Personnel Costs in Horizon 2020 – Finland

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Background documents

Horizon 2020 Rules for Participation\(^1\) Article 27 – Direct eligible personnel costs
Horizon 2020 Annotated Model Grant Agreement\(^2\) Article 6 – Eligible and ineligible costs

Calculating Personnel Costs in H2020

➢ For a detailed explanation, please see H2020 Annotated Grant Agreement article 6.2.A

In Horizon 2020 actual personnel costs are calculated as follows:

\[
\text{hourly rate}^* \times \text{number of actual hours worked on the action} + \text{additional remuneration (if applicable, non-profits only)}
\]

*the hourly rate is calculated per person and by financial year, and has to be based on full financial years (= last closed financial year)

\[
\text{hourly rate} = \frac{\text{actual personnel costs}}{\text{annual productive hours}}
\]

However, the calculation method can be different in the following cases:

- personnel costs on the basis of usual cost accounting practices (“average personnel costs”)
- SME owners / natural persons not receiving a salary

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Calculating Personnel Costs in Finland

The majority of participants will likely follow the Commission requirement to calculate personnel costs as hourly rate x hours worked on the action as detailed above. A small portion of SME owners will benefit from the standard rates provided for SME owners without a salary. In addition, some Finnish universities, research organizations and companies will use average personnel costs (as in Framework Programme 7).

Average Personnel Costs in Finland

Many Finnish universities, research organizations and companies calculate their personnel costs as average. They first define an hourly salary rate per person based on the salary costs for the month divided by the productive hours for that month (usually a standard number of hours). Next, this amount is multiplied by the indirect personnel cost rate, defined yearly. The rate varies typically between 40% - 50% of productive hours’ salaries. Finally, this hourly rate is multiplied by hours worked for the H2020 project.

Finnish law determines the yearly statutory indirect personnel cost rates for the following:

- Social security
- Pension contribution

In addition, the indirect statutory employee cost rate usually consists of elements like:

- Holiday allowance
- Holiday salary (holiday pay and statutory bonus)
- Sick leave contributions and other paid leave contributions
- Accident insurance fee
- Occupational healthcare

This is in line with the Horizon 2020 Model Grant Agreement as 6.2.A states that “Personnel costs… must limited to salaries (including during parental leave), social security contributions, taxes and other costs included in the remuneration, if they arise from national law or the employment contract (or equivalent appointing act)”

The rate of the total indirect personnel costs is calculated usually based on figures from the last closed year of statutory financial statements. The rate represents a portion of the whole organization's indirect (research) personnel costs divided by the total productive hours' salary of the organization. Reporting is done based on the percentage figure from the last closed financial year, and the amounts may be adjusted with subsequent financial reporting for the project.

Example:

An employee’s salary is 5 000 € /month and s/he has worked 8,5 hours for Horizon 2020 Project X in January 2015.

1. Take the gross salary of 5 000 € and divide by the total workable hours in January (all work time plus absences such as holidays and sick leave), in this case 142,5 hours
   - 5 000 € / 142,5 h = 35,09 € / hour

2. Add statutory social charges plus holiday pay, sick leave etc. with a multiplier/rate (% of gross salary), in this case 45 %. The multiplier/rate is based on the last closed financial year, and the figures reported now may be corrected with an adjustment once the multiplier for the current year is calculated (if this is the normal practice of the organization).
   - 35,09 € x 1,45 % = 50,88 €

3. Multiply this hourly rate by the hours worked on the project
   - 50,88 € x 8,5 hours = 432,48 €
Is this method or similar methods in line with Horizon 2020 rules?
There is no certainty at the moment. The only way to ascertain this would be via an organization-specific Certificate on the Methodology. However, the requirements for average personnel costs as they are outlined in the H2020 Grant Agreement annotations seem to be met. This understanding has also been supported by experienced local auditors.

Personnel costs on the basis of usual cost accounting practices

The quotes below are directly from the H2020 Grant Agreement annotations (6.2.A).

“For personnel costs declared on the basis of the beneficiary’s usual cost accounting practices (i.e. ‘average personnel costs’), the hourly rate must be calculated in accordance with the beneficiary’s usual cost accounting practices for determining the hourly rates of its personnel.”

- This is the usual cost accounting practice

“The GA sets the following conditions:
- the cost accounting practices used must be applied in a consistent manner, based on objective criteria, regardless of the source of funding”

- Finnish beneficiaries use the same methodology regardless of funding source

“The beneficiary must consistently apply its usual cost accounting practices, based on objective criteria that must be verifiable if there is an audit. It must do this no matter who is funding the action. This does not mean that cost accounting practices must be the same for all types of employees, departments or cost centres of the beneficiary. If, for instance, the beneficiary’s usual cost accounting practices include different calculation methods for permanent personnel and temporary personnel, this is acceptable. However, the beneficiary cannot use different methods for specific research actions or projects on an ad-hoc basis.”

- Figures are verifiable in case of an audit and method is consistently applied

“Example (acceptable usual cost accounting practices): Individual (actual) personnel costs are used for researchers, average personnel costs (unit costs calculated in accordance with the beneficiary’s usual cost accounting practices) are used for technical support staff.

Example (unacceptable usual cost accounting practices): Average personnel costs are used to calculate costs in externally-funded projects only.”

- the hourly rate must be calculated using the actual personnel costs recorded in the beneficiary’s accounts, excluding any ineligible cost or costs already included in other budget categories

- Both salary and indirect personnel costs are based on actual figures in the beneficiary’s account

“Any cost considered ineligible by the Commission but included in the beneficiary’s usual accounting practices must be excluded when calculating the personnel costs for the action. If necessary, it must be adjusted to fulfil all eligibility criteria. AGA — Annotated Model Grant Agreement: H2020 General MGA: V2.0 – 30.03.2015 61”

- Ineligible costs are removed from the calculation

“Example: A beneficiary calculates the hourly rate in accordance with its usual cost accounting practices and includes taxes not included in remuneration. These are ineligible and must therefore be removed from the hourly rate declared for personnel working on the action. Costs that are already included in other budget categories must be taken out (double funding of the same costs).
Example: Beneficiaries whose cost accounting practices include for the calculation of the hourly rate indirect costs under Article 6.2. These indirect costs must be removed from the pool of costs used to calculate the hourly rate charged to Horizon 2020 actions. In Horizon 2020 actions, indirect costs must be declared using a flat rate of 25%, so personnel costs cannot include any indirect costs.

- No indirect cost items are included

“Budgeted or estimated figures are not costs actually incurred and may only be accepted as eligible components of the hourly rate if they:
- are relevant, i.e. clearly related to personnel costs
- are used in a reasonable way, i.e. they do not play a major role in calculating the hourly rate
- correspond to objective and verifiable information, i.e. their basis is clearly defined and the beneficiary can show how they were calculated

Example: Calculating average 2014 hourly rates by using 2013 payroll data and increasing them by adding the CPI (consumer price index) on which the basic salaries are indexed.

- the hourly rate must be calculated using the number of annual productive hours (i.e. either option 1 or 3).”

- These beneficiaries typically use option 3 – standard number of productive hours

Certificate on the methodology

Beneficiaries may request approval of their methodology from the Commission. If the methodology is approved, costs reported in line with it will not be challenged. The beneficiary’s usual auditor prepares a report that is subsequently sent to the Commission for review and potential approval. The earliest possible time to apply for the certificate is preferably after the beneficiary has completed its first Horizon 2020 reports or earlier if the auditor feels certain that enough information is available to objectively complete the report. The auditor will naturally be reimbursed for the time spent on compiling the necessary information. These costs can be budgeted as other direct costs of a H2020 project if foreseen.

Adjustments to average personnel costs

There is no specification that adjustments would be necessary, so it depends on the organization’s usual accounting practice. According to H2020 Grant Agreement annotations, estimated figures can be used “if they are used in a reasonable way, i.e. they do not play a major role in calculating the hourly rate”.

How to treat average personnel costs throughout the project

Budgeting phase

All personnel costs are included in the “Direct personnel costs” column of the budgeting template.
Grant Preparation Phase

Personnel cost based on average costs are separated into the column **“Direct personnel costs declared as average costs”**.

- costs have to be manually moved from column “actual costs” to column “unit costs (average costs)”

<table>
<thead>
<tr>
<th>Direct personnel costs declared as actual costs</th>
<th>Direct personnel costs declared as unit costs (average costs)</th>
<th>Direct costs of subcontracting</th>
<th>Direct costs of providing financial support</th>
<th>Other direct costs</th>
<th>Indirect costs</th>
<th>Special unit costs</th>
<th>Special unit costs covering direct and indirect costs</th>
<th>Total costs</th>
</tr>
</thead>
</table>

Reporting Phase

Average personnel costs are reported in the **“Unit”** column.

Note: The annotations to article 4.2. of the H2020 Model Grant Agreement state that “a beneficiary cannot transfer budget to a form of costs that has not been foreseen in Annex 2.”

This means that if a beneficiary’s personnel costs are in the “actual” column in Annex 2, but the beneficiary uses average personnel costs, and an amendment is necessary.