

## Statement on the current problem of internal cost allocation (ICA) in Horizon 2020

By the Helmholtz Association of German Research Centres e.V.

We would like to draw your attention to a worrying side effect the laudable simplification efforts of the European Commission now seem to develop: Recent changes in the rules require laboratory staff to precisely record how much time is spent feeding each separate mouse, ask genome analysts to record their work by the minute and are thus adding massive administrative burden on EU projects.

Because of new interpretations in the Horizon 2020 Annotated Grant Agreement concerning internally invoiced cost all major research institutions and universities with centralised infrastructures (e.g. Animal Housing Facilities) face serious problems. The interpretations do not only cause extra expenses, but might also prevent scientist from applying for European funding. The Grant Agreement's (Art.6.2.D.3 AGA) binding annotations in Horizon 2020 make it almost impossible to calculate and to account internal costs.

### What is an internal cost allocation and why is it an important topic?

We are seeking to attract world's best scientists and offer high performance infrastructures for internationally competitive research. **Important scientific infrastructures are mostly organised as Core Facilities (centralised infrastructures) and are subject to an internal cost allocation with internally invoiced costs.** Examples are Genome Analyses Centres, Environmental Simulation Chambers and Animal Housing Facilities.

The generally known definition of internally invoiced costs is based on the following principles:

- a) The use of a certain resource is shared between different divisions of the organisation and the costs of their use are declared via internal invoices.
- b) The use of the resource often contains a mixture of services and materials together with the necessary maintenance.
- c) The internally invoiced costs therefore include costs for service, equipment, materials and maintenance.

For this reason internally invoiced costs are measured per usage of a package (service, equipment, materials and maintenance) for a certain amount of time (per hour, day or week).

To give a true-to-life example let us take a look at the Animal Housing Facilities of the "Helmholtz Zentrum München" (HMGU) where the total real costs for the usage of one mouse per week in 2014 were €2,81: €0,85 for personnel costs, €0,26 material costs, €0,30 equipment depreciation, €0,33 maintenance costs, €0,05 internal cost allocation, plus €1,02 indirect costs (can be excluded and replaced by the 25% flat rate).

These amounts might seem little, but for centres with high-class facilities which are often needed for EU projects, the overall sum is important. HMGU incurred eligible costs of €0,6 million in EU projects for internal cost allocation from 2013 to 2014 only.

## **What has changed in Horizon 2020 compared to FP7 and why are the new rules problematic?**

The new interpretations in Horizon 2020's Annotated Grant Agreement (Art.6.2.D.3 AGA) state that internally invoiced costs have to be split in the different cost categories and services have to be supported by personnel time sheets. As stated above, this would e.g. require staff caring for animals to record 5 minutes for mice in project x, 10 minutes for project y each day. This is not feasible and also does not correspond to the philosophy of simplification. Instead, Horizon 2020 falls behind FP7, where internally invoiced costs were accepted as bundle of services, materials and maintenance.

Because of the huge load of extra administrative effort for research institutions and universities, there would be only two practical solutions if the annotations remain unchanged:

- firstly, not to offer services of a Core Facility in Horizon 2020 projects because their cost would not be reimbursed or,
- secondly, outsourcing them to a company via subcontracting.

As regards the first option, many core facilities offer highly specialised services which cannot be found externally. If such services cannot be integrated into Horizon 2020 projects this means that access to the best facilities in the European Research Area is prevented. The loss would be to the scientific quality and resources of EU projects. Moreover, existing valuable infrastructure would not be used for EU projects.

The second option of outsourcing services to companies would increase costs for the research organisations and also for the European Commission, because outsourcing of such services goes hand in hand with a profit margin of the external company.

Both scenarios cannot be the intention of a European Union devoted to sustainability and use of existing resources.

It has to remain possible for a project to declare the cost of a genome analysis or of 20 mice for 4 weeks according to the internal, verified and auditable costs per mouse and week and not revert back to time sheets on such issues.

Usually, there is no useful individual breakdown of such costs per project; instead an auditable breakdown per usage for a certain amount of time is applied. For internally invoiced costs to be eligible in Horizon 2020 it should be sufficient to declare, as in FP7, which usage of a package was made for the project and for how long the usage was made for the project.

## **Possible solutions to the problem**

### **1. Possibility of total internal costs invoicing**

The reasons why internal services are often less expensive than the services of external contractors are not only the lack of a profit margin and the highly specialised performance of internal services: One of the reasons is that in fact not all costs of an internal service are charged as internally invoiced costs. In many institutions just a small share of the real costs are indeed invoiced, whereas major parts are financed by the institution itself. We therefore promote the establishment of an accountancy and eligibility of total actual internal costs.

This broad solution would need to include the possibility to charge services and materials as package within the same cost category.

## 2. Creation of a new cost category

Another solution for the eligibility of internally invoiced costs would be the introduction of an additional cost category, either “internally invoiced goods and services” similar to “subcontracting”, or via a new category “subcontracting and internally invoiced costs”. This option would allow incorporating overhead costs in internal invoices and thereby leading to simplification. A double consideration of indirect costs would not take place, because there is no flat rate of 25% on the direct costs of these cost categories. Eligible costs would be usages of packages with a combination of services, equipment, materials, maintenance and infrastructure overhead for a certain amount of time.

None the less, it should be possible to charge material or equipment costs separately as other direct costs, if this is the usual accountancy practice of the beneficiary.

## 3. Acceptance of internally invoiced costs as package via “other costs”

As a possible solution we suggest to amend the Annotated Grant Agreement with additional possibilities for eligibility of internally invoiced costs. Without an overhead component they should be eligible as other costs per usage of a package, **without** splitting it up into further cost categories (e.g. personnel costs = service; other costs = use of equipment; other costs = consumables and maintenance).

## 4. General feasibility condition

The official amendments of the Grant Agreement propose that internally invoiced cost for services and usage are only eligible, if the actions are specifically recorded with time sheets and mentioned in the invoice. It is not feasible to introduce time sheets for the usage of personnel services, e.g. a mouse caretaker will not write down that he has spent 1 minute feeding a mouse and 5 minutes cleaning the stable for a certain project, instead **it is appropriate to set a price per usage which includes the pro rata services calculated on an annual basis**. It is possible to document and audit how and with which measures the prices per usage were set and how many usages were made for the project. This should be sufficient.

The unrealistic documentary burden of time sheets per usage or service imposed on those who want to offer internal services does not go together with Horizon 2020 aim for simplification.

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*The Helmholtz Association brings together 18 scientific-technical and biological-medical research centres. It contributes to solving major challenges facing society, science and the economy with top scientific achievements in six research fields: Energy; Earth and Environment; Health; Key Technologies; Matter; and Aeronautics, Space and Transport. With some 38,000 employees and an annual budget of approximately €4 billion, the Helmholtz Association is Germany's largest scientific organisation.*

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October 2015  
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