

## LERU note

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# Research funding - Best national practices for simplification

## Aims

In light of the ongoing debate on the simplification of the EU Research Framework Programme (FP), LERU has reflected on the following issues<sup>1</sup>:

- a) Are there concrete examples of simplified methods for financial administrative management and accountability of research projects?
- b) Why was the Certificate of Methodology (CoM) so far not able to fulfill the expectations in terms of simplification?

In this note LERU provides answers to both questions and formulates concrete recommendations in conclusion. Discussions amongst members in preparing these answers led to another solution, which is a shift to certifying existing trustworthy systems of administration and accountability within institutions, details of which are outlined below.

<sup>1</sup> The note is based on a meeting of the LERU Community of European Research Project Managers and on a consultation among this community. The main author of the note is Hans Melle van Dijk, EU Liaison Officer at Utrecht University.

## Drastic simplification through trustworthy administration

In June 2010 LERU published the advice paper “*Towards an effective 8th framework programme for research*”. This paper was partly a response to the European Commission’s Communication on simplifying the implementation of the Research Framework Programmes<sup>2</sup>. The paper stated (par. 27) that stability of rules, during FP7, is preferable to consecutive changes. LERU welcomes the recent proposals for some changes under the present rules, however, still requests major changes for FP8.

LERU briefly highlighted in its paper the idea of a paradigm shift with respect to the financial administration and control of FP8 projects: a move from a system based on the weakest link to a management model based on trustworthy systems of financial administration. LERU understands that the European Commission (EC) must secure equal opportunities in the FP for researchers, institutions and business from all the member states and associated countries and that, next to this, the EC also needs to guarantee that public funds are not mis-spent. But this has unfortunately led to the EC adopting a too cautious approach with complex rules of participation. As the rules are so complex, the probability of error is quite high. To counter this, the EC has put in place control mechanisms geared towards a worst case scenario. These severe control mechanisms and a strict interpretation of the complex rules have led to an excessive burden for all FP participants.

In response to the Commission’s Simplification Communication a strong call was heard for simplifying the Framework Programme. The European Parliament, the Council of Ministers and stakeholders with an extended experience in FP7 and its predecessors all called for a trust based approach and utilization of usual accounting practices of beneficiaries<sup>3</sup>.

As stated above, LERU advocates **a paradigm shift** to achieve simplification: **take the best administrative practices as the starting point instead of the worst case scenario.**

To reduce the excessive red tape surrounding the EC’s current approach, LERU suggests an alternative starting point: establish which institutions or companies (1) use an analytical accounting system, (2) are responsible for their financial administration and (3) are subject to an external annual audit and approval of the accounts by a private accountant or a public body. When the usual accounting system is acceptable and an external audit system is established, the obligation to have separate accounting requirements for FP projects should be abolished. To be able to do that, the EC should check and ‘certify’ the local accounting procedures and accountability rules.

In case the minimum requirements cannot be met, an EC model for project administration can still be applied. Institutions or countries should be motivated to move to a more trustworthy financial administration, which is in line with the ‘Modernization of universities’-agenda. The majority of FP grants are awarded to a relative small

2 Simplifying the implementation of the research framework programmes. COM (2010)187. European Commission. 29 April 2010

3 Making EU research and innovation programmes more attractive: the simplification challenge. Council Conclusions 14980/10 (point 2 a). Council of the European Union. 14 October 2010.  
Motion for a European Parliament Resolution on simplifying the implementation of the Research Framework Programmes, point 11. A7-0274/2010. European Parliament. 11 November 2010.

number of beneficiaries<sup>4</sup> and LERU is convinced that the majority of these beneficiaries are subject to 'certifiable' systems as set out above. The 'certification' approach would thus also decrease the work load of EC officials and auditors considerably.

## Examples of simplified research funding methods

When it comes to project management and administration universities are guided by national requirements<sup>5</sup>. National funding agencies are generally the main source of external funding for universities. So to a large extent the regulations of these national funding agencies determine the way in which universities arrange their financial administration and the systems used.

LERU therefore suggests that the EC takes national funding systems as a starting point when defining new funding regulations because many national funding programmes use much simpler methods for research funding. The Commission could accept these simplified methods used by member states as a basis for project accountability. This would remove the requirement for universities to use parallel accounting rules for national and EU projects.

LERU has compared funding mechanisms used in some of the countries in which it is represented (Belgium, Germany, Netherlands, Sweden, Switzerland and the UK) and identified common best practices of simplified administration, such as peer review evaluation, no specific audits per project and no requirements for time sheets. More information on the specific examples can be found below:

- The **Flemish** governmental Agency for Innovation by Science and Technology (IWT, Belgium) offers different funding programmes for collaborative research. These programmes are bottom-up and projects are selected through peer review competition. In principle, IWT funding is trust-based. IWT pays academia and research institutes 100% of the personnel cost, and the other direct costs as a fixed percentage of the personnel cost. This percentage usually covers 50% of personnel costs and may increase to 80% where expensive equipment is purchased. At the start of each project, the IWT offers pre-financing, covering 6 months of the first year's budget. Annual scientific and financial reporting is required (with a final report at the end of the project) each being a precondition for the next payment(s). The personnel cost is reported through an invoicing system, which is a short statement of delivered man months. The funding system does not require time recording, and is flexible, allowing the principal investigator to freely shift between the different budget categories, up to a limit of 10%. To a very large extent, the funding system relies on the institution's internal control mechanisms. Every 5 to 6 years, the IWT performs a solid ex ante review of the internal financial management and control procedures at institutional level. On a project level, the IWT controls the statements on personnel cost, and evaluates the scientific progress, as provided to them

4 According to the mid-term review of FP7 the top 50 Beneficiaries represent around 25% of FP funding. (see: Interim Evaluation of the 7th Framework Programme – Report of the expert group, p.44. 12 November 2010.)

5 In some countries the requirements will be set at regional level.

in annual scientific reports. In a few situations, annual payments are postponed if scientific results are not delivered.

- The **German** Research Foundation (DFG) has recently modified its rules regarding the calculation and the allocation of funding, taking effect as of 2011. The DFG now mainly allocates lump sums and leaves it to the university to decide whether the funding is used to pay salaries, equipment or consumables. Changes in the allocation of the funds during the project are therefore also possible without restrictions. Regarding personnel costs, the DFG now uses defined personnel categories. The choice of the pay grade is the responsibility of the university. These new rules reinforce the trust-based approach of the DFG, characterized notably by a peer review process and the recognition of the usual practices of the universities (without requirements for time sheets or project-specific financial audits).
- For projects funded by the **Netherlands** Organisation for Scientific Research (NWO), the NWO and the Association of Universities in the Netherlands (VSNU) agree on standard rates that cover salary and social security charges of project personnel such as PhD students, postdoctoral researchers and additional technicians. For individual NWO grants the university supplies NWO with information on actual employed personnel and material expenses. Based on this information NWO pays the grant in the form of a series of prepayments, and a final payment based on the submission of a scientific report and a (half page) financial overview. No audit is necessary for individual projects. NWO grants are part of the financial accounts of the university which are audited annually, based on specific instructions from the ministry of education.
- The **Swedish** national funding agencies base their reporting requirements for grants largely on trust. They count on the mandatory internal or external auditing which universities, as public institutions, are obliged to go through. They also count on the organizations to make the best use of the grants. Often a final report is sufficient. Occasionally there is a requirement for annual reports with subsequent reimbursements. These reports are generally not very detailed. The funding agencies invest in completing a thorough peer review process for the selection of projects, rather than following up on use of resources and results. Large grants to strong research consortia, on the other hand, do require more detailed reporting. This reporting happens however at an organizational level and does not only include expenditure.
- The **Swiss** National Science Foundation (SNF) offers two programmes, the National Research Programmes (NRP) and the National Centres of Competence in Research (NCCR). These programmes accept the accounting practices of each institution. Only in exceptional cases a common standard (for salaries of doctoral candidates) is defined. No timesheets are required, a simple confirmation from the university that the researcher is indeed paid to work a certain percentage of his/her time on the project is sufficient. No project-specific audits are required: the general yearly institutional audits are sufficient.
- **United Kingdom** Research Councils (RCUK) use the scientific model with assessment of a project by quality of its expected scientific outcomes (differently from the contract model, with agreement of a fixed price for deliverables specified in the contract.) **RCUK grants** are simple to deal with in terms of administration and finance, because they use one online system for applications (JE-S), have modality of reimbursement, allow institutions to use full economic costs, don't require time sheets for full time staff and PI's salaries are claimed on the basis of a pay-band system.  
 The Research Councils in the UK rely on the institutions own internal controls when reporting financial data. The RC's will visit research-intensive institutions within the UK every 4 to 5 years to undertake a review of

the institutions internal controls and procedures. The visit from the RC's will sample test project expenditure, to ensure expenditure has been charged correctly. This type of system is beneficial both to the Institution and the funder. The administration for the funder is reduced as they have comfort in the data being provided, whilst the safety net of being able to request additional information is still in place.

Examples of other research funding organisations that use a trust-based system are the **Leverhulme Trust** and the **Wellcome Trust**. It should be noted that these trusts are not accountable to the public. The Wellcome Trust is very much a trust-based sponsor and also relies on the Research Councils' assurance visits.

## Analysis of the current Certificate of Methodology<sup>6</sup>

LERU acknowledges the effort the EC has already made by introducing the Certificate of Methodology (CoM), which was intended to be a label, granted by the EC, to avoid overburdening FP participants with controls and audits. A consultation among LERU's members on the CoM found this initiative has, on the whole, not been successful, as matching the existing EC requirements and the institution's financial administration remains very difficult: **Less stringent accountability rules should go beyond the relaxed requirements that the Certificate of Methodology offers.** Instead the Commission should rely on trustworthy administrative systems.

So far, only three LERU universities have yet been awarded the Certificate of Methodology. They indicate in response to the consultation that they expect that the extensive effort to comply with the CoM requirements will lead to a large reduction in audit requirements. It took them about a year to prepare and discuss their application, with major bottlenecks in adjusting approved national methodologies and in understanding systems and requirements from both sides.

Reasons of other LERU members for not applying for the CoM were:

- a) the relatively demanding requirements for time recording to obtain the certificate on personnel costs
- b) usual accounting practices include costs that are non-eligible
- c) the advantages are not considered worth the investment

Responses were received from a large number of LERU members in many different countries. The majority of LERU members considered the investment needed to obtain a CoM, at the moment not to be worthwhile. The time recording requirement was noted to be one of the main reasons. Next to the incompatibility of elements in their own and the EC accounting practice, other reservations were mentioned in the responses from the LERU members to the consultation, such as that the CoM refers only to some aspects of the accounting prac-

6 The Certificate of Methodology is an ex-ante certification of the use of correct methodologies by beneficiaries when calculating personnel costs and indirect costs, in particular in those cases when average costs for personnel are claim Beneficiaries receiving approval for both personnel and indirect costs will not have to submit Certificates on Financial Statements for interim payments. In addition, the final certificate on financial statements will be prepared by the auditors by verifying, for personnel and indirect costs, only the compliance with the declared methodology, thus adding simplification to the audit work performed. [http://cordis.europa.eu/audit-certification/certification-fp7-info\\_en.html](http://cordis.europa.eu/audit-certification/certification-fp7-info_en.html)

tice (personnel costs and indirect costs) and that the postponement of audits might be counterproductive. What should be changed and what would make the effort of applying worthwhile? First, it seems that not all institutions can apply as not many institutions in Europe have a sufficient number of projects of the appropriate size (8 FP6 projects or 8 FP7 projects with a budget superior to €375.000). Nor is a full cost accounting system yet in place in a number of European countries. Only with proof of indirect costs higher than 60% is the CoM attractive.

The overarching response from LERU members on what should be changed in order to make the CoM (more) attractive is to link it to national usual accounting practices. This is eloquently formulated in the response of one of the British members: "Rather than having a Certificate of Methodology for UK institutions, the Commission should use the outcome of the Research Councils UK assurance programme as an indicator of the individual institution's assurance level. The RC UK assurance programme reviews how TRAC (the Transparent Approach to Costing) is implemented within the institution (...). TRAC is the standard method now used for costing in higher education in the UK." In consultation with similar bodies in the other member states the Commission should come to acceptance of usual accounting and audit practices.

If the European Commission is planning to keep the Certificate of Methodology after 2013, LERU underlines that for it to be successful, it should be expanded so that the advantage of having a CoM is worth the effort of the application. The best solution for the CoM would be to enlarge it to a certification of usual accounting practices and control mechanisms of the institution as a whole, as we suggested in the first part of this note.

## Conclusion: recommendations

Based on the arguments in this note, LERU would like to make the following recommendations for the simplification of the research framework programme and its management:

- Accept usual accounting and control practices. Accept the practices of each institution. If not possible, define a common standard per member state.
- Refrain from project-specific audits; general regular (e.g. bi- or tri-annual) institutional audits are sufficient.
- Remove the requirement of keeping detailed timesheets. Leave time recording rules to the institutions themselves.
- Enter into consultation with national funding agencies on common good practices of trust-based funding mechanisms.
- Award high-trust certificates to institutions (in countries) that fulfill these requirements.

There are a number of other important recommendations for the simplification of the research framework programme, which LERU has argued for at several occasions. In the advice paper '*Towards an effective 8<sup>th</sup> Framework programme for research*', published in June 2010, most of them were set out. These recommendations are:

- Remove the obligation to recover interest on pre-financing.
- Focus on a solid ex-ante evaluation of the scientific excellence, the impact and the (financial) management of the project. Where lump sums are awarded these should be negotiated on the basis of this assessment. Trust the PI and his/her institution in the execution of the project.
- Use test groups ("super-users", user panels) to test the consequences of new procedures or electronic systems (e.g. online reporting).
- Organize staff training both within the Commission and with universities.
- Allow for the recovery of non-refundable VAT (cf. other EU programmes and in FP before FP5).
- Use same principles, if not same forms, for all types of instruments; rationalize specific guidelines, documentation and forms.

LERU is looking forward to working with the European Commission and other EU institutions and stakeholders to realise these recommendations or to discuss them in more detail.

## LERU Facts and Figures

- Together LERU member universities account for more than 450,000 students and more than 50,000 PhD students.
- Each year about 50,000 master degrees and 11,000 doctorates are awarded at LERU universities.
- The total research budget of LERU's members exceeds € 5 billion.
- About € 1 billion is granted by research councils, while approximately € 1.25 billion comes from contract research.
- The total sum of research grants from EU projects to LERU universities is approximately € 260 million.
- Approximately 20% of ERC grants have been awarded to researchers at LERU universities.
- More than 225 Nobel Prize and Field Medal winners have studied or worked at LERU universities.
- 50,000 academic staff and 52,000 non-academic staff work at the member institutions (hospital-only staff not included).

LERU publishes its views on research and higher education in several types of publications, including position papers, advice papers, briefing papers and notes.

LERU notes are short, timely statements providing concise analysis and specific advice in response to a pressing issue related to European research and higher education policies. They are often a product of LERU's standing engagement with certain issues and a result of intensive consultation among experts from the LERU universities.

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