

**Cost Statement Guidelines
for Contractors
in cost reimbursement research
contracts**

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| | <i>(this text is not yet final, small changes might have to be made still)</i> | |
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I. (DRAFT) GUIDELINES ON MAJOR FINANCIAL PROVISIONS FOR COST REIMBURSEMENT RESEARCH CONTRACTS

Commission research funding is based on cost-sharing contracts. This means that the Commission provides a contribution to the actual costs incurred for the work defined in the contract. Normally, the Community financial participation will not exceed 50% of the total expenditure of the project. The RTD Cost Reimbursement Contract provides two models of funding :

- the "**Full Costs**", where the Commission reimburses up to 50% of the total allowable costs; and
- the "**Additional Costs**", where the Commission reimburses 100% of those costs incurred for the projects that are "additional" to the normal running (recurrent) costs of the contractor.

The "Additional Cost" model applies to those universities and research centres (and other legal entities) that are unable to substantiate through their cost accounting system, with sufficient precision and to the satisfaction of the Commission, the costs relating to the work under the contract.

The model of funding applied by a contractor must be constant for all his cost-sharing research contracts.

For both models of funding, the specific provisions concerning the financial management of the project are included in Part C of Annex II to the contract.

NOTE : These guidelines are not applicable to the European Coal & Steel Community (ECSC) RTD contract, as the conditions and allowable costs are not the same.

* * *

What are actual costs and what are allowable costs?

Article 18.1 of Annex II states that "**allowable costs are those actual costs defined in Articles 19 and 20 that are necessary for the Project**". Therefore, allowable costs shall only include actual costs.

Actual costs are those costs that have effectively been incurred on the project and are recorded in the official books of account of the contractor.

These costs have to be incurred during the period specified in Article 2.1 of the contract. However, costs relating to the reporting, review or evaluating requirements of this contract may be allowed even if incurred during the period between the end of the project and the date of approval of the final report. Costs relating to equipment may be allowed if incurred not more than 6 months before the commencement date of the contract (another exception is indicated under Article 19.2 of Annex II to the contract).

It should also be stressed that budgeted costs should be used solely as a guide for establishing a budget proposal and that only actual costs shall be subsequently charged to the statements.

Allowable costs shall only include the costs that are expressly necessary for the performance of the work under the contract. These costs shall be presented in the cost statements under the following headings:

Allowable cost headings :

1. Personnel
2. Durable equipment
3. Third party assistance
4. Travel and subsistence
5. Consumables and Computing
6. Other significant specific project costs
7. Overheads
8. V.A.T. (if not recoverable by normal procedures)

Costs incurred in acquiring background information for the purposes of the work under the contract, may be allowed. These costs should be classified under "Other significant specific project costs".

| |
|---------------------------------------|
| What are not allowable costs ? |
|---------------------------------------|

Costs calculated in accordance with other conventions e.g. "current costs", "notional rents", "opportunity costs", etc. are not allowable. Therefore, no notional costs should be charged, e.g. in respect of revaluation of buildings or capital equipment, estimated or imputed interest, estimated rentals, etc.

Other costs which are not allowed are:

- Any profit
- Unnecessarily high, extravagant or wasteful expenditure
- Commercial, distribution costs for products and services, marketing, sales, advertising, etc.
- Provisions for future losses or liabilities
- Interest or return on capital employed
- Bad debts
- Entertainment expenses
- Any costs related to other projects

Where a part of the work is carried out by an affiliated company or organisation, no intercompany profit is allowed.

It has to be pointed out that interest included in leasing costs is not allowable. Furthermore, leasing costs are not acceptable where the leasing arrangement has the effect of unnecessarily increasing the charge made to the project (e.g. where the cost without interest of the leased equipment is higher than if purchased).

1. PERSONNEL COSTS

For contractors using the "Full Costs" model

Personnel costs are the employment costs (e.g.salaries, consultants' fees, grants) of the hours directly spent on the project by scientific and technical personnel. The cost of the administrative support necessary to carry out the project should be included in the overheads and not in Personnel costs. Scientific and technical consultants working full time on the premises of the contractor should be included in Personnel costs and clearly identified. Other scientific and technical consultants not working full time on the premises of the contractor are included in External assistance.

The following three elements must be known in order to calculate the total personnel costs which can be charged to the project :

- a) **The number of hours charged** to a project can only be known from time records. Article 19.1.2 of the Annex II to the contract *requires* that all scientific and technical personnel working on EC projects should complete individual time records at least on a monthly basis. These time records should also be signed by the person responsible for the project, for approval.

Estimates of hours worked are not accepted (e.g. estimates made at the end of the month or at the end of the reporting period).

- b) **The salary costs** claimed should only relate to the scientific and technical personnel working on the EC projects, should be taken from the payroll account and should be the total gross salary plus the employer's portion of social charges (e.g. holiday pay, pension contributions, health insurance and social security payments). In case of consultants working full time on the premises of the contractor, their costs can be assimilated to the salaries of the internal personnel. The costs will be taken from the invoices received for the work performed by the consultants. The projects on which the consultants have worked should be clearly indicated on the invoices.

These costs can be calculated in different ways: individually for each researcher, or as an average per salary scale, or as a simple weighted average for all the personnel working on EC projects.

However, the method used should fairly represent the actual labour costs of the scientific and technical personnel working on the projects.

- c) **The productive time**: In order to obtain an hourly rate, the total productive personnel cost has to be divided by the total productive hours. Total productive hours can be obtained either from time sheets or from summaries of time records and should represent an average of the total workable hours based on the contract of employment less a certain provision for non-chargeable time such as sickness, general administration, etc. (a maximum of 15 days per year is found reasonable as non-chargeable time).

The productive time considered acceptable to the Commission is normally 210 days per person/year. Multiplying this value by the number of productive hours in a day will give the annual productive hours per person.

As a general rule, no overtime should be charged to Commission projects, unless this element has also been taken into account in the calculation of the total productive hours.

For contractors using the "Additional Costs" model

The contract does not allow the cost of the personnel permanently employed and paid fully from the normal recurrent funds of the contractor. Only the additional employment cost (salaries, consultant fees, grants) of the scientific and technical personnel expressly engaged to carry out work under externally funded contracts is allowed. (For more details see Article 19.1.1 of Annex II to the contract).

2. OVERHEADS

For contractors using the "Full Cost" model

Overheads include all the indirect general costs necessary for carrying out the project under the contract.

Allowable overhead costs relate to those costs incurred to employ, manage, accommodate and support the direct personnel performing the work of the project.

If an external consultant has been designated for the management of the project no internal cost of the Contractor should be charged for the same management of the project.

Costs for internally funded research may be included in the overheads up to a maximum amount of 10% of the personnel cost charged to the project.

Overhead costs must be:

- Allowable costs
- Capable of verification
- Not included under direct costs
- Not specifically funded by third parties.

Overheads, not being direct costs which can be charged directly, have to be calculated by the contractor.

Many different methods can be used for the calculation of an overhead rate. However, for a method to be accepted by the Commission it must:

- be reasonable
- exclude non-allowable costs
- be based on factual elements which can be proven by the participant and verified by the Commission (for example global assumptions or existing commercial practice statements, or any other unsupported statements will not be accepted).

Overheads may also be distributed on consultants working full time at the premises of the contractor, if the hours of these consultants have been included in the calculation of the "total productive time".

Overheads should be apportioned preferably on a per-head basis but other methods may be used if they produce fair and reasonable results and are the normal practice of the contractor.

The method proposed below is the most simplified one that the Commission is prepared to accept. If a contractor is able to provide a more accurate method based on cost accounting and reliable internal statistics, this latter method is preferred.

Methodology proposed

This example relates to all sorts of contractors participating on full cost model (companies, universities, research centres or laboratories, etc.).

In view of the fact that contractors have different cost centres, it must first be established on what level of cost centre the overheads have to be calculated: University, Faculty, Department, Projects or total Company, Department, Project, etc.

The level can be chosen by the contractor bearing in mind that the Commission projects should always only bear a fair proportion of general costs.

This means that in the case where a department or faculty not working on EC projects has unusually high indirect costs when compared to those departments or faculties working on EC projects, it would not be acceptable to penalise EC projects with these unrelated costs (e.g.: clean rooms, wind tunnels, etc.).

The method used for the calculation of the overheads should respect these following principles:

1. Overhead costs should be extracted from, or reconciled with the official accounts.
2. Any overhead costs incurred which do not relate to EC research (i.e. teaching, students, production or any other non-research activity, etc.) should be eliminated.
3. All costs which can be linked to individual activities, departments or projects should be directly charged to that activity, department or project.
4. The remaining costs which relate to both research and teaching or research and production (administrative costs, library, salary of supporting personnel, housing costs, general management, etc.) can be distributed to the different faculties, production activities, departments or projects, by using one of the following keys:
 - **Space related costs** such as: building depreciation, maintenance, rent, electricity, heating, security, etc. should be distributed on a surface basis.
 - **People related costs** such as: general administration, salaries of support personnel and general services should be distributed on a per-head basis, by considering the standard number of productive hours of professors and researchers working both on teaching and research activities for Universities or on all production activities for the other contractors (i.e.: production, commercial, research).

These two keys should be applied at the different levels (i.e. faculty, activity, department, project, ...).

At the end of this exercise, for each project you will have:

- the overhead costs directly related to the project and
- a fair apportionment of general overhead costs.

When these costs are divided by the total number of productive hours of the scientific and technical personnel working on the project, you will obtain the hourly overhead cost for the project.

In cases where the level of cost centre is the faculty or the research department, an hourly overhead cost can be obtained by dividing the faculty or research department costs by the total number of hours of professors and researchers working in the faculty or department.

In conclusion, general costs related to both research and teaching or production activities should be spread on the total number of productive hours of all the productive personnel (researchers, professors, workers, commercial personnel etc.), while the general costs related to research should be spread only on the productive personnel working on research.

This method, although apparently very simple, requires a well organised system of cost accounting and reliable information about the number of productive hours spent on the different productive activities.

Many other methods and keys may be used for the distribution of overheads. However, these methods and keys must be justified by factual elements which can be verified. **No subjective or arbitrary keys can be accepted.**

For contractors using the "Additional Cost" model

Overheads do not need to be calculated. To recover the general costs, contractors may charge a fixed amount of a maximum of 20% of the costs they have charged for personnel, equipment, travel and subsistence, consumable and computing and other significant specific project costs.

3. DURABLE EQUIPMENT

Durable equipment is an item which is specifically required for the project, has an expected life equal to or greater than the duration of the work of the contract and which is capitalised in the books of the contractor according to the national accounting rules. Depreciation can be calculated on equipment which has been purchased after the Commencement Date of the contract or within the preceding six months or under a previous Commission RTD contract if the depreciation period has not already expired. For prototypes or manufactured equipment see Point 6 below.

This type of cost is charged to the project by means of depreciation calculations as defined in the contract (Article 19.2 of Annex II).

For the calculation of the depreciation of each item of equipment, the following data must be considered:

- A) the actual cost (net of V.A.T.)
- B) the depreciation period (36 months or 60 months)

- C) the percentage of allocation to the project
- D) the contract duration from the date of the invoice (expressed in months)

The following calculation will give the total depreciation cost of each durable equipment for the total duration of the project: $(A / B) \times C \times D$.

Please note that calculations should be based on months and should normally start from the month in which the equipment has been delivered.

The depreciation period is considered to be 60 months. However, data processing equipment including software costing less than 25,000 ECU, (not the individual components) can be depreciated in 36 months.

The Commission contribution shall be reimbursed in a single amount on the basis of the estimated usage of the equipment. If the estimate results to be different from the actual usage, the contractors should make the necessary adjustments to correct the amount originally calculated.

4. THIRD PARTY ASSISTANCE - TRAVEL AND SUBSISTENCE

Contractors are only requested to provide the actual total cost for third party assistance and for travel and subsistence. The analysis of these costs with the supporting documentation should be kept in the contractors' files and provided to the Commission if requested.

Please note, that third part assistance or *Subcontracts* which cumulatively exceed 20% of the relevant Contractor's estimated allowable Project costs are subject to prior written agreement of the Commission, unless sufficient details of the subcontracts have been included in Annex I of the relevant contract.

5. CONSUMABLES AND COMPUTING

Computing costs may be charged as a direct cost when:

1. The contractor can provide a detailed justification of these costs.
2. A computer cost centre exists in which all the computer costs (direct and indirect) are recorded.
3. A computer register is maintained which can prove the total usage of the computer service and the hours charged to the projects.

Without these three fundamental sources of information, it is not possible to calculate an hourly computer rate which could be considered acceptable. In this last case, computer costs should be included in overheads.

Consumables shall relate to the purchase, fabrication, repair or use of any materials, goods or equipment and software which

- do not have a life expectancy greater than the duration of the work under the contract;
- are not placed upon the inventory of durable equipment of the contractor; and
- are not treated as capital expenditure in accordance with the accounting conventions and policies of the contractor.

No direct charge shall be made for consumables or computing costs where it is the usual practice of the contractor to include these costs in any overheads.

6. SIGNIFICANT SPECIFIC PROJECT COSTS

All the other specific project costs which cannot be included under the previous classifications of direct costs, may be charged only with the prior written approval of the Commission or if these costs were foreseen in Annex I to the contract.

7. V.A.T.

VAT that is not directly recoverable by a legal entity participating in a research contract may be reimbursed in addition to the Community contribution for any invoice for direct costs exceeding a threshold of 2.500 ECU per invoice (excluding VAT).

To enable the Commission to recover the VAT from the government of the relevant Member State of the Community, the entity concerned shall comply with the following conditions :

- submit a Certified Declaration of VAT Reimbursement, completed and certified by the local administration responsible for the registration and control of VAT (Form I). The form is available in all the Community languages and should be specifically requested by the claimant from the relevant RTD programme in each case.
- submit, with the corresponding cost statement, the VAT form II which is attached to these guidelines with three clear and legible copies of the relevant invoices of the supplier showing the supplier's name, the date of the invoice, the VAT amount, the total amount to be paid and the type of service or goods provided .

Claims for the reimbursement of VAT payments **will be considered only if they are forwarded to the Commission with the above mentioned certified declaration by the responsible VAT authority, stating that the contract signed with the Commission meets the conditions of exemption prescribed by the Sixth VAT Council Directive of 17 May 1977, concerning the harmonisation of legislation in the Member States on turnover tax - Community system of added value tax (77/388/EEC).** In such cases **the declaration must mention the exemptions** which apply to the research contract in question. When accepted, the certified declaration will be accepted for the duration of the given contract.

In cases where the certified declaration indicates that the entity concerned is not entitled to a VAT refund at the national level, the Commission reserves the right to investigate, with the Member State, the correct application of the Sixth Directive.

* * *

BOOKS OF ACCOUNT AND JUSTIFICATION OF COSTS

All organisations, including universities, must keep proper books of account and supporting documentation to justify any costs they charge, and must also keep appropriate records, including time-sheets, to justify the computations and assumptions made.

All documentation should be kept for at least two years after the completion date of the *contract*, or longer if an audit procedure has started.

Explanations and justifications, especially concerning the allocation and apportionment of overheads, must be readily available for inspection by the Commission.

CONCLUSION

The Commission is providing a contribution to the actual costs incurred for the work defined in the contract. This contribution is limited to the allowable costs which are specified in Annex II to the contract.

The calculation of the costs claimed should be based on actual, factual and well documented elements which can be verified. Universities, research centres (and other legal entities) which do not have an adequate cost accounting system should opt for the additional cost model.

All cost claimed may be subject to verification even after payment from the Commission. This entitlement shall exist up to two years after the date of completion of the contract. In case of an audit, all the accounting records, time-sheets and any other documentation to support and justify the costs claimed shall be made readily available for verification.

We would like to remind you that as the Commission is not "buying" a product or service, normal commercial pricing practices are not acceptable.

All cost which cannot be justified will be disallowed and the Commission contribution will be recovered.

II. COST STATEMENT FORMS

Cost Statement Summary (National Currency/ECU)

for the period from _____ to _____ (reporting period no. _____) Cost basis: _____¹

Project Title:

Contract No.:

Name of Contractor/Associated Contractor²: _____ to³

National Currency in which accounts kept: _____ Exchange rate used for conversion from national currency to ECU⁴: _____

| Categories of Cost ⁵ | Amount for the period | |
|---|-----------------------|-----|
| | National Currency | ECU |
| Direct Costs | | |
| 1. Personnel | | |
| 2. Equipment ⁶ | | |
| 3. Third party assistance | | |
| 4. Travel and subsistence ⁷ | | |
| 5. Consumables and computing ⁸ | | |
| 6. Other significant specific Project costs ⁹ | | |
| Subtotal of direct costs | | |
| Indirect Costs | | |
| 7. Overheads ¹⁰ | | |
| Adjustments | | |
| 8. Adjustments to costs previously reported ¹¹ | | |
| VAT ¹² | | |
| Total: | | |

| | | |
|-----------------------------------|--|--|
|% contribution of Commission: | | |
|-----------------------------------|--|--|

Contractor's Certificate¹³

We certify that

- the above costs are derived from the resources employed which were necessary for the work under the contract,
- such costs have been incurred and fall within the definition of allowable costs specified in the contract,
- any necessary permissions of the Commission have been obtained and
- full supporting documentation to justify the costs is available for audit.

We certify that any necessary adjustments, for any reason, to costs reported in previous cost statements have been incorporated in the above statement.¹⁴

¹ Insert as appropriate: FC (Full Costs); AC (Additional Costs)

² Delete as necessary - for Associated Contractor, see Article 3 of Annex II. Each Associated Contractor must submit a separate cost statement for its costs through the Contractor to which it is associated - its costs should not be included in the cost statement of the relevant Contractor.

³ The Associated Contractor must specify the name of the Contractor to which it is associated.

⁴ The exchange rate must be that specified in Article 21.1 of Annex II.

⁵ Separate details are only required for each category specified in the Annexes which follow.

⁶ Equipment must be depreciated - see Article 19.2 of Annex II.

⁷ See Article 19.4 of Annex II.

⁸ See Article 19.5 of Annex II.

⁹ See Article 19.6 of Annex II. These must be approved by the Commission.

¹⁰ See Article 20 of Annex II. Contractors using additional costs may charge up to 20% of direct costs for personnel, equipment, travel and subsistence, consumables and computing, and other significant specific Project costs.

¹¹ Not applicable for the first cost statement. Any necessary adjustments, for example to reflect actual rates instead of budgeted rates, must be made in subsequent statements. Details and reasons for any adjustments must be provided.

¹² For any invoice or bill by a supplier exceeding ECU 2500 specific to the Project - see Article 3.2 of Contract.

¹³ The Technical Manager and the Financial Officer must sign the certificate.

Date:

Name of Technical Manager:¹⁴

Signature of Technical Manager:

Date:

Name of Financial Officer:

Signature of Financial Officer:

¹⁴

The person designated to be in direct charge of the performance of the work - see Article 2.3 of Annex II.

COST STATEMENT: DETAILS BY CATEGORY (National Currency)

for the period from _____ to _____

Contract No.:

Name of Contractor/Associated Contractor:

Currency:

PERSONNEL AND OVERHEADS

| Category ¹⁵ A | No. of Man Hours B | Hourly Personnel Rate ¹⁶ C | Hourly Overhead Rate ¹⁷ D | Personnel Amount Col. (B) x (C) | Overheads Amount Col. (B) x (D) |
|-----------------------------|-----------------------|---|--|---------------------------------------|---------------------------------------|
| | | | | | |
| | | | | Subtotals | |
| | | | | Total (personnel + overheads) | |

EQUIPMENT¹⁸

| Description | Date of Purchase | Cost | Depreciation period 36/60 months | % Allocation to <i>Project</i> ¹⁹ | Amount ²¹ |
|-------------|------------------|------|-------------------------------------|---|----------------------|
| | | | | | |
| Total | | | | | |

OTHER SIGNIFICANT SPECIFIC *Project* COSTS²⁰

¹⁵ Clearly identifiable (e.g. engineer, technician, department, cost centre, cost centre groups, etc.) to contractor's personnel records. Name individuals if identified in the contract as key personnel.

¹⁶ The personnel rate comprises the elements specified in Article 19.1 of Annex II.

¹⁷ Overheads principles are specified in Article 20 of Annex II. This column should be left blank by contractors using additional costs.

¹⁸ For allowable cost calculation see Article 19.2 of Annex II.

¹⁹ Percentage use of item of equipment on the Project.

²⁰ See Article 19.6 of Annex II.

| Description | Amount |
|-------------|--------|
| | |
| Total | |

SUMMARY COST STATEMENT FROM COORDINATOR/NOMINATED PERSON (ECU)

for the period from _____ to _____

Project Title:

Contract No.:

| Name of Participant ²¹ | Status ²² | Total Costs (ECU) | Community Contribution (ECU) | Cost Basis ²³ | Remarks ²⁴ |
|-----------------------------------|----------------------|----------------------|---------------------------------|--------------------------|-----------------------|
| | | | | | |
| TOTAL | | | | | |

The signed original copy of each participant cost statement is attached.

Confirmed by Nominated Person(s) on behalf of the Contractors 25 as reasonable for the work under the contract.

Name: 28

Name:²⁸

Status:

Status:

Signature:

Signature:

²¹ Coordinator, Contractors, Associated Contractors and, if required by the contract, major subcontractors.

²² Insert as appropriate: COO (Coordinator); CR (Contractor); AC (Associated Contractor); MSC (Major Subcontractor).

²³ Insert as appropriate: FC (Full Costs); AC (Additional Costs)

24 If a participant does not submit a cost statement, insert "no statement" in the column "Remarks". If the cost statements for any participant cover more than one reporting period, indicate the number of periods in the column "Remarks"; separate cost statements should be submitted for each period.

²⁵ The person(s) designated for the purposes of Article 2.2(b) of Annex II.

Date:

Date:

III. V.A.T. FORMS

CERTIFIED DECLARATION TO CLAIM REIMBURSEMENT OF VAT PAYMENTS

| |
|---|
| CLAIMANT (Contractor) |
| Business name: |
| Address: |
| VAT No (for intra-Community purchases): |
| <p>The claimant undertakes to repay to the EC any sums unduly received on the basis of this certificate.</p> <p>Signature of the claimant</p> <p>Name, position, date</p> |
| VAT OFFICE RESPONSIBLE FOR VAT REGISTRATION AND CONTROL |
| Name:..... |
| Address:..... |
| Telephone No. Fax No |
| RESEARCH CONTRACT |
| Research contract No concluded by the claimant and the European Commission |
| DECLARATION |
| Research contract No concluded by the claimant and the European Commission |
| <p>The above VAT office hereby certifies that, after reading and examining the above research contract and in particular its general terms and conditions, the claimant is a legal person governed by public or private law who, for the purposes of that contract, is:</p> <p><input type="checkbox"/> subject to VAT and is entitled to deduct VAT on inputs.</p> <p><input type="checkbox"/> not subject to VAT. The research activity exercised under the above research contract is exempt on the basis of the following provisions (reference to provisions in the Sixth Council VAT Directive, and if possible national law):</p> <p>.....</p> <p>Stamp:</p> <p>Name, first name and position of signatory:</p> <p>Date and signature:</p> |

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/Associated Contractor : _____ to _____

TOTAL VAT 28

Signature : _____

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