

# ***Input paper for the Council Financial Regulation Review: Simplified Forms of Costs***

## **Introduction**

This Ghent University input paper comes on top of the [joint input paper](#) from the Dutch and Belgian universities and the Belgian University colleges on the Financial Regulation. While the joint paper focusses on output based funding, this paper focusses on Simplified Forms of Costs.

As Education and a Research & Innovation stakeholder, Ghent University participates 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 their impact on our university. It is thus with interest that we read the proposal for the Review of the Financial Regulation. Below, we explain in a short and concise way why we do not like Simplified Forms of Costs as the norm and provide some recommendations.

## **Simplified Forms of Costs**

In its proposal, DG BUDG proposes to make Simplified Forms of Costs (lump sums, flat rates, unit costs) the norm in the Financial Regulation and thus for all European grant programmes. For Erasmus+ scholarships, this is perfectly fine. Such a unit cost received by our institutions can, from an administrative point of view, be relatively easily transferred to a Bachelor or Master student. However, for other Erasmus+ activities and for H2020, working with Simplified Forms of Costs causes major problems for participants.

Simplified Forms of Costs

- 1) should not be called 'simplified' since they **often bring 'complication'**, since
  - a. **social security rules have to be taken into account** in the framework of paying unit costs to project staff (in Flanders, this group always includes PhD students who have to benefit via an appointment as PhD fellow) and
  - b. **specific national and regional rules and regulations have to be followed.**
    - i. See an illustration in the annex.
- 2) **complicates financial administration for a vast majority<sup>1</sup> (!) of the participants** if introduced as the norm.
- 3) **do often not cover the costs** made by the participants, or, in the case of Erasmus+ in which full cost was never to be covered, are often significantly increasing beneficiary co-funding levels, through a mechanism which in itself does not render this co-funding explicitly visible to the financier.

What we do support and ask for is

- 1) **for Horizon 2020, the use of Simplified Forms of Costs** (e.g. fixed costs for a business plan in SME Instrument Phase I) and unit costs (e.g. cost per patient for clinical trials) **within the current system of reimbursement of costs.**
- 2) **for Erasmus+, reinstallation of reimbursement of actual costs and co-funding**, except for the funding of individual mobility and for the overall management lump sums in the sub-actions where this is appropriate (eg. KA1 EMJMD). Alternatively, provide for streamlined unit

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<sup>1</sup> In the workshop 'New financial rules – What's in it for me?' from 6/10/2016, the European Commission stated that 62% of the research community and NGOs continues to prefer reimbursement of actual costs as compared to Simplified Forms of Costs. Seen the lack of knowledge on the Financial Regulation and its impact on the successors of Horizon 2020 and Erasmus+ amongst R&D&I stakeholders, we are convinced the real figure is significantly higher.

cost structures across all sub-actions, with amounts set at levels which allow for feasible co-funding levels.

- 3) **base the system of reimbursement of costs on usual accounting** principles of participants to obtain more and major simplification for beneficiaries. This will
- a. **stop beneficiaries from having two different financial administrations**, one for European projects and one for all the other projects.
  - b. **allow to use the institutions accounting principles to design a correct budget for each project proposal** without having to deal with corrections that are necessarily introduced to overcome the differences in amounts between the sum needed as personnel cost and the lump sums or unit costs mentioned in the call for proposals.

We realise that the consequence of our proposition for H2020 is that it will then not be possible anymore to have a single set of rules for all participants. It may be clear that for the largest share of participants, having to deal with different sets of rules for different types of stakeholders is not a big issue. The interests of SMEs and smaller stakeholders should be protected however, also in the interest other stakeholders working together with SMEs. But since SMEs and smaller organisations are rarely co-ordinators of big collaborative projects, they will be concerned only in exceptional cases.

For the reasons mentioned above, making Simplified Forms of Costs the norm for all European grant programmes, including H2020 and Erasmus+, is a no-go. The H2020 system of reimbursement of costs, which are incurred and declared during a project, should be continued to its successor.

#### Recommendations

- **Keep the current system of ‘reimbursement of costs (actual costs)** for the successor of H2020.
- **Within that system, Simplified Forms of Costs may occur.**
- **Reinstate for Erasmus+ the reimbursement of actual costs and co-funding**, except for the funding of individual mobility and for the overall management lump sums in the sub-actions where this is appropriate (eg. KA1 EMJMD). Alternatively, provide for streamlined unit cost structures across all sub-actions, with amounts set at levels which allow for feasible co-funding levels.
- **Strengthen the use of actual costs based on usual accounting principles.** This will be major simplification for beneficiaries.

#### Conclusion

The European Commission should refrain from the introduction of Simplified Forms of Costs 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.

#### Questions?

If you have questions, please contact

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## Annex

*An illustration of point 3b about 'How Simplified Forms of Costs bring complication'.*

Let's look at the use of unit costs for Marie Skłodowska Curie Actions (MSCA) in the second pillar of H2020 and at Erasmus+. A research institution receives a unit cost for a MSCA. Regarding reporting to the European Commission, working with unit cost is as easy as working on the basis of actual costs. However, at the moment that a unit cost has to be transferred to a specific researcher it becomes difficult and burdensome. More specifically since an individual salary changes more often than we might think due to inflation correction, changes in national social security regulations or changes in the private circumstances of a researcher (illness, moving houses, parental leave, seniority, inflation correction, ...). Every time a payment has to be made, it's not the unit cost itself that can be transferred to the researcher, but for each of the MSCA payments<sup>2</sup>, an individual, complicated and manual (!) calculation should first be made. This causes an administrative burden for the institution. On top of that, several times, both for H2020/MSCA and for Erasmus+, the national social security regulation make the final payment to the researcher is higher than the unit cost our institutions receive. To summarise, working with unit costs is often complex and do not cover real costs.

In case the Simplified Forms of Costs become the norm for MSCA in the successor of H2020 and is also applied to other parts of the programme, like ERC or the Societal Challenges, this issue will be broadened and will have far reaching effects on the participation of our institutions.