



Annex X to the Model LIFE Grant Agreement
Financial and Administrative Guidelines

PURPOSE OF THE GUIDELINES

These guidelines have been prepared to help proposers and beneficiaries under call 2014 of 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 of the Union contribution.

In order to establish a **reliable accounting and reporting system**, it is highly recommended to establish project codes in the analytical accounting system(s) and it is mandatory in the time registration system(s). 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). Nevertheless, the beneficiaries should be prepared to provide documentation on their indirect costs if required during any audit of the project.

II.1 Time Registration System

Beneficiaries must have **daily** records of all hours spent 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 time unit rate.

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 routines for the project staff,
- introduce a validation routine for the supervisors/line managers to certify the correctness of the timesheets.

It is recommended, but not obligatory, to start using 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 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 or 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 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.
- 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. The completed timesheet for a given month should be signed and approved also in a timely manner – e.g. during the first week of the following month. The timesheet of a project management or coordinator should be approved by her/his superior.

TIP: It is expected that in case a beneficiary does not operate a reliable electronic time registration system that they keep one timesheet per employee (covering all projects the employee is involved in). It is not considered appropriate to have a separate timesheet per employee per project.

Frequently Asked Questions about Timesheets:

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 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.

Are there any cases when personnel costs can be accepted without timesheets?

If the beneficiary can provide evidence that a member of staff is employed for the project in full time capacity or for a 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. 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.

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

Yes. Electronic systems such as Outlook or Excel are not accepted unless the time is registered on a daily basis 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. 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 certification 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 five years after the final payment is made.

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 is used to report periods other than full hours (e.g. for 5 hours and 30 minutes, please report 5.5 hours).

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/INF]/[Country]/[Number]** - acronym. Inform your suppliers and subcontractors accordingly.

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

When specifically agreed in the grant agreement, a ‘mother company’ or an ‘association’ (incl. European Economic Interest Groups), beneficiary in the project, can involve designated ‘affiliates’ or ‘members’ to carry out work in the frame project under the same conditions and by respecting the same rules as the beneficiary.

In this sense, the ‘affiliates’ or ‘members’ will not be considered as ‘subcontractors’ under the grant agreement.

Mother companies/associations wanting to involve their affiliates/members shall :

- Provide a clear description and evidence of the ownership structure (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/member, 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
- The affiliates/members involved in the project shall be clearly identified and their activities duly described in Annex II to the grant agreement.

The affiliate/member will carry out the tasks in relation to the project on behalf of the beneficiary concerned without profit (i.e. the affiliate/member is not a 'subcontractor').

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

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

- An individual financial statement for each affiliate/member (including the mother company/association) – to be signed by the legal representative of the affiliate/member
- A consolidated individual financial statement (using the standard template) grouping the costs of all its affiliates/members – to be signed by the legal representative of the mother company/association

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 proposer/beneficiary will provide evidence.

IV.2 2% Rule

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)

IV.3 Non-additional personnel in Capacity Building projects

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

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);

- 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;

- 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.

V.3 Non-recoverable VAT.

In order to claim VAT, the beneficiary must provide the Agency/Commission with a declaration from the national tax authorities certifying that the beneficiary in question is NOT able to recover VAT (fully or partially). This declaration should be kept in the project file and submitted to the Agency/Commission with the Final Report at the latest. In case the national tax authorities do not deliver such a certificate, the audit report can certify that VAT is not recoverable.

Furthermore, beneficiaries governed by public law must also provide certificates declaring that the VAT to be charged to the project does not relate to activities engaged in as a public authority.

VI. WHAT ARE INELIGIBLE COSTS ?

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

- return on capital;
- 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 in the framework of another project receiving a grant financed from the Union budget (including grants awarded by a Member State and financed from the Union budget and grants awarded by other bodies than the

Agency/Commission or the Commission for the purpose of implementing the Union budget);

- indirect costs if the beneficiary already receives an operating grant financed from the Union budget during the period in question;
- 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 plans¹, 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;
- 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.
- recoverable VAT

¹ Obligatory "After-LIFE plans" are not included in this category.

- 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.

VII. AWARD OF CONTRACTS

As mentioned in the grant agreement (Art. II.9), 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 'value for money' and 'no conflict of interest'
- the principles of transparency and equal treatment 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 (including publication of the call for tender in the relevant media). 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 – 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 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,*
- *Explanation if invoice amounts differ from the contractual amount (particularly where the invoiced amount exceeds contracted amounts),*
- *Certification by the internal auditor for any unusual tendering procedures.*

VIII. COST CATEGORIES

VIII.1 PERSONNEL COSTS

The *costs of personnel* comprises :

- **actual salaries plus 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 '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 natural person works under the instructions of the beneficiary and, unless otherwise agreed with the beneficiary, in the premises of the beneficiary;
 - (ii) the result of the work belongs to the beneficiary; and
 - (iii) the costs are not significantly different from the costs of personnel performing similar tasks under an employment contract with the beneficiary.

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. 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 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

These must be taken from the payroll and should be the total gross remuneration plus the employer's portion of social charges. Remuneration costs should be calculated individually for each employee.

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 the gross salary should not be extrapolated to a yearly figure, but in such cases the annual productive hours should reflect the period in which the employee has actually worked, i.e. for which he or she has received the salary reported.

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, bonuses or any other similar fringe benefits. Dividends or profit sharing are also not eligible

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. In the absence of a reliable time registration system, the Agency/Commission may exceptionally accept alternative evidence supporting the number of hours declared, if it considers that it offers an adequate level of assurance. 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 that 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 is obtained by dividing the actual annual gross salary or wages plus obligatory social charges and any other statutory costs included in the remuneration of an employee by the total annual productive hours (1720 hours standard or as justified).

Method 2 – Lump-sum cost per employee = 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 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

Personnel costs may be charged on the basis of such contracts, on condition that contract is in accordance with normal practise of the beneficiary and the applicable legislation, that the rate is in line with the level of competence required for the position and with other similar beneficiaries or projects, that the contract is detailed enough and in particular specifies the amount of time the employee shall work under this contract and either the hourly rate or the total amount for the contract. If the contract is not for a lump sum payment, the employee is still required to record the time worked on the project and on other activities, as described above.

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, but is considered indirect costs (overheads).

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.

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 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.

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 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:

- Article II.3, II.4, II.5, II.7, II.8 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;
- 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).

When submitting the final financial statement, copies of the three highest invoices, and proof of their payment, for subcontracting must be submitted to Agency/Commission.

Copies of the other invoices (if any) may however, be requested on a case by case basis. 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.

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) and the rules on the award of contracts.
- (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. 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 subcontractors or related to persons not directly working on the project (i.e. if not part of the personnel or natural persons under contract with the beneficiary, e.g. invitees for conference speakers, volunteers, etc.) should be declared under the 'other 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, if not already mentioned in the grant agreement.

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).
- (ii) The accounting rules of the beneficiary in question classify the costs as durable goods;
- (iii) After application of the depreciation rate which 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 actual cost for infrastructure and a maximum of 50% of the actual cost for equipment.

Exceptions:

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

- for *LIFE Nature and Biodiversity* 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 grant agreement.

- (iv) They are costs of rental or lease of equipment/infrastructure and these costs do not exceed the depreciation costs of similar equipment or assets and are exclusive of any finance fee. (see also remark below on leasing of equipment)

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.

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, copies of the three highest invoices for durable goods must be submitted to Agency/Commission.

Copies of the other invoices (if any) may however, be requested on a case by case basis. 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.

Finance Leasing of equipment

Capital or Finance Leasing costs (with the possibility to buy the equipment) should be depreciated in your 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".

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).

Please note that they should not include costs for general office supplies which are deemed to be included in the overheads

When submitting the final financial statement, copies of the three highest invoices for consumables and supplies must be submitted to Agency/Commission.

Copies of the other invoices (if any) may however, be requested on a case by case basis. 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 conditions specified further in Art. II.19.2 (i) are respected
- (iv) 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
- (v) 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.

When submitting the final financial statement, copies of the three highest invoices for land purchase/long-term lease of land/one-off compensations for land use rights must be submitted to Agency/Commission.

Copies of the other invoices (if any) may however, be requested on a case by case basis. 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).

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 covered under the overheads.

When submitting the final financial statement, copies of the three highest invoices, and proof of their payment, for other costs must be submitted to Agency/Commission.

Copies of the other invoices (if any) may however, be requested on a case by case basis. 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.

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.

IX. REVENUES

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.

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

If you would make net profit during the project, the EU funding will be reduced accordingly.

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 ?

For each project for which the total contribution in the form of reimbursement of actual costs as referred to in Article I.3(a)(i) is at least EUR 300 000.

Who should produce it ?

An approved auditor or, in case of public bodies, by a competent and independent public officer

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.

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 and payment of the balance).

Payments will occur in accordance with the provisions of Articles II.23 and II.24 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.

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.

Substantial amendments to the grant agreement require the signature of both, the Agency/Commission and the coordinating beneficiary.

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 WITH ASSOCIATED BENEFICIARIES

In case a project includes associated beneficiaries, partnership agreements should be signed between the coordinating beneficiary and each associated beneficiary. 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.