

GOVERNMENT REVIEW OF THE BALANCE OF COMPETENCES BETWEEN THE UNITED KINGDOM AND THE EUROPEAN UNION: EU BUDGET

RESEARCH COUNCILS UK (RCUK) RESPONSE

Introduction

1. Research Councils UK (RCUK) is a strategic partnership of the UK's seven Research Councils which annually invest around £3bn in research. We support excellent research, as judged by peer review, which has an impact on the growth, prosperity and wellbeing of the UK. To maintain the UK's global research position we offer a diverse range of funding opportunities, foster international collaborations and provide access to the best facilities and infrastructure around the world. We also support the training and career development of researchers and work with them to inspire young people and engage the wider public with research. To maximise the impact of research on economic growth and societal wellbeing we work in partnership with other research funders including the Technology Strategy Board, the UK Higher Education Funding Councils, business, government, and charitable organisations. Further details are available at www.rcuk.ac.uk.
2. This evidence is submitted by RCUK and represents its independent views. The submission is made on behalf of the following Councils:
 - Arts and Humanities Research Council (AHRC)
 - Biotechnology and Biological Sciences Research Council (BBSRC)
 - Engineering and Physical Sciences Research Council (EPSRC)
 - Economic and Social Research Council (ESRC)
 - Medical Research Council (MRC)
 - Natural Environment Research Council (NERC)
 - Science and Technology Facilities Council (STFC)
3. This evidence focuses only on aspects of the EU budget which are relevant to research and innovation, in line with RCUK's position as a national research funder.

Role of institutions and budget system

Q1: What do you see as the rationale for having an EU budget?

4. The institutions which comprise the UK's research funding landscape are diverse and as such benefit from a diverse range of funding. The part of the EU budget which is dedicated to research and innovation provides a discrete source of potential income, separate from the UK's science budget, and the availability of this funding stream can help institutions ensure their funding portfolio is spread widely to assist in stability. EU funding enables projects of critical mass to be supported at an EU level, which would be difficult by national funding alone, and facilitates benchmarking of excellence in research through competition.

Q3: What are the advantages and disadvantages of having unanimously-agreed long-term budget periods? How long should they be?

5. A clear budget for EU activities in the research and innovation area enables strategic forward planning and goal-setting over the medium-term and complements the funding available at national level.

Q4: What are the advantages and disadvantages of the existing system of commitments and payments? Can you think of ways to improve that system?

6. We have observed that problems with the payments side of the annual budgets have been more frequent recently, in part because the European Council has decided on annual budgets with a greater difference between the commitments side and the payments side of budgets. As a result, the Commission has previously had to submit amending budgets to ensure that they could honour payments without delay. Delays in adopting amending budgets can lead to delays in payments to research and innovation projects and later project starts in some areas.
7. As an example, the delay in adopting the 2012 amending budget threatened to have an impact on payments for projects funded in the fields of FP7 ICT, space and security. The reduced budget for 2012, which was agreed by Council and Parliament in early 2012, was insufficient to cover expenditure in some areas. The main areas concerned were rural development and cohesion funding, but the amending budget also to a certain extent concerned the areas of education (Erasmus student mobility) and some areas of research, namely Information and Communication Technologies (ICT), space and security.
8. The shortfall in this case concerned the payments side of the EU budget and not the commitments side, meaning that there was no threat of funds being taken away from existing projects or those in negotiation. A long delay in the decision making process on the amending budget for 2012 could have resulted in late payments for some projects. It also led to uncertainty for the projects that were awaiting their payments. This would have meant that late payment interest was due from the Commission to beneficiaries and could also have resulted in later start dates for new projects in the areas concerned. The uncertainty generated by these situations is not helpful for beneficiaries in managing further disbursement of funds and can cause complications for institutional budgetary planning.
9. It should be noted that in September 2013 the Commission warned the European Parliament's Industry and Research Committee about potential issues with payment credit for Horizon 2020 next year. Once again these concerns relate to the payments side of the EU budget, not the commitments side, and a lack of payment credit could for example result in the late payment of pre-financing, for which the Commission would have to pay interest to beneficiaries. Additionally under the new time to grant rules, there is a greater risk that amount of pre-financing will be reduced at the start of the projects so more projects will be able to start on time, this could lead to cash-flow issues for beneficiaries of Horizon 2020 projects.

Q5: What are your views on the current financial management system, in particular the Discharge process, in ensuring EU budget funds are properly spent and audited?

10. The European Court of Auditors' annual report on the 2012 EU budget shows that EU-funded research programmes is an area of EU expenditure which is still affected by financial errors. The ECA report states that the estimated error rate for audited transactions in the Framework Programmes for research, the Lifelong Learning Programme and other internal policies was 3.9 per cent, and that 49 per cent of the sample of transactions audited showed at least one error. The most common errors included the inclusion of ineligible costs in FP project cost statements, and the use of incorrect methodologies by beneficiaries to calculate personnel and indirect costs. A number of procedural errors were also reported by the ECA regarding significant delays in transferring funds to project partners by the co-ordinators or the accuracy of

audits certified by independent auditors in FP projects with an EU contribution exceeding EUR 375,000.

Q6: What are the advantages and disadvantages of having some expenditure, including to provide flexibility, held 'off-budget'?

11. RCUK would prefer to see some large infrastructure projects kept off-budget. If there are problems with payments these can then be dealt with separately rather than have consequences for other commitments within the MFF.

General value of spend

Q8: In your view, is the EU budget focussed on areas of EU added value in expenditure?

12. RCUK welcomes the increase in expenditure on research and innovation (together with other pro-growth investment) from nine per cent of the total budget in 2007-2013 to 13 per cent in 2014-2020 (see 2.16 in the call for evidence document). The Communication on the EU Budget Review¹ of 2010 noted that EU programmes focusing on research and innovation, in particular Framework Programme 7, have demonstrated high societal pay off and EU added value as well as leveraging of funding across the EU.

The resource system

Q13: Do you have any other points to raise relating to the EU budget system, not covered by the questions above?

13. For further background on the relevance of the EU budget to research and innovation, we would draw the review authors' attention to the RCUK response to the Balance of Competences second semester review of Research and Development, in particular paragraphs three to six. A copy of this submission is attached for reference.

Research Councils UK, January 2014

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52010DC0700:EN:NOT>