

Intelligent Energy – Europe

**General contractual and
financial topics – call for proposals 2004**

European Commission, Intelligent Energy Executive Agency (IEEA)



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Contents

- **General contractual topics**
- **Financial topics**

The grant agreement establishes rights and obligations relating to the action

Characteristics of the grant agreement

- Establishes the rights and obligations for all beneficiaries
- Established between the Commission and all beneficiaries
- One beneficiary will act as co-ordinator with additional responsibilities vis-à-vis the Commission

Elements of the grant agreement

- Core agreement
 - ▶ Special Conditions: account for the specific needs of the IEE program
 - ▶ General Conditions: legal, admin. and financial provisions
- Annexes
 - ▶ (I): description of the action
 - ▶ (II): budget of the action
 - ▶ (III): guidelines for technical reports and model cost statement
 - ▶ (IV): mandate model
 - ▶ (V): financial guarantee model¹

¹ Only in agreements where financial guarantees are requested



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Article I.3 defines the roles of the beneficiaries

- **The coordinator has a very active role, in particular:**
 - ▶ **Accountable for implementation in accordance with the agreement**
 - Check out the "Implementing your project" corner on our website
 - ▶ **Intermediary for communication with the Commission (claims, requests for changes, etc.)**
 - ▶ **Transfers funds to co-beneficiaries within 30 days of receipt**
 - ▶ **Responsible for supplying information to the Commission and to the co-beneficiaries**
 - Proactively inform the Project Officer (e.g. project summaries, access to project website, upcoming meetings, etc.)
 - Provides proof of transfer of funds to the co-beneficiaries (compulsory)
 - ▶ **Establishes payment requests**

- **Co-beneficiaries are accountable for the proper performance of planned work and reporting to the coordinator in particular**

Article I.6 stipulates the reporting obligations

- **Always through the coordinator: 2 original hardcopies and an electronic version in English – guidance in Annex III**

- **Technical progress reports (PR)**
 - ▶ Cover subsequent periods of 6 months, within 30 days of period end
 - ▶ First PR within month 7 after starting date of action (defined in Art. I.2.2), unless it coincides with interim report submission date

- **Interim report (IR)**
 - ▶ Within 30 days of end of reporting period defined in Art. 1.6.3
 - ▶ Includes interim financial statement
 - ▶ Approval is one condition for paying the second pre-financing

- **Final report (FR)**
 - ▶ Within 60 days of action completion
 - ▶ Includes PR for last reporting period and final financial statement

The payment arrangements are specified by Article I.5

- **1st pre-financing is 30% of the contribution**
 - ▶ Paid within 45 days of official receipt of agreement and mandates
 - ▶ Conditional on receipt of financial guarantees requested¹
- **Aggregate amount of 1st and 2nd pre-financing can be up to 70% of the contribution**
 - ▶ Conditional on approval of IR and consumption of 1st pre-financing
 - ▶ 2nd pre-financing can represent 70% if the 1st pre-financing has not been paid, i.e. the requested financial guarantee has not been submitted
 - ▶ Co-ordinator must keep evidence proving transfer of 1st pre-financing to co-beneficiaries
- **Final balance within 45 days of approval of FR**
 - ▶ Co-ordinator must keep evidence proving transfer of 2nd pre-financing to co-beneficiaries
 - ▶ No audit certificate unless EC contribution to a single beneficiary is above EUR 150.000²
 - ▶ No performance guarantee is retained

¹ Only in agreements where financial guarantees are requested; ² No audit certificate in any case for public bodies or international organisations

Financial guarantees may be requested before the 1st pre-financing is paid

- **Regulations and guidelines on risk assessment determine whether or not a financial guarantee is requested:**
 - ▶ Based on the financial information available (assessment of dependency on EC support, analysis of financial structure and profitability)
 - ▶ Based on the amount of pre-financing paid (1st and 2nd)
 - Always if it is above EUR 150.000
 - Otherwise conditional on risk assessment

- **In this case, 1st pre-financing paid only if requested guarantee is received:**
 - ▶ Payment of 1st pre-financing effected max. 45 days after agreement and mandates are received
 - ▶ Amount corresponding to financial guarantees outstanding is deducted

- **Guarantee model is mandatory (Annex V)**

Neglecting to request amendments can have adverse financial consequences

■ Article II.13 states:

- ▶ No oral agreement may be considered as binding
- ▶ An amendment may not have the purpose or the effect of making changes to the agreement which might call into question the decision awarding the grant or result in unequal treatment of applicants
- ▶ An amendment must be submitted to the Commission in good time before it is due to take effect and in any case one month before the closing date of the action

■ Amendments are necessary when, for example:

- ▶ Beneficiaries change (some withdraw, are replaced, etc.)
- ▶ Change of name, legal status or bank details of a beneficiary¹
- ▶ Extension of contract duration
- ▶ Significant changes in Annex I (change in a work package, reporting schedule...)
- ▶ Budget transfers exceed 10% (between cost categories or between partners)

■ Without amendment, the Commission will apply the signed agreement, with possible consequences on the eligibility of costs

¹ Commission should be informed and takes note of address changes – no need for an amendment

Budget shifts have to be approved by the Commission

- **Budget shifts do not require an amendment to the agreement provided that:**
 - ▶ The budget shifts do not affect the implementation of the action
 - ▶ If they are between cost categories for one beneficiary and the shift does not exceed 10% of the total eligible costs of this beneficiary
 - ▶ If they are between beneficiaries and the shift does not exceed 10% of the total eligible costs of the receiving beneficiary

- **The request for a budget shift is simple:**
 - ▶ Registered letter through the coordinator to the Commission at least 1 month before the completion of the action
 - ▶ The Commission has 20 days to approve or refuse the request
 - ▶ Without response within 20 days, the request is deemed approved

The agreements contains some other important features

- **Article I.8 defines communication points**
 - ▶ IEEA premises, to the Head of Unit
 - ▶ In writing, in English, referring to the agreement number, title and acronym

- **Exchange rate applicable is the rate on the first working day of the month following the reported period (Art. I.11.5)**

- **Publicity activities:**
 - ▶ Article II.5 of the general conditions defines the beneficiaries' obligations
 - ▶ Guidelines are available on the Agency's website:
 - http://europa.eu.int/comm/energy/intelligent/implementation/communication_en.htm
 - "Implementing your project" corner: use of the "Intelligent Energy" banner, legal disclaimer, etc.



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The rules for eligibility of costs are straightforward and logical

- **Conditions for eligibility for both direct and indirect costs:**
 - ▶ **Costs must relate to the action and be necessary**
 - ▶ **Costs must be reasonable and justified**
 - ▶ **Costs must have been budgeted**
 - ▶ **Costs must be generated during the period of the action**
 - ▶ **Costs must abide by the relevant general accounting principles and participant's internal rules**
 - ▶ **Costs must be identifiable and verifiable**
 - ▶ **Costs must be actually incurred**
 - ▶ **Costs must exclude any profit margin**

- **All costs statements must be submitted in the currency used in the accounts of the beneficiaries**

Staff costs need to be justified through time sheets

■ Type of personnel in the category:

- ▶ Only the staff assigned to the action
- ▶ Exception only when tasks outlined in the action justify a significant and continuous allocation of administrative or secretarial staff – they must then be excluded from the calculation base of indirect costs

■ Calculation method:

- ▶ Salaries plus related obligatory social security charges and other statutory costs
- ▶ Only actual costs!

■ Formal justification through time sheets:

- ▶ Hours must be recorded using time-sheets (Art. I.11.3 and II.14.2)
- ▶ Model is available on the IEEA website
- ▶ Make sure references are complete (agreement reference, beneficiary reference, full name of the employee, full name of supervisor and his/her signature, etc.)
- ▶ Practical hint: complete the time-sheets every day

Subcontracting has to fulfil conditions on content and contract award process

- **Subcontracting may only cover the execution of a limited part of the action:**
 - ▶ Limited tasks outsourced by the beneficiary, and for hiring special expertise
 - ▶ Beneficiaries who issue subcontracts have to pay 100% of the subcontractor's invoice before claiming reimbursement from the Commission at the agreed level of co-funding

- **Subcontracts must be awarded in accordance with Article II.9 of the grant agreement:**
 - ▶ Subcontractors should be selected on transparent grounds, to the best offer, taking into consideration price and quality (best value for money)
 - ▶ In a very simplified procedure, three different offers should be obtained and evaluated against common established criteria

Follow the formal requirements for travel, consumables and equipment costs

■ Travel and subsistence costs:

- ▶ Only for staff taking part in the action (travel costs of sub-contractors should be included in the subcontracts)
- ▶ Based on the beneficiary's usual practices

■ Purchase costs of equipment:

- ▶ Any equipment will only be accepted under exceptional circumstances, i.e. it is specific to the project and necessary for the action
- ▶ E.g. database software or specific monitoring equipment but no standard office equipment such as PC, laptop, printer, etc.
- ▶ Only charge the portion of depreciation incurred during the action's lifetime and corresponding to the usage for the action

■ Consumables and supplies:

- ▶ Must be specifically related to the project implementation
- ▶ General consumables such as telephone, communication costs, heating, paper, etc. are included in the indirect costs

Other costs typically are the ones which can not be included in other categories

■ Other specific costs:

- ▶ Are linked to the action or arise directly from requirements imposed by the grant agreement
- ▶ Can not be included under the other cost classifications of direct costs

■ Examples:

- ▶ Charges for financial guarantees when applicable
- ▶ Subscription fees to conferences or events
- ▶ Travel costs for persons who are not members of staff or subcontractors
- ▶ Miscellaneous costs of organising an event
- ▶ Organisation of training courses
- ▶ Dissemination of information, reproduction of documents
- ▶ Specific evaluation of the action
- ▶ Costs of audit certificates, when applicable (Article I.5.3 of the Grant Agreement)

The full cost model has high demands on the beneficiary's accounting system

7% flat rate model

- No need to be substantiated by accounting documents
- Computed as 7% of the total eligible direct costs
- Recommended if accounting is not sophisticated enough

Full cost model

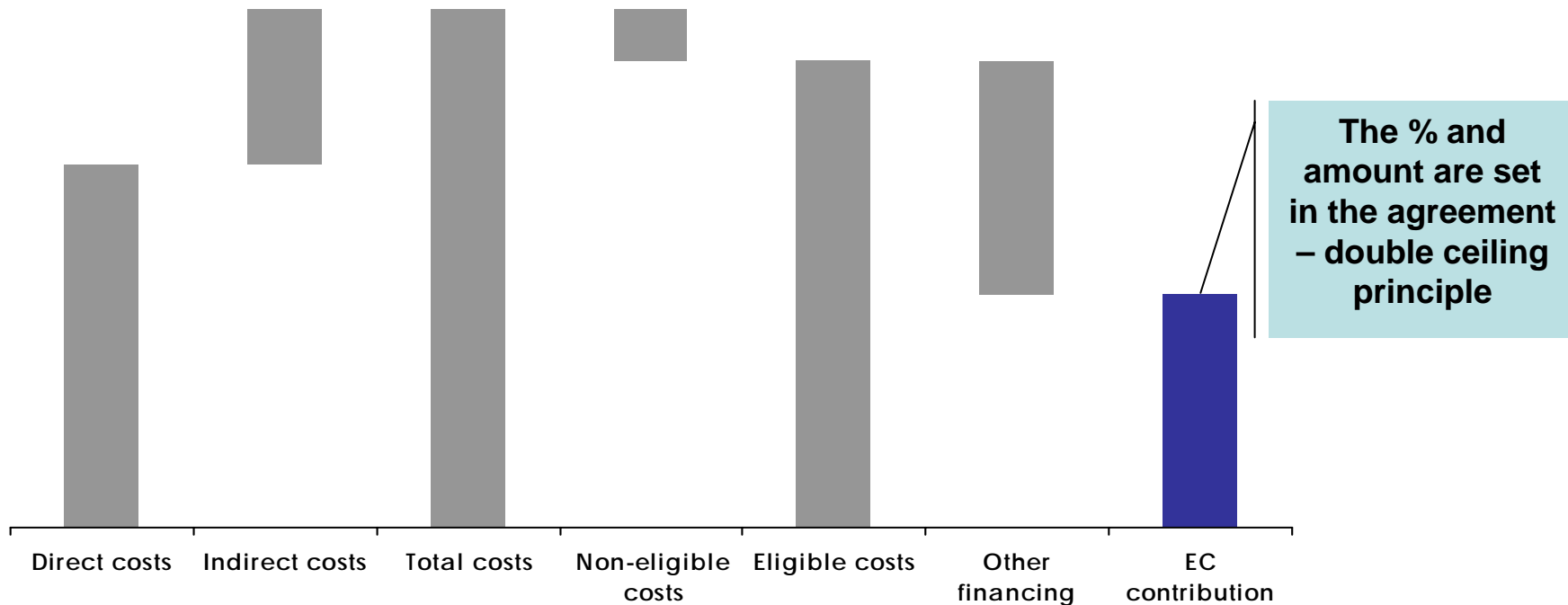
- The accounting system needs to be sophisticated enough to substantiate the actual rates used!
- IEEA can provide a template:
 - ▶ Determine direct salary costs and indirect cost pools of beneficiary
 - ▶ Use ratio "indirect pool to direct salaries" to apply to the direct staff rates
- Typical categories:
 - ▶ Indirect general costs necessary for carrying out the action
 - ▶ Administration and management (personnel), depreciation of buildings and equipment, water, electricity, telecommunications and postal charges, office supplies, etc.

What are examples of non-eligible costs?

- Value of contributions in kind (e.g. a party who is not a signatory to the grant agreement provides expertise, meeting rooms, brochures etc. free of charge) can not be claimed, as no costs are incurred (no coordinator or co-beneficiary has made and accounted for any payments)
- Provisions for losses or possible future losses or charges
- Unnecessary or ill-considered expenses
- VAT, unless the participant can show that he is unable to recover it - In such a case the participant must provide the Commission with proof from his national tax authorities)
- Exchange losses

The Commission contributes the set % of the eligible costs of an action

Determination of EC contribution - example



If total receipts are higher than total costs, the EC contribution is reduced by the corresponding profit margin

Thank you for your attention