

The Lump Sum scheme in Horizon 2020

A PRACTICAL GUIDE

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THE LUMP SUM SCHEME

The Lump Sum Pilot in Horizon 2020

A brief introduction

Traditionally, Horizon 2020 funding is based on the reimbursement of incurred costs that are aligned with the budgets provided in project proposals. However, this type of reimbursement requires extensive financial reporting and is prone to error.

One of the main elements of simplification in Horizon 2020 (H2020) has been the adoption of lump sum funding in a range of instruments, with the aim of reducing the burden of the financial management of H2020 grants. The adoption of lump sums is indeed meant to shift the focus from administrative matters to scientific and technical achievements. This scheme removes all obligations on cost reporting, as well as the need for timesheets and for financial ex-post audits on costs incurred.

So far, the lump sum scheme has been adopted in a limited number of instruments:

- For the SME Instrument Phase 1 (low value grant)
- As a pilot in traditional grants:
 - 2 pilots in 2018 (a Research and Innovation Action in SC1 and an Innovation Action in NMBP)
 - In 2019, it was extended to ERC Proof of Concept and to the Shift2Rail Joint Undertaking
 - In 2020, it is being piloted in almost all themes and instruments, in order to have an adequate sample to build upon for including the scheme in Horizon Europe.

This simplification exercise is based on four main issues:

- Ex ante cost validation
- Accomplishment of tasks
- Activity monitoring and performance
- Robust consortium management

Considering that the European Commission (EC) intends to continue adopting the lump sum financing in Horizon Europe as well, we hope that this document will provide a useful basis also for applications under the next Framework Programme. We will keep this document as up to date as possible, so to ensure its adherence to the most recent information.

The lump sum in practice

The lump sum funding in Horizon 2020 was introduced based on EC decision C(2017) 7151 of 27 October 2017, with two options:

- Option 1: **Standard lump sum pre-fixed by the EC** and defined in the Work Programme.

In this case, the lump sums are defined in the Work Programme. Applicants provide a breakdown of the lump sum in their project proposals, showing the share per work package and between the tasks included in each WP, as well as the share assigned to each beneficiary. Proposals must describe the activities that are covered by the lump sum share for each WP. Evaluators (while evaluating competing proposals) check that adequate resources are committed.

■ Option 2: The amount of the lump sum is **defined by applicants in their proposals**

In this case, the lump sum is proposed by the applicants. Project proposals should provide a detailed estimation of eligible direct and indirect costs. Beneficiaries must make a declaration that they have followed their own accounting practices. Experts evaluate costs, comparing them to the statistical data on costs and resources from previously funded, comparable projects, and make recommendations. When preparing the grant agreements, the EC adapts estimated costs and modifies the lump sum and its breakdown based on the recommendations of the experts. The final lump sum to be paid to the consortium, i.e. the maximum grant, is calculated by applying the reimbursement rate set out in the H2020 rules.

A dedicated [Multi-Beneficiary Model Grant Agreement for the Lump Sum Pilot](#) has also been prepared to support lump sum projects. The aim is to expand the application of lump sum schemes in Horizon Europe.

The lump sum funding is based on the following principles:

- **Evaluation criteria stay the same.** However, the evaluation procedure will be somewhat different. The proposed lump sums will be assessed, and may be reduced during the grant preparation based on the evaluators' assessment.
- **Pre-financing and payment schemes stay the same.**
- **Lump sum shares for WPs** and distribution between beneficiaries are fixed and **paid after the completion of the work packages**.
- **Reporting periods and technical reporting stay the same**, but focus on the completion of work packages.
- **Payments do not depend on successful outcomes, but on the completion of activities.** Interim payments may only include lump sums for work packages that have been fully completed and accepted. The payment of the balance (after the end of the project) may exceptionally include the payment of proportional shares of lump sums for partially completed work packages.
- Consortia are **jointly liable** for the implementation of the project.
- There will be **no actual cost reporting and no financial audits**.

FIRST, A FOCUS ON THE BUDGET...

In Option 2, the evaluators will recommend possible modifications to the proposed lump sum budget, which will then be fixed in the Grant Agreement.

How do you calculate your own budget? The EC provides a detailed "proposal workbook" to prepare a detailed budget and allow the evaluators to assess the soundness of the resources allocation. The proposal workbook for the lump sum calculation must be uploaded as an additional document at "Step 5" of the proposal submission, otherwise the submission will be blocked. The proposal workbook contains the usual cost categories considered already in the past, with some additional levels of details; it also facilitates some calculations that were not trivial in the past, such as depreciation costs.

SUM OF ALL BENEFICIARIES AND ALL PARTNERS FOR ALL THE WORK PACKAGES		ALL BENEFICIARIES (without 3rd parties)		ALL 3rd PARTIES		ALL BENEFICIARIES (with 3rd parties)			
COST CATEGORY	UNITS	BE TOTAL COSTS	UNITS	TP TOTAL COSTS	UNITS (TOTAL)	AVERAGE COST PER UNIT	BE+TP TOTAL COSTS		
A. DIRECT PERSONNEL COSTS									
A1: Employees (or equivalent)									
SENIOR SCIENTISTS	0,00	0,00	0,00	0,00	0,00		0,00		
JUNIOR SCIENTISTS	0,00	0,00	0,00	0,00	0,00		0,00		
TECHNICAL PERSONNEL	0,00	0,00	0,00	0,00	0,00		0,00		
ADMINISTRATIVE PERSONNEL	0,00	0,00	0,00	0,00	0,00		0,00		
OTHERS (Specify)	0,00	0,00	0,00	0,00	0,00		0,00		
A2. Natural Persons under direct contract	0,00	0,00	0,00	0,00	0,00		0,00		
A3. Seconded Persons	0,00	0,00	0,00	0,00	0,00		0,00		
A4. SME Owners without salary	0,00	0,00	0,00	0,00	0,00		0,00		
A5. Beneficiaries that are natural persons without salary	0,00	0,00	0,00	0,00	0,00		0,00		
A6. Personnel for providing access to research infrastructure	0,00	0,00	0,00	0,00	0,00		0,00		
B. OTHER DIRECT COSTS									
B1. Travel	0,00	0,00	0,00	0,00	0,00		0,00		
B2. Depreciation costs * (complete equipment sheet)									
Equipment	0,00	0,00	0,00	0,00	0,00		0,00		
Infrastructure	0,00	0,00	0,00	0,00	0,00		0,00		
Other assets	0,00	0,00	0,00	0,00	0,00		0,00		
B3. Other Goods and Services									
Consumables	0,00	0,00	0,00	0,00	0,00		0,00		
Services for Meetings, Seminars	0,00	0,00	0,00	0,00	0,00		0,00		
Services for Dissemination Activities	0,00	0,00	0,00	0,00	0,00		0,00		
Website	0,00	0,00	0,00	0,00	0,00		0,00		
Publication Fees	0,00	0,00	0,00	0,00	0,00		0,00		
Other (shipment, insurance, translation, etc.)	0,00	0,00	0,00	0,00	0,00		0,00		
B4. Costs of Large Research Infrastructure	0,00	0,00	0,00	0,00	0,00		0,00		
B5. Costs of internally invoiced goods and services	0,00	0,00	0,00	0,00	0,00		0,00		
C. DIRECT COSTS OF SUBCONTRACTING									
C. DIRECT COSTS OF PROVIDING FINANCIAL SUPPORT TO THIRD PARTIES	0,00	0,00	0,00	0,00	0,00		0,00		
D. DIRECT COSTS OF IN-KIND CONTRIBUTION									
E. Used outside the beneficiary's premises									
Personnel costs	0,00	0,00	0,00	0,00	0,00		0,00		
Infrastructure/equipment	0,00	0,00	0,00	0,00	0,00		0,00		
TOTAL DIRECT COSTS BEFORE SUBCONTRACTING (A+B)		0,00		0,00		0,00		0,00	
TOTAL DIRECT COSTS INCLUDING SUBCONTRACTING (A+B+C+D)		0,00		0,00		0,00		0,00	
F. INDIRECT COSTS (25% of Total Direct Costs Before Subcontracting A+B-E)		0,00		0,00		0,00		0,00	
H. TOTAL COSTS (A+B+C+D+F)		0,00		0,00		0,00		0,00	

Once this budget is deemed appropriate by the evaluators, and (most importantly!) the proposal is selected for funding, the Grant Agreement is prepared, and the budget for each work package and beneficiary is fixed.

Lump sum grant: budget allocation

Annex 2

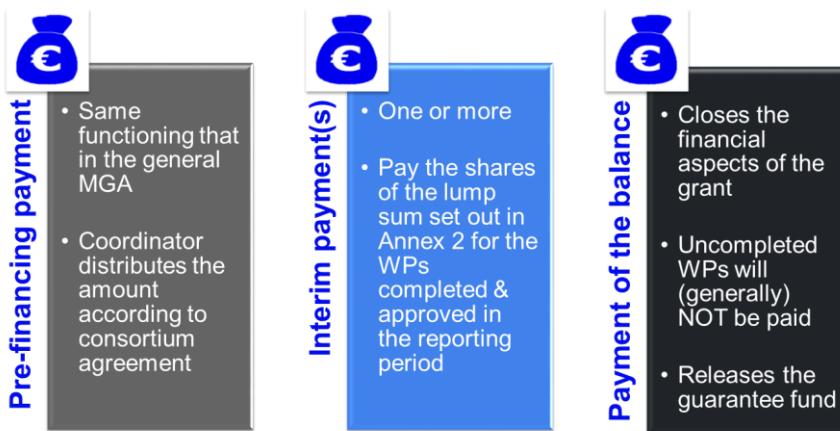
Lump sum = Maximum grant amount

Max. liability of the beneficiary after payment of balance

	WP1	WP2	WP3	WP4	WP5	WP6	WP7	WP8	Total
Beneficiary A	250.000			50.000	300.000	250.000		300.000	1.150.000
Beneficiary B		250.000	350.000	50.000			100.000	150.000	900.000
Beneficiary C	100.000	100.000		50.000		280.000			530.000
Beneficiary D		120.000		50.000			100.000	150.000	420.000
Total	350.000	470.000	350.000	200.000	300.000	530.000	200.000	600.000	3.000.000

Share of the lump sum per WP

As already said, the instalments follow the same pattern as for the traditional type of H2020 grants. Hence, an advance payment is made to the coordinator at the beginning of the project. Further payments are then made on the completion of work packages, in line with the pre-defined reporting periods.



So, what is different from before?

Firstly, budget transfers between beneficiaries and between work packages need to go through formal amendments. Transfers between WPs will only be accepted in exceptional circumstances, and only if a review by the EC confirms that the transfer does not call into

question the decision awarding the grant or breach the principle of equal treatment. Transfers to or from WPs that have been declared as completed will not be accepted.

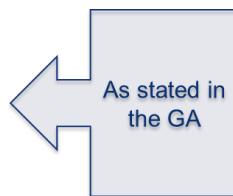
Secondly, the milestone for the payment is the completion of a WP. The EC or the implementing agencies will not judge individual beneficiaries' performance, but WP completion. This is very important to consider, as unsuccessful WPs will still be paid, unless there is poor, partial, or late implementation, or irregularities, frauds, or breaches of obligations. To summarise, the technical review will focus on:

- The proper implementation of the action.
- Compliance with other obligations of the grant, like IPR obligations, obligations regarding third parties (financial support), ethical obligations, visibility of EU funding, etc.

HOW THE INTERIM PAYMENT IS CALCULATED

Basically, the interim payment covers **the share of the lump sum** allocated to work packages fully completed in the reporting period. So, we can imagine the current situation:

	WP1	WP2	WP3	WP4	WP5
Beneficiary A	250.000		50.000	300.000	
Beneficiary B		250.000	350.000	50.000	
Beneficiary C	100.000	100.000		50.000	
Beneficiary D		120.000		50.000	
Total	350.000	470.000	350.000	200.000	300.000



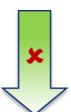
	WP1	WP2	WP3	WP4	WP5
Beneficiary A	Completed			Initiated	Initiated
Beneficiary B		Completed	Completed	Not initiated	
Beneficiary C	Completed	Not initiated		Not initiated	
Beneficiary D		Completed		Completed	



- The Lump Sum scheme in Horizon 2020

The interim payment will not take into account individual performances, but WP performances:

	WP1	WP2	WP3	WP4	WP5	
Beneficiary A	250.000			50.000	300.000	As stated in the GA
Beneficiary B		250.000	350.000	50.000		
Beneficiary C	100.000	100.000		50.000		
Beneficiary D		120.000		50.000		
Total	350.000	470.000	350.000	200.000	300.000	

Payment = 350 000 + 0 + 350 000 + 0 = 700 000 €

All beneficiaries will have to declare their share of the lump sum in work packages that are fully completed in the reporting period; if their tasks are not achieved in the reporting period for a specific WP, **that entire WP will not be paid**.



PAYMENT OF THE BALANCE

When the project reaches its end, the final report is submitted. If all the WPs have been completed as indicated in the Grant Agreement, the Commission will pay the remaining amount of the total lump sum, releasing the guarantee fund. If some WPs have not been

completed due to negligence, and are rejected, the grant is reduced. The consortium thus loses the shares allocated to those WPs, and the guarantee fund does not intervene.

EX-POST CONTROLS

The lump sum scheme has been introduced and tested to allow for simplification in the financial management of research and innovation projects.

Reviewers will just check the proper implementation of the action (e.g. technical audit), and the compliance with the other obligation of the grant, like IPR obligations, financial support of third parties, ethics, and visibility of EU funding.

To summarise, what do beneficiaries need, or not, when it comes to the reporting to the EC?

They need

- Technical documents
- Publications, prototypes, deliverables
- Who did what?

They don't need

- Time sheets
- Payslips or contracts
- Depreciation policies

Any document proving that the work was done as detailed in the Annex I to the GA <i>(as it is for "normal" applications)</i>	Travel invoices ... actual costs
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Tip and tricks when setting up a proposal for a lump sum call

As the grant is paid on the completion of WPs, the number of WPs inevitably tend to increase in order to reduce the risks of having a significant reduction of the grant due, for instance in the case of underperformance by a partner in a given WP. This is natural and accepted. However, it is fundamental to remember what a WP is not: it is neither a single activity, nor a single task, a % of progress (e.g. 50% of validation/prototyping) or a period of time (e.g. year 1 of design activities). Horizontal WPs (dissemination, management, etc.) may be approached differently, but this could be used to advantage in order to conceptually design the activities better (having more communication at the beginning, more dissemination in the middle, and end with more exploitation, for instance).

A WP remains a major subdivision of the proposed project. However, as already said, a higher number of WPs is accepted. WPs should be designed carefully. Here a possible process:

- Start by listing all the tasks that you foresee in the project, and place them on a Gantt chart;
- The time distribution of the WPs is very important, as you will want to have a cash flow accompanying your project activities. Try to group the tasks according to common technical approaches and also by year/reporting period; for instance, instead of creating different work packages that all include state-of-the-art collection tasks at the beginning, a low-risk, horizontal WP on state-of-the-art collection can be created at the beginning of the project. Technical activities with higher risk can then be separated into several WPs according to their degree of maturity;
- Even if the ideal situation would be to have only one beneficiary involved in each WP in order to clearly define the liability in case of failures, a lump sum grant is still a collaborative project. Hence, WPs with single participants should be avoided.
- Milestones and deliverables should be clearly allocated and defined.

In addition, the lump sum funding brings some challenges in the grant management phase, as one partner who does not perform appropriately risks impacting the whole consortium financially. Formal amendments, including those to replace a partner who is not implementing its allocated tasks, will always be possible, but they are time consuming. Hence, the consortium agreement is key to ensure a sound management of difficult situations that may arise – just as in a project with traditional H2020 funding. At the moment, no model Consortium Agreement has been prepared, but examples can be obtained from the first participants to the pilot topics. Since this is exclusively a consortium issue, the EC cannot provide formal help. Based on the first experiences, the recommendation is to give additional attention to two points:

- Cash management: avoid transferring the whole pre-financing/interim financing in a single tranche, but make it gradual and on the achievement of internal milestones (without putting at risk project actions, of course).
- The conflict management and decision-making processes should allow for a quick and effective follow up of critical issues.

Conclusions

This document has been prepared to support Luxembourg stakeholders in the preparation of H2020 proposals under the lump sum financing scheme, a novelty recently introduced. Some additional guidance can be found on

the [NCP-Academy website](#), or the [BESTPRAC website](#), for instance. The information provided here is not legally binding. Formal opinions will be provided on an individual basis and when needed following interactions and checks with the services of the European Commission.

The European R&D and Innovation Support team of Luxinnovation is the National Contact Point for Horizon 2020 in Luxembourg. So far, Luxembourg has received **€125.49 million of funding**, distributed among 399 participants to 344 projects. Luxembourg's success rate has always been among the highest ones in Europe. In 2018, we topped the European ranking by achieving a 24% success rate, compared to the EU average of 18%.

We are always happy to meet stakeholders and discuss with them all the possible issues related to the whole application life cycle:

- We inform you about **future opportunities**, with targeted emails and dissemination events.
- We **match your strengths with current calls**, by finding alignment between your research and innovation strategy and the European RDI policies.
- We help you **identify the best consortia and partners**.
- We offer **critical reviews** of proposals.
- We organise thematic **workshops and training** events.
- We support in **legal and financial aspects** of H2020.
- We also provides companies wishing to submit Horizon 2020 proposals with early stage advice and financial support through the **Fit4Horizon2020** programme.

The contact details of all the members of the NCP team can be found on the Luxinnovation website.