

DIRECTORY OF SOCIAL CHANGE

INFORMATION AND TRAINING FOR THE VOLUNTARY SECTOR

DSC response to the EU Review of the Financial Regulation: Consultation on EU Grants and the Handling of Financial Files

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Jay Kennedy
Policy Officer
Directory of Social Change
24 Stephenson Way
London
L1 9BW
www.dsc.org.uk

About the Directory of Social Change

The Directory of Social Change (DSC) has a vision of an independent voluntary sector at the heart of social change. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come into contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers, and are struggling constantly to maintain and improve the services that they provide.

DSC is not a membership body. Our public commentary and the policy positions that we take are based on [clear principles](#), and are informed by the contact that we have with these organisations. We also undertake [campaigns](#) on issues that affect them or which evolve out of our research.

DSC views its role as that of a ‘concerned citizen’, acting as a champion for those smaller organisations whose needs may not be accounted for in public policy. We ask critical questions, often challenge the prevailing view, and try to promote debate on issues that we consider to be important.

DSC’s work is mainly relevant to the UK voluntary sector. However, a main focus of its expertise concerns grant funding from charitable, corporate and statutory funders, including the European Union.

General comments on the consultation

Grant funding from the European Union is widely regarded by NGOs in the UK as the most complicated, most bureaucratic, and most difficult to manage when compared to other sources.¹ We acknowledge that the issues are complex and that achieving change in an EU context is likely to be difficult and slow. The consultation is therefore welcome as it asks many of the right questions and suggests some answers which have potential to improve EU funding. We hope that this consultation is not a one-off but the beginning of a process of enhanced and sustained engagement with the organisations affected, which leads to real improvement in the funding process.

Responses to Consultation Questions

Question 1: *Are you sufficiently informed about upcoming calls for proposals in a timely manner? What improvements would you suggest?*

Although calls for proposals are posted on the EU website, that in itself is not enough to ensure accessibility to the widest number of voluntary sector organisations. There are two key issues with the current approach.

Firstly, it requires prospective applicants to come to the website speculatively to seek funding. This is an approach suited to well-resourced organisations which work in areas that may attract EU funds. However, many organisations for which EU funding may only occasionally be relevant will regularly miss out on calls unless they invest

¹ See comments in Appendix A, from a survey in DSC’s electronic newsletter.

time an effort in monitoring updated information that in most cases will be useless to them. DSC's www.governmentfunding.org.uk website (and others) allow prospective applicants to associate themselves with key funding criteria so that they receive automatic updates via email when relevant calls are made. We would certainly encourage this approach.

Secondly, the information presented is not relevant or accessible to all prospective audiences. Because information on calls or programmes is usually detailed and complex, an initial decision about relevance and eligibility is often difficult. It is for that reason that DSC and many other charitable and private sector organisations work constantly to summarise, distil and more effectively communicate funding opportunities to prospective applicants. On the positive side that gives wider access to clearer information on funding opportunities, but on the negative side it creates the possibility for misinterpretation, as well as creating a whole series of costs to the sector of analysing, translating, repackaging and communicating information. Clearer, better structured initial calls would be of significant benefit and should lead to ensure greater conformity in provision of information across member states, and greater awareness among the relevant NGO audiences within the states.

Question 2: *Should the rules be more flexible on co-financing requirements taking into account the type of actions and project managers? How could in-kind contributions best be dealt with, while adhering to the non-profit principle?*

Co-financing is a major obstacle to the accessibility of EU funds. This is tied into the first question above about access to up-to-date information, because if funding announcements are delayed or unpredictable it makes putting in place any required match funding much more difficult.

Broadly speaking, any means to reduce the requirements around co-financing to include volunteer time or in-kind contributions would be welcome. The levels of co-financing required should also be reduced if possible.

Question 3: *Should the use of lump sums, flat rates become the norm rather than the exception? Should the rules allow for costs to be covered on the basis of expected outputs? If yes, can you provide concrete examples?*

Flat rates which contribute to the organisation's overhead costs are a 'one-size-fits-all' approach which would not be recognised as best practice in the UK. They may make calculating costs easier for the funding body, but will inevitably mean that actual overhead costs for some projects are over-funded and for others are under-funded. However, they may be more advantageous than the current system.

The greater use of 'lump sums', if accompanied by a much reduced level of bureaucracy involved in current processes, could gain greater efficiencies for the whole funding 'system', even if some of the money were actually over-committed or resulted in limited surpluses for funded organisations.

The system of financial monitoring and reporting needs to be looked at holistically so that the minimum amount of information required is collected. Collecting all this information has a cost, both for the applicant and for the assessor and manager of the funds; if it is not used for any productive purpose that cost is simply waste in the system. Any information that is collected but not used for any real purpose should not be required.

See for example Principles of Monitoring and Reporting by OTS
<http://www.cabinetoffice.gov.uk/media/216752/principles.pdf>

For examples of 'best practice', see www.fullcostrecovery.org.uk

Question 4: *Should the rules strictly adhere to the non-profit principle or should there be room for some flexibility in this matter? Do you have examples of good practices from other public authorities?*

Article 109 of the Financial Regulation states that 'Grants may not have the purpose or effect of producing a profit for the beneficiary.' This is very unclear when considered in a UK context, as the use of the term 'profit' does not accurately reflect the legal status of NGOs in the UK.

For registered charities (approx 170,000 organisations), 'surplus' is allowed under law, but this must be reinvested into the work of the charity or held in reserve. Charitable funds cannot be expended on anything which is outside the charity's objects.

For so-called 'social enterprises' such as Community Interest Companies, there are limitations to the amount of profit that can be distributed from trading activity, and this will normally be only for named persons who operate the organisation.

It is not clear from this regulation whether legitimate overhead costs could be construed as 'profits', or whether this refers to any potential underspend against the grant.

Greater flexibility around this rule would probably be welcomed, but greater clarity about what it actually means in practice for UK NGOs would probably need to be a precursor to any discussions.

Question 5: *What, in your view, would be the appropriate amount for low and very low value grants?*

The thresholds should be raised as high as possible, in order to reduce the burden and cost of bureaucracy on small organisations receiving relatively small amounts of money. We would suggest \leq EUR 100,000 for 'low value' and \leq EUR 25,000 for 'very low value', if only because the true administrative cost of managing a grant of EUR 5001 at the moment is likely to be out of proportion to the value of the grant itself.

Question 6: *How could the rules on operating grants be more flexible? In which way? What are your views on the duration of framework partnership agreements?*

The current rules are intended to 'encourage beneficiaries to diversify and generate their own resources'. It needs to be borne in mind that generating income will simply not be feasible for many organisations; in fact this may be a reason that they may have to seek EU funding in the first place.

Question 7: *Can you give concrete examples and types of actions where the strict limitation on cascading grants became an obstacle for achieving the goal of your action?*

We cannot provide any concrete examples, but we do not understand why ‘the possibility for a beneficiary to redistribute part of its grant through subsidies to third parties is strictly limited.’ Surely a greater use of third parties in this fashion would be a way to make EU funding more accessible to smaller organisations, which do not have the capacity to apply for or manage EU funds?

Question 8: *From your experience, what alternative solutions could be proposed for prefinancing payments while safeguarding tax payers' money?*

Article 5a of the Financial Regulation states that: ‘Interest generated by pre-financing payments shall be assigned to the programme or the action concerned and deducted from the payment of the balance of the amounts due to the beneficiary.’

We do not understand why interest generated on payments made in advance of expenditure needs to be reimbursed to the EU budget. This seems to be excessively bureaucratic. It seems possible that the real cost of calculating and recording interest, and recalibrating payments accordingly could be greater than the interest accrued in many cases, unless the amount of money is very large or the period of time prior to expenditure is substantial. Why not instead limit the amount of time a pre-financing payment can be held by the beneficiary, which would mean that any interest generated would be minimal?

Surely the greatest ‘risk to taxpayers’ money’ involves the unnecessary bureaucracy and administration that does not directly contribute to the outcomes that funding is supposed to achieve.

Question 9: *What mechanism, other than pre-financing guarantee, could be explored while ensuring adequate protection of community funds?*

We are not able to suggest any at this time.

Question 10: *Based on your experience, do you think current thresholds are still adequate or should they be increased, and why?*

We are not able to provide a view at this time.

Question 11: *How could the application procedure for both grants and contracts be further improved?*

The suggestion of a “label” system so that organisations that have successfully carried out a project and/or contract send only documents relevant to the new application’ should be vigorously pursued. There may be many practical obstacles to implementing such a system, but the ultimate efficiencies to be gained for all concerned would be worth it.

The EU could as a starting point investigate the findings of the ‘lead funder’ project in the UK, which looked at setting up a similar system. This project took place several

years ago, but details should be obtainable from the UK Office of the Third Sector at Cabinet Office, 70 Whitehall, London SW1A 2AS. Switchboard: 020 7276 1234.

A two-stage process has definite advantages in terms of reduced paperwork for applicants and assessors for first-time applicants, but could lead to even longer timeframes and delays in the application process overall.

Appendix A: Comments about EU funding received in DSC online survey

In December 2007 DSC hosted an online survey about how different types of funders were perceived – based on a scale of 1-4, with 1 being the best and 4 the worst.

In tune with the holidays, people were asked: What types of funders are the biggest Scrooges? (Scrooge being a character from Dickens who is miserly and unkind – the character whose opinion of Christmas is ‘bah humbug’).

People were asked for their views on companies, trusts and foundations, central government and local government. In an oversight, we neglected to include the EU as an option. However, we received a large number of comments about EU funding regardless, which are included below:

European funding makes Central Government seem like just opening a piggy bank and tipping the money out!!!!

You have missed out the most Scrooge-like category of all: EU funding (e.g. ESF [European Social Fund], Equal). That would score about 10 on your scale!

By far the worst are regional government agencies and anything to do with Europe.

ESF [European Social Fund] Funding is not Compact compliant and we the sector should take this issue to the highest court in Europe.

Have you seen the LSC [Learning and Skills Council] ESF [European Social Fund] funding prospectus - Gak!!!!!!

Please dont forget the European Social Fund, they along with the Home office are most in need of a visit from the Spirit of Christmas

EU and RDA are top scrooges

The main culprits are the LSC and European Funders

European funding...is also particulalry onerous.

The European Union far outstrip any of the UK bodies and deserve first place as top scrooges

Worst ever was European Refugee Fund, which have never paid contractual compensation for late payments.

European is the WORST in terms of monitoring (partic Leader+)

European funding isn't mentioned here and must surely rank fairly high on the 'make you account for every penny in an unreasonable way'

EU funding would fall into category 4 [worst]

Anybody who deals with European Regeneration funding makes the admin with accounting for grants ridiculously expensive