

Towards a single corporate personnel costs calculation for EU programmes under the next MFF 2021-2027

COMMISSION NON-PAPER

Summary: The purpose of this non-paper is to set out the new unified corporate approach to personnel cost. The personnel costs systems used in existing funding programmes under the current MFF follow a diverse set of methodologies, mostly based on hourly or daily rates. As the methods to calculate these rates vary widely among programmes, beneficiaries can easily make mistakes when working in EU actions under different programmes. A unification of personnel cost calculation practices to a daily rate across programmes would therefore constitute a significant simplification for the beneficiaries and likely lead to a reduction of unintentional errors.

I – Background and issue at stake

The landscape on personnel costs contractual provisions across the different existing programmes under the current MFF (2014-2020) is very **diverse**. It ranges from limited number of relatively simple formulas for calculating personnel costs to **several more complex formulas** that may be applied by a given programme, as is the case in Horizon 2020. This can lead to the paradoxical situation for a beneficiary to have a personnel cost accounting system established that is perfectly fine for working with Union funding in one programme, whereas being rejected for working with Union funding under another programme.

Against that background, experience shows that complex rules are leading quite inevitably to complex explanations, that are prone to misunderstanding by the beneficiaries and thus lead to avoidable errors (i.e. errors solely due to the complexity of rules for otherwise legitimately incurred personnel cost) that are detected during audits.

In the case of Horizon 2020, which has highly ‘refined’ but complex rules on personnel costs among all EU programmes, the complexity is likely among the main reasons that incorrect claims of time working in the action represents 19.9% and the incorrect calculation of productive hours represents 15.1% of errors detected for personnel costs (see Annex). These complex rules have led to a repetitive criticism from stakeholders and the European Court of Auditors.

As personnel costs are, in most of the cases, the major cost item across the different EU programmes, **having a single and simpler corporate formula** represents a unique opportunity **to align this very diverse and complex landscape** of provisions currently in use and thereby reduce the financial risks for beneficiaries while simplifying administration and auditing across programmes.

After technical discussions to assess which approach would best fit with the various methodologies in place, the daily rate calculation has been found as the most effective and efficient approach. This approach is therefore to be implemented on a corporate level under the next MFF.

II – Objectives pursued

A key objective is to **promote transparency and easier access** to the EU programmes to NGOs, start-ups and SMEs.

It is a continuous corporate objective to create **simplification and better understanding of the rules**. This is to ensure that all kinds of beneficiaries – not only beneficiaries with thorough technical and financial expertise – can declare their costs in a more confident and simpler way across all Union programmes.

One of the main objective is to address the strong political willingness of ensuring and developing further **synergies across EU programmes for the next MFF**. As a prerequisite to enable and facilitate synergies among programmes, cost rules need to be aligned as far as possible between programmes.

Linked to the synergies aspect, there is also the intention to **develop cross-reliance on audits** to alleviate as much as possible administrative burden on EU beneficiaries, which requires alignment of cost methodologies in order to ensure comparability.

Eventually, the approach must aim at having a **simple method** for declaring personnel costs on a corporate level while taking due account of **beneficiaries' usual accounting practices in order to ensure simplification and not added complexity**.

III – Corporate way forward proposed: a single daily rate formula for calculating personnel costs

A. Key simplification aspects

- As a major simplification, the new corporate Model Grant Agreement (MGA), from which the Horizon Europe MGA will be derived, provides **one very simple method** for charging personnel costs as follows:

*{actual **annual personnel costs** for the person*

divided by

215}.

- This calculation will be performed **by calendar year** and not anymore by taking into account the last closed financial year, which has appeared to be one the major source of rigidity in Horizon 2020.
- The concept of **productive hours** and the various prescriptive methods, which are **prone to errors** when determining and reporting eligible personnel costs, will be **discontinued**.
- Eventually, the lower level of time-granularity (days instead hours) will allow **for removing the need for researchers to fill time sheets *per se*** and instead putting in place a **real system of declaration** with a very limited number of information to be filled in by the researcher and his/her supervisor.

B. Key elements of continuity and flexibility to preserve beneficiaries' usual practices

While moving away from the complex calculation of hourly rate based on several complex options for determining productive hours, this single corporate method based on daily rate **will not put at stake the beneficiaries' usual accounting practices.**

In that respect, beneficiaries may:

- **continue to use their own existing reliable time recording system**, on paper or computer-based (if they don't want to use the future monthly declaration on days spent for the action) and
- apply **one of three possible conversion methods** for reporting **hours recorded** for the action into **'days-equivalent'** as follows:
 1. A conversion based on the **average number of hours that the person must work per working day according to her/his contract.**

Example: if the contract says that the person must work 37.5 hours per week distributed in 5 working days, a day-equivalent for the person is 7.5 hours (37.5 / 5). In the same example, if the person works 50% part-time, the day-equivalent would be 3.75 hours (18.75 / 5).

2. A conversion based on **the usual standard annual productive hours of the beneficiary**, if it is at least 90% of the workable time (i.e. **ensuring some continuity with Horizon 2020**)

Example:

Standard annual productive hours of the beneficiary = 1600

Standard annual workable hours of the beneficiary = 1720

1720 x 90% = 1548 < 1600

1600/215 => 7.44 hours = 1 day-equivalent

3. A conversion based on a fixed number of hours (e.g. for beneficiaries with no reference in their contracts nor standard annual productive hours):

1 day-equivalent = 8 hours

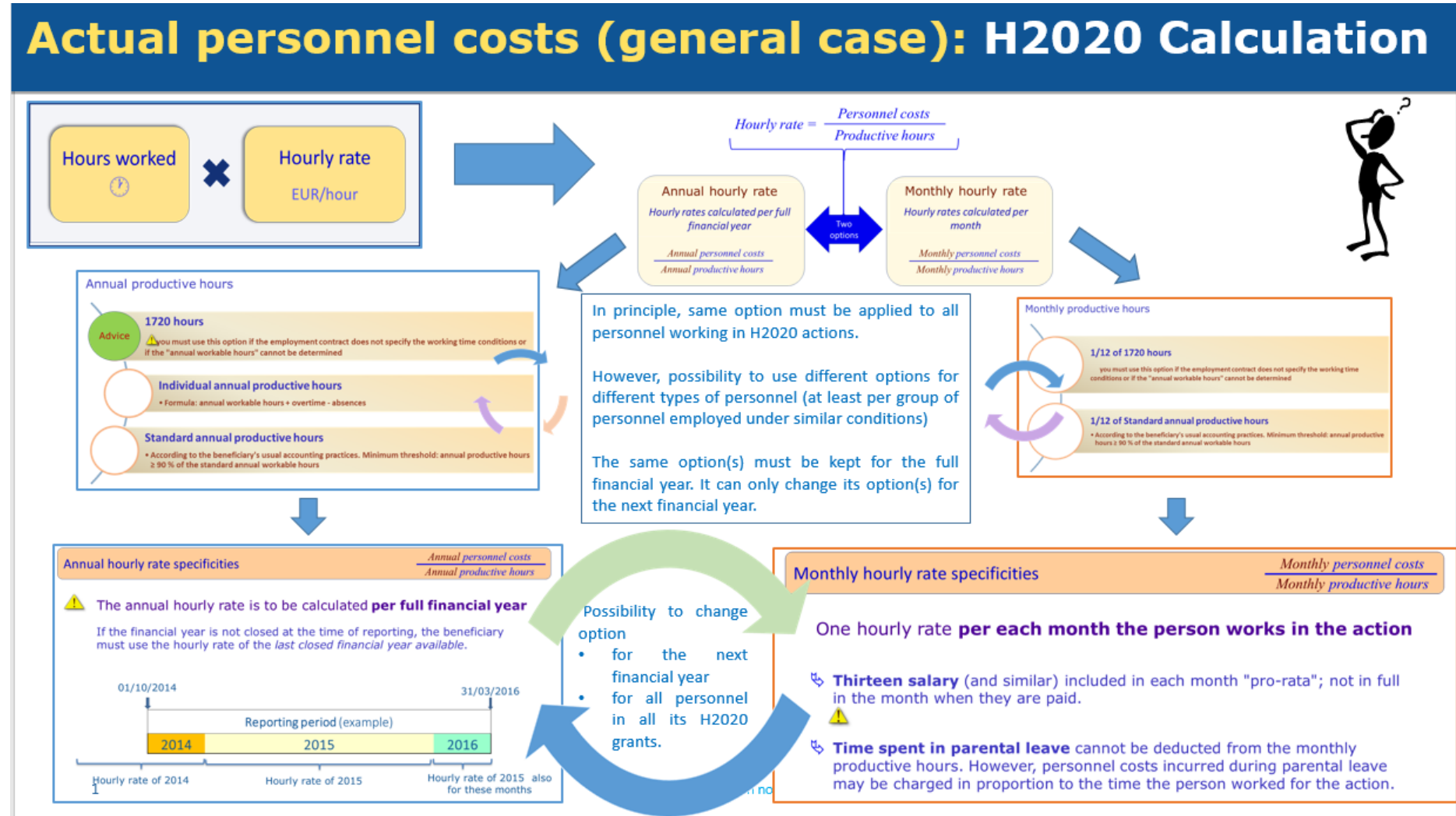
IV – Conclusion

Relying on a unique and simpler corporate daily rate formula will be a major step forward in **simplification and cross-programme harmonisation.**

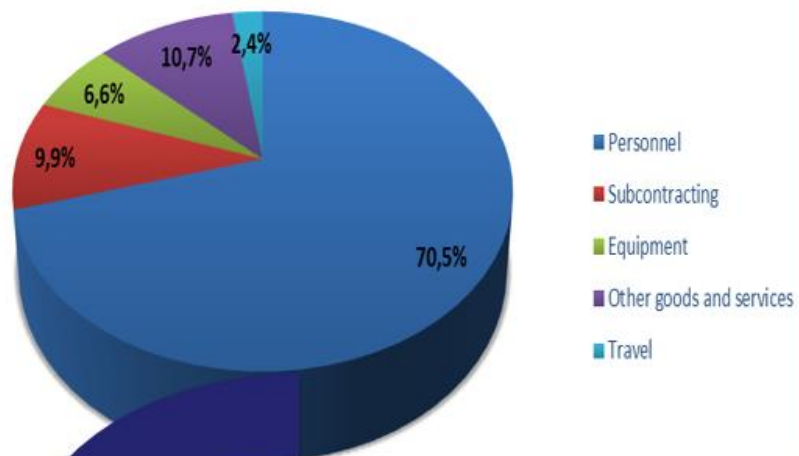
There have been technical discussions to assess which approach could best fit with the various methodologies in place for simplifying the rules for actual personnel costs. This daily rate formula (as well as the abolition of time-sheets requirements) has been found as **the right trade-off between control and simplification and has been selected as the corporate approach.**

Eventually, the claim of losing funding expressed by some stakeholders/umbrella organisations is adequately tackled, as the Commission, **in its co-creation exercise with the Member States Experts group on the MGA**, has proposed simple and **flexible conversions methods from hours to days-equivalent, where no losses should occur.**

Annex: The situation of personnel costs in Horizon 2020



Percentage of errors identified in H2020 ex-post audits leading to adjustments in favour of the EU budget



... and its consequences

Percentage of type of error in personnel costs

(breakdown of 70,5%)

