



Annex X to the Model LIFE Grant Agreement

Financial and Administrative Guidelines

(Update 20.06.2018)

Main changes to Annex X compared to the previous version relate to :

- inconsistencies/corrections/further explanations where needed further to feedback received from beneficiaries
- references to the Model grant agreements 2017/18
- further guidance on the usage of a fixed % of time allocated to the project (to avoid keeping timesheets) and the usage of 1720 hours as a standard (in line with call for proposal documents)
- further guidance on the declaration of indirect costs by entities receiving an operating grant from the Union to cover part of their operating costs
- inclusion of further guidance on the partnership agreements concluded between the beneficiaries
- guidance on the % of pre-financing
- guidance on the 25/50% limitation for infrastructure & equipment (per item)
- correction regarding the requirement to submit the three highest invoices per beneficiary/per cost category at the final report stage.
- Delivery of VAT certificates is no longer obligatory to consider the cost eligible (however, the underlying eligibility criteria for VAT remain the same)
- Update of the guidance on the certificate on financial statements

PURPOSE OF THE GUIDELINES

These guidelines have been prepared to help proposers and beneficiaries under the LIFE programme understand:

- the financial and administrative provisions of the LIFE grant agreement when preparing their proposal and their future financial reports;
- the administrative guidance for requesting changes to the grant agreement (i.e. amendments).

If the guidelines conflict with the provisions in the specific or general conditions of the grant agreement, the latter shall prevail.

I. COST REIMBURSEMENT

Funding is based on **cost-sharing**. This means that the Agency/Commission contributes up to a maximum percentage of the eligible costs incurred for the performance of the work as defined in the grant agreement.

II. RELIABLE ACCOUNTING AND REPORTING SYSTEM

In order to prepare and ensure comprehensive and compliant financial reports, beneficiaries need to establish and operate, throughout all phases of project implementation, a **reliable system for collecting, recording and reporting financial transactions**. They will need to **keep supporting documents related to these transactions** to justify all actual costs incurred and income generated by the project. The accounting procedures must therefore permit a direct reconciliation of the costs and revenue declared in respect to the project with the corresponding supporting documents.

Original documents, especially accounting and tax records, stored on any appropriate medium, including digitalised originals in accordance with their national legislation, must be **kept for five years** after the date of payment of the balance payment of the Union contribution. This period is limited to three years if the maximum amount of the grant is not more than EUR 60,000.

In order to establish that claimed costs are identifiable and verifiable in the beneficiary's accounting records, it is highly recommended to establish project codes in the analytical accounting system(s) and it is mandatory in the time registration system(s). The beneficiary's usual accounting and internal control procedures must permit direct reconciliation of the amounts declared with the amounts recorded in its accounting statements. Costs not clearly attributed to a specific project risk otherwise to be considered ineligible. Beneficiaries are advised to regularly monitor the project costs, in view of the agreed project budget.

Exception :

Indirect costs do not need to be supported by accounting documents in the financial reporting on the project, as they are calculated as a flat rate (flat rate is identified in Annex III to the grant agreement).

II.1 Time Registration System

II.1.1 GENERAL PRINCIPLE

Beneficiaries must have **daily** records of all hours worked by a given person. Please note that the *timesheet* shall not only record the time spent on a specific project, but it ***shall reconcile the total working time*** of each person. The purpose of recording the total hours actually worked by each person is to allow the Agency/Commission to verify the correct working time unit (i.e. hours, with decimal system to report periods other than full hours, e.g 5 hours and 30 min reported as 5.5 hours).

If a beneficiary does not have a time registration system in place at the time that the grant agreement is signed, he should, as a minimum:

- establish registration and submission procedure for the project staff,
- introduce a validation procedure for the supervisors/line managers to certify the correctness of the timesheets.

It is recommended, but not obligatory, to use the model timesheet available on the LIFE website in the LIFE toolbox found at <http://ec.europa.eu/environment/life/toolkit/pmtools/index.htm> . Beneficiaries are free to fine-tune the model, e.g. in order to provide a further break-down of the working time into different actions or tasks. However, any own-developed timesheet should at least contain equivalent information. Employing incomplete, inappropriate or unreliable timesheets or time registration systems may jeopardize the eligibility of the personnel costs reported, resulting in a reduction in the eligible costs which may lead to a reduced payment amount or a recovery of payments previously made.

In practice, every coordinating and associated beneficiary must establish a time registration system that, as a minimum, includes at least the following elements:

- a) Clear identification or reference to the LIFE project.
- b) Clear identification of the beneficiary and employee.
- c) Clear identification of the year, month and day.
- d) Number of working time units worked for the LIFE project.
- e) Number of working time units worked for other EU-funded projects.
- f) Number of working time units worked in total by the person.
- g) Date and signature of the employee.
- h) Date and signature of the supervisor.

The beneficiary shall ensure that the project file contains a short description of the time registration system employed in particular for the registration and submission routines for the employees and the validation procedure for the supervisor/line manager. The timesheet should be updated in a timely manner – ideally every working day.

Information included in the timesheets should reconcile with the records of annual leave, statutory holidays, sick leave, other leaves and work related travels.

The completed timesheet for a given month must be signed and approved in a timely manner – ideally during the first week of the following month.

The timesheet of a project manager or coordinator should be approved by her/his superior. If such a superior does not exist (e.g. CEO, owner of company,...) then the timesheet should be signed by a staff member with responsibilities at the same level, or in absence of such a person, as a last resort, by the individual him/herself (meaning that the person will sign for both functions).

The beneficiary shall ensure that the project file contains a short description of the time registration system used, covering the registration of the time worked, the submission of time records by the employee and the validation of the time records by the supervisor/line manager.

II.1.2 EXCEPTIONS

a) If the beneficiary can provide evidence that a member of staff is employed for the project in full time capacity or for a fixed contractually defined percentage of time, it is not necessary to maintain timesheets. This should be documented through the contract of employment or an instruction letter from the HR department or from the relevant managers, in which the employee in question is instructed to work exclusively for the project for the period in question. The instruction letter, if any, shall contain at least the following details: name of employee, function in the project and description of the tasks assigned for the project, explicit indication of the specific time percentage or full time nature of the assignment, start and end date of the assignment period. See also the frequently asked question section below for further guidance.

b) Timesheets, unless a formal requirement within the beneficiary's organisation, are also not required for staff working on average less than 2 days per month in a given calendar year. The "timesheets" for such staff are in fact the monthly records in the financial report and the validation process is the signing off when the financial report is submitted.

Frequently Asked Questions about Timesheets and assignment to the project for a contractually defined percentage of time:

Are personnel costs refused if the LIFE model time sheet is not used to register the time actually worked for the project?

No, as long as the time registration system used by the beneficiary (including electronic registration systems) contains, as a minimum, all the information required by the LIFE model timesheet.

Should the time worked for the project always be registered on a daily basis?

Yes. In general, only timesheets where time per day devoted to the project (as well as any other activities) is specified and registered are accepted. There are two main reasons for this:

- reliability of information provided – it is unlikely that an employee would be able to remember the time actually worked on the project after a long time, for example after a month.
- audit trail - a daily work record can be cross checked with other time records (holidays, travel, sickness, meetings etc.).

There are exceptions to the daily registration requirement in cases where the employee might not have immediate access to the time recording system, for example during fieldwork, travels, meetings and conferences. The time recording system should in such cases be updated as soon as the employee gets access to the time recording system.

Time sheets that only state the total number of time units devoted to the project in a given period (e.g. one month) without providing daily details are unacceptable since they will not fulfil the two functions mentioned above: reliability and a possibility to cross check records. Please note that timesheets based on estimates of the time needed to complete each task cannot be accepted.

Should non-standardised electronic time registration records be printed out and certified with a signature?

Yes. Electronic systems such as Outlook or Excel are acceptable only if the time is registered on a daily basis, they comply with the requirements described at section II.1.1 and the records are printed out and signed monthly. If such systems are used, it is strongly recommended that the LIFE model timesheet is used.

Standardized and certified time registration systems are accepted, as long as they include the level of information as described in II.1.1. If such electronic time registration is used by the employee and validated on a regular basis by a supervisor, it is not necessary to keep signed paper copies in addition to the forms certified electronically. However, a description of the time recording system should be provided on request. In addition, print-outs of time registration records may be requested by the Agency/Commission to support the personnel costs reported. Please note that it must be possible to obtain such print-outs at any time during the project and for three¹/five years after the final payment is made for audits purposes.

What time registration units should be used in the financial report?

It should be the time units used in the time registration system employed by the beneficiary, i.e. if hours are used in the time registration system hours should also be used as time units in the financial report. The decimal system shall be used to report periods other than full hours (e.g. for 5 hours and 30 minutes, please report 5.5 hours).

¹ Three years if the maximum amount of the grant is not more than EUR 60,000.

When is it possible to use the 'contractual percentage of time' and be exempted from the completion of timesheets?

The usage of a 'contractual percentage of time' should only be considered if the assignment of the person to the project is consistent throughout the duration of the project (e.g. not when the percentage of assignment can fluctuate over the project implementation period). The beneficiary should also consider that the application of this exception makes sense due to the particular role in the project.

If it is a formal requirement to keep timesheets within the beneficiary's organisation, then the actual time spent on the LIFE project should in any case be registered.

Does the usage of a 'contractual percentage of time' need to receive prior approval by the Agency/Commission?

The usage of the assignment of staff for a 'contractual percentage of time' in the project should already be flagged at the time of the proposal. It is advised that any change to it should be reported to the Agency/Commission for approval to avoid rejection of the costs later on if the % of time allocated would not be deemed necessary for the implementation of the project.

II.2 Invoicing

There should be a clear reference to the project on all invoices from suppliers and subcontractors. It is recommended to use the format **LIFE[Year] [NAT/ENV/GIE/GIC/...]/[Country]/[Number] - acronym**. Inform your suppliers and subcontractors accordingly.

However, if invoices do not bear the above references, a stamp with the project number on the invoice or an electronic link in the cost accounting system to the project can also serve as proof that a cost is incurred in the frame of the project, provided that the eligibility conditions indicated at article II.19.1 are met.

TIP : Include the project reference in the postal address that you provide to your suppliers so that it automatically appears on your invoices.

III. AFFILIATES & SOLE TRADERS

III.1 Affiliates

For private beneficiaries, the Agency/Commission **may** accept that affiliated entities to a beneficiary participate in a project as long as all conditions listed in the Model Grant Agreement and its Annex X (Financial and Administrative Guidelines) are fulfilled. However, the association of entities as affiliates may complicate the project structure and thus have a negative impact on the technical and financial coherence of the project. It is therefore **entirely in the Agency's/Commission's administrative discretion to accept affiliates**, and in no case will affiliated entities be accepted for public beneficiaries or entities that do not comply with the description of affiliated entities hereafter.

Affiliated entities that have an important budget/role in the implementation of the project are recommended to be included in the project as an associated beneficiary.

Affiliated entities need to comply with the eligibility and non-exclusion criteria applying to applicants and should have a structural link with the beneficiary concerned (i.e. a legal or

capital link) that is neither limited to the project nor established for the sole purpose of the project implementation (so the link would exist independently of the award of the grant; it should exist before the call for proposals and remain valid after the end of the project).

As affiliated entities could be accepted those **directly controlled by the beneficiary** (i.e. daughter companies or first-tier subsidiaries), **entities controlling the beneficiary** (mother company) OR in case of **Memberships**, the beneficiary has to be **legally defined as a network, federation or association** in which the proposed affiliated entities participate. However, if several beneficiaries want to work with the same 'affiliate', the 'affiliate' should be proposed as 'beneficiary' instead.

Private beneficiaries wanting to involve their affiliates shall :

- Provide a duly completed legal entity form as well as a copy of the related legal documents (legal registration, VAT registration, statutes, legal act establishing the entity,...)
- Provide a clear description and evidence of legal or capital link between the entities, i.e. the ownership structure that demonstrates the 'control'/'decision power' over the daughter company (in case of affiliates) or the association's structure and membership list (in case of associations).
- Provide the contact details related to the affiliate: name legal representative, official legal name of the entity, legal address, other contact details (phone, e-mail).
- Provide the confirmation from their affiliate that it has not been served with bankruptcy orders, nor has it received a formal summons from creditors and that it is not in any of the situations listed in Articles 106(1) and 107 of Council regulation N° 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union (OJ L298 of 26.10.2012)

Entities will be excluded from participation in a grant as affiliate if :

Art. 106 (1) :

- (a) they are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are the subject of proceedings concerning those matters, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;
- (b) they or persons having powers of representation, decision making or control over them have been convicted of an offence concerning their professional conduct by a judgment of a competent authority of a Member State which has the force of res judicata;
- (c) they have been guilty of grave professional misconduct proven by any means which the contracting authority can justify including by decisions of the EIB and international organisations;
- (d) they are not in compliance with their obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provisions of the country in which they are established or with those of the country of the contracting authority or those of the country where the contract is to be performed;

(e) they or persons having powers of representation, decision making or control over them have been the subject of a judgment which has the force of res judicata for fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity, where such illegal activity is detrimental to the Union's financial interests;

(f) they are subject to an administrative penalty referred to in Article 109(1).

Points (a) to (d) of the first subparagraph shall not apply in the case of the purchase of supplies on particularly advantageous terms from a supplier which is definitively winding up its business activities or from the receivers or liquidators of a bankruptcy, through an arrangement with creditors, or through a similar procedure under national law.

Points (b) and (e) of the first subparagraph shall not apply where the candidates or tenderers can demonstrate that adequate measures have been adopted against the persons having powers of representation, decision making or control over them, who are subject to a judgement as referred to in points (b) or (e) of the first subparagraph.

Art. 107 :

(a) are subject to a conflict of interests;

(b) are guilty of misrepresenting the information required by the contracting authority as a condition of participation in the procurement procedure or fail to supply that information;

(c) find themselves in one of the situations of exclusion, referred to in Article 106(1), for the procurement procedure.

Where a beneficiary participating in the action involves its affiliates to carry out work, the costs incurred by the affiliates can be accepted provided they can be verified as being 'actual' and follow the guidance below:

- Provide a clear description and evidence of the beneficiary's structure including evidence of legal or capital link between the entities, i.e. the ownership structure that demonstrates the 'control'/decision power' over the daughter company (in case of affiliates) or the association's structure and membership list (in case of associations).

- Ensure that contractual provisions applicable to the beneficiary are also applicable to the affiliate, especially those related to the eligibility of costs and the checks and audits that the Agency/Commission can carry out.

- Retain sole responsibility to carry out the project and for compliance with the provisions of the grant agreement

- Affiliates involved in the project shall be clearly identified and their activities duly described in Annex II to the grant agreement and their costs budgeted in Annex III to the grant agreement (i.e. under the costs budgeted by the beneficiary concerned, with in the description field the acronym of the affiliate between brackets).

The affiliate will carry out the tasks in relation to the project on behalf of the beneficiary concerned without profit and at no additional financial cost (i.e. the affiliate cannot act as a 'subcontractor').

When submitting reports (progress/interim/final), the beneficiary shall identify the work performed and resources deployed by each affiliate involved in the project.

For what concerns the financial reporting, beneficiaries involving affiliates should submit:

- An individual financial statement for each affiliate – to be signed by the legal representative of the affiliate
- A consolidated financial statement for the beneficiary (using the standard template) identifying its own costs, line per line, as well as grouping in one line per cost category the costs per affiliate – to be signed by the legal representative of the beneficiary.

III.2 Sole Traders

Please note that 'Sole traders' are considered **natural persons** and are therefore **not eligible** to participate as beneficiary or affiliate as such in LIFE projects.

As a reference entities owned and run by one individual and where there is no legal distinction between the owner and the business can be considered as sole traders. The definition of Sole Trader should also be checked against the applicable national legislation.

IV. PUBLIC BODIES

IV.1 Who are considered public bodies ?

- the State, a regional or local authority,

Or

- a body governed by public law, or an association formed by one or more of such authorities or bodies governed by public law, or an entity registered as private law body wishing to be considered for the purpose of this call as equivalent to "public body";

When it fulfils **all** four following criteria:

- it is established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character, and
- it has a legal personality and
- it is financed, for most part, by the State, or regional or local authorities, or other bodies governed by public law; or subject to management supervision by those bodies; or having an administrative, managerial or supervisory board, more than half of whose members are appointed by the State, regional or local authorities or by other bodies governed by public law, and
- in the event the organisation stops its activities, its rights and obligations, liability and debts will be transferred to a public body.

Upon request by the Agency/Commission, the beneficiary will provide evidence.

IV.2 2% Rule²

If any of the beneficiaries are public bodies, it is important to be aware of the 2% rule in article **II.19.2(a)(iii)** of the grant agreement. In order to be able to check if a project is in compliance with this rule, it is necessary to clarify whether each member of the project staff is classified as 'additional' personnel or not.

'Additional' personnel includes all employees (permanent or temporary) of public bodies whose contracts or contract renewals :

- start on or after the start date of the project or on or after the date of signature of the grant agreement (if this takes place before the project start date), and
- specifically second/assign them to the project (i.e. personnel file must contain a written instruction to work for the project, e.g. for ten hours per month)

Please note that 'renewal' of the contract means the extension of a temporary contract. Renewals of 'permanent contracts' are by definition not possible since the contract has in principle no end date and therefore should not be renewed.

Examples :

- Permanent staff (civil servants) already employed before the start date of the project is considered 'non-additional' (please note that permanent contracts that are artificially terminated or put on hold until after the end of the project, with the only intention to avoid the 2% rule, will not change the status of the staff member to 'additional')
- Temporary staff already employed before the start date of the project working on another project (as defined in the temporary contract) can be considered 'additional' as of the moment of 'renewal' of the contract if then assigned to the LIFE project concerned.
- Temporary staff already employed before the start date of the project but not for specific projects will still be considered 'non-additional' if the renewal of the contract (that starts on/after the start of the project or on/after signature of the renewal if later than the start of the project) is not mentioning the assignment to the LIFE project concerned.

The rule of 2% is assessed at the level of Consortium, meaning that [the sum of the own contributions to the project budget of all public bodies must exceed \(by at least 2%\) the sum of the salary costs charged by them to the project for personnel not considered 'additional'](#).

IV.3 Non-additional personnel in Capacity Building projects

Costs of non-additional personnel of public bodies are not eligible.

² At the end of the project, the cumulative own contribution of all public beneficiaries should be at least 102% of the cumulative non-additional staff costs of these public beneficiaries at project level.

V. WHAT ARE ELIGIBLE COSTS ?

V.1 To be eligible all costs must be:

- **actually incurred within the duration of the project** (see Art. I.2.2 of the grant agreement), i.e. the legal obligation to pay was contracted after the starting date and before the end date of the project, or after the signature of the grant agreement by the Agency/Commission in case this signature takes place before the project starting date

With the exception of :

- the request for payment of the balance and
- the corresponding supporting documents, i.e. final report on implementation of the project, final financial statement, certificate on the financial statements and underlying accounts (if applicable);

Cost related to the final reports and audit certificates could be considered eligible when incurred within a maximum period of two months following the end date of the action.

Examples :

- a flight related for a **meeting that takes place within the duration of the project** can be purchased/paid as of the moment that the grant agreement is signed or as of the moment that the project has started.
- A flight for a meeting that takes place outside the duration of the project is not an eligible cost
- An event that is organised outside the duration of the project, even if ordered and paid in full before the end of the project is not an eligible cost.

- indicated in the **estimated budget of the project** (Annex III) or have been accepted by the Agency/Commission as technical justified and necessary to achieve the objectives of the project;

Please note that the acceptance of the need for certain costs by the Agency/Commission other than those costs specifically detailed in the Annex III, can either be done during the implementation of the project (prior approval or through approval of progress/mid-term reports when this is clearly highlighted in the report concerned) or at the latest at the time of the approval of the final report.

- in **connection with the project** as described in Annex II

- **necessary** for its implementation;

- **identifiable and verifiable**, in particular being recorded in the accounting records of the beneficiary and determined according to the applicable accounting standards of the country where the beneficiary is established and with the usual cost accounting practices of the beneficiary;

- in compliance with the requirements of applicable tax and social legislation; and

- reasonable, justified, and comply with the principle of sound financial management, in particular regarding economy and efficiency.

Costs related to specific cost categories will be further explained in section VIII of this guide.

V.2 Actual costs as opposed to budgeted costs:

"Budgeted" costs are used for establishing a budget estimate only. Once the project has started only "actual" costs incurred must be used as a basis for completing the Interim and Final financial statements (except for the indirect costs which are subject to a flat rate).

Incurred costs must be supported by evidence that they are actual. As a general rule, neither estimated amounts, nor budgeted amounts, are acceptable. Where these conditions are not met, the amounts will be deemed to be ineligible.

VI. WHAT ARE INELIGIBLE COSTS ?

All costs that do not fulfil the criteria of 'eligible costs', including :

- return on capital and dividends paid by a beneficiary;
- debt and debt service charges;
- provisions for losses, debts or other liabilities;
- interest owed;
- doubtful debts;
- exchange losses;
- costs of transfers from the Agency/Commission charged by the bank of a beneficiary;
- costs declared by the beneficiary under another project receiving a grant financed from the Union budget. Such grants include grants awarded by a Member State and financed from the Union budget and grants awarded by bodies other than the Agency/Commission for the purpose of implementing the Union budget. In particular, beneficiaries receiving an operating grant financed by the EU or Euratom budget cannot declare indirect costs for the period(s) covered by the operating grant, unless they can demonstrate that the operating grant does not cover any costs of the project
- contributions in kind from third parties including voluntary work;
- excessive or reckless expenditure (including unnecessary or wasteful outlays);

- any costs related to actions that may be considered as compensatory or mitigation measures for damages caused to nature or biodiversity by permitted plans or projects (unless such damages would be caused by the objectives of the LIFE project itself);
- unless explicitly foreseen in Annex II, any costs related to management plans, action plans and similar plans³, drafted or modified in the context of a LIFE project, if the related plan is not legally operational before the project end date. This includes the completion, before the project end date, of all procedural/legal steps in Member States where such procedures are foreseen;
- costs for major infrastructure or fundamental scientific research unless explicitly foreseen in the project description in Annex II;

Examples of other costs that are considered not eligible further to the 'eligibility criteria) :

- costs for EMAS and ECOLABEL registration procedures;
- internal invoices, i.e. costs resulting from transactions between departments or affiliated entities of beneficiaries, except when agreed and where all elements of profit, VAT and overheads are excluded;
- distribution, marketing and advertising expenses to promote products or commercial activities, except where specifically indicated in the project description in Annex II;
- costs related to finding/obtaining alternative or additional sources of funding for the project;
- costs incurred by co-financers to the project;
- travel and accommodation expenses or any form of remuneration in the name of agents of the Union institutions and of the external monitoring teams;
- 'notional rents', 'opportunity costs' or 'imputed interests'
- costs related to the proposal preparation or to the review phase.
- deductible VAT
- any expenses that do not comply with the eligibility criteria formulated in Commission notice Nr.2013/C-205/05 (OJEU C-205 of 19/07/2013, pp. 9-11), concerning the eligibility of Israeli entities and their activities in the territories occupied by Israel since June 1967, for grants, prizes and financial instruments funded by the EU from 2014 onwards, including with respect to third parties referred to in Article 137 of the EU's Financial regulation.

³ Obligatory "After-LIFE plans" are not included in this category.

VII. AWARD OF CONTRACTS

As mentioned in the grant agreement (Art. II.9 for 2014-2016 grants and Art. II.10 as of 2017 grants), if the project requires the procurement of goods, works or services, the beneficiaries shall award the contract to the *tender offering best value for money* or, as appropriate, to the tender offering the *lowest price*. In doing so, they shall *avoid any conflict of interests*.

Please note that the Agency/Commission is not imposing the EU public procurement rules on non-public beneficiaries. Unless otherwise stipulated in the grant agreement, beneficiaries are in principle free to organise the procurement in their usual way as long as they respect the criteria on 'best value for money or lowest price' and 'absence of conflict of interest'. However, beneficiaries should keep in their project file a short description of the tender rules (including their internal guidelines for selecting contractors if any) and the regulatory references used within the project.

In all cases, including cases where according to a beneficiary it does not make sense to organise a formal tendering process (e.g. monopoly situation,...), this should be substantiated with supporting documents in the project file.

Beneficiaries should ensure and be able to demonstrate that their tender procedures for the selection of suppliers/subcontractors comply with :

- the principles of 'best value for money' and 'no conflict of interest'
- the principles of transparency, proportionality, equal treatment and non-discrimination of potential contractors
- the EU public procurement rules (if beneficiary is 'public')
- the requirement to use an open tendering procedure when the value of a contract exceeds EUR 130,000 for 2014-2016 grants and EUR 135,000 for grants as of 2017 (including publication of the call for tender in the relevant media, such as e.g. the official journal, newspapers,...).
- Below the threshold of EUR 130,000 for 2014-2016 grants and 135,000 as of 2017 grants, the threshold set out in the applicable public national procurement rules, the beneficiary shall award the contract to the tender offering best value for money or, as appropriate, to the tender offering the lowest price, while avoiding any conflict of interests and maintain written evidence of how the criterion of best value for money was met in accordance with the usual procurement policy and/or practise of the beneficiary.

It should be noted that contracts may not be split in smaller contracts ("saucissonage") only for the purpose of avoiding the requirement of asking for competitive price offers.

Beneficiaries should ensure that the awarded contract is back-to-back with the grant agreement (i.e. that certain conditions – see Art. II.9.3 for 2014-2016 grants & Art. II.10.2 – are also applicable to the contractor.

TIP : For each contract involving significant expenditures, it is recommended to keep in the project file the following:

- *Short description and justification of the selection procedure employed with reference to the statutory documents, if applicable,*
- *Copy of the requests of offers sent by the beneficiary and the offers received by the subcontractors or in case of tender, a copy the publication of the call for tender published in the relevant media and the offers received;*
- *Copy of the report from the selection committee, if relevant, or internal memo justifying the choice of the contractor,*
- *Copy of the contract,*
- *Short description of the service/item purchased,*
- *Approval of the item/service purchased by the project manager,*
- *Explanation if invoice amounts differ from the contractual amount (particularly where the invoiced amount exceeds contracted amounts),*
- *Justification for any unusual tendering procedures.*

VIII. COST CATEGORIES

VIII.1 PERSONNEL COSTS

The *costs of personnel* comprises :

- **actual salaries** plus the employer's portion of **social security contributions**;
- **other statutory costs** included in the remuneration, provided that these costs are in line with the beneficiary's usual policy on remuneration;

Or for non-employees:

- costs resulting from **specific work contracts** (when applicable)

Please note that the cost of personnel should not contain costs that are deemed to be included in the indirect costs, also called ‘overheads’ (i.e. flat rate).

‘Personnel’ means :

- persons working under an employment contract with the beneficiary or an equivalent appointing act and assigned to the project
- natural persons working under a contract with a beneficiary other than an employment contract (e.g. civil contract or in-house consultancy contract), provided that the following conditions are fulfilled:

- (i) the person works under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed);
- (ii) the result of the work belongs to the beneficiary (unless exceptionally agreed otherwise); and
- (iii) the costs are not significantly different from the costs of personnel performing similar tasks under an employment contract with the beneficiary.

Moreover, for direct personnel costs to be considered eligible:

- The cost must respect the eligibility criteria under Art. II.19 of the grant agreement (see also point V).
- Only costs related to the actual hours worked by the persons directly carrying out the project actions may be charged. Administrative and secretarial personnel, unless specifically agreed in the grant agreement cannot be charged as direct personnel costs. These costs are considered overheads and are deemed to be covered by the indirect costs.

Direct personnel that comply with Article II.19 of the General Conditions are eligible provided that they are charged on the basis of one of the three following methods:

Method 1 -- Hourly rate times actual hours worked

The following three elements must be known in order to calculate the cost per employee that can be charged to the project on the basis of the hours actually worked on the project:

- Annual productive hours

A default value of 1720 total annual productive hours is used for those beneficiaries exempted from keeping timesheets (see also the guidance in the application guide of your call for what concerns Form F1) . In case the beneficiary wishes to use an amount other than 1720 hours, it must justify the alternative figure on the basis of a reliable time registration system (see point II.1).

The total actual annual productive hours for each employee is the time actually worked according to the time registration system. It will normally result in a different number of annual working time units for each employee.

The following time is considered 'non-productive' and should not be included in the total: holidays actually taken, bank holidays, flexitime compensation, week-ends, parental leave, sickness or other similar absences. However, if due to the character of the work, some of it has to be done during bank holidays or on weekends, this time

should be included in the productive time. Time used on meeting activities, training and similar activities is considered as productive time.

- Actual salary

This must be taken from the payroll and should be the total gross remuneration, any other statutory costs provided that these costs are in line with the beneficiary's usual policy on remuneration and the employer's portion of social charges. Remuneration costs should be calculated individually for each employee on an annual basis.

Please note that the annual gross salary should not be calculated on the basis of a monthly salary times 12. If an employee has not worked a full calendar year for the beneficiary (i.e. starting date of employment or end date of employment falling during the calendar year), the gross salary should not be extrapolated to a yearly figure, but in such cases the gross salary of the corresponding employment duration during the calendar year should be used. Similarly, the productive hours should reflect the period in which the employee has actually worked at the beneficiary's place.

When establishing the annual personnel costs the following elements should be considered:

Item	Text
1	Annual gross salary including 13 th and 14 th salaries, if applicable.
+ 2	Holiday allowance, if not included in #1 above
+ 3	Obligatory/compulsory social charges imposed by law, such as pension schemes, health schemes, insurance schemes, contribution to labour market funds, etc
+ 4	Pension schemes according to general trade union agreements
+ 5	Company specific pension schemes (that existed before the submission of project proposal) if offered to all employees in a non-discriminatory manner
- 6	Compensation received from insurance or other schemes in case of sickness, maternity leave, re-employment schemes to reactivate unemployed people, etc
=	Annual personnel cost (sum of 1-5 minus 6)

Any additional and individual pension schemes and/or sickness insurance are not eligible, nor are company cars, bonuses⁴ or any other similar fringe benefits. Dividends or profit sharing are also not eligible.

⁴ Bonuses that are part of the statutory costs and recorded in the accounts of the beneficiary as personnel costs (subject to taxes and social security charges unless specifically exempted from these charges), could be considered eligible costs in so far they are not only applied for EU projects, they are not performance related,

Estimations or average salaries cannot be accepted. The rates indicated in the project budget in the grant agreement are only indicative and cannot be the default reference when reporting personnel costs.

- Working time

Only the costs of the actual hours worked on the project may be charged. The actual hours that each employee spends working on the project shall be recorded using timesheets or an equivalent time registration system established and certified by the employee and the employer. For staff working on tasks other than the LIFE project for the same employer, any working time spent on professional tasks unrelated to the project shall also be recorded. See section II.1 of this document for further information on what constitutes a reliable time registration system. Personnel working for the LIFE project less than 2 full days per month on average within a calendar year are exempted from the time registration obligation for the calendar year. (Note that in this last case, the default number of 1720 annual productive hours must be used.)

Calculation of the hourly rate:

The hourly rate for a given year is obtained by dividing the actual annual gross salary or wages plus employer's portion of obligatory social charges and any other statutory costs included in the remuneration of an employee by the total annual productive hours (1720 hours standard for those beneficiaries not required to use timesheets or as registered in the timesheets).

Hourly rates shall be calculated on a yearly basis.

Method 2 – Gross Salary

For personnel working full time for the project, or for a contractually defined percentage of time, the eligible salary cost will be calculated proportionally on the basis of the actual annual gross salary plus employer's portion of obligatory social charges and any other statutory costs included in the remuneration of an employee as defined above. In this case, the beneficiary must justify the individual secondment/assignment by providing a contractual document or a letter of assignment signed by the responsible service or authority of the relevant beneficiary. It shall contain at least the following details: name of employee, function in the project and description of the tasks assigned for the project, explicit indication of the specific time percentage or full time nature of the assignment, start and end date of the assignment period. Personnel whose costs are charged on this basis are exempted from the time registration obligation.

Method 3 - Specific work contracts

This typically covers the costs of consultants and similar persons that work on the project (i.e. self-employed natural persons working part time or full time for the project

they are a regular practice of the organisation, they do not result in a level of remuneration inconsistent with the current market conditions for a worker of the same category/grade/experience

under a contract which is not governed by labour law; this does not apply to contracts with companies, the related costs can be accepted under personnel costs provided that the other eligibility conditions are met.

Costs of natural persons working under a contract may be charged on the basis of such contracts, on condition that :

- (i) the person works under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed);
- (ii) the result of the work belongs to the beneficiary (unless exceptionally agreed otherwise); and
- (iii) the costs are not significantly different from the costs of personnel performing similar tasks under an employment contract with the beneficiary.

The remuneration must be based on working days/hours rather than on delivering specific outputs/products (the latter applies more in the frame of external assistance). This implies that the beneficiary must keep records of the hours/days worked by the person concerned under this specific contract.

Costs of natural persons working under a direct contract for a beneficiary must be calculated according to the same formula as for employees (hourly rate multiplied by the number of actual hours worked on the project).

However, the hourly rate is calculated differently, as it is not based on the annual personnel costs as registered in the payroll.

For the hourly rate, the beneficiary must use one of the following options:

- if the contract specifies an hourly rate, this hourly rate must be used;
- if the contract states a fixed amount for the services of the natural person and the number of hours to be worked: this global amount must be divided by the number of hours worked for the beneficiary under that contract.
- if the contract fixes only a global amount and does not specify the time to be worked, the costs cannot be declared as personnel costs, they may be eligible under external assistance provided that the specific eligibility conditions are met (article II.19.f).

Please note that the specific work contract should be set-up in accordance with the normal practise of the beneficiary and the applicable legislation, the rate should be in line with the level of competence required for the position and with other similar beneficiaries or projects. The contract should be detailed enough and in particular it should specify the amount of time the person shall work under this contract. It should specify the daily/hourly rate or the total amount for the contract.

The salary costs of *public body employees* may be funded only to the extent that they relate to the cost of project actions that the relevant public body would not have carried out had the project concerned not been undertaken. The employees in question, irrespective of whether they are working full or part time for the project, must be specifically seconded/assigned to the project described in Annex II. The individual secondment/assignment shall either take the

format of a contractual document or that of a letter of assignment signed by the responsible service or authority of the relevant beneficiary.

For *LIFE Capacity Building projects*, the costs of non-additional personnel of public bodies are not eligible. For Capacity Building, 'additional' personnel is defined as personnel whose contracts:

- (a) do not begin before the date of signature of the grant agreement, or whose contractual responsibilities were previously unrelated to implementation of the LIFE programme; and
- (b) mention (including through amendment) responsibilities related to the implementation of the LIFE programme in the target Member State specifically.

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

Frequent misunderstandings

Hourly rates included in the Annex III do not constitute 'agreed' hourly rates, they are only to be considered as 'estimates'.

The financial reports to be submitted at the time of the interim/final report on the project should present the actual costs incurred and therefore use the actual rates, recalculated on the basis of the real personnel costs paid. These actual costs need to be evidenced by the corresponding time records, payslips, bank transfers, etc. - evidence which might be requested by the Agency/Commission on a case by case basis.

Only costs can be reimbursed and not prices that would normally be charged to customers when engaging in commercial activities (price = personnel cost + commercial uplift). Personnel costs will only be considered eligible if they are reasonable and justified, and if they accord with the principles of sound financial management (i.e. (i) they may not unnecessarily increase the cost of the project and (ii) substantial deviations from the average cost of similar labour in the country concerned must be justified and agreed by the Agency/Commission.

Only costs registered in the accounting system of the beneficiary can be reimbursed. Dividends or participation in the profit of the organisation do not constitute a cost and are therefore not eligible for reimbursement.

VIII.1 SUBCONTRACTING (external assistance)

Subcontracting costs are eligible when:

- (i) The cost respects the eligibility criteria under Art. II.19 of the grant agreement (see also point V);
- (ii) The "subcontract" is awarded in line with Art. II.9 (for 2014-2016 grants) and Art. II.10 (as of 2017 grants) of the grant agreement (see also point VII);

- (iii) It covers the implementation by a third party of tasks described in Annex II;
- (iv) It covers the implementation of a limited part of the project, in principle limited to 35% of the total budget unless a higher level is justified
- (v) Justified having regard to the nature of the project and what is necessary for its implementation

Beneficiaries that use subcontracting should ensure that:

- For 2014-2016 grants, Article II.3, II.4, II.5, II.7, II.8 and II.27 of the grant agreement & for grants as of 2017, Article II.4, II.5, II.6, II.7, II.8, II.9 and II.27 of the grant agreement are also applicable to the subcontractor;
- Subcontractor invoices bear a clear reference to the LIFE project (i.e. number and title or short title) and to the order/subcontract issued by the beneficiaries; If invoices do not bear the above references, a stamp with the project number on the invoice or an electronic link in the cost accounting system to the project can also serve as proof that a costs is incurred in the frame of the project, provided that all eligibility criteria listed at article II.19 are met.
- Subcontractor invoices are sufficiently detailed as to allow identification of single items covered by the service delivered (i.e. clear description and cost of each item).

If the project requires the procurement of goods, works or services, the beneficiaries shall award the contract to the tender offering best value for money or, as appropriate, to the tender offering the lowest price. In doing so, they shall avoid any conflict of interests. See section VII for more details.

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

Examples of subcontracting('external assistance') costs:

- the creation of a logo
- establishment of a dissemination plan
- design of dissemination products
- publication of a book
- renting of material
- creation of a website
- **lease of land use rights** if they concern a **short-term** lease that expires prior to the project end date
- ...

However, services **related to prototype** development should be budgeted under prototype and not under external assistance.

Frequent misunderstanding related to subcontracting:

Subcontracting between beneficiaries or their subdivisions

Subcontracting is not allowed between beneficiaries or between subdivisions of the same company. Each beneficiary should declare its own costs.

The same logic applies to the supply of goods. If e.g. beneficiaries, in the frame of their grant agreement, have to use 'products' that they have produced internally (i.e. internal invoicing), then the unit cost for producing these products can be claimed as long as no VAT, overheads or profit margin is included.

Subcontracting to Affiliates

In view of the rules on conflict of interest, the same generally applies to companies related to one of the beneficiaries or departments of beneficiaries. Such transactions are only permitted where it can be shown that the subcontractor/supplier is independent of the beneficiary placing the order, and where all elements of profit, VAT and overheads are excluded from the invoiced costs.

If contracts/subcontracts are awarded by the beneficiaries to their affiliates, it should be noted that they have to comply with the same 'subcontracting'/'award of contract' obligations as other third parties. The beneficiary should consider in this case, the possibility of using the participation of their affiliates under Art. I.7 of the grant agreement instead (see also point III)

VIII.2 TRAVEL AND RELATED SUBSISTENCE ALLOWANCES

What are subsistence costs ?

These costs are daily allowances or direct payment of meals, hotel costs, local transportation etc.

Travel and subsistence costs are eligible when:

- (i) The costs respect the eligibility criteria under Art. II.19 of the grant agreement (see also point V).
- (ii) They are charged in accordance with the internal rules of the beneficiary. However :
 - Beneficiaries shall endeavour to travel in the most economical and environmentally friendly way – video conferencing must be considered as an alternative
 - In absence of internal rules governing the reimbursement of the use of an organisation's own cars (in opposition to private cars) costs related to the use of these are to be estimated at the rate as indicated in the guide for applicants. A mileage cost per km/mile can be charged to the project in line with the use of the car for the project as registered in the related log book. The mileage cost shall be calculated on a yearly basis by dividing all costs generated by the vehicle (insurance, fuel, maintenance etc) by the km/miles driven. Costs related to the depreciation of the vehicle may be taken into consideration only if the depreciation costs are considered a 'direct cost' in the organisation's accounts (if generally considered under the overheads, then this cost will be excluded).

If only costs for fuel are foreseen, they should also be listed here.

- Meals related to travel / meetings of the beneficiaries are not to be charged if subsistence costs are already budgeted as per diem allowances

Please note that travel costs of non-employees or persons whose costs are not charged under personnel costs but whose travels are linked to the project (e.g. invitees for conference speakers, volunteers, etc.) should be declared under the 'other cost' category. Travel costs of subcontractors are to be claimed under 'external assistance' cost category.

Missions to any destination outside the Member States and outside the third countries eligible to participate in the programme should be reasonable and justifiable as necessary for the fulfilment of the project (see definition of eligible costs), and agreed beforehand by the Agency/Commission, if not already mentioned in the grant agreement.

In the case of travel costs are actual costs, the beneficiary should keep all travels documents according to its accounting practices (boarding passes, hotel bills, invoices, invitations, agenda, attendance list) in order to substantiate the costs and to prove that travel is related to the project.

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

VIII.3 DURABLE GOODS – EQUIPMENT (new or second hand), PROTOTYPE & INFRASTRUCTURE COSTS

Costs related to durable goods are eligible when:

- (i) The costs respect the eligibility criteria under Art. II.19 of the grant agreement (see also point V).

If the project requires the procurement of goods, works or services, the beneficiaries shall award the contract to the tender offering best value for money or, as appropriate, to the tender offering the lowest price. In doing so, they shall avoid any conflict of interests.

- (ii) The accounting rules of the beneficiary in question classify the costs as durable goods; they are included in the inventory of capital expenditure of the beneficiary;
- (iii) The depreciation rate applied must be in line with the beneficiary's internal accounting rules and/or in accordance with national accounting rules, a copy of which should be included in the project file;

Please note that depreciation is limited to a maximum of 25% of the total purchase cost (for infrastructure and a maximum of 50% of the total purchase cost (please note that this is verified per item).

Exceptions:

- for prototypes, the eligible costs are equal to the actual cost of the goods.

A prototype is equipment or infrastructure specifically created for the implementation of the project and that has never been commercialised and/or is not available as a serial product. The prototype must play a crucial role in the demonstration activities of the project

Should the prototype or any of its components be used for commercial purposes (i.e. sold, leased, rented or used to produce goods or services) during the project, this shall be declared. The costs of creating the prototype shall then be depreciated in accordance with the rules applicable to the purchase of new or second-hand equipment and infrastructure. Any related income must be declared."

- for *LIFE Nature and Biodiversity* and *LIFE Integrated* projects, the cost of durable goods purchased by beneficiaries that are public bodies or private non-commercial organisations shall be considered eligible at 100%, if the organisation complies with all conditions set under Article II.19.2 (c) of the 2014-2016 grant agreement and Article I.13 as of the 2017 grant agreement.

- (iv) Only the rate of actual use for the purposes of the project may be taken into account :

Please note that in case the durable good is not allocated for 100% to the project, the (depreciated) costs submitted for reimbursement should be multiplied with the 'allocation percentage' in line with the actual use. The allocation percentage used should be reasonable and duly justified.

- (v) Durable goods purchased before the start of the project are not eligible for funding
- (vi) Costs of rental or lease of equipment/infrastructure when these costs do not exceed the depreciation costs of similar equipment or assets and are exclusive of any finance fee are eligible for funding. (see also remark below on leasing of equipment)

Finance Leasing of equipment: Capital or Finance Leasing costs (with the possibility to buy the equipment) should be depreciated in the beneficiary's accountancy and therefore these costs should be charged under "Durable Goods". Operating Leasing costs without a possibility to buy cannot be depreciated in the balance sheets and therefore these costs should be charged under "external assistance".

Please note that all costs related to infrastructure, even if the work is carried out under sub-contract should be reported under this heading.

Projects dedicated to the construction of large infrastructure do not fall within the scope of the LIFE Programme and are therefore not eligible. A project is considered to be dedicated to the construction of large infrastructure if the cost of a "single item of infrastructure" exceeds € 500,000. A "single item of infrastructures" means all elements physically bound to ensure the functionality of the infrastructural investment (e.g. for an eco-duct the bridge, barriers, signposting, etc.). Such amount may be exceptionally exceeded upon agreement with the Agency/Commission.

In LIFE *Capacity Building or LIFE Technical Assistance projects*, costs related to infrastructure, including depreciation costs and the costs of rental or lease of infrastructure, are not eligible.

Electricity and gas for operating the equipment are deemed to be covered by the indirect costs unless otherwise agreed.

Costs incurred for the purchase of durable goods, including notice boards, can only be eligible if they bear the LIFE logo (and the Natura 2000 logo, when applicable);

Each beneficiary should keep in the project file an explanation of the depreciation method used to calculate eligible costs for durable goods.

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

Frequent misunderstanding related to depreciation:

Difference in depreciation, i.e. national accounting rules vs tax rules

In some EU countries, the tax authorities have granted companies the possibility to freely depreciate assets for tax purposes, as an extraordinary measure to foster investment and create jobs. In this framework, depreciation amounts declared for tax purposes can be different from depreciation amounts for accounting purposes. Please note that only depreciation costs in line with accounting rules of the beneficiary are eligible. Accelerated depreciation costs in line with possible existing extraordinary tax measures are not acceptable, unless they are in line with the accounting rules. When there is divergence between the applicable tax rules and accounting rules, the accounting rules prevail.

VIII.4 CONSUMABLES AND SUPPLIES

Costs related to consumables and supplies are eligible when:

- (i) The costs respect the eligibility criteria under Art. II.19 of the grant agreement (see also point V).

If the project requires the procurement of goods, the beneficiaries shall award the contract to the tender offering best value for money or, as appropriate, to the tender offering the lowest price. In doing so, they shall avoid any conflict of interests.

- (ii) They are directly assigned to the project.

Please note that they should not include costs for general office supplies which are deemed to be covered by the indirect costs.

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

VIII.5 COSTS FOR LAND PURCHASE/LONG-TERM LEASE of LAND/ONE-OFF COMPENSATIONS FOR LAND USE RIGHTS.

Costs related to land purchase/long-term lease of land/one-off compensations for land use rights are eligible when:

- (i) The costs respect the eligibility criteria under Art. II.19 of the grant agreement (see also point V).
- (ii) The plot of land is intrinsically connected with the implementation of the project and envisaged therein
- (iii) The duration of a land lease is at least 20 years (long-term lease) and is compatible with the needs of habitat and species protection
- (iv) The costs are for payment of compensation for foregone income and the expense was necessary for reaching the objectives of the LIFE Nature and Biodiversity, LIFE Climate Change mitigation or LIFE Climate Change Adaptation project. The payment should correspond to the market prices, is formalised through a legal document and compensation is not paid to a public authority, with the exception of a temporary compensation to a local authority (as of 2017 grant agreements, the latter should be explicitly authorised by the Agency/Commission as essential to achieving the goals of the project).

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

VIII.6 OTHER COSTS

What are other costs ?

Other costs are those costs arising directly from requirements imposed by the grant agreement.

Other costs are eligible when:

- (i) The costs respect the eligibility criteria under Art. II.19 of the grant agreement (see also point V).

If the project requires the procurement of goods, the beneficiaries shall award the contract to the tender offering best value for money or, as appropriate, to the tender offering the lowest price. In doing so, they shall avoid any conflict of interests.

Examples of other costs :

- costs of audit certificates required by the grant agreement;
- costs related to dissemination of information and reproduction (e.g. purchase dissemination materials/products...)
- printing (e.g. of dissemination material or posters).
- costs related to specific evaluation of the action
- translation costs
- charges for financial guarantees required by the grant agreement;
- bank charges of the co-ordinating beneficiary related to opening a specific bank account for the grant agreement (unless already included in the indirect costs);
- subscription fees for fairs and events/conferences;
- costs of organising seminars, workshops, conferences (unless a subcontract has been concluded with a service provider, in which case these costs should be charged under “Subcontracting”);
- travel and subsistence allowances of persons who are not under personnel costs (conference speakers, volunteers...);

Other specific costs do not cover electricity or gas used for the running of the project as they are deemed to be covered by the overheads.

When submitting the final financial statement, additional supporting documents may need to be submitted by each of the beneficiaries to the Agency/Commission if requested.

In general, supporting documentation should be kept in the project file and provided at the Agency's/Commission's (or the Monitoring Team's) first request.

VIII.7 ELIGIBLE INDIRECT COSTS (OVERHEADS)

They are subject to a flat-rate of up to a maximum of 7% of the beneficiaries' total eligible direct costs excluding costs for land purchase/long-term lease of land/one-off compensations

for land use rights. The flat rate is defined in Annex III to the grant agreement. Indirect costs do not need to be supported by accounting documents.

Any organisation receiving an operating grant from the EU for the period of the project or parts of the period cannot claim the flat rate for the period in question.

For grants as of 2017, indirect costs for the period(s) covered by the operating grant could be claimed if the beneficiary concerned can demonstrate that the operating grant does not cover any costs of the project. For grants 2014-2016, the above can also be envisaged, but please note that beneficiaries in that situation should then request an amendment to their existing grant agreement.

What does this mean in practise?

Where the operating grant of the beneficiary covers the entire usual activity of the beneficiary, the latter is not entitled to claim any indirect costs under an action grant (i.e. for specific project like e.g. the LIFE traditional projects, Integrated Projects, Capacity Building projects, etc...). Indeed, in that case the operating grant covers the entire overheads needed for the functioning of the beneficiary. Paying indirect costs under the action grant would therefore lead to double financing

Where the operating grant covers only part of the usual activity of the beneficiary indirect costs under the action grant may be considered eligible if the beneficiary is able to demonstrate clearly that the operating grant does not cover any costs (including overheads) incurred in relation to the action grant.

To demonstrate this, the beneficiary must:

- a. use analytical cost accounting that allows to separate all costs (including overheads) attributable to the operating grant and the action grant. For that purpose the beneficiary must use reliable accounting codes and allocation keys ensuring that the allocation of the costs is done in a fair, objective and realistic way.
- b. record separately: all costs incurred for the operating grants (i.e. personnel, general running costs and other operating costs linked to the part of its usual annual activities), and all costs incurred for the action grants (including the actual indirect costs linked to the action)

IX. REVENUES

Besides co-funding from third parties, any revenue generated by the project needs to be recorded and must be reported to the Agency/Commission at the latest in the final financial report.

Account must be taken of revenue which is:

- **established** (revenue that has been collected and entered in the accounts),
- **generated or confirmed** (revenue that has not yet been collected but which has been generated or for which the participant has a commitment or written confirmation) **on the date when the request for payment of the balance of the grant is established.**

Revenue can be, for example, income generated by selling of a product, which is the core of a project. Another example would be fees charged to third parties to attend conferences or training events.

Beneficiaries are allowed to generate income, even DURING the project. They may use it, for instance, as matched funding to the funding you receive from the E.U.

If beneficiaries would make net profit during the project, the EU funding will be reduced accordingly on a pro-rata basis. This assessment is done at the level of the Consortium.

X. FINANCIAL GUARANTEES

Where required by the grant agreement, the beneficiary concerned shall provide a financial guarantee from a bank or an approved financial institution established in one of the Member States of the European Union.

XI. CERTIFICATE ON THE FINANCIAL STATEMENTS AND ACCOUNTS

When is it needed ?

The following thresholds might be applicable for your grant agreement (please check your grant agreement and subsequent amendments!!!)

Previous versions of the grant agreement might indicate the following :

- 1) For each project for which the total contribution in the form of reimbursement of actual costs is at least EUR 300 000.
- 2) For each beneficiary for which the total contribution in the form of reimbursement of actual costs as referred to in Annex III is at least EUR 325 000.

Grant agreements signed as of May 2018 indicate the following :

- 3) For each beneficiary and for each affiliated entity, if :
 - (i) the cumulative amount of payments the beneficiary requests as reimbursement of actual costs is EUR 325 000 or more;
 - (ii) the maximum grant amount indicated for that beneficiary and its affiliated entities in the estimated budget as reimbursement of actual costs is EUR 750 000 or more.

Please note that the threshold might have been updated during subsequent amendments to the grant agreement.

In case the threshold was changed further to an amendment, then costs for audits that were already ordered by the beneficiaries up to the date of notification of the change of threshold, can still be accepted as eligible cost.

Who should produce it ?

An approved auditor or, in case of public bodies, by a competent and independent public officer. It can either be the auditor designated by the coordinating beneficiary or the auditor designated by the associated beneficiary concerned. The cost will need to be declared by the beneficiary that has incurred the cost of the audit.

What should be included ?

The certificate should be drawn up in accordance with Annex VII.

It shall clearly and explicitly certify that the costs declared in the final financial statement by each beneficiary or its affiliated entities for the categories of costs reimbursed in accordance with Article I.3(a)(i) are real, accurately recorded and eligible in accordance with the Agreement.

In addition, for the payment of the balance, it shall certify that all the receipts have been declared.

For practical reasons, an audit report for an individual associated beneficiary may be issued separately and by a different auditor, as long as the auditor of the coordinating beneficiary includes and refers to any separate individual audits in the conclusions of the main audit report.

Internal auditors of public bodies and corporate entities can be considered as 'independent' and can provide the required audit report if the internal auditor is:

- is a certified auditor, and
- independent from and not under the direct control of the person who signs the payment request and the financial statement

In such cases, the costs of the internal auditor may be reported under 'personnel' provided that appropriate time sheets are maintained.

With a view to avoid delays in the submission of external audit certificates, beneficiaries should select and contract the external auditor well before the financial report is due.

XII. PAYMENT SCHEME

The grant to the action shall be paid in several instalments as stipulated in your grant agreement (Article I.4). Depending on the type of project it may include a first pre-financing, second/third pre- financing, an interim payment and payment of the balance.

Payments will occur in accordance with the provisions of Articles I.4, II.23 (for grants 2014-2016 only), II.24 and II.25 of the grant agreement.

Requests for further pre-financings (in line with the Article I.4 of the grant agreement) should be submitted in accordance with the reporting schedule defined in Annex II.

XIII. REPORTING

Further guidance on the templates to be used for the technical and the financial reporting as well as on how to complete them will be published on the LIFE website in the LIFE toolbox found at <http://ec.europa.eu/environment/life/toolkit/pmttools/index.htm>).

XIV. CHANGES TO THE GRANT AGREEMENT

Please note that every amendment is a time-consuming process and leads to more administrative burden, so please make sure that you provide correct information before signing the grant agreement.

You should also be aware that if an amendment request is launched and a payment should be done at the same time, the payment can be suspended if it is impacted by the amendment until the amendment process is closed.

Amendments shall have neither the purpose nor the effect of making changes to the grant agreement which might call into question the grant award decision.

Any amendment to the Agreement must be made in writing.

Only substantial changes require a formal amendment of the grant agreement and will only be accepted in duly justified cases. Amendments can be done in 2 ways, either by contract amendment or by a simple letter amendment. Other non-substantial changes can be approved by exchange of e-mails (or through approval of progress/mid-term reports if the change request is clearly highlighted in the report).

Substantial amendments to the grant agreement require the signature of both, the Agency/Commission and the coordinating beneficiary. For letter amendments, the request made by the coordinating beneficiary is originally signed and the acceptance letter of the Agency/Commission as well. In case of a contract amendment, both coordinating beneficiary and the Agency/Commission sign.

Examples of substantial changes that require a formal ‘amendment to the Grant Agreement’ are:

- (a) Significant changes to the nature of actions or deliverables;
- (b) Changes of the legal status of the coordinating beneficiary or of an associated beneficiary
- (c) Changes to the project partnership structure;
- (d) Changes to the duration of the project period as specified in Article I.2.2;
- (e) Changes to the provisional project budget, shifting more than 20 % of the maximum amount as specified in Article I.3 between two or more categories of actual costs.

If the amendment concerns the termination of the participation of a beneficiary, please note that the beneficiary concerned is requested to submit to the coordinating beneficiary its input

to the final report (technical, financial and supporting documents), at the time of the signature of the amendment. Non-submission of a final report of a withdrawing beneficiary could imply that eventual costs of this beneficiary are considered as zero by the Agency/Commission, if as a result no evidence of completion of tasks is provided.

Non-substantial changes :

Non-substantial changes and changes to the content of actions or deliverables that improve the quality or quantity of the results achieved in relation to the foreseen actions, deliverables and/or targets, without modifying their nature nor affecting their overall cost-benefit ratio are considered to be minor changes. The Coordinating beneficiary shall inform the Agency/Commission of these and other minor changes in a report pursuant to Article II.23. Minor changes can be accepted by the Agency/Commission by e-mail, by factual acceptance or through the acceptance of the eligibility of the related actual costs at the time of final payment. In order to be assured about their eligibility, individual costs not explicitly foreseen in the budget are incurred, it is recommended that the Coordinating beneficiary discusses the issue with the external monitor to clarify the applicable rules, and if appropriate request prior authorisation of the Agency/Commission.

XV. RELATIONS AMONG BENEFICIARIES

In case a project includes associated beneficiaries, partnership agreements should be signed between the coordinating beneficiary and each associated beneficiary⁵. A model partnership agreement is available on the LIFE web page.

These agreements should establish routines for when and how the associated beneficiaries submit their project reporting, including financial information to the coordinating beneficiary. Experience shows that collecting documents every quarter is a minimum to ensure adequate financial management.

The partnership agreements should also clarify the obligations of the associated beneficiaries in case of audit.

XVI. BUDGET TRANSFERS

Budget transfers within the flexibility mentioned in Agreement (Art. II.22), should be included in the Final Financial Statement (i.e. in the Cost Summary sheet of the Financial Statement – part that has to be completed by the Coordinating Beneficiary).

Beneficiaries are allowed to make changes to the budget through :

- transfers between beneficiaries,
- and up to a limit of 20% of the overall eligible costs, transfers between the different budget categories

on condition that the project is implemented as described in Annex II.

⁵ Meaning that an individual agreement with each of the associated beneficiaries or one single agreement grouping all the beneficiaries is acceptable.

Please note that a shift of budget to cover costs of subcontracting that was not foreseen in the budget, would require a prior approval of the subcontracting by the Agency/Commission.

XVII. PAYMENT SCHEDULE

For all action grants excl. Integrated Projects:

	1st pre-financing (might be subject to the receipt of a financial guarantee)	Further pre-financing(s)	Final payment
No Mid-term report	70%	0%	max. 30%
1 Mid-term report	30%	40%	max. 30%
2 Mid-term reports	30%	20% per report	max. 30%

For Integrated Projects:

Integrated projects will receive a first pre-financing of 20% of the Union Contribution (might be subject to a financial guarantee). Further interim payments can be made as long as the maximum of 80% of Union Contribution for all pre-financing/interim payments combined is not exceeded.