

CPU [French University Rectors' Conference] summary following the questionnaire from the MESR [Ministry of Higher Education and Research] to gauge the impact of the financing rules proposed for Horizon 2020

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In early July, the MESR sent a questionnaire to around ten universities to gauge the impact of the financing rules proposed for Horizon 2020.

This document outlines the positions contained in the university questionnaires and provides a summary of their conclusions.

This step is to respond to a statement from the CPU about the Rules of Participation and to the proposed amendments which were sent to the MESR on 21 March and 25 May, as well as to the Members of European Parliament. Note that some of the amendments proposed by the HRK [German Rectors' Conference] and the CPU were included in the Ehler report.

The universities involved stress, in addition to the very tight deadlines for completing the questionnaire, the difficulty of making projections on the FP7 rules regarding the H2020 programme whose objectives and directions differ significantly from the current programme. The valorisation of the results and the commercial exploitation were not, in fact, a final output of the FP7.

Opt for indirect costs closer to reality :

75/75 rule and indirect costs:

With regard to the European Commission proposal of 100/20, universities are more supportive of a 75/75 rule. Indeed, according to calculations by universities and institutions, the 75/75 rule is advantageous while the 100/20 formula is considered slightly disadvantageous, since it does not cover actual indirect costs, estimated at a percentage well above the flat rate of 20%. These simulations were performed at the European and international levels (e.g. LERU, EUA) and the European Commission's projections presented to justify choosing the 100/20 option establish that universities are on the losing side of this system.

Following a survey of universities that have established a full cost methodology, the rate for a research day is nearly 75% to be applied to the Professor-Researcher's daily wages.

In addition, a rate closer to actual indirect costs enables easy and safer management of projects, since part of the direct costs that are eligible but that may be difficult to justify, or subject to interpretation by auditors (e.g. depreciation, valuation of all labour time, using time sheets, clinical costs, etc.) can be reimbursed based on the overall indirect costs.

In any event, the 70/20 rule envisaged for projects and applied on a predominant basis is considered very disadvantageous, and most universities will not be able to participate in projects funded on this basis. Indeed, given the backdrop of the current crisis, this rule would result in a financial risk that is considered significant for universities and in some cases too significant for some of them. The risk is seen as twofold:

- to compensate for this, universities may have to hire significant permanent staff for projects, thereby multiplying the risks related to justifying their labour time. Moreover, it is important to remember that all staff members involved in a project cannot always be financially supported by the project: in the case of Joint Research Units (JRUs), when

management is taken on by a parent institution, but the EPST [Public Scientific and Technical Research Establishment] is still a project partner, the university cannot justify the cost of the EPST staff of this unit. This may account for more than half of labour costs, and associated indirect costs ;

- not sufficiently accounting for the costs of projects, the 70/20 rule would go against the self-financing goal of universities that underpins the autonomy of these institutions. If tapping into universities' endowments is necessary to finance expenditures that are not insured by the European Commission, it poses a real problem.

Currently, it is difficult to go any further in simulations since there is not any information at this stage about what proportion of projects will be funded at a rate of 70/20 and there is a lack of a clear definition of a "near market" project. But clearly, the Horizon 2020 programme's objective of greater exploitation of research may not be achieved if universities, because of the funding rule, do not participate very much in collaborative projects with commercial objectives, etc.

This difficulty may be particularly exacerbated for SSH, which are supposed to be integrated into all societal challenges.

Finally, it is important to remind the Ministry that indirect costs enable institutions, through collecting management fees, to replenish their budgets, particularly to cover the running costs of infrastructures, but also the costs of central services. University autonomy reinforces this need for self-financing to which management fees contribute. A low indirect cost rate would make it difficult to collect these management fees without putting the project at risk, and would strongly penalise the financial stability of institutions and their self-funding capacity.

In any case, the CPU stresses a very high risk of declining university participation in European projects, since the number of projects depending on the "Scientific Excellence" pillar cannot offset the expected significant decrease in the other two pillars.

Differentiation by activity

Another proposal to avoid this pitfall is to take into account the specificity of a category of participants or activities. This way, management activities should stay at a 100% financing rate.

- Article 22 (3) should be amended so that the reimbursement rate for eligible costs itemised by activity (see proposed CPU HRK amendment and Ehler report).

As numerous studies have shown, indirect costs are significant and in reality reach the range of 40% to 80% (see university questionnaires.)

- Article 24 must clearly state the objective of assessing and adjusting the amount of flat sums to cover indirect costs to ensure that no public research organization will be prevented from participating in H2020 due to insufficient funding. This review process must be part of the interim evaluation (Article 26 (1a) of the regulation establishing horizon 2020 (2011/0401)).

Optional full costs :

For full costs, the CPU had already mentioned the importance of keeping them as a possible option. Universities have been encouraged to adopt cost accounting to assess the full cost of projects including the actual indirect costs. Even if they are not all in a position to be able to do this today, it is important that they be given the choice. Cost accounting and full costs are, as emphasized by the EUA, an important component of the modernisation of universities.

- the option to declare full costs should be added in Articles 22 and 24.

VAT :

The situation differs depending on the institution; some recover it, others do not. Although there is a general desire to declare the VAT (measure supported by the CPU) the same as for the other eligible costs, some fear that this drains the project research budget too much given the budget system involving a cap per project and that the various partners, regardless of their VAT status, are required, depending on the project's scale, to provide higher co-financing to achieve the project objectives. There is a risk of the grant of a project being devoted to VAT payment rather than research and commercialisation activities. However, it seems difficult in this context to rely on indirect costs, which are already inadequate given the two 100/20 and 70/20 rules, to support the actual indirect costs of the project.

Other requests :

- The information on the instruments and their objectives, the eligibility criteria and their scope of application must be attached to the H2020 regulations just as was done for the FP7.
- An overview of the financial allocations envisaged for the expected instruments would be useful
- Situation of the JRUs and Management Delegations (Délégation Globale de Gestion-DGG) and their specificity not only financially, but legally.

To account for the French peculiarities regarding JRUs and DGGs, not only the option of taking into account the financial costs of the other parent institution but also the legal representation option of an entity by a JRU staff regardless of its parent institution (if the institution is Partner or coordinator) must be specified in the rules of participation.

Note: For a JRU in DGG, endowments and all research projects are managed by a single parent institution. However, in FP7, a CNRS [National Scientific Research Centre] researcher, whose contract DGG manager was the University, was denied scientific coordination by the DG INFSO (CONNECT), which called the very principle of the DGG into question. This seems to be an isolated case but a legal clarification of this management option would clear up any ambiguity.

Appendix 1 :

Contributions from the CPU sent to MESR April 2012 :

General Principles

- The CPU acknowledges the EC's simplification efforts with regard to the financial regulations of H2020 and, for example, stresses the interest of measures such as removing the ineligibility of VAT, the new cap for the submission of CFS' or the abandonment of time sheets for staff members 100% employed for a project.
- The CPU recalls the importance of preserving as an inviolable rule compliance with national accounting rules and the usual accounting practices of participants, including, for example, the choice of timesheet models, calculation of the number of productive hours, the mode of reimbursement for travel expenses, the calculation of labour costs, etc. Furthermore, this information is not intended to be included in a GA. Similarly, the CPU is very committed to the notion of trust of the EC towards participants, and their efforts concerning sound financial management.
- The CPU recalls the need for Financial Regulation that provide a framework of rules for participation that will not be changed/defined in annual WPs. Similarly, GAs must contain only general information about the project, and not the internal procedures of financial management by the participants.
- To keep European projects attractive, it is important for these projects to be able to co-finance projects, based on full-costing, with appealing co-financing rates, including, where possible, to be able to use actual indirect costs.
- The CPU also wonders about the harmful effects of financial rules standardising the rules for participation, regardless of the specificity of a category of participants or activities. In this regard, certain rules proposed by the EC are likely to discourage the participation of academic teams.

The key points calling into question the motivational nature of European research projects:

- The CPU estimates as very unfavourable the level of co-financing proposed by the EC. It hopes that at least the funding rate is, for research and innovation activities, 75% of direct costs and 75% for indirect costs, and 100/20 (75, for consistency with Nicolas) for management. In addition, participants who have implemented a full-cost accounting, or who have had their Certificate on the Methodology accepted, should be able to continue using these rules.
The CPU feels that a grant cap for projects should be provided in the calls for tender, which would allow fairer competition, and funding for more projects.
- The CPU considers it unacceptable for the EC to audit contract auditors. In fact, this would undermine the independence and neutrality that characterise French public accountants. Furthermore, it is also opposed to the principle of extrapolation, which is in no way a tool for better management.
- The CPU wonders about some of the definitions or articles of this proposal such as: definition of actual costs, eligibility of permanent labour costs, eligibility of equipment costs. In any event, a more precise definition of the eligibility of costs seems necessary.

Moreover, in the interests of administrative simplification for participants, the CPU is very committed to the following points:

- Efforts made by institutions under the FP7 in order to establish an actual indirect cost rate or to receive a certificate on the methodology must be acknowledged and renewed for H2020.
- In order to reflect the reality of French research units, it is important to preserve the concept of a third party. However, the concept of "premises" which leads to the eligibility of indirect costs of third parties is difficult to apply in the case of JRUs, and should therefore disappear. Finally, the CPU

recalls that the reference to third parties, except special clauses (JRU with a joint contract) must be made in the Technical annex, and not in the Core GA.

- The option for any participant to file a Certificate on the Methodology, as provided in the FP7, should be maintained, since it has had a positive effect on structuring the financial management of the institutions that opted for such a certificate.
- The obligation to deposit pre-financing should be deleted.