

Dear Ms Hollósi,

I come back to you on the questions that you sent to the CLSS regarding the new provisions on additional remuneration. First of all, let us thank you for your quick and comprehensive feedback following our request for complementary information.

Based on the information you provided, we note that the remuneration practices are not homogeneous among HU public entities. We also observe that project-based bonuses are generally set up as a lump sum for delivery of results, rather than an increased remuneration (i.e. a higher hourly rate) for the time worked in the project. Finally, we note your confirmation that project-based bonuses are not generally fixed based on objective conditions. They depend instead on the rules of the founder (if any) or on an estimation of the market price of the work to be done for the project.

As you have rightly pointed out, some of those characteristics may conflict with the Horizon 2020 eligibility conditions for personnel costs. Nevertheless, and depending on the specific case, there may be simple ways to make the current practices compatible with the Horizon 2020 rules. The aim of our explanations below is, therefore, not just to explain the current rules but also to assist you in exploring the best alternative for HU entities.

For your convenience we have added our replies after each of your questions. As you will see, some of our explanations are rather technical. If you need any further assistance or clarification, please do not hesitate to contact us again.

Kind regards

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Questions and answers

Question: Although the Hungarian public organisations follow different national practices, the following example is reflecting a well-established salary scheme. Usually, the salary of a researcher consists of several components (basic salary + general bonuses set in law or in internal rules on work performance evaluation + project-based bonuses depending on the financial rules of the specific project and defined in a separate employment contract).

In the example, Mr. Smith worked on a H2020 project at a university between March and June 2016 (but there was no H2020 project work in 2015). His monthly salary in 2016 was 1,500 EUR (but 1,300 EUR in 2015) provided that he was not working in

project(s). He received an extra 500 EUR of monthly bonus for working in a national project between April 2015 and April 2016. The university does not have any internal rules on the level of remuneration in national projects (since the maximum level of the project remuneration is set in the financial rules of the specific RDI programme. These financial rules do not qualify as regulatory requirements.)

The university paid an extra 500 EUR of monthly bonus for work in H2020 project (323 working hours were reported in timesheets).

D) 1A or 1B?

The remuneration of Mr. Smith is project-based while he is working on H2020 project (between March and June 2016), as he received a monthly salary that consists of 1,500 EUR of basic salary, 500 EUR of national project bonus and 500 EUR of H2020 project bonus (altogether 2,500 EUR). Would the remuneration be still project-based if Mr. Smith had not received any project bonus for H2020 work (if, instead of receiving 2,500 EUR, he had received 1,500 EUR of basic salary and 500 EUR for working partially in a national project but no extra for working partially in a H2020 project)? **In other words, does the remuneration qualify as a project-based remuneration if the increase of the total salary is due to a bonus paid for work in a national project which has overlapping period with the H2020 participation?**

Answer: Yes, the person would have a project-based remuneration (case 1B) because its remuneration would vary depending on the participation in specific projects.

Question: If the answer is yes, what happens if the researcher receives a national project bonus only in one part of the period while he is working on H2020 project? – e.g. Mr. Smith partially worked on a H2020 project and a national project in March and April 2016, and he received 1,500 EUR of basic salary and 500 EUR of national project bonus (nothing extra for H2020 project). In May and June 2016, Mr. Smith stopped to work on the national project (but continued the work in H2020 project) and received only the basic salary. **Is his remuneration changing from project-based into a not project-based one?**

Answer: No, the remuneration would still be project-based because the usual practice of the beneficiary is that the salary of the person varies depending on her/his participation in specific projects. We understand, for example, that the moment the person would be involved again in a national project, it would get again a project-bonus.

Question: Which period should we take into account when we define whether the remuneration of the given employee falls under 1A or 1B? Is it the period of the participation in the given H2020 project or the whole employment period? (payment of a project bonus depends on the fact whether the researcher has the chance to work in a project where the financial rules of the specific programme allow to pay bonuses or not, thus there is no general rule at the institutions for paying bonuses for each project participation).

Answer: It would be the general remuneration practice of the entity regarding the person. In your example we understand that the entity will always pay a bonus for work in specific projects except when that is not authorised by the founder of the project. In that case, the remuneration would be project-based.

Question: And my final question in this topic: **if the researcher receives a bonus for participating in an industrial project** (where an industrial partner orders a service from a university, so we are not speaking about a classical RDI funding programme), **do we have to take it into account when we define whether the remuneration of the given employee falls under 1A or 1B?**

Answer: Yes, the salary of the person would fluctuate depending on the participation on specific projects, regardless the source of funding or the subject of the project.

II) National project reference based on the average of the previous year

Did I understand it correctly that **it is irrelevant whether the national bonus paid in the previous year was based on objective conditions or not when the national project reference is calculated?**

If so, in the original example of Mr. Smith, the total annual personnel costs for n-1 (year 2015) will be 12 x 1,300 EUR (basic salary in 2015) + 9x500 EUR (national project bonus for April-December 2015).

Answer: Yes, it is correct.

Question: If this interpretation is correct, **could you change the description of the calculation on p. 61 of AMGA?** I find the current version misleading since it states: “If the remuneration included ineligible items (e.g. profit distribution, **arbitrary bonuses**) those must also be removed.”

Since arbitrary bonuses are defined on p. 52 of AMGA as “bonuses which are not part of the beneficiary's usual remuneration practices and/or **which are not based on objective conditions**”, we used to instruct our beneficiaries to remove national bonuses which are not based on objective conditions from the average remuneration of the employee when calculating the national project reference. This is why I raised the question on project-based remuneration in the L&F NCP meeting.

Answer: Thank you very much for this remark. We understand that the current wording of the AGA in that regard may indeed be misleading. We will review this part of the guidance for the forthcoming update of the AGA.

Nevertheless, please note that the national reference is only used to define the threshold between basic and additional remuneration. Yet, for a bonus to be an eligible cost in Horizon 2020 (whether as basic or as additional remuneration) it must be based on objective conditions. In that sense we need to make the distinction between:

- A. the purpose of establishing a 'national projects reference' (NPR); which is to allow identifying which part of the remuneration qualifies as 'basic' (i.e. part paid up to the NPR) and which part as 'additional' (i.e. part paid above the NPR);
- B. the eligibility of the basic remuneration; i.e. having objective criteria is a general cost eligibility condition arising from Article 6.1(a)(vii) of the H2020 MGA that applies both to bonuses (or part of them) that qualify as basic remuneration and to bonuses that qualify as additional remuneration.

In this respect, the beneficiary may identify the basic remuneration by comparing the remuneration paid in the action with the NPR resulting from the average salary of the previous year, even if part of that salary was not paid based on objective conditions. However, if that 'basic' remuneration paid for the Horizon 2020 action includes a bonus not based on objective conditions, then such bonus would be ineligible even when it qualifies as basic remuneration.

In your example the NPR based on option 1 (1720 hours) would be:

$$\text{Total annual personnel costs for n-1 (year 2015)/ 1720} = 12 \times 1,300 \text{ EUR (basic salary in 2015)} + 9 \times 500 \text{ EUR (national project bonus for April-December 2015)} / 1720 = (15\,600 + 4\,500) / 1720 = 20\,100 / 1\,720 = 11,69 \text{ EUR/hour}$$

If the person would have worked only 1 full month in the Horizon 2020 action and it would have been paid for that month 1 300 + 500 (bonus), the action reference would be:

$$1\,300 + 500 / 143.33 \text{ (i.e. } 1720/12) = 1\,800 / 143.33 = 12.56 \text{ EUR/hour}$$

Basic remuneration would be then = NPR (11.69) x 143.33 = 1 675.5 EUR

Additional remuneration would be = (action reference – NPR) x 143.33 = (12.56 – 11.69) x 143.33 = 0.87 x 143.33 = 124.5 € (rounded)

In this example, the total amount paid would be eligible provided that the 500 EUR bonus was paid based on objective conditions. Otherwise, the 500 € would have to be removed to calculate the action reference. Please note that this requirement applied exactly in the same manner under the previous versions of the Horizon 2020 model Grant Agreement since this is related to general cost eligibility conditions.

Question: III) Eligible bonuses in H2020

Here I refer again to what you have said: objective conditions only have significance if the bonus is paid for H2020 work (but are irrelevant from the aspect of the calculation of the national project reference).

Thus, if we take the example of Mr. Smith

- national project reference is based on the average of the previous year:

$$12 \times 1,300 \text{ EUR} + 9 \times 500 / 1720 = 11,69 \text{ EUR/hour}$$

- action reference based on basic salary in 2016 and H2020 project bonus in 2016 (provided that the reporting period ends in 2017 and therefore 2016 qualifies as a closed financial year)

Annual personnel cost for work in action: $(12 \times 1,500 \text{ EUR} / 1720 \times 323) + 4 \times 400 = 4,980.23 \text{ EUR}$

Action reference: $4,980.23 \text{ EUR} / 323 = 15,42 \text{ EUR}$

- basic remuneration from H2020 salary

$$11,69 \text{ EUR} \times 323 = 3,775.87$$

But the bonus paid in H2020 (1,600 EUR paid for 4 months) is ineligible as the university does not have internal rules with objective conditions for H2020 bonus. Thus, the remuneration that may be reimbursed will be the pro-rata of the basic salary in 2016: $12 \times 1,500 \text{ EUR} / 1720 \times 323 = 3,380.23 \text{ EUR}$. **Is this calculation correct?**

Answer: In fact, as explained in page 60 of the AGA, when the remuneration is project-based (case 1B) the calculation of the action reference is as follows:

{ annual personnel costs for the person for his/her work in the action
divided by
number of hours worked for the action in the financial year }.

In your example, if the bonus paid for the Horizon 2020 action is ineligible, because not based on objective conditions, the calculation would be:

- Action reference = $((12 \times 1,500 \text{ EUR} / 1720) \times 323) / 323 = 10.46 \text{ EUR/hour}$

- NPR = 11.69 EUR/hour

Therefore, as action reference < NPR, all the remuneration qualifies as basic remuneration (not subject to the 8 000 € cap). Because we have already removed the non-eligible part (bonus not based on objective conditions), the personnel costs would be:

$$10.46 \times 323 \text{ (hours worked in the action)} = 3\,378.58 \text{ €}$$

Question: If so, then why should the beneficiaries go through the calculation of the national project reference and the action reference if they may take into account only the basic salary at the end of the day? **For those beneficiaries who do not have objective rules for H2020 bonuses and therefore only the basic salary is relevant, would be less burdensome to follow the logic of 1A (eligible salary element(s) divided by productive hours and multiplied by hours worked on action).**

Answer: beneficiaries may set up internal rules compatible with the Horizon 2020 provisions so as to be able to pay and charge to the grant not just the basic salary but also bonuses for the work in the action. The intention of the rule is certainly not to create administrative burden, but to give beneficiaries the opportunity to charge to the Horizon 2020 action at least as much as they would be paying for work in national projects.

Question: IV) Internal rules with objective conditions

Until now we have encouraged our beneficiaries to draft internal rules with objective conditions that shall be applied both for the national reference programme and H2020 project bonuses. But now I have the impression that we were too strict.

Would be the following wording appropriate?

- A senior researcher may receive a monthly remuneration in a national project up to 4,000 EUR (by this way the exact amounts could be decided by the management which will consider the specific task and the financial rules of the specific programme).
- A senior researcher shall receive 3,800 EUR of monthly salary for full time dedication in H2020 projects (by this way there is no room for discretion). (provided that the beneficiary is able to prove that the maximum monthly salary that has been paid to a senior researcher was 3,800 EUR)

If this solution is not in line with your concept, **how should we draft the internal rules to ensure flexibility needed to comply with various financial rules of different national funders and define objective conditions for H2020 bonuses?**

Answer: a rule that applies only to Horizon 2020 actions cannot be accepted. By contrasts it could be possible to set out objective conditions in the internal rules of the beneficiary which apply to (for example) *international projects*. That would include, but would not be limited to, Horizon 2020 actions.

Following your example, it would be possible to establish in the internal rules that a senior researcher shall receive 3 800 EUR of monthly salary for full-time dedication to an international project. This would be considered as an objective condition acceptable for Horizon 2020 provided that it is consistently applied for the participation of researchers in all international projects.

Nevertheless, we would strongly suggest you to link clearly the bonus to the working time. As you know, the national projects reference must be determined as an hourly rate. In that context, if the Horizon 2020 project-bonus is paid on the basis of a lump sum (i.e. a fixed extra salary not linked to the hours worked in the action) in order to calculate the action reference you would have to divide the lump sum bonus by a pro-rata of 1720 hours corresponding to the period covered by the bonus.

For example, if the internal rules establish that the monthly salary of a researcher participating in an international project is 3 800 € (i.e. irrespectively of the time worked in the project in the month), the action reference for Horizon 2020 would be calculated as:

$$3\,800 / (1720/12) = 3\,800 / 144.33 = 26.32 \text{ EUR/hour}$$

Finally, note that the example you give regarding bonuses for national projects (i.e. up to 4 000 €) would not be a valid reference for the NPR, as the precise amount of the bonus paid to each person (i.e. between 0 and 4 000 €) would not be based on objective conditions. In that situation, the beneficiary would still have to use the average of the previous year's salary to define the NPR.