



EUROPEAN COMMISSION  
RESEARCH DIRECTORATE-GENERAL

Directorate A - Coordination of Community actions  
**Regulatory and cross-cutting matters**

Brussels, March 2004

***This note provides some initial interpretative guidance for contractors and Commission services but does not represent the official position of the Commission and is not a legal document adopted by the Commission.***

**Subject: Cost models for FP6 projects**

This note addresses the issue of the application and use of the cost models to be used by contractors under FP6, in particular the additional cost model, its limitations and its use by physical persons.

In FP6, the access conditions to a cost reporting model (for all instruments to which the model contract applies<sup>1</sup>) depend on the type of legal entity concerned and, in some cases, on the capacity of the entity's accounting system. There is one exception for activities relating to transnational access<sup>2</sup>.

The Full Cost (FC) model is available to all entities (except physical persons but see the clarification in point b below). Contractors using this model should be able to identify all their eligible direct and indirect costs for the project.

The Full Cost Flat Rate (FCF) model is available to SMEs, international organisations and non-commercial or non-profit organisations. They must be able to identify their eligible direct costs for the project. They can then add a flat rate of 20% of direct costs (except for subcontracting) to cover indirect costs. Reimbursement of these costs depends on the rate applicable to the activity and the instrument.

The Additional Cost model (AC) is available to international organisations and non-commercial or non-profit organisations that, as indicated by the model contract, "do not have an accounting system that allows the share of direct and indirect costs relating to the project to be distinguished". These organisations charge their eligible **additional** direct costs incurred under the project, which are always reimbursed at 100% whatever

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<sup>1</sup> All instruments except those covered by the Marie Curie actions and prizes and the Euratom fellowships.

<sup>2</sup> A user fee cost model may be used for access to infrastructure activities either in integrated infrastructure initiatives (I3) or in the specific support actions for transnational access. For I3 instruments, the provisions for calculating and applying the user fee are identified in the Annex III to these contracts. For the specific support actions for transnational access, a special condition (special clause n°17) contains the same provisions relating to the user fee for these actions.

the activity<sup>3</sup> and whatever the instrument<sup>4</sup>. This means that such entities are eligible to use the additional cost model if they cannot distinguish the share of direct and indirect costs which will be involved in the project (i.e. they are not able to calculate the share of the direct and indirect costs to the project). They may be able to indicate overall, as an institution, the share of their direct and indirect costs but not at project level and/or not be able to distinguish the share between direct and indirect costs in a particular case.

If a non-commercial or non-profit organisation or international organisation is able to identify its resources involved in the project **and** to determine the **share** of direct and indirect costs for the project (i.e. able to quantify both), it has the choice between the FCF model and the FC model. If such an organisation is able to calculate all its direct costs in a project, but cannot calculate its indirect costs for the project, it has the choice between the FCF model and the AC model.

A non-commercial or non-profit organisation or international organisation that worked on AC in shared-cost projects under FP5, whose accounting system has not changed since then, should be able to use the AC model under FP6. However, such an organisation that used FC (not FF) under FP5 would need to provide a substantial argument to show that it no longer has the capacity to identify its indirect costs even though it could do so in the past.

Although the basic principles of FP5 have been retained in FP6 there are a number of factors that have changed and mean that the cost models and their application are not a mirror image of what was applied under FP5. These include:

- a change in the legal framework (new Financial Regulation of the Communities; new Framework Programme and new instruments; new definition of eligible costs)
- unlike FP5, all the cost reporting models are applied in all instruments (except for Marie Curie Actions and the user fee for access to infrastructures); whereas in FP5 there are two different definitions of additional cost depending of the type of action (shared costs actions = additional costs; thematic network = additional work)
- in most instruments even contractors working on FC or FCF can receive 100% funding for costs in certain activities, such as management activities and training, and in some instruments all activities are reimbursed at up to 100% whatever the cost model used.

The executive summary to the Guide to Financial issues relating to indirect actions in FP6 also provides a short review of the terms and conditions for access to the cost models. It can be found on the model contract web site at: <http://europa.eu.int/comm/research/fp6/workinggroups/model-contract>.

Some further clarifications:

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<sup>3</sup> There is a special exception for management activities. For these activities the costs of permanent personnel may be charged if the direct costs can be identified.

<sup>4</sup> For infrastructure instruments there is a cap on the EC funding of 50% for Integrated Infrastructure Initiatives concerning connectivity services and 10% for infrastructure construction actions, which applies also to contractors working on AC basis.

a) non-commercial or non-profit organisations established under public law or private law are not companies that have not made a profit or have not been successful in the market place. The Framework Programme decision clearly indicates in footnote 4 in Annex III that additional cost is a possibility and can be offered “subject to specific conditions [to] specific legal entities, particularly public bodies, [who] will receive funding of up to 100% of their marginal/additional costs”

b) physical persons – these are individuals participating as contractors in RTD projects. In such cases, they use the AC model and as such may not charge any labour costs for their personal contribution to the project. However, in some cases although the legal form of the contractor may be that of a physical person, such as an unincorporated company owned by one person, the nature of the contractor is not that of an individual participating as such. Where such a person is engaged in commercial activities, with an accounting system and capable of identifying its direct and or indirect costs (as is the case for certain professions or for SMEs) and is considered to be an SME then it is more appropriate to use either the FCF or FC model. The AC model is designed for certain kinds of entities, usually public bodies, which cannot identify their full costs incurred in a project, and for physical persons participating as individuals in the project.

c) different cost models within the same legal entity – it is possible that a legal entity that normally uses the AC model has departments or institutes that are part of the same legal entity but have a completely separate financial administration and are capable of using the FC cost model. In these cases, a special condition has been adopted (special clause n° 22), that allows the legal entity to diverge from the basic principle that it must use the same cost model in all contracts and allows its particular department or institute to use the FC model.