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# E-MANUAL

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GUIDE TO PLANNING EU PROJECTS IN THE HEALTH AND SOCIAL HEALTH SECTOR

## 2.8 CONTRACTUAL AND FINANCIAL ASPECTS

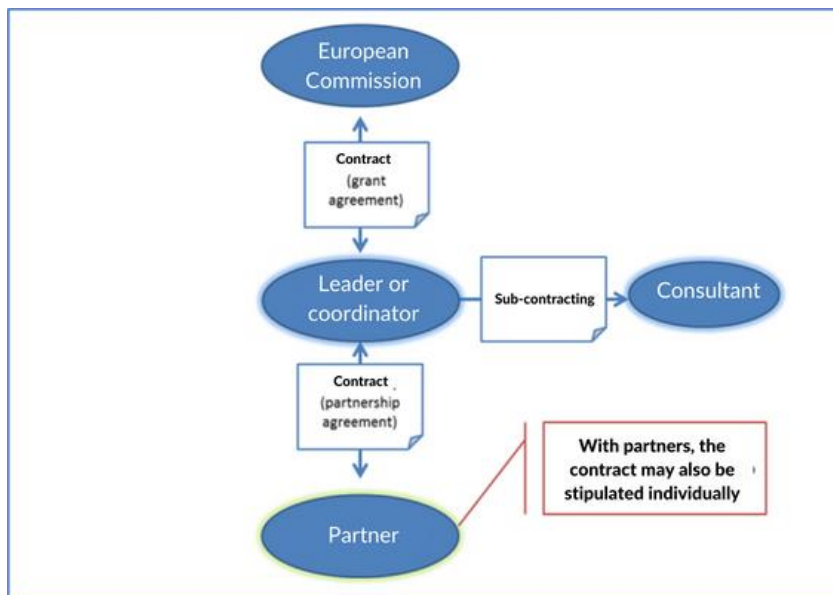




Financial and administrative management deserves the same attention as the subject area of the project. If a coordinator has limited experience in managing transnational projects, or if he or she is not particularly interested in the administrative aspects of the project, it is advisable that he or she seek the assistance of an administrative expert.

### CONTRACTUAL RELATIONS

The diagram below illustrates the framework of contractual arrangements around a project. In many European programmes, only the basic contractual relationship between the European Commission and the leader (contractor) is formalized and described in detail in the Commission's Administrative and Financial Guidelines (usually attached to the call). All other arrangements must be defined by the partnership.





## PROVISIONS OF THE CONTRACT WITH THE EUROPEAN COMMISSION

The starting point for work on the project is the coordinator's receipt of a letter from the Commission with the contract - **Grant Agreement** - and its annexes, particularly the administrative and financial guidelines. The key elements of the contract between the European Commission and the leading organization are as follows:

### Financial Provisions

The maximum amount of the grant awarded to the project as a whole. The total approved costs for the project.

### Contract period

Expenses incurred under a project can be considered eligible only if they relate to activities taking place during the period covered by the contract.

### Obligations of the beneficiary

Apart from the obligations set out in the General Terms and Conditions section of the contract, the provisions contained in the application regarding products, main activities and work plan form an integral part of the contract, are intended to be binding and can be changed only with the approval of the European Commission.

### Special contract clauses

Any special contractual clauses concerning the project are of the utmost importance and are indicated on the first page of the contract.

## COORDINATOR'S TASKS AFTER THE GRANT AGREEMENT

The sole contractor is the coordinator, and the contract covers all project activities, including those of the other partners. Since the beneficiary is the only entity legally responsible to the Commission, the coordinator should read the terms and conditions of the contract very carefully. If any point is not clear, the coordinator should contact the Technical Assistance Office immediately for





clarification before disseminating any information within the partnership.

**An important task of the coordinator is to inform the other partners about contractual obligations** so that everyone is fully aware of the legal framework of the project. This should be one of the main items on the agenda of the kick-off meeting. Experience shows that financial and management issues will also need to be addressed regularly in subsequent meetings.

### Changes to the contract

During the funding period, many projects find themselves in the situation of having to **submit a contract amendment in writing to the Commission for approval**. One of the most common causes of entering a change at the beginning of the contract period is the difference between the level of the grant awarded by the Commission and the amount requested in the application.

At this point, the project coordinator and partners must ask themselves whether they can carry out all the planned activities with a smaller budget. In principle, there are two possibilities:

1. the project carries out the same activities with a smaller grant than planned. To receive the maximum amount from the Commission, the budget must be supplemented by additional co-financing.
2. The partnership decides to reduce the activities planned in the application, adjusting the work plan and budget accordingly. In this case, the coordinator must apply to the Commission for an amendment to the original application.

Since changes to the budget and work plan affect all partners, these decisions must be made by mutual agreement at the first project-related meeting. It is important to ensure that all partners are well aware of the implications of the changes for their respective organizations, their respective tasks within the project, and their respective financial contributions.

In addition to a reduction in the grant, other situations may arise that require an amendment to the contract.

Changes can be requested at any time during the course of the project, as long as there are at least 60 days before the eligibility period expires. They usually fall into the following categories:





- **Change of coordinator** (although strongly discouraged). In the case of change, the project should ensure that the partnership remains eligible in terms of numbers, geography, roles, etc.
- **Changes in partnership:** withdrawal, addition or replacement of partners. Ditto as above
- Change in bank details.
- **Changes to the financial plan** (transfers of funds between major budget items. It should be noted that transfers between costs must always adhere to maximum percentages, which are usually indicated in the administrative and financial guidelines).
- **Changes in the operational plan.**
- **Extension of the contract period** (when the project needs more time to complete its activities, such as products. This request is usually approved by the Commission only in the last year of the project).

Approval of change requests is not automatic. In each case, **the coordinator receives an official response from the Commission**, sometimes over quite long periods of time. Having said this, in most cases the requests so far have been handled rather pragmatically. Commission officials seem to be aware that in a two- or three-year transnational initiative it is sometimes necessary to modify the original plan. Judging from experience, changes are likely to be accepted as long as they do not affect the scope and quality of the results. It is up to the coordinator to present convincing arguments.

## Non-contractual changes

**The leader is required to inform the Commission of non-contractual changes in the project**, using the appropriate form in the contract documents file.

In most cases, non-contractual variations are as follows:

- Change of contact information (phone, fax, e-mail, etc.) of the coordinating organization;
- Change of organization name (when the organization as such remains unchanged);
- Change of the person signing the contract (called the legal representative of the beneficiary).



The coordinator receives a confirmation letter after the information in the Commission's database has been updated.

### **Consortium Agreement**

In addition to the Grant Agreement, a contract signed between the funding agency and the Consortium, a written agreement between the project coordinator and the project partner (Consortium Agreement) is also required, which, however, is not only a formal obligation, as it performs several important functions:

- it ensures an equal level of information in the partnership;
- it creates a solid foundation for joint work by allocating risks and responsibilities within the partnership;
- it represents a safety net for the partners, who see their respective obligations and rights enshrined;
- it reduces the burden on the coordinator, especially in terms of financial risk;
- it gives the coordinator the right to legal recourse if the partner does not comply with the agreements made;
- also gives the partner the right to legal recourse if the coordinator fails to fulfill his or her obligations.

The partner agreement can be made bilaterally between the coordinator and each partner. Alternatively, a multilateral contract involving all partners can be entered into. There are arguments for the multilateral agreement, as long as it is transparent and gives equal weight to issues that affect all partners. This type of arrangement facilitates preparations for the coordinator to submit a single text. In some cases, however, the multilateral agreement may be more difficult to implement. For example, in the case of a dispute between a partner and the coordinator, making a decision on the matter becomes more complicated, as all partners must agree on the matter in question.

The partner agreement should contain the following elements:

- identity of the partner organization and contact person for the project
- project duration;
- main goals of the project;
- obligations of the coordinator and respective partners;
- allocation of funds;





- deadlines and amounts of payments;
- banking details;
- reporting requirements: records, reporting system, deadlines;
- early termination and damages for non-performance;
- responsibility;
- contract modification;
- dispute resolution;
- regulatory law (usually the laws of the coordinating institution's country).

Attachments to the partner agreement may include (i) the contract with the Commission, with all related documents; (ii) the application for financial support for the project; (iii) the work plan with detailed schedules and deadlines for contributions; and (iv) forms to be used for reporting.

#### **Subcontracts with non-partner individuals or organizations**

The project may involve **contracting out certain activities that require expertise from outside the consortium**. The activities involved may fall under the tasks of the coordinator or one of the partners. However, it is desirable for the coordinator to be one of the two contracting parties or, at least, to be fully informed about the content and scope of such contracts. The subject of the subcontract covers a specific contribution.

The project coordinator, however, must ensure that the main part of the project-related work is carried out by the partnership and that none of the core activities are subcontracted. Subcontractors in all cases must comply with the provisions of the existing contract between the coordinator and the Commission, as well as with the partner agreements.

The Commission insists on a formal subcontracting contract, which contains the following elements of subcontracting;

- Contract start and end dates;
- amount to be paid;
- detailed description of costs;
- work programme or phases;
- payment procedures (one or more instalments, staggered payment, etc.);
- Penalties for non-compliance or delays.





If the contribution made by a subcontractor covers part of a task that was to be done by a partner, this may result in changes to the project budget. Usually, all subcontractor costs are borne by the project, while the partners co-finance the project costs. In addition, the costs related to subcontracting are in a specific budget item and not in the categories Personnel Costs and Travel Expenses, which pertain only to partner organizations.

### Tasks related to financial management

Once the project coordinator has received the contract from the Commission, financial management becomes an important component of the work and involves several tasks:

- project budget planning and review;
- distribution of the grant among partners and organization of related disbursements;
- establishment of an efficient financial reporting system;
- control of the eligibility of expenditures and their concordance with the budget plan
- delivery to all partners of the necessary documentation;
- reports to the Commission.

### Budget planning and review

Financial planning for the project begins as early as the application stage, when the first financial document is produced: the detailed budget information. This initial budget constitutes an integral part of the contract and remains a key financial document throughout the life of the project. However, in the contract the Commission could change the ceiling of crucial budget items. In many cases, the total approved budget is less than originally planned, or the grant awarded is less than the amount requested, so a new cost allocation and a change in the grant distribution are necessary. All partners should be involved in this process to ensure that they do not take original financial planning for granted.

The budget approved by the Commission in the contract allows a certain degree of flexibility in some parts, while in others changes are not allowed: a transfer of money between the budget items Personnel Cost, Direct Costs and Overhead is possible only by requesting the formal consent of the Commission.







Such requests are accepted only in very exceptional cases.

On the other hand, the project may spend more than the approved budget, for example on Travel Expenses, and less on Hardware, as long as these anomalies in expenditures do not cause a substantial change in the project's goals and activities.

It is important to remember, however, that deviations from the approved budget must be justified in detail in the final report and could be rejected by the Commission. It is imperative that the coordinator is fully aware that the maximum grant amount is paid only if all the expenses involved are considered eligible and if the grant does not exceed a percentage of the total eligible costs.

In any case, the contribution for direct costs may not exceed the initially planned percentage as stated in the contract annex.

### Allocation and disbursement of the grant to partners

The **Commission transfers the grant amount** (usually in 2 or 3 instalments), expressed in euros, **to the coordinator's account, which distributes it to the partners**. Although the allocation of the grant among partners has already been indicated in the financial section of the application, very often serious misunderstandings arise regarding the partners' share of the grant and the contribution they are required to make to the project from their own resources. To avoid such misunderstandings, the planned allocation of the grant should be confirmed or, if necessary, changed by mutual agreement by the consortium at the beginning of work on the project. Partner agreements should always state the final agreed allocation of the grant and each partner's share of co-financing.

In addition to agreeing on the division of the grant among the partners, the method of payment must also be defined. In general, there are three possibilities:

1. The coordinator pays partners their full share at the beginning of the contract period (difficult to apply).
2. The coordinator divides the individual shares into several parts and makes the first payment immediately after receiving the money from the Commission. Subsequent payments are made after partners have produced results and/or submitted their respective reports according to the predetermined schedule.
3. The coordinator pays the partners in several instalments based on their





respective expense reports. All payments to partners are made after they send reports to the coordinator.

A comparison of the three modes shows the following:

Budget Item	Effective costs	Forfait	Documents	% max	Reporting forms
1. Direct costs	x	x	Working time sheet		Appendix 4 Appendix 4
1.a Staff	x				
1.b Travels	x				Appendix 6
1.c Stays	x				Appendix 6
1.d Hardware	x				Appendix 7
1.e Sub-contracting	x			30	Appendix 8
1.f Other costs	x				Appendix 9
Overhead Costs				7	

European projects can vary greatly in size and level of funding. The size of the partnership also has significant implications not only in terms of the workload but also for the financial management of the project. A consortium with twelve partners requires different mechanisms from a partnership with three partners. The coordinator, who signed the contract with the Commission, has the major financial responsibility within the partnership, and it is his job to make suggestions regarding payment mechanisms, to be discussed later in the meeting with partners. Funding is disbursed late, so that project expenditure and Commission disbursements are not synchronised. The coordinator and partners usually have to fund projects independently until the EU allocation is received. This situation occurs particularly at the beginning of the project, because the Commission delays the contract, but the partnership might be waiting for payments from the Commission when the project is already completed

### Recording of project costs

The project coordinator must ensure that all funds allocated to the project, including partners' own resources and co-financing, are recorded in addition to the Commission grant.

When project costs are recorded, the following EU financial management principles should be kept in mind:



- the costs must be effective, unless explicitly stated in a different account;
- all effective costs must be properly documented (e.g., by invoice) upon request;
- costs must be eligible;
- costs must be adequately justified in reports;
- certain types of costs require prior approval from the Commission.

Documentation (account books, invoices) must be kept for at least five years after the conclusion of the project. Since the Commission has the power to conduct an audit, all relevant material must be easily accessible. Although it is not always possible to have original documentation for all costs incurred (e.g., personnel costs), it is imperative that the coordinator has a clear idea of where and how exactly all relevant documents can be found, if necessary.

The following budget items can usually be found in a European project:

- Direct Costs (Personnel Costs)
- Other direct costs (Travel expenses, other costs)
- Equipment and machinery (relative to their respective depreciation allowances)
- Subcontractor/Subcontracting: specific tasks assigned to external organizations, duly motivated and ensuring the best value for money
- Other indirect costs: percentage calculated on the basis of direct costs incurred that covers general project organization costs (this percentage varies depending on the programme/call of reference).

#### **Budget Part A EU4HEALTH**

Application forms

Proposal ID  
Acronym

3 - Budget

No.	Name of beneficiary	Country	Role	Personnel costs - without volunteers / EUR	Personnel costs - volunteers / EUR	Subcontracting costs/ EUR	Purchase costs - Travel and subsistence/ EUR	Purchase costs - Equipment/ EUR	Purchase costs - Other goods, works and services/ EUR	Indirect costs/ EUR	Total eligible costs/ EUR	Estimated eligible contributions/ EUR	Ineligible costs/ EUR	Total estimated project costs and contributions/ EUR	Maximum EU contribution on to eligible costs/ EUR	Requested EU contribution on to eligible costs/ EUR	Max grant amount/ EUR	Income generated by the project/ EUR	In kind contributions/ EUR	Financial contributions/ EUR	Own resources/ EUR	Total estimated project income/ EUR	
1				0	0	0	0	0	0	0	0	0	0	0	0,00	0,00	0	0	0	0	0	0	0,00
Total																							

Budget Part A HORIZON EUROPE

3 – Budget for the proposal

No	Participant name	Country	Estimated expenditure							Estimated income					Total estimate of income (e)(h) - (i)(j) + (k)									
			Estimated eligible costs							Requested EU contribution		Revenues	Other sources of financing											
			A Personnel cost <sup>(a)</sup>	B Subcontracting cost <sup>(b)</sup>	C. Purchase costs			D. Other cost categories	E. Indirect costs <sup>(c)</sup>	F. Total eligible costs <sup>(d)</sup>	Funding rate		Maximum EU contribution to eligible costs	Requested EU contribution to eligible costs (Requests of grant amount)		Income generated by the action	Financial contributions	Own resources						
			(a)	(b)	C.1 Travel and subsistence cost <sup>(c1)</sup>	C.2 Equipment cost <sup>(c2)</sup>	C.3 Other goods, works and services cost <sup>(c3)</sup>	D.X Specific cost category <sup>(d)</sup>	E. Indirect costs <sup>(c)</sup> (e) = (c1) + (c2) + (c3) + (d)	(d)	(e) = (d) * (f)	(g) = (d) - (h)	(i)	(j)		(k)	(l)							
1	Participant 1	NL																						
2	Participant 2	LB																						
	Affiliated Entity	LB																						
3	Participant 3	DE																						
	Associated Partner	AR																						
Total																								

Personnel cost

Costs incurred for full-time staff of partner organizations assigned to the project are eligible expenses. The European Commission considers those who are connected to a partner organization, or work regularly, or on a recurring basis for the project to be eligible for the budget item Personnel Cost.



Personnel costs are calculated on the basis of the gross hourly/daily/monthly income of the employee concerned, multiplied by the number of hours/days/months devoted to the project. The gross figure includes all normal charges paid by the employer, such as social security contributions and related costs, while it excludes any bonuses or profit-sharing mechanisms. A record is required of the time actually spent on the project by the people involved in the partner organizations through the compilation of time sheets. In addition to meeting the reporting requirements imposed by the Commission, the time sheets provide the coordinator with the opportunity to check the time spent on the project at each partner institution and thus gain an idea of the progress of the activity.

### Travel and living expenses

Regarding the costs incurred for meetings, the two most frequently used alternatives are as follows:

- each project partner pays its own travel and subsistence expenses, if envisaged in the project, from its allocated budget
- the coordinator, if envisaged in the project, directly pays the travel and accommodation expenses of partners who do not have such cost items in their budgets

### Equipment and machinery costs

The coordinator should know that expenditures related to the purchase of equipment and machinery will be checked very carefully by the European Commission, which has absolutely no intention of funding what can be considered part of normal infrastructure. In order to prevent the expenses from being deemed ineligible, the coordinator should convincingly explain in the final report that the purchase of the technology in question was essential for the implementation of the project. In each case, it is necessary to show that you have opted for the most cost-effective formula between rental, lease and purchase, to indicate a realistic percentage of use for the project, and to apply a depreciation period if such an asset is accounted for in the organizational accounts.





### **Subcontracting costs (Subcontractor)**

This item provides for the inclusion in the project of the additional expertise of people from outside the partner organizations. As already mentioned, mixing them up with personnel costs should be avoided. However, the European Commission has made it very clear that this budget item should not be excessive and has introduced a variable ceiling depending on the relevant programme/call. In addition, basic activities such as project management and administration cannot be subcontracted, since the idea behind a European project is that the most substantial part of the work is done by the consortium itself. The compensation of external experts varies depending on the relevant programme/call for proposals. Expert travel and subsistence expenses should be included under this heading, rather than under Travel Expenses

### **Other direct costs**

This item includes costs that are directly related to the project but cannot be included in other categories. Like most other budget items, Other Direct Costs must be documented and justified in the project application. Costs related to the preparation, translation, publication, and distribution of materials can be entered under this heading if the activities take place in the partner organizations themselves and are not subcontracted.

### **General expenses**

General administrative expenses include the following:

- communications (fax, telephone, correspondence, etc.),
- office supplies,
- photocopies,
- infrastructural costs of the venue where the project takes place, in proportion to the use of the premises for the project.

Photocopies are included under this heading only if they relate to general project administration (letters, agendas, working papers, etc.). Photocopies of materials produced (books, handouts for training courses, etc.) are included in Other direct costs. Overhead costs cannot exceed a maximum percentage in relation to direct costs, set according to the reference call/programme (e.g., for EU4Health it corresponds to 7 percent while for Horizon Europe it corresponds to 25 percent). In some calls this percentage is not specified and reference must be made to the percentage of overhead charged in the relevant budget. They are generally a





"special" category in the project budget as they do not have to be supported by documentation. Overview of the costs of a project and its main features:

Budget Item	Effective costs	Forfait	Documents	% max	Reporting forms
1. Direct costs	x	x	Working time sheet		Appendix 4 Appendix 4
1.a Staff	x				
1.b Travels	x				Appendix 6
1.c Stays	x				Appendix 6
1.d Hardware	x				Appendix 7
1.e Sub-contracting	x			30	Appendix 8
1.f Other costs	x				Appendix 9
Overhead Costs				7	

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### Internal financial reports

According to the contract between the Commission and the coordinator, the coordinator is required to **submit interim and final reports on project expenditures and progress**. In addition, the Commission has the right to inquire from the coordinator about the current status of the project at any time. In agreements with partners, there should be a requirement for partners to submit financial and content reports to the coordinator. One of the decisions to be made at the beginning of work on the project is to establish an efficient and transparent reporting system. Partners should agree on when and how to provide reporting on expenses incurred during the project.

In large projects with grants of €50,000 or more, it is recommended that the coordinator receive both reports (financial and content) on a quarterly basis. In projects of more limited scope, a longer time interval may be sufficient. Since the coordinator must prepare interim and final reports based on documents received from partners, the timetable for internal reporting procedures must take into account the time needed to complete the reports for submission to the Commission. To avoid duplication of effort, internal reports should be compatible with the format of the final report to the Commission. Regular reports, however, are not only necessary because they are formally requested by the Commission, but they serve to provide the coordinator with an overview of the project's progress and are a prerequisite for any changes in course or interventions in project management. For example, if one of the partners has not used all the





funds allocated to it, the coordinator can transfer the remaining money to another partner who can put it to appropriate use.

