre-financing will be less for actions with only one reporting period.

As in FP7, 5% of the pre-financing amount will automatically be withheld and paid into the Commission's Guarantee Fund for Horizon 2020. The funds are returned to beneficiaries at the end of the project. The Guarantee Fund will be used by the Commission in specific instances, such as when one of the beneficiaries in a consortium goes bankrupt, to ensure that the remaining project partners do not have to carry the financial burden.

Types of costs

There are four main categories of costs in Horizon 2020:

Actual costs	Costs actually incurred, identifiable, verifiable, recorded in accounts (incl. non-deductible VAT)
Unit costs	• Fixed amount determined by Commission (SME owners' Unit Costs, MCSA) • Average personnel cost (based on usual accounting practices)
Flat rates	A percentage to be calculated on the eligible cost (i.e. Indirect costs = 25% Direct costs
Lump sum	• A global amount to cover one or several cost categories (e.g. Phase 1 of SME instrument)

Eligible costs

Beneficiaries can only claim costs that are defined as eligible under Horizon 2020. Compared to FP7, not much has changed in terms of the eligibility criteria. In short, in order to be eligible, actual costs must be:

- actually incurred by the beneficiary;
- incurred during the action duration;
- entered as eligible costs in the estimated budget of the action;
- connected to the action as described in Annex 1;
- identifiable and verifiable;
- in compliance with applicable national laws on taxes, labour and social security;
- reasonable, justified and must comply with the principles of sound financial management, in particular regarding economy and efficiency.

Costs are eligible if they comply with the general and the specific conditions set out in the Model Grant Agreement for each of the following budget categories:

- direct personnel costs;
- direct costs of subcontracting;
- direct costs of providing financial support to third parties;
- other direct costs (such as travel and subsistence, equipment depreciation costs etc.);
- indirect costs (overheads);
- specific cost categories (if applicable) – for example, unit costs for clinical studies/trials.

Ineligible costs

Costs that do not meet the general and specific conditions set out in the Model Grant Agreement are considered ineligible in Horizon 2020. This category also includes the following:

- costs related to return on capital;
- debt and debt service charges;
- provisions for future losses or debts;
- interest owed;
- doubtful debts;
- currency exchange losses;
- bank costs charged by the beneficiary's bank for transfers from the Commission/Agency;
- excessive or reckless expenditure;
- deductible VAT;
- costs incurred during suspension of the implementation of the action

Direct and indirect costs

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

'Indirect costs' are costs that are not directly linked to the action implementation and therefore cannot be attributed directly to it.

Indirect costs are eligible if they are declared on the basis of a **flat-rate of 25%** of the eligible direct costs from which the following are excluded:

- costs of subcontracting; and
- costs of in-kind contributions provided by third parties, which are not used on the beneficiary's premises.

Personnel costs

As in FP7, personnel costs are likely to be one of the main cost items for many projects. Under Horizon 2020, personnel costs are eligible, if they are related to personnel working for the beneficiary under an employment contract and assigned to the action. They must be limited to salaries (including during parental leave), social security contributions, taxes and other costs included in the remuneration, arising from national law or the employment contract.

Personnel costs must be calculated by the beneficiaries in the following way:

Hourly rate × Number of actual hours worked on the action + For non-profit legal entities: additional remuneration to personnel assigned to the action (if applicable)

As of July 2016, for personnel costs declared as actual costs, there are two ways of calculating the hourly rate on Horizon 2020 projects. A comparison of both options is included in **Annex I**.

- **Per year** (known as ‘the last closed financial year’ option)

Annual hourly rate = Actual **annual** personnel costs (excluding additional remuneration) for the person ÷ Number of annual productive hours

There are three options for establishing the **annual** productive hours, including a set number of hours and two methods for calculating detailed productive hours. UKRO can provide sponsors and subscribers with detailed advice on these methodologies, if needed:

- **1 720 hours**
- **Individual annual productive hours:** Formula: annual workable hours + overtime – absences
- **Standard annual productive hours:** According to the beneficiary's usual accounting practices; Minimum threshold: annual productive hours ≥ 90 % of the standard workable hours

- **Per month** (new way of calculating the hourly rate separately for each month)

Monthly hourly rate = Actual **monthly** personnel cost (excluding additional remuneration) for the person ÷ Number of annual productive hours **/12**

When calculating the hourly rate this way, the beneficiaries must use the **monthly** personnel costs and **one twelfth** of the annual productive hours, which can be one of the following:

- **1 720 hours**
- **Standard annual productive hours:** According to the beneficiary's usual accounting practices; Minimum threshold: annual productive hours ≥ 90 % of the standard workable hours

Only one calculation method may be used in a single financial year. The new monthly method can be applied retrospectively to grants signed with the previous version of the grant agreement and no amendment is required. Furthermore, there is also no need to explicitly inform the Commission or Agency about the intended way of calculating personnel costs on existing projects.

Parental leave and the calculation of the monthly hourly rate

When using the monthly option, time spent on parental leave may not be deducted when calculating the hourly rate per month. However, beneficiaries may declare personnel costs incurred in periods of parental leave in proportion to the time the person worked on the action in that financial year.

The beneficiary must do this **separately and on top of the personnel costs** calculated on the basis of the hourly rate. UKRO European Advisors can provide sponsors and subscribers with detailed advice on this.

Parts of basic remuneration generated over a period longer than a month

If parts of the basic remuneration are generated over a period longer than a month, the beneficiaries may include only the share which is generated in the month (irrespective of the amount actually paid for that month).

This applies, for example, to backdated pay, cost of living increases or merit pay. If the amount of the payment generated over a period longer than a month is not known in advance (e.g. merit pay for 2016, the exact amount of which is decided only in December) then the beneficiary cannot take it into account until the amount is actually determined. For example, if the pay corresponds to the period January to December 2016, the beneficiary cannot include any amount in the calculation of the monthly rates for January, February, etc., until the amount of the bonus is known. Once the amount is known, the hourly rate for each month could be adjusted by adding one twelfth of the payment in each month respectively. If the reporting period ends during that year and before the amount is known, this means that an adjustment will have to be made in the next reporting period.

Financial year and personnel costs

When calculating the annual hourly rate, the beneficiaries must use the annual personnel costs and the number of annual productive hours for each financial year covered by the reporting period concerned. If a financial year is not closed at the end of the reporting period, beneficiaries must use the hourly rate of the last closed financial year available. **It is not necessary to wait until the annual accounts have been audited** — 'last closed financial year available' refers here to the most recent full financial year for which all information necessary to calculate the hourly rates, in accordance with the Model Grant Agreement, is available.'

It is up to the beneficiary that closes its accounts in stages to decide at what point the figures could be used. The most important thing that should be remembered is that the figures should allow for the correct calculation of the hourly rate, as specified by the Commission in the Model Grant Agreement.

Unit costs of internally invoiced goods and services

Version 4.0 of the Horizon 2020 Model Grant Agreement, published on 27 February 2017, introduced a new unit costs for internally invoiced goods and services. Prior to that, beneficiaries were required to assign each element of the internally invoiced cost (e.g. use of MRI scanner or wind turbine) to the correct cost category in Horizon 2020 (e.g. personnel costs, other costs, etc.), which was problematic for numerous reasons, as estimating the costs was not allowed.

Following the change, beneficiaries can group all elements of costs for internally invoiced goods or services into a single unit cost – calculated in accordance with the beneficiary's usual cost accounting practices, which must be applied objectively regardless of the source of funding. All elements of the unit cost must still be based on actual costs (recorded in the beneficiary's accounts) and exclude any ineligible costs or costs included in other budget categories (e.g. indirect costs).

Useful examples of eligible and ineligible costs for the calculation of the unit cost of internally invoiced goods and services are provided in the Annotated Model Grant Agreement.

Subcontracting and action tasks

The Commission will consider all tasks included in the proposal as "action tasks" in the future. Unless it is specifically mentioned that a task will not be directly performed by a member of the consortium, it will be assumed that no subcontract is needed. To give an example, if the proposal mentions that a conference, or several workshops, will be organised as part of the project's main activities, these are considered "action tasks". If the plan is to delegate the entire organisation of these events to a company outside the consortium, a subcontract should be foreseen and this should ideally already be mentioned in the proposal.

It should be noted that the rules on subcontracting have not actually changed from FP7. So paying an external provider for certain parts of the work, for example catering or printing materials for an event, will continue to be fine without a subcontract and should normally be considered as a contract to purchase services (Article 10 of the MGA). However, if an event is fully organised by an external provider, and for example, the beneficiaries just send speakers to the event, this should be considered a subcontract and would need to be mentioned in Annex 1. Beneficiaries must award the subcontracts ensuring the best value for money or, if appropriate, the lowest price. In doing so, they must avoid any conflict of interest. Coordination tasks of the coordinator (e.g. distribution of funds, review of reports, etc.) — cannot be subcontracted. Other activities of the coordinator may, in principle, be subcontracted.

UKRO also maintains a **factsheet on third parties**, which also includes answers to questions related to subcontractors in Horizon 2020 projects.

Budget transfers

It is possible to transfer budgets between beneficiaries in the same project, between the budget categories (personnel, other costs…) and, since July 2016, even forms of costs not envisaged in Annex 2 (unit costs → actual costs, but only within the personnel costs category!) without a need for an amendment to the GA. However, the general principle that beneficiaries should keep in mind is that these transfers should not drastically change what was agreed for the project in the first instance in terms of tasks and outcomes. If the budget transfer impacts on the description of the action (Annex 1) then an amendment should be requested.

No transfers are allowed where:

- the amounts are set out as lump sums; or
- there is a case of costs relating to subcontracts which are not envisaged in Annex 1 (although, it is now possible to declare these in the next periodic reporting and have them accepted by the Commission officer without a formal amendment)

Value Added Tax (VAT)

In contrast to FP7, under Horizon 2020, non-deductible VAT is an eligible cost, if it cannot be recovered elsewhere (e.g. from national authorities). It is therefore important to check if VAT can be recovered from national authorities well before the end of the reporting period and if not possible, include it in the financial claims.

The Commission is not able to provide any detailed guidance on this issue, as the eligibility of VAT depends on national rules. Instead, subscribers should direct detailed queries about VAT to HMRC (VAT Helpline - 0845 010 9000) and consult its dedicated **website**, which includes useful information on research that does and does not fall within the scope of VAT in the UK.

Timesheets

Timesheets are no longer required for personnel spending 100% of their working time on an action. For these individuals, one declaration per reporting period will be required to confirm that the people concerned worked exclusively for the action during the entire reporting period. A **template** (.doc) of the declaration is available on the Funding and Tender Opportunities Portal and can be used as long as the minimum period for which it is used covers at least one natural month.

For individuals not working exclusively on the action (spending less than 100% of their working time on it), time recording will be required. While the Commission does not specifically ask for timesheets to be completed, most beneficiaries are likely to use them as the preferred method. A **template** (.doc) is provided on the Funding and Tender Opportunities Portal, but beneficiaries can use their own versions, as long as they include the minimum required information (title and number of the action, name of the beneficiary, the full name, date and signature of the person working for the action, etc.), as stated in the Annotated MGA. It is worth noting that the template was changed and the minimum requirements were relaxed in July 2016. However, while it is no longer necessary to include a brief description of the activities carried out, it is certainly a good practice and it is recommended that the timesheets still include this information.

While in FP7, time recording had to cover the full working hours of staff for whom personnel costs were claimed on a grant (detailing the hours worked on the grant but also account for the rest of the contracted time of the individual), this is no longer strictly necessary for Horizon 2020. However, it is believed that many beneficiaries will still keep their time recording methodologies as implemented during FP7.

Depreciation costs of equipment, infrastructure or other assets

The depreciable amount (purchase price) of the equipment must be allocated on a systematic basis over its useful life (i.e. the period during which the equipment is expected to be usable). If the equipment's useful life is more than a year, the beneficiary **cannot** charge the total cost of the item in a single year, unless the relevant Work Programme and consequently also the Grant Agreement explicitly foresee that option and the Commission/Agency agrees to it. This would normally be the case only for ERC-funded projects. Therefore, in principle, the beneficiaries may only charge the annual depreciation costs that correspond to the part of the equipment's actual use for the action.

In November 2016, the Commission included guidance in the Annotated MGA on claiming the full cost of low-value assets, which may be eligible in the year when it is purchased if:

- the full cost is recorded in the accounts of the entity as expenditure of that year (i.e. not recorded as an asset subject to depreciation); **and**
- the cost is below the low-value ceiling as defined under national law (e.g. national tax legislation) or other objective reference compatible with the materiality principle; **and**
- the item is used exclusively for the action in the year of purchase (if this is not the case, only the portion used on the action may be charged).

Reporting in the euro

Financial statements must be drafted in the euro.

UK beneficiaries (and linked third parties) with accounting established in GBP must convert costs **recorded in their accounts** into euros using the average of the daily exchange rates published in the C series of the Official Journal of the European Union, calculated over the corresponding reporting period.

To calculate this rate, beneficiaries may use the editable charts on the **ECB website**.

Certificates on the Financial Statements (CFS) and Commission audits

Under Horizon 2020, Certificates on the Financial Statements (CFS) – audit certificates on the costs declared by a beneficiary – are only due at the end of the project, and only in certain cases. A CFS must only be submitted by those beneficiaries whose requested EU contribution is equal to, or greater than €325,000. Costs based on lump sums, unit costs other than those for personnel costs, and most importantly flat rates (e.g. indirect costs), are excluded from the €325,000 threshold.

If preferable, the beneficiaries may submit either one certificate per reporting period or a single CFS for the whole action. In both cases, the certificate **may only be submitted with the final financial report**. The Commission/Agency will not accept certificates submitted at any other moment and costs incurred for those certificates will not be considered eligible, because they are not necessary.

Unlike in FP7, the cost of a CSF must now be claimed under Article 10 of the General Grant Agreement – *Purchase of goods, works or services* – and no longer under Article 13 – *Subcontracting* and the audit should be performed by an external auditor (with exceptions existing for some types of organisations).

It is important to distinguish between the external audits and the CFS, which is only due where the threshold of €325,000 is reached, and audits that are carried out by the European Commission, or also the Court of Auditors. The European Commission may order an audit of a Horizon 2020 grant during the project or at any time up to two years after the final payment is made. In FP7, the Commission could audit projects up to five years after the end of the project. Audits carried out by the Commission are limited to 7% of Horizon 2020 beneficiaries. However, the timing of any audits by other bodies, such as the European Court of Auditors, continues to be governed by their own rules and may therefore be outside the two-year limit.

New Lump Sum Pilot in Work Programme 2018-2020

As part of its simplification agenda and preparations for the next EU Framework Programme, in the 2018-2020 Work Programme, the European Commission is trialling a new lump sum pilot, which will require a somewhat different approach to designing a project and managing the grant.

The pilot will test two options for lump sum funding, and if successful, could be rolled out more broadly in the next EU Framework Programme – Horizon Europe.

Option 1 - The lump sum per project is fixed by the Commission in the work programme

Under this option, proposals must describe the efforts and resources that the applicants commit to mobilise for the pre-defined lump sum amount. Applicants must also provide the proposed split of the lump sum per work package and per beneficiary.

Option 2 - The lump sum is defined by applicants in their proposal

Under this option, applicants will need to propose a lump sum based on a detailed estimation of their costs. Following evaluation of the proposal and taking into account expert advice, an individual lump sum will be fixed in each grant agreement.

The lump sum pilot will eliminate all obligations on cost reporting, and remove the need for timesheets and for financial ex-post audits on costs incurred. However, since payments would be made against specific deliverables that the lump sums will be linked to, the pilot could also increase the overall risk to beneficiaries if the project tasks of one of them are not implemented as specified in the proposal. Consequently, the consortia might be required to adopt a new approach to planning the projects activities and managing the grant.

Further information about the pilot can be found in the Commission's dedicated **factsheet**.

Where to look for further information in the Annotated Model Grant Agreement?

Matter in question	Article in the Annotated MGA
Pre-financing	Article 21
Guarantee Fund	Article 21.2
Eligible and ineligible costs	Article 6
Personnel costs	Article 6.2
Value Added Tax (VAT)	Article 6
Contracts for goods, works and services	Article 10
Subcontracting	Article 13
Payments	Article 21
Reporting	Article 20
Keeping records	Article18
Timesheets (record for personnel costs)	Article 18
Audits	Article 22
Currency for the financial statements (the euro)	Article 21
Certificate on the Financial Statements (CFS)	Article 10
Intellectual Property	Articles 24-26

More information:

- Horizon 2020 Annotated Model Grant Agreement:

  ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf

- Horizon 2020 Model Grant Agreement:

  ec.europa.eu/research/participants/data/ref/h2020/mga/gga/h2020-mga-gga-multi_en.pdf

- Horizon 2020 Rules for participation:

  ec.europa.eu/research/participants/portal/desktop/en/funding/reference_docs.html#h2020-legal-basis-rfp

- Horizon 2020 Helpdesk

  ec.europa.eu/research/participants/portal/desktop/en/support/research_enquiry_service.html

- Sign up to the UKRO Portal to stay up to date on Horizon 2020 general developments, calls, events and results: **ukro.ac.uk**

- For specific questions, contact your UKRO European Advisor.

Annex I: UKRO Guide to Personnel Costs in Horizon 2020

The July 2016 update of the Horizon 2020 Model Grant Agreement (MGA) introduced an alternative way of calculating personnel costs on Horizon 2020 grants, using the monthly hourly rate. The previously available option of calculating an annual hourly rate (based on the last closed financial year) is no longer mandatory and the beneficiaries are free to choose any of the two options. However, only one must be applied to all Horizon 2020 grants in the same financial year. There is no need to amend the current grant agreements and the new method can be applied retrospectively without the need to notify the Commission/Agency.

	Annual hourly rate	**Monthly hourly rate**
Calculation of hourly rate	$\frac{actual\ \textbf{annual}\ personnel\ costs\ (excluding\ additional\ remuneration)}{number\ of\ annual\ productive\ hours}$	$\frac{actual\ \textbf{monthly}\ personnel\ cost\ (excluding\ additional\ remuneration)}{number\ of\ annual\ productive\ hours\ /\ \textbf{12}}$
Additional information about the calculation method	The annual hourly rate must be calculated using the personnel costs and the number of productive hours for **each full financial year covered by the reporting period** concerned. If a financial year is not closed at the end of the reporting period, the beneficiaries must use the hourly rate of the **last closed financial year available**.	There will be **no obligation to cap the number of hours worked for the EU actions on a monthly basis.** However, the following two annual ceilings apply also in the case of monthly calculations: • The beneficiary cannot charge in a year to EU/Euratom actions more hours that the annual productive hours used to calculate the hourly rates (Article 6.2.A); • The beneficiary cannot charge in a year to EU/Euratom actions more costs that the total actual eligible costs of the person for that year (Article 6.1.(a).(i)). Also, the number of hours charged in a certain period of time (e.g. a month) must be reasonable and must comply with the applicable national labour law. For example, if the national law establishes that a full-time employee cannot work more than 48 hours per week, it would not be possible for that person to charge 250 hours in a month. Consequently, **the number of hours would need to capped on an annual basis.**
Additional remuneration	Eligible additional remuneration claimed by non-profit entities must not be included in the calculation of the annual hourly rate and should be claimed separately.	Eligible additional remuneration claimed by non-profit entities must not be included in the calculation of the monthly hourly rate and should be claimed separately.

Available options of productive hours	• **1720 hours** for individuals working full time (or corresponding pro-rata for persons not working full time); • **Individual annual productive hours** calculated as follows: annual workable hours of the person + overtime/ - absences (sick leave, special leave, etc.); • **Standard annual productive hours:** the standard number of annual hours generally applied by the beneficiary for its personnel in accordance with its usual cost accounting practices. This number must be at least 90% of the 'standard annual workable hours'.	• **1720 hours** for individuals working full time (or corresponding pro-rata for persons not working full time); • **Standard annual productive hours**: the standard number of annual hours generally applied by the beneficiary for its personnel in accordance with its usual cost accounting practices. This number must be at least 90% of the 'standard annual workable hours'.
Parental leave	Under the General Horizon 2020 Grant Agreement, the grant contributes to the costs of parental leave via the hourly rate. Article 6.2.A of the MGA states that: *"For all options, the actual time spent on parental leave by a person assigned to the action may be deducted from the number of annual productive hours".* Resulting from this deduction, the hourly rate will be higher due to the fact that the number of annual productive hours will be lower. As a result, the grant will contribute to the costs of the parental leave in proportion to the hours worked for the action.	Time spent on parental leave may not be deducted when calculating the hourly rate per month. However, beneficiaries may declare personnel costs incurred in periods of parental leave in proportion to the time the person worked on the action in that financial year. The beneficiary must do this **separately and on top of the personnel costs calculated on the basis of the hourly rate.**
Parts of basic remuneration generated over a period longer than a month	Parts of a basic remuneration generated over a period longer than a month can be included in the calculation of the annual hourly rate, subject to the standard conditions mentioned in the MGA.	The MGA states that *"If parts of a basic remuneration are generated over a period longer than a month, the **beneficiaries may include only the share which is generated in the month** (irrespective of the amount actually paid for that month)".* This applies for example to backdated pay, cost of living increases or merit pay. If the amount of the payment generated over a period longer than a month is not known in advance (e.g. merit pay for 2016, the exact amount of which is decided only in December) then the beneficiary cannot take it into account until the amount is actually determined. Once the amount is known, **the amounts claimed for previous months can be adjusted.**

Combining the two methods in a single reporting period	**Only one of the above-mentioned options must be applied to all Horizon 2020 grants in the same financial year**. However, since the Horizon 2020 reporting periods usually last 18 months, the beneficiaries can switch between using the monthly and the annual hourly rates in the different financial years covering one reporting period, thus ending with two different ways of reporting personnel costs on a single grant. For example, if the financial year of a beneficiary runs from 01/08/n to 31/07/n+1 and the reporting period lasts for 18 months (e.g. July 2014 – December 2015), the hourly rates could be calculated in the following way: • one **annual hourly rate** for the financial year 08/2013 – 07/2014 for the hours worked before 01/08/2014; • one **annual hourly rate** for the financial year 08/2014 – 07/2015 for the hours worked during that period; • and then calculating **monthly hourly rates** from 01/08/2015 onwards (for the whole next financial year ending on 31/07/2016).