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# **DRAFT REPORT**

on cost effectiveness of the 7th Research Programme  
(2015/2318(INI))

Committee on Budgetary Control

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on cost effectiveness of the 7th Research Programme (2015/2318(INI))

*The European Parliament,*

- having regard to Title XIX of the Treaty on the Functioning of the European Union,
  - having regard to Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013)<sup>1</sup>,
  - having regard to Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020)<sup>2</sup>,
  - having regard to Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union<sup>3</sup>,
  - having regard to the annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2014, together with the institutions' replies<sup>4</sup>,
  - having regard to Special Report no 2/2013 by the European Court of Auditors, entitled 'Has the Commission ensured efficient implementation of the Seventh Framework Programme for Research?',
  - having regard to the report of the UK House of Commons, Science and Technology Committee, entitled 'Leaving the EU: implications and opportunities for science and research', of 16 November 2016<sup>5</sup>,
  - having regard to its decision of 28 April 2016 on discharge in respect of the implementation of the general budget of the European Union for the financial year 2014, Section III – Commission<sup>6</sup>,
  - having regard to Article 52 of its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A8-0000/2017),
- A. whereas the multi-annual financial framework (MFF) 2007-2013 has come to an end, but the implementation of the Seventh Framework Programme for research and

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<sup>1</sup> OJ L 412, 30.12.2006, p. 1.

<sup>2</sup> OJ L 347, 20.12.2013, p. 104.

<sup>3</sup> OJ L 298, 26.10.2012, p. 1.

<sup>4</sup> OJ C 373, 10.11.2015, p. 1.

<sup>5</sup> <http://www.parliament.uk/business/committees/committees-a-z/commons-select/science-and-technology-committee/inquiries/parliament-2015/leaving-the-eu-inquiry-16-17/publications/>

<sup>6</sup> Texts adopted, P8\_TA(2016)0147.

innovation (FP7) is still ongoing;

- B. whereas research and innovation projects during the MFF 2014-2020 fall under the Horizon 2020 regulation<sup>1</sup>;
- C. whereas, to the best of its knowledge, no comprehensive cost effectiveness analysis exists concerning FP7;
- D. whereas a comprehensive evaluation of FP7 should – ideally – have preceded the entry into force of Horizon 2020;
- E. whereas error rates and ex-post evaluation of the programme do not offer comprehensive information about cost effectiveness;

### ***The Seventh Framework Programme (FP7)***

1. Highlights the fact that FP7 represented a total voted budget of EUR 55 billion, accounting for an estimated 3 % of total RTD expenditure in Europe, or 25 % of competitive funding; over the seven-year duration of FP7, more than 139 000 research proposals were submitted, from which 25 000 projects of the highest quality were selected and received funding; the main recipients among the 29 000 organisations participating in FP7 were universities (44 % of FP7 funding), research and technology organisations (27 %), large private companies (11 %) and SMEs (13 %), while the public sector (3 %) and civil society organisations (2 %) played a minor role;
2. Welcomes the fact that the ex-post evaluation of FP7, undertaken by a high-level expert group<sup>2</sup>, considered FP7 to have been a success; the high-level group underlined in particular that FP7:
  - encouraged scientific excellence at an individual and institutional level,
  - promoted ground-breaking research through the novel programme FP7-IDEAS (European Research Council),
  - engaged industry and SMEs strategically,
  - reinforced a new mode of collaboration and an open innovation framework,
  - strengthened the European Research Area by catalysing a culture of cooperation and constructing comprehensive networks fit to address thematic challenges,
  - addressed certain societal challenges through research, technology and innovation – FP7-COOPERATION,
  - encouraged harmonisation of national research and innovation systems and

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<sup>1</sup> Regulation (EU) N° 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision N° 1982/2006/EC, OJ L 347, 20.12.2013, p. 104.

<sup>2</sup> Commitment and Coherence, ex-post evaluation of the 7th EU Framework Programme, November 2015 [https://ec.europa.eu/research/evaluations/pdf/fp7\\_final\\_evaluation\\_expert\\_group\\_report.pdf](https://ec.europa.eu/research/evaluations/pdf/fp7_final_evaluation_expert_group_report.pdf)

policies,

- stimulated mobility of researchers across Europe – FP7-PEOPLE has created the necessary conditions for an open labour market of researchers,
  - promoted investment in European research infrastructures,
  - reached a critical mass of research across the European landscape and worldwide;
3. Notes that the public stakeholder consultation in the context of the FP7 evaluation, held between February and May 2015, pointed to the following weaknesses:
- high administrative burden and cumbersome legal and financial rules,
  - high degree of over-subscription,
  - insufficient focus on societal impact,
  - the scope of topics and calls was too narrow,
  - insufficient focus on industry participation,
  - high threshold for newcomers;

***The findings of the European Court of Auditors (ECA)***

4. Emphasises that the Court considers the supervisory and control systems for research and other internal policies to be ‘partially effective’;
5. Notes that, in 2015, of the 150 transactions that the Court audited, 72 (48 %) were affected by error; on the basis of the 38 errors which the Court had quantified, it estimated the level of error to be 4.4 %; furthermore, in 16 cases of quantifiable errors, the Commission, national authorities or independent auditors had sufficient information to prevent or detect and correct the errors before accepting the expenditure; if all this information had been used to correct errors, the estimated level of error for this chapter would have been 0.6 % lower;
6. Acknowledges that the Commission calculated a residual error rate (at the end of the programme and after corrections) of 3 % in 2014 (2.88 % in 2015+);
7. Recalls its position in the 2012 and 2014 Commission discharge: ‘Remains convinced that the Commission must continue to strive for an acceptable balance between the attractiveness of programmes to participants and the legitimate necessity of accountability and financial control; recalls, in this connection, the statement of the Director-General in 2012 that a procedure designed to attain a residual error rate of 2 % under all circumstances is not a viable option’;
8. Notes that the primary sources of error were incorrectly calculated personnel costs and ineligible direct and indirect costs;
9. Points to the findings of ECA Special Report no 2/2013, in which the Court concludes

that the Commission's processes are geared to ensuring that funding is invested in high-quality research; however, there has been less focus on efficiency;

- the existing information technology (IT) tools did not allow efficient implementation of the projects, and in the eight Commission services more than 2 500 staff members are employed to implement FP7, among whom 1 500 (60 %) are directly assigned to manage the implementation of the Cooperation Specific Programme,
  - the time-to-grant should be further shortened, and
  - the FP7 financial control model does not sufficiently take into account the risk of errors;
10. Notes the Commission replies to the Court's conclusions, which pointed out that 4 324 grants had nevertheless been signed, with almost 20 000 participants, that the time-to-grant had already been reduced and that the control architecture had been designed in such a manner as to place most reliance on ex-post control;

### ***Cost effectiveness under FP7***

11. Underlines that cost effectiveness should be measured against economy, efficiency and effectiveness (sound financial management)<sup>1</sup> in achieving the policy objectives;
12. Recognises that the implementation of research framework programmes was shared among different directorates-general, executive agencies, joint undertakings, so-called Article-185 bodies, the European Investment Bank (EIB) and the European Institute for Innovation and Technology (EIT);
13. Points out that the Directorate-General for Research and Innovation (DG RTD) authorised payments of EUR 3.8 billion in 2015, of which 67.4 % were made under the direct responsibility of the directorate-general, 12.6 % by joint undertakings (JU), 10.7 % by the EIB and the European Investment Fund (EIF) and 2.4 % by executive agencies;
14. Notes that, according to the 2015 DG RTD Annual Activity report<sup>2</sup>, the European Union contributed EUR 44.56 billion to the FP7 programme, of which 58 % went to Germany (16 %), the United Kingdom (16 %), France (11 %), Italy (8 %) and Spain (7 %);
15. Observes that that DG RTD has established a control framework aimed at mitigating the inherent risks at the different stages of the direct and indirect grant management process; in addition, DG RTD has put in place a supervision strategy for financial instruments, which are implemented by the EIB and the EIF;
16. Welcomes the fact that DG RTD had completed and closed, by the end of 2015, 3 035 grant agreements out of 4 950, and 1 915 projects, with EUR 1.6 billion still to be paid;

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<sup>1</sup> Chapter 7 of the Financial Regulation.

<sup>2</sup> [http://ec.europa.eu/atwork/synthesis/aar/doc/rtd\\_aar\\_2015.pdf](http://ec.europa.eu/atwork/synthesis/aar/doc/rtd_aar_2015.pdf), p. 33.

DG RTD made 826 final payments in 2015;

17. Welcomes in particular the fact that indicators such as time-to-grant, time-to-inform and time-to pay showed a positive trend and were considered to be satisfactory (93-100 % compliance);
18. Acknowledges that DG RTD undertook 1 550 audits, covering 1 404 beneficiaries and 58.7 % of the budget during the FP7 programming period;
19. Remarks that DG RTD considers that 9.4 full-time equivalents were employed to supervise and coordinate activities related to executive agencies; this represented EUR 1.26 million or 1.35 % of total administrative costs; in addition, the Research Executive Agency (REA) and the European Research Council Executive Agency (ERCEA) implemented an operational budget of EUR 1.94 billion, and the Executive Agency for Small and Medium-sized Enterprises (EASME) and the Innovation and Networks Executive Agency (INEA) implemented payment appropriations of EUR 480.5 million in 2015;
20. Observes that DG RTD incurred costs of EUR 1.67 million or 0.35 % of the EUR 479.9 million paid to joint undertakings for supervising their activities;
21. Observes furthermore that DG RTD incurred costs of EUR 0.7 million or 0.78 % of the payments made to Article-185 bodies for supervising their activities;
22. Emphasises that joint undertakings and Article-185 bodies are responsible for their own audits, the results of which are to be communicated to DG RTD;
23. Takes note that DG RTD estimated the overall detected error rate to be 4.35 %; at the same time, the directorate-general believed the residual error rate (at the end of the programme and after corrections) to be 2.88 %;
24. Notes that by the end of 2015 the amount to be recovered was EUR 49.4 million, of which EUR 31.5 million was effectively collected;
25. Underlines that the European Union should strive for establishing synergies between the research and innovation sector on the one hand, and the structural funds on the other;
26. Emphasises the importance of financial instruments in the area of research and innovation; points, in this context, to the fact that ‘The Risk-Sharing Finance Facility (RSFF 2007-2013) offers loans and hybrid or mezzanine finance to improve access to risk finance for R&I projects. The Union’s 2007-2015 RSFF contribution of EUR 961 million supported activity accounting for over EUR 10.22 billion of an expected EUR 11.31 billion. (...)’; notes that the Risk-Sharing Instrument (RSI) for SMIs provided financing of over EUR 2.3 billion, to which the Union contributed EUR 270 million<sup>1</sup>; is of the opinion that these figures underscore the interest of companies and other beneficiaries in risk finance;
27. Regrets that the following measures recommended by the external auditor or the

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<sup>1</sup> COM(2016)0675, p. 18 and 19.

internal audit service of the Commission are not completed: two measures concerning the control systems for the supervision of external bodies, and three measures for the Participants Guarantee Fund;

### ***Future prospects under Horizon 2020***

28. Highlights the fact that, by the end of 2015, 198 calls with a submission deadline by that date had been published for Horizon 2020; in response to these calls, a total of 78 268 proposals were received, 10 658 of which were put on the main or reserve list; this means a success rate of around 14 %, taking into account only the eligible proposals; in the same period, 8 832 grant agreements were signed with beneficiaries, 528 of which were signed by DG RTD;
29. Notes that the Commission endeavoured to further simplify the implementation of Horizon 2020 compared with FP7; emphasises, however, that all policy areas, including structural funds, should benefit from simplification with a view to maintaining equal treatment of beneficiaries of European financial assistance;
30. Recognises that DG RTD is trying to further reduce overhead costs by outsourcing contract management to executive agencies and other bodies; stresses in the context that, under Horizon 2020, 55 % of the budget will be managed by executive agencies;
31. Underlines that the great number of political actors, including Commission directorates-general, executive agencies, joint undertakings and Article-185-bodies, requires considerable coordination, the effectiveness of which is of prime importance;
32. Notes the difference of opinions between the EIT and the Commission on the one side, and the European Court of Auditors on the other, concerning legality of payments; is of the opinion that this dispute must not be solved to the detriment of beneficiaries who acted in good faith;
33. Welcomes the fact that under Horizon 2020:
  - the programme structure is less complex and provides for interoperability among different parts,
  - a single set of rules now applies,
  - there is now one funding rate per project,
  - indirect costs are covered by a flat rate (25 %),
  - only the financial viability of project coordinators is checked,
  - a more measurable performance approach was introduced,
  - a single audit strategy applies to the R&I family,
  - a single participant portal was created for managing grants and experts,
  - grants, expert contracts and archiving are managed electronically;



34. Welcomes the creation of a Common Support Centre (CSC), which will help to coordinate and deliver the programme in an efficient and harmonised manner across seven Commission directorates-general, four executive agencies and six joint undertakings; as of 1 January 2014 the CSC provides common services in the areas of legal support, ex-post auditing, IT systems and operations, business processes, programme information and data to all research DGs, executive agencies and joint undertakings implementing Horizon 2020;
35. Acknowledges that the new elements introduced into Horizon 2020 also reflect the observations made by the European Court of Auditors;

### ***The United Kingdom leaving the European Union***

36. Notes with respect the vote of the citizens of the United Kingdom of 23 June 2016, in which they expressed the political will to leave the European Union;
37. Welcomes the work of the UK House of Commons in evaluating the repercussions of this vote on the area of science and research<sup>1</sup>, and in seeking to keep the negative impact on European competitiveness to a minimum;
38. Points out that UK-based organisations received EUR 1.27 billion in grant funding calls in 2014, representing 15 % of the total, and EUR 1.18 billion in calls in 2015, representing 15.9 % of the total – the highest share of EU funding received by a Member State that year<sup>2</sup>;

### ***Conclusions***

39. Concludes that the Commission – overall – managed the FP7 cost effectively;
40. Welcomes the fact that the Court's concerns were taken into consideration;
41. Calls on the Commission to ensure that modernisations introduced under Horizon 2020, such as flat rates for indirect costs, a single audit strategy, single participant portal, etc., are applied in a similar way in other policy areas, e.g. structural funds; stresses that all grant beneficiaries should be treated fairly and equally;
42. Is concerned that in their evaluation reports both agencies, the REA and the ERCEA, point out that the feedback loops and communication between the Commission and the executive agencies could be further improved;  

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43. Instructs its President to forward this resolution to the governments and parliaments of the Member States, the European Court of Auditors and the Commission.

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<sup>1</sup> See footnote 5.

<sup>2</sup> Horizon 2020 Monitoring Report 2015, p. 21 f.