



SUMMARY

Workshop on financial management in FP7 *Exchanging experiences on European level*

organised by

the European Liaison Office of the German Research Organisations (KoWi)

in cooperation with

Working Group of European Research Administrators at German Universities (BAK)

on 24th/25th January 2008

Venue: KoWi, Rue du Trône 98, 8th floor, 1050 Brussels

With over 50 participants from 14 European and associated countries, the workshop has shed light on the development of best practice concerning financial management issues in FP7 and on current obstacles faced by universities in introducing full cost accounting.

The overall impression, backed by the European University Association, was that the major part of the universities in Europe are not yet in the position to calculate their cost on a full cost basis. The universities' level of implementation of full cost (FC) accounting methods greatly differs, even within one country. This is not only due to varied institutional and local accounting systems, but also due to lacking support from the government side in some of the cases. Whereas in some countries a nationwide approach is being developed (UK), other countries have not yet been able to start discussing the problem on a national level (Slovenia).

Thus it became evident, that many universities will not have implemented full cost accounting by 2010 and it would be a considerable help for those lagging behind to extend the application of the 60% flat rate even after 2010.

Those universities who are in a more advanced state of implementing full cost accounting or using the simplified method, were pointing out that so far the Commission has given no assurance concerning the viability of the respective methods. Thus the universities are left in a position of uncertainty whether their methods will be questioned at a later stage with the possible consequence of having to pay back amounts not sufficiently justified. Furthermore, many universities fear that once full cost accounting is implemented, the projects will become more expensive, which will render them an unattractive partner or will significantly reduce the number of partners in a consortium.

Time recording for the entire staff of an institution is also a key problem, particularly recording the working time of permanent scientific staff. The Commission takes the stance that the complete working time should be recorded in order to avoid fraud in cases where researchers are working in several projects. One solution for FP8 could be to explore alternative methods of time recording for universities. The problem of deducting VAT from indirect costs seem to be solved – The Commission will accept a VAT elimination rate as suggested by the universities of Lower Saxony two weeks before the workshop.

From the Commission's side there was also some information on the new auditing policy which provides for an increased number of external audits commissioned by the EC in the future (about 400 in 2008).

Thomas Estermann (European University Association, Brussels) reported on the EUA Funding Project that elaborates good practice in cost accounting and full cost development based on the work of a voluntary group of institutions, who analyze universities' accounting systems, legal frameworks, status of autonomy and status of full cost development. He stressed the difficulties in finding a common terminology and the diversity of accounting rules, purposes of accounting models, ways of reflecting investments in real estate as well as tax regimes.

The main obstacles for universities are that financial systems were previously largely input-oriented and costs were not the major factor. Secondly, the lack of technical and human resources, combined with lacking external financial support. Thirdly, the lack of availability of data due to different requirements for external competitive funding on European and national level.

Mareike Schmitt (Working Group of European Research Administrators at German Universities (BAK)/ Saarland University, Germany) explained that most German universities will probably make use of the special transitional flat rate, at least until 2010.

Only two universities so far are currently using a full cost model in the first projects of FP7 (University of Heidelberg, University of Würzburg), whereas some universities are preparing FC calculation, planning to use it from 2010 on (e.g. universities of the federal state of Lower Saxony). Very few universities are developing a simplified method (e.g. University of Mainz).

Willem Wolters (Wageningen University and Research Center, The Netherlands; UNiversities International Team of Experts (UNITE)) explained that so far two technical universities have already switched to full cost calculation, the first one in 1993. In FP7, 12 Dutch Universities under the auspices of the Association of universities in the Netherlands (VSNU) prepare a common approach to implement full cost calculation as soon as possible since calculations clearly show that a swift transition towards FC is most beneficial. The universities in the Netherlands agreed upon the following common denominators for designing a joint model:

the system has to be kept as simple as possible, education time has to be eliminated before calculating indirect costs, a common number of eligible working hours must be fixed, a complete time recording system and a cost centre based upon researchers must be set up.

The local implementation of FC accounting at Wageningen university is taking place from January 2008 on. At the very heart of the operation is a communication effort to convince all stakeholders of the advantages of the new model and get their commitment. Tailor-made information for each of the stakeholders is needed: management, researchers, technicians and administrative support staff. Moreover, rules and tools will have to be elucidated and the staff has to be trained.

Diversification of funding is necessary to maintain financial sustainability of Europe's universities. Full cost accounting is a means to understanding and exploring the funding requirements. Please note full cost accounting is only one of the administrative and legal modalities to address the requirements of financial sustainability in an effective way. As demanded in most FP7 funded projects their model consortium agreements must implement these modalities. Universities were represented through UNITE in drafting the model consortium agreement DESCA.

Paul Flach (University of Leiden, The Netherlands) presented a simplified method developed at the University of Leiden, which could also be defined as a FC accounting method. Mr Flach defined full costs of a project as $\sum (\text{hours Scientific Staff} * \text{full cost rate per hour, which is the Gross salary cost rate per hour} + \text{indirect cost rate per hour})$ added to the "out of pocket costs", which are additional costs made for the project.

In his opinion, the key to success for implementing a FC accounting is to begin simple, by trying to obtain some basic data (P&L, number of FTE, number of students, square meters) and have the support of board of universities' directors.

He stressed that since there is no model that reflects the situation perfectly, each institution has to find its own balance between feasibility and accuracy.

Oonagh Kinsman (Trinity College Dublin, Ireland) explained her institutions difficulties in moving from the Additional Cost model in FP6 to the Transitional Flat rate model in FP7. Since there is no central fund to cover the 25% own contribution to FP7 projects, it has to be cross-subsidized from the indirect

costs. Nevertheless, the university is exploring ways to implement FC accounting, having received funding from the Irish Government for a pilot study on "Activity Costing of University Research and Teaching (ACURAT)". Moreover, a consulting group, experienced with the UK university costing, has been appointed on behalf of Irish Universities association to carry out a study how to implement FC accounting in Ireland.

Mrs Kinsman shared her best practice about an institutional proposal tracking system, that appoints a number to each FP7 proposal that is handed in, so that a uniform handling of proposals can be guaranteed and the necessary budget prepared.

Arne Hansen (University of Southern Denmark, Denmark) presented the launch of a new support unit at his university in 2008, which is supposed to implement a business model for external funding. Due to a merger with a research institute, the university is forced to have a common time recording system, however there is doubt on how to record, when researchers work more than 40 hours a week. Yet there is no standard hourly rate established.

To deal with various overhead rates, the university will apply Special Clause 33, which allows exceptions for departments/institutions etc. within a legal entity that can identify their real costs while the (whole) legal entity cannot.

Iwona Brzozowska (Jagiellonian University Cracow, Poland) stated that Polish universities were using AC model in FP6 and are still unable to identify their indirect research costs. Thus the majority of them uses the 60% flat rate for indirect costs in FP7, including the Jagiellonian University, which now however will introduce SAP in order to move towards FC accounting. Mrs Brzozowska also addressed the lack of research managers to implement necessary changes.

Martin Hamilton (University of Leeds, United Kingdom) presented TRAC (Transparent approach to costing), a system developed in 1999-2000 to improve the accountability in respect of use of public funds <http://www.universitiesuk.ac.uk/research/downloads/Trac%20EC-FP7.pdf>

However, TRAC has to be adapted to FP7 rules, for which a consulting company was appointed.

The adapted methodology of TRAC EC-FP7 will then be trialled by one UK Higher Education Institution with a view to others adopting their approach in time for the 2010 deadline. Remaining on a transitional rate with a lower percentage overhead rate is certainly not an option for the UK universities.

For the time being most British universities have used the special transitional flat rate and will do so until 2010. Some have applied for the first round of FP7 using the simplified methodology but may have to revert to the special transitional flat rate. Some universities have used FC in the past, but were forced to switch back to Additional Cost in FP6.

Staska Mrak Jamnik (University of Ljubljana, Slovenia)

So far there is no cooperation of universities in Slovenia regarding the introduction of full cost accounting, according to Ms Jamnik. The Rectors' Conference having not yet discussed this matter, there is also no government support for public universities to introduce full cost accounting, even though the researchers and FP7 administrators are fully aware of this issue. Thus it is not expected to have full cost accounting implemented by 2010.

The University of Ljubljana has opted for the Special Transition Flat Rate, since the 60% flat rate is attractive enough, however the 40% flat rate will not be as attractive. That is why the University of Ljubljana started the first activities to introduce full cost accounting, initiated by their chief internal auditor. Since EU projects are dealt with at faculty level, an internal financial/accounting group of heads of financial departments at the faculties was created in order to unify the accounting systems between faculties and to introduce the unified information accounting system. Moreover, the group plans a study visit to one or more of the European universities which have already implemented analytical accounting.