EUA
European University Association

Taking simplification of EU Funding to the next level

The university perspective

FEBRUARY 2018

TAKING SIMPLIFICATION OF EU FUNDING TO THE NEXT LEVEL: THE UNIVERSITY PERSPECTIVE

As the European Union prepares the next generation of EU funding programmes for the post-2020 period, budget discussions are increasingly geared towards performance, European added value, trust and efficiency. Simplification is a cornerstone in the debate as it is seen as a way to achieve these goals, lower entry barriers to programmes (thus improving participation throughout Europe), and overall to maximise the impact of EU funds. Simplification is therefore first and foremost a strategic dimension of the EU investment in research and innovation.

Universities are directly interested in the discussions on simplifying the access to and management of projects in a wide range of EU funding programmes. Their unique position at the heart of the knowledge triangle, specifically in fostering the advancement of research, education and innovation, makes universities important beneficiaries of various types of EU funds, ranging from European Structural and Investment Funds (including regional development and social funds) to the EU's Framework Programme for Research and Innovation (Horizon 2020) and the Erasmus+ Programme for Education, Training, Youth and Sport. These programmes address different priorities and respond to specific logics. They are also currently administered on the basis of different sets of rules, which all require simplification.

Universities are the biggest beneficiaries of Horizon 2020 and are involved first-hand in managing various types of Erasmus+ funds. EU funding, including structural funds, represents up to one fifth of universities' income structures. Due to their engagement with diverse income streams at the regional, national and European levels, universities must comply with different sets of rules for participating in various funding programmes. This makes the university sector not only a key stakeholder interested in the most efficient and effective funding rules, but also a unique partner for EU institutions seeking to improve and simplify such rules.

The European University Association (EUA), representing 850 members across 47 countries, presents in this paper an outline of the challenges surrounding simplification in research and innovation and shares its perspectives and solutions. In doing so, EUA builds on its work in the areas of simplification and financial sustainability, including its proposals for the next EU Framework Programme for Research and Innovation (FP9), where the sector strongly argues for better alignment of EU policies and funding instruments for education, research and innovation.

CHALLENGES SURROUNDING SIMPLIFICATION IN RESEARCH AND INNOVATION

It is no secret that simplification is, paradoxically, a highly complex matter and a long-standing one in research and innovation funding. It has been a priority in the design of each EU framework programme. The issue has been particularly salient during the transition from FP7 to Horizon 2020 and continues to be an important topic for both the midterm review of Horizon 2020 and the preparation for FP9. Stakeholders broadly acknowledge the notable progress that has been achieved under Horizon 2020 in terms of simplification. Nevertheless, the EU funding landscape remains tested by a series of challenges that must be borne in mind when seeking to simplify EU funding for R&I and striking the right balances in the next phase.

SIMPLIFICATION VS FINANCIAL SUSTAINABILITY

While simpler, standardised approaches to simplification seem to benefit universities' operations in the short term, they might be challenging for beneficiaries in the long run. This is particularly relevant when considering cost coverage. While most EU-funded programmes operate through co-funding based on simplified and streamlined rates, public investment in research and education is going down in many member states, thus making co-funding more challenging for the public beneficiaries of H2020, such as universities. In many systems, they have to invest their own resources to cover the related costs of participation in the EU programmes. The "funding gap" that results from the combination of insufficient cost coverage and limits to the co-funding logic is aggravated by the continuing lack of synergies between EU funding schemes and with national funding. The simplification agenda should therefore consider both EU and national funding mechanisms and avoid compromising the financial sustainability of universities and other beneficiaries in the long run. This factor also has a direct effect on the participation gap, because universities faced with budget cuts at home are less likely to be successful, or even less capable to participate, in the EU programmes.

TRUST VS CONTROL

The second challenge relates to the balance between the funder's trust in and control of the beneficiaries. In this regard, the European Commission and the European Court of Auditors are seeking to move from compliance to performance orientation. While multiple controls over spending EU public funds are an inherent feature of the entire EU funding landscape, approaches based on trust are generally more efficient in terms of operational costs and the administrative burden involved. A key element in this discussion is the level of trust between EU institutions, on the one hand, and the national controlling bodies and procedures, on the other. In practical terms, this could be achieved through a wider acceptance of nationally-recognised practices in terms of audits (exploring cross-reliance of audits), as well as in terms of accounting and management practices. Increased reliance on national audits combined with acceptance of nationally-recognised institutional accounting practices will strongly benefit the overall efficiency of the EU funding programmes: not only will errors by beneficiaries be less frequent, as rules will allow for their usual accounting practices, but they will also be better detected by the regular auditing bodies of the beneficiaries. Enhanced trust will therefore more effectively direct the resources to the primary purpose of the funding programme. In this matter, the key question is the allocation of responsibilities along the "chain of trust".

SPEED VS QUALITY

Responding to the needs of beneficiaries engaged in time-sensitive research and innovation processes, the European Commission has increased the overall speed of the R&I funding processes and the time-to-grant in Horizon 2020. Faster processes are a valuable objective as long as the quality of these processes and outcomes, and in particular the quality of evaluations and peer reviews, is not compromised. In this context, a more differentiated approach to the time-to-grant targets, based on the time sensitivity of actions across the programme and technology readiness levels, seems the most appropriate option.

CHANGE VS CONTINUITY

The scale and timing of changes that simplification measures entail for beneficiaries must be properly considered. The hastened mainstreaming of new funding principles (for instance, lump-sum funding) could be highly disruptive for beneficiaries and their support offices, and require significant adaptation – and thus, further costs - that would increase the likelihood of errors. This is particularly relevant for large organisations with decentralised internal structures and beneficiaries that will be completing Horizon 2020 projects after 2020 while simultaneously starting to manage FP9 projects. Alignment of rules, both between the current and next generation of programmes, as well as throughout the broader funding programme portfolio, must ensure a sufficient degree of continuity for participating institutions.

DIVERSITY VS STANDARDISATION

EU funding programmes, and in particular Horizon 2020, address very diverse types of organisations that are subject to specific financial management systems and rules. This diversity must be recognised in discussing simplification measures. While it is important that rules across programmes become better aligned, beneficiaries of the future FP9 should be given different options for cost accounting, to reflect existing diversity and narrow the gap between internal practice and EU project management, and thus ultimately limit errors.

THE EU APPROACH TO SIMPLIFICATION

The European Commission has profiled simplification prominently in the public consultations on the midterm review of the current programmes and on the next generation of funding programmes, and has fostered an open dialogue with stakeholders.

Simplified rules for EU funding is indeed one of the core principles for reform set out in the European Commission's Reflection Paper on the Future of EU Finances. Simplification is enshrined in the broader objective of performance orientation and efficient management of the Union's resources. It is defined as follows:

"Simplified rules: citizens should not be discouraged from applying for EU funding as a result of excessive bureaucracy. Efforts to cut red tape and further simplify the rules of implementation should therefore continue. Moving towards a single set of rules would help achieve this."

The European Commission's overall approach to simplification is based on a "single rule book" that is meant to introduce coherent and simple procedures for all beneficiaries of the EU programmes (as is the case of universities) and reduce the risks of non-compliance. In turn, simplified rules are expected to limit resources needed to support administrative and control processes, redirect resources for the core objectives and thus ultimately enhance the efficiency and effectiveness of the EU funding programmes. This is in line with the goal of demonstrating higher added value of EU funding.

In the field of research and innovation, this approach dominates the discussions towards shaping the rules for participation in FP9. The European Commission has fully integrated simplification in its interim evaluation of the Horizon 2020 programme, highlighting the need for further progress in this area as one of the key lessons learnt. In 2017, the Commission already introduced a series of simplification measures in Horizon 2020 that have improved participation modalities for beneficiaries, and that focused primarily on the pre-award stage.

In this spirit, lump sums have been introduced in the second half of the Horizon 2020 programming period, via specific calls, to test simplified forms of funding ahead of FP9. Lump sums as implemented so far diverge from traditional grants insofar as payment is not based on costs actually incurred and reported, but corresponds to a pre-defined amount, that is transferred on the basis of proper implementation of the work packages agreed upon between the European Commission and the beneficiary. In the field of EU funding for R&I, lump sums are also an illustration of the enhanced performance orientation that the European Commission is putting forward.

While stakeholders' concerns about the output-based nature of lump sum payments have been addressed by the European Commission, the rolling out of this scheme nevertheless opens a series of questions regarding flexibility, cost coverage, accountability and the responsibilities of beneficiaries and funders. This type of scheme bears risks that should not be underestimated, also with regard to the objective of widening participation. Indeed, higher financial risks may discourage participants to open consortia to newcomers in the programme and thus impede the objectives related to widening participation.

At this stage, EUA strongly recommends to carefully assess the results of the pilots before extending or making this type of scheme mainstream in FP9. It seems wise to privilege a small-scale approach, considering the fact that lump sum funding may not be appropriate for all types of actions. It is also important to preserve the main funding logic that beneficiaries are familiar and prepared to deal with.

THE UNIVERSITY PERSPECTIVE

Universities support the objectives pursued by the European Commission and subscribe to the urgent need to enact impactful simplification for beneficiaries. EUA consulted its member universities in the framework of the midterm consultation on Horizon 2020 to identify the current issues and proposed solutions for further simplification. Universities cautiously assessed the potential for real simplification of the proposed measures for beneficiaries and consider that there is a need to re-focus on more effective simplification solutions.

Simplification should be about achieving a coherent set of rules that is mindful of the diversity of actions and beneficiaries accommodated in a programme, and that ensures both high-quality processes and an effective use of resources.

In the eyes of universities, simplification should be about fully embracing the diversity of participating organisations, in order to effectively lower entry barriers and fully tap into Europe's creative and innovation potential. Simplification should be about enhancing the financial sustainability of all, through a more efficiently managed programme, and avoiding the diversion of resources into secondary processes. Simplification should not lead to poorer cost coverage. Finally, simplification of EU funding should become an example to follow for other funders at the national and regional levels.

ONE-SIZE-FITS ALL IS NO SILVER BULLET

The main narrative for simplification so far has been that providing one set of rules for all beneficiaries is more effective, simpler and more transparent. While this does improve the readability of rules across various EU funding sources, it does not take into account the fact that, overall, beneficiaries do not mainly operate on the basis of EU funds. Instead, organisations that participate in EU funding programmes have their main financial operations in the public or private sector, and are funded through public authorities, commercial transactions, etc. Internal financial management of public universities, notably, is geared towards meeting the requirements of the main funder, namely national or regional public authorities. Consequently, the first source of complexity acknowledged by university managers and, in turn, the first source of error, is the mismatch between the requirements of EU funding and the internal financial management system set up in the institution, for instance in relation to accounting of personnel costs, time recording or auditing. It is important to underline that these errors, linked to the complex processes universities have to adapt to, can lead to high penalties that may even discourage them from further participation in the framework programme. It may sometimes take months and years before a university obtains the assurance that it operates its projects in a way that complies with the programme rules. The lack of certainty and the related issue of divergent interpretations of rules create a challenging environment for beneficiaries.

A CRITICAL STEP FORWARD: ACCEPTING NATIONALLY-RECOGNISED INSTITUTIONAL PRACTICES

Therefore, simplification starts with acknowledging that every effort should be undertaken to limit the mismatch between the requirements of EU funding and the institutional financial management systems. This is best done by fully accepting nationally-recognised institutional accounting and management practices, including cost eligibility, time recording, calculations of productive hours and hourly rates.

The EU funders have been arguing that accepting nationally-recognised accounting practices would lead to a greater risk of unequal treatment of beneficiaries, because of diverging national rules on cost eligibility. However, such inequalities already exist widely under the current rules and could even increase in the context of "simplified" forms of funding such as flat rates or lump sums.

The measure that came closest to this acceptance principle was the possibility to apply for the certification of an institutional methodology under FP7, an option that broadly failed to convince the beneficiaries due to the excessively burdensome rules. Attempts to apply for FP7 certification by an entire sector (British or Austrian universities, for instance) were also rebuked, despite their potential for considerable economies of scale and increased efficiency.

Current options to apply the beneficiaries' usual cost accounting practices under Horizon 2020 remain too limiting and universities call for progress in this area. Establishing several options for beneficiaries to choose from would help accommodate different needs and situations. It would allow beneficiaries to select schemes that most closely relate to their own processes and therefore, limit the risk of error. Additionally, this should facilitate the participation of newcomers to the programme.

Options that should be made available to participants include:

- Certification of institutional methodologies in the beginning of FP9, through an improved procedure; this would be suitable particularly to large institutions managing many projects.
- Accepting national accounting systems developed by the sector; this has been done in countries such as Denmark, Finland, Sweden, Norway, Ireland and the UK, where national research funders have worked together to create a common methodology that is also accepted by private foundations. This option has also encouraged other countries to develop such common approaches.
- An improved model based on the currently existing H2020 procedures (improvements include for instance, for unit costs, a differentiation of staff categories with a country coefficient based on PPP).

Described above is the single most important measure for a qualitative step towards simplification in the eyes of universities. The acceptance of nationally-recognised institutional accounting practices will make it possible to fully embrace the diversity of participating organisations, lower entry barriers and widen participation, as well as enhance the efficiency and effectiveness of EU R&I investment. Enhanced trust will divert resources to the main purpose and maximise the impact of the funding programmes. Simplification should be about enhancing the financial sustainability of all, through a more efficiently managed programme, while avoiding the diversion of resources into secondary processes.

A series of connected issues should also be approached in detail, including items such as accounting of personnel costs, time recording, cost coverage, audit practices, funding instruments, etc. In Spring 2018, EUA will table concrete proposals for effective and impactful simplification of EU funding for research and innovation in a series of briefs to feed into the debate with operational recommendations from the university sector.

KEY MESSAGES

- The simplification agenda should consider both EU and national funding mechanisms and avoid compromising the financial sustainability of universities and other beneficiaries in the long run.
- A higher level of trust should be achieved through a wider acceptance of nationally-recognised practices in terms of audits, as well as in terms of accounting and management practices.
- Quality and speed should be improved via a more differentiated approach to the time-to-grant targets, based on the time sensitivity of actions across the programme and technology readiness levels.
- Alignment of rules, both between the current and next generation of programmes, as well as throughout the broader funding programme portfolio, must ensure a sufficient degree of continuity for participating institutions.
- The significant diversity of beneficiaries must be recognised in discussing simplification measures. Better alignment of programme rules should go hand in hand with offering beneficiaries different options for cost accounting.
- The results of the lump-sum pilots must be carefully assessed before extending or even making this type of scheme mainstream in FP9. It seems wise to privilege a small-scale approach, considering the fact that lump-sum funding may not be appropriate for all types of actions. It is also important to preserve the main funding logic that beneficiaries are familiar and prepared to deal with.
- Simplification should be about achieving a coherent set of rules that is mindful of the diversity of actions and beneficiaries accommodated in a programme, and that ensures both high-quality processes and an effective use of resources.

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The European University Association (EUA) is the representative organisation of universities and national rectors' conferences in 47 European countries. EUA promotes cooperation between universities and plays a crucial role in the Bologna Process and in influencing EU policies on higher education, research and innovation. Thanks to its interaction with a range of other European and international organisations, EUA ensures that the independent voice of European universities is heard, wherever decisions are being taken that will impact on their activities.

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