

# Calculation of a budget and other financial issues

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# My tasks for this part of the training

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- To present basic financial rules of the FP7
- To let you understand a request from your coordinator in terms of financial issues:
  - *Monthly rate*
  - *Number of person/months*
  - *Method of calculation of indirect costs*and show how this information is used for calculating a budget of a partner
- To let you exercise in calculating your budget
- To explain payment modalities during a project life time
- To let you exercise in calculating payments within a project

# Funding principles in FP7



## Main forms of grants

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- ❑ Reimbursement of eligible costs
- ❑ Flat rate financing
- ❑ Lump sum financing


The grant agreement will specify forms of grants

## NO cost reporting models

- ❑ Participants charge direct and indirect costs
- ❑ Flat rate always an option for indirect costs

## PRINCIPLE - **Co-financing**, no profit

# Activities and funding rates in FP7



Organization/ Activity	Research and Technological Development	Demonstra tion	Other (e.g. Consortium Management, Training, Dissemination)
<i>Large industry</i>	<b>50%</b>	<b>50%</b>	<b>100%</b>
<i>SME</i>	<b>75%</b>		
<i>Academy</i>	<b>75%</b>		

*The financial contribution is calculated as a maximum percentage of the total eligible costs of the action*

# Which costs can be reimbursed?

**Direct costs – attributed directly to the project,**

e.g.:

- ❑ *Cost of personnel assigned to the project*
- ❑ *Travel and subsistence allowances*
- ❑ *Research equipment and consumables*
- ❑ *Subcontracting*

- **Indirect costs – not identified as being directly attributed to the project but incurred in direct relationship with the direct costs**

*Commonly* non-variable costs or costs that do not vary proportionately to the productive and research processes undertaken



# Which costs are eligible?

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- ✓ Actual costs and incurred by the beneficiary
- ✓ Those which are needed to achieve the objectives of the project and consistent with the principles of economy, efficiency and effectiveness
- ✓ Incurred during the duration of the project except costs related to final reports
- ✓ Determined in accordance with usual accounting and management principles and practices the beneficiary
- ✓ Recorded in the project accounts
- ✓ Indicated in the estimated budget in Annex I

# Which costs are **non-eligible**?

Certain costs are, specifically excluded from the eligible costs e.g.:

- Identifiable indirect taxes including Value Added Tax
- Duties
- Exchange losses
- Costs declared or incurred, or reimbursed in another EU project

**Social taxes (in Belarus – 34%) are ELIGIBLE**

# Indirect costs – Main methods of calculation

- Actual / Real indirect cost
- 20% flat rate – always an option
- 60% flat rate – for certain types of organizations (academy, SMEs) and certain type of projects (collaborative projects only)

**Important!** In FP7, in case of a flat rate, indirect costs are calculated as percentage on **total direct eligible costs**.



# Lump sum is proposed to simplify your life

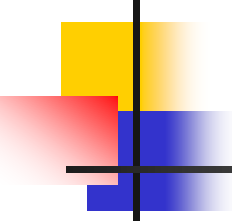
ICPC countries (Belarus) can opt between eligible costs and lump sums. Lump sum

- covers all costs,
- is calculated by applying upper funding limits for the specific group of countries:

Economy of the ICPC	EC contribution (EUR/Researcher/Year)
Low-income	8 000
<b>Lower middle income</b>	<b>9 800</b> <b>BELARUS</b>
Upper middle income	20 700

- Report on time devoted to the project – not on costs incurred. Time records needed.

# Example of calculation of EC funding using Lump sums



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University (HES) from Belarus having chosen a lump-sum, in a 3-year collaborative project with

- 6 researchers working on the project full-time,
- 3 researchers working part-time at 50%.

***What will be the project budget and EC contribution to it?***



# How to calculate personnel costs?

Calculating of personnel costs **is always an assumption** based on

- Who will work on a project (key executers)?
- How much they will work on the project?
- What is a *personal monthly rate* of people who will be involved in the project

***Example: calculation of personnel costs.***

# Payment modalities from the European Commission

- Pre-financing
- Interim payments
- Final payment

# Pre-financing

- ❑ Within 45 days following entry into force of the grant agreement
- ❑ Payment to the coordinator
- ❑ Distribution from coordinator to beneficiaries
- ❑ In projects with one or two reporting periods around 60-80% of the total EU contribution
- ❑ In projects with more than two reporting periods pre-financing is equivalent to 160% of the average EU funding per period

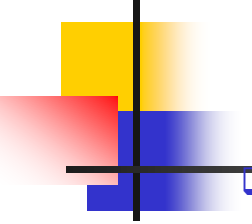
# Interim payments

- Interim payments following the approval of periodic reports
- Within 105 days from report receipt
- The total amount of interim payments + pre-financing limited to 90% of the maximum EU contribution

# Final payment

- ❑ The final payment will be transferred after the approval of the final reports
- ❑ Consists of the difference between the calculated EU contribution minus the amounts already paid

# Guarantee Fund

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- Risk avoidance mechanism / “Insurance contract” by the beneficiaries to guarantee financial losses of the projects
  - Commission establishes and operate a participant guarantee fund max. 5% of EU contribution subtracted from the pre-financing to be returned at the end of the project
  - Interest generated by the fund to cover sums due to the Community
  - If not sufficient, the Commission may deduct from amount to be returned to a participant max. 1% of EU contribution





# Payment modalities - Example

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*Project duration - 3 years,*

*3 reporting periods,*

*EU funding 3,000,000 €*

*Costs reported and accepted within 1<sup>st</sup>  
and 2<sup>nd</sup> reporting period - 1,000 €  
each period*

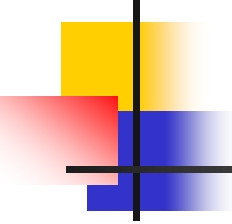
***What will be pre-financing, interim  
and final payments?***

# Financial Audits and Controls

- ❑ Can be carried out at any time during the implementation of the project and up to 5 years from years after the end of the project
- ❑ Originals related to the Grant Agreement shall be kept up to 5 years after the end of the project
- ❑ Audits may cover financial, systemic and accounting and management principles

# Technical audits and reviews

- Technical audits and reviews may cover scientific, technological and other aspects
- Can take place at any time during the implementation of the project and up to five years after the end of the project

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- Recovery procedures
  - Liquidated damages (if overstatement)

Calculation:

*Amount of liquidated damages = Unjustified EU financial contribution x (overstated amount / total EU financial contribution claimed)*

- The Commission may refrain from claiming liquidated damages in some cases
- Financial penalties (if false declarations)
  - Between 2% and 10% of EC contribution received
  - May be increased if repeated (4% to 20%)
  - Exclusion of all grants financed by the EU for maximum 2 years

# Further information and guidelines



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- ❑ Model Grant Agreement, incl. annexes
- ❑ Guide to Financial Issues
- ❑ [http://cordis.europa.eu/fp7/find-doc\\_en.html](http://cordis.europa.eu/fp7/find-doc_en.html)