Administrative issues to be considered in the Interim Evaluation of HORIZON 2020

Two key objectives for the implementation of Horizon 2020 were to reduce the administrative burden of all participants and to lower the error rates in financial reporting. The simplification measures introduced include the reduction of funding rates, the single flat rate for indirect costs, the eligibility of value added tax for certain participants, fewer audits, simplified timesheets and revised accounting rules for internal invoices, personnel costs and equipment costs.

Especially the standard funding rates, the flat rate for indirect costs and the eligibility of VAT represent major improvements and contribute significantly to speeding up and simplifying administrative processes of the projects and proposals. However, some of the new reporting rules require modifications in order to contribute to simplification:

I. Cost reporting and eligible expenses for direct personnel costs (Article 6.2.A MGA)

We highly welcome the additional option for the personnel cost reimbursement in the new version of the General Model Grant Agreement (H2020 General MGA — Multi, Version 3.0 20/07/2016) which allows participants to choose whether to calculate their personnel costs based on the last closed financial year or based on monthly actual costs. Being able to use actual personnel costs is a significant improvement and helps institutions to report real costs. The retroactive application of these new rules to all running H2020 projects is a best-practice example of the Commission's simplification efforts.

Although these measures are in favour of the beneficiaries, they do not necessarily lead to the desired simplification for all institutions:

- Each beneficiary can choose only one option (calculation per full financial year or per month) for each full financial year, which then applies to all projects for the financial year. During the lifetime of projects, reporting periods typically fall into different financial years. Because only one option per participant per financial year can be chosen, changing from one option to another is not possible for most participants. In practice, there will be no enhanced flexibility.
- Although the calculation of the hourly rate per month helps institutions to report real costs incurred, it also causes additional effort for data collection and calculation for institutions with usual accounting practices not based on monthly hourly rates. They have to implement additional measures in order to use the option per month. In addition institutions using real/individual annual productive hours instead of a fixed number of hours (1720) or standard annual productive hours are forced to change their usual accounting principles in order to comply with this option.
- Audit procedures become more and more complex and require much more efforts if multiple hourly rates have to be reviewed.
- Not being able to make adjustments to personnel costs will result in differences between the costs incurred and the costs reported in H2020 projects. The reasons for these differences are salary increases and payments made only in the following year like payments to the Employer's Liability Insurance Association.
Conclusion:

The following changes to MGA Art. 6.2.A “Direct personnel costs” would lead to noticeable simplification for all H2020 participants:

1) A further option 3 should be introduced which allows participants to account for actual personnel costs based on a single hourly rate calculated for the whole reporting period. For calculating this hourly rate it should be possible to choose between the options i), ii) and iii) for the “number of annual productive hours”:

\[
\text{actual personnel cost (excluding additional remuneration) for the person for the reporting period} \times \frac{1}{\text{number of actual productive hours for the reporting period}}
\]

This would be the best way to keep the number of different hourly rates that have to be calculated manageable. Introducing this third option would also prevent additional administration and management burdens for participants and auditors.

2) In order to ensure the full reimbursement of personnel costs, in line with the normal accounting practices of each beneficiary, adjustments to personnel costs should be reintroduced.

II. Cost reporting and eligible expenses for durable equipment (AGA explanation for Article 6.2. D.2 MGA)

The wording of the MGA Article 6.2.D.2 reads “The depreciation costs of equipment, infrastructure or other assets [...] as recorded in the beneficiary’s accounts are eligible, if they were purchased in accordance with Article 10.1.1 and written off in accordance with international accounting standards and the beneficiary’s usual accounting practices. [...] The only portion of the costs that will be taken into account is that which corresponds to the duration of the action and rate of actual use for the purposes of the action.” (p.23).This implies the same rules for charging equipment costs to projects in H2020 as in FP7. In the October 2015 version of the Annotated Model Grant Agreement (AGA), new annotations introduce the concept of equipment’s “full capacity” as “the number of productive hours/days/months corresponding to the full potential use of the equipment”. The AGA goes on to explain that only the share of the equipment’s full capacity actually used for the action can be charged to the project, indicating that time during which equipment is usable but not used may not be charged to the project.

This leads to two major problems:

- For large equipment and infrastructure, time records of equipment usage and/or log books are common practice, so that most beneficiaries can meet the documentation requirements in line with FP7-rules within their usual practices. Even in these well-documented cases, the AGA suggests that for each piece of equipment, a beneficiary will need to define in an auditable manner the full capacity of each piece of equipment, taking into account possible “constraints” such as opening hours of the building, working hours of support staff, or time for maintenance and repair. As these requirements are not in line with the common practice of most beneficiaries, they will drastically increase the amount of justification work necessary to reliably charge equipment costs to a project. Many beneficiaries would need to change their usual accounting practices and add layers of administration in order to meet the requirements.
Depending on the definition of full capacity, equipment costs chargeable to a H2020 project may decrease substantially, undermining the financial feasibility of purchasing scientifically necessary equipment. The amount of paperwork necessary to support equipment cost claims can be expected to lead to more mistakes and rising uncertainty.

- For small equipment, the effort involved in meeting the AGA requirements is highly disproportionate to the monetary costs. In some Member States, notably Germany, according to existing legal and tax regulations, all purchases above 410 EUR are considered equipment. They are therefore inventoried, and only their depreciation costs can be charged to a project. Such purchases include e.g. all IT hardware, software, and many minor pieces of laboratory items for which time recording, log books etc. is neither meaningful nor realistic. Beneficiaries in countries with such rigorous rules will no longer be able to charge equipment expenses to H2020 projects, to the detriment of their researchers.

Conclusion:

1) The most straightforward solution is to remove any reference to “full capacity” in the AGA. As in FP7, equipment costs should be eligible in accordance with the depreciation rules of the beneficiary.

2) Due to the highly specialized and unique instrumentation required in ERC and FET projects, the default option for grant agreements in these projects should read: “If foreseen in the work programme, the cost of purchasing equipment, infrastructure or other assets […] are eligible if […] purchased in accordance with Article 10.1.1.” [emphasis added]. This option listed in the MGA should always be a negotiation option.

III. Costs for internal invoices (AGA explanation for Article 6.2.D MGA other goods and services)

Universities provide a range of internal services to their researchers. These services add scientific value to research projects and cover services ranging from access to large research equipment and its trained support staff, to analytical services, research materials (including animals) and data, to training and consultancy. Researchers thus gain access to state-of-the-art technology and cost-intensive research infrastructure. According to the needs of each project, the costs of such services can be directly attributed to projects via internal invoices.

In FP7, internal invoices were chargeable to projects as eligible direct costs. In H2020, the AGA introduces novel specifications for direct costs: If they have not been fully caused by the action, they need to be “costs that have been caused in full by the activities of several actions (projects), the attribution of which to a single action can, and has been, directly measured (i.e. not attributed indirectly via an allocation key, a cost driver or a proxy).”

For internal invoices, the AGA requires that each cost category invoiced (e.g. consumables, equipment and personnel costs) has to be declared separately, under the corresponding budget category. It further specifies that costs need to be established according to the same method as all other direct costs. Personnel costs for instance need to be corroborated by time sheets and the calculation of hourly rates, even if they are minimal for each project.
Implementation issues

As a result of the new definition of direct costs, unit prices invoiced for internal services are no longer eligible costs. This in itself jeopardizes the implementation of H2020 projects which were calculated to include internally invoiced costs, under the assumption that these would be eligible as in FP7.

Internal services can no longer be invoiced following the usual accounting practice of most beneficiaries. To meet the AGA requirements, most beneficiaries need to develop a separate method for internal invoicing for H2020-funded projects, causing a disproportionate effort, in particular regarding personnel costs. For example, a technical assistant tending an MRI scanner would have to attribute each scan to a respective project and make a respective note every 15 minutes, assuming the specific project is known. Time records for personnel tending to animals or maintaining large equipment would need to be even more detailed. Such requirements are not economic, and in many cases are also not technically possible.

Under these circumstances, universities and university medical centers are not able to charge internally invoiced costs to H2020 projects. Buying services from external companies would significantly raise costs (in some cases by more than 50%), exceeding the H2020 project budget. Externallising services entails further complications: e.g. in clinical studies, patients would need to leave the treating facilities, raising insurance questions. In some cases, it is also not possible to externalise a specific service as it is not available elsewhere.

Conclusion:

1) We fully support the solutions proposed in the January 2016 “Joint statement on the current problem of internal cost allocation (ICA) in Horizon 2020” (position paper of academic & non-commercial research organisations, research councils and regions) and presented to the European Commission on 14 June 2016.

2) The specifications of the AGA towards internal invoices should be revised. The costs for internal services are often significant and cannot be covered through indirect costs or as an own contribution. Should the rules of the AGA remain, H2020 projects involving sizable costs for internal services will no longer be feasible at German universities and numerous further beneficiaries.

This position paper has been developed by the internal working group “Project Management” of the BAK (National Working Group of EU Funding Advisors at German Universities and Universities of Applied Sciences / BundesArbeitsKreis der EU-Referent/innen an Hochschulen in Deutschland) in collaboration with KoWi, the European Liaison Office of the German Research Organisations.

Spokesperson and contact:

Silke Reinold
Universität Bremen
Phone: +49-421-218-60326
Email: silke.reinold@vw.uni-bremen.de
http://www.uni-giessen.de/bak/Management.htm