Research Committee : 23rd November 2011

Interreg IVA Programme Review: Channel and Two-Seas Programmes

The Research Committee is asked to consider the University's future participation in these twin programmes, in light of experience to date, and to consider a pre-qualification protocol.

1. Introduction

The Research Committee of 29th May 2008 received a report from RES relating to the newly launched Interreg IVA funding programme. The Committee was asked to consider the implications of participating in the programme and agreed the following:

1. The University would continue to participate in the Interreg IVA programme.
2. An internal pre-qualification process would be established whereby proposers demonstrate the suitability of Interreg IVA funding, outlining the non-financial benefits with sufficient time (at least 6 weeks prior to Interreg deadlines)
3. The University should only lead Interreg IVA projects in *exceptional* circumstances.
4. The committee approved the overhead methodology shown for project applications.
5. The University will participate only in projects that use (or adapt) the Partnership Agreement developed jointly between Sussex, Kent, and Brighton.

The Committee also agreed that considerations should be made on an individual basis.

Three years on since the launch of the current EU Interreg IVA cross border regional funding programme (the "Channel" programme, and the "Two Seas" programme), the University has now had experience in bidding for and managing a number of these Interreg IVA projects (see Appendix 1 for a summary of projects supported to date).

It is therefore a timely opportunity to feed back on the issues that have arisen on bidding for funding, and in supporting awarded projects to date.

2. Background

Interreg IVA is an EU funding programme funded from EU structural funds (European Regional Development Funds). It aims to promote joint working and cross-border co-operation between partner organisations on either side of a European land or across maritime borders.

There are two Interreg IVA programmes which run from 2007 – 2013:

1. The France-England-Flanders-Netherlands "**2 Seas**" Interreg IVA Programme; and
2. The France (**Channel**) - England Interreg IVA Programme

Sussex is eligible to apply to both programmes. Projects need to involve at least one partner in either the eligible area in France or (for the Two Seas Programme) the eligible areas of the Netherlands or West Flanders in Belgium.

Projects must operate within the stringent community and regulatory framework that operates around structural funds. Each Programme is overseen by a complex management structure which in both cases, is based in France (the “Managing Authority” for each programme, is at the level of French regional government – Conseil Regional- which in turn, is then overlaid with joint technical secretariat’s and programme management committees).

Each Programme has an extensive Operational Programme that sets out the Management and Control systems – however elements of this are subject to change between programme calls and unlike the EC FP7 programme, such changes are poorly communicated leading to inconsistent project advice between calls.

3. Funding

It is worth recapping on the funding structure of Interreg. The funding rate is poor since the programme only meets 50% of the total <u>eligible</u> project costs (eligible project costs exclude University TRAC overheads). Whilst each project will have its individual features, typically the direct costs make up the 50% funded by the programme, with the 50% match funded element typically comprise academic (PI and Co I time), and for the Channel programme only, a limited amount of overhead (capped at 25% of total project costs). As such, funded projects rarely make any contribution to School costs or overheads. Therefore, if a bid is successful, the School is effectively heavily subsidising project costs.

4. Bid submission:

4.1 School approvals:

The Research Committee of 29th May 2008, agreed not to enforce an institutional veto of the Interreg Programme but instead, required that Schools consider projects on a case by case basis (by establishing a pre-qualification process requiring approval within 6 weeks of the deadline). However, in practice this has never been implemented (Schools have since re-organised). As a consequence, applicants present (within their School and to RES) when they have already committed considerable time to the partnership, unaware of the complexities of the programme, which are summarised below.

4.1 Budgets:

There is a high level of complexity in constructing Interreg budgets. This is due to the need to balance the match funding element with the direct project costs, as well as the complexity of breaking down project budgets in accordance with the Interreg Programme’s submission forms which require:

- Breakdown by cost type by project periods;
- Breakdown of cost type by activity type;
- Breakdown of cost type by activity type over each project period.

This “360 degree” budget breakdown then needs to be entered into the Programme’s detailed submission forms. Any minor discrepancies between them throws up error messages which then require detailed back-tracking to determine the source of the error, many of which are often due to rounding issues.

When such difficulties arise (they always do), this delays the finalisation of the budget and hence reduces the lead-time needed for preparing the detailed breakdown needed for the submission forms, and to rectify any further error messages thrown up by the submission form. Appendix 3 (Research Development Officer's report) provides a real example of a recently submitted Interreg project.

4.2 Submission documentation:

In addition to the complexity of preparing Interreg budgets, partners are required to submit an extensive amount of supporting documentation, requiring internal liaison. If external entities are involved, obtaining documentation from them too.

A substantive element of this documentation is dependent on the budget details which, if not finalised sufficiently in advance of the deadline, creates considerable pressure for both PI and the Research Development team, to put in place (and check) in time for the submission deadline. Experience has demonstrated that substantive and dedicated time (PI and Research Development Officer) is needed to pull all the documentation together, creating a backlog and prolonging response times for other project work.

All documentation and budgets need to be presented in all languages of the participating programme countries (English and French, and sometimes Dutch), and converted to euro currency.

4.3 Post submission matters:

It is not uncommon for the Interreg IVA Managing Authorities to request further documentation and clarifications post submission. These commonly relate to project budget / finance matters which require a response by a defined deadline. An example would be the requirement to provide detailed evidence of the charging basis for University facilities (typically included as match funding), requiring internal liaison and the preparation and provision of substantiating documentation.

4.4 Partnership Agreement

Both Interreg programmes require the establishment of a Partnership Agreement before project work can commence (signed copies to be sent to the Managing Authority before the Subsidy Contract is issued). Both Programmes provide model a Partnership Agreement but these are poorly drafted and inadequate in scope (particularly in respect of collaborative research projects). The Universities of Sussex, Brighton, and Kent jointly established an alternative Partnership Agreement in 2008 for the Channel Programme. For the Two Seas Programme, the University of Sussex commissioned our external lawyers to make improvements to the Two Seas model Partnership Agreement. Sussex only participates in Interreg projects on the basis of these modified Partnership Agreements.

This sometimes poses difficulties where the lead partner has already circulated the model partnership agreements for signature. Introducing our alternative Partnership Agreement and the time needed for it to be reviewed and commented on by each partner, then introduces considerable delay and requires significant time to consider any amendments requested by partners, which then must be translated into the official languages of the respective Programme.

5. Management of awards

There have been a number of common issues arising on projects awarded to date. These are as follows:

5.1 Claiming - Presage System:

In order to claim the 50% of actual costs, the requirement to vouch the 50% match funds to the Managing Authority is no less rigorous. All project costs (including external contributions[1]) must be fully and individually identified on Interreg claims. For example, individual transaction level detail has to be re-keyed into the Managing Authority's on-line systems ("Presage"). Each transaction entry on their Presage system requires around 10 different fields to be completed, including each work package reference. For staff costs, timesheets require hourly rates to be calculated and entered onto the Presage system by individual, by month, and by work package. All paperwork must then be copied, authenticated, and sent to the Lead Partner. An individual claim for (typically) a nine month claim period, may take 40 hours or more of administration time in Research Finance to complete compared with 10 to 15 hours (depending upon complexity) for an EC FP7 project's.

5.2 Claim submission timescales:

The complexity and detail of submitting claims in the Presage system is compounded by the short time-frame in which claims need to be submitted, typically within 2 weeks following the claim period. Contrast this with the 60 day deadline for submitting claims for EC FP7 projects. Such short timescales reduce Research Finance's ability to respond to other competing priorities.

5.3 Overheads:

Whilst eligible project costs for the Interreg programme can include an amount for overheads (capped at 25% of direct project costs), the programme requires that overhead costs are calculated in a manner which excludes all ineligible costs; and that overheads must be calculated in the year to which costs relate (unlike RC awards, where the overhead is fixed at the time of award). As such, the University's TRAC model rates cannot be used; instead a separate cost model is maintained and recalculated each year, which takes around 80 hours each year of a senior member of the finance team

Moreover, once the University's annual Interreg overhead model is established, the model then requires further adaptation at the individual project costing level, based on the specific usage each project makes of space, of staff time, and of other University facilities. We are also required to provide evidence of how the project overhead calculation tracks back to the University's published financial statements. This typically takes around 3 hours for each claim completed.

For the Channel Programme, the methodology and the project specific overhead calculation, forms part of the extensive documentation submitted with the bid.

For the Two Seas programme, the overhead methodology and project breakdown is not required at bid stage but must be submitted with each claim, at which time it would be subject to similar detailed scrutiny. As a consequence, the University does not include overheads as part of Two Seas programme project costs, to minimise the risk of these costs being deemed ineligible and placing the project into a deficit.

5.4 Exchange rates

Consistent with other overseas programmes, the University uses conservative exchange rates when bidding for Interreg projects in order to minimise the risk of fluctuating exchange rates over the project period (the Channel programme prescribes an exchange rate of 1.6 at the bid submission stage).

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[1] Match Funding can also comprise cash, or can be an external contribution such as access to facilities or expertise, the value of which must be substantiated by financial evidence (e.g. transactions / invoices). The basis on which subsequent usage is charged to the project must be verifiable (both usage and cost) via a robust audit trail.

However, the corollary is that where, as we have recently experienced, actual rates are closer to an exchange rate of 1.1 or 1.2. PI's must then increase their match funding to match actual costs (in order to retain a balance of 50/50 project costs and draw down sufficient grant income to cover the direct project costs). This is compounded by annualised budgets, upon which there can be limited facility to carry funding forward.

5.5 Audit

Interreg projects are subject to two levels of audit – first level audits must be undertaken before claims are paid. They are undertaken by each partner for each claim period and sent to the Lead Partner. At Sussex the First Level audits are undertaken by the University's external project auditor. The requirements are demanding with much paperwork required by the auditor. This is reflected in the fee charged which to date have averaged n the order of £2,200 per claim (although these are eligible project costs).

Second level audits are undertaken <u>after</u> claims are made. These are fewer in frequency than first level audits and are undertaken on a sampling basis by the European Court of Auditors (or their authorised representatives).

Both level of audit place further burdens of cost justification upon Research Finance.

5.6 Subsidy Contract

The Subsidy Contract is issued by the Managing Authority to the Lead Partner who signs on behalf of all project partners. However, it is not unusual for the issuing the Subsidy Contract to run on after the project start date. As a result, Research Finance are therefore only able to set up project budgets and start to record costs <u>after</u> the actual start date creating difficulties for the PI to manage costs against the complex budget profile.

6. Risks

6. 1 Personnel issues

The Interreg Programme is based on regional boundaries, therefore if a member of the academic staff who has committed to provide match funds leaves for another institution outside the eligible area, it is highly unlikely that their time/cost can continue to be included (contrast this with other funders where often the grant can move with the PI and/or a sub contract with the new institution can be established to overcome this issue).

6.2 Overheads

Whilst both programmes will permit the inclusion of a small amount of overheads as part of the project budget, experience has demonstrated that each claim is subject to high levels of scrutiny by the Managing Authority and particularly from project auditors acting as first and second level controllers. The rules governing overheads are complex, leading to a complex overhead cost model. As a result, all overhead components included in claims have been subject to a far greater degree of scrutiny than other direct project costs.

6.3 Opportunity costs

A considerable about of time (academic and support time) is required to prepare and to manage an Interreg funded project. This impacts on the time available by RES to support other project work, and must consequently impact on the PI's capacity to consider other funding sources.

Given the poor funding rate of Interreg projects and the administrative burden of engaging with the Interreg programme, there should be an overwhelming academic case for pursuing Interreg over other sources of funding.

7. Recommendations / for decision:

Noting the Interreg funding regime, and that Schools must effectively subsidise the full cost of undertaking an Interreg project, Schools will wish to ensure that the academic case for pursuing Interreg over other sources of funding is robust before committing significant resources. Committee is therefore asked to consider:

i) the implementation of a mandatory and clearly defined protocol for engaging with the Interreg programme on the basis outlined below:

Stage 1: School outline approval to be obtained (**pre-qualification**):

- where Sussex is leading - a <u>minimum 3 months</u> ahead of the deadline;
- where Sussex is not leading – a <u>minimum of 2 months</u> ahead of the deadline

Stage 2: School outline approval to be based on a standard **institution-wide template** available from the RES website. The content of the template will address the business case, the project budget, sources of match funding, and potential project risks.

Where the PI wishes to lead an Interreg IVA project, additional criteria will be needed to support the case for leading (and should be budgeted for).

Stage 3: Once School outline approval is in place, RES will commit to provide bid development support up to the submission deadline on the following basis:

- Where Sussex is leading: **15 working days**
- Where Sussex is not leading: **10 working days**

This estimation of time needed to support the bid preparation phase is based on experience to date. It does not factor in other Professional Services assistance needed (for example, the TRAC Accountant in preparing the project specific overhead methodology; the Head of Research Development in preparing and managing the Partnership Agreement; and other Professional Services staff as needed).

Stage 4: Finalised project budgets:

- Where Sussex is leading, all partner budgets must be finalised at least <u>4 weeks</u> before the Interreg submission deadline;

- Where Sussex is <u>not</u> leading, the Sussex project budget must be finalised at least <u>3 weeks</u> before the date advised by the Lead Partner (the LP will set a date in advance of the Interreg submission deadline to receive all partner budgets and associated documentation for them to be checked and consolidated prior to submission);

This timeframe is necessary to allow sufficient lead-time to prepare the detailed budget breakdowns in the funder submission forms, and to prepare all the associated project documentation. Changes to budgets after these lead times require considerable adjustments and RES cannot guarantee that there will be sufficient time available to make these changes and then prepare all supporting documentation in time for the deadline.

In such circumstances, there is a high risk that the project will not be ready for submission, and it should be deferred to the next Interreg submission deadline so that support can be directed to other bids with imminent deadlines.

ii) that Sussex extends the non-inclusion of project overheads to Channel Programme projects in addition to the Two Seas programme (should the committee be minded to continue including them, it is recommended that this is done on the basis of them forming contribution income to the Schools and not as part of the project's match funding); and

iii) It is also recommended that we continue the practise of basing Sussex's participation in any given Interreg IVA project on the basis of the Partnership Agreements that we have developed.

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Research and Enterprise Services

Appendices:

Appendix 1 – Summary of projects submitted to date

Appendix 2 – Research Development Officer Report : submission process

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