

## **Initial EUCAR opinion on the legislative proposal for the Review of the Financial Regulation and its draft implementing rules**

### **Executive Summary**

The Review of the Financial Regulation represents an excellent opportunity to introduce through legislation provisions to simplify and enhance the Research Framework Programmes. As major participants in the Framework Programmes EUCAR's members welcome the Commission's initiative to amend the financial rules to improve project financing. In particular we wish to put forward the following points:

- The option to apply average personnel costs instead of individual personnel costs is an important provision for EUCAR's members. The determination and approval of average cost rates should be a simple process and not place additional burden onto project negotiation.
- Flat rate financing for indirect costs does not take into account the high cost rates in industry and rules for application of flat rates should apply strictly on a voluntary basis.
- The provision to allow a higher tolerable risk of error in the research funding programmes through cost-benefit analysis is welcome. It should be assured in the implementation of research funding that less stringent controls and lower administrative burdens are applied.
- The proposed option for shared management of public private partnerships with associations or companies offers potential for increasing the effectiveness of research in the automotive sector. Proper governance and accountability in future PPPs is essential and therefore further clarity on the concrete details of their implementation is required.
- EUCAR supports the concept of accountability in research projects through the link between work performed and financial contribution received. The application of lump-sum funding breaks this link and therefore may not be appropriate in collaborative research projects involving industry.
- In particular, project funding paid against agreed results would likely not be effective in the case of collaborative research projects.

### **About EUCAR**

EUCAR is the European Council for Automotive R&D from the major European passenger car and commercial vehicle manufacturers. EUCAR facilitates and coordinates pre-competitive research and development projects and its members participate in a wide range of collaborative European R&D programmes. The European automobile manufacturers are the largest private investors in R&D in Europe with over €26 billion investment per annum, or 4% of turnover. EUCAR members are BMW, DAF, Daimler, Fiat, Ford Europe, GM/Opel, Jaguar Land Rover, Porsche, PSA Peugeot Citroën, Renault, Scania, Volkswagen Group and Volvo. EUCAR is closely connected to ACEA, the European Automobile Manufacturers Association.

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## **Introduction**

The Review of the Financial Regulation represents an excellent opportunity to introduce through legislation provisions to simplify and enhance the Research Framework Programmes. EUCAR's members, the European automotive manufacturers, are major participants in the Framework Programmes, currently involved in over 50 projects. We therefore welcome the Commission's initiative to amend the financial rules to improve project financing and have issued this position paper to communicate our opinion on specific provisions in the legislative proposal. The following opinions are identified by their article number in the Financial Regulation, referring also to the draft implementing rules where applicable.

## **EUCAR opinion on specific relevant articles (Financial Regulation FR and Implementing Rules IR)**

### FR 108a & IR 180a(3) & 181: Average personnel costs through a standard scale of unit costs

Automotive manufacturers involved in the framework programmes have consistently called for application of normal accounting procedures in EU funding, in particular the application of average personnel costs. The standard scale of unit costs introduced in the proposal is put forward as the tool to accept average personnel costs, with ex-ante verification of non-profit and co-financing.

EUCAR welcomes the option to apply average personnel costs. However, the procedures necessary to determine and monitor the standard scale of unit costs appear to represent an additional burden in itself, contradicting the current moves towards simplification. It must be ensured that the additional administration necessary to determine the standard scale of unit costs for average rates is kept to a minimum and is determined separately from the project negotiation. The relevant principle for the acceptance of average rates and usual accounting principles based on the acceptance in national public research programmes, as proposed in the Commission's Communication COM(2010) 187, Art. 3.2 (1)+(2), remains appropriate for the application of average rates. Assuming these conditions can be met, the provision to use average personnel costs should be implemented as soon as possible during Framework Programme 7.

### FR 108a & IR 180a(4) & 181(4): Flat rate financing

The amended regulation now allows the imposition of funding of the beneficiary's indirect costs in the form of flat-rates, up to a maximum of 7 % of total eligible direct costs. We recognise that the stipulated figure can be exceeded by decision of the Commission. We also recognise that the provision for imposition of flat rates has been proposed due to the introduction of Commission decisions instead of grant agreements for certain programmes involving large numbers of small projects.

In industry, indirect costs can be an order of magnitude (or more) higher than the quoted figure. The potential for imposition of flat rates in collaborative research projects is therefore not appropriate and it should therefore be specified that this provision applies only to small projects. The option to apply actual indirect costs should always apply.

### FR 28b: Tolerable risk of error

The currently applied 2% tolerable risk of error has been quoted by Commission officials as the justification for stringent financial controls and robust audit procedure employed in framework

programme research projects. EUCAR would therefore welcome a determination that the tolerable risk of error in the research funding programmes be higher, reflecting the lower financial risks inherent in research and the substantial burdens placed on recipients and Commission officers by the control regime. It should be assured, in the future implementation of rules for research funding, that less stringent controls and lower burdens for participants are applied.

FR 53: Management of funding directly by Commission or indirectly through entrusted entities and Article 53b: Single set of rules for indirect management by entrusted entities

These provisions provide the framework for implementing the Commission's budget indirectly, in shared management with entities external to the Commission. In particular this includes entrusting measures of implementation of funds to public law bodies, private law bodies with a public service missions or bodies governed by the private law of a member state (i.e. associations or companies). This is a new method for implementing public private partnerships, requiring the entities to set up systems of accounting and control, providing a level of financial protection equivalent to that employed by the Commission.

EUCAR welcomes the concept of, for example, industry bodies being entrusted with shared management of PPPs performing relevant research. The automotive industry would in particular be interested to explore the option of managing roadmaps, work programmes, calls for proposals and potentially evaluation and selection of projects for future PPPs in the automotive research area, with the objective of increased speed, efficiency and effectiveness of funded research. The specific procedures for such a research management model need to be understood in great detail before this option is confirmed, in particular regarding the control environment and governance of potential PPPs, to ensure management is only performed by appropriate bodies. Streamlined procedures and the same tools for different PPPs would need to be ensured. EUCAR therefore requests further explanation and clarity regarding how such PPPs would be implemented in practice.

FR 108a & IR 180a: Shift towards a performance based system, based on lump sums

In collaborative research projects, the accountability of all project participants to perform their designated tasks is an important control on the successful execution of the project. The option to use lump sums to cover all or certain estimated eligible costs breaks this link of accountability. The procedure for determining lump sums would likely require burdensome negotiations, increasing the time to grant. There may be parts of the EU's research funding programme where greater use of lump sums is appropriate. However, in collaborative research this option is not favoured by EUCAR.

The option to use lump sums has in particular been identified as the basis for contributions to project costs paid against agreed output/results. EUCAR recognises that such performance based project funding may be appropriate in certain types of funding programmes. In collaborative research, however, there are a number of concrete concerns regarding the consequences of concentrating on results. These include the likely shift to lower-risk, less innovative projects, the additional negotiations to determine agreed results and measure actual results against target, the additional expertise necessary for evaluations and the uncertainty for beneficiaries of receipt of funding. EUCAR would therefore request that the option of performance based funding not be applied to industrial collaborative research projects.

FR 5(4): Suppression of requirement to recover interest on pre-financing

This amendment removes the specific burden for project coordinators and is therefore welcomed by EUCAR

Article 102, 118 & IR 152: Pre-financing guarantee:

The new provision for determining whether a pre-financing guarantee is to be applied gives the authorising officer substantial discretion over this decision, removing the existing threshold of €150 000. This may be appropriate to cover the eventual future case in which project funding is dependent on delivery of results. It appears however to cover all cases, including those in which financing remains based on eligible costs.

EUCAR would therefore appreciate complete removal of the requirement for pre-financing guarantees for industry for collaborative projects funded based on eligible costs.

FR 84a: Transfer of documents by electronic means

The provision to allow electronic transfer of documents between institutions would be welcome, and should be implemented in order to speed up procedures, in particular during the time to grant phase of projects.

## **Conclusions and recommendation**

The provisions laid out in the legislative proposal for the Review of the Financial Regulation represent a good platform for reform of many of the financial elements which cause substantial burdens for EUCAR's members and other beneficiaries in funded research. The opinions detailed above on certain provisions represent feasible changes which we consider necessary to retain the favourable nature of collaborative research and to enhance the value of the reform. We therefore request that the EU institutions take into account these opinions in further negotiations on amendment of the legislative proposal. EUCAR will continue to engage on this issue and provide relevant expertise and we look forward to continuing cooperation with the institutions to reach a successful conclusion on the Review of the Financial Regulation.

## References:

"Regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union", COM(2010) 260 final, 28<sup>th</sup> May 2010

"Commission staff working document concerning modifications linked to the revision of the Financial Regulation prefiguring the proposal for a Delegated Commission Regulation amending the detailed rules of implementation of the Financial Regulation", SEC(2010) 639, 28<sup>th</sup> May 2010

"Simplifying the implementation of the research framework programmes", COM(2010) 187, 29<sup>th</sup> April 2010