

Joint statement on the current problem of internal cost allocation (ICA) in Horizon 2020

A recently added example to the Annotated Grant Agreement (AGA) of Horizon 2020 has drawn our attention to a potentially large barrier to simplification and participation in Horizon 2020. Following a recent update of the AGA, we understand that common practice under FP7, where internal charges for facilities, equipment and other internally established costs could be charged to projects, provided beneficiaries could show an auditable trail, no longer applies under Horizon 2020. We understand that currently under Horizon 2020, no estimates or proxies can be used, and that internally invoiced costs need to be divided up and reported according to different cost categories, including personnel costs.

As a result, staff costs that so far have been included in an internal product or service of a research facility are now required to be precisely recorded by the minute. This is not only a heavy additional administrative burden on beneficiaries, including their scientific, technical and administrative staff, but it will also be impossible to execute in most cases. It is important to highlight that the new annotations have an impact on the ability of beneficiaries to claim direct project costs and that this is not a question of indirect costs. Although internal cost allocation uses fraction amounts to calculate the total amount of an internal invoice, the total amount does only reflect the costs directly caused by an individual Horizon 2020 project. In FP7, internal cost allocation was a matter of other direct costs and it remains to be a question of direct project costs.

We therefore urge the European Commission to revise the situation and in particular the annotations to article 6.2.D.3 AGA and we propose a number of workable options in this paper to ensure that research institutions and universities can continue charging internally invoiced costs without facing undue burden and to ensure that institutions can continue to encourage their top scientists to apply for Horizon 2020 funding without accepting major financial losses.

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

We seek 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 include Genome Analyses Centres, MRT's, High Performance Computers, Environmental Simulation Chambers and Animal Housing Facilities. The calculation of internal costs is based on sound accounting principles, follows national legislation and is approved by national funders.

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 a research institution where the total real costs for the usage of one mouse per week in 2014 were €1.79: €0.85 for personnel costs, €0.26 material costs, €0.30 equipment depreciation, €0.33 maintenance costs, €0.05 internal cost allocation. These amounts might seem insignificant at first glance, but for beneficiaries with high-class facilities which are often needed for EU projects, the overall sum is significant indeed. For example, when looking at internally invoiced costs of sample beneficiaries, a research institute generated €0.6 million internally invoiced costs from 2013 to 2014 only and a top research clinic incurred €1.15 million internally invoiced costs in their FP7 projects to date.

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

The new annotations and the example in Horizon 2020's Annotated Grant Agreement (Art.6.2.D.3 AGA) now state that internally invoiced costs have to be split in the different cost categories and that staff costs included in internally invoiced costs have to be supported by time sheets. To give a concrete example, a beneficiary claiming for animal house costs would have to ask staff caring for animals to record precisely how many minutes of their work time needs to be allocated for mice in project X, how many minutes for project Y on each given day. This is simply not feasible and also does not correspond with the philosophy of simplification. Instead, Horizon 2020 falls behind FP7, where internally invoiced costs were accepted as bundle of services, materials and maintenance, provided an auditable trail could be demonstrated.

Should the rules continue to be interpreted in this way, and because of the immense additional administrative burden involved for research institutions and universities, we only see two practical solutions for beneficiaries:

- Not to offer services of a core internal facility in Horizon 2020 projects because their cost would not be eligible or,
- to outsource them to an external provider via subcontracting.

As regards the first option, many core facilities offer highly specialised services which cannot be found externally. Beneficiaries of Horizon 2020 projects are also evaluated on the basis of their excellent facilities. 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 Horizon 2020 projects. Moreover, existing valuable infrastructures would not be used for Horizon 2020 projects.

The second option of outsourcing services to an external provider would increase costs for beneficiaries and the project as a whole. Both scenarios cannot be the intention of a European Union devoted to sustainability and use of existing resources and a funding programme aiming for excellence.

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 without having to provide detailed timesheets for every member of staff involved in the process.

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 facility was made for the project and for how long it was used 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 most institutions, just a small share of the real costs is indeed invoiced, whereas other parts are financed by the institution itself. We therefore promote the establishment of an accountancy and eligibility of total actual internally invoiced 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 lead 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 usage rates 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 another 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.

FP7’s Financial Guide stated in its chapter for direct costs:

“Internal Invoicing may apply also to items like animal maintenance, computer runs, laboratory test and other similar services where it is difficult to substantiate the actual time and the actual costs of each individual involved in each individual operation, and where an average personnel costs per type of animal, type of computer run, type of test etc. has been calculated based on the actual costs incurred for the personnel involved. For these costs to be eligible the costs must be auditable.

The same logic applies to equipment, consumables or any other specific direct costs: where it is difficult to substantiate the actual cost of each individual test or use, an average cost may be calculated per type of test based on the actual cost of the equipment and consumables used and other specific direct cost such as maintenance of equipment provided. However the costs must be auditable.”

A similar regulation in Horizon 2020 regarding internal invoicing of direct costs would solve the problem.

4. General feasibility condition

The official amendments of the Grant Agreement state 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. As explained above, it is not feasible to introduce time sheets for all staff costs included in internal charges for facilities. The unrealistic administrative and time consuming burden of time sheets per usage or service imposed on those who want to offer internal services is incompatible with Horizon 2020's aim for simplification. Calculating an hourly rate for service staff of each Horizon 2020 project via minute protocols for minor services is an excessive administrative burden. Instead, **it is appropriate to set costs per usage which include the pro rata services calculated on an annual basis.** It is possible to document and audit how and with which measures the costs per usage were set and how many usages were made for the project. This should be a sufficiently accurate accounting practice guaranteeing that only costs which are directly related to a Horizon 2020 project are included in an internal invoice.

The new regulations in Horizon 2020 will show their effect on Europe's scientific community shortly, because scientists begin to realise that they are practically prevented from using their excellent research facilities. The European Commission needs to revise its regulations now. If the use of a research facility is not refunded in Horizon 2020, the research facility will not be used for Horizon 2020 projects. Europe should make use of its potential, not hinder the usage of core research facilities.



**Signatories to the statement are representing 410 universities and 210 organisations.
They employ in total more than 1.237.121 employees.**

Please direct further questions and comments to:

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