

NON-PAPER ON INDIRECT COST CALCULATIONS IN FP 10 - OUTLINE

Fairer arrangements for covering the indirect cost in projects under the forthcoming 10th EU Framework Programme for R&I (FP10)

The reimbursement of indirect costs of participants in projects under the EU's R&I Framework programme are calculated as 25% of direct costs. In most cases personnel costs constitute the largest part of direct costs, which results in participants from Member States with higher personnel costs consequently also receiving higher indirect costs reimbursement. In practice, however, actual indirect costs, for example rent, electricity, heating, stationery and similar, do not vary significantly between Member States or can even be higher in (smaller) countries with lower personnel costs¹.

The following hypothetical example illustrates the difference in indirect costs reimbursement between Member State A with lower personnel costs (person/month=2.500 EUR) and Member State B with higher personnel costs (person/month=5.500 EUR) for 36 months.

	A.	B.	C.1	C.2	C.3	E. indirect costs (25% of direct costs)	TOTAL
	Personnel costs	Subcontracting	Purchase costs - Travel and subsistence	Purchase costs - Equipment	Purchase costs - Other goods, works and services	$(A + C1 + C2 + C3) \times 0,25$	
Participant from MS A (PM=2.500)	90.000	5.000	10.000	5.000	15.000	30.000	155.000
Participant from MS B (PM=5.500)	198.000	5.000	10.000	5.000	15.000	57.000	290.000

As shown above, a participant from Member State A would calculate his personnel costs for 36 months at €90.000, and combined with purchase costs under categories C.1, C.2, C.3, his reimbursement of indirect costs calculated as 25% of direct costs, would amount to €30.000. On the other hand, a participant from Member State B, with a planned person/month of €5.500 and same purchase costs would have his indirect costs covered with €57.000.

Due to the differences in personnel costs only, the participant from MS A is receiving only 52,6% of indirect costs reimbursement compared to participant B. While personnel costs are a matter of national legislation in R&I, the indirect costs are subject to market conditions. Since the EU operates as a single market, the prices for cost items covered by the indirect costs are similar in all Member States. The current model for reimbursement of indirect costs thus leads to unfounded disparities in the financial amounts of indirect costs allocated to different applicants to the framework programme, putting participants from countries with lower personnel costs at a financial disadvantage. Participants A and B both have to cover indirect expenditures in very similar amounts but are reimbursed differently.

A new “hybrid” model

In order to address this disparity, we would suggest discussing the introduction of a possible new “hybrid” model, whereby the average value of personnel costs (category A) across the EU would be set as the basis for calculating indirect costs. Participants could choose to use

¹ For the sake of clarity, the examples presented below do not take into account that actual costs and realisations in each category that are reported by participants based on the actual costs incurred. These two categories may vary significantly and do affect the calculations of the indirect and total costs

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either the current model (influenced by the actual personnel costs), or the new model (based on a set amount, calculated once or annually). **Participants from MS, where the actual personnel cost is lower than the calculated average would likely choose the latter.** All other categories would still be projected as actual costs, i.e. **only for the purpose of calculating the indirect costs, the cost of personnel in category A ("Personnel costs") would be set as a unit, the so-called UNIT COST**, which would be based on the average value of the EU.

Proposed "hybrid" model/hypothetical example:

	A.	B.	C.1	C.2	C.3	E. indirect costs (25% of direct costs)	TOTAL
	Personnel costs*	Subcontracting	Purchase costs - Travel and subsistence	Purchase costs - Equipment	Purchase costs - Other goods, works and services	((A = EU PM or A = actual costs) x 36 + C1 + C2 + C3) x 0,25	
Hybrid model PLANNED (Participant from MS A, PM = 2.500) PM lower than average EU PM, take EU PM as UNIT COST for indirect cost calculation (EU PM = 4.000)	90.000 (144.000)*	5.000	10.000	5.000	15.000	36.000 7.500	95.000 36.000 37.500 168.500
PLANNED (Participant from MS A, PM=2.500)	90.000	5.000	10.000	5.000	15.000	30.000	155.000
PLANNED (Participant from MS B, PM = 5.500) PM higher than average EU PM, take their actual PM cost for indirect cost calculation (PM = 5.500)	198.000	5.000	10.000	5.000	15.000	57.000	290.000

* Used only as a basis for the calculation of indirect costs. The actual personnel costs do not change and would remain at 90.000 for participant from MS A.

Applicants whose personnel costs would be lower than the calculated EU average (in the hypothetical example the EU average is €4.000) would therefore **have an option to use this UNIT COST single value** to calculate the amount of reimbursement of their indirect costs. In this manner, applicants with personnel costs **higher than the EU average would maintain the value of reimbursement of indirect costs** as applied within the current model. This would set a minimal overall value for reimbursement of indirect costs, which is most affected by category A.

The applicant from MS A with an actual person month cost of €2.500, would use the UNIT COST, consisting of the average person month value of €4.000 (for the purpose of the hypothetical example) **only as the basis for the calculation of his value of reimbursed indirect costs**, which in the new hybrid model would amount to €43.500 (€36.000 + €7.500). The applicant from MS B with an actual person month cost of €5.500, which in this case would be higher than the average person month value of €4.000, would still use the current model, amounting to reimbursed of indirect costs at €57.000. This way, the participant from MS A would receive **76,3% of reimbursed indirect costs of participant from MS B**, making the new hybrid model less reliant on the differences of the actual personnel costs and more equitable in terms of actual indirect costs, which do not vary significantly between MS.