

INPUT PAPER FOR THE EUROPEAN PARLIAMENT FINANCIAL REGULATION REVIEW



Cref CONSEIL DES RECTEURS

V L I R Vlaamse
Interuniversitaire Raad

V L H O R A
Vlaamse Hogescholenraad

V S N U
vereniging van universiteiten
association of universities
THE NETHERLANDS

3 APRIL 2017

1. INTRODUCTION

As Education and a Research & Innovation stakeholders, the organisations supporting this input paper participate in European grant programmes like, amongst others, Erasmus+ and Horizon 2020. The respective financial rules of each of these programmes are all based on the Financial Regulation. Changes in the Financial Regulation, which will by definition apply to the successors of the programmes mentioned above, will without any doubt have its impact on our institutions. It is thus with interest, that we read the proposal for the Review of the Financial Regulation. In the paper below, we will elucidate some positive and some negative points of the proposal and provide some recommendations.

2. WHAT WE LIKE

Strengthening cross-reliance between EU implementing bodies, making it possible to have one single audit instead of five at different levels, is definitively a positive point. It will save money, time and effort from all parties involved. The same is the case for streamlining of reporting. DG BUDG can also be proud of the fact that its proposal is significantly shorter.

3. WHAT WE DO NOT LIKE: OUTPUT BASED FUNDING

Output based funding, also called result based funding, is currently used in the Horizon 2020 (H2020) SME Instrument under the second pillar. We assume SMEs fit perfectly for this type of activity. However, the proposal to make output based funding the norm also for the H2020 programme as a whole is not a good idea for the reasons explained below.

The output based funding approach

- a) **suggests that results of research and innovation are always predictable**, what is simply not the case. Knowing in advance what the outcome of research and innovation should be is actually going against what is the essence of research and innovation. Even projects that produce only negative scientific or technological results may still provide valuable insights. Furthermore, preset research requirements can limit researchers in their creativity during the project. On top of that, even in industrial research or innovation projects, new market developments may necessitate early termination of projects or may need a switch to new goals that are different from the ones identified at the start.
- b) **will disadvantage research or innovation projects that have a less predictable outcome or a higher risk profile**, while these projects should also have a chance to be funded as they contain a highly innovative potentiality.
- c) **will result in an average quality of research and innovation**, since it encourages submission of more low-risk projects with predictable outcomes. A combination of point 2 and 3 could even lead to the extreme case of creating artificial results when real results are lacking, under pressure of having to deliver any output triggering the payment of the lump sum. This is definitively not in the interest of Europe and thus should not be the intention of a European R&D&I Policy.
- d) **shifts workload from managers and controllers to researchers**, by linking the payment of a lump sum to the fulfilment of certain conditions. Having to report on output, which is decisive for their payments, creates an extra workload for the researchers as it goes beyond the regular reporting on the scientific and technical progress. On top of that, a result-based system does not guarantee that the peer reviews fully replace the current financial controlling of projects, because still an in-depth ex-ante analysis has to be carried out on the

submitted project budget in order to establish a reasonable amount of financing for the proposed outcome of the project. To guarantee the peer reviews to be fully independent and objective, a heavy strain will be put on the (already overloaded) reviewing system. This might even lead to a doubling of the workload for the participants and the reviewing system.

- e) **will automatically exclude a substantial group of stakeholders**, who is not allowed – by law¹ - to sign output based funding contracts, like it is the case for all other universities and university colleges in Flanders.
- f) **will have a negative impact on the employability of (starting) researchers**. Where Horizon 2020 in many cases provides at least financing for e.g. obtaining a PhD, in the new approach, terms of financing will be shortened further. This hampers the longer term employment of researchers and encourages multiple extensions of employment contracts, something that is forbidden in e.g. the Belgium employment regulation.
- g) **will put a high pressure on the financial strength** of an academic stakeholder that has to pre-finance much more activities upfront than in the framework of the present financial regulations.

On top of that, thanks to successful simplification in Horizon 2020 compared to FP7, the current administrative burden is workable for beneficiaries. As recognised by the European Commission in its [answer](#) to a European Parliamentary question, the current system comes indeed with administrative burden. But output based funding will not lead to major simplification and to considerable reduction of the administrative burden for beneficiaries. It is therefore preferable to continue to simplify the current system instead of replacing it by a complete new system. If it ain't broke, don't fix it.

For the reasons mentioned above, the application of the output based funding approach is not suitable for an entire European R&D&I programme and neither for the majority of H2020 participants.

RECOMMENDATION

In European R&D&I programmes, refrain from introducing output based funding as the norm. Keep this principle restricted to very specific cases.

For reasons of clarity, we would like to add that we do support the [Budget Focused on Results \(BFOR\) initiative](#) to maximise the Union's budget effectiveness in supporting growth, jobs and stability in Europe and beyond.

¹ See <http://data-onderwijs.vlaanderen.be/edulex/document.aspx?docid=14650>, art. IV.76. This article is referring to <http://data-onderwijs.vlaanderen.be/edulex/document.aspx?docid=12434>, art. 7.

4. CONCLUSION

Strengthening cross-reliance, streamlining of reporting and having significantly less text to read are positive aspects of the proposal for the Review of the Financial Regulation. The European Commission should refrain however from the introduction of output based funding as the norm for all European grant programmes since it will have devastating effects on the implementation of the European R&D&I policy. We support DG RTD with most of the simplification measures introduced since the start of H2020. **Time has come to introduce a next round of financial simplification measures putting the interest of beneficiaries at the centre. Keeping the reimbursement of (actual) costs model based on usual accounting principles will constitute indeed major simplification for beneficiaries.**

5. QUESTIONS?

If you have questions, please contact Ms Wendy Sonneveld, President of the joint VLIR & CReF working group EU Research and Sr Policy Advisor European Affairs at Ghent University, wendy.sonneveld@ugent.be, or T + 32 9 264 9562.

