

# EUA Input to the Debate on the Rules for Participation in Horizon 2020

## I. Introduction

EUA represents over 850 universities and university associations across 47 European countries. Its highly diverse membership covers the full spectrum of universities participating in European research programmes.

On behalf of its university membership, EUA has actively engaged as a European stakeholder at every stage of the European Commission's (EC) consultation processes on the development of the Horizon 2020 proposal through its positions on the "Innovation Union", the "Green Paper on a Common Strategic Framework for EU Research and Innovation Funding" and the "ERA Framework". In these contributions EUA has consistently emphasised the need for further simplification of the Rules for Participation and their implementation to ensure that Europe's universities are able to continue to engage fully in Horizon 2020 on a sound and sustainable financial basis. The Seventh Framework Programme for Research and Innovation (FP7) – with its possibility to declare the full indirect costs actually incurred – has been a major driver and provided crucial incentives to European universities to strengthen their human resource capacity in financial and research management. Horizon 2020 must continue to foster this progress and not mark a step backwards in the modernisation of Europe's universities.

Together with a group of expert practitioners from 21 universities with different profiles and from different national contexts, and drawing on evidence gathered from its projects, EUA has carried out a thorough assessment of the proposed Rules for Participation in Horizon 2020. This has involved an in-depth analysis of the impact of different funding models on different types of research projects and in different university environments. Particular attention was paid to the potential for simplification.

## II. Key conclusions and recommendations

### EUA welcomes:

- the proposed 100% reimbursement rate for direct costs, since this is an important element in fostering funding on a full cost basis and supports the financial sustainability of universities;
- the EC intention to simplify the funding rules, and notably to abolish time sheets for staff working exclusively on Horizon 2020 projects and to eliminate different reimbursement rates for different activities within projects;
- the proposed revised control strategy which aims to achieve a better balance between control and trust;
- the Commission's attempts to reform the management processes of EU research funding.

### EUA's concerns – the analysis carried out has shown that:

- simplification does not necessarily mean that all participants should be considered in the same way under the same model;
- the EC proposal for a single reimbursement rate (100%/20% or 70%/20% depending on the type of project), does not achieve the necessary balance between reducing complexity and responding to the real needs of different actors;
- EUA calculations show that a 20% flat rate is too low and does not sufficiently cover the actual indirect project costs, especially in cases where indirect costs are high;

- projects differ in their cost structures not only according to research field (e.g. requiring more or less intensive use of equipment or infrastructures) or consortium structure, but also in terms of the framework conditions for participants in different countries;
- a single reimbursement rate with a 20% flat rate for indirect costs would punish universities that have moved towards full costing of their activities and hinder the further development of full costing methodologies and the greater transparency this promotes across Europe.

Real simplification is not achieved through a single flat rate but, for example, through: a clear definition of ineligible costs, improved clarity in terminology, removal of inconsistencies and avoidance of recourse to additional criteria in subsequent regulation, and finally through improvement in management and control processes.

### **EUA's recommendations:**

- declaration of the full costs incurred should be the general rule for universities and other actors who are able to identify their costs through an appropriate costing methodology, as this will foster transparency and accountability of public spending;
- universities should be entitled to reimbursement of the real costs incurred and declared;
- universities not able to identify their indirect costs should be accorded a flat rate high enough to cover their indirect costs. A 100%/40% model would provide an acceptable level of reimbursement while also providing an incentive for the further development of full costing methodologies;
- a 'light touch certification' of full costing methodologies should be developed in cooperation with the relevant stakeholders, taking account of institutional accounting and management practices and drawing on good practices from Member States where such collaboration has worked in practice;
- nationally recognised costing methodologies and usual institutional accounting and management practices, including time allocation procedures, should be accepted;
- terminology and definition used should be clear and precise;
- excessive references to future documents or regulations should be avoided wherever possible;
- the interpretation and implementation of rules should be consistent with the general simplification approach.

## **III. Summary of the background analysis underpinning EUA's conclusions**

### **1. The funding model should support university modernisation and financial sustainability**

Although there is considerable variation in indirect cost levels, EUA's calculations from a variety of real projects clearly show that a 20% flat rate is far too low and does not sufficiently cover the actual indirect costs of a project, in particular in those cases where indirect costs are high. Model calculations have shown that in some projects the loss in comparison to FP7 can be very high.

Funding models that require co-funding from other sources or funders do not work in a context of massive and unprecedented cuts in public funding for universities across Europe. Costs have to be covered, and equipment and infrastructure need to be maintained. EUA's work has shown that co-funding requirements and the use of flat rates lead to systematic underinvestment in

equipment and infrastructure. Research projects must be funded on an appropriate level to ensure the financial sustainability of the European university sector.

## **2. The funding model should acknowledge the diversity of research and the different needs of participants**

Projects differ in their cost structures not only according to their research fields – e.g. some require intensive use of equipment or infrastructure and therefore trigger higher indirect costs than others – or their consortium structure, but also according to the framework conditions for participants in different countries.

Ownership of buildings and infrastructure is a case in point. When universities own their buildings, they have to bear these costs themselves, whereas universities that occupy buildings paid for by public authorities do not have to take these costs into account.

Establishing a funding model that works solely with flat rates for indirect cost coverage therefore creates an uneven playing field and places certain types of projects and participants at a disadvantage.

## **3. The funding model should reward participants who have invested in the implementation of full costing**

Leading universities across Europe have made considerable efforts to modernise their institutional and financial management, including the implementation of full costing methodologies to identify the full costs of all their activities including research projects. EUA, through the FP7-funded EUIMA project (European Universities Implementing their Modernisation Agenda), has also promoted and contributed to the further development of full costing and stressed its relevance to fostering collaborative research with private and public external partners. National funders in several European countries have cooperated with the sector to develop and implement adequate full costing methodologies for universities. Horizon 2020 should reward these efforts by offering the possibility for those universities that are able to identify the full costs of a project to claim and receive reimbursement based on real costs. A 'one-size-fits-all model' with a 20% flat rate for indirect costs will punish those advanced universities who have developed full costing methodologies and also hinder the further development of full costing methodologies across the higher education sector in Europe which is a key element in the modernisation of Europe's universities.

## **4. The funding model should foster greater transparency and accountability**

With the inclusion of the possibility to declare the full costs actually incurred, FP7 has been one of the main drivers in the development of full costing methodologies in several European countries. It also sent a strong signal to national funders and initiated or revitalised debates about the implementation of full costing across Europe.

National public funders in several European countries have worked together with their universities to develop efficient full costing methodologies. Both the funders and the beneficiaries have become more aware of the need to know the real costs of projects in order to avoid under- or over-funding, since indirect cost rates vary significantly. This should particularly apply to public funders, such as the EU, who aim for transparency and accountability in spending tax payers'

money, and all the more so in times of financial austerity, when public money is scarce. EUA asserts that this transparency can only be provided by full costing methodologies and not by flat rate approaches.

## **5. Real simplification is not achieved via a single flat rate**

The argument that the use of a single flat rate will bring major simplification is not valid for universities. Under FP7 more than 90% of all university beneficiaries use a flat rate. The reduction of this flat rate from 60% (in most cases) to 20% in Horizon 2020 will not bring simplification. It will simply cover less indirect costs.

A reduction of errors in the claims of real indirect costs can be achieved through a clear definition of ineligible costs. This is also underpinned by the fact that the various auditors interpret rules very differently. Many cases have been reported where the same types of costs have been declared as eligible in one case and as ineligible in another.

Furthermore simplification could be achieved by accepting national and institutional accounting and management practices, which has not been done under FP7 despite being mentioned in the Rules for Participation.

## **6. Unclear terminology, inconsistencies and delegation to subsequent rules undermine simplification efforts**

Experience from FP7 has shown that complexity is often due to unclear terminology and the amount of additional criteria in subsequent regulation, which go against the original intention of simplifying the Rules for Participation (“*time recording*” being interpreted strictly as requiring time sheets, for instance). This led to a high complexity in the whole implementation and management cycle of projects and to diversity in the interpretation of these rules. If this is eliminated (for example, by using the term “*time allocation*” instead of “*time recording*”, which is just one of many forms of allocating personnel costs to an activity), procedures will be clearer and also lead to fewer errors. (Examples of unclear terminology in the proposal include “*scale of unit costs*”.) For instance, a clear definition of ineligible costs will further reduce errors, thus simplifying subsequent audit procedures.

## **7. Management and control processes need to be improved**

Management and control processes have been another source of complexity in FP7. Despite the fact that universities in several European countries have robust full costing methodologies in place that are recognised by national funders, they have been unable to get these methodologies certified for the purposes of FP7. This shows that the certification procedures have failed. Management and control processes will also have a major impact on the way Horizon 2020 is implemented and therefore represent a crucial element for participants. Simplification needs to take into account the whole policy cycle from decision making and policy formulation to implementation, monitoring and evaluation.

*For more details on EUA’s analysis on the Rules for Participation, please contact [funding@eua.be](mailto:funding@eua.be)*