

Workshop on the Mid-Term Revision of the Financial Regulation

Improvement of direct management & Outlook on the Commission proposal

Organised by the Policy Department on Budgetary Affairs

*Held on Monday, 11 July 2016, from 16:00 to 18:30 in the European Parliament,
József Antall Building (JAN), Room 4Q2*

PROCEEDINGS

A. BACKGROUND BRIEFING

Financial Regulation: the reference for the EU budget

The Financial Regulation contains provisions applicable to the general budget: principles, establishment, structure, implementation and auditing of the accounts. It also defines the rules for public procurement, the award of grants and prices and the general rules governing financial instruments. It is thus the main point of reference for the procedures governing the establishment and implementation of the EU budget.

The first Financial Regulation was originally adopted on 21 December 1977. The last revised [Financial Regulation](#) was adopted in 2012¹ after a legislative procedure initiated by the European Commission in 2010 and which was preceded by a public consultation in 2009. It was then amended in May 2014² and in October 2015³.

Article 211 of the Financial Regulation states that the Regulation shall be reviewed whenever it proves necessary to do so and in any case at the latest two years before the end of the first post-2013 multiannual financial framework. Such review shall cover, inter alia, the implementation of the provisions of Title VIII (i.e. Financial Instruments) and the deadlines set out in Article 163(1), i.e. deadlines linked to the Special reports of the Court of Auditors.

¹ Regulation (EU, Euratom) [No 966/2012](#) of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002

² Regulation (EU, Euratom) [No 547/2014](#) of the European Parliament and of the Council of 15 May 2014 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union

³ Regulation (EU, Euratom) [No 2015/1929](#) of the European Parliament and of the Council of 28 October 2015 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union

Issue at stake today

Today, after three years of implementation of the current rules, the European Commission considers that it is necessary to revise those rules in order to:

- simplify the regulatory and financial architecture,
- promote synergies and flexibility in the implementation of the budget and
- promote a clear accountability framework.

The main issue is the need to reduce complexity of the financial rules and administrative burden. This concerns the financial and regulatory architecture, rules on grants, provisions governing indirect management, rules on financial instruments, shared management, reporting obligations and the management of administrative appropriations.

According to the European Commission, the revision of the Financial Regulation will contribute to the implementation of the Better Regulation initiative. It is also an integral part of the initiative "Budget Focused On Results" (BFOR).

European Commission stakeholders consultation

From March 04 2016 to May 27 2016, the European Commission asked stakeholders views of a revision of the financial rules applicable to the EU budget. This consultation focused on the financial rules for:

- Financial Instruments (e.g. guarantees)
- Indirect management (using partner organisations for managing EU funds)
- Financing decisions (multiannual duration, essential elements)
- Simplification for beneficiaries including simplified cost options
- Prevention of conflicts of interests
- Creation of a "Single rule book"
- Convergence of rules for various types of expenditure (e.g. grants and financial instruments)

A synopsis report covering the substance of the replies is expected within 3 months after the closure of the consultation, in other words likely in September 2016. Individual feedback or direct talks are not envisaged with the respondents.

European Commission Awareness Raising Event on the Financial Regulation Revision 2016

A [high-level event](#) hosted by Vice President Georgieva took place on 6 April 2016 in Brussels. Important stakeholders were invited for a panel discussion on the subject: "Making the Financial Regulation simpler and more flexible". It was the opportunity for the panelists to discuss the challenges facing their organisations, including their ideas for the future on direct and indirect management.

In her welcome speech, Vice President Georgieva pinpointed the lack of flexibility to respond adequately to the challenges facing us. She highlighted the contradiction between unpaid bill piled up on the Commission desk and the exceptional resources from fines imposed following a number of rulings made by EU judges, which cannot be used to foot the bills.

European Parliament representative (MEP Ines Ayala-Sender replacing rapporteur MEP Inge Gräßle) reminded the need to have a more flexible multiannual budget to address crises and the challenge on transparency and accountability to citizens. She stressed the European Parliament was always

asking for a cycle of five year and not seven. In her views, rules for beneficiaries should be grouped in one book.

Stakeholders raised flat rates and lump sums should not be generalised, too many rules at the EU and at the Member State level exist and some are contradictory. In addition, simplification should target beneficiaries and not only the Commission work. They also mentioned the Commission should not only launch a consultation but also start a dialogue.

B. SUMMARY OF THE DISCUSSION AFTER SPEAKERS' PRESENTATIONS

Main issues discussed:

- Complications due to the multiplicity of accounting systems
- Complications due to multiplicity of audits and control levels
- Direct costs and flat rate costs models
- Specificity of the fundamental research sector
- Loans versus subsidies

Dr Christian Ehler, MEP, Member of the Committee on Industry, Research and Energy and rapporteur for the rules for participation in Horizon 2020 reiterated that we missed the 3% of GDP target in terms of research investment; we are actually below 2% of GDP and, therefore, lagging well behind Asia or the USA. A combination of permanent budget cuts and a 'one size fits all' funding model, 100% or 25% for all, contributes to the reduced success rate, which is going down dramatically, below 6%. He highlighted that a programme with a success rate below 20% is too costly for companies, in particular SMEs, to apply for and therefore will not be successful in the future.

He underlined the contradiction between the full cost model and the simplification approach, i.e. direct costs and flat rate cost models, and that the logic of the accounting rules made the Research sector dependent on public sector investments.

In addition, a structural problem comes from the multiplicity of accounting and reference systems that are sometimes contradictory in their practices. This adds unnecessary complexity. He mentioned that in public and private partnerships, members must deal with up to five different systems.

The Commission's direct cost concept in the EU 2020 programme and its differentiation between direct and indirect costs are not in line with direct costs accepted in the last FP7. There would be a differentiation between the direct costs accepted by the Commission now and those accepted in the past under the FP7 programme. This leads to eligibility risks at a later stage for many research programme participants. He also stressed that it is hard to predict what problems are likely to occur.

The auditing system does not refer to output based programmes. There is a marked difference between the ambitions and the practical terms of the auditing system. The question is how will the Commission come up with this issue in the MFF review or in the mid-term review. The auditing system does not take into account this output driven approach.

*The Chair of the Committee on Budgetary Control and rapporteur for the event, **MEP Inge Gräßle**, asked if we could agree to use a uniform accounting system when European money is involved to avoid the multiplicity of national systems.*

She agreed on the idea of the European Court of Auditors to have a uniform deadline for all funds and ask if it is feasible to go ahead with this.

Regarding lump sums, she questioned whether it is sufficient for the Commission to set the framework and increase it for lump sums to make it more attractive which, for us, will solve many of the problems; or is the reality that it is so complicated, there is no point in trying it.

On financial instruments, she asked if it is possible to change the internal rules; she quoted as an example the Max Planck Institute: is it able get more margins in order to be able to use this loan instrument?

Finally, she asked Prof. Firat directly what proposals/ideas he has on simplification.

*The Chair of the Committee on Budgets, **MEP Jean Arthuis**, was stuck by the diversity of the accounting systems. He mentioned that in the euro area, we have common set of rules for deficit and debt but individual Member States still have their own sets of rules. On account certification, we also have a disparate situation.*

For accounting, different rules exist or co-exist, very often designed for tax considerations and calculations.

He questioned Mr Walbroeck on the rules within the DGs, as it seems that each DG has its own set of rules, how much is that true? He also asked if it is possible to have a principle of responsibility in the European Commission.

MEP Jean-Paul Denanot drew attention to the fact that financial regulations should not function as a brake but must be there to help money being spent, and should be straightforward, clear, harmonised and a kind of ABC of accounting principles on general application. Money should go to the projects and not to the financial regulations.

We cannot afford to have a dozen or so accounting systems. It must not be a pretext for a multiplicity of different levels of control.

He mentioned the CNRS example. Fundamental research is an investment, results may come or not. We must be conscious that we cannot assume there will be applications flowing in for fundamental research. The system therefore must be straightforward so that the research sector can do its research.

He concluded by saying it is time for us to come up with rules that help and not hinder the process.

MEP Inés Ayala Sender hoped that this financial year would have results not only for research but also for the other sectors, such as agriculture, which face similar problems. She highlighted that we had to be consistent and ensure a level playing field across the board.

When it comes to audit, she stressed we want simplification but not only for the R&D sector. One single audit manual of six hundred pages would not help, but forty pages would.

Uniform audit is what we are aiming at to inspire confidence in the Commission, between the Commission and the beneficiaries, and between the different auditors.

She concluded by asking to see to what extent performance based budgeting can be adapted to all of the beneficiaries to achieve a level playing field. In addition, she stressed that we also need a proper definition of what we mean by “results”.

Speakers’ replies to the questions raised

With regard to accounting systems, **Dr Ludwig Kronthaler**, *Max Planck Secretary General*, expressed that in his view it is the wrong way to prescribe which accounting system must be used. It is better, and more feasible, to determine in qualitative terms what you look for, e.g. how to treat investment or handle depreciation, and then look into your own accounting system to see how you can comply with the treatment required.

Concerning loans, he pointed out that his Minister of Finance is very strict in controlling public debt and certainly will not really allow loans to be used in the legal framework. He highlighted that what is important for research institutions, in particular fundamental research, is that you invest in research and the returns from this investment will not likely appear in your organisation. You will not have revenues and a recovering income stream from your investment. That means there is no business model that you can base on this investment. Therefore, loans are not the way to fund research at all, in particular in the case of fundamental research.

On lump sum and overhead rates, he mentioned that they can live with it but they lose money and would be happy if it could be closer to reality.

He then concluded saying it is always a matter of common sense and that was lost.

The European Commission representative, **Mr Olivier Waelbroeck**, *Director in the Central Financial Service*, recognised that there are multiple layers of control, but said that they are trying to simplify things, and they are working with the Court of Auditors, in particular, to ascertain how they can use audits carried out by their partners in compliance with international audit standards.

He stressed that even the auditors from the UN recognised the benefit of their ex-ante audit. On results, he stressed they obviously want to concentrate on results where possible. For fundamental research, he agreed that it cannot always be based on results and they are continuing to look at the possibility of providing subsidies. However, they cannot authorise huge lump sum payments in one area and nothing in another.

The Chair of the Committee on Budgets, **MEP Jean Arthuis**, said the European Commission should lift its foot on ex-ante controls and then gave the floor to the Court of Auditors representative.

The Court of Auditors representative, **Mr Lazaros S. Lazarou**, *Dean of Chamber V Financing and administering the Union*, said it is a surprise to hear that different accounting systems are applied, international accounting standards are universal and they should be applied wherever possible.

Mr Arthuis interrupted the Court of Auditors representative. He mentioned as an example that the way to handle the Member States' contributions to the EU budget varies from one country to another.

Mr Lazaros S. Lazarou concluded the Commission should do its best to harmonise procedures across the board, not just with the accounting system. He said the means to achieve simplification is harmonisation. The Court of Auditors is advocating single audits. They look forward to being in a position to use the national audit certificates, but before they place reliance on national certificates, they need to have the assurance that those certificates meet quite high standards.

Ms Muriel Attané, *EARTO Secretary General*, declared Juncker's plan can be a smart complement for some specific activities, even for fundamental research. She stated that some of their labs e.g. for building their buildings, are supported by structural funds and by some loans.

Those loans need guarantees and can be given by the industry. However, when it came to SMEs, the sector is not well organised and cannot use this type of contract to guarantee loans from the bank. The EIB is still working on new types of financing instruments with much higher risk and possibly looking at investment

Mr Wolfgang Suttner, *Fraunhofer-Gesellschaft, Chair of the EARTO working group on financial issues*, stated that the cost accounting methodology has to comply with the standard. There is no right or wrong way to comply; only different ways, e.g. direct cost is not universally defined. Therefore, you have the situation where direct cost is technically a different concept in different cost accounting methodologies. A smaller organisation, or one with clear separation between units, may be able to "produce" a lot more direct costs in their accounting system than a more integrated organisation that shares facilities.

On the question of loans, **Mr Thomas Estermann**, *EUA Director Governance, Funding and Public Policy Development*, said in several high education systems, universities cannot take loans but if they do, it is only under very strict conditions. He added that this situation will not likely change. Therefore, a large number of actors are excluded from funding.

He stressed that members are very diverse, from those who have a large number of European projects to those who only apply from time to time in very specific sectors. Therefore, they have different needs and expectations.

He then pinpointed the assumption that a real cost system is more expensive than an indirect cost system, which is not true. It depends very much on the type of project.

Mr Arthuis stressed the need to push people to assess their costs and they should know what they are doing.

Prof. Hüseyin Firat, *President and CEO of Firalis*, mentioned that, from the SMEs' point of view, indirect cost and depreciation are different each time when you are an SME, audit standards pose problems.

He highlighted that loans are very useful for SMEs, therefore different funding streams should be maintained and even diversified further.

Regarding fundamental project research, we need innovations and he stressed that we cannot impose any specific outcome. He added that for SMEs with projects close to the market, all types of funding should be used, in particular loans.

The European Commission representative, **Mr Patrick Child**, *Deputy Director-General DG Research and Innovation*, mentioned that, in their poll on the 2020 programme, to the question on how you compare their procedure to other system programmes, most respondents said they know other simpler or quicker systems to work with. He stressed that it is different from what they had in the past.

On accounting, he stated that they want to avoid double accounting and they are working on recognition of the different accounting systems used by participants, rather than asking them to set up a parallel system serving only EC needs.

He agreed entirely that the benefits their work brings should be should better presented rather than focussing on the bureaucratic process.

The Chair of the Committee on Budgets, **MEP Jean Arthuis**, said trust is a prerequisite for that and accepts a certain element of risk. He then concluded saying there is a lot of room for improving regulation, especially when it comes to harmonising practises in use in different DGs.

The Chair of the Committee on Budgetary Control and rapporteur for the event, **MEP Inge Gräble**, expressed her thanks to all speakers for the precious input given. She added that the devil is always in the details and she is ready to meet the devil in the coming months.



ANNEX: WORKSHOP PROGRAMME

WORKSHOP ON MID-TERM REVISION OF THE FINANCIAL REGULATION

**IMPROVEMENT OF DIRECT MANAGEMENT
&
OUTLOOK ON THE COMMISSION PROPOSAL**

Organised by the Policy Department D on Budgetary Affairs

Monday, 11 July 2016, 16:00 - 18:30

**European Parliament, Brussels
József Antall Building (JAN), Room 4Q2**

WORKSHOP PROGRAMME

16:00 - 16:07 Welcome and introduction

16:00 - 16:05 **Mr Jean Arthuis MEP**
Chair of the Committee on Budgets

16:05 - 16:07 **Dr Inge Gräßle MEP**
Chair of the Committee on Budgetary Control
and rapporteur for the event

* * *

16:07 - 17:20 Presentations

The institutions' views

16:07 - 16:25: **The European Commission's evaluation of the public
consultation and outlook on its proposal**
Mr Olivier Waelbroeck, *European Commission, DG Budget,
Director Central Financial Service*

16:25 - 16:35 **The European Court of Auditors' requests for the next
reform of the Financial Regulation**
Mr Lazaros S. Lazarou, *Dean of Chamber V Financing and
administering the Union*

The stakeholders' views: the case of research funding

16:35 - 16:50 **European Association of Research and Technology
Organisations (EARTO)**
Ms Muriel Attané, *EARTO Secretary General*
Mr Wolfgang Suttner, *Fraunhofer-Gesellschaft,
Chair of the EARTO working group on financial issues*

16:50 - 17:00: **European University Association (EUA)**
Mr Thomas Estermann, *EUA Director Governance, Funding and Public
Policy Development*

17:00 - 17:10: **Firalis, a French biotechnology company**
Prof. Hüseyin Firat, *President and CEO of Firalis*

17:10 - 17:20: **Max-Planck-Gesellschaft (MPG), Germany**
Dr Ludwig Kronthaler, *MPG Secretary General*

17:20 - 17:35 Preliminary conclusions

17:20 - 17:30 **Mr Patrick Child**

European Commission, Deputy Director-General DG Research and Innovation

17:30 - 17:35 **Dr Christian Ehler MEP**

Member of the Committee on Industry, Research and Energy and rapporteur for the rules for participation in Horizon 2020

* * *

17:35 - 18:30 Debate and conclusions

17:35 - 18:20 **Q&A and general debate**

18:20 - 18:25 **Concluding remarks by Dr Inge Gräßle MEP**

Chair of the Committee on Budgetary Control and rapporteur for the event

18:25 - 18:30 **Closing remarks by Mr Jean Arthuis MEP**

Chair of the Committee on Budgets

Disclaimer

The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

Contact: poldep-budg@europarl.europa.eu

Manuscript completed in September 2016.