



## EUROPEAN COMMISSION

### **DIRECTORATE-GENERAL FOR JUSTICE FREEDOM AND SECURITY**

Manual of the Eligibility Rules of costs reported for EU support in the context of the General Programme '**Solidarity and Management of Migration Flows**'

*Version 3 – 16/02/2010*

## DISCLAIMER

This is a Working Document prepared by the Commission services. On the basis of the applicable Community Law, it provides technical guidance to the attention of the Designated Authorities responsible for the Funds part of the General Programme Solidarity and Management of Migration Flows under shared management mode on how to interpret and apply the Community rules in this area. It is the responsibility of the Responsible Authority to disseminate the information provided in these documents to the final beneficiaries for the purposes of guidance and advice. **Divulging this document to the final beneficiaries in its current form without proper instructions and recommendations for adequate use may however not be appropriate.**

The purpose and objectives of the Chapters presented in the Annex to the document is to provide guidance and recommendations for the purpose of reporting costs for EU support. The guidance and recommendations comply with the legal basis of the four Funds and are based on commonly accepted principles for the management of EC-funded projects and on best practices observed throughout the implementation of various EC-funded programmes.

The recommendations and best practices presented may be applied as such or be used for further analysis. However, the Chapters do not claim to be an exhaustive list of instructions to be strictly complied with. Other accepted practices may be in place within the beneficiaries and be used for the purposes of reporting costs for EU support. The recommendations and best practices provided are examples of practices that can be directly or indirectly used to limit the risk of improper cost reporting to the EU (under/overestimation of costs).

Under no circumstances may this manual be used as a legal basis for arbitrage or any other legal actions initiated by or in respect of the final beneficiaries of EU grants. The regulatory framework provided for each of the Funds (Basic Acts and Implementing Rules) will remain the sole legal basis for the implementation of the funded programmes. Should any of the information presented in this manual appear to be in contradiction with the legal basis, the legal basis will prevail.

The references of the legal basis are:

### BASIC ACTS:

- [Decision No 573/2007/EC of the European Parliament and of the Council of 23 May 2007 establishing the \*\*European Refugee Fund\*\* for the period 2008 to 2013](#)
- [Decision No 574/2007/EC of the European Parliament and of the Council of 23 May 2007 establishing the \*\*External Borders Fund\*\* for the period 2007 to 2013](#)
- [Decision No 575/2007/EC of the European Parliament and of the Council of 23 May 2007 establishing the \*\*European Return Fund\*\* for the period 2008 to 2013](#)
- [Council Decision No 2007/435/EC of 25 June 2007 establishing the \*\*European Fund for the Integration\*\* of third-country nationals for the period 2007 to 2013](#)

### IMPLEMENTING RULES

- (ERF): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:007:0001:0068:EN:PDF>
- (EBF): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:167:0001:0068:EN:PDF>
- (RF): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:167:0135:0200:EN:PDF>
- (IF): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:167:0069:0134:EN:PDF>

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# 1 PRESENTATION OF THE GENERAL PROGRAMME “SOLIDARITY AND MANAGEMENT OF MIGRATION FLOWS”

## 1.1 Origin and objectives of the general programme “Solidarity and management of migration flows”

The general programme “Solidarity and Management of Migration Flows” sets out to support the common policy on the management of the external borders of the European Union and to help implement the common policies on asylum and integration. As such, the general programme is composed of four Funds (the European Refugee Fund – ‘ERF’, the Integration Fund – ‘IF’, the External Borders Fund – ‘EBF’ and the Return Fund – ‘RF’), which were created by four basic acts adopted in 2007 and cover the period 2008-2013 (ERF and RF) or 2007-2013 (EBF and IF).

This budgetary support is mainly managed by the Member States through multi-annual and annual programmes. Although the Member States are responsible for implementing the funded projects set out in the programmes, the European Commission (Directorate-General for Freedom Justice and Security – DG JLS) remains responsible for the overall budget execution of each of these four Funds.

In this context, DG JLS is responsible for defining the general control framework, for checking the proper functioning of the management and control systems and processes put in place by the Member States to manage the Funds and for providing guidance to the Member States for sound financial management of Community Funds.

The total amount earmarked for the General Programme “Solidarity and Management of Migration Flows” is €4 020.37m for the whole period 2007-2013.<sup>1</sup>

<b>Solidarity and Management of Migration Flows</b>						
Total amount over the 2007-2013 period: €4 020.37m						
<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
291.37	371.00	449.00	495.00	610.00	786.00	1018.00

### 1.1 Shared management

#### General Principles and functioning

More than 90% of the Funds allocated to the general programme “Solidarity and management of migration flows” is managed by the Member States by delegation from the Commission, which remains accountable for overall budget execution. Only a minor part will be directly managed by the Commission (Community actions and, in the case of the EBF, also the specific actions, between 6% and 10% of the total amount of the Funds), on the basis of calls for proposals and/or calls for tenders. The resources managed will be divided annually among the Member States on the basis of allocation keys defined in the respective Basic Acts of the four Funds. The Member States are thus responsible together with the Commission for the management of the four Funds.

#### Responsibilities of the Member States

1. Member States shall be responsible for ensuring sound financial management of multiannual and annual programmes and the legality and regularity of underlying transactions.
2. Member States shall ensure that responsible authorities and any delegated authority, certifying authorities, audit authorities and any other bodies concerned receive adequate

<sup>1</sup> [http://ec.europa.eu/justice\\_home/funding/intro/funding\\_solidarity\\_en.htm](http://ec.europa.eu/justice_home/funding/intro/funding_solidarity_en.htm)

guidance on setting up the management and control systems referred to in Articles 26 to 32 to ensure that Community financing is used efficiently and correctly.

3. Member States shall prevent, detect and correct irregularities. They shall notify these to the Commission, and keep the Commission informed of the progress in the administrative and legal proceedings. When amounts unduly paid to a final beneficiary cannot be recovered, the Member State concerned shall be responsible for reimbursing the amounts lost to the general budget of the European Union when it is established that the loss has been incurred as a result of its fault or negligence.

4. Member States shall be primarily responsible for the financial control of actions and shall ensure that management and control systems and audits are implemented in such a way as to guarantee that Community funds are used properly and effectively. They shall provide the Commission with a description of these systems.

## **1.2 The four Funds**

More details on the four Funds can be consulted on the DG JLS website:

[http://ec.europa.eu/justice\\_home/funding/intro/funding\\_solidarity\\_en.htm](http://ec.europa.eu/justice_home/funding/intro/funding_solidarity_en.htm)

## **2 ELIGIBILITY OF COSTS FOR EU FINANCING**

### **1.3 Structure of the Chapters**

The eligibility rules for each of the four Funds are laid down in the respective Implementing Rules (Annex 11). Chapters have been developed to cover the themes presented in the Implementing Rules. There are 21 of them spread over two themes: Horizontal themes (8) and Vertical themes (13). The Vertical themes correspond to the cost categories defined in the Implementing Rules. The Horizontal themes present eligibility rules applicable to all categories of costs and address transversal and general issues.

Chapters have been developed for each theme along the following structure:

- 1) the regulatory framework is quoted;
- 2) general principles and guidelines are given;
- 3) exceptions to the rule are stated;
- 4) best practices, preferred options and recommendations are made; and
- 5) the most recurrent questions received from the Member States (FAQs) are answered.

### **1.4 Glossary**

EBF: External Borders Fund  
RF: Return Fund  
IF: Integration Fund  
ERF: European Refugee Fund  
MS: Member States  
EC: European Commission  
RA: Responsible Authority  
AA: Audit Authority  
CA: Certifying Authority  
DA: Delegated Authority  
FB: Final Beneficiary

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## **HORIZONTAL THEMES**

## A. Basic Principles

### 1. Regulatory Framework<sup>2</sup>

#### All Funds

"In accordance with the basic act, for it to be eligible, expenditure must be:

- (a) within the scope of the Fund and within its objectives, as described in Articles 1 and 2 (ERF) / 1 and 3 (EBF) / 1, 2 and 3 (IF, RF) of the basic act;
- (b) within the eligible actions listed in Article 3 (ERF) / 4 (IF, RF) / 4 and 6 (EBF) of the basic act;
- (c) needed to carry out the activities covered by the project, forming part of the multiannual and annual programmes, as approved by the Commission;
- (d) reasonable and comply with the principles of sound financial management, in particular, value for money and cost-effectiveness;
- (e) incurred by the final beneficiary and/or the partners in the project, who shall be established and registered in a Member State, except in the case of international governmental organisations that pursue the same objectives laid down in the basic act. With regard to Article 39(2) of this Decision, the rules applicable to the final beneficiary shall apply mutatis mutandis to the partners in the project;
- (f) incurred in accordance with the specific provisions in the grant agreement.

In the case of multiannual actions within the meaning of Article 14(6) (ERF) / 13(6) (IF) / 15(6) (RF) / 16(6) (EBF) of the basic act, only the part of the action co-financed by an annual programme is considered to be a project for the application of these eligibility rules.

Projects supported by the Fund shall not be financed by other sources covered by the Community budget. Projects supported by the Fund shall be co-financed by public or private sources."

#### Additional specific criteria

"In accordance with the basic act, for it to be eligible, expenditure must be:

- (g) **ERF, IF, RF**: linked to the target groups defined in Article 6 (ERF) / 7 (IF, RF) of the basic act;
- (h) **ERF**: in the case of emergency measures, related to the eligible actions included in Article 5 of the basic act..."

### 2. General Principles and Guidance

#### Purpose and justification of the expenditure:

To be eligible for EU support, expenditure reported must be:

- incurred during the eligibility period;<sup>3</sup>
- incurred for the purpose of the project and the activities and budget<sup>4</sup> defined in the grant agreement;
- in line with the principle of cost-effectiveness (best value for money) and reasonableness;
- incurred in accordance with the national accounting rules;
- substantiated by proper supporting documentation;<sup>5</sup>
- recorded in the beneficiary's and partners' accounts.

#### Reasonableness of expenditure:

In order to be considered as eligible, expenditure must be necessary for the implementation of the project, reasonable and in compliance with the principles of sound financial management. Refer to section 4 for more information on the reasonableness of costs.

#### Eligibility of actions and eligibility of expenditure:

<sup>2</sup> Article I.1. of Annex 11 to the Implementing Rules.

<sup>3</sup> Refer to the Chapter 'Eligibility period'

<sup>4</sup> Refer to the Chapter 'Budget of a project'.

<sup>5</sup> Refer to the Chapter 'Record of expenditure and Audit trail'.

Before checking the eligibility of the expenditure, the Member states have to verify the eligibility of the envisaged action. This must be done against the relevant articles of the basic acts establishing the four Funds:

- RF: article 4 and 5 of the basic act establishing the Fund.
- EBF: articles 3, 4 and 5 of the basic act establishing the Fund.
- ERF III: articles 2 and 3 of the basic act establishing the Fund.
- IF: articles 2, 3 and 4 of the basic act establishing the Fund.

In case the action is considered eligible, the expenditure related to the action should be checked against the relevant rules in order to verify if a cofinancing by the EU can be requested.

**Partners:**

All rules applicable to the final beneficiary apply mutatis mutandis to the partners involved in the project.<sup>6</sup>

**Budget:**

In order to be considered as eligible costs, the costs claimed must have been set out in the budget of the project.<sup>7</sup>

**International Governmental Organisations and International Non-Governmental Organisations:**

International governmental organisations (IGOs) are based on the cooperation of nation states. An IGO is usually based on a multilateral treaty of two or more sovereign nation states in pursuit of certain common aims in the international arena (e.g. the United Nations, NATO, the IMF, the World Bank, IOM, etc). Under the present rules, local/regional offices of IGOs are considered as part of the whole IGO organisation (i.e. when an IGO is a beneficiary, all local and regional offices of this IGO are to be considered as part of the beneficiary and not as partners).

Amnesty International, the International Red Cross and Caritas are examples of International Non-governmental Organisations (INGOs). Under the present rules, only INGOs established in a Member State may be considered eligible final beneficiaries of EU support.

**Complementarity:**

Projects which are already supported by the Fund may not be financed by any other source covered by the EU budget. Co-financing must only be completed through other public Funds, private sources and self-contribution.

**Exchange rate for the responsible authority:**<sup>8</sup>

Member States that have not adopted the Euro as their currency on the date of the request for payment to the EC must convert the amounts of expenditure incurred in national currency into euros. The conversion into euros must be based on the monthly accounting exchange rate of the Commission for the month during which the expenditure was entered in the accounts of the responsible authority of the programme concerned. This rate is published electronically by the Commission each month (<http://ec.europa.eu/budget/infoeuro/>).

Where the responsible authority acts as the executing body on its own account or in association with another entity, the month selected should be the one when the payment is executed (and booked) and, if the accounts are kept by the associated body, the rule regarding exchange rate can be applied to the associated body.

**Multiannual projects:**

In the case of multiannual projects, the RA should be aware that the allocated budget for any one specific eligible period cannot be partly or totally transferred to the following annual programme. The cost of each eligible period has to be reported for the related annual programme independently.

**Participating States:**

The participation of the Member States and Associated States in the Funds is summarised in the table below:

Member States	EBF (2007-2013)	RF (2008-2013)	IF (2007-2013)	ERF (2008-2013)
Austria	X	X	X	X
Belgium	X	X	X	X
Bulgaria	X (as of	X	X	X

<sup>6</sup> Refer to the Chapter 'Partnership'.

<sup>7</sup> Refer to the Chapter 'Budget of a project'.

<sup>8</sup> Article 37(3) (ERF, EBF, RF) / 35(3) (IF) of the basic act.

	2010)			
Cyprus	X	X	X	X
Czech Republic	X	X	X	X
Denmark	X			
Estonia	X	X	X	X
Finland	X	X	X	X
France	X	X	X	X
Germany	X	X	X	X
Greece	X	X	X	X
Hungary	X	X	X	X
Italy	X	X	X	X
Ireland		X	X	X
Latvia	X	X	X	X
Lithuania	X	X	X	X
Luxembourg	X	X	X	X
Malta	X	X	X	X
Netherlands	X	X	X	X
Poland	X	X	X	X
Portugal	X	X	X	X
Romania	X (as of 2010)	X	X	X
Slovakia	X	X	X	X
Slovenia	X	X	X	X
Spain	X	X	X	X
Sweden	X	X	X	X
United Kingdom		X	X	X

Associated countries (as of signature of supplementary agreement):

Associated States	EBF (2007-2013)	RF (2008-2013)	IF (2007-2013)	ERF (2008-2013)
<i>Switzerland</i>	X			
<i>Liechtenstein</i>	X			
<i>Norway</i>	X			
<i>Iceland</i>	X			

Wherever reference is made to Member States in this manual, it applies to the beneficiary states listed in this table.

**Implementation methods: Executing and awarding body**

There are two methods for implementing projects financed by the Funds: the responsible authority acts as an awarding body or as an executing body.

The first method ("responsible authority acting as an awarding body") is based on annual open calls for proposals.

The second method ("responsible authority acting as an executing body") – where the responsible authority wants to implement a project alone or in association with another national entity (Article 8(3) IR) – must be duly justified in accordance with the Implementing Rules (Article 8(1) IR). Article 7(3) of the Implementing Rules provides for the responsible authority to act as an executing body "in cases where it decides to implement the projects directly because the characteristics of the projects leave no other choice for implementation, such as de jure monopoly situations or security reasons".

For this method, two possibilities exist under Article 8(3) IR. Either the responsible authority implements the project itself directly or it implements the project indirectly, namely by involving a national authority with competencies (technical expertise, high degree of specialisation, or administrative powers) in the field concerned. In this second case, a legal instrument equivalent to the grant agreement defined in Article 10(2) must be concluded between the responsible authority and the other competent authority (e.g. a memorandum of understanding).

### 3. Exceptions

⚠ Not applicable.

### 4. Best practices, Recommendations and Preferred options

#### ⚠ Reasonableness of expenses:

- Necessary expenses: To assess whether an expense can be considered necessary for the project, the possibility of completing the project without this expense should be considered prior to incurring the cost. Should the answer be positive, the expense would thus be considered unnecessary.
- Excessiveness of expenses: The organisation should assess the market price by issuing, as far as possible (i.e. for all expense over EUR 5 000), price requests to various suppliers prior incurring any cost (e.g. before the purchase of a good or a service). Price requests may serve as adequate documentation to support the reasonableness of the costs claimed. Best value/quality for money should be selected. Similarly, staff costs must be reported on an actual and reasonable basis (i.e. staff remuneration level should be within the standard of the profession — unusual remuneration practices may lead to staff costs being considered unreasonable and thus rejected).

⚠ To ensure compliance with the **complementarity** rule, it is recommended to give a clear and reliable overview of the funding schemes for each project.

### 5. FAQs

⚠ Q: How can the reasonableness of the expenditure be proved?

A: Expenditure is considered to be reasonable when necessary for the project and purchased at market costs. To prove a good/service has been purchased at market price, it is recommended that price requests be submitted to several suppliers before purchase. These price requests may be used as evidence to support the market costs of the equipment purchased. Please also refer to 'Reasonableness of costs' in Section 4.

## B. Grant agreement with the final beneficiary and amendment

### 1. Regulatory Framework<sup>9</sup>

#### Grant agreements with final beneficiaries when the responsible authority acts as awarding body

"The responsible authority shall lay down detailed project management procedures covering, inter alia:

- (a) signature of grant agreements with selected final beneficiaries;
- (b) follow-up of agreements and any amendment thereto by establishing a system for administrative monitoring of projects (exchange of correspondence, issuing and monitoring amendments and reminder letters, receipt and processing of reports, etc.).

The grant agreements shall lay down, inter alia:

- (a) the maximum amount of the grant;
- (b) the maximum percentage of the Community contribution in accordance with Article 14(4) or Article 21(3) (ERF) / Article 13(4) (IF) / Article 15(4) (RF) / Article 16(4) (EBF) of the basic act;
- (c) a detailed description and timetable of the project supported;
- (d) if applicable, the part of the tasks and related costs that the final beneficiary intends to subcontract to third parties;
- (e) the agreed forward budget and financing plan for the project, including the fixed percentage of indirect costs as defined in Annex 11 regarding the rules on eligibility of expenditure;
- (f) the timetable and provisions for implementation of the agreement (reporting obligations, amendments and termination);
- (g) the operational objectives of the project and the indicators to be used;
- (h) the definition of eligible costs;
- (i) the conditions relating to payment of the grant and bookkeeping requirements;
- (j) the conditions relating to audit trail;
- (k) the relevant provisions relating to data protection;
- (l) the relevant provisions relating to publicity.

If appropriate, the final beneficiaries shall ensure that all partners in the project are subject to the same obligations as them. The partners shall engage their responsibility through the final beneficiary which remains answerable, in last resort, for the respect of the contractual conditions by itself and all partners in the project.

The final beneficiaries shall keep certified copies of the accounting documents justifying income and expenditure incurred by the partners in relation to the project concerned.

The grant agreements shall provide expressly for the Commission and the Court of Auditors to exercise their powers of control, based on documents and on the premises, over all final beneficiaries, partners in the project and subcontractors."

### 2. General Principles and Guidance

#### General definition and purpose:

The grant agreement is the official contractual reference for the management and implementation of the project. The document not only stipulates the conditions and objectives set on signature of the agreement, it also acts as the key reference for the entire duration of the project. The articles and conditions set out in the grant agreement are the contractual obligations of the beneficiary towards the responsible authority and vice-versa.

#### Compliance with the regulatory framework:

Grant agreements signed between the Responsible Authorities and the beneficiaries must comply with the related Basic Acts and Implementing Rules.

#### Responsibilities of the partners:

Any partners involved in a project under the overall coordination of the beneficiary must comply with the terms and conditions of the grant agreement signed by the final beneficiary.

<sup>9</sup> Article 10, part II of the Implementing Rules.

**Components of the grant agreement:**

All annexes (including budget and technical annexes) form an integral part of the grant agreement.

**Number of grant agreements:**

Each grant agreement should concern only one project and therefore include a single budget. Should several distinct projects be planned by the same final beneficiary, separate agreements should be signed for each project. In the case of expenses common to several projects, clear and documented apportionment methods should be used.

### 3. Exceptions

- Responsible Authority acting as executing body:** The responsibilities and tasks assigned to the responsible authority and other national administrative entities involved in association with the responsible authority in the implementation of a project should be formalised in a specific document signed by the different entities.<sup>10</sup> Under the executing mode, the same principles and best practices should be applied.

### 4. Best practices, Recommendations and Preferred options

- Preliminary and regular analysis:** The grant agreement and subsequent amendments serve as the basis for implementation of the project with regard to technical, administrative and financial matters. It is therefore recommended that the grant agreement and subsequent amendments should be thoroughly analysed before the start of the project or at each key step of implementation.
- Continuous awareness:** It is also recommended that the grant agreement should be consulted on a regular basis to prevent any major deviation from the contractual obligations. To this end, the key staff members/officers involved can be given summaries of key or sensitive obligations and conditions.
- Partners:**<sup>11</sup> Partners and related roles and responsibilities should be included in the grant agreement. Technical responsibilities, related budgeted costs per partner and re-financing mechanisms (i.e. transfer of EU contribution to the partners) should be clearly mentioned (see partnership chapter).
- Purpose of the amendments:** Amendments should be used to formalise significant changes in the implementation of the project. However, amendments with the following change requests are forbidden in principle:
- change of the nature of the contract (e.g. changing the grant agreement into a service contract);
  - change of the scope and purpose of the project;
  - increase of the EU contribution beyond the limits set during the selection procedure;
  - any other amendment that would call into question the criteria applied during the evaluation process.
- Importance of amendments:** All major changes regarding the technical, administrative or financial management of the project must be formalised by amendments. Defaulting on or not properly communicating project changes may lead to under or overestimated results, administrative disputes and financial underevaluation. In particular, the budget must be clearly indicated in the grant agreement for the purpose of EC support analysis.
- Terms and conditions of amendments:** Amendments should be established using similar terms and conditions and signed by the same level of authority as for the grant agreement.
- Timeframe for amendments:** Significant changes from the initial terms must be duly communicated and formalised through an amendment. It is therefore recommended that any request for an amendment should be done in good time before the estimated date of the

<sup>10</sup> Article 8(4) of the Implementing Rules: "All relevant provisions laid down for a grant agreement in Article 10(2) shall be specified in an equivalent form of legal instrument".

<sup>11</sup> Refer to the Chapter 'Partnership'.

changes (e.g. due date for technical delivery cannot be reached). Budget amendments must also be formalised in good time. Any late communication of budget overrun may lead to transfers being rejected (it is not sufficient to issue a request for an amendment to the budget once the project is completed).

- ⚠ **Proper communication of amended terms:** amendments that can be endorsed during the course of the project must reflect the potential changes of direction or conditions initially agreed for the project. The conditions stipulated in the amendments subsequently replace the conditions initially agreed. It is therefore crucial that amendments terms and content should be duly communicated throughout the project team (if relevant).

## 5. FAQs

- ⚠ N/A.

## C. Budget of a project

### 1. Regulatory Framework<sup>12</sup>

"The budget of a project shall be presented as follows:

<b>Expenditure</b>	<b>Income</b>
+ Direct costs (DC)	+ contribution from the EU (defined as the lowest of the three amounts indicated in Article 12 of this Decision)
+ Indirect costs (fixed percentage of DC, defined in the grant agreement)	+ contribution from the final beneficiary and the partners in the project <sup>1</sup>
+ Costs covered by assigned income (if applicable)	+ contribution from third parties
	+ receipts generated by the project
<b>= Total Eligible Cost (TEC)</b>	<b>= Total Income</b>

The budget shall be balanced: total eligible cost shall be equal to total income."

<sup>1</sup> Including assigned income as described in point IV.2.

### 2. General Principles and Guidance

#### Budget:

"Budget is an estimate of costs, revenues, and resources over a specified period, reflecting a management's reading of future financial conditions. One of the most important administrative tools, a budget serves also as a plan of action for achieving quantified objectives, standard for measuring performance, and device for coping with foreseeable adverse situations".<sup>13</sup> The grant agreement signed between the Responsible Authorities and final beneficiaries must include the agreed forward budget and financing plan (expenditure and income<sup>14</sup>), including the percentage of indirect costs.<sup>15</sup> There should be only one budget per project and per grant agreement. It is the responsibility of the Responsible authority to define the requirements towards the final beneficiaries with regard to the information presented in the budget. The budget must however include an appropriate level of detail to allow proper identification of expenditure and income.

#### Maximum cofinancing percentages

The maximum co-financing percentage varies according to the type of action:

<b>TYPES OF ACTION</b>	<b>EU FUNDING %</b>
Cohesion Fund countries (shared management)	75%
Actions implementing specific priorities of the strategic guidelines (shared management)	75%
All other actions (shared management)	50%
Emergency measures (ERF)	80%
Actions set out in the 'Special transit scheme' (EBF)	100%
Specific actions (EBF) and Community actions (EBF, ERF, IF, RF)	80%
Technical assistance at the initiative of MS	100%

<sup>12</sup> Article 12 of the Implementing Rules and Article I.2 of Annex 11 to the Implementing Rules.

<sup>13</sup> www.businessdictionary.com

<sup>14</sup> Refer to the chapter 'Income and non-profit principle' for the definition of 'Income'.

<sup>15</sup> Article 10(2)(e) of the Implementing Rules.

**Eligibility of expenses reported:**

In order to be considered eligible, the costs claimed must have been set out in the forward budget, meaning that sufficient information on the nature, components and related amounts of the expenditure must be provided. The consequence of costs not being defined in the budget may lead to costs claimed in the final report being rejected. Although the mandatory budget format only includes 3 categories of expenditure (and 4 categories of income), it is recommended that a more detailed format should be used to make it easier to identify project costs (and income). Refer to section 4 for an example of a detailed budget format.

**Costs not listed in Annex 11 to the Implementing Rules:**

All eligible costs must be reported under the budget headings defined in Annex 11 to the Implementing Rules. As a general principle, costs not fitting the descriptions provided in Annex 11 to the Implementing Rules will be considered ineligible and thus not be reported for EU support.

**Costs-effectiveness analysis:**

Amongst other criteria, Member States must select projects on the basis of a cost effectiveness analysis.<sup>16</sup> This therefore implies that sufficient information on budgeted expenditure is provided to allow such analysis.

**Partners:**

These principles are also applicable to partners. It is therefore the responsibility of the final beneficiaries to ensure that their partners provide sufficient and consistent information for the establishment of the budget.

### 3. Exceptions

⚠ N/A.

### 4. Best practices, Recommendations and Preferred options

⚠ **Recommendations towards the responsible authority for the purpose of signing Grant Agreements with final beneficiaries:** The budget format provided in the regulatory framework includes 3 categories of expenditure. However, to make it easier to identify the budgeted costs, it is recommended that at least the following sub-categories of direct costs should be indicated in the budget:

DIRECT COSTS:

- 1 – Staff costs
- 2 – Equipment
- 3 – Real Estate
- 4 – Subcontracting
- 5 – Other direct costs (including 'Travel and subsistence', 'Consumables, Supplies and General Services', 'Costs deriving from the requirements linked to EU co-financing', 'Expert fees' and 'Specific expenses in relation to target groups').

A more detailed budget format may be applied using the cost categories as defined in Part II of Annex 11 to the Implementing Rules.

Below is an example of a detailed budget of a project for ERF, IF and RF:<sup>17</sup>

Expenditure		Income	
Direct costs	50 000	Contribution from the EU	32 500
– Staff costs	9 000	Contribution from the final beneficiary and the partners in the project	12 500
– Equipment	8 500	Contribution from third parties	5 000
– Real Estate	20 500	Receipts generated by the project	15 000
– Subcontracting	10 000		
– Other direct costs	2 000		

<sup>16</sup> Articles 14(5-b) (ERF), 16(5-b) (EBF), 15(5-b) (RF) and 13(5-b) (IF) of the respective Basic Acts.

<sup>17</sup> For EBF, the same example can be used, except that the indirect costs may not exceed 5% of the total direct costs (i.e. 2 500 000). Refer to the chapter 'Indirect costs'.

Expenditure		Income	
Indirect costs (20% of DC <sup>18</sup> )	10 000		
Costs covered by assigned income	5 000		
<b>Total Eligible Cost</b>	<b>65 000</b>	<b>Total Income</b>	<b>65 000</b>

The detailed information provided for each budget heading could be as follows:

- a. 1 — Staff costs: Names of persons involved in the project and respective profile (permanent/temporary employee, full-time/part-time, project manager/domain specialist/ technician...), number of days scheduled on the project, budgeted daily rate.<sup>19</sup> Should the names of the persons involved not being known when drawing up the budget, at least the number of persons per profile, days scheduled and budgeted rate should be provided.
- b. 2 & 3 — Equipment and real estate: Equipment or real estate purchase, estimated date of purchase, estimated date of end of use for the project, estimated purchase value, estimated percentage of use in the project and related costs.<sup>20</sup>
- c. 4 — Subcontracting: Description of the type of subcontracted works/services envisaged, names of subcontractors (if known), estimated total contract amount and total cost.
- d. 5 — Other direct costs: For 'Travel and subsistence costs': Where possible, planned workshops, meetings, seminars, conferences and other activities requiring travel, names (or profiles) of persons involved and estimated related amounts. For all other direct costs: Overall description of the type of costs anticipated (consumables, legal advice, consultancy fees...) and related amounts.
- e. Indirect costs: Justification of indirect costs calculation leading to the percentage reported.<sup>21</sup>
- f. Costs covered by assigned income: Similar information to that provided for staff costs (and travel costs if applicable).

Supporting evidence for the amounts presented in the budget may be included in a document attached to the budget for the purposes of information and preliminary analysis.

**⚠ Contingency reserve**: The regulatory framework does not provide for a reserve amount to be included in the budget. However, some flexibility through limited transfers between budget headings is permitted (see below).

**⚠ Amended budget**: Any major changes to the financial breakdown between the five categories of direct costs referred above and to the nature and content of the budgeted costs should be formalised in good time in duly signed amendments.<sup>22</sup>

**⚠ Transfers between budget headings**: It is the responsibility of the responsible authority to define the rules regarding budget overrun. However, it is recommended that overruns of up to a **maximum of 10%** of the initial budgeted amount for each of the 5 sub-categories of direct costs should be accepted without requiring a budget amendment, provided that the EU contribution does not exceed the amount initially granted, that the nature and content of the budget categories have not been significantly changed and that adequate information is given. Below are examples of budget transfers without amendment that are permitted or not permitted:

Budget		Actual	
Direct costs	50 000	Direct costs	50 800
– Staff costs	9 000	– Staff costs	9 800
– Equipment	8 500	– Equipment	7 800
– Real Estate	20 500	– Real Estate	18 800
– Subcontracting	10 000	– Subcontracting	12 200
– Other direct costs	2 000	– Other direct costs	2 200
Indirect costs (20% of DC <sup>23</sup> )	10 000	Indirect costs (18% of DC)	9 144
Costs covered by assigned income	5 000	Costs covered by assigned income	3 800

<sup>18</sup> Up to 20% is the general rule for ERF, RF and IF. For exceptions to this rule, refer to the chapter 'Indirect costs'.

<sup>19</sup> Refer to the Chapter 'Staff costs' for examples of personnel daily rate calculation.

<sup>20</sup> Refer to the Chapters 'Equipment' and 'Real estate' for the details of cost calculation.

<sup>21</sup> Refer to the Chapter 'Indirect eligible costs' for examples of calculation.

<sup>22</sup> Refer to the Chapter 'Grant agreement and amendments'.

<sup>23</sup> Up to 20% is the general rule for ERF, RF and IF. For exceptions to this rule, refer to the chapter 'Indirect

Budget		Actual	
<b>Total Eligible Costs</b>	<b>65 000</b>	<b>Total Eligible costs</b>	<b>63 744</b>

In the example above, budgeted 'Staff costs' and 'Other direct costs' were overrun but by less than 10%. These overruns would therefore be accepted since the total budgeted expenditure has not been overrun. However, costs of 'Subcontracting' have been overrun by more than 10% (22%). As a consequence, the amount exceeding 110% of the agreed budget for that heading may be disputed by the responsible authority during the final financial evaluation. The absence, , of proper justification in the final report for this overrun without budget amendment could potentially lead to the excess amount being rejected (i.e. 1 200 in the example above). Eligible indirect costs would be reduced accordingly.

### 5. FAQs

 Q: Can a contingency reserve (e.g. 5%) be included in the budget?

A: The regulatory framework does not provide for a reserve to be included in the budget. However, instead of a reserve, transfers between budget headings are permitted provided that the overall total budgeted expenditure is not overrun. Should an overrun of the overall total or of certain budget headings exceeding 10% be included, these overruns must be formalised in duly signed amendments to the grant agreements.

- Q: Where can examples of budgets (including transfer of 'assigned incomes') be found?

A: See example under section 4.

 Q: Is there a mandatory structure for budget headings (per cost category Personnel costs/Subcontracting...)?

A: There is no mandatory budget format. However, it is recommended that the proposed budget should include the costs categories defined in section 4.

 Q: Must all costs relating to the project be laid down in the budget in order to be eligible?

A: Costs must be sufficiently detailed in the budget to be considered eligible. Costs not set out or sufficiently detailed in the budget could be rejected.

**D. Eligibility period****1. Regulatory Framework<sup>24</sup>****Basic Act:**

"Expenditure may be considered eligible for support from the Fund only if it is actually paid no earlier than 1 January of the year referred to in the financing decision approving the annual programme referred to in the third subparagraph of article 23(4). The co-financed actions must not have been completed before the starting date for the eligibility."

**Implementing Rules:**

"Costs relating to a project must be incurred and the respective payments (except for depreciation) made after 1 January of the year referred to in the financing decision approving the annual programme of the Member States. The eligibility period is until 30 June of the year N+2, meaning that the costs relating to a project must be incurred before this date."

An exception to the above eligibility period is made for:

- emergency measures (ERF)
- projects supported under the 2007 annual programme (IF, EBF)
- technical assistance for Member States (All Funds).

**2. General Principles and Guidance**

 **Costs incurred:**

As a general principle, costs are incurred at the time of use or 'consumption' (i.e. the cost of a service is incurred at the time that the service is provided and the cost of a good is incurred when the good is consumed/delivered and used for the project). For projects of less than 30 months (except for annual programmes 2007, 36 months) duration, the duration of the project is laid down in the grant agreement signed between the responsible authority and the beneficiary.

 **Eligibility period of a project/programme:**

The eligibility period of a project is laid down in the grant agreement (when the responsible authority acts as awarding body) or in the equivalent form of legal agreement (when the responsible authority acts as executing body), including possible amendments thereof. To be eligible, expenditure must not only comply with all eligibility rules, but it also has to be incurred within the project's eligibility period. Any expenditure incurred outside of the project's eligibility period is ineligible, even if it meets all eligibility rules.

The eligibility period of an annual programme is laid down in the financing decision approving that annual programme, except for the 2007 annual programmes for which it is laid down in the basic acts of the EIF and the EBF. The eligibility period of the 2007 annual programmes extends over three years, from 1/1/2007 until 31/12/2009. For all other annual programmes N, the eligibility period of the annual programme covers two years and a half, from 1/1/N until 30/6/N+2. The eligibility period of an annual programme is the period during which eligible project and technical assistance expenditure must be incurred if it is to be eligible for EU funding under the particular annual programme it is charged to. The eligibility period of a project and that of an annual programme are therefore two different concepts.

For practical reasons responsible authorities in general set out the time table for projects to be funded under a given annual programme in such a way as the projects' eligibility period will fit into the eligibility period of that annual programme, but this is not always the case. For instance, the eligible expenditure of a project covering a three year period must necessarily be charged for one part on one annual programme and for another part on another annual programme. Even for a project covering a shorter period, the project's time table may be such that the project's eligible

<sup>24</sup> **Basic Act:** Article 37(3) EBF, Article 33(3) If, Article 35(3) Rf, Article 35(3) ERF;  
**Implementing rules:** Article I.4 of Annex 11.

expenditure will have to be charged to several annual programmes, depending on the period during which its eligible expenditure was incurred. Etc.

The following rules apply:

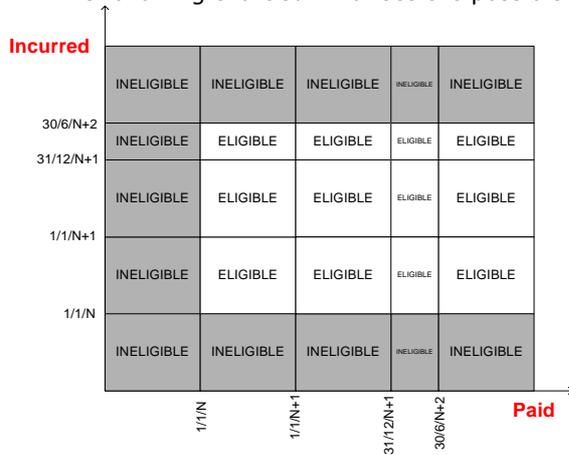
- an item of expenditure must be charged to only one annual programme in its entirety (except for items which are charged to the project on the basis of depreciation);
- only that part of eligible expenditure that was incurred during the eligibility period of the annual programme it is charged to, may be charged to that annual programme;
- each annual programme to which eligible expenditure is charged to must provide, in the description of the actions (or in the technical assistance, the case being), for coverage of the expenditure.

Responsible authorities are invited to pay particular attention to these requirements.

**Payments:**

The Implementing Rules stipulate that expenses must be paid after the start date of the eligibility period (1 January of Year N). Therefore, expenses incurred during the eligibility period must not be paid before 1/1/N to be considered eligible. Payments can be processed after the end of the eligibility period. However, the RA must ensure that for all expenses claimed, in addition to supporting evidence, payments are processed (or initiated) at the latest on issuance of the financial reports on the implementation of the annual programme.

The following chart summarises the possible cases applicable to accrual-based accounting:



Cost incurred before 1/1/N	→ INELIGIBLE
Cost incurred between [1/1/N & 30/06/N+2] and paid before 1/1/N	→ INELIGIBLE
Cost incurred between [1/1/N & 30/06/N+2] and paid between [1/1/N & 30/06/N+2]	→ ELIGIBLE
Cost incurred between [1/1/N & 30/06/N+2] and paid after 30/06/N+2	→ ELIGIBLE
Cost incurred after 30/06/N+2	→ INELIGIBLE

**Impact of the choice of accounting method on the booking of expenditure:**

The accounting systems do not always allow precise tracking of the actual period of use/consumption of a good/service. Therefore, as a commonly accepted principle and for practical reasons (in the event of a high volume of transactions), costs can be considered incurred as recognised in the accounting or control system used to report costs to the EC, but with specific reprocessing.

- For organisations using an **accrual-based** reporting method, the amount booked to the period of the project should be used, but with special care, regarding expenses paid before 1/1/N, which are not eligible. Under this method, expenditure is recorded at the time of use or "consumption" even though no payment has yet been made.
- For organisations using other methods of reporting (i.e. **cash-based**), only costs actually incurred during the eligibility period can be charged to the project. With a cash-based accounting method, all expenses recorded in year N are paid between 1/1/N and 31/12/N. However, costs paid (and therefore booked) during this period may have been incurred before 1/1/N. Specific attention must then be paid to identifying and excluding costs paid after 1/1/N but incurred before (or after for advance payments) the eligibility period. The method used to

perform this analysis should be described and/or explained as part of the reporting mechanism to the responsible authority.

**① Payments made by the responsible authority to the Final Beneficiary:**

The responsible authority must determine, either through ex-ante or ex-post controls, which expenses co-financed by the Funds and reimbursed to the final beneficiary are actually paid by the final beneficiary. The responsible authority must also recover and subsequently pay back to the Commission any expenses that have not been paid by the beneficiary himself.

### 3. Exceptions

- **Emergency measures (ERF):**<sup>25</sup> The eligibility period for emergency measures is limited to 6 months. Unless expressly mentioned in the Commission decision approving the programme relating to the emergency measures, there is no constraint regarding the payment date of eligible expenses.
- **Projects supported under the 2007 annual programmes (IF, EBF):**<sup>26</sup> The eligibility period for projects (including technical assistance) supported under the 2007 annual programmes for the Integration Fund and the External Borders Fund is extended to 3 years and therefore runs from 1/1/2007 to 31/12/2009.
- **Technical assistance:**<sup>27</sup> The eligibility period for activities relating to technical assistance lasts until the deadline for the submission of the final report on implementation of the annual programme.
- **Equipment depreciation:** The rule regarding payments presented in sections 1 and 2 (costs not eligible if paid before 1/1/N) is not applicable to payments relating to equipment purchased before the beginning of the eligibility period and used for the purpose of the project, and for which depreciation amounts are reported. Payments can be processed before the start of the eligibility period.
- **Bank Guarantees:** Bank guarantees incurred to meet the requirements linked to EU co-financing may be eligible even when incurred after the end of the period of eligibility, but in no circumstances incurred after the date of submission of the final report.

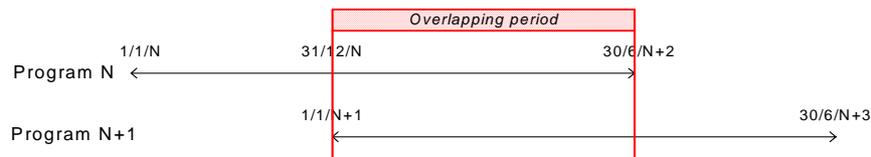
### 4. Best practices, Recommendations and Preferred options

- ⚠ When the volume of **transactions is limited** (i.e. limited number of invoices...), and the system in place does not allow costs to be tracked per period/date of use/consumption, it is recommended that the costs reported be **checked manually** to ensure that the general principle laid down in sections 1 and 2 above is applied. For a **large volume of transactions**, it is recommended to create an **analytical code** in the accounting system for each programme so as to enable any requester to trace the financial data from the general ledger.
- ⚠ For beneficiaries using either accrual-based or cash-based accounting systems, **particular attention** should be paid to **expenses booked near the start and end of eligibility period** (e.g. between 1/1/N and 28/2/N). A detailed analysis of these costs is then recommended to ensure that the costs were actually incurred after the start of the eligibility period.
- ⚠ **Overlapping of periods of eligibility:** To ensure that costs for the same project are not reported in two consecutive programmes with overlapping periods of eligibility, particular attention needs to be paid to the costs reported in this overlapping period. It is important to ensure that the costs incurred within a defined period are related to the project and thus to the programme.

<sup>25</sup> Article 21(3) of the basic act.

<sup>26</sup> Article 33(3) of the basic act (IF) / 37(3) EBF.

<sup>27</sup> Article V.3. of Annex 11 to the Implementing Rules.



- ⚠ **Multiannual projects:** In the case of multiannual projects, the RA should be aware that the allocated budget for a specific eligible period cannot be transferred, in part or in full, to the following annual programme. The cost of each eligible period has to be reported for the respective annual programme independently.
- ⚠ **Purchase at the end of the project:** If equipment purchased at the end of the project is not directly related to the project, this cost could be rejected even if it was included in the budget estimate.
- ⚠ **Accounting services:** For practical reasons and for better financial reporting, accounting services relating to final financial reports and audit certificates might be incurred after the end of the eligibility period (up to 3 months after the end of the eligibility period or any later date compatible with the submission of the final report). This derogation cannot be extended to other types of expenses, such as staff costs, dissemination costs, etc.

## 5. FAQs

- ⚠ **Q:** Are costs relating to accounting services for certification/control of financial statements relating to the period of the programme (eligibility period from 1/1/N to 30/06/N+2) eligible even when incurred after the end of the eligibility period (after 30/06/N+2)?

A: - For final beneficiaries, see point 4 "Accounting services".

For designated authorities, these costs will be considered to be technical assistance and are therefore eligible if incurred before the extended deadline for such costs (usually 30 June N+2).

- ⚠ **Q:** Does the date on which a grant agreement is signed have an impact on the eligibility period?

A: No, but it is recommended that grant agreements be signed before the start of the project.

- ⚠ **Q:** For the purchase of certain onerous equipments, is it possible to use several annual programmes allocations?

A: Considering the amounts of their allocations and the high cost of certain equipments, some MS may only be able to finance specific projects (purchase of boats, aircrafts, etc...) using allocations related to several successive annual programmes or successive years (even if these years do not relate to successive annual programmes, i.e. last year of 2007 annual programme and first year of 2010 annual programme: 2009 and 2010). This might be possible under the condition that the total cost is charged on successive annual programmes or years from the signing of the contract until the delivery of the equipment. Payments established in the signed agreement or order corresponding to instalments announced in each annual programme should be done within the eligibility period of each annual programme concerned even if the equipment is delivered at the end of the multiannual period. In each annual programme and each final report, detailed information on the state of play of the project and corresponding deliverables should be presented.

- ⚠ **Q:** When using the leasing option, what must be reported as indicator/deliverable in the annual programme?

A: in the case of leasing the equipment is delivered and afterwards the final beneficiary will have to pay instalments corresponding to the leasing contract. Where the cost charged to a project in the annual programme is represented by a leasing instalment, it must be referred to the leased equipment which can have been delivered on a previous annual programme. Considering the specificity of leasing contracts, the goods is always delivered (incurred) at the beginning of the project and its cost charged to different successive annual programmes or successive years.

⚠ Q: If equipment purchased at the end of the project is not directly related to the project, this cost could be rejected even if it was included in the budget estimate." What does "end of the project" mean? Is there a deadline for purchasing before which the costs will be accepted in any case?

A: This best practice refers to art. I.1 of annex 11 of the IR where it is mentioned that "purchase must be "needed to carry out the project". The RA should pay attention, in cases where the Final beneficiary would like to purchase equipment at the very end of the project (only to consume appropriations) that does not have any link with the project or a real usefulness for the achievement of the project. In this case, the cost could be rejected following an ex-post audit.

⚠ Q: Regarding the deadline for the transmission of the final report we would like to ask you to tell the MS if the term is established taking into account the eligibility period for the actions or the eligibility period for the technical assistance?

A: According to the basic act, the MS shall submit no later than nine months after the end of the eligibility period a final report on the execution of the programme, together with the audit authority report and the certified declaration of expenditure. The deadline for eligibility for actions will be 30 June year N+2 for a programme submitted in year N. Within nine months from the above mentioned date the final report for a programme for year N will be submitted (i.e. at the latest on 31 March 2011 for AP 2008). The eligibility period for technical assistance expenditure shall last until the submission of the final report on the implementation of the annual programme (i.e. at the latest 31 March 2011 for AP 2008).

## E. Record of expenditure and audit trail

### 1. Regulatory Framework<sup>28</sup>

**Record of Expenditure:**

"Expenditure shall correspond to payments made by the final beneficiary. These must be in the form of financial (cash) transactions, with the exception of depreciation.

As a rule, expenditure shall be justified by official invoices. Where this cannot be done, expenditure shall be supported by accounting documents or supporting documents of equivalent evidential value.

Expenditure must be identifiable and verifiable. In particular:

- (c) it must be recorded in the accounting records of the final beneficiary;
- (d) it must be determined in accordance with the applicable accounting standards of the country where the final beneficiary is established and with the usual cost accounting practices of the final beneficiary; and
- (e) it must be declared in accordance with the requirements of applicable tax and social legislation.

Where applicable, the final beneficiaries are obliged to keep certified copies of the accounting documents justifying income and expenditure incurred by the partners in relation to the project concerned.

The storage and processing of such records must comply with the national data protection legislation."

**Audit trail:**

"An audit trail shall be considered adequate if it complies with the following criteria:

- (a) it permits reconciliation of the amounts certified to the Commission with the detailed accounting records and supporting documents held by the certifying authority, responsible authority, delegated authorities and final beneficiaries on projects co-financed under the Fund;
- (b) it permits verification of payment of the public contribution to the final beneficiary, of allocation and transfer of the Community funding granted under the Fund and of the sources of co-financing of the project;
- (c) it permits verification of application of the selection criteria established for the annual programme;
- (d) it contains in respect of each project, as appropriate, the technical specifications and financing plan, documents concerning grant approval, documents relating to public procurement procedures and reports on the verifications and audits carried out.

The responsible authority shall ensure that a record is kept of the location of all documents relating to specific payments made under the Fund."

**RA acts as awarding body:**

"If appropriate, the final beneficiaries shall ensure that all partners in the project are subject to the same obligations as them. The partners shall engage their responsibility through the final beneficiary which remains answerable, in last resort, for the respect of the contractual conditions by itself and all partners in the project.

The final beneficiaries shall keep certified copies of the accounting documents justifying income and expenditure incurred by the partners in relation to the project concerned.

The grant agreements shall provide expressly for the Commission and the Court of Auditors to exercise their powers of control, based on documents and on the premises, over all final beneficiaries, partners in the project and subcontractors."

<sup>28</sup> Articles 10(3), 10(4) and 16 of the Implementing Rules and Article I.5 of Annex 11 to the Implementing Rules.

## 2. General Principles and Guidance

### Justification of expenditure:

As a general rule, all expenditure should be justified by official original invoices or receipts.

### Official invoice:

"An invoice identifies both the trading parties and lists, describes, and quantifies the items sold, shows the date of shipment and mode of transport, prices and discounts (if any), and delivery and payment terms".<sup>29</sup> In certain cases (especially when it is signed by the seller or seller's agent), it serves as a demand for payment and becomes a document of title when paid in full. To be considered eligible, invoices must be directed to the beneficiary (name and reference of the beneficiary should appear as the addressee).

### Archiving:

Adequate documentation (originals or certified copies) can be kept at any level (responsible authority, Delegated Authority, beneficiaries, etc.). However, the responsible authority should always know where originals and/or certified copies are kept, and these documents should be made available to control bodies (Audit Authority, Commission, Court of Auditors) at any time up to five years after closure of the programme (i.e. final payment/final recovery issued by the Commission to the responsible authority).

### Record of expenditure in case of Partnership.<sup>30</sup>

The final beneficiaries must keep certified copies of the accounting documents (invoices/receipts) supporting the expenditure incurred by the partners on the project concerned. Documents supporting this expenditure must be certified by the partners themselves or, as per best practice, by an official body. On request (e.g. by a control body), the beneficiary should be able to provide evidence of booking and payment (e.g. on the basis of partners' accounting ledger extracts). The grant agreements will provide expressly for the Commission and the Court of Auditors to exercise their powers of control, based on documents and on the premises, over all final beneficiaries, partners in the project and subcontractors.

## 3. Exceptions

- **Depreciation costs:** As there is no financial cash transaction regarding depreciation, these costs only have to be justified by accounting documents or supporting documents of equivalent evidential value.
- **Indirect costs:** Since there are no direct financial cash transactions regarding indirect costs, these costs only have to be justified by accounting documents or supporting documents of equivalent evidential value (see recommendations below).

## 4. Best practices, Recommendations and Preferred options

- **Adequate audit trail:** An adequate audit trail is one of the most important obligations of the final beneficiary regarding financial aspects. An audit trail is a paper or electronic trail that provides a step by step documented history of a transaction. It is advisable to classify all documents (invoices, certified copies (where applicable), receipts, vouchers, etc.) relating to a specific project chronologically. This procedure would enable to trace the financial data to be traced from the general ledger to the source document for all costs in the eligibility period.
-  **Archiving period:** The supporting documentation must be kept for at least 5 years after the last EUpayment/recovery for the project. Below is an example of how to determine the minimum archiving period:
  - End of eligibility period: 30/06/N+2 (or 31/12/2009 for 2007 annual programmes EBF and IF);
  - Submission of the final report: 31/3/N+3 (for AP 2007: 30/9/2010);
  - EUfinal payment: 31/8/N+3;
  - End of the minimal archiving period: 31/8/N+8.

<sup>29</sup> <http://www.businessdictionary.com/definition/invoice.html>

<sup>30</sup> Article 11 (ERF), 12 (EBF, RF), 10 (IF) of the basic act.

The responsible Authority should inform the final beneficiaries of these archiving conditions (e.g. final date until when the FB is obliged to keep document should be clearly stated when the final payment is received from the EC).

- **Loss of adequate audit trail:** If an original invoice is lost, a duplicate must be requested from the original supplier. A dated stamp and/or signature on the copy is mandatory. If an original is lost, a declaration on honour cannot be considered as sufficient supporting evidence. In duly justified cases (impossibility to get a copy from the supplier), alternative accounting/supporting documents (debit notes, purchase order, delivery notes, accounting records...) may be considered as acceptable evidence.
- **Indirect costs:** The final beneficiary must keep the details of the calculation scheme used to report indirect costs (e.g. allocation keys, factors included in the calculation and references to the financial statements).<sup>31</sup> On request (from a control body), the FB should be able to provide the documents supporting the cost components included in the calculation. The responsible authority may apply stricter rules.

## 5. FAQs

- Q: Can accounting records/documents be sufficient to support a cost? What alternative documents can be accepted to support costs?  
A: See point 4.
- Q: Are final beneficiaries requested to keep certified copies of all documents?  
A: No. Certified copies are requested when originals of the invoices/supporting documents cannot be provided.
- Q: Are expenses recorded in partners' accounts eligible if supporting documents are provided by the beneficiary?  
A: Partners' expenses are eligible provided that appropriate documents are supplied as indicated above.
- Q: Would an electronic accounting system be sufficient (i.e. where all the receipts are saved and archived only in electronic format)?  
A: Electronic archiving of the supporting documents may be accepted provided that, for control purposes, all information disclosed on the originals is also disclosed on the electronic version of the supporting documents.

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<sup>31</sup> Refer to the Chapter 'Indirect eligible costs'

## F. Territorial Scope

### 1. Regulatory Framework<sup>32</sup>

#### **Territorial Scope**

##### **ERF**

"Expenditure for actions described in Articles 3 and 5 of the basic act must be:

- (f) incurred by the final beneficiaries defined in point I.1(e); and
- (g) incurred in the territory of the Member States, with the exception of actions concerning resettlement referred to in Article 3(5) of the basic act, which may be incurred in the territory of the Member States or in the host country."

##### **IF**

"Expenditure for actions described in Article 4 of the basic act must be:

- (a) incurred by the final beneficiaries defined in point I.1(e); and
- (b) incurred in the territory of the Member States, with the exception of actions concerning pre-travel measures referred to in Article 4.1(c) of the basic act, which may be incurred in the territory of the Member States or in the country of origin."

##### **EBF**

"Expenditure for actions described in Articles 4 and 6 of the basic act must be incurred in the territory of the Member States, by the final beneficiaries defined in point I.1(e), with the exception of:

- Expenditure implementing actions relating to the general objective defined in Article 3(1) (d) of the basic act. These actions may be incurred in the territory of the Member States and in third countries;
- Actions relating to the surveillance of external borders. These actions can take place both within and beyond the territory of Member States."

##### **RF**

"Expenditure for actions and measures described in Articles 4 and 5 of the basic act must be:

- (a) incurred by the final beneficiaries defined in point I.1(e); and
- (b) incurred in the territory of the Member States or of third countries."

#### **All Funds**

"Partners in the project registered and established in third countries may participate in projects on a no-cost basis, except in the case of international governmental organisations. Therefore, costs incurred by these partners are ineligible."

### 2. General Principles and Guidance

- Territorial scope:
  1. As a general principle, expenditure must be incurred by the final beneficiaries established and registered in a Member State and must be incurred within the territory of the Member States. Exceptions to this rule are set out in Section 3.
  2. Expenditure must be incurred on the territory of the Member States. There is no requirement that expenditure for a particular action should be solely incurred on the territory of the Member State that programmed the action in question. Some examples:
    - training of practitioners in another Member State for any of the Funds;
    - pre-departure information measures in support to beneficiaries of and applicants for international protection whose transfer to another Member State has been accepted (Article 3(6) ERF Decision);
    - travel expenses for the staff of consular authorities and services responsible for the identification of third-country nationals and verification of their travel documents to the Member State concerned (Article 5(7) RF Decision);
    - food and temporary accommodation of returnees and their escorts from a Member State participating in a joint return operation in the organising Member

<sup>32</sup> Article 3(5) of the ERF basic act, Article 4.1(c) of the IF basic act, and Article I.6 of Annex 11 of the basic act.

State prior to departure (Article 5(3) RF Decision).

### 3. Exceptions

Exceptions to the general principle are set out in the table below:

ERF	IF	RF	EBF
Costs incurred outside the EU in relation to the following activities may be eligible for EU support:			
<b>Resettlement activities</b> (mainly preparation for resettlement in the EU)	Costs related to <b>Pre-travel measures.</b>	All costs related to the return of target groups to third countries	1- Costs related to <b>better management of flows of third-country nationals by Member States in third countries.</b>  2- Costs related to <b>surveillance of external borders</b>

However, for all projects covered by the exceptions listed below under IF, ERF, EBF and RF, the final beneficiaries and partners must be established and registered in a Member State. The only exception to this rule is the case of international governmental organisations that pursue the same objectives as laid down in the basic act.

- ⚠ **Resettlement (ERF):**<sup>33</sup> Costs of resettlement actions performed outside the EU can be considered as direct eligible costs. These mainly involve preparation for resettlement (pre-departure costs) and measures listed in Article 3(5) ERF Decision (such as selection missions to the host country, pre-departure health assessment and medical treatment, pre-departure information, travel arrangements).
- ⚠ **Pre-travel measures (IF):**<sup>34</sup> Costs of pre-travel measures for third-country nationals who are on the territory of a third country and comply with the specific pre-departure measures and/or conditions set out in the national law of the Member State concerned can be considered as direct eligible costs in third countries. These measures are carried out in the country of origin and are designed to prepare their integration in the host society of the Member State concerned, as referred to in Article 4(1)(c) IF Decision.
- ⚠ **Better management of migration flows to Member States in third countries (EBF):**<sup>35</sup> Costs of improving the management of migration flows organised by the consular and other services of the Member States in third countries, as regards the flows of third-country nationals into the territory of the Member States and cooperation between Member States in this regard, are an exception to the general rule and can thus be reported as direct eligible costs. This covers all measures taken to support the activities of these services, as listed in Article 4(4) EBF Decision, and can include staff costs for immigration liaison officers and consular agents, the purchase of biometric devices such as fixed and mobile live scan digital equipment capable of rapid fingerprint identification, construction and/or renovation of real estate for consular offices and common application centres etc.
- ⚠ **Surveillance of external borders (EBF):** Actions relating to the surveillance of the external borders of the Member States may also be eligible for EU support beyond the territory of the Member State (e.g. installation of stationary surveillance platforms at sea)
- ⚠ **Measures related to target groups for return (RF):** All expenditure for actions and measures under the Fund can be incurred in the Member States or in third countries.
- ⚠ **International governmental organisations/Non-governmental organisations:** The costs of international governmental organisations established in third countries participating in projects may be considered eligible as direct costs. NGOs registered in a third country can only participate in a project on a no cost basis or as a subcontractor to the final beneficiary.

<sup>33</sup> Article 3(5) of the basic act.

<sup>34</sup> Article 4(1)(c) of the basic act.

<sup>35</sup> Article 3(1)(d) of the basic act.

#### 4. Best practices, Recommendations and Preferred options

⚠ N/A.

#### 5. FAQs

- ⚠ Q: Do costs have to be incurred in the Member State concerned or anywhere in the EU?  
A: Expenditure incurred in any Member State territory may be considered eligible for EU support, provided that the beneficiary is registered in an EU Member State.
- ⚠ Q: How is the participation of organisations (NGOs/GOs) established in third countries determined?  
A: Partners must be registered in one of the Member States to be able to report costs for EU support.
- ⚠ Q: Can an NGO registered in a third country be involved in a project as subcontractor of the final beneficiary and have its cost considered as eligible? Does not this contradict the definitions of partner and subcontractor and for the RF the costs in the third countries listed in the exceptions?  
A: An NGO registered in a third country can be involved in a project as partner on a non-cost basis or as subcontractor /"supplier" of services related to the project against payment. The costs in this case are nevertheless incurred by the final beneficiary registered in a member state participating into the concerned Fund.
- ⚠ Q: Can a RA select a project of a final beneficiary registered in another MS participating to the Fund?  
A: Yes, this is possible.
- ⚠ Q: If a final beneficiary (NGO) is registered in any MS, can the beneficiary collaborate with an NGO registered in a third county as subcontractor and are its costs eligible?  
A: Yes, this NGO is then considered as a subcontractor of the final beneficiary which is registered in a Member State.

## G. Income, Non-Profit Principle and calculation of the final EU contribution

### 1. Regulatory Framework<sup>36</sup>

#### Income and non-profit principle

"Projects supported by the Fund must be of a non-profit-making nature. If, at the end of the project, the sources of income, including receipts, exceed expenditure, the contribution to the project from the Fund shall be reduced accordingly. All sources of income for the project must be recorded in the final beneficiary's accounts or tax documents, and must be identifiable and controllable.

Project income shall come from all financial contributions granted to the project by the Fund, from public or private sources, including the final beneficiary's own contribution, and from any receipts generated by the project. "Receipts" for the purpose of this rule covers revenue received by a project during the eligibility period as described in point I.4, from sales, rentals, services, enrolment/fees or other equivalent income.

The Community contribution resulting from the application of the principle of non-profit, as referred to under Article 12(c) of this Decision, will be the "total eligible cost" minus the "contribution from third parties" and "receipts generated by the project"."

#### Determination of the final Community contribution

##### **ERF**

"For calculation of the final payment to the final beneficiary, the total Community contribution to each project shall be the lowest of the following three amounts:

- (a) the maximum amount stated in the grant agreement;
- (b) the maximum co-financing resulting from multiplication of the total eligible costs of the project concerned by the percentage laid down in Article 14(4) and Article 21(3) of the basic act (i.e. 50%, 75% or 80%); and
- (c) the amount resulting from application of the principle of non-profit, as defined in point I.3.3 of Annex 11."

##### **IF, RF, EBF**

"For calculation of the final payment to the final beneficiary, the total Community contribution to each project shall be the lowest of the following three amounts:

- (a) the maximum amount stated in the grant agreement;
- (b) the maximum co-financing resulting from multiplication of the total eligible costs of the project concerned by the percentage laid down in Article 13(4) (IF) / Article 15(4) (RF) / Article 16(4) (EBF) of the basic act (i.e. 50% or 75%); and
- (c) the amount resulting from application of the principle of non-profit, as defined in point I.3.3 of Annex 11."

### 2. General Principles and Guidance

- Income:

From the beneficiary's perspective, project income includes the following:

- Final contribution from the EU(as a percentage of the total eligible costs);
- Contribution from the final beneficiary and the partners in the project (incl. assigned income<sup>37</sup>):
  - contribution of the final beneficiary and of the partner reported as assigned income;
  - contribution of the final beneficiary and of the partner as the balance between total expenditure and all other project incomes (including assigned income);

<sup>36</sup> Article I.3 of Annex 11 to the Implementing Rules.

<sup>37</sup> Article IV of Annex 11 to the basic act. Refer to the Chapter 'Costs covered by assigned income'.

- Contribution from third parties:
  - public funds (e.g. national, regional, local subsidies);
  - private funds (e.g. support from non-governmental-organisations, donations from companies...);
- Revenues generated by the project during the eligibility period:
  - sales of surplus consumables,
  - equipment rental;
  - rental of part of the real estate constructed or purchased for the project;
  - fees collected for advisory and other services provided to third parties;
  - all other revenues generated directly or indirectly by the project.

Except for its own contribution, all these sources of income must be properly entered in the final beneficiary's accounts and/or accurately reported in tax declarations.

- Non-profit principle:

**Costs claimed:**

Costs reported for EU support must be actual costs borne by the final beneficiary and exclude any profit margin (e.g. the use of "commercial" staff rates to report staff costs is prohibited).

Particular attention must be paid to the following:

- 'commercial' staff rates;<sup>38</sup>
- rebates/discounts obtained on subcontracting costs not deducted from the costs reported for EU support;
- subsistence allowances reported to the EU not actually reimbursed to employees;
- all contributions in kind.

Any identification of profit margins or costs not actually borne by the final beneficiary included in the costs reported for EU support may be considered by the Community control bodies as cases of irregularity/infringement.

**Project funding:**

The non-profit principle means that, at the end of the project, the EU contribution should not exceed the following amount:

- + total eligible expenditure
- contribution from third parties (other public subsidies and private funds)
- revenue generated by the project.

Should the calculation be positive, that amount will be deducted from the final EUEU contribution. An example of such a case is given in section 4.

- Contribution from the EC:

The contribution received from the EU must be the lowest of the following three amounts:

- (a) the maximum amount stated in the grant agreement;
- (b) the maximum amount of co-financing resulting from multiplication of the total eligible costs of the project concerned by the percentage laid down in the basic act (i.e. 50%, 75% or 80%); and
- (c) the amount resulting from application of the principle of non-profit.

Examples of calculation of the EU final contribution are given in section 4.

Furthermore, costs covered by assigned income should not exceed 50% of the contribution of the final beneficiary and its partners<sup>39</sup>.

### 3. Exceptions

 N/A.

<sup>38</sup> Refer to the Chapter 'Staff costs' for examples of rate calculation excluding profit margin.

<sup>39</sup> Refer to the Chapter on "Costs covered by assigned income"

#### 4. Best practices, Recommendations and Preferred options

- ⚠ **Analytical features:** To ensure better monitoring of project expenditure and income, it is recommended that all project transactions (costs and revenues) should be recorded in the accounting system, using a special analytical account to separate project transactions from others.
- ⚠ **Suggestion for the drafting of the grant agreement:** "The EU contribution will be 50% of the total eligible actual cost, at a maximum of € X, provided that the non-profit rule and the ceiling for costs covered by assigned income are observed."
- ⚠ **Examples:** The grant agreement sets the EUEU contribution at a maximum of €40 000 or 50% of total eligible costs.

##### Scenario 1: EUEU contribution limited to 50%

PROVISIONAL BUDGET				ACTUAL BUDGET			
Expenditure (thousand EUR)		Income (thousand EUR)		Expenditure (thousand EUR)		Income (thousand EUR)	
Direct costs	80	Contribution from the EU <sup>40</sup>	50	Direct costs	45	Contribution from the EU	<b>30</b>
Indirect costs (20% of DC)	16	Contribution from the final beneficiary and partners in the project	30	Indirect costs (20% of DC)	9	Contribution from the final beneficiary and partners in the project	20
Costs covered by assigned income	4	Contribution from third parties	10	Costs covered by assigned income	6	Contribution from third parties	0
		Receipts generated by the project	10			Receipts generated by the project	10
<b>Total claimed<sup>41</sup> cost</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>	<b>Total cost claimed</b>	<b>60</b>	<b>Total Income</b>	<b>60</b>

In the case described above, the actual total eligible cost amounts to €60 000; applying the non-profit rule (Income = Expenditure) limits the EU contribution to €30 000, i.e. 50% of the total eligible costs.

##### Scenario 2: EU contribution limited to €40 000

PROVISIONAL BUDGET				ACTUAL BUDGET			
Expenditure (thousand EUR)		Income (thousand EUR)		Expenditure (thousand EUR)		Income (thousand EUR)	
Direct costs	80	Contribution from the EU	40	Direct costs	70	Contribution from the EU	<b>40</b>
Indirect costs (20% of DC)	16	Contribution from the final beneficiary and partners in the project	40	Indirect costs (20% of DC)	14	Contribution from the final beneficiary and partners in the project	40
Costs covered by assigned income	4	Contribution from third parties	10	Costs covered by assigned income	6	Contribution from third parties	0
		Receipts generated by the project	10			Receipts generated by the project	10
<b>Total cost claimed</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>	<b>Total cost claimed</b>	<b>90</b>	<b>Total Income</b>	<b>90</b>

In the case described above, the actual total eligible cost amounts to €90 000; applying the non-profit rule (Income = Expenditure) limits the EU contribution to €40 000, as provided for in the grant agreement.

##### Scenario 3: Non-profit rule applied (EU contribution limited to 50%)

The financial report submitted shows the following figures:

<sup>40</sup> i.e. 50% of the total eligible costs.

<sup>41</sup> Costs reported in accordance with the eligibility rules.

PROVISIONAL BUDGET				ACTUAL BUDGET			
Expenditure (thousand EUR)		Income (thousand EUR)		Expenditure (thousand EUR)		Income (thousand EUR)	
Direct costs	80	Contribution from the EU	50	Direct costs	60	Contribution from the EU	32
Indirect costs (20% of DC)	16	Contribution from the final beneficiary and partners in the project	30	Indirect costs (20% of DC)	12	Contribution from the final beneficiary and partners in the project	0
Costs covered by assigned income	4	Contribution from third parties	10	Costs covered by assigned income	0	Contribution from third parties	20
		Receipts generated by the project	10			Receipts generated by the project	20
<b>Total cost claimed</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>	<b>Total cost claimed</b>	<b>72</b>	<b>Total Income</b>	<b>72</b>

In the case described above, the project income before the EU contribution amounted to €50 000. Calculating the EUEU contribution on the basis of the total cost claimed would lead to an EU contribution of €36 000. The non-profit principle would therefore not be observed since the total income would amount of €76 000, thus exceeding the total costs claimed. In accordance with the section I.3.3 of Annex 11 to the Implementing Rules, the EU contribution has to be reduced accordingly. Therefore, the EU contribution must be limited to the balance (Total expenditure minus contribution from third parties minus receipts generated by the project), i.e. €32 000, and the surplus amount potentially received should be reimbursed by the beneficiary.

**Scenario 4: Total eligible costs due to the limitation on 'costs covered by assigned income'**

The financial report submitted shows the following figures:

BUDGET				ACTUAL			
Expenditure (thousand EUR)		Income (thousand EUR)		Expenditure (thousand EUR)		Income (thousand EUR)	
Direct costs	80	Contribution from the EU	40	Direct costs	60	Contribution from the EU	40
Indirect costs (20% of DC)	16	Contribution from the final beneficiary and partners in the project	40	Indirect costs (20% of DC)	12	Contribution from the final beneficiary and partners in the project	16
Costs covered by assigned income	4	Contribution from third parties	10	Costs covered by assigned income	10	Contribution from third parties	14
		Receipts generated by the project	10			Receipts generated by the project	12
<b>Total cost claimed</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>	<b>Total cost claimed</b>	<b>82</b>	<b>Total Income</b>	<b>82</b>

As per the eligibility rules, 'costs covered by assigned income' will not exceed 50% of the contribution of the final beneficiary and the partners in the project. In the report submitted above, the 'costs covered by assigned income' exceed 50% of the contribution of the final beneficiary and the partners.

*Solution 1: Decrease the amount of 'Costs covered by assigned income reported'*

The 'costs covered by assigned income' will therefore be limited to €8 000, leading to total eligible costs of €80 000. The total contribution before the EU contribution amounts to €42 000, giving a final EU contribution of €38 000 in accordance with the non-profit rule.

BUDGET				ACTUAL			
Expenditure (thousand EUR)		Income (thousand EUR)		Expenditure (thousand EUR)		Income (thousand EUR)	
Direct costs	80	Contribution from the EU	40	Direct costs	60	Contribution from the EU	38
Indirect costs (20% of DC)	16	Contribution from the final beneficiary and partners in the project	40	Indirect costs (20% of DC)	12	Contribution from the final beneficiary and partners in the project	16
Costs covered by assigned income	4	Contribution from third parties	10	Costs covered by assigned income	8	Contribution from third parties	14
		Receipts generated by the project	10			Receipts generated by the project	12
<b>Total cost claimed</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>	<b>Total cost claimed</b>	<b>80</b>	<b>Total Income</b>	<b>80</b>

*Solution 2: Increase the contribution from the final beneficiary and the partners in the project*

The contribution will therefore be increased to €20 000, giving a total contribution before the EU contribution of €46 000. The non-profit-rule applies and the EU contribution is therefore limited to €36 000.

BUDGET				ACTUAL			
Expenditure (thousand EUR)		Income (thousand EUR)		Expenditure (thousand EUR)		Income (thousand EUR)	
Direct costs	80	Contribution from the EU	40	Direct costs	60	Contribution from the EU	36
Indirect costs (20% of DC)	16	Contribution from the final beneficiary and partners in the project	40	Indirect costs (20% of DC)	12	Contribution from the final beneficiary and partners in the project	20
Costs covered by assigned income	4	Contribution from third parties	10	Costs covered by assigned income	10	Contribution from third parties	14
		Receipts generated by the project	10			Receipts generated by the project	12
<b>Total cost claimed</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>	<b>Total cost claimed</b>	<b>82</b>	<b>Total Income</b>	<b>82</b>

**5. FAQs**

- ⚠ Q: Can Member states have more restrictive rules towards final beneficiaries (requiring pro rata participation)?  
A: It is the responsibility of the Member States to define the funding rules applicable to the final beneficiary and its partners.
- ⚠ Q: Can sales of consumables be eligible as income for the project?  
A: Sales of goods can be considered as income for the project only if they are generated by the project (i.e. leaflets produced in the framework of a project). Consumables purchased at the start of the project and sold at the end of the project do not correspond to that definition.

## H. Partnership

### 1. Regulatory Framework<sup>42</sup>

#### Eligibility rules

"The rules are applicable to expenditure incurred by the final beneficiaries and shall apply *mutatis mutandis* to expenditure incurred by the partners in the project."

#### Grant agreements with final beneficiaries when the responsible authority acts as awarding body

"The grant agreements shall provide expressly for the Commission and the Court of Auditors to exercise their powers of control, based on documents and on the premises, over all final beneficiaries, partners in the project and subcontractors."

### 2. General Principles and Guidance

- Basic principle:

As a general principle, the eligibility rules applicable to the final beneficiary apply *mutatis mutandis* to the partners involved in the project.

- Budget of a project:

The principles applicable<sup>43</sup> for the final beneficiary also apply to partners. It is thus the responsibility of the final beneficiaries to ensure that sufficient and consistent information is provided by its partners when establishing the budget. The partners in the project can contribute to the project by means of a co-financing mechanism. This contribution can be:

- Self-contribution reported as assigned income<sup>44</sup>;
- Self-contribution as the balance between total expenditure and all other project income (including assigned income).

Their contribution is a source of income for the project and must thus be included in the forward budget.

- Keeping of supporting evidence for expenditure incurred by partners:

The final beneficiaries must keep certified copies of the accounting documents (invoices/receipts) supporting the expenditure incurred by the partners in the project concerned. Documents supporting this expenditure must be certified by the partners themselves or, as per best practice, by an official body. On request (e.g. by a control body), the beneficiary must be able to provide evidence of booking and payment (e.g. on the basis of partners' accounting ledger extracts). The grant agreements will provide expressly for the Commission and the Court of Auditors to exercise their powers of control, based on documents and on the premises, over all final beneficiaries, partners in the project and subcontractors.

- Responsibilities of the partners in the case of grant agreements:

Partners involved in a project under the overall coordination of the final beneficiary must comply with the terms and conditions of the grant agreement signed by the final beneficiary.

- Travel and subsistence costs:

The rules applicable to expenditure incurred by the final beneficiaries apply *mutatis mutandis* to expenditure incurred by partners in the project. The basic principles<sup>45</sup> state that for partners in the project the same rules apply as for the final beneficiaries, except in the case of international governmental organisations that pursue the same objectives as laid down in the basic act. Thus, travel costs incurred by these persons are considered to be direct eligible costs only where staff are

<sup>42</sup> Articles 10(4) and 39(2) of the Implementing Rules and Article 11 (ERF) / 10 (IF) / 12 (EBF, RF) of the basic act.

<sup>43</sup> Refer to the Chapter 'Budget of a project'.

<sup>44</sup> Refer to the chapter 'Cost covered by assigned income' for more information.

<sup>45</sup> Article I.1. of Annex 11 to the Implementing Rules.

considered to have a key and direct role in the project or, under exceptional circumstances, play a supporting role.

- **Indirect costs for partners:**

The principles, exceptions, recommendations and best practices defined for indirect eligible costs<sup>46</sup> are also applicable to partners of the beneficiary. Partners may report indirect costs eligible for EU support although the main beneficiary may not (i.e. the main beneficiary received an operating grant covering 100% of its operating costs for the period of the project). However, indirect costs reported by the partners must not exceed the ceilings per partner in the budget. Under no circumstances may indirect costs exceed 20% of direct eligible costs.

### 3. Exceptions

⚠ N/A.

### 4. Best practices, Recommendations and Preferred options

⚠ **Grant agreement:** Partners and related roles and responsibilities should be included in the grant agreement. Technical responsibilities, related budgeted costs per partner and refinancing mechanisms (i.e. transfer of EU contribution to partners) should also be clearly mentioned.

⚠ **Legal basis and contractual relationship:** The legal basis and contractual relationship between the beneficiary and its partners should be formalised in a duly signed contract or agreement. This contract should include the key terms and conditions of participation of partners and the obligations of both parties, including:

- roles and responsibilities of partners (e.g. activities to be performed and output to be delivered);
- period of participation in the project;
- financial participation (financing mechanisms for the 'redistribution' of the EU contribution according to defined criteria);
- beneficiary's obligations in terms of payment of the related contribution;
- any other conditions regarding the partners' involvement.

### 5. FAQs

⚠ Q: Are the travel and subsistence costs of **partners** covered by 'other persons outside the final beneficiary'?

A: See section 2 above.

⚠ Q: Do the rules for final beneficiaries also apply to partners?

A: According to the basic principles,<sup>47</sup> these rules apply *mutatis mutandis* to partners in the project.

⚠ Q: Are expenses recorded in partners' accounts eligible if supporting documents are provided by the beneficiary?

A: Partners' expenses are eligible provided that appropriate supporting documents are kept as defined in section 2.

<sup>46</sup> Refer to the Chapter 'Indirect eligible costs'.

<sup>47</sup> Article I.1. of Annex 11 to the Implementing Rules.

## **VERTICAL THEMES**

**01. Staff costs****1. Regulatory Framework<sup>48</sup>****Implementing Rules:****General rules (ERF, RF, IF and EBF)**

1. "Direct costs for staff are eligible only for persons that have a key and direct role in the project, such as project managers and other staff operationally involved in the project, for example planning project activities, implementing (or monitoring) operational activities, delivering services to the final recipients of the project, etc.

Costs for other members of staff in the final beneficiary organisation who only provide a supporting role (such as general manager, accountant, procurement support, human resources support, information technology support, administrative assistant, receptionist, etc.) are not eligible as direct costs and are considered to be indirect costs.

2. Staff costs shall be detailed in the forward budget, indicating functions, number of staff and names.

If the names of the persons are not yet known or cannot be disclosed, indication shall be provided of the professional and technical capacities of the persons set to implement the relevant functions/tasks within the project.

3. The cost of staff assigned to the project, i.e. salaries and social security contributions and other statutory costs, shall be eligible, provided that this does not exceed the average rates as regards the final beneficiary's usual policy on remuneration. Where applicable, this figure may include all the usual contributions paid by the employer, but it must exclude any bonuses, incentive payments or profit-sharing schemes. Levies, taxes or charges (in particular, direct taxes and social security contributions on wages) arising from projects co-financed by the Fund amount to eligible costs only where they are actually borne by the final beneficiary of the grant."

**Specific conditions for staff costs of public bodies (ERF, RF, IF)**

"Staff costs of public bodies implementing the project are considered to be direct eligible costs only in the following situations:

- a) a person contracted by the final beneficiary solely for the purpose of implementing the project;
- b) a person employed on a permanent basis by the final beneficiary who:
  - fulfils tasks specifically linked to the implementation of the project on the basis of overtime remuneration; or
  - is seconded by a duly documented decision of the organisation to tasks that are specifically linked to the implementation of the project which do not form part of his/her normal routine and he/she is replaced for his/her usual tasks by another person recruited by the organisation."

**Specific conditions for staff costs of public bodies (EBF)**

"Staff costs for public bodies in charge of implementing the project are considered as eligible direct costs only in the following situations:

- 1) In accordance with the tasks carried out in relation to the project as well as the duration of the project, costs for staff of consular and other services of Member States in third countries competent in the management of flows of third-country nationals into the territory of the Member States, such as consular officers, air line officers and immigration liaison officers, are considered as direct eligible costs, provided that the purpose of the project is to improve the cooperation between Member States and involves the sharing of tasks and responsibilities for the benefit of more than two participating Member States."

<sup>48</sup> Article II 1.1 of Annex 11 of the Implementing Rules.

2) "Costs for staff of other authorities and services of Member States concerned by the basic act, such as border guards provided that:

A) the project does not predominantly concern the procurement of equipment or real estate; and

B) the project consists mainly of tasks which require the active and continuous input by staff such as the organisation of meetings and management processes for exchange of information or best practices, consultation and coordination mechanisms, training or education of staff and programmes for the secondment and exchange of staff.

In such cases, the staff costs are considered as direct eligible costs for:

a) a person contracted by the final beneficiary solely for the purpose of implementing the project;

b) a person employed on a permanent basis by the final beneficiary who:  
- fulfils tasks specifically linked to the implementation of the project on the basis of overtime remuneration; or

- is seconded by a duly documented decision of the organisation to tasks that are specifically linked to the implementation of the project which do not form part of his/her normal routine and he/she is replaced for his/her usual tasks by another person recruited by the organisation."

## 2. General Principles and Guidance

### 2.a. Eligible personnel

- **Status of eligible personnel:** Only costs relating to staff on the organisation/final beneficiary's payroll (permanent/temporary/seconded employees) or recorded in the accounts of the final beneficiary are eligible as direct costs under 'Staff costs'. Costs relating to interim personnel and consultants will be considered as subcontracting costs.
- **Key and direct role:** Staff costs are eligible only for persons that have a "key and direct role in the project". By 'key and direct role' is meant recurrent operational participation as necessary to complete the project. The time spent on the project, the type of tasks to be performed (operational/support) and the profile/competence of the participant will determine the recurrence, significance and operational characteristics of a person's participation in a project. In addition, the function described for the project should be compatible with the function stipulated in the employment contract (e.g. a procurement specialist should not be presented as a project tax officer).
- **Supporting role:** As a general rule, staff costs for persons that have a "supporting role" are not eligible as direct staff costs but covered by indirect costs.<sup>49</sup> By "supporting role" is meant all general support/administrative activities as necessary for the daily activities of the organisation that cannot be specifically attributable/allocated to a project (horizontal tasks). The following functions at least will be considered as having a supporting function: general manager, accountant, procurement support, human resources support, information technology support, administrative assistant and receptionist. The profile, department of origin, competence of the staff member and the link and relevance to the project's objectives will determine the administrative or operational characteristics of the tasks performed.
- **Public bodies:** Staff costs of public bodies are not eligible under direct costs, except for:
  1. a person **temporarily** and **specifically** employed by the final beneficiary for the purpose of implementing the project;
  2. a permanent employee of the final beneficiary who fulfils tasks **specifically** linked to the operational implementation of the project on the basis of overtime remuneration;

<sup>49</sup> Refer to the Chapter 'Indirect eligible costs'

3. a permanent employee of the final beneficiary who **is officially assigned** (e.g. by documented decision of the management) to perform tasks **specifically** linked to the operational implementation of the project and who is **replaced** for the tasks he is usually assigned to by another person recruited by the organisation.

In all other cases, staff costs may be eligible under 'Costs covered by assigned income'<sup>50</sup>. As a general rule, only additional costs borne by the organisation are eligible. No additional staff costs are eligible where tasks are reorganised with the same number of staff.

## 2.b. Eligible costs under staff costs

- Staff costs: Staff costs consist of what is considered to be part of the **usual remuneration** and related contributions from an accounting and tax perspective borne by the employer and really incurred by the final beneficiary. Provisions for potential future liabilities are ineligible (refer fiche 12 on ineligible expenditure). Staff costs are made up of the following:

1. gross salary;
2. statutory additional entitlements such as:
  - 13th month salary or holiday entitlements, as defined in the employment contract
  - post adjustment allowance : increase of salary because of living abroad
  - hardship allowance : compensation granted on a regular basis (i.e. monthly) for living in difficult countries
3. bonuses if not linked to performance (e.g. additional end-of-year bonus defined in the employment contract as a maximum percentage of monthly salary);
4. Provisions for pro rata entitlements/terminal emoluments paid at the end of a contract only if statutory or stipulated in the employment contract and provided the amount is reasonable (can be demonstrated by a calculation in every case) and are applicable to all comparable staff
5. Statutory sick leave allowances borne by the employer and not paid back by a social security scheme
6. Maternity leave compensations if borne by the final beneficiary and not paid back by a social security scheme
7. employer's contributions;
8. social security contributions;
9. social charges;
10. direct taxes and other statutory charges paid by the employer.

The following are not eligible and should not be included in the calculation of staff costs:

11. performance bonuses
12. dismissal allowances not covered by point 4;
13. sick leave allowances not borne by the final beneficiary (social security scheme);
14. maternity leave compensation not borne by the final beneficiary (social security scheme);
15. pension leave allowances;
16. other relief pay;
17. end of contract compensation; except as covered by point 4;
18. advantages in kind (cars, housing).

## 2.c. Other conditions

- Staff costs detailed in the budget: Staff costs should be detailed in the forward budget, showing the functions, the number of staff and the names of the persons involved in the project. When names are not yet known or cannot be disclosed, the estimated number of staff members and related profiles (professional and technical capacities plus related roles in the project) should be given. Should significant changes from the information provided in the budget be anticipated during the course of the project, these should be at least explained in the final report on the implementation of the project and, in the case of changes of functions and/or jobholder qualifications (e.g. experienced engineer replaced by a technician), formalised in duly signed amendments.

<sup>50</sup> Refer to the Chapter 'Costs covered by assigned income' for the related rules of eligibility.

### 3. Exceptions

**⚠ In general, costs for staff in public bodies are not eligible. However, they may be eligible in the following situations:**

ERF	IF	RF	EBF
			<p>Staff of Member States public bodies located in third countries with <b>specific expertise in the management of migration flows (consular officers, airline officers, immigration liaison officers...)</b>, provided that the project aims to improve cooperation between Member States and that the responsibilities and benefits of the project are shared between more than 2 participating Member States.</p>
			<ul style="list-style-type: none"> <li>- a person employed <b>temporarily</b> by the final beneficiary <b>specifically</b> for the purpose of implementing the project;</li> <li>- a permanent employee of the final beneficiary who fulfils tasks <b>specifically</b> linked to the operational implementation of the project on the basis of overtime remuneration;</li> <li>- a permanent employee of the final beneficiary who <b>is officially assigned</b> (e.g. by documented decision of the management) to perform tasks <b>specifically</b> linked to the operational implementation of the project and who is <b>replaced</b> for the tasks he is usually assigned to by another person recruited by the organisation.</li> </ul> <p style="text-align: right;">In addition to the three conditions mentioned above, costs for border guards or staff of other public bodies relevant to the EBF other than those mentioned above may be eligible if:</p> <ul style="list-style-type: none"> <li>1/ the project does not predominantly concern the procurement of equipment or real estate; and</li> <li>2/ the project mainly consists of knowledge-sharing activities (e.g. organisation of meetings, exchange of best practice, consultation and coordination activities, development of secondment programmes...).</li> </ul>
			<p>In all other cases, staff costs for <b>permanent officials</b> of the beneficiary or its partners may be reported under "Costs covered by assigned income" (see Chapter No 11 for more details), provided that:</p> <ul style="list-style-type: none"> <li>- the tasks are performed by permanent employees of the beneficiary;</li> <li>- the tasks of permanent officials are specifically linked to the project and do not arise from the statutory responsibilities of the public authority;</li> <li>- the contribution is reported on the basis of actual costs and duly supported by documentation.</li> </ul> <p>Under no circumstances may the amount reported under 'Costs covered by assigned income' exceed 50% of the contribution of the final beneficiary and the partners in the project.</p>

#### 4. Best practices, Recommendations and Preferred options

**⚠ Time recording:** All the time spent on the various activities/time accounts (i.e. EU and non-EU projects, holidays, illness and other absences) should be duly recorded and followed up throughout the project. Time sheets should be kept for all persons involved show the time spent on project activities per day (i.e. the total time recorded in the time sheets should amount to the total 'legal' working time for the reporting period). The time charged to projects should be reviewed and approved (signed off) on a regular basis (monthly) by the respective project managers. Consistency checks can be performed by project managers by assessing whether the time reported is relevant to the project activities (e.g. against deliverables, conference programmes, meeting minutes, publications and reports).

**⚠ Staff costs calculation:** Staff costs incurred in connection with the project should be calculated and reported on the basis of the **actual costs** borne by the organisation/final beneficiary. Budgeted or estimated amounts cannot be considered for the purpose of reporting costs to the EC. Staff costs should be calculated as a combination of units of time spent on the project (e.g. number of hours) and unit value (e.g. hourly rate). Staff costs reported by a beneficiary/organisation should use the same calculation method throughout the project(s)/annual programme. It is highly recommended that the same method should also be used for the budget exercise.

The 3 methods presented below are recommended examples of how to calculate staff costs and ensure limited deviation between costs reported and actual costs. The size of the organisation and the internal management and control procedures in place should be considered for the selection of the calculation method. More sophisticated methods may already be in place in some organisations. For practical reasons, these methods should preferably be used, provided that the output complies with the rules laid down in sections 1 and 2.

Nevertheless, other methods are possible, as long as they are documented and comply with the EU legal framework applicable to the Funds and national rules.

##### **Method No 1 - Individual simplified calculation**

This method can be summarised as follows: (Total costs for the period of the project) \* (proportion of time spent on the project).

**Example:**

1. Project period is 9 months from 1/2/n to 30/11/n.
2. Staff member A is a permanent part-time (4/5) employee of the organisation.
3. On the basis of the time follow-up system, the staff member A spent 60% of his working time on the project.
4. Total cost for staff member A for the 9 month of the project is as follows:

Gross salary:	€13 500 <sup>51</sup>
Social charges:	€9 000 <sup>52</sup>
Employer's contribution:	€4 500
<u>Pro rata '13th month' pay:</u> <sup>53</sup>	<u>€1 125</u>
Total cost for the period:	€28 125

**Total costs for staff member A incurred for the project: €28 125 \* 60% = €16 875.**

To ensure that staff costs are reported as best estimates (neither significantly overstated nor significantly understated), it is recommended that the amount of time spent on projects be

<sup>51</sup> 9 gross monthly salaries of €1 500.

<sup>52</sup> When the amount of social and other payroll-related charges cannot be determined individually, the use of ratios calculated on an organisation-wide basis is accepted (e.g. if the percentage of social charges is 45% of the gross salary organisation-wide, then 45% may be used to obtain individual amounts).

<sup>53</sup> Additional statutory entitlement as stipulated in the employment contract in the value of one month's salary (€1 500). Pro rata to the project duration: €1 500 / 12 \* 9 = €1 125.

rigorously calculated and that support documentation (time sheets or staff activity reports) is kept. Rough estimates cannot be accepted as a basis of staff cost calculation.

**Method No 2 – Detailed individual calculation (preferred option)**

This method can be summarised as follows: (Number of days or hours spent on the project) \* (Daily or hourly rate). This method requires preliminary calculation of the daily/hourly rate, which can be presented as follows: **Daily rate = Total annual costs / Total number of productive days<sup>54</sup> for the year**

CALCULATION OF THE NUMBER OF PRODUCTIVE DAYS/HOURS

The number of productive days/hours can be calculated as follows:

Productive days/ hours calculation	Year n <sup>55</sup>
A. Working days <sup>56</sup>	260
B. Holidays <sup>57</sup>	10
C. Legal Holidays	30
<b>D. Productive days (A-B-C)</b>	<b>220</b>
E. Hours worked per day	7,4
<b>F. Total average productive hours per year (D*E)</b>	<b>1 702</b>

1. Other absence days may be deducted, such as mandatory training and legal absence, provided that these non-productive days are supported by appropriate documentation (e.g. human resources certificates). Benchmark figures for the number of productive days/hours vary from 215 to 225 productive days – namely 1 500 to 1 800 hours).
2. For the purpose of calculating staff costs, the total number of days/hours charged to a project cannot exceed the number of productive days/hours.
3. In the case of part-time employees, the number of productive days/hours must be pro rata to the working time (e.g. if the number of productive days of the organisation is 220, the pro rata number of productive days for a part-time employee working on a 4/5 basis will be  $220 * 4/5 = 176$ ).
4. Where employees do not work for the entire year, the number of productive days/hours should be prorated to period worked (e.g. if the number of productive days of the organisation is 220, the prorated number of productive days for an employee who worked full-time for a 6-month period from 1/3/n to 31/8/n will be  $220 * 6/12 = 110$ ).

CALCULATION OF YEARLY STAFF COSTS

Annual staff costs are calculated individually in accordance with the accepted costs described in section 2.b.

**Example:**

1. The project took place during year n.
2. The number of productive days for the organisation is 220.
3. Staff member A was a temporary part-time (4/5) employee of the organisation who worked for a 6-month period from 1/3/n to 31/8/n.
4. Staff member A worked 80 days on the project.
5. Total cost for staff member A for the 6 months he worked at the organisation:

Gross salary: €12 000<sup>58</sup>  
 Social charges: €9 000  
 Employer’s contribution: €6 000  
End of temporary contract pay:<sup>59</sup> €2 000

<sup>54</sup> Or hours for hourly rate calculation.

<sup>55</sup> The figures presented in this column are a sample calculation.

<sup>56</sup> The number of working days is the number of weekdays per year (varies from 259 to 261).

<sup>57</sup> The number of holidays (holiday entitlement) and legal holidays (e.g. Bank holidays, national day...) are determined in accordance with the national rules and the internal policy of the organisation/beneficiary.

<sup>58</sup> 6 gross monthly salaries of €2 000.

Total cost for the period: €29 000

Personnel daily rate for member A:  $(€29\ 000) / (220 * 4/5 * 6/12) = €329.5 / \text{day}$   
Total costs for staff member A incurred for the project: 80 days \* €329.5 = **€26 360.**

### **Method No 3 – Average calculation**

This method is based on the method No 2 described above. It is usually recommended that personnel rates be calculated on an individual basis (rates computed for each person individually). However, when the number of persons involved on a project exceeds a certain reasonable threshold (number of persons involved above which calculation of individual rates may be unreasonably time-consuming), it is commonly accepted that average rates per category of employee be used. Using average rates is however accepted provided that the categories are defined on the basis of employees' remuneration and that the variance between the individual rates (as obtained using method No 2) and the average rate of a category does not exceed 5%. It is therefore recommended that a sufficient number of categories be defined. The use of average rates can be especially recommended for large organisations. The use of average rates by small/medium size organisation is not usually appropriate.

#### ***Example:***

1. The project took place during year n.
2. The number of productive days for the organisation is 220.
3. Staff member A charged 73 days on the project;
4. 3 staff categories (L1, L2 and L3) can be defined according to employee grade and level of remuneration.
5. Staff member A belongs to category L2, which has 55 permanent full-time employees.
6. Total staff costs for category L2 for the year n:

Gross salaries:	€1 200 000
Social charges:	€550 000
Employer's contribution:	€230 000
<u>Additional statutory pay:</u>	<u>€55 000</u>
Total cost for the year:	€2 035 000

Daily rate for category L2:  $€2\ 035\ 000 / 55\ \text{employees} / 220\ \text{days} = €168.2 / \text{day}$   
Total costs for staff member A for the project: 73 days \* €168.2 = **€12 278.6.**

## **5. FAQs**

**⚠** Q: Are expenses on salaries such as bonuses, premium pays, leave allowance and relief pays eligible (e.g. illness of an employee, illness or death of a close family member of an employee, natural disaster, etc.)?

A: In case bonuses are not statutory and not granted to all staff they should not be eligible. End of temporary contract compensation may however be considered eligible provided that the conditions and amounts of these entitlements are statutory or duly stipulated in the employment contract and their amount is reasonable (can be demonstrated with a calculation) and are applicable to all comparable staff.

**⚠** Q: Are there any limits on the number of persons employed?

A: The number of persons involved, their profiles and the amount of staff costs for the project should be defined in the budget (at least estimated amounts and number of staff). Where significant deviations from the budget are anticipated during the course of the project, these changes should be communicated and formalised through duly signed amendments.

**⚠** Q: Are staff costs for seminars to be considered as staff costs or seminar costs?

A: Costs related to the time spent on the preparation or attendance of seminars connected with the project are eligible as staff costs provided that the persons concerned are employees of the beneficiary and directly involved in the project. Staff costs for persons who are not employees of

<sup>59</sup> Additional entitlement as stipulated in the temporary employment contract for the value of one month's salary (€2 000).

the beneficiary and attend seminars connected with projects organised by the final beneficiaries are not eligible.

⚠ Q: What is the definition of a 'public body'?

A: A "public body" is equivalent to the definition of "contracting authorities" within the meaning of EU Public Procurement Law and in particular Article 1 of Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (i.e. the State, regional or local authorities, bodies governed by public law, associations formed by one or several of such authorities or one or several such bodies governed by public law).

⚠ Q: In the case of officials seconded to another body and still paid by their Ministry of origin, their cost will not appear on the payroll of the final beneficiary. How this can be managed?

A: In the case of seconded officials, it can be accepted that the staff cost of a seconded official appear on the payroll of the Ministry/administration of origin and not on the payroll of the final beneficiary, provided the secondment is fully documented.

⚠ Q: Are the following allowances eligible as direct staff costs?

- Assignment allowance (installation grant)
- Relocation allowance (when moving from one location to another)

A: These costs can be considered eligible if they arise from statutory provisions. Nevertheless, the cost finally charged to the project should reflect the time spent on the project if the duration of the assignment exceeds the duration of the project or if the person works only part-time on the project.

⚠ Q: Are Are staff costs for sickness leave or maternity leave eligible? the following allowances eligible as direct staff costs?

A: These costs are eligible if they are statutory and actually borne by the Final Beneficiary and in compliance with the social regulation of the country (The Manual will be revised slightly to reflect this). It must be noted that the number of days where the person is absent should be deducted from the total of the productive days when calculating the cost/productive day of the employee. All statutory costs borne by the employer can be taken into account in this calculation.

⚠ Q: Are provisions for holidays entitlements eligible?

A: This cost can be accepted as it is a statutory cost and is not a provision for future liabilities since it is certain and must be paid by the Final Beneficiary. Nevertheless, only the portion of holiday bonus linked to the duration of the project and incurred during the eligibility period can be eligible (i.e. if an employee works on a project full time from 1/6/N to 1/8/N only the holiday bonus linked to these two months will be charged to the project).

⚠ Q: Are staff costs eligible when an employee has incidentally worked more hours than the total legal working time and did not receive overtime remuneration (the worked hours do not match with the hours as mentioned in the employment contract (e.g. incidental 40 worked hours instead of 36 worked hours)?

A: These costs are not eligible. The staff costs charged to the project must be "incurred" therefore if the employee has not been paid for the 4 additional hours, these hours cannot be charged to the project.

⚠ Is it required that an employee signs his own time sheet or is signing by the project manager sufficient?

A: Each timesheet should be signed by the employee and the project manager and dated (within a limited period of time after the work is performed). Otherwise it has no value.

⚠ Q: Is it possible to make an exception on the replace rule? In many cases a permanent officer does not fulltime work on the project, but a few hours per week or part-time. In practice it is therefore not possible to replace this permanent officer for this few hours, because there is nobody who wants to work, for example, for four hours per week. Is it possible to make an exception on the replace-rule? The category of expenses Costs covered by assigned income is not an option, because the limit of 50% has been reached very quickly."

A: No. permanent officials seconded to a project whose cost is charged as direct cost to the project under staff cost must be replaced by a newly recruited person.

⚠ Q: A beneficiary is invoking the internal accountancy which generates so-called "terminal emoluments" and "overheads", which are staff and administrative expenditure not related to the implementation of the project.

Terminal emoluments are described as a percentage of the local staff costs used for the payment of unpredicted costs at central level (e.g. the annulment of the contract before its deadline, payment of unused holidays time, medical insurance of the retired personnel).

Overheads are described as percentages of the project-based expenditure, allocated for the administrative costs at central level (e.g. minimum security standards of the premises and surveillance tasks at central level), which cannot be distributed according to the different projects granted to the local units of the beneficiary.

According to the beneficiary, these costs should be considered eligible as indirect costs.

A: Regarding overheads, whatever they may be, they should be included in the authorized percentage for each Fund as described in the implementing rules in Article II.2. All overheads charged to the project that would exceed this percentage would be ineligible.

Terminal emoluments could be eligible provided they are fully justified by the statutory or contractual status of the employee and that the organization which hires him/her has the obligation to pay for these costs. They must also be reasonable, meaning that for each contract the calculation of the costs charged to the project under this category can be demonstrated and must be applied to all comparable staff.

⚠ Q: Are staff costs of staff participating to a project eligible as direct staff costs?

A: The rules have not been drafted to support that type of cost in the framework of a training project. Staff cost of staff participating to the training should not be charged to the project. Travel cost could be eligible under the "travel and subsistence costs" category using the exception c) "other persons outside the final beneficiary who participate in the activities of the project, in this case attendance list should be kept".

## 02. Travel and subsistence costs

### 1. Regulatory Framework<sup>60</sup>

"Travel and subsistence costs are only eligible as direct costs for:

- (a) staff of the final beneficiary whose costs are eligible as defined in point II.1.1;
- (b) in duly exceptional and justified cases, staff of the final beneficiary providing a supporting role as defined in point II.1.1;
- (c) other persons outside the final beneficiary who participate in the activities of the project. In this case, attendance lists should be kept as supporting evidence.

Travel costs shall be eligible on the basis of the actual costs incurred. Reimbursement rates shall be based on the cheapest form of public transport and flights shall, as a rule, be permitted only for journeys over 800 km (return trip), or where the geographical destination justifies travelling by air. Boarding passes must be kept. Where a private car is used, reimbursement is normally made either on the basis of the cost of public transport, or on the basis of mileage rates in accordance with published official rules in the Member State concerned or used by the final beneficiary.

Subsistence costs shall be eligible on the basis of real costs or a daily allowance. Where an organization has its own daily rates (subsistence allowances), they shall be applied within ceilings established by the Member State in accordance with national legislation and practice. Subsistence allowances are normally understood to cover local transport (including taxis), accommodation, meals, local telephone calls and sundries."

### 2. General Principles and Guidance

- Travel costs:

As a general principle, travel must be in connection with the project. Moreover, travel costs can be considered eligible only for persons who have a key and direct role in the project.<sup>61</sup> Travel costs of persons providing a supporting role are only eligible in duly exceptional and justified cases (see below). Other persons (except permanent officials<sup>62</sup>) participating in the activities of the project can report their travel costs as direct eligible costs, but supporting evidence should be kept.

- Subsistence costs:

As a general principle, eligible costs for subsistence are either the real costs or a daily allowance. Daily allowances should be reported in accordance with the final beneficiary's usual policy, should not exceed the ceiling established by the Member State and should comply with the national rules.

- Travel costs for staff of public bodies:

Strict rules apply to travel costs of staff of public bodies since travel cost eligibility is mainly linked to staff cost eligibility (for eligibility of staff costs under direct eligible costs see section 3 of Chapter 'Staff costs'). Travel costs for permanent officials are eligible under the budget heading 'Costs covered by assigned income'.<sup>63</sup>

### 3. Exceptions

 **Travel costs of persons providing a supporting role** are only eligible in exceptional and duly justified cases. A direct link to the project of the costs incurred by all non-operational staff

<sup>60</sup> Article II.1.2 of Annex 11 to the Implementing Rules.

<sup>61</sup> Article II.1.1 of Annex 11 to the Implementing Rules.

<sup>62</sup> Refer to the 'Costs covered by assigned income' chapter.

<sup>63</sup> Refer to the Chapter 'Costs covered by assigned income'

providing a supporting role should be justified by adequate substantiating documentation<sup>64</sup> (mission report, meeting minutes, attendance list, etc.) in order to be considered eligible.

**⚠ Exception to point (c) ('outside the final beneficiary') of the regulatory framework:** Travel costs may be eligible for staff participating in a project outside the Fund/programme management team when the responsible authority is the executing body (e.g. travel costs incurred by staff of a department other than the responsible authority acting as executing body for the attendance of a training session in another Member State provided that their participation is duly substantiated by the attendance list).

**⚠ The following table summarises the different cases where travel costs can be eligible according to status and eligibility:**

Status of the staff vis-à-vis eligibility	Eligibility of travel and subsistence costs
Case 1: Staff costs eligible under 'Direct staff costs'	Travel costs for this staff are eligible under direct costs (category 'Travel and subsistence costs').
Case 2: Staff costs eligible under 'Costs covered by assigned income'	Travel costs for this staff are eligible under 'Costs covered by assigned income' (concerns only permanent officials).
Case 3: Staff costs not eligible either under direct costs or under 'Costs covered by assigned income' or nor charged to the project	Travel costs for this staff are ineligible except in the following cases: <ul style="list-style-type: none"> <li>a. In exceptional and duly justified cases, travel costs incurred by support staff outside their routine activities (second exception in section 3).</li> <li>b. Travel costs for staff participating in a project outside the fund/programme management team when the responsible authority is the executing body.</li> </ul>

#### 4. Best practices, Recommendations and Preferred options

**⚠ Supporting documents:** Original tickets, receipts, vouchers, etc. should be kept as evidence of incurred costs. In the case of flights, tickets and boarding passes should also be provided as evidence.<sup>65</sup>

**⚠ Substantiating documents:** Reimbursement claims should be accompanied by a short report describing the purpose of the travel and the link with the project. In particular, the added value of travel to third countries should be clearly demonstrated

#### 5. FAQs

**⚠ Q:** Are travel and subsistence costs of **partners** relating to 'other persons outside the final beneficiary' eligible?

**A:** The rules applicable to expenditure incurred by the final beneficiaries apply mutatis mutandis to expenditure incurred by partners in the project.<sup>66</sup> The basic principles<sup>67</sup> state that the same rules apply to partners in the project as to the final beneficiaries. Thus, travel costs incurred by such persons are considered to be direct eligible costs only if the staff are considered to have a key and direct role in the project or, under exceptional circumstances, a supporting role. **Q:** Under what criteria are travel costs and enrolment in seminars eligible?

<sup>64</sup> Article I.5 of Annex 11 to the Implementing Rules.

<sup>65</sup> See also Article I.5 of Annex 11 to the Implementing Rules.

<sup>66</sup> Article 39 of the Implementing Rules

<sup>67</sup> Art. I.1 of Annex 11 of the Implementing Rules. Please also refer to the chapter 'Basic Principles'.

A: Seminar attendance and the related travel costs may be eligible if necessary for the purpose of the project. The category under which travel costs involving participation in a seminar is determined by the status/profile of the participants.

⚠ Q: Does the 800 km limit on flights relate to a single or a return ticket?

A: The limit applies on return ticket. In any case, the cheapest travel option should be selected.

⚠ Q: Are commuting costs eligible?

A: Commuting costs are not eligible as travel and subsistence costs. However, if these costs are imposed by labour law or collective agreements and included in the payroll, they may be eligible subject to prior approval by the responsible authority.

⚠ Q: Are travel costs incurred by staff members of a public body eligible as direct costs?

A: As a general principle, the eligibility of travel costs is linked to the eligibility of staff costs. If public staff costs are eligible (Refer to the Chapter 'Staff costs'), travel costs incurred by staff may be eligible direct costs (under 'Travel and subsistence costs'). If public staff costs are eligible under 'Costs covered by assigned income', the travel costs incurred by the staff may be eligible under the same category. If staff costs are not eligible either under direct costs or under 'Costs covered by assigned income', travel costs incurred by staff are not eligible. Exceptions to this general principle are provided in case 3 of the summary table presented in section 3.

⚠ Q: Are travel costs borne by the final beneficiary and incurred by volunteers participating in the project eligible under direct travel costs?

A: Yes, since they are not considered to be staff of the final beneficiary (category (c) of the regulatory framework applies).

⚠ Q: Can travel costs for returnees and escorts be charged under the category "travel costs"?

A: No, they should be charged under the category "Specific expenses in relation to target groups" as mentioned in art. 5 of the decision 575/2007/EC of the European Parliament and of the Council.

For details on the justifications for these specific expenses please refer to FAQ of the chapter "specific expenses in relation to target group".

⚠ Q: How can the mileage be supported with documents when a private car is used? Is a print-out from a route planner which can be found on internet sufficient?

A: This can be accepted.

⚠ Q: Is car hire eligible when it is hired in a third country where is no appropriate public transport?

A: Yes but supporting documentation will have to be provided (invoices, etc...).

## 03. Equipment

### 1. Regulatory Framework<sup>68</sup>

#### **General rules (II.1.3.1)**

"Costs pertaining to the acquisition of equipment (based on depreciation of purchased assets, leasing or rental) are only eligible if they are essential to the implementation of the project. Equipment shall have the technical properties needed for the project and comply with applicable norms and standards.

Costs for day-to-day administrative equipment (such as printer, laptop, fax, copier, phone, cabling, etc.) are not eligible as direct costs and are to be considered as indirect costs (see point II.2).

ERF, IF, RF: The choice between leasing, rental or purchase must always be based on the least expensive option. However, if leasing or renting are not possible because of the short duration of the project or the rapid depreciation in value, purchase is accepted and the costs related to depreciation, as described below, may be eligible on the basis of national depreciation rules."

#### **Renting and leasing (II.1.3.2)**

"Expenditure in relation to renting and leasing operations is eligible for co-financing subject to the rules established in the Member State, national legislation and practice and the duration of the rental or lease for the purpose of the project."

#### **Purchasing (ERF, IF, RF) (II.1.3.3)**

"Where equipment is purchased before or during the lifetime of the project, only the portion of equipment depreciation corresponding to the duration of use for the project and the rate of actual use for the project is eligible.

Equipment that was purchased before the lifetime of the project, but which is used for the purpose of the project, is eligible on the basis of depreciation. However, these costs are ineligible if the equipment was originally purchased through a Community grant.

Purchase costs of equipment shall correspond to normal market costs and the value of the items concerned is written off in accordance with the tax and accounting rules applicable to the final beneficiary.

For individual items costing below EUR 1 000, the full purchase cost is eligible, provided that the equipment is purchased during the first three months of the project."

#### **Purchasing (EBF) (II.1.3.3)**

"Costs pertaining to the acquisition of equipment (systems, operating equipment, means of transport, inter alia as referred to in Article 5(1) (c) to (f) of the basic act) are eligible in accordance with national rules. Such costs are eligible for co-financing on the basis of the full or partial cost of the purchase if:

- a) they are directly linked to the realization of the project;
- b) incurred in accordance with national procurement rules established in the Member State;
- c) the equipment has the technical characteristics necessary for the project and complies with applicable norms and standards;
- d) the equipment will continue to be used for the same objectives pursued by the project, even after the project has ended for the minimum duration of:
  - three years or more for Information and Communication Technology (ICT) equipment.
  - five years or more for other types of equipment such as operating equipment and means of transport, except for the ones indicated below
  - ten years for helicopters, vessels and aircrafts.

Costs for the above-mentioned equipment may be eligible on the basis of depreciation in accordance with national rules. In that case the above conditions (a), (b) and (c) shall apply. Furthermore, the following conditions must also be satisfied:

<sup>68</sup> Article II 1.3 of Annex 11 to the Implementing Rules.

- a) Where equipment is purchased before or during the lifetime of the project, the portion of equipment depreciation is eligible on the basis of the duration of use for the project and the rate of actual use for the project.
- b) Equipment that was purchased before the lifetime of the project, but which is used for the purpose of the project, is eligible on the basis of depreciation. However these costs are ineligible if the equipment was originally purchased through a Community grant.
- c) Purchase costs of equipment shall correspond to normal market costs and the value of the items concerned is written off in accordance with the tax and accounting rules applicable to the final beneficiary."

## 2. General Principles and Guidance

- Main differences between the 4 Funds:

The main differences between the rules for ERF, IF, RF and EBF are presented in the table below:

ERF	IF	RF	EBF
<b>PURCHASING</b>			
The <b>full purchase value</b> is eligible only for <b>individual items</b> costing <b>less than EUR 1 000</b> and purchased during the <b>first 3 months</b> of the project.		The <b>full purchase value</b> (or part of it) may be <b>eligible</b> provided that the equipment is <b>used</b> for the same purpose for a <b>period after the end of the project</b> of at least 3 years for ICT, 10 years for helicopters and vessels and 5 years for all other types of equipment.	
Equipment <b>purchased</b> is eligible on the basis of <b>depreciation costs</b> calculated according to national rules and related to the period and use of/for the project provided that the equipment is necessary for the project and that it is purchased at normal market cost. Equipment purchased through EU grants is not eligible. In case of leasing, the interest component must be reported as a separate item.			
<b>RENTING AND LEASING</b>			
Equipment leased or rented is eligible on the basis of leasing or renting costs calculated according to national rules and related to the period and used of/for the project.			
The choice between leasing or renting and purchasing must be based on the least expensive option. Purchasing is allowed if leasing or renting is not possible due to the short duration of the project.			

- Depreciation rules:

As a general principle, the national depreciation rules of the Member State apply. This means that all final beneficiaries should use national depreciation rules, even if the final beneficiary is not applying depreciation rules (i.e. beneficiary using cash-basis accounting).

- Sample calculation of equipment depreciation costs:

**Project start/end date:** 1/4/N / 30/9/N+1 (18 months)  
**Date of purchase of equipment:** 25/7/N  
**Purchase value of equipment:** EUR 30 000.00 (including delivery costs **but** excluding VAT)  
**Percentage of use for project:** 80% (as per technical requirements and definition)

**Depreciation rules:** amount over EUR 25 000.00 >> 60 months as per national rules  
**Depreciation period:** 15 months (from July N to September N+1 as month of July N counts as an entire month although the equipment was purchased at the end of the month)

**CALCULATION OF EQUIPMENT DEPRECIATION COSTS:**  
 EUR 30 000.00 / 60 \* 15 \* 80% = EUR 6 000.00

- **Non-eligible equipment:**
  - Depreciation costs for administrative equipment (printers, laptops, copiers, telecom devices...) are not eligible under direct costs as they can be included in indirect costs.
  - Depreciation costs for equipment purchased through EU grants before the lifetime of the project are not eligible.

- **Individual items:**

Individual items consist of equipment that do not form part of a series of items of equipment and can be used separately (e.g. 5 PCs purchased together can be considered as five individual items).

- **Full purchase cost:**

As a general rule, full purchase cost is the total value of the good (including transport costs, **but** excluding VAT<sup>69</sup>). All services connected to the purchase can be depreciated if this is stipulated as such in the organisational and/or national accounting rules.

- **Purchase vs leasing or renting:**

The least expensive option must be selected (see recommendations in section 4 below).

### 3. Exceptions

**⚠ Payment:** The rule regarding the eligibility period (see sections 1 and 2 of the chapter 'Eligibility period') stipulating that costs paid before 1/1/N are not eligible is not applicable to equipment that is purchased before the start of the eligibility period and is used for the purpose of the project and for which depreciation is reported. Payment can be processed before the start of the eligibility period.

**⚠ For individual items costing under EUR 1 000,** the full purchase cost is eligible, provided that the equipment is purchased during the first three months of the project (the amount to be reported is the full purchase value, not the depreciation amount). Should the national rule be more flexible (i.e. applying to items over EUR 1 000), the rule described above applies.

### 4. Best practices, Recommendations and Preferred options

**⚠ Full purchase cost vs. depreciation cost (only applicable to EBF):** The final beneficiary can choose between full purchase cost or depreciation (on the basis of national depreciation rules). However, in the case of full purchase cost, the beneficiary must satisfy a number of conditions listed in the rules (minimum duration of use of the equipment for the same purpose after the end of the project). Therefore, if the final beneficiary cannot satisfy these criteria, he must choose to charge only the depreciation costs to the project. For any other method (e.g. partial cost charged to the project) enquiries must be made with the EC.

**⚠ Partial use of the equipment:** Where equipment is used for multiple purposes and therefore it is not possible to charge the full cost of the equipment to the project, a percentage of use should be calculated and applied to the cost of the equipment so as to determine the cost to charge to the project. Nevertheless, the criteria of duration of use after the end of the project must still be met (see point above).

**⚠ Depreciation period:** National depreciation rules always apply. In the absence of national rules, it is recommended to use the following depreciation periods to report equipment costs (applying linear depreciation):

- IT equipment below total purchase value of EUR 25 000.00 (VAT excluded) >> depreciated over a 36-month period
- All other equipment >> depreciated over a 60-month period
- Under the EBF: helicopters, vessels and aircraft >> depreciated over a 10-year period.

**⚠ Depreciation amounts** should be calculated on a **full month** of use basis (a full month of depreciation includes the month of purchase provided that the equipment is brought into service at least one day before the end of the month).

<sup>69</sup> Refer to the Chapter 'Ineligible expenditure' for VAT rules

- ⚠ **Materiality:** Only the depreciation corresponding to the duration of use for the project and the rate of actual use for the project is eligible. If the value of the equipment is below EUR 1 000 and it is bought within the first three months of the project period, the full purchase cost can be accepted as eligible (the full purchase amount may be reported at once). In addition, if permitted by national rules, equipment at a purchase price below a certain materiality threshold<sup>70</sup> may be categorised under “consumables, supplies and general services” and the respective eligibility rules are applicable. (II.1.5).
- ⚠ **Purchasing vs. renting or leasing (ERF, IF, RF):** The least expensive option must be selected unless the short duration of the project does not allow rental or leasing. It is therefore recommended that various options be examined as a function of the duration of the project. Documents supporting prior analysis of the various options (price requests...) should be kept to justify the final decision for purchase amounts exceeding EUR 5 000. In multi-annual projects, this analysis should take account of the overall duration of a specific project. It is then for the responsible authority to validate the least expensive option selected by the beneficiary.

## 5. FAQs

- ⚠ Q: How can the costs of equipment used simultaneously on several projects be reported?
- A: Percentages of use must be determined per project to calculate the depreciation amounts (without exceeding 100% in total).
- ⚠ Q: Purchasing vs Renting or Leasing: Is purchase of equipment allowed when it is not cheaper than leasing but it will also be used by the final beneficiary after the period of eligibility?
- A: The whole duration of the project should be taken into account when looking at the various options in multi-annual projects. Otherwise, only the maximum 2 years of eligibility period should be taken into consideration.
- ⚠ Q: What is considered to be a 'short duration of a project'?
- A: As a guide, six months or less can be considered to be a short duration for a project.
- ⚠ Q: Do maintenance costs form part of the purchase cost of the equipment?
- A: Maintenance costs may be considered to be an asset and depreciated accordingly, provided that the maintenance costs are included in the purchase price of the equipment and that it is permitted by national accounting rules. In all other case, maintenance costs may be reported under 'Consumable, Supplies and General services' or 'Subcontracting' according to the type and materiality of the maintenance services (e.g. costs incurred recurrently under a long-term contract for the maintenance of helicopters might be reported under 'Subcontracting'; isolated costs in relation to the maintenance of IT equipment may be reported under 'General services').
- ⚠ Q: In multi-annual projects (3 years or more), are the depreciation costs of equipment purchased in the first year eligible for the whole duration of the project?
- A: Depreciation costs are eligible until the end of the eligibility period (provided there is no overlap and that the equipment is used for the purpose of the project until the end of the eligibility period).
- ⚠ Q: Are staff training costs included in the overall costs of equipment eligible?
- A: Staff training costs relating to equipment purchased may be eligible provided that the staff members trained are actively involved in the project and that the equipment requires specific training (e.g. training costs for the use of general office applications further that the purchase of PCs may not be eligible). If, as per the national accounting rules, training costs can be considered to be an asset they may be depreciated and reported under 'Equipment'. If not, training costs should be reported under 'Subcontracting'.
- ⚠ Q: Is leasing eligible to an EU financing? In this case what should be reported in the annual final reports in terms of deliverables and indicators?

<sup>70</sup> This threshold depends on the national accounting rules.

A: leasing is eligible to EU cofinancing. In the final report, a reference should be made to the initial leasing contract and the instalment or reimbursement which is booked to the concerned annual programme. The interest component must be reported as a separate item. In terms of indicators, the same rationale should be followed as for the purchase of equipment.

## 04. Real Estate

### 1. Regulatory Framework<sup>71</sup>

#### **General rules (ERF, EBF, RF)**

"In the case of either purchase of real estate, construction or renovation of real estate, or rental of real estate, it shall have the technical properties needed for the project and comply with the applicable norms and standards."

#### **General rules (IF)**

"The real estate shall have the technical properties needed for the project and comply with the applicable norms and standards".

#### **Purchase, construction or renovation (ERF, RF)**

"Where the acquisition of real estate is essential for implementation of the project and is clearly linked with its objectives, the purchase of real estate, i.e. buildings already constructed, or construction of real estate, is eligible for co-financing under the conditions set out below, without prejudice to the application of stricter national rules:

- (a) A certificate shall be obtained from an independent qualified valuer or duly authorized official body establishing that the price does not exceed the market value, either attesting that the real estate is in conformity with national regulations or specifying the points which are not in conformity that the final beneficiary plans to rectify as part of the project;
- (b) The real estate has not been purchased through a Community grant at any time prior to the implementation of the project;
- (c) The real estate is to be used solely for the purpose stated in the project for a period of at least five years after the end date of the project unless the Commission specifically authorizes otherwise;
- (d) Only the portion of the depreciation of these assets corresponding to the duration of use for the project and the rate of actual use for the project is eligible. Depreciation shall be calculated according to national accounting rules.

In the case of renovation, only conditions (c) and (d) above apply."

#### **Purchase, construction or renovation (EBF)**

"If the acquisition of real estate is essential for implementation of the project and is clearly linked with its objectives, the purchase of real estate, i.e. buildings already constructed, or construction of real estate, is eligible for co-financing on the basis of the full or partial cost, or on the basis of depreciation, under the conditions set out below, without prejudice to the application of stricter national rules:

- (a) A certificate shall be obtained from an independent qualified valuer or duly authorised official body establishing that the price does not exceed the market value, either attesting that the real estate is in conformity with national regulations or specifying the points which are not in conformity that the final beneficiary plans to rectify as part of the project.
- (b) The real estate has not been purchased through a Community grant at any time prior to the implementation of the project.
- (c) The real estate is to be used solely for the purpose stated in the project for a period of at least ten years after the end date of the project unless the Commission specifically authorises otherwise in the case of co-financing of the full or partial costs. In the case of co-financing on the basis of depreciation this period is reduced to five years.
- (d) The purchase of the real estate respects the principles of value for money and cost-effectiveness and is being considered as proportionate to the aim to be achieved through the implementation of the project.
- (e) In the case of co-financing on the basis of depreciation, only the portion of the depreciation of these assets corresponding to the duration of use for the project and the rate of actual use for the project is eligible. Depreciation shall be calculated according to national accounting rules.

Expenses for renovation of real estate are eligible for co-financing on the basis of the full or partial cost or on the basis of depreciation. In the case of renovation costs only conditions (c) and (e) above apply."

<sup>71</sup> Article II.1.4 of Annex 11 of the Implementing Rules.

**Rental (EBF, RF, ERF, IF)**

"Rental of real estate is eligible for co-financing where there is a clear link between the rental and the objectives of the project concerned, under the conditions set out below and without prejudice to the application of stricter national rules:

- (a) The real estate shall not have been purchased through a Community grant;
- (b) The real estate should only be used for implementation of the project. If not, only the portion of the costs corresponding to the use for the project is eligible."

**Office space for the final beneficiary (EBF, RF, ERF, IF)**

"Costs for the purchase, construction, renovation or rental of office space for the routine activities of the final beneficiary are not eligible. Such costs are considered to be indirect costs (see point II.2)."

## 2. General Principles and Guidance

- Depreciation rules:

As a general principle, the national depreciation rules of the Member State where the building is located apply. In the case of buildings from MS located in third countries, the national rules of the MS on depreciation apply.

All final beneficiaries should use common national depreciation rules, even if no depreciation rules are applicable to the final beneficiary (i.e. when using cash-basis accounting). This principle is applicable for purchased or constructed real estate. Accordingly, depreciation costs for constructed real estate are eligible under direct costs provided that this is permitted by the national accounting rules. The same principle applies to the renovation of 'operational' buildings (Refer to paragraph 4 below).

- Rentals:

In the case of renting of real estate, the cost of the rental is eligible if the real estate is only used for the project. If not, only the proportion of the costs corresponding to the use for the project is eligible.

- Sample calculation of a real estate depreciation cost:

**Project start/end date:** 1/4/N / 30/9/N+1 (18 months)

**Date of purchase of real estate:** 28/7/N

**Purchase value of real estate:** EUR 400 000.00

**Percentage of use for project:** 70% (as per technical requirements and definition)

**Total depreciation period of real estate:** 120 months as per national rules or as per commonly accepted rules (the real estate is to be used for at least five years after the end date of the project)

**Depreciation period:** 15 months (from July N to September N+1 as month of July N counts as an entire month although the real estate was purchased at the end of the month)

### **CALCULATION OF REAL ESTATE DEPRECIATION COSTS:**

**EUR 400 000.00 / 120 \* 15 \* 70% = EUR 35 000.00**

- Depreciation rules for renovation:

Costs for the renovation of operational buildings may be depreciated in accordance with the general rules for depreciation referred to in paragraph 1. The duration of the depreciation is determined by the estimated lifetime of the renovation (e.g. major renovation costs needed to start using an operational building should be depreciated against the length of depreciation of the building). The decision to depreciate renovation costs should also be determined against the materiality of the renovation costs (i.e. minor renovation costs should be reported under 'Consumables, Supplies and General services'). National rules apply regarding the level of materiality. Renovation costs of an administrative building are not eligible under direct costs as they are part of indirect costs.

- Full purchase cost:

As a general rule, full purchase cost is the total value of the good (including transport costs, **but** excluding VAT<sup>72</sup>). All services connected to the purchase can be depreciated if this is stipulated as such in the organisational and/or national accounting rules.

- Office space and routine activities:

As a general rule, office space should be considered as indirect costs of the final beneficiary since it is used for routine activities. These routine activities relate to operational or administrative tasks performed by key staff or support staff of the final beneficiary. In certain cases, office space of the final beneficiary used for specific tasks directly linked to the project (training of target groups, training of border guards, counselling for target groups, set-up of common application center and renovation of consulates) may be considered as direct real estate costs. In that case, detailed justification with supporting documents should be provided.

- Main differences between the Funds:

The following table sets out the main differences between the rules for EBF, ERF and RF (IF does not allow construction, purchase and renovation of real estate to be eligible, only rental is eligible):

EBF	RF	ERF
<b>Territorial scope:</b> <sup>73</sup> Beneficiaries may construct or purchase real estate within the territory of a Member State or third country.		<b>Territorial scope:</b> <sup>74</sup> Real estate should be purchased or built within the territory of a Member State except when the purpose of use of the real estate concerns resettlement. <sup>75</sup>
<b>Eligible costs:</b> Real estate costs are eligible for co-financing on a <b>full or partial cost or depreciation</b> basis. In the case of full or partial cost, only the proportion of the cost corresponding to the percentage of use of the building will be eligible. In the case of co-financing on the basis of depreciation, only the proportion of the depreciation of these assets corresponding to the duration of use for the project and the rate of actual use for the project is eligible.	<b>Eligible costs:</b> Only the proportion of <b>depreciation</b> of these assets corresponding to the duration of use for the project and the rate of actual use for the project is eligible.	
<b>Period of use of real estate:</b> at least <b>10</b> years after the end date of the project in the case of co-financing of the full or partial costs. In the case of co-financing on the basis of depreciation this period is reduced to <b>5</b> years.	<b>Period of use of real estate:</b> at least <b>5</b> years after the end date of the project.	

#### 4. Best practices, Recommendations and Preferred options

- ⚠ Furniture and additional equipment attached to the real estate should only be considered eligible as equipment (see chapter on equipment). Only equipment which cannot be 'physically' removed from the building (e.g. elevators or air conditioning systems) must be considered as part of the real estate cost. To determine the cost of real estate in accordance with this concept, the final beneficiary must refer to national rules.
- ⚠ Depreciation amounts are calculated on a **full month** of use basis (a full month of depreciation includes the month of purchase provided that the real estate is purchased before the end of the month).
- ⚠ **Percentage of use of a building:** The percentage of use of a building can be established with a technical officer. This could be on the basis of the square meterage allocated for the project. The sum of the percentages of use in all projects does not exceed 100%. It is the responsibility

<sup>72</sup> Refer to Chapter 'Ineligible expenditure' for VAT rules

<sup>73</sup> Article I.6 of Annex 11 to the Implementing Rules.

<sup>74</sup> Article I.6 of Annex 11 to the Implementing Rules.

<sup>75</sup> Article 3(5) of the ERF basic act.

of the responsible authority to perform monitoring visits in order to check this reported percentage of use.

### 3. FAQs

 Q: If the real estate is originally purchased through a Community grant, can the EU refinance it in the case of renovation?

A: The renovation costs of real estate originally purchased through Community grants may be eligible for EU support under direct costs provided that the renovation adds substantial value to the building and is necessary for the project.

 Q: What proof needs to be furnished that the buildings are used for the projects?

A: Use (and related percentage of use) of the buildings should be validated by a technical officer.

 Q: What rules apply where real estate is built/renovated in a third country?

A: For ERF, the costs of renovation and construction of buildings in third countries are not eligible, except where the purpose of use of the real estate concerns resettlement. The costs of renovation and construction of buildings in third countries may be eligible for EBF and RF — see table in point 2.).

 Q: What is the procedure for obtaining Commission authorisation to reduce the period of at least five/ten years during which the real estate is to be used solely for the purpose stated in the project in the case of co-financing of the full or partial costs?

A: The decision regarding the amount of financial recovery on reduction of the period of at least five/ten years for the use of the co-financed real estate is taken by the EU authorising officer by sub-delegation responsible for financial recoveries for the fund.

 Q: Which categories of cost can be eligible and under which Fund regarding the building and upgrading of areas and centres for persons whose entry is refused and for persons who are intercepted after having crossed the border illegally or when approaching the external borders with a view to illegally entering the territory of the Member States?

A: building and upgrading of areas and centres for persons whose entry is refused and for persons who are intercepted after having crossed the border illegally or when approaching the external borders with a view to illegally entering the territory of the Member States can be eligible under the EBF in accordance with Article 4 (3) (f) of the Basic Act.  
A guidance note on eligibility of actions (and related costs) under the Return Fund in relation to the directive on common standards for return procedures in the Member States provides the detail of the measures eligible under the Return Fund (SOLID-208-21 document). Among others, renovations/improvements to ensure the separation of returnees from ordinary prisoners in cases where prisons are being used for detention purposes and to ensure that families in detention are given accommodation which is separate to other types of returnees are eligible. Renovation or creation of a play/recreational area for minors within the detention facility is also eligible.

 Q: Under the Integration Fund, can the provision of housing guarantees to property owners be considered as an eligible cost?

A: Housing guarantees do not represent a definitive cost and can be recovered at the end of the rental period. Therefore it cannot be considered as an eligible cost under the four Funds.

## 05. Consumables, Supplies and General Services

### 1. Regulatory Framework<sup>76</sup>

"The costs of consumables, supplies and general services are eligible provided that they are identifiable and directly necessary for the implementation of the project.

However, office supplies as well as all kinds of small administrative consumables, supplies, hospitality costs and general services (such as telephone, Internet, postage, office cleaning, utilities, insurance, staff training, recruitment, etc.) are not direct eligible costs; they are included in indirect costs, as referred to in point II.2."

### 2. General Principles and Guidance

- Exclusive and direct use for the purpose of the project:

The costs of consumables, supplies and general services may be eligible under direct costs provided that exclusive and direct use for the direct and operational purpose of the project can be clearly established. If clear justification cannot be provided, these costs are deemed to be included in indirect costs.<sup>77</sup>

- Consumables:

"Consumables are goods which are used up (not returned) after issuance from stores, become incorporated into other goods and lose their identity, or cannot be used for their intended purpose without extinguishing or transforming their substance".<sup>78</sup> More specifically, consumables are goods that cannot be 're-used'. Examples of consumables are: food, non-food items, clothes, fuel, etc. If the costs of these items are identifiable and directly necessary for the implementation of the project, they should be considered eligible as direct costs. If not, they should be reported under indirect costs.<sup>79</sup>

- Supplies:

Supplies are general purpose consumable items which commonly have a shorter life span in use than equipment and machinery, and are stocked for recurring use.<sup>80</sup> Examples of supplies are: software, small IT equipment. If the costs of these items are identifiable and directly necessary for the implementation of the project, they should be considered eligible as direct costs. If not, they should be reported under indirect costs.<sup>81</sup> (For example, 1000 CDs are purchased for the purpose of communication and dissemination of the project. These CDs can be considered eligible under 'consumables'. Printer cartridges are to be considered as indirect costs.)

- General services:

General services are services that are applicable to the entire organisation and are not confined to any department or function (e.g. security, cleaning services, maintenance...)<sup>82</sup> These costs are considered eligible as direct costs provided that they are identifiable and directly necessary for the implementation of the project. If not, they should be considered as indirect costs.<sup>83</sup>

### 3. Exceptions

- **⚠ Office supplies** and all kinds of **small administrative** consumables, supplies, hospitality costs and general services (such as telephone, internet, postage, office cleaning, utilities, insurance, staff training, recruitment, etc.) are not direct eligible costs; they are included in indirect costs. Furthermore, overhead rates should be adapted to the level of indirect costs claimed.

<sup>76</sup> Article II.1.5 of Annex 11 to the Implementing Rules.

<sup>77</sup> Refer to the Chapter 'Indirect eligible costs'.

<sup>78</sup> <http://www.businessdictionary.com/definition/consumables.html>

<sup>79</sup> Article II.2 of Annex 11 to the Implementing Rules.

<sup>80</sup> <http://www.businessdictionary.com/definition/supplies.html>

<sup>81</sup> Article II.2 of Annex 11 to the Implementing Rules.

<sup>82</sup> <http://www.businessdictionary.com/definition/general-services.html>

<sup>83</sup> Article II.2 of Annex 11 to the Implementing Rules.

#### 4. Best practices, Recommendations and Preferred options

- ⚠ Where it cannot be **clearly established** that consumables, supplies and general services are **exclusively used** for the **direct purpose** of the project, these costs should not be reported under direct costs but included in the calculation of indirect costs (internet, phone costs...).<sup>84</sup>
- ⚠ **Materiality:** The decision to report costs under 'Consumables, Supplies and General services' should be based on the materiality of the costs (e.g. consumables under EUR 200 may not be reported under 'Consumables' but should be considered as covered by indirect costs).

#### 5.FAQs

- ❓ Q: Are **water and power supplies** related to real estate eligible (under consumables or under indirect costs)?

A: As a general principle, water and power supplies are not eligible under direct costs as they can be considered to be included in indirect costs (e.g. costs relating to a border guards office building even if the building was funded under an EU programme). However, in duly justified circumstances, these costs may be eligible under direct costs (e.g. water and power supplies for buildings used specifically for the accommodation of refugees).

- ❓ Q: Are **advertising/branding materials** eligible?

A: Advertising and branding materials are eligible under 'Costs deriving directly from the requirements linked to EU co-financing' as direct costs (provided that reference to the project and related EU participation is clearly mentioned).

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<sup>84</sup> Refer to the Chapter 'Indirect eligible costs'

## 06. Subcontracting

### 1. Regulatory Framework<sup>85</sup>

#### General rules

"As a general rule, final beneficiaries must have the capacity to carry out the activities relating to the project themselves. Therefore, subcontracting must be limited and shall not exceed 40% of the direct eligible costs of a project unless duly justified and approved in advance by the responsible authority.

Expenditure relating to the following subcontracts is ineligible for co-financing by the Fund:

- (a) subcontracting of tasks relating to the overall management of the project;
- (b) subcontracting that adds to the cost of the project without adding proportionate value to it;
- (c) subcontracting with intermediaries or consultants where payment is defined as a percentage of the total cost of the project, unless such payment is justified by the final beneficiary by reference to the actual value of the work or services provided.

For all subcontracts, subcontractors shall undertake to provide all audit and control bodies with all the necessary information relating to subcontracted activities."

#### Grant agreements with final beneficiaries when the responsible authority acts as awarding body

"The grant agreements shall provide expressly for the Commission and the Court of Auditors to exercise their powers of control, based on documents and on the premises, over all final beneficiaries, partners in the project and subcontractors."

### 2. General Principles and Guidance

#### 📌 Subcontractor:

A subcontractor is a third party (i.e. a legal entity), which is neither a final beneficiary nor a partner, providing assistance on the project by delivering specific works or services that cannot (or not efficiently) be carried out by the final beneficiary (e.g. developing a website for the project). Below are a number of characteristics of subcontracting:

- the agreement between the final beneficiary and a subcontractor is based on "business conditions" formalised in a duly signed contract setting out the obligations of both parties, the purpose and terms of the work/ service and the financial conditions;
- the subcontractor charges a price that usually includes a profit;
- the subcontractor works without the direct supervision of the final beneficiary and is not subordinate to the beneficiary;
- the responsibility vis-à-vis the EU for the work subcontracted lies fully with the final beneficiary (see responsibility through subcontracting in section 4).

#### 📌 Eligible subcontracting expenditure:

As a general principle, the final beneficiary must be able to carry out the activities relating to the project with his own resources. Expenditure relating to subcontracting must not exceed 40% of the direct eligible costs of a project. The nature and extent of these costs must be in line with the scope of the project. In certain specific cases, this limit might be raised above 40% where duly justified and approved in advance by the responsible authority (See exceptions for further details).

#### 📌 Ineligible subcontracting expenditure:

Expenditure relating to the following types of subcontracting is ineligible:

- subcontracting tasks relating to the overall management of the project that should be performed by persons that have a key and direct role in implementing the project, such as project managers and other staff operationally involved in the project (management responsibilities remain in the final beneficiary's hands);
- subcontracting activities that are not necessary to implement the project;<sup>86</sup>

<sup>85</sup> Article 10(4) of the Implementing Rules and Article II 1.6 of Annex 11 to the Implementing Rules.

- subcontracting with intermediaries or consultants where fees are defined as a percentage of the total cost of the project. Such costs may however be eligible if the fees are justified by the final beneficiary as being at market costs for similar work or services ('value for money' principle).

 **Supporting information:**

Subcontracting expenditure must be supported by proper documentation. A contract must be drawn up for each subcontracting activity and duly signed by both parties. The costs claimed for subcontracting must tally with the invoices submitted by the subcontractors (excluding VAT). Whenever requested, subcontractors must be able to provide audit and control bodies (European Court of Auditors, etc.) with all the necessary information regarding subcontracted activities.

### 3. Exceptions

-  **Subcontracting costs above the limit of 40%:** Subcontracting costs exceeding 40% of the total direct eligible costs may be eligible for EU support provided that the reason for exceeding the limit of 40% is duly justified and approved by the responsible authority. In this case, particular attention must be paid to the limits regarding indirect eligible costs.<sup>87</sup> Subcontracting expenditure representing more than 40% of direct eligible costs can be encountered in projects where the objective is specific infrastructure that cannot be carried out by the final beneficiary (e.g. development of an IT application to help manage integration activities).

### 4. Best practices, Recommendations and Preferred options

-  **Budget and amendments:** Subcontracting details (anticipated subcontracted tasks, related amounts and identified or selected subcontractors) must be provided in the agreed forward budget. In particular, sufficient detail needs to be given where subcontracting costs are expected to exceed 40% of the total direct eligible costs. Any major deviations occur during the course of the project (change of major supplier(s), appointment of new major subcontractor, overrun of the subcontracting expenditure) should be duly notified to the responsible authority and formalised in duly signed amendments.

-  **Subcontractor selection:** Subcontracts will be awarded in accordance with the usual procedures provided that these rules comply with the national and EU applicable rules on public procurement. As a general rule, final beneficiaries are required to select subcontractors offering the best value for money and to comply with the principles of transparency and equal treatment.

- Contracts expected to be under EUR 5 000 may be awarded on the basis of a single bid without any call for tender.<sup>88</sup>

- For contracts expected to be over the thresholds defined by national procurement national rules, the award procedures must comply with those rules.

- In all other cases, in particular where NGOs and private companies are concerned, it is recommended that at least 3 valid bids meeting the requirements set by the entity be systematically obtained. Bids should be filed as documentation to support the market costs of the works/services purchased.

-  **Responsibility through subcontracting:** Subcontracted tasks are considered services provided to the final beneficiary. The final beneficiary remains responsible for due performance and the quality of the subcontracted work, as for any other work on the project. The relevant costs incurred by the beneficiary need to be clearly identified as part of the project tasks, justified by the accounting rules and principles and included in the financial statement.

### 5. FAQs

-  Q: Are consultants to be considered as subcontractors or as staff costs?

<sup>86</sup> Refer to the paragraph 'Reasonableness of the expenses' in section 2 of the Chapter 'Ineligible expenditure'

<sup>87</sup> Refer to the Chapter 'Indirect eligible costs' for the rules of eligibility.

<sup>88</sup> Article 11 of the Implementing Rules.

A: Costs relating to consultants may be reported as direct eligible costs under 'Subcontracting' or 'Expert fees' depending on the purpose and content of the consultants' mission.

⚠ Q: How can the proportionate value of the project be established?

A: This principle means that a cost-benefit analysis must be carried out to know if it is more efficient to subcontract the task than having it done internally.

⚠ Q: Do the rules apply to partners of the final beneficiaries?

A: In accordance with the basic principles,<sup>89</sup> these rules apply mutatis mutandis to the partners in the project.

⚠ Q: What is the consequence if this limit of 40% of direct eligible costs is exceeded?

A: If, as a consequence of subcontracting costs, the limit of 40% of total direct eligible costs is overrun without this having been duly notified to the responsible authority and formalised in an duly signed amendment, the overrun amount might be rejected and considered ineligible. It is therefore highly recommended that the anticipated overrun be duly notified (at least one month) before it occurs.

⚠ Q: Is it possible to include 'core' activities in subcontracting?

A: Core activities may be subcontracted. However, subcontracted activities may not include overall project management tasks.

⚠ Q: Are the costs of IT services or organising a conference eligible under 'Subcontracting'?

A: IT services or services relating to the organisation of a conference may be eligible for EU support under 'Subcontracting'.

⚠ Q: Please explain the difference between "subcontracting", "expert fees", "costs deriving from the requirements of EU financing (financial evaluation)" and "other direct costs (general services)" for the financial services. Could you give us some examples? (Page 57, 59, 62, 63)

A: As explained in the manual on eligibility, costs reported under 'Expert fees' should relate to non-recurrent and specific tasks incurred for legal, mandatory or high value-added expertise (e.g. issuance of certificates). This is usually for a highly specific task. All other types of fees should be reported under 'Subcontracting' or 'General services'.

Examples of expert fees:

- legal consultancy fees (e.g. fees linked to advisory services regarding the contractual terms of agreements with partners, no litigation costs can be charged under this category);
- notary fees (e.g. notary fees linked to the purchase of real estate eligible for EU support);
- technical expert fees (e.g. fees of a real estate expert firm appointed to conduct a valuation of real estate to be purchased for the project);
- financial expert fees (e.g. fees of a consultancy firm appointed to draw up the funding plan for the purchase of equipment).

Examples of subcontracting include:

- Translation and interpretation services
- printing of handbooks
- Organisation of training courses
- catering for events like seminars or conferences.

Question:

⚠ In relation to subcontracting, the draft manual on eligibility states 'where the amount spent on subcontracting exceeds 40% of eligible direct costs, the fixed percentage of indirect costs in relation to the total amount of direct eligible costs may not exceed 10% for projects supported under the ERF, IF and RF'. ( ). Is there any flexibility around this rule? For example if a

<sup>89</sup> Article I.1 of the Annex 11 to the Implementing Rules — Refer also to the chapter 'Basic Principles'.

beneficiary budgeted for Indirect costs at 20% and subcontracting costs at 38%, and if at the end of the project the beneficiary had a slight increase in their subcontracting costs that they did not foresee and the percentage went up to 41%, would this be allowable, and if so can the indirect cost percentage remain at 20% or does it have to be 10%?

A: The rules do not only apply to the planned budget but also to the final budget. Therefore there is no flexibility. If the 40% threshold is exceeded then the indirect costs % must be reduced to 10%.

## 07. Costs deriving directly from requirements linked to EU co-financing

### 1. Regulatory Framework<sup>90</sup>

"Costs needed to meet the requirements linked to EU co-financing, such as publicity, transparency, evaluation of the project, external audit, bank guarantees, translation costs, etc., are eligible as direct costs."

### 2. General Principles and Guidance

All costs incurred to meet the requirements linked to EU co-financing defined in the basic act, the Implementing Rules and associated grant agreements may be eligible as direct costs. The following costs are especially concerned:

#### Publicity, transparency and dissemination:

All costs incurred to comply with the final beneficiaries' obligations regarding publicity as defined in the Implementing Rules<sup>91</sup> will be considered as direct costs. These costs may include media coverage, translation of activity reports to be submitted to the responsible authority, affixing of EU logos,<sup>92</sup> installation of a plaque mentioning the EU funding of the project, etc...



All information on EU logo can be found on the EU website:  
[http://europa.eu/abc/symbols/emblem/download\\_en.htm](http://europa.eu/abc/symbols/emblem/download_en.htm)

#### Technical and financial evaluation:

All costs incurred to comply with the final beneficiaries' obligations regarding the technical and financial evaluation of the project will be considered as direct costs. These costs may include consultancy fees incurred for the technical appraisal of the project, audit certificate fees and financial audit fees.

#### Bank guarantees:

Bank guarantees incurred by the final beneficiaries for the purpose of the project may be considered eligible under direct costs.

### 3. Exceptions

 N/A.

### 4. Best practices, Recommendations and Preferred options

 N/A.

### 5. FAQs

 Q: Are advertising/branding materials eligible?

A: Advertising and branding materials may be considered as direct eligible costs, provided that reference to the Fund is mentioned (See Article 35(2) of the Implementing Rules).

<sup>90</sup> Article II.1.7. of Annex 11 of the Implementing Rules.

<sup>91</sup> Articles 31 to 35 of Chapter 5 the Implementing Rules.

<sup>92</sup> Refer to Annex 10 of the Implementing Rules.

⚠ Q: Article 34 of the Implementing Rules stipulates that a prominent plaque should be affixed on equipment over EUR 100 000. How is this rule to be applied for small equipment on which a plaque cannot be affixed?

A: Any other means of advertising should be considered in such cases (e.g. stickers on equipment or plaques affixed in close proximity to the equipment).

⚠ Q: What are the requirements regarding the technical characteristics of publicity for small items?

A: according to article 35 of the implementing rules, for small promotional items only the reference to the Fund is required. In case of small promotional items linked to two or more of the four Funds and if a reference to the concerned Funds is clearly not feasible, a reference should either be made to one of these Funds or to the general programme altogether with the emblem.

⚠ Q: Please describe in which cases "bank guarantees" can be used as eligible costs under the heading "costs deriving directly from the requirements linked to EU co-financing"?

A: Costs for bank guarantees can be eligible in cases where these are considered necessary by the Responsible Authority. For example if following a call for proposals a project is selected for funding however the selection board considers (following an assessment of the applicant organisation's financial viability) that the EU grant should be safeguarded by means of a bank guarantee then the Responsible Authority can request a bank guarantee as a condition for signing the grant. In that case the costs for the bank guarantee could be included in the budget for the project.

## 08. Expert fees

### 1. Regulatory Framework<sup>93</sup>

"Legal consultancy fees, notarial fees and costs of technical and financial experts are eligible."

### 2. General Principles and Guidance

#### Experts:

An expert is a "professional who has acquired knowledge and skills through study and practice over the years, in a particular field or subject, to the extent that his or her opinion may be helpful in fact-finding, problem-solving, or understanding a situation."<sup>94</sup> Costs of technical and financial experts may be considered as direct eligible costs.

The following costs are considered to be expert fees:

- legal consultancy fees (e.g. fees linked to advisory services regarding the contractual terms of agreements with partners);
- notary fees (e.g. notary fees linked to the purchase of real estate eligible for EU support);
- technical expert fees (e.g. fees of a real estate expert firm appointed to conduct a valuation of real estate to be purchased for the project);
- financial expert fees (e.g. fees of a consultancy firm appointed to draw up the funding plan for the purchase of equipment).

#### Expert fees vs Subcontracting:

As a general principle, costs reported under 'Expert fees' should relate to non-recurrent and specific tasks incurred for legal, mandatory or high value-added expertise (e.g. issuance of certificates). This is usually for a highly specific task. All other types of fees should be reported under 'Subcontracting' or 'General services'.

### 3. Exceptions

 **Technical assistance:**<sup>95</sup> The difference between expert fees and technical assistance is that expert fees are incurred at final beneficiary and project level, while technical assistance costs are incurred at Member State (Responsible Authority, Delegated Authority, Audit Authority or Certifying Authority) and programme level.

### 4. Best practices, Recommendations and Preferred options

 N/A.

### 5. FAQs

 Q: Are expert fees considered to be direct or indirect costs?

A: Expert fees can be considered to be direct eligible costs provided that they are directly and exclusively linked to the project. Expert fees linked to the overall activity of the final beneficiaries are to be considered as indirect eligible costs.

 Q: Are expert fees for technical assistance eligible and what would be an acceptable amount?

A: The fees of experts involved in technical assistance activities may be eligible under technical assistance<sup>96</sup> provided that they comply with the rules on eligibility for technical assistance.

<sup>93</sup> Article II.1.8. of Annex 11 to the Implementing Rules.

<sup>94</sup> <http://www.businessdictionary.com/definition/expert.html>

<sup>95</sup> Article V of Annex 11 to the Implementing Rules — Refer also to the chapter 'Technical Assistance'.

<sup>96</sup> Article V of Annex 11 to the Implementing Rules — Refer also to the chapter 'Technical Assistance'.

⚠ Q: Are fees for interpretation of the legal framework eligible under expert fees?

A: For the responsible authority, the costs of analysis and interpretation of the legal framework may be eligible under 'Technical assistance'. For final beneficiaries, such costs are not eligible either under direct costs or under indirect costs since they are not linked to the purpose of the project.

⚠ Q: Should staff of the final beneficiary or external consultants in charge of the follow-up of the projects be considered as 'financial experts' or 'staff who provide a supporting role'?

A: In both cases (staff of the final beneficiary or external consultants), the costs related to the accounting follow-up of the projects are not eligible under direct costs since they are considered as indirect costs.<sup>97</sup>

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<sup>97</sup> Refer to the Chapter 'Indirect eligible costs'.

## 09. Specific expenses in relation to target groups

### 1. Regulatory Framework<sup>98</sup>

#### ERF

"For the purpose of assistance, purchases made by the final beneficiary for the target groups and reimbursements by the final beneficiary of costs incurred by the target groups are eligible under the following specific conditions:

- (a) the final beneficiary shall keep the necessary information and evidence during the period mentioned in Article 43 of the basic act that the persons receiving this assistance correspond to the target group defined in Article 6 of the basic act;
- (b) the final beneficiary must keep evidence for the support provided (such as invoices and receipts) during the period mentioned in Article 43 of the basic act that the persons have received this support."

#### RF

"Specific expenses for the target group in accordance with the measures listed in Article 5 of the basic act will consist of full or partial support in the form of:

- (a) Costs incurred by the beneficiary for the target groups;
- (b) Costs incurred by returnees which are then reimbursed by the final beneficiary; or
- (c) Non-reimbursable lump sums (as in the case of limited start-up support for economic activities and cash incentives for returnees, as described in Article 5(8) and (9) of the basic act).

These costs are eligible under the following conditions:

- (a) The final beneficiary shall keep the necessary information and evidence that the persons correspond to the specific target groups and situations defined in Article 5 of the basic act making them eligible to receive such assistance.
- (b) The final beneficiary shall keep the necessary information on the returnees receiving this assistance to allow proper identification of these persons, the date of their return to their country, and evidence that these persons have received this assistance.
- (c) The final beneficiary shall keep evidence of the support provided (such as invoices and receipts) and in the case of lump-sums evidence must be kept that the persons have received this support.

The storage and processing of the above-mentioned information must comply with national data protection legislation.

Assistance measures following the return to the third country, such as training and employment assistance, short-term measures necessary for the reintegration process and post-return assistance as described in Article 5(5), (8) and (9) of the basic act respectively shall not exceed the duration of 6 months following the date of the return of the third-country national."

### 2. General Principles and Guidance

#### Composition of target groups:

May be eligible for target groups support, the individuals with following characteristics:

For **ERF**:<sup>99</sup>

- any third-country national or stateless person with the status defined by the Geneva Convention who is permitted to reside as a refugee in one of the Member States;
- any third-country national or stateless person enjoying a form of subsidiary protection within the meaning of Directive 2004/83/EC;
- any third-country national or stateless person who has applied for one of the forms of protection described in points (a) and (b);
- any third-country national or stateless person enjoying temporary protection within the meaning of Directive 2001/55/EC;
- any third-country national or stateless person who is being or has been resettled in a Member State.

<sup>98</sup> Article II.1.9. of Annex 11 to the Implementing Rules.

<sup>99</sup> Article 6 of the ERF basic act.

For RF:<sup>100</sup>

- all third-country nationals who have not yet received a final negative response to their request for international protection in a Member State and choose to make use of voluntary return, provided they have not acquired a new nationality and have not left the territory of that Member State;
- all third-country nationals enjoying a form of international protection within the meaning of Directive 2004/83/EC, or temporary protection within the meaning of Directive 2001/55/EU who choose to make use of voluntary return, provided they have not acquired a new nationality and have not left the territory of that Member State;
- all third-country nationals who do not or no longer fulfil the conditions for entry and/or stay in a Member State and who, in accordance with the obligation to leave the territory of that Member State, make use of voluntary return;
- all other third-country nationals who do not or no longer fulfil the conditions for entry and/or stay in a Member State.

No direct assistance for target groups is envisaged under IF in the form of lump sums.

 General principles and main differences between RF and ERF:

ERF	RF
<b>SUPPORT PROVIDED</b>	
Documentation supporting the assistance provided should be kept for at least 5 years after the final EU payment (or recovery order to the responsible authority). Acceptable evidence includes invoices, receipts and documents (declarations) showing that assistance has been actually received by the individual. This supporting documentation should be in accordance with national rules regarding confidentiality.	
Assistance cannot be provided in the form of lump sums.	Assistance provided in the form of lump sums should be supported by proper documentary evidence to the effect that the individual actually received the assistance (signed receipts, declarations...). These documents should be kept for at least 5 years after closure by the Commission of the respective programme.

### 3. Exceptions

 N/A.

### 4. Best practices, Recommendations and Preferred options

 **Confidentiality:** Documents must be stored in strict compliance with European or national rules on confidentiality and data protection. All documentation regarding these target groups should be securely stored by the final beneficiaries and access to this information should be strictly limited. An alternative would be to store this documentation at the premises of the responsible authority to ensure better security of the information.

### 5. FAQs

 Q: Should costs regarding different target groups be reported separately?

A: Costs relating to target groups should be reported separately. In particular, it is recommended that a separate cost category be defined in the budget for costs relating to target groups.

 Q: What kinds of costs are eligible for 'Special assistance for indigent persons' and 'limited financial contribution to the basic costs after return and limited start-up subsidy to economic activities'?

A: The support provided should be reasonable, proportionate to need and be scaled according to the nature of activities and the situation of the category of person concerned.

<sup>100</sup> Article 7 of the RF basic act.

⚠ Q: In case of forced returns, boarding passes of returnees can not always be recuperated. How the implementation of the action can be proved?

A: in order to allow certifying that such missions have been actually performed when the boarding passes can not be recuperated; the following evidence documents could be used:

- The decision for the return mission to be performed with the name of the returnee clearly mentioned;
- The ticket for the flight (even if electronic booking) for the returnee;
- A signed declaration/certification from the person responsible/authority accompanying the returnee to the plane that this task was accomplished (when possible).

⚠ Q: Which category of costs should be used for travels, subsistence and accomodation costs of escorts in the framework of return operations?

A: In any case these costs should be charged to the project under the category "Specific expenses in relation to target groups"

⚠ Q: Annex 11, article II.1.2. of Commission Decision N° 796/2008 for the implementation of Decision N° 575/2007/EC states that the boarding cards must be kept. How can this rule be applied when the boarding cards cannot be kept, especially for return projects (in cases where the returns are performed without escorts)?

A: Evidence should be kept with regard to the eligibility and evidence of the persons within the target group, so as to be able to certify that these persons have actually received the assistance. Therefore, in order to allow you to certify that such missions have been actually performed when the boarding passes can not be recuperated; you could use the following documents as evidence:

- The decision for the return travel to be performed with the name of the returnee clearly mentioned;
- The ticket for the flight (even if electronic booking) for the returnee;
- A signed declaration/certification from the person responsible/authority accompanying the returnee to the plane attesting that this task was accomplished (when possible).

**10. Indirect eligible costs****1. Regulatory Framework<sup>101</sup>****ERF, IF, RF**

"Indirect costs relate to categories of expenditure that are not identifiable as specific costs directly linked to the project. A fixed percentage of the total amount of direct eligible costs may be eligible as indirect costs, provided that:

- (a) the indirect costs are kept to a minimum and the exact percentage of indirect costs is set by the Member State in relation to needs;
- (b) the indirect costs are anticipated in the forward budget of the project;
- (c) the indirect costs do not include costs assigned to another heading of the budget for the project;
- (d) the indirect costs are not financed from other sources. Organizations receiving an operating grant received from the EU budget and/or from the Member States cannot include indirect costs in their forward budget;
- (e) as a general rule, the fixed percentage of indirect costs in relation to the total amount of direct eligible costs does not exceed **20%**. However, the fixed percentage of indirect costs shall not exceed **10%**:
  - where the responsible authority acts as an executing body as defined in Article 7(3), or
  - where subcontracting exceeds 40% of the eligible direct costs.

The percentage allocated to indirect costs shall cover the following costs in particular:

- (a) staff costs that are ineligible as direct costs as per point II.1.1.1(1);
- (b) administration and management expenses, such as costs identified in II.1.5.2;
- (c) bank fees and charges (except bank guarantees as defined in section II.1.7);
- (d) depreciation of real estate and maintenance costs when linked to day-to-day administrative operations, such as costs identified in II.1.4.4;
- (e) all costs linked to the project but excluded from section II.1, 'Direct eligible costs'."

**EBF**

"Indirect costs relate to categories of expenditure that are not identifiable as specific costs directly linked to the project. A fixed percentage of the total amount of direct eligible costs may be eligible as indirect costs, provided that:

- (a) the indirect costs are kept to a minimum and the exact percentage of indirect costs is set by the Member State in relation to needs;
- (b) the indirect costs are anticipated in the forward budget of the project;
- (c) the indirect costs do not include costs assigned to another heading of the budget for the project;
- (d) the indirect costs are not financed from other sources. Organisations receiving an operating grant received from the EU budget and/or from the Member States cannot include indirect costs in their forward budget;
- (e) as a general rule, the fixed percentage of indirect costs in relation to the total amount of direct eligible costs does not exceed **5%**. However, the fixed percentage of indirect costs shall not exceed **2.5%** in any of the following situations:
  - where the responsible authority acts as an executing body as defined in Article 7(3), or
  - where the combined total of subcontracting (II.1.6) and procurement (points II.1.3 and II.1.4) exceeds 40% of the eligible direct costs.

The percentage allocated to indirect costs shall cover the following costs in particular:

- (a) staff costs that are ineligible as direct costs as per point II.1.1.1 (1);
- (b) administration and management expenses, such as costs identified in II.1.5.2;
- (c) bank fees and charges (except bank guarantees as defined in section II.1.7);
- (d) costs for real estate and maintenance costs when linked to day-to-day administrative operations, such as costs identified in II.1.4.4;
- (e) all costs linked to the project but excluded from section II.1 - 'Direct Eligible Costs'."

<sup>101</sup> Article II.2. of Annex 11 to the implementation rules.

## 2. General Principles and Guidance

### Purpose of the cost category 'Indirect eligible costs':

The category 'Indirect eligible costs' has been introduced to simplify the management and control of project expenses. All costs incurred for the purpose of the project below a certain materiality threshold are deemed to be covered by indirect eligible costs and thus not under direct costs (e.g. consumables under EUR 200 should not be reported under direct costs but taken into account for the calculation of indirect costs<sup>102</sup>).

### Costs covered by fixed percentage of indirect eligible costs:

The percentage of indirect costs allowed is designed to cover overheads (administration, facilities, general management costs...) and operational costs that cannot be specifically allocated to projects. The following lists show examples of these 2 categories:

#### Overheads:

- costs of administrative and support personnel (accounting, secretaries, procurement, communication...);
- general management and representation costs;
- facility costs (electricity, water, office cleaning, security...);<sup>103</sup>
- depreciation costs of administrative equipment (e.g. if equipment not specifically used for projects) and office buildings;
- small office supplies;
- communication costs (telephone, internet...);
- postage;
- marketing costs;
- general staff training;
- insurance costs;
- bank charges and fees.<sup>104</sup>

#### Costs not allocated to projects:

- costs of common operating equipment not allocated to projects;
- costs of operational staff (e.g. engineers) not charging time to projects;
- costs of goods and materials not allocated to projects.

### Determination of indirect eligible costs:

#### Rules and limits set by the responsible authority:

It is the responsibility of the responsible authority to determine, in the grant agreement signed with the final beneficiary, the level of indirect eligible costs, provided that they do not exceed **20%** of the eligible direct costs for projects supported under the **ERF**, **IF** and **RF** and **5%** for projects supported under the **EBF**. Exceptions to these maximum percentages are given in section 3. The level of indirect costs must be clearly indicated in the agreed forward budget annexed to the grant agreement.

#### Justification of indirect eligible costs by the beneficiary:

Once the responsible authority has determined the level of indirect eligible costs, the final beneficiary may calculate and submit his own indirect eligible costs, which should reflect the beneficiary's costs structure, in accordance with the eligibility rules and definition presented above and within the limits set by the responsible authority. Examples of indirect costs calculation are provided in section 4. The final beneficiary should be able to demonstrate the reality of these costs with supporting documents (invoices, etc...) at least for the amount charged to the project as indirect costs.

These rules are applicable to the costs reported in the final financial report and the costs presented in the budget.

### Operating grant:

An operating grant is an amount received from the EU budget and/or from the Member States to cover the beneficiary's operating expenses. Operating expenses can be categorised as

<sup>102</sup> Refer to the Chapter 'Consumables, Supplies and General services'.

<sup>103</sup> Refer to the Chapter 'Consumables, Supplies and General services'.

<sup>104</sup> Bank guarantees costs should be considered specifically against the requirements of the EC-funded project/programme (see section 3).

administrative and other general expenses. Indirect eligible costs cannot therefore be reported when an operating grant has been awarded.

**⚠ Indirect costs for partners:**

The principles, exceptions, recommendations and best practices presented in this manual are also applicable to partners of the beneficiary. Partners may qualify to report indirect costs eligible for EU support although the final beneficiary cannot (i.e. the final beneficiary has received an operating grant covering 100% of its operating costs for the period of the project). However, indirect costs reported by the partners may not exceed the ceilings set per partner in the budget. Under no circumstances may indirect costs exceed 20% of direct eligible costs.

### 3. Exceptions

**⚠ Maximum percentage of indirect costs:** The maximum percentages of indirect costs are 20% for ERF, IF and RF and 5% for EBF respectively. However, there are four exceptions to this general rule:

- **Responsible authority acts as an executing body:** In cases where the responsible authority decides to implement the projects directly or indirectly in association with another national entity, because the characteristics of the projects leave no other option (e.g. de jure monopoly situations or security reasons), the fixed percentage of indirect costs in relation to the total amount of direct eligible costs may not exceed **10%** for projects supported under the ERF, IF and RF, and **2.5%** for projects supported under the EBF.
- **Subcontracting<sup>105</sup> exceeds 40% of eligible direct costs (ERF, IF, RF):** Where the amount spent on subcontracting exceeds 40% of eligible direct costs, the fixed percentage of indirect costs in relation to the total amount of direct eligible costs may not exceed **10%** for projects supported under the ERF, IF and RF.
- **Subcontracting and procurement for real estate and/or equipment<sup>106</sup> exceeds 40% of eligible direct costs (EBF):** Where the amount spent on subcontracting and real estate exceeds 40% of eligible direct costs, the fixed percentage of indirect costs in relation to the total amount of direct eligible costs may not exceed **2.5%** for projects supported under the EBF.

The various scenarios and related maximum percentages of indirect costs are summarised in the table below:

Scenarios	ERF / IF / RF	EBF
<b>GENERAL RULE</b>	<b>Max 20%</b>	<b>Max 5%</b>
<b>Special rules</b>		
- RA acting as executing body	Max 10%	Max 2.5%
- Subcontracting + Equipment + Real estate > 40% of eligible direct costs		Max 2.5%
- Subcontracting > 40% of eligible direct costs	Max 10%	

### 4. Best practices, Recommendations and Preferred options

**⚠ Calculation of indirect cost percentage:** The organisation must keep **adequate documentation supporting the calculation** of indirect cost percentages. In particular, where the organisation systematically reports the maximum permissible percentage of indirect costs, it must provide clear evidence that the actual indirect costs exceed the percentage reported.

**⚠ Indirect costs applied systematically to cover central administrative costs**

These costs applied, for example, to cover central administrative costs are not eligible since they are not needed to carry out the activities covered by the project (art. I.1.1.c) of the annex 11 on the eligibility rules.

<sup>105</sup> Article II.1.6 of the Annex 11 to the Implementing Rules — Refer also to chapter 'Subcontracting'.

<sup>106</sup> Article II.1.3 and II.1.4 of the Annex 11 to the Implementing Rules.

- ⚠ Consistency between percentages used:** Except for the specific cases described in section 3, an organisation must use consistent percentages throughout projects for the same annual programme. Similarly, unless improvements have been made to the calculation, indirect costs for the purpose of cost reporting to the EU should be reported in the same way as the budget.
- ⚠ Frequency of calculation of indirect costs rates:** Indirect cost rates should be calculated annually (after finalisation of the yearly financial statements). For budget purposes, the rate used should be the latest available actual rate (i.e. actual rate of year N-1 for budget of year N project).
- ⚠ Examples of calculation methods of indirect costs:<sup>107</sup>**

**Example 1:** Indirect costs calculated as a percentage of personnel costs

This method determines the support and administrative costs and other general expenses (organisation-wide) of operational staff (staff members actively involved in EU or non-EU projects). The calculation is as follows:

Percentage of indirect costs =

$$\frac{\text{(Overheads + General operating expenses)}}{\text{(Costs of operational staff)}}$$

- The definition of 'Overheads' is given in section 2.
- General operating expenses are operational costs which cannot be specifically allocated to projects.
- Operational staff can be defined as all personnel directly and operationally involved in projects (EU or non-EU).<sup>108</sup>

The result of this calculation is a percentage to be applied to eligible staff costs to obtain associated indirect costs. Under no circumstances may the indirect costs reported exceed the limit laid down in the grant agreement.

**Example 2:** Indirect costs calculated as a percentage of purchasing costs

This method determines the administrative costs (organisation-wide) r purchasing costs (subcontracting + Travel + Consumables). The calculation is as follows:

Percentage of indirect costs =

$$\frac{\text{(Procurement costs + Accounts payable costs)}}{\text{(Total amount of purchases)}}$$

- Procurement costs relate to the procurement department (costs of procurement officers, office costs...).
- Accounts payable costs relate to the accounts payable unit within the accounting department (A/P staff costs, office costs...).

The result of this calculation is a percentage to be applied to the total amount of purchase (subcontracting + travel + consumables) to obtain the associated indirect costs. Under no circumstances may the indirect costs reported exceed the limit laid down in the grant agreement.

Various indirect costs may be combined provided that there are no overlapping costs in the calculations used.

- ⚠ Operating grant:** Beneficiaries reporting indirect costs for EU support should be able to provide, on application for EU grant and at any subsequent time upon request, evidence that no operating grant has been received.

<sup>107</sup> Both methods are optimised by the use of analytical accounting features.

<sup>108</sup> Where staff costs for operational staff vs administrative and support staff cannot be supported through analytical accounting functions, it is commonly accepted that these costs should be calculated by average headcount (e.g. headcount of operational staff is 45, headcount of administrative staff is 5; if total personnel costs of the organisation is 100, costs for administrative staff is  $5/50 * 100 = 10$ , costs of operational staff is  $45/50 * 100 = 90$ ).

## 5. FAQs

- ⚠ Q: What kind of bank fees and charges may be considered eligible?
- A: Bank guarantees may only be considered as direct eligible costs if they are needed to meet the requirements of EU co-financing. Other bank fees and charges are ineligible under direct costs as they are deemed to be covered by indirect costs.
- ⚠ Q: Does a list of direct and indirect expenses exist?
- A: The list of indirect costs in section 2 sets out the general principles for reporting costs to the EC. This list is not exhaustive, however.
- ⚠ Q: Organisations receiving an operating grant from the EU cannot report overheads. Is this applicable to organisations receiving grants from national public authorities?
- A: An organisation receiving an operating grant from a Member State does not qualify for indirect eligible costs.
- ⚠ Q: If the operating grant received by the organization does not cover all the indirect costs borne by the organization, can the organization charge the difference on the project as indirect cost?
- A: Whenever an organization receives an operating grant, whatever its amount, no indirect cost can be charged to the project.
- ⚠ Q: What is the difference between an operating grant and a grant given for a specific project?
- A: There is a distinction between the concept of receiving a 'grant' and receiving an 'operating grant'.
- The aim of a 'grant' for an action is to co-finance this action over a given period and with a specific budget irrespective of the body's other activities – as in the case of grants received through the Structural Funds or ERF Community actions by way of example.
- An 'operating grant' is broader based. Its purpose is to provide financial support for the existence and functioning of the body (i.e. its overall running and execution of tasks) over a period that is equivalent to its accounting period.
- ⚠ Can indirect costs of a partner exceed 20 % of its own direct eligible costs if the beneficiary's indirect costs are correspondingly lower and if the total indirect costs (final beneficiary + partner) do not exceed 20 % of the project's direct costs?
- A: No, this interpretation is incorrect. The 20% limit applies individually to the beneficiary and likewise to each of the partners.

## 11. Costs covered by assigned income

### 1. Regulatory Framework<sup>109</sup>

"In duly substantiated cases, co-financing of the project as regards the contribution from the final beneficiary and the partners in the project may be made up in part of contributions in terms of work carried out by permanent officials employed by these bodies and involved in the project. In this case these costs are not eligible as direct or indirect staff costs as defined under points II.1.1 and II.2 but as costs covered by assigned income.

Such contributions shall not exceed 50% of the total contribution given by the final beneficiary. In this case, the following rules shall apply:

- (a) tasks of public officials are specifically linked to implementation of the project and do not arise from the statutory responsibilities of the public authority;
- (b) public officials entrusted with implementing a project are seconded by a duly documented decision of the competent authority;
- (c) the value of these contributions can be audited and may not exceed the costs actually borne and duly supported by accounting documents of the public authority."

### 2. General Principles and Guidance

#### Costs covered by assigned income:

The financing of a project generally consists of:

- the EU contribution (generally up to 50%, 75% or 80%);
- other subsidies received from public or private sources (e.g. regional authorities, private associations...);
- revenue generated by the project itself (e.g. rental of real estate built for the project and not used);
- the contribution of the organisation implementing the project and its partners.

Work performed by officials of the final beneficiary or its partners can be reported as 'Costs covered by assigned income' on condition that:

- this contribution does not exceed 50% of the contribution of the final beneficiary and the partners in the project;
- the tasks are performed by permanent employees of the final beneficiary;
- these tasks are specifically linked to the implementation of the project;
- the contribution is reported on the basis of actual costs and can be duly supported by documentation.

The category 'Costs covered by assigned income' is intended to report staff costs of public bodies working on the project carrying out tasks which are part of their daily duties. They are thus not eligible under the direct costs category of 'Staff costs'.

Travel costs incurred by personnel may also be eligible under this category provided that these costs comply with the rules of eligibility applicable to travel expenses.<sup>110</sup>

The category 'Costs covered by assigned income' is one of the three components of the expenditure items (i.e. Direct costs / Indirect costs / Costs covered by assigned income).

<sup>109</sup> Article IV of Annex 11 to the Implementing Rules.

<sup>110</sup> Refer to Chapter 'Travel & subsistence'

Example of costs covered by assigned income:

Expenditure		Income	
Direct costs	80	Contribution from the EC <sup>111</sup>	50
Indirect costs (20% of Direct Costs)	16	Contribution from the final beneficiary and the partners in the project <i>(including contribution in staff work)</i>	34
Costs covered by assigned income	4	Contribution from third parties	18
<b>Total Eligible Cost</b>	<b>100</b>	<b>Total Income</b>	<b>100</b>

### 3. Exceptions

⚠ Not applicable.

### 4. Best practices, Recommendations and Preferred options

- ⚠ **Calculation of costs covered by assigned income** must be reported on the basis of actual costs. Consequently, staff costs reported under 'Costs covered by assigned income' must be reported on the same basis as costs reported under 'Staff costs' in the direct costs section (see chapter "Staff costs" for detailed rules and proposed calculation methods).
- ⚠ **Travel costs reported under 'Costs covered by assigned income'** must comply with the eligibility rules for travel costs.

### 5. 4. FAQs

- ⚠ Q: When permanent officials are seconded to carry out tasks in relation to the project and their costs are charged to the project under cost covered by assigned income, is it necessary to replace them in their administration of origin?  
A: No, permanent officials charged to the project under cost covered by assigned income do not need to be replaced.
- ⚠ Q: What is the difference between permanent officials / public officials / official and civil servants?  
A: The terms are all used to designate the staff (salaried employees) of a public body or institution who are subject to the staff rules of the national public sector body. These different terms may vary according to country (e.g. there is no one translation of the French term 'fonctionnaire' in English).
- ⚠ Q: Do staff whose cost is booked to the category "costs covered by assigned income" need to be replaced by another person for his/her usual tasks to be considered as eligible?  
A: No, it is not necessary to replace permanent officials whose staff cost is charged to the project under costs covered by assigned income for his/her usual tasks.
- ⚠ Q: Can the cost of officials hired under a temporary contract be charged under cost covered by assigned income?  
A: No, the possibility to charge staff cost under cost covered by assigned income only applies to permanent officials
- ⚠ Q: Must the travel costs of permanent officials working in a project be calculated as part of costs covered by assigned income?

<sup>111</sup> i.e. 50% of the total eligible costs.

A: If the staff costs are charged to costs covered by assigned income then the travel costs should also be included in this heading. Travel costs can also be eligible for permanent officials using the exception c) mentioned in point 3 of the fiche on travel (but in this case staff cost cannot be charged to the project).

## 12. Ineligible Expenditure

### 1. Regulatory Framework<sup>112</sup>

"The following costs are not eligible:

- (a) VAT, except where the final beneficiary can show that he is unable to recover it;
- (b) return on capital, debt and debt service charges, debit interest, foreign exchange commissions and exchange losses, provisions for losses or potential future liabilities, interest owed, doubtful debts, fines, financial penalties, litigation costs, and excessive or reckless expenditure;
- (c) entertainment costs exclusively for project staff. Reasonable hospitality costs at social events justified by the project, such as an event at the end of the project or meetings of the project steering group, are permitted;
- (d) costs declared by the final beneficiary and covered by another project or work programme receiving a Community grant;
- (e) purchase of land;
- (f) staff costs for officials who contribute to project implementation by accomplishing tasks that are part of their normal routine;
- (g) contributions in kind."

### 2. General Principles and Guidance

#### VAT:

Only unrecoverable VAT is eligible. The various scenarios regarding the eligibility of VAT according to the status of the organisation can be summarised as follows:

VAT status	VAT can be recovered	VAT cannot be recovered
VAT tax payer	<b>Ineligible</b>	<b>Ineligible(*)</b>
Not VAT tax payer	<b>Ineligible</b>	<b>Ineligible</b>

(\*) Exceptions are given in section 3.

#### Penalties, financial charges and accounting losses:

As a general principle, costs linked to non-compliance with contractual or legal conditions, and costs linked to financial operations or losses generated by accounting operations are not eligible for EU support. Examples of typical ineligible charges for these categories are given below:

- Penalties:
  - fines (e.g. for delay in payment of taxes);
  - financial penalties (e.g. for delay or non-compliance with contract conditions with suppliers);
  - litigations costs (e.g. legal decision following court case).
- Charges linked to financial operations:
  - return on capital;
  - debt and debt services charges (e.g. services for recovery of amounts owed);
  - debit interests (e.g. bank overdraft interests);
  - foreign exchange losses (including hedging costs);
  - interests owed (e.g. interests for late payment).
- Losses generated by accounting operations:
  - provisions for losses (e.g. for inventory scrap);
  - doubtful debt (written-off debt);
  - provision for future liabilities (e.g. provision for relocation costs).

<sup>112</sup> Article III of Annex 11 of the Implementing Rules.

**⚠ Reasonableness of expenses:**

Unreasonable expenses are not eligible. 'Unreasonable' means unnecessary and/or excessive. Examples of typical ineligible expenses for both types are given below:

- Unnecessary expenses:
  - incentives (e.g. reward given to project members in the form of gifts);
  - entertainment costs (e.g. project team dinner or off-site event);
  - unnecessary material or equipment (e.g. video equipment if not instrumental to completion of project);
  - more generally, all expenses without which the project could be completed without major obstacles.
- Excessive expenses:
  - overestimated price (e.g. equipment purchased without prior price consultation or negotiation);
  - inappropriate standard selection (e.g. high standard equipment with low price/quality ratio);
  - overestimated number of items (e.g. orders of 100 items while average consumption for similar period is 80).

**⚠ Costs related to another project:**

Costs are only eligible for a single EC-supported project. It is strictly prohibited to report the same expenses for more than one EC-funded project.

**⚠ Acquisition of land:**

The cost of purchasing land is ineligible expenditure. When acquiring a building and land, only the cost of purchasing the building can be considered as direct eligible costs 'Real estate'.<sup>113</sup> When a building is purchased, the land on which it is built should be valued (i.e. expert valuation) and excluded from the costs of the real estate.

**⚠ Staff costs for officials who contribute to project implementation by accomplishing tasks that are part of their normal routine:**

Staff costs of public bodies active in the project but performing tasks as part of their routine activities are not eligible under direct eligible costs.<sup>114</sup>

**⚠ Contributions in kind:**

Contributions in kind, which cover all goods, services and monies received without compensation, are not eligible for EU support. Contributions in kind may be in the form of volunteer work, availability, donations, gifts, rewards, rebates, discounts, and any other type of price reduction. Below are typical examples of contributions in kind:

- volunteers (receiving no salary or other compensation) working on the project;
- staff seconded without financial compensation paid to the seconding organisation (e.g. ministry officer seconded to the organisation to work on the project for the purpose of knowledge sharing);
- staff work fully subsidised (e.g. student/trainee involved in the project for which allowances are borne by the university);
- equipment, real estate, goods or services purchased specifically with private donations or public subsidies (e.g. purchase of a building fully subsidised by private donation);
- equipment, real estate put at the disposal of the organisation without compensation (e.g. municipality reserving part of its buildings for project activities without rental fees or any other compensation);
- services, goods received as a reward/gift (e.g. as a commercial incentive, an IT retailer rewards the organisation with a PC);

Rebates or discounts received on purchased items must be deducted from the value reported for EU support (e.g. equipment is purchased for 100 but attached to the supplier's invoice is a credit note giving a 10% discount on the value of the equipment as a commercial incentive. The value to be reported for EU support is  $100 - 10 = 90$ ).

<sup>113</sup> Article II.1.4 of Annex 11 to the Implementing Rules.

<sup>114</sup> Refer to 4th paragraph of section 2.a of the Chapter 'Staff costs' for the eligibility rules for staff of public bodies and to the Chapter 'Costs covered by assigned income'.

### 3. Exceptions

- ⚠ **Reasonable hospitality costs** incurred for project participants and project staff during social events organised on an exceptional basis and in connection with the project (e.g. presentation of the final output of the project and discussion sessions organised in a hotel conference room) are allowed and can be considered as direct eligible costs under 'Consumables, supplies and general services'.<sup>115</sup> To be considered eligible, these costs (room rental fees, meals for participants..., these costs must meet the requirement of reasonableness of expenses.
- ⚠ **VAT:** VAT may be considered eligible under direct costs in the following cases:
  - i. for organisations (e.g. NGOs and non-profit organisations) and public bodies which provide an official tax certificate stating that the entity cannot recover VAT directly or indirectly and that there is no double financing;
  - ii. when the disbursed VAT is due to the tax authorities in another Member State where the supplier is established and, when the paid amount or part of it is not recovered either directly or indirectly, by the tax authorities of the Member State.

### 4. Best practices, Recommendations and Preferred options

- ⚠ **Reasonableness of expenses:**
  - a. Unnecessary expenses: To assess whether an expense can be considered necessary for the project, the possibility of completing the project without this expense should be considered prior to the purchase. Should the answer be positive, the expense would thus be considered unnecessary.
  - b. Excessiveness of the expenses: The organisation should assess the market price by asking, as far as possible, for price quotes from various suppliers prior to the purchase. These price quotes can be used as documentation to support the reasonableness of the costs claimed. Best value/quality for money should be selected.
- ⚠ **Costs related to another project:** To prevent costs from being reported for more than one EC-funded project/programme, control procedures should be put in place to monitor any potential duplication of costs. Where possible, **analytical** features of the accounting system and/or a separate bank account (in particular for beneficiaries operating a cash-basis accounting system) should be used to separate project expenses from other projects.

### 5. FAQs

- ⚠ Q: How can reasonable reception costs be justified?  
A: See first exception in section 3.
- ⚠ Q: In what cases are taxes ineligible/eligible?  
A: Taxes are eligible under direct costs when they are directly linked to expenses eligible under direct costs (e.g. airport taxes on eligible flight tickets; local taxes directly linked to real estate eligible for the project). For VAT, refer to last paragraph of section 3.
- ⚠ Q: Does a complete list of ineligible expenditure exist?  
A: The list of ineligible costs provided in section 2 sets out the general principles for reporting costs to the EC. This list is not exhaustive, however.
- ⚠ Q: What are the rules regarding land acquisition?  
A: Costs regarding the purchase of land are ineligible. In the case of acquisition of a building and land, only the purchase of the building can be considered as direct eligible costs under 'Real estate'.<sup>116</sup>

<sup>115</sup> Article II.1.5 of the Annex 11 to the Implementing Rules

<sup>116</sup> Refer to the Chapter 'Real Estate'.

 Q: Unrecoverable VAT is eligible. What documents need to be provided to confirm that VAT is not recoverable?

A: An official document issued by the tax authorities should be provided to confirm that the organisation cannot recover VAT, either directly or indirectly, and that there is no double financing.

## 13. Technical assistance

### 1. Regulatory Framework<sup>117</sup>

"At the initiative of each Member State, the following technical assistance measures are eligible for each annual programme, within the limits specified in Article 16 (ERF) / 15 (IF) / 17 (RF) / 18 (EBF) of the basic act:

- (a) expenditure relating to the preparation, selection, appraisal, management and monitoring of actions (including computer equipment and consumables);
- (b) expenditure relating to audits and on-the-spot checks of actions or projects;
- (c) expenditure relating to evaluations of actions or projects;
- (d) expenditure relating to information, dissemination and transparency in relation to actions;
- (e) expenditure on the acquisition, installation and maintenance of computerised systems for the management, monitoring and evaluation of the Funds;
- (f) expenditure on meetings of monitoring committees and sub-committees relating to the implementation of actions. This expenditure may also include the costs of experts and other participants in these committees, including third-country participants, where their presence is essential to the effective implementation of actions;
- (g) expenditure on salaries, including social security contributions, although only in the following cases:
  - civil servants or other public officials seconded by duly documented decision of the competent authority to carry out tasks referred to in points (a) to (f),
  - other staff employed to carry out tasks referred to in points (a) to (f),
  - the period of secondment or employment may not exceed the final date for the eligibility of expenditure laid down in the decision approving the assistance.

Technical assistance may finance expenses incurred by any of the following bodies: responsible authority, delegated authority, audit authority, certifying authority.

Activities linked to technical assistance must be performed and the corresponding payments made after 1 January of the year referred to in the financing decision approving the annual programmes of Member States (year N). The eligibility period lasts until the deadline for the submission of the final report on implementation of the annual programme.

Any procurement must be carried out in accordance with national procurement rules established in the Member State.

Member States may implement technical assistance measures for this Fund together with technical assistance measures for some or all of the four Funds. However, in that case only the portion of the costs used to implement the common measure corresponding to this Fund shall be eligible for financing under this Fund, and Member States shall ensure that:

- (a) the portion of costs for common measures is charged to the corresponding Fund in a reasonable and verifiable manner; and
- (b) there is no double financing of costs."

### 2. General Principles and Guidance

#### General definition and characteristics:

EU support may be obtained by the Member State authorities (Responsible Authority, Delegated Authority, Audit Authority, Certifying Authority) for the management of the annual programmes under 'Technical assistance'. By 'Management of the programme' is meant all activities connected with the preparation, selection, appraisal, management, monitoring, evaluation, control (audits and on-the-spot checks), dissemination and publicity of the programme.

This may include:

- costs of (permanent or temporary) **staff** of public bodies specifically appointed or employed to perform these tasks, provided that the period of appointment or

<sup>117</sup> Article V of Annex 11 to the Implementing Rules.

employment does not exceed the end of the eligibility period laid down in the terms and conditions of technical assistance support;

- **subcontracting costs** linked to the activities described above, including audit and on-the-spot checks performed by audit firms. The development of IT applications to monitor the programme may be reported under eligible subcontracting costs;
- **IT equipment** (e.g. purchase of PCs specifically to run the application developed to monitor the programme) and IT consumables.
- costs of **committees/expert groups**, including **travel costs**, hospitality costs (e.g. conference room rental fees), plus **expert fees** and costs of other participants (including non-EU nationals when their participation is necessary for committee purposes). Costs of participation (travel and accommodation) in EU committees/meetings where not covered by the Commission
- **information/communication/publicity actions** as listed in Articles 31, 32 and 33 IR
- **training costs** of staff and translation costs of the responsible, certifying, audit and delegated authorities related to:
  - A) Programme documents submitted to the Commission : preparation, selection, appraisal, management and monitoring of projects;
  - B) audits and on-the-spot checks of projects;
  - C) evaluations of projects;
  - D) information, dissemination and transparency concerning projects;
  - E) computerised systems for the management, monitoring and evaluation of the Funds.

**⚠ Period of eligibility:**

The eligibility period for activities relating to technical assistance lasts until the deadline for the submission of the final report on implementation of the annual programme (no later than nine months after the eligibility deadline for expenditure laid down in the financing decision approving the annual programme).

**⚠ Reporting basis:**

Costs for technical assistance should be reported in accordance with national accounting rules. Costs reported under Technical Assistance should be reported on the basis of actual costs borne by the Member State authorities and be supported by substantiating documentation (i.e. invoices, receipts, contracts).

**⚠ Compliance with other Funds:**

Member States can implement technical assistance measures for one Fund together with technical assistance measures for some or all of the four Funds (Article 1(4) IR).

However, in that case only the proportion of the costs used to implement the common measure corresponding to one Fund will be eligible for financing under this Fund, and Member States have to ensure that:

- the proportion of costs for common measures is charged to the corresponding Fund in a reasonable and verifiable manner; and
- there is no double financing of costs.

**⚠ Link between technical assistance and annual programme:**

Costs reported for technical assistance may relate to any annual programme (e.g. technical assistance for year N can relate to annual programmes N-1, N+1, N+2..., provided that the costs reported are incurred within the eligibility period applicable to technical assistance of the programme to which it is being charged (from 1/1/N until the deadline for the submission of the final report on implementation of the annual programme).

In addition, for the European Refugee Fund, costs reported for technical assistance under an annual programme of the programming phase 2008-2013 may also relate to any annual programme of the previous programming phases, ERF I and ERF II. As in the previous case the costs reported must be incurred within the eligibility period applicable to technical assistance of the programme to which it is being charged.

### 3 Exceptions

#### 4 Best practices, Recommendations and Preferred options

- Budget:** It is recommended that the budget for technical assistance should be included in the costs categories listed in section 4 of the chapter on budget
- Indirect costs** are not envisaged and should not be reported for technical assistance.
- Technical assistance activities common to several programmes:** When analytical features cannot be used to allocate technical assistance costs to the various programmes, allocation keys should be defined. Examples of allocation keys are:
- o total costs per programme (as a percentage of the total costs of all programmes);
  - o number of staff members involved per programme;
  - o number of projects per programme;
  - o number of beneficiaries per programme.
- Depreciation of IT equipment:** For IT equipment used only for technical assistance (and not for projects for which general rules on equipment apply), it is accepted to charge the full cost of the equipment on one annual programme.

### 5 FAQs

- Q:** What kind of expenditure is covered by technical assistance (does it include audits and on-the-spot checks)?
- A:** Audit and on-the-spot checks may be eligible for EU support as part of programme control and evaluation activities (See section 2).
- Q:** What is the procedure for approval of technical assistance expenditure after approval of the annual programme?
- A:** The annual programme includes the main activities envisaged for technical assistance.
- Q:** Can technical assistance costs be combined over several Funds and how?
- A:** Technical assistance can be combined over several Funds (See section 2 for conditions and section 4 for the recommendations regarding allocation of technical assistance costs to the respective Funds).
- Q:** Do changes to the financial breakdown of the annual programme (up to 10%) include technical assistance?
- A:** Technical assistance costs are limited to the ceiling stipulated in Articles 16 (ERF), 18 (EBF), 17 (RF), 15 (IF) of the Basic Acts.
- Q:** What is the eligibility period for technical assistance?
- A:** The eligibility period for technical assistance is extended to the deadline for the submission of the final report on implementation of the annual programme.
- Q:** Can the costs of an evaluation of a year N programme be paid with technical assistance appropriations from N+1?
- A:** The costs of an evaluation of a year N programme can be paid with Funds received for technical assistance from N+1. Indeed, costs are considered eligible, provided that they are incurred within the eligibility period (from 1/1/N until the deadline for the submission of the final report on implementation of the annual programme) and paid after the start of the eligibility period (1/1/N). These costs can therefore be paid after the end of the eligibility period (Refer to the Chapter 'Eligibility period').
- Q:** Can heating and cooling equipment for office space used by the responsible authority be eligible under the technical assistance ?

A: This kind of expenditure, which is linked to the building and not mentioned in the eligible expenditure for technical assistance cannot be considered as eligible.

⚠ Q: When an official is seconded to work for the management of the Fund and paid by the technical assistance, does this person have to be replaced in his/her department/ministry of origin to make his/her cost eligible under the technical assistance?

A: No. This rule only applies for officials seconded to a project. For officials seconded to work on the management of Funds, this condition of replacement is not mentioned in the article V of the annex 11 to the implementing rules:

"- civil servants or other public officials seconded by duly documented decision of the competent authority to carry out tasks referred to in points (a) to (f)"

⚠ Q: Is office stationnery and furniture eligible under technical assistance?

A: No. Regarding equipment and consumable for the authorities involved in the management of the Funds, only IT equipment and IT consumables are eligible under technical assistance.