NET ZERO CITIES
SGA3-NZC

NetZeroCities Enabling City Transformation 2 (NZC ECT2) Financial Guidelines

Enabling, Scaling, and Sustaining Transformation Pathways

This document covers proposals for funding under Horizon Europe, Grant Agreement number: 101261829 — SGA3-NZC

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History of reviews

Version	Date	Item
A1.0	31.08.2026	First version published

Abbreviations and acronyms

Acronym	Description
WP	Work Package
ECT	Enabling City Transformation
KPI	Key Performance Indicator
NZC	NetZeroCities
CFS	Certificate on Financial Statement

All amendments to these Financial Guidelines, as well as any additional guidance and Frequently Asked Questions (FAQ), will be made available at the NetZeroCities website.

To stay informed on the latest developments, we encourage proponents to check the website regularly. Changes to these guidelines will be detailed in the above table.

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Introduction

The purpose of this document is to enable applicants to prepare their grant applications for the Call for Proposals for the NetZeroCities (NZC) Enabling City Transformation 2 (ECT2) Programme. The document contains the main legal and financial rules for the SGA-NZC ECT2 programme to guide application preparation.

Climate KIC has entered into a grant agreement with the European Climate, Infrastructure and Environment Executive Agency (CINEA), under the powers delegated by the European Commission regarding Horizon Europe Research and innovation funding programme (2021-2027), for the funding of the action entitled 'Accelerating cities' transition to net zero emissions by 2030' — 'NetZeroCities', Grant Agreement name "Specific Grant Agreement n°3 to the FPA to reinforce the operations of the Climate-Neutral and Smart Cities Mission Platform" and no. SGA3-NZC 101261829.

Being funded under Horizon Europe (HE), the rules for beneficiaries reflect those of the HE Programme.

The information given in this document complements the one contained in the NZC ECT2 Call Guidelines. The award agreement – signed with the awarded organisations – also includes the legal and financial rules contained in this document

1 General Principles

Call for Proposals for the NZC ECT2 programme grants are subject to the principles laid down below, the principles of prohibition of double financing and non-profit.

Non-cumulative award

A given project activity may only receive one grant from the European Union funds. Under no circumstances shall the same costs be financed twice. To ensure this, applicants shall indicate in the grant application any funding received or applied for, (and the source(s)) for the project, specifying the relevant activities or for the applicant's functioning during a relevant financial year(s).

No-profit principle

The SGA-NZC grant (FSTP) may not have the purpose or effect of producing a profit. Profit is defined as a surplus of the receipts over the eligible costs incurred, when the request is made for payment of the balance. If this calculation results in a profit, the granting organisation (Climate-KIC) will reduce the final amount of the grant proportionally to the profit made. The verification of the no-profit principle does not apply for beneficiaries which are a non-profit organisation.

2 Definitions

Mission Cities - *Applicant/s - Beneficiary/ies*

"Mission Cities" are local authorities or city administrations selected to be part of EU Mission "100 Climate-Neutral and Smart Cities by 2030".

"Applicants" are Mission Cities, which submit a project proposal. The text of the Call for Proposals for NZC ECT2 programme specifies, inter alia, the eligibility criteria for applicants.

"Beneficiaries" are applicant entities which then sign the award agreement with the granting organisation (Climate-KIC). They are actively involved in the implementation of the project and are financially engaged, be it by hiring staff or incurring other costs.

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In the proposals submitted by a consortium of various Mission Cities, one **Mission City** must take the role of lead applicant in the application stage, and "lead beneficiary" in the award agreement. The other organisations and Mission Cities involved in the application are called "co-applicants" at the application stage and "partners" in the award agreement. The coordinator is responsible for submitting the proposal on behalf of the consortium, acting as the contact point for the consortium during the application and subsequent grant agreement processes, representing the consortium as a lead beneficiary at the award agreement signature stage.

The award agreement will detail the specific obligations of the lead beneficiary, cascading to the partners of the consortium.

3 Estimated Budget of the Project

3.1 Budget preparations

Please note that the funds are awarded from EU public budget, therefore the successful applicant/s must take care to avoid any unnecessary or unnecessarily high expenditure following the practice of best value for money (or if appropriate the lowest price) and ensuring that there is no conflict of interests.

The requested subgrant allocation per legal entity shall not be more than two-thirds of the total subgrant requested.

Please make sure the mandatory budget features listed in the Call guidelines are included

3.2 Maximum Grant Amount and Reimbursement Rate

The total available budget under this call is 8 million Euros (EUR). Funding rules defining the budget allocation to any one proposal and subsequently selected intervention follows a logic linked to the number of Mission Cities included in any one proposal:

The funding will be allocated across three subgrant envelopes as follows:

- **500,000 EUR:** proposals with a minimum of **one Mission City** plus at least one additional consortium partner.
- **1,000,000 EUR:** proposals with a minimum of **two distinct Mission** Cities (i.e. formally selected as such), plus any additional consortium partners.
- **1,500,000 EUR**: proposals with a minimum of **three distinct Mission Cities** (i.e. formally selected as such), plus any additional consortium partners.

The criteria for determining the exact amount of grants to selected third parties will be based on:

- proposed budgets submitted by applicants, in line with eligible cost categories, and
- assessment of the budget/proposal's value for money in relation to the proposed activities and expected impacts.

The reimbursement rate is 100% of the total eligible costs and will be calculated at the end of the programme. The maximum grant amount can NOT be exceeded. Applicants are allowed to submit a project budget higher than the requested amount applicable under this call by self or co-funding the foreseen expenses beyond the awardable funding by the NZC ECT2 programme. Strictly note that double financing is prohibited. The same expenses cannot be funded or claimed to different funders.

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To avoid confusion, presenting a budget that contains also expenses financed with other sources of funding is discouraged, but it is however possible, once the budget clearly identifies which expenses are to be considered part of this grant.

No legal entity shall be allocated with more than two-thirds of the total subgrant awarded.

3.3 Form of Grant and Eligibility of Costs

Financial support is provided in the form of grants based on, and reimbursed against, actual costs incurred and submitted in reporting. Expenditure must include the estimated costs for the implementation of the project exclusively. Only indirect costs are calculated based on a flat rate (25% - as per Horizon Europe rules).

In order to be eligible for funding, budgeted costs must meet the following criteria:

a) be incurred by the beneficiary during the duration of the project, including costs related to final reports and audit certificates that are incurred after the end of the action, and attendance to bootcamp that took place before the start of the programme (as per Annex 2 of the signed award agreement).

b) be indicated in the estimated overall budget of the action included in annex I to the award agreement and its subsequent amendments.

c) be necessary for the implementation of the project which is the subject of the grant.

d) be identifiable and verifiable, in particular be recorded in the accounting records of the beneficiary and determined according to the applicable accounting standards of the country where the beneficiary is/are established and according to the usual cost-accounting practices of the beneficiary.

e) comply with the requirements of applicable tax and social legislation.

f) be reasonable, justified and comply with the principle of sound financial management, in particular, regarding economy and efficiency.

Value added tax (VAT) is considered as eligible where it is non-deductible and non-refundable under the applicable national VAT legislation and is paid by a beneficiary other than a non-taxable person as defined in Article 13(1) of Council Directive 2006/112/EC13 of 28 November 2006[1] on the common system of value added tax.

The beneficiary's internal accounting and auditing procedures must permit direct reconciliation of the costs and revenue declared in respect of the project with the corresponding accounting statements and supporting documents. The lead beneficiary is responsible for the management of the project's budget and passing the obligations on to the partners of its lead-consortium, as well as its documentation and alignment with the financial rules.

The detailed estimated budget must be presented in Euro. Applicants established in countries outside the Eurozone must use the conversion rates published in the C series of the Official Journal of the European Union (OJ) available here.

[1] https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52017PC0783

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The exchange rate will be unique per project, calculated as average over the whole reporting period.

Applicants/beneficiaries should be aware that they fully carry the exchange rate risk. The budget estimate must be properly balanced: the two totals (income and expenditure) must be the same since the available income (the grant requested from the NZC ECT programme) will have to finance the planned expenditure. Documentation justifying costs must be kept by the beneficiary for five years following the closure of the NetZeroCities Horizon Europe contract "**101261829 – SGA3-NZC",** from where the award fund cascades.

3.4 Eligible Costs

The eligible direct costs for the project are those costs which satisfy the criteria of eligibility set out below and are identifiable as specific costs directly linked to the performance of the awarded activities.

The following categories of costs are considered eligible: Personnel, Subcontracting, Purchase Costs, internally invoiced goods and services and Indirect Costs:

Cost Category	
A. Personnel Costs	
B. Subcontracting Costs (no subject to indirect costs)	
C. Purchase Costs	C.1 Travel and subsistence
	C.2 Equipment
	C.3 Other goods, works and services (e.g. consumables, dissemination, audit costs)
D. Other cost categories (internally invoices goods & services) – (no subject to indirect costs)	
E. Indirect Costs (= 25% * (A + C.1 + C.2 + C.3))	
Total Eligible Costs (A + B + C + D + E)	

Extra costs associated with the participation of people with disabilities are also eligible. These costs may be required to cover the use, for example, of special means of transport, personal assistants, or sign language interpreters.

3.4.1 A- Personnel Costs –

This category covers costs for personnel working under an employment contract for the awarded consortium (or equivalent appointing act) including in-house consultants having a contract directly with the consortium organisation, and personnel seconded to the consortium by a third party against payment.

The actual annual salary includes social security contributions, taxes and other mandatory costs linked to the remuneration paid directly by the beneficiaries, excluding costs covered by national schemes paying e.g. for parental leave .

The personnel assigned to the grant shall document their time working on the grant through a time-recording system (e.g. timesheets), in order to claim the costs. Daily rates will apply and will be based on a maximum number of 215 working days per calendar year for a Full Time Equivalent through the following calculations:

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Daily Rate = Actual annual personnel costs for the person divided by (÷) 215

$$\text{Daily rate} = \frac{\textit{actual annual personnel costs for the person}}{215^{*}}$$

Personnel Costs = Daily rate x days worked on the NZC grant

$$\text{Personnel costs} = \text{Daily rate} \times \text{Days worked in the project}$$

Evidence required under this cost category: payslips, proofs of payment, fully signed employment/secondment contracts, fully authorised timesheets. Staff provided by a temporary work agency — A contract with a temporary work agency qualifies typically as a purchase of services (unless the temporary work agency carries out directly some task of the action — in which case it would be considered as subcontracting). Thus, although NOT eligible as personnel costs, the costs can be charged under other budget categories (i.e. other goods and services or subcontracting), if they comply with the eligibility conditions (e.g. best value for money and no conflict of interest).

3.4.2 B- Subcontracting Costs

This cost category covers subcontracts for the implementation of certain action tasks described in the project. To be eligible, the nature and estimated costs must be foreseen in the estimated budget. Subcontracting may only cover a limited part of the project action. If otherwise, the provider must be included in the consortium based on the non-profit principle. Subcontracts must be awarded ensuring competitive selection procedures on a “best value for money” basis (or if appropriate the lowest price) and that there is no conflict of interests (see Article 12). Subcontracting may not cover tasks of the project such as project management and coordination. Subcontracting is not allowed between members of the consortium. Beneficiaries that are ‘contracting authorities’ or contracting entities’[2] shall comply with the applicable national law on public procurement when choosing a subcontractor.

Evidence required under this cost category: presence of cost item in the approved budget, supporting procurement documentation, fully signed contracts/invoices, proof of payment, proof of contract delivery.

3.4.3 C- Purchase costs

This category covers costs for goods, work, or services necessary to support the implementation of the project, and it is divided in three sub-categories:

-c1) *Travel and Subsistence* cover all the project related travels costs during the duration of the project (e.g. to project meetings, events, etc.). Costs generally should be for travel and subsistence for

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[2] Contracting authorities within the meaning of EU Public Directives are the state, regional or local authorities, bodies governed by public law, or associations formed by one or more such authorities, or one or more such bodies governed by public law. For more information, please refer to Directives 2014/24/EU, 2014/25/EU12 and 2009/81/EC.

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personnel of the awarded organisation. However, travel and subsistence costs for experts participating in the project are eligible provided this is explicitly foreseen in the budget.

c2) *Equipment* covers depreciation costs or costs for renting or leasing equipment. Equipment is normally capitalised over its useful life, but only the portion of costs related to the project and for the duration of the project can be depreciated and is eligible. Costs should be calculated according to national/institutional accounting practices.

Equipment can be reported 100% only if in line with the partner's usual accounting practices (fixed asset policy). If a partner has a fixed asset policy that allows it to expense the entire cost of the equipment in the year of acquisition, then the full amount can be reported and claimed in year of purchase. Budget and report against D2d: Fixed Assets – full costs.

c3) *Other goods, works and services* covers any additional costs not to implement the main action but auxiliary to the delivery of the project (e.g. dissemination and communication activities, catering for events, audit certificates, intellectual property rights, etc.).

Evidence required under this cost category: invoices/receipts, proof of payment, for C1 evidence the travel took place (meeting agenda, registration to site,…), for C2 physical verification.

3.4.4 D- Other cost categories (internally invoices goods and services)

This cost category includes internally invoiced goods and services provided within the beneficiary's organisation for the action. These costs should be valued based on the beneficiary's usual cost accounting practices. They can be declared as unit costs if they meet the general eligibility conditions and are calculated as follows:

1) Actual costs recorded in the beneficiary's accounts, determined through direct measurement or cost drivers, are used;

2) Ineligible or already included costs in other budget categories are excluded;

3) The actual costs may be adjusted based on budgeted or estimated elements that are relevant, reasonable, and supported by objective and verifiable information.

4) The calculation of eligible costs should follow consistent cost accounting practices based on objective criteria, regardless of the funding source.

3.4.5 E- Indirect costs

Those are costs that cannot be identified as specific costs directly linked to the project but are necessary to run, manage and administrate the beneficiary's organisation. They are limited to a flat rate of 25% of the total eligible direct costs for the project (Personnel Costs + Purchase Costs). Subcontracting costs and other cost categories, such as internal invoices, are excluded from the calculation. The 25% indirect costs generated by the personnel and purchase eligible direct costs aim to cover general organisation expenditures that could not be attached to the project while are necessary to perform activities – such as heating, electricity or other forms of energy, water – necessary for the successful completion of the project or human resources/accounting department operational support.

As indirect costs are a flat rate, no supporting evidence is needed to verify them.

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3.4.6 Ineligible costs

Costs are not eligible when they do not comply with the conditions set out above, in particular:

- costs related to return on capital;
- debt and debt service charges;
- provisions for future losses or debts;
- interest owed;
- doubtful debts;
- currency exchange losses;
- bank costs charged by the beneficiary's bank for transfers from the granting authority;
- excessive or reckless expenditure;
- deductible or refundable VAT (including VAT paid by public bodies acting as public authority);
- costs or contributions for staff of a national (or regional/local) administration, for activities that are part of the administration's normal activities (i.e. not undertaken only because of the grant) (d) costs or contributions (especially travel and subsistence) for staff or representatives of EU institutions, bodies or agencies;
- costs or contributions declared under other grants (EU or grants awarded by an EU Member State, non-EU country or other body implementing the EU budget);
- costs incurred in case of suspension of the project implementation.

3.4.7 Out of scope costs

The following costs are out of scope for the NZC ECT2 Programme:

- infrastructure costs;
- sub-grants or prizes;
- large research infrastructure.

4 Reporting and Payment Procedures

4.1 Reporting

The project will be divided into the following reporting periods (RP):

- RP1 from month 1 to month 12;
- RP2 from month 13 to month 22.

The coordinator of the project will be required to submit the interim (RP1) and final (RP2) reports on behalf of the consortium within 60 days following the end of each reporting period.

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A financial report will be due both in interim and final reporting to include:

- the individual financial statement from each beneficiary detailing the eligible costs (both direct and 25% flat rate on indirect costs for all partners of the ECT2 consortium).

To track record of costs and activities performed is a legal obligation.

Specifically cost reporting documents will be used:

- to capture and record progress on the project selected and ensure an audit trail for future.
- to honour the "parent" contract SGA NZC-101121530 signed between CINEA and Climate KIC.
- for Climate KIC to report in turn to the main funder CINEA accordingly.

During the assessment by CINEA and the controllers, such as OLAF, if the reported information is not deemed acceptable, a proportion of the costs may not be reimbursed. It is the responsibility of the Lead City to produce a satisfactory level of reporting on behalf of all the pilot consortium, consolidating partners' reports and submitting in due time.

Financial reporting templates and financial reporting guidelines will be provided at least 3 months before reporting deadline.

4.2 Payment Procedures

Payment of the grant will be made in two instalments: a pre-financing instalment and a final payment (the balance). The aim of the pre-financing is to provide the beneficiaries with a float. The pre-financing remains the property of the granting organisation (Climate-KIC) until the payment of the balance.

The payment will be made as follows:

1. A pre-financing of 60% of the grant within 30 calendar days from the entry into force of the award agreement.

2. Final payment: Upon receipt and approval of the final project report by Climate-KIC, followed by positive final review of the SGA3 NZC 101261829 by CINEA, a final balance payment calculated by deducting the payments received from the total actual cost claimed and capped to the maximum awarded amount, will be disbursed.

5 Certificate on Financial Statement

All awarded Mission Cities selected/Mission cities consortium partners are responsible for tracking and recording the expenses needed to implement the action.

According to Horizon Europe, a CFS is necessary when the requested contribution is ≥ 430.000 EUR.

All the funding envelopes under this call exceed this amount and are assigned through the grant award agreement to a sole beneficiary (Lead City) that then cascades it to its partners. Hence all consortium leads must submit a Certificate on Financial Statements (CFS), covering the Lead's RP1 and RP2 expenses, regardless of the specific amount allocated to the lead organisation, meaning their own financial statement shall be verified by an independent or external auditor.

The CFS will be submitted during final reporting together with financial statements of all consortium partners.

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The project lead should have the CFS costs planned in their project budget, under the cost category *c3 Other good, works and services*.

As the primary contracting party, the Lead City is ultimately accountable for the overall project budget, including all costs reported by consortium partners.

To maintain fiscal integrity while avoiding excessive paperwork, the Lead City may be asked to review a sample of partner expenditures and submit a check report alongside the final reporting. This review is particularly relevant if a consortium partner holds a significantly larger portion of the overall budget than the Lead City.

The objective is to ensure that a significant part of the project expenditure is independently reviewed, while keeping the administrative burden reasonable.

The exact scope of these financial checks, including the sampling method, shall be agreed prior to final reporting between the Lead City and Climate-KIC as whether a partner should submit an independent Certificate on the Financial Statements (CFS) instead.

The lead city's CFS will not affect the granting authority's right to carry out its own checks, reviews, or audits, nor preclude the European Court of Auditors (ECA), the European Public Prosecutor's Office (EPPO) or the European Anti-Fraud Office (OLAF) from using their prerogatives for audits and investigations under the Agreement. If the costs (or a part of them) were already audited by the European Commission, these costs do not need to be covered by the certificate.

The certificate can be drawn up using this template and cover the costs declared on the basis of actual costs and costs according to usual cost accounting practices (if any), and fulfil the following conditions:

- be provided by a qualified, approved external auditor who is independent and complies with Directive 2006/43/EC (or for public bodies: by a competent, independent public officer)
- the verification must be carried out according to the highest professional standards to ensure that the financial statements comply with the provisions under the Agreement and that the costs declared are eligible.
- be drafter in English
- be complete of*:* Terms of Reference (ToR) identifying purpose and scope of the audit, Checklist (Table of Procedures) and Report of factual findings with exceptions.

If a beneficiary does not submit a certificate on the financial statements (CFS) or the certificate mentions non compliances, the accepted EU contribution to the overall project costs will be capped to reflect the CFS threshold.

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