

Brussels, 24th January 2011

EU research and innovation funding – immediate changes to cut red tape for researchers and SMEs

Why is simplifying research funding important?

Research and Innovation are at the core of the EU's Europe 2020 strategy for growth and jobs as set out under the Innovation Union flagship initiative.

A pre-requisite for delivering the best results is that research programmes are highly attractive and accessible to researchers, European industry and entrepreneurs, universities and other research and innovation actors.

This requires clarity of objectives and instruments, consistency and stability of rules, and lightness and speed of administrative procedures.

The improvement adopted will feed through into better research results, achieved more efficiently, and lead to new products and services that will create new sources of growth and jobs.

European Framework Programmes invest large sums of money – well over €50 billion between 2007 and 2013 for the Seventh Framework Programme alone - and it is very important, not least in a time of austerity, to get the best possible value for every euro spent.

How did the rules get so complicated in the first place?

Over 25 years, the scope and budget of the EU's Research Framework Programme has expanded significantly. This resulted in more participants and more diverse funding schemes and, of course, a need for more controls to ensure that the EU funds are spent correctly. Moreover, changing political and economic priorities have led to ad-hoc actions with different sets of conditions to promote particular areas of research or research sectors. Thus, a number of different rules and administrative procedures were developed to optimise European effort in research, but participation in EU-funded projects became more complex.

More broadly, simplification also requires bridging the gap between funding rules and principles specific to the Framework Programme and a wide range of accounting practices used for other purposes by the research organisations and businesses that participate.

What are the main changes being made now?

Firstly, there will be more flexibility in how personnel costs are calculated so that EU research grant-holders can apply their usual accounting methods when requesting reimbursement, based on average personnel costs.

Secondly, SME owners whose salaries are not formally registered in their accounts can now be reimbursed through flat-rate payments for their contribution to work on research projects. For this purpose the Commission has set up system of flat-rate allowances already applied in the Marie Curie research grant scheme. The hourly flat rate for a researcher will mainly depend on his/her experience and country of residence. For instance hourly rates applicable in 2011 for researchers established in Belgium will vary around €24 for early stage researchers to about €55 for very experienced researchers.

And thirdly, a new steering group of senior officials from all the Commission departments and agencies involved will remove inconsistencies in the application of the rules on research funding.

How does the reimbursement of personnel costs work ? Can you give an example of how it will change ?

A general principle governing EU research funding was that beneficiaries claim actual costs for the resources employed on the EU projects. For personnel costs this meant that grant holders had to calculate the payroll cost of each individual researcher for the time (usually expressed in hours) spent on the project. Very often this meant that they had to introduce a parallel method of calculating personnel costs for their participation in EU research projects, which was incompatible with their own practice and actually increased their costs.

The new changes allow them to group personnel in categories based on objective criteria (experience, seniority, level of salary, department, etc). The grant holder calculates an average rate based on the salaries of the employees within each category or group. This average is then used to charge the personnel costs to the projects by multiplying the average rate by the hours dedicated to the project under each category or group regardless of the actual costs of the individuals who performed the work (which could be higher or lower than the average).

Here is an example. One category could include two researchers: researcher one with a salary of €48.000 and researcher two with a salary of €36.000. The total cost of the category is €84.000 and the total hours worked in the year are, for instance, 3360 (1680 * 2 researchers). The average hourly rate of the category would be €25 (84.000 / 3360). Whenever the department collaborates in a project, the hours are charged at €25 irrespectively if it is researcher one or researcher two who actually performs the work. For certain beneficiaries, categories could include dozens of researchers and, thus, the average system is for them a real simplification in the calculation of costs.

How much money will these changes save?

Up to now grant holders who use average personnel costs, including SME owners and natural persons without a salary in the accounts, were obliged to produce a certificate on how they calculated their personnel costs. These certificates cost around two to three thousand euro in the simplest cases rising considerably for large institutions with complex structures. Moreover, beneficiaries frequently had to dedicate additional time and money to adapt their personnel costs calculation methods to the requirements of the Commission to obtain the approval of their methodology.

How much time will these measures save ?

It is impossible to quantify in advance but cumulatively, across the thousands of projects affected, a great deal of time will be saved. For example the new rules on accounting for personnel costs will make it easier and quicker for participants to compile and submit reimbursement claims and easier and quicker for the Commission or the Research Executive Agency to process those claims and get payments made.

Will existing projects be affected by the changes, or only new ones?

In most case the Commission will allow participants in ongoing projects under the Seventh Research Framework Programme (FP7) to benefit immediately from these changes. The measures are designed in such a way that their retro-active application does not cause additional burden for beneficiaries.

Why has it taken since April to bring these changes forward?

The Commission has to guarantee the maximum level of simplification without undermining the sound financial management of European taxpayers' money.

Therefore, an extensive analysis was needed on the impact of the new measures, from both financial and legal points of view.

Moreover, based on the Commission communication on simplification from April

(see [IP/10/472](#) and [MEMO/10/156](#) and http://ec.europa.eu/research/fp7/pdf/communication_on_simplification_2010_en.pdf) broad inter-institutional discussions with the Council and the European Parliament took place to jointly determine the best approach.

How will the Commission ensure that these changes do not lead to a risk of reducing effective financial control?

As the European Court of Auditors indicated in its most recent Annual Declaration of Assurance for the EU budget, simpler and clearer rules and procedures reduce the scope for error and increase assurance on the legality and regularity of expenditure. The new rules adopted are clearly defined in a transparent and unequivocal manner providing, in addition, a realistic balance between trust and control. The Commission is fully committed to ensuring sound financial management of European research policy.

Do these changes fully reflect the recommendations of the Mid-Term Evaluation? (See [IP/10/1525](#))

Yes. The recommendations of the interim evaluation of FP7 were fully considered when designing these short-term simplification measures. More profound changes suggested in the report, which would require an adaptation of the overall legal framework, will be tackled in the Commission proposal for the rules of the next research and innovation programme.

What progress has been made towards simplification so far?

Important progress has already been made over the last few years. Some measures for simplification were already included in FP7 from the beginning, as compared with previous Framework Programmes. Others are the result of the Commission's ongoing efforts to improve the rules and procedures.

On the basis of 150 FP7 calls, there has been a significant reduction in "time-to-grant" - the interval between the deadline for bidding for funding in response to a call for proposals and the signature of a grant agreement - if compared with FP6 calls. The overall median (the interval after which half of all grants in a call are signed) in FP7 is currently 330 days, i.e. 30 days (or 10%) shorter than in FP6.

Achievements in FP7 include:

- A considerable reduction of ex-ante controls to ease the participation of SMEs and high-tech start-ups. 80% of FP7 participants are completely exempt from an ex-ante financial capacity check.
- A major reduction of the number of audit certificates to be submitted covering the costs charged to the research projects. Contrary to FP6 where all participants had to submit at least an audit certificate for the project, 75% of FP7 participants are exempt from providing such certificates. Since each certificate costs between some hundreds and several thousand euro, these exemptions are leading to saving of tens of millions of euro compared with FP6.
- The introduction of a single registration facility. Applicants no longer have to supply the same information every time they take part in a new grant application.
- A streamlining of reporting requirements
- Improvements to IT tools ("e-FP7")
- Improvements to the service and guidance offered to applicants

Will there be more changes before the end of FP7?

No further radical changes should be expected for FP7. The continuity of the rules in place is also important for participants in FP7 and this in itself avoids uncertainty.

However, certain additional measures could still be implemented, such as the removal of the requirement for beneficiaries to hold interest-bearing bank accounts. This measure would lift the current obligation to open such bank accounts for managing the pre-financing funds paid by the Commission. This requirement implies in certain cases an important administrative burden for a number of beneficiaries. Nevertheless, the measure is part of the proposals for the new Financial Regulation applicable to all EU programmes, which are being currently discussed with Parliament and Council. Therefore, it cannot be treated separately only for research actions. A positive outcome of these discussions will lead to the removal of this requirement.

What kind of changes can we expect under the next research programme?

The Commission is committed to adopting the proposals for the legal framework for the next programme by the end of 2011. A full public consultation based on a Green Paper will be launched during the first quarter 2011. Further substantive simplification will be a key priority for future research and innovation funding. A measure with a far reaching potential for simplification is the establishment of a single set of consistent rules for all participants, to provide predictability for participants. Other avenues that will also be explored include the simplification of the complex matrix of different funding rates, the introduction of more flat rate payments and simpler methods for determining indirect costs. Moreover, the broad acceptance of the usual accounting practices of participants should become the general rule.

Why not make some of these changes now?

Simplification is not just a question of what can be done under the Research, Innovation and Science portfolio. All Commission programmes are governed by the same financial regulation. Commissioner Lewandowski has put forward proposals to amend this to allow more flexibility. Some of the measures we want to apply for research funding depend on Council and Parliament decisions, and on whether they will allow an increase in Tolerable Risk of Error in certain fields, including research projects.

What is Tolerable Risk of Error?

Financial transactions can rarely be absolutely free of risk of error, especially in projects which may have dozens of participants and last several years and where accounting procedures are necessarily complex.

The purpose of the Tolerable Risk of Error (TRE) is to ensure a proper balance between the extent of controls and the effectiveness of policy. The error rate is (roughly) defined as the relation between the amount of costs incorrectly declared and the overall costs (in a project, a collection of projects or a whole programme).

Reducing error rates requires increased control, including very detailed audits taking place after projects have concluded. This in turn costs money and staff time. For each policy area, the Commission will strive to agree the most appropriate TRE with the Budgetary Authorities. Under the current system, the risk of error is 2% for all policy areas, regardless of the size of the projects or the complexity of the specific rules. By slightly raising the Tolerable Risk of Error for research and other projects to between 2% and 5%, as Commissioner Semeta is proposing, controls could be more effective while also saving money and reducing bureaucracy. Currently, the administrative cost of recovering – or reimbursing to projects - tiny amounts of money based on minimal errors discovered during the audit process can sometimes far exceed the sums collected or reimbursed.

Errors should not be confused with fraud or deliberate misrepresentation, which is always referred to OLAF, the EU's anti-fraud office, and will continue to be referred there.

What is the state of play in the discussions with the European Parliament and the Council over the Financial Regulation and the Tolerable Risk of Error (TRE)?

Discussions on the revision of the Financial Regulation are still ongoing. 1 January 2012 remains the target date for the entry into force of the revised Regulation. As regards the TRE, the Commission has initiated an in-depth and continuing debate with its Communication to the European Parliament, the Council and the Court of Auditors on "*More or less controls? Striking the right balance between the administrative costs of control and the risk of error*" of 26 May 2010. (<http://ec.europa.eu/transparency/regdoc/rep/10060/2010/EN/10060-2010-1919-EN-3-0.Pdf>) The European Parliament has, however, already expressed its full support for the adoption of a higher rate of tolerable risks of error for research activities.

Which departments and agencies of the Commission are directly involved in running FP7?

The departments of the Commission directly involved in running FP7 are:

Directorates-general:

Research and Innovation
Information Society and Media
Mobility and Transport
Education and Culture
Enterprise and Industry
Energy

Agencies:

ERCEA (European Research Council Executive Agency),
REA (Research Executive Agency)

How will setting up a new committee of Directorates-General simplify things or achieve consistency?

Research programmes are implemented by different Directorates General and Agencies with a large degree of decentralization. This has major advantages in terms of flexibility and speed of decision-making but has also led, unfortunately, to rules and procedures being applied in different ways in different areas. This has sometimes created confusion for beneficiaries and can even discourage them from re-applying for support. So the Commission is establishing the new committee to help iron out these inconsistencies.

When will this new committee start work and when do you expect it to deliver results?

The new Committee will be operational immediately and will deliver results on relevant issues in a continuous manner. The Committee will meet upon request of the Directorates-general when a controversial issue is raised. Resources for secretarial and technical support have been put in place, and the necessary steps to define the working procedures of the Committee are already underway.

EU research funding represents 5% of overall public funding in Europe - what steps are being taken to simplify and streamline national funding? How is the Commission involved?

National research funding procedures are compartmentalised in 27 different systems which have evolved separately. Simplifying these national rules is an obvious way of reducing the complex array of different conditions and funding schemes that European researchers are facing. In early 2010, the Commission established a Stakeholder Platform with key EU research funders and beneficiaries, to draw up common principles governing research funding across the EU.

Thanks to Commission programmes such as the Marie Curie scheme and initiatives such as the Researchers Charter, European researchers have better access to non-national programmes and better mobility. They are however facing complex barriers. Simpler rules for the Framework Programme will set benchmarks for national programmes based on best practice.

How close are we to the 15% target for SME participation in the parts of the Framework Programme for which they are eligible?

The latest figures have shown a participation of SMEs around 14.7 %. Although the situation has improved, there are still efforts to be made. The Commission expects that the new simplification measure adopted for SME owners without a salary will further promote participation from this key economic sector.

(see also [MEMO/10/156](#))