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COMMISSION STAFF WORKING DOCUMENT

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
ESTABLISHING THE EUROPEAN INSTITUTE OF TECHNOLOGY
[COM (2006) 604 FINAL/2, OF 13.11.2006]:**

LEGISLATIVE FINANCIAL STATEMENT

Adaptation following the negotiations with the Council and the EP

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1. NAME OF THE PROPOSAL:

Regulation of the European Parliament and the Council establishing the European Institute of Technology

2. ABM / ABB FRAMEWORK

Policy Area(s) concerned and associated Activity/Activities:

Sub-Heading 1a: Competitiveness for Growth and Employment

3. BUDGET LINES

3.1. Budget lines (operational lines and related technical and administrative assistance lines (ex- B.A lines)) including headings:

15 02 11 "European Institute of Technology"

15 02 11 01 "Governing Structure"

15 02 11 02 "Knowledge and Innovation Communities (KICs) activities, in part innovation/research/education capacity".

3.2. Duration of the action and of the financial impact:

Starting in 2008 with an open end. The financial impact on the EU General Budget for 2008–2013 will be €308.7 million (operational expenditure).

3.3. Budgetary characteristics:

Budget line	Type of expenditure		New	EFTA contribution	Contributions from applicant countries	Heading in financial perspective
15021101	Non-comp	Diff	YES	YES	YES	Heading 1a

15021102	Non-comp	Diff	YES	YES	YES	Heading 1a
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4. SUMMARY OF RESOURCES

4.1. Financial Resources

4.1.1. Summary of commitment appropriations (CA) and payment appropriations (PA);

EUR million

Expenditure type	Section no.		2008	2009	2010	2011	2012	2013	2014	Total
Operational expenditure										
Commitment Appropriations		a+c	2.9	5.8	30.2	62.8	80.0	127.0		308.7
Payment Appropriations		b+d	2.9	5.8	25.9	56.2	76.6	117.6	23.7	308.7
Administrative expenditure <u>not</u> included in reference amount										
Human resources and associated expenditure (NDA)	8.2.4	e	0.589	0.589	0.389	0.321	0.321	0.321		2.462
Administrative costs, other than human resources and associated costs, not included in reference amount (NDA)	8.2.5	f	0.300	0.050	0.050	0.550	0.050	0.050		1.050
Total indicative financial cost of intervention										
TOTAL CA including cost of Human Resources		a+c+e+f	3.794	6.444	30.574	63.674	80.374	127.374		312.234
TOTAL PA including cost of Human Resources		b+d+e+f	3.794	6.444	26.274	57.074	76.974	117.974	23.700	312.234

Cofinancing details

Overall funding approach for the period 2008-2013

The **EIT** will be financed through contributions from the budget of the EU and other sources.

The **KICs** may be funded through a combination of sources, including:

- (1) contributions from companies or private organisations, which shall form a substantial source of funding;
- (2) contributions from the budget of the European Union;
- (3) statutory or voluntary contributions from participating States, third countries or public authorities within them;
- (4) bequests, donations and contributions from individuals, institutions foundations or any other national bodies;
- (5) revenue generated by the KICs own activities and royalties from Intellectual Property Rights;
- (6) revenue generated by the EITs activities outcomes or capital endowments, including those managed by the EIT Foundation;
- (7) contributions from international bodies or institutions;
- (8) loans and contributions from the European Investment Bank (EIB),

The precise arrangements for the funding of the EIT and the KICs cannot be determined in advance and will clearly evolve over time. The Commission estimates that the EIT and the KICs will require front loading from the Community Budget in the start up phase to draw forth resources that would not otherwise be available (i.e. multiplier effect). The objective is to maximise in the mid term contributions from external sources.

Resources flowing to the KICs directly have to be attracted by the KICs and/or their partner organisations, including through the normal procedures applicable to Community programmes and the Structural Funds. They would constitute elements of the offer of the KICs in the competitive process for obtaining resources from the EIT or could be attracted once a KIC has been awarded such resources.

The activities of the KICs and their partner organisations are likely, at many points, to fall within the objectives and the priorities of Community programmes and Structural Funds. Provided these activities comply with the specific rules and procedures of the funds concerned, there is no reason to disbar them from seeking and obtaining support from these sources. There will be neither privileged access nor preferential treatment.

Contributions from the 7th Framework Programme, the Lifelong Learning Programme and the Competitiveness and Innovation Programme, in accordance with their respective procedures are thus expected to constitute an important part of their funding. Whether these funds flow directly to partner organisations within a KIC, or to a KIC as such, depends on the organisation of the KIC. In any case, such funding would have to fall entirely within the existing objectives and rules of the funds and programmes concerned (i.e. no privileged treatment).

The Structural Funds would play a potentially important role for partner organisations involving eligible Member States, regions, cities or other beneficiaries because many types of expenditure or investment are eligible under the Structural Fund rules and would fall under the earmarking for Lisbon priorities.

Contacts with leading industrialists and with European business organisations, backed up by their public statements, show that the business community is favourable to the EIT project. While it is not possible at this stage to estimate the future contribution of the private sector, the business community is expected to provide substantial contributions. In practice, the capacity of the KICs to attract business funding will depend on (i) their capacity to attract the most advanced firms and the best universities and research teams; and (ii) the extent to which the Community itself makes a public declaration of trust by committing itself to kick start the process. On this basis a virtuous circle can be generated.

The EU Direct Contribution to the EIT 2008-2013

The proposal foresees a progressive implementation of the EIT over the 2008-2013 period. A limited number of KICs (2 to 3) will be set up during an initial phase (i.e. no later than 24 months from the date of the appointment of the GB). The establishment of additional KICs will be allowed only after the adoption of the first Strategic Innovation Agenda, which will be submitted by the Commission no later than end 2011 for adoption by Council and EP.

In a context of a gradual development of the EIT and the KICs, the Commission proposes to finance a total amount of € 308, 7 million over six years (2008-2013) directly from the Community budget. This amount will represent only a percentage of the total EIT budget, as both the EIT and the KICs are expected to attract other sources of financing, including from the private sector (see point 1 above).

The Community's direct contribution to the EIT should focus on items of expenditure that reflect directly support the EU dimension of the proposal, that complement but do not overlap with existing initiatives and that offer clear added value;

This amount should cover the cost of:

- **The EIT's governing structure.** The proposal is for a light structure. However, the tasks entrusted to the Governing Structure during the period up to adoption of the first SIA by the Council and EP will imply a heavy initial workload. This includes, inter alia, the adoption of the EIT rules and procedures and financial rules, the design and implementation of the initial calls in the view of the preparation of the first KICs, preparation of the rolling triennial programmes and annual reports. The numbers of staff needed are estimated at 20 in 2008 rising to 40 in 2009 and 60 thereafter. Approximately half would be senior staff, the rest support staff.
- **The integration of KICs.** This requires a very high level of coordination of activities between partners, while the delivery of knowledge transfer and innovation management requires a high level of mobility. Monitoring and evaluation will also be significant costs of the proposed approach. These will be major expenditure items that, because of the ambitious, multi-annual, integrated nature of KICs, are likely to be very much larger than anything previously experienced. These items reflect the cost of the European dimension of the proposal and offer clear European value added. They could potentially be funded up to 100%.

Further Community funding will be linked to EP and Council approval of the first Strategic Innovation agenda. Thus, longer term funding will be approached in the context of the next multi-annual financial framework. Acquired experience in the initial period would make it possible to establish a budget structure to cater for the funding of the EIT and KICs related activities in a transparent and stable manner.

4.1.2. *Compatibility with Financial Programming*

- Proposal is compatible with existing financial programming.
- Proposal will entail reprogramming of the relevant heading in the financial perspective.
- Proposal may require application of the provisions of the Interinstitutional Agreement¹ (i.e. flexibility instrument or revision of the financial perspective).

4.1.3. *Financial impact on Revenue*

- Proposal has no financial implications on revenue

4.2. **Human Resources FTE (including officials, temporary and external staff) – see detail under point 8.2.1.**

Annual requirements	Year					
	2008	2009	2010	2011	2012	2013
Total number of human resources	5,5	5,5	3	3	3	3

5. CHARACTERISTICS AND OBJECTIVES

5.1. Need to be met in the short or long term

In the short term the objectives will be to two fold:

- To provide a stable, solid foundation to the EIT governance structure; in view of the long-term development of the EIT;
- To select and designate 2 to 3 KICs in the first, initial stage.

5.2. Value-added of Community involvement and coherence of the proposal with other financial instruments and possible synergy

The EIT is the only Community initiative that integrates in a mutually supportive manner the three elements of the knowledge triangle (research, innovation and education). It will naturally build on, but it will go beyond a traditional network approach, by establishing autonomous strategic partnerships, based on mid to long term innovation planning to achieve EIT challenges.

¹ See points 19 and 24 of the Interinstitutional agreement.

5.3. Objectives, expected results and related indicators of the proposal in the context of the ABM framework

The Regulation states that 2 to 3 KICs will be launched in the initial stage. For the sake of the estimates, the working hypothesis is that 3 KICs will be launched in the initial stage. The 3 of them will start in 2010; and that they will run through the remainder of the financial perspective 2007–2013 and beyond. We assume that they will develop at similar speed, reaching cruising speed in 2013.

Also the proposal is based on the assumption that at a cruising speed, a KIC could involve:

- 1000 staff, made up of 400 scientific and 600 technical and administrative support staff;
- 400 doctoral candidates; and
- 600 master candidates.

100 of the scientific staff would have important teaching activities (40% of their time), while the remainder work 95% on research and innovation. The same breakdown is assumed for support staff.

The coordination and integration costs of the KICs will be a major item of expenditure. These costs arise from the ambitious, multi-annual, integrated nature of KICs. They are likely to be very much larger than anything previously experienced and to go far beyond the financing scope of other Community instruments.

In particular, each KIC will need:

1 –Coordination of scientific and administrative tasks. The benchmark is that 10 % of total staff time (all categories) will be devoted to such activities. This involves payroll costs plus other costs estimated at 33 % of payroll costs. In other words, payroll costs are assumed to represent 75% of the overall coordination costs and the other costs the remaining 25%.

2 - Integration of the different activities. This implies:

- Knowledge transfer. It implies in particular the development and implementation of new education programmes at master and doctoral level, and regular joint seminars and conferences. This is a cost of developing a truly European generation of research graduates, well adapted for business. Delivering these educations and training activities is expected to use 40% of the time of academic staff and 5 % of the time of researchers. Payroll costs are assumed to represent 75% of the overall knowledge transfer costs and other running costs 25%.
- Development and implementation of multidisciplinary activities and innovation management. The multidisciplinary dimension of KIC activities will require management and innovation support that goes well beyond anything that might be available from other EU budget sources. A lump sum is included to cover these (1.5 Million Euros pa for a KIC at cruising speed).
- Mobility costs. KICs will need to build a common working community for all their innovation, research and education activities, while remaining geographically dispersed.

This challenge can only be overcome if staff and students move regularly across sites and teams, make use of dispersed laboratory facilities and share knowledge and information across the whole team. This implies important mobility costs.

- Equipment and material costs: The management of dispersed sites in a sustained integrated KIC will require sophisticated communication. This would involve the installation, operation and maintenance of state-of-the-art ICT systems, both software and hardware, to facilitate daily work, joint meetings, seminars, handling of joint experiments, sharing and dissemination of information and experience. This would apply to each of the innovation, research and education pillars. These costs have been covered by a lump sum (4 Million Euros pa for a KIC at cruising speed).

This means that the resources available for co-ordination and integration, accumulated across the financial period, would approximately be:

- 734 person-year devoted to scientific and coordination activities;
- 404 person-year scientific staff devoted to knowledge transfer activities;
- 606 person-year support staff devoted to knowledge transfer activities.

Plus:

- Provision for the mobility of 2940 scientific staff and 4400 support staff
- Provision for the mobility of 2900 PhD candidates and 4400 Master students

Indicators:

Innovation and research activities need a minimum duration of time before producing their first outcomes. Use will be made in the initial period of establishment of the EIT and implementation of the first initial KICs of input indicators such as the number and type of partner organisation within a KIC, including its European trans-national dimension; number of organisations from third countries; implementation of the budget with regards to the objectives (% of money actually used); percentage of financial contribution originating from non Community sources, with a particular focus on private sector contribution; number of Master and PhD degrees programmes and their trans-sectoral focus.

In the long run, these indicators should be supplemented by a set of outcome oriented indicators such as the number of KICs adopted after the adoption of the first and subsequent SIAs; actual number and evolution of the number of patents generated in EU and the revenue generated from IPRs; actual number of spin-offs; starts-up and SME's created ;the number and amount of contracts with business; number of Master and PhD degrees and diplomas awarded by participating universities.

5.4. Method of Implementation (indicative)

- Centralised Management*
 - directly by the Commission
 - indirectly by delegation to:

- executive Agencies
- X bodies set up by the Communities as referred to in art. 185 of the Financial Regulation
- national public-sector bodies/bodies with public-service mission
- Shared or decentralised management***
 - with Member states
 - with Third countries
- Joint management with international organisations (please specify)***

Relevant comments:

The EIT will be a Community body which has legal personality, and which pursuant Article 185 of the Financial Regulation, receive grants from the Community budget.

From a financial management and control perspective, the EIT will be treated as other bodies set up under EC Treaty and generally referred to as Community agencies. This means that paragraph 47 of the Inter-Institutional Agreement, which establishes a co-operation between the Council and EP to agree on the financing of new Community agencies, is applicable to the EIT.

Since one of the objectives of the EIT is to facilitate private sector participation, its internal rules (e.g. on financial or personnel issues) will need to reflect its objectives and the need for sufficient operational flexibility to be attractive to its business and research/academic partners.

6. MONITORING AND EVALUATION

An extended impact assessment for which background work was done by external consultants during summer 2006, has been carried out which integrates the requirements for an impact assessment and for an ex-ante evaluation. The results of this exercise may be found in the Impact Assessment report.

The EIT activities will be subject of continuous monitoring and periodic independent evaluations, to ensure both the highest quality of outcome and the most efficient use of resource. The Governing Board will define the modalities to ensure an appropriate evaluation.

Moreover, the Commission will commission an independent external evaluation of the EIT activities no later than 2011 and every five years after the entry into force of a new Financial Framework. It will cover all activities of the EIT and the KICs will look at the effectiveness, sustainability, efficiency and relevance of the activities pursued and their relation with Community policies.

7. ANTI-FRAUD MEASURES

According to the legal instrument, the Commission shall have the right to ensure that the financial interests of the Community are duly protected. All decisions adopted and contracts concluded by the EIT, shall provide explicitly that the European Anti-fraud Office (OLAF) and the Court of Auditors may carry out on-the-spot inspections of the documents of all contractors and sub-contractors which have received Community funds, including at the premises of the final beneficiaries. OLAF will be entitled to carry out internal investigation in the EIT bodies and the Governing Board will adopt the necessary measures to help OLAF carry out internal investigations.

8 DETAILS OF RESOURCES

8.1 Objectives of the proposal in terms of cost and resource

Expenditure type	Section no.		2008	2009	2010	2011	2012	2013	2014	Total
Governing Structure										
Commitment Appropriations (CA)			2.9	5.8	8.7	8.7	8.7	8.7		43.5
Payment Appropriations (PA)			2.9	5.8	8.7	8.7	8.7	8.7		43.5
Knowledge and Innovation Communities (Coordination and integration costs)										
1 – Scientific and administrative coordination costs										
Commitment Appropriations (CA)			0	0	5.5	13.8	18.2	30.1		67.6
Payment Appropriations (PA)					4.4	12.1	17.3	27.8	6.0	67.6
2 – Integration costs										
2.1 – Knowledge transfer										
Commitment Appropriations (CA)			0	0	7.5	19.0	25.0	41.5		93.0
Payment Appropriations (PA)					6.0	16.7	23.8	38.2	8.3	93.0
2.2 – Development and implementation of innovation management related activities										
Commitment Appropriations (CA)			0	0	0.9	2.2	2.9	5.0		11.0
Payment Appropriations (PA)					0.7	1.9	2.8	4.6	1.0	11.0

2.3 – Mobility										
Commitment Appropriations (CA)		c	0	0	5.2	13.1	17.3	28.6		64.2
Payment Appropriations (PA)		d			4.2	11.5	16.5	26.3	5.7	64.2
2.4 – Equipment and material										
Commitment Appropriations (CA)			0	0	2.4	6.0	7.9	13.1		29.4
Payment Appropriations (PA)					1.9	5.3	7.5	12.1	2.6	29.4
TOTAL COST										
Commitment Appropriations			2.9	5.8	30.2	62.8	80.0	127.0		308.7
Payment Appropriations			2.9	5.8	25.9	56.2	76.6	117.6	23.7	308.7

8.2. Administrative Expenditure

8.2.1. Number and type of human resources

Types of post		Staff to be assigned to management of the action using additional resources (number of posts/FTEs)					
		Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
Officials or temporary staff ² (XX 01 01)	A*/AD	4	4	2	2	2	2
	B*, C*/AST	1,5	1,5	1	1	1	1
Staff financed ³ by art. XX 01 02							
Other staff ⁴ financed by art. XX 01 04/05							
TOTAL		5,5	5,5	3	3	3	3

² Cost of which is NOT covered by the reference amount.

³ Cost of which is NOT covered by the reference amount.

⁴ Cost of which is included within the reference amount.

The needs for human and administrative resources shall be covered within the allocation granted to the managing DG in the framework of the annual allocation procedure.

8.2.2. Description of tasks deriving from the action

Commission services will basically carry out the following tasks:

- In the initial stage (years 2008 and 2009) the Commission will concentrate on the setting-up of the central governing structure of the EIT and on assisting it to carry out its tasks; to prepare its internal and financial rules and to launch the procedures for the recruitment of support staff.

- Once the EIT and the first Knowledge Communities are established, the Commission will concentrate on the monitoring of the EIT (budgetary issues, annual reports, multi annual work programme and on the preparation for t.

8.2.3. Sources of human resources (statutory)

- Posts currently allocated to the management of the programme to be replaced or extended
- Posts pre-allocated within the APS/PDB exercise for year 2007 – 2 posts
- Posts to be requested in the next APS/PDB procedure 2008 – 2 posts
- Posts to be redeployed using existing resources within the managing service (internal redeployment) 1.5 posts
- Posts required for year n although not foreseen in the APS/PDB exercise of the year in question

8.2.4. Financial cost of human resources and associated costs not included in the reference amount

EUR million (to 3 decimal places)

Type of human resources	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
Officials and temporary staff* (XX 01 01)	0.589	0.589	0.321	0.321	0.321	0.321
Staff financed by Art XX 01 02 (auxiliary, END, contract staff, etc.) (specify budget line)						
Total cost of Human Resources and associated costs (NOT in reference amount)	0.589	0.589	0.321	0.321	0.321	0.321

*Reference costs: 107.000 Euros pa

8.2.5. *Other administrative expenditure not included in reference amount*

EUR million (to 3 decimal places)

	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	TOTAL
XX 01 02 11 01 – Missions	0.100	0.050	0.050	0.050	0.050	0.050	0.350
XX 01 02 11 02 – Meetings & Conferences	0.200						0.200
XX 01 02 11 03 – Committees	0	0	0	0	0	0	
XX 01 02 11 04 – Studies & consultations				0.500			0.500
XX 01 02 11 05 - Information systems	0	0	0	0	0	0	
2 Total Other Management Expenditure (XX 01 02 11)	0.300	0.050	0.050	0.550	0.050	0.050	1.050
3 Other expenditure of an administrative nature (specify including reference to budget line)	0	0	0	0	0	0	
Total Administrative expenditure, other than human resources and associated costs (NOT included in reference amount)	0.300	0.050	0.050	0.550	0.050	0.050	1.050