

TECHNOPOLIS



Cost Benefit Analysis of the externalisation of
the certain tasks regarding the implementation
of the Competitiveness and Innovation
Framework Programme (2007-2013) through
an executive Agency

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1 Executive summary

This report is a cost benefit analysis produced for DG Enterprise and Industry of the European Commission on the potential externalisation of elements of the implementation and administration of the Competitiveness and Innovation Framework Programme (2007-2013).

The Framework Programme is made up of the following three pillars.

- ◆ **The Entrepreneurship and Innovation programme** which will support, improve, encourage and promote access to finance for the start-up and growth of SMEs; co-operation via European business support services for SMEs; and economic and administrative reform. It will also provide for action to support, improve, encourage and promote innovation in enterprises (including eco-innovation), and innovation governance and culture.
- ◆ **The ICT policy support programme** which will provide for action to develop the single European information space and to strengthen the internal market for information services; to stimulate innovation through a wider adoption of and investment in ICT; and to promote an inclusive information society
- ◆ **The Intelligent Energy Europe Programme** which will provide for action to foster energy efficiency and the rational use of resources; to promote new and renewable energy sources; and to promote an inclusive information society.

Running from 2007 to 2013 it has a budget of approximately EUR 3.6 billion. It represents a 60% increase in annual spending on actions related to competitiveness and innovation by 2013 compared to 2006. The CIP is implemented by five Directorates General within the Commission – DGs Enterprise and Industry, Transport and Energy, Environment, ECFIN and Information Society and Media.

The study covers the implementation of the first and third pillars only, and does not include the financial instruments, which will be managed on behalf of the Commission by the European Investment Fund who can provide the necessary expertise.

Some activities currently undertaken will be absorbed into the CIP, and these are implemented in a number of ways, including internal management by the Commission, an existing executive agency (the Intelligent Energy Executive Agency) and the use of Technical Assistance Offices contracted out to the private sector.

The Financial Regulation provides for a number of options ranging from the creation of new centralised administrative entities known as executive agencies¹ to the delegation of implementing responsibilities to national entities. In some cases limited externalisation to the private sector has remained an option for consideration. The purpose of any new implementation mechanism is to assign the institutions' officials

¹ Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes

to essential tasks, to recover effective control of executive and support activities through better-managed structures having the necessary qualified staff and to seek best value for money.

Externalisation options

For the parts of the Competitiveness and Innovation Programme under consideration the options investigated were:

- ◆ Internal options
 - Full internalisation within the individual DGs, including project management tasks currently externalised to Technical Assistance Offices and the IEEA.
 - Continuation of the current situation for the programme elements that will be integrated into the CIP (the baseline scenario)
- ◆ External options
 - Full externalisation by all involved DGs to the existing IEE Executive Agency
 - Full externalisation by DGs ENTR and ENV to a new CIP Executive Agency; full externalisation by DG TREN to the IEE Executive Agency
 - Full externalisation by DG ENTR and ENV to another existing or planned Executive Agency; full externalisation by DG TREN to the IEE Executive Agency

The study has two main tasks – firstly to examine the tasks that could be externalised, and secondly to compare the costs and benefits of the different potential implementation models analysed, looking at options involving internal management and the externalisation of tasks to a range of different entities. The factors addressed are those set out in the regulation as requirements for the study, and are addressed in turn below.

Identification of tasks

A first step of the study was therefore to identify, within the areas considered for externalisation, which specific tasks could be included and the resource implications involved. Tasks that can be externalised are those

- ◆ Where there is a clear separation between the programming and implementation of projects, permitting management against targets and organisational learning
- ◆ Comprising projects which are disconnected from the policy process *per se*
- ◆ Where economies of scale can be achieved by encouraging specialisation or entrusting a range of similar programmes to a single Agency
- ◆ Requiring technical and financial expertise throughout the project cycle.
- ◆ Where programmes, their objectives and methods are rolled over periodically

Within the Intelligent Energy pillar this was a relatively simple process, and also for the eco-Innovation projects since these follow a fairly traditional project cycle and the potential split of responsibilities between the DG and external bodies or an Agency was easy to identify. For the remainder of the activities under the Entrepreneurship and Innovation programme more discussion was required since some of the activities, such as network animation, while falling within the criteria above, do not currently form a significant part of the activities of any existing agency.

Thus the parts of the programme for which the implementation is to be externalised, covered in this analysis, are Intelligent Energy Europe, eco-Innovation activities (with the exception of financial instruments and a small element of pilot actions), and of a proportion of the pillar one activities covering the management of the business and innovation support structure (network), and the management of projects and a limited number of studies. When referring to "full" externalisation in the context of this report we mean only these activities and not the remainder of the programme². In total therefore the study refers to the externalisation of the third pillar and approximately half of the activities under the first pillar only.

Assessment of options

Once the potential activities had been identified we proceeded to examine each of the options with a view to retaining a shortlist of potential solutions that would be examined in more depth. This related to the different agency alternatives, since the two internal options reflect a baseline and a potential change.

The use of existing or planned Executive Agency other than the IEEA was excluded on the grounds of practicality. The EACEA, while in principle capable of adding another programme to its portfolio was itself in the process of renewing its mandate to cover a new generation of its existing programmes, and any uncertainties introduced through incorporation of the CIP would, for reasons of timing, put its future in jeopardy. Secondly, this Agency already manages half a dozen large programmes involving two DGs. The addition of a part of a further programme and another two DGs would introduce undesirable elements of complexity. Other existing Agencies were extremely small and lacked any synergy with CIP in terms of style and content.

Other Agencies currently under consideration are those for the implementation of the Framework Programme for Research and Development. This could have some advantages since some of the activities included in the CIP are currently funded under the Framework Programme, so there is a shared history in terms of philosophy and approach. However the scale of any RTD Agencies would mean that the CIP would be only a small part of their work. In addition, the budget rules are different for actions under and outside the Framework Programme for Research and Development. At present the status of these Agencies and the implementation plan is not fixed. Reliance on such an Agency could lead to significant delays and would make it very difficult to implement the CIP activities in good time. For these reasons, the idea of using an existing or planned agency other than the IEEA has been excluded as being too high risk an option for the CIP. Three options were therefore retained for further analysis in the remainder of the study. These are:

- ◆ Internalisation to the DGs of all activities
- ◆ Externalisation of all activities to an expanded IEEA
- ◆ Continuation of the status quo.

Qualitative evaluation of options

The qualitative assessment criteria for the options are largely set out in the relevant Regulation.

² Financial instruments and the ICT policy support programme

◆ Impact on human resources

An Agency solution would have the least impact on human resources in the Commission since although it is limited in the number of staff that can be seconded from the Commission, it is able to recruit contract agent staff on long term contracts and can use programme budgets for this. Experience in other Agencies suggests that attracting adequate qualified staff is not a problem, although it has been slightly harder to fill some of the seconded posts from the DGs.

A solution based on internalising the management of the programme within the DGs would have a significant impact on human resources since posts would have to be found to replace all the staff currently employed in the IEEA, the IRC/IRE secretariats, and the Life Environment and EIC Technical Assistance Offices. Under current conditions the Commission is not in a position to resource these posts with statutory staff. It could use contract agent staff for some posts with some limitations, but these would be on short-term contracts with a resulting high turnover, and they could not be resourced from the programme budgets.

A continuation of the status quo is not really possible, since some of the activities carried out by the Technical Assistance Offices should no longer be outsourced if the Commission is to respect its strong political commitment to phase them down and delegate to external contractors only minor tasks. However, outsourcing within the current limitations would reduce some of the implications of internal management, but these would be insufficient to ensure that resources could be available.

◆ Efficiency and flexibility of externalised tasks

In theory, the improvements in efficiency or simplifications to procedures could equally be applied inside the DG as in an Agency since they are both subject to the same broad rules. However, it seems that an Agency is more likely in practice to be able to do so – firstly, because management is their core activity, they have more scope to identify and develop new solutions than people trying to manage programmes in the margins of policy work, and secondly because the change to an Agency solution seems to provide the step change that is the necessary impetus for modifications.

◆ Proximity of activities to final beneficiaries

In terms of geographical proximity there is in general no difference, although an outsourcing to the private market could result in the work being done anywhere, depending on the terms of the contract, the Commission being free to stipulate that the tasks be carried out in Brussels if that were deemed appropriate. Of more importance is the ability of the final beneficiaries to identify their interlocutor and to have a single point of contact rather than several depending on the issue under consideration – which could be provided by an Executive Agency.

◆ Visibility of the Commission as promoter

The fact that the executive Agency is perceived by outsiders to be part of the Commission means that there is no detracting from the visibility of the Commission. Where private bodies are involved the issue is more complex with the potential of the Commission's visibility being diluted. None of the scenarios would be any worse than the current fragmented position, which itself should improve over time.

◆ Need to maintain adequate level of know-how within the Commission
In all cases the risk of loss of know-how is present, however there could be an improvement in information if the Agency is able to carry out additional tasks in the way of project monitoring and follow-up that until now have been subordinated to other more pressing activities linked to the policy imperative. A high level of turnover in staff would risk a significant loss of know-how, not just in the practical issues but in loss of relationships with the beneficiary community. An outsourced solution to contractors, and the solution of contract agents in the DG both have a high level of turnover structurally embedded, and the cost of this could be extremely high, although difficult to measure.

When using an external provider there is a risk that the know-how will be held by the provider rather than the Commission, making it difficult for the Commission to seek alternate solutions. Secondly there is a risk that this build up of know-how with the provider will effectively lock other competitors out of the market. Using private contractors, because of the breaks in the management process, would provide the greatest risk of information loss

Financial costs and benefits

The financial costs and benefits are calculated on the basis of the potential saving to the Community budget – not just to the DGs concerned. The most significant element of the costs is that of the staff. There are two elements to this – the staff numbers required and the costs of those staff. As far as the numbers are concerned, these are based on the collected data from the DGs but are subject to a number of assumptions. As far as possible they have been compared against other programmes. The costs of the staff are based on a set of standard costs supplied by DG Budget and are used consistently across all such studies. These numbers have to be used as we have no way of making allowances for the actual costs of the staff which will depend very much on the profiles of the actual staff recruited.

Other costs to be taken into account are infrastructure costs, including premises, utilities and office equipment, IT infrastructure and telecommunications costs, miscellaneous staff costs including socio-medical infrastructures, local taxes and general operating costs.

In the internalisation scenario, there is also the cost of closure of the IEEA. In financial terms the cost of closure of the IEEA would be marginal. Seconded staff would return to the parent DG, Temporary Agents and Contract Agents would have only limited rights to compensation, their employment being linked to the life of the Agency. The building is a Commission property and therefore no costs would be incurred for unexpired portions of leases and so forth. There would be an administrative cost for the transfer of the dossiers to the DG and a cost of disruption caused by the change of management regime. However, these costs could reasonably be assumed to be lower than the costs of starting up the Agency in the first place. There would also be a cost of loss of knowledge as there would be no guarantees that the staff would/could be recruited by the DG. There would, however be immense intangible costs to the Commission and to all other existing and proposed agencies if this Agency were to be closed down. These costs cannot be measured but would be very great.

The Commission's systems are not designed to provide for this sort of quantitative management data to be captured in a comparative and systematic way, and we are also dealing here with a new programme with implementation mechanisms which are still in the process of definition and which are not yet tested or measured in terms of resource requirements. Cost figures should thus be taken as indicative.

The costs of the different scenarios are calculated as follows:

Scenario	Internalisation in DGs	Current situation with outsourcing	Executive Agency
Total staff cost (€000)	132,060	135,996	102,688
Total overheads	23,112	23,112	23,112
Other operating costs	34,080	25,800	29,413
Total cost of option	189,252	184,908	155,213

This gives the following savings to the budget:

	Total cost 2007-2015 (€000) ³	Cost difference (€000)	Cost difference (%)
All Commission	189,252	34,039	21.93%
Commission with private market and IEEA	184,908	29,695	19.13%
Agency	155,213	0	

Transition issues

It normally takes between 18 months and 2 years for an Agency to become fully operational. The use of the existing IEEA means that this potential problem is avoided, which is a major advantage. Nevertheless there are issues about at what point activities should be transferred into the Agency so as to minimise the impact on the management cycle. There is also an issue to do with the way of dealing with existing activities under the current programmes. While the notion of giving the Agency only new tasks and a clean start has its attractions, there is a drawback because of the need to maintain staff in both places for at least 2 years while the existing activities are wound up. This can be problematic if the expertise is in the Agency or DG and needed in the other.

Key Benefits

From the perspective of the CIP the Agency solution provides three key benefits. Firstly, it is the only solution that can provide adequate resources to all the DGs involved, since it enables appropriate staff to be recruited that cannot be resourced in any other way in real terms. Secondly, it provides a coherent approach to management of strands with similar or related content or targets which will enable advantage to be taken of consistency and shared knowledge, to benefit the programme and its beneficiaries. Thirdly it provides a shorter management chain, a stability, and a high standard of governance that any solution involving outsourcing to the private market could provide. An additional benefit is that an expansion of the IEEA moves towards the development of a critical mass for the Agency and thus a reduction in the proportionate overheads. No other solution can address all these issues.

³ At constant prices

Risks and uncertainty

In general the issues on risk and uncertainty highlighted in the interviews with Commission staff can be covered by four broadly interrelated themes. These can all be mitigated through planning and organisation.

- λ Directorates General have different interests, purposes, procedures and cultures. It could be that, where the different DGs are acting together in a management function, the primacy of the management needs of the Agency is subordinated to the individual interests of DGs, potentially in disagreement. This could mean extended negotiations between DGs, leading to delays and loss of focus to the detriment of the operational efficiency of the executive Agency. It is understood that the DGs concerned are already working on a Memorandum of Understanding, which should address such a risk.
- λ Uncertainty about the effect of a move by staff within the DGs to an Agency on career progression and prospects might deter some people. Again, if, as was the case with IEEA, all Agency staff have to go through a selection procedure (as opposed to an automatic transfer), Commission staff may be deterred. In order to counteract this, there will be a need to present the potential transfer to the Agency as a positive element in career development terms, and to ensure that any remaining uncertainties as to the practical consequences are clarified by DG Admin. In addition there are fears that the labour market for contract agent staff is volatile, with associated risks of the financial and professional costs of high staff turnover.
- λ Any new Agency will be physically separate from its parents, which might lead to reduced communication with the DGs which could reduce knowledge flow between implementation and policy and programme design. The loss of a direct relationship between staff in the DGs responsible for development of policy and the existing (or revised) IRC/EIC networks could be detrimental to the policy formulation process by virtue of the introduction of an executive Agency as an intermediary body. This may distance the DGs so far from the networks as to dilute influence upon the operations on the ground. On the other hand, some of the DGs concerned are used to being split between different buildings. As the EA will be located in Brussels, the risk appears manageable.
- λ The structures put in place by the European Union need to work both at the European level and throughout national and regional infrastructures. This balance is difficult to achieve and maintain. The risk is that the externalisation process will simply lead to the subsidising of regional bodies to do what they would have done anyway because an Agency would not have the mandate or flexibility to ensure the content as well as the method of implementation.

Conclusions and recommendations

The selection of the options thus hinges on the criteria originally set out, and the capacity of each scenario to meet the requirements of the Commission, and the budgetary authorities.

The Agency option has the ability to address the resource constraints. An option based on statutory staff within the DGs is completely impractical and would not be feasible under the current resource levels, and still less so in the light of current trends. It can therefore be ruled out as a viable option.

An option of using contract agents within the DGs, were it possible, would mitigate the resource constraint problem, but would rely on short-term staff with a high level of turnover and therefore high levels of overhead and associated risk.

The current arrangements provide some scope to deal with resource constraints but there are limits on the extent to which this can deal with the additional requirements of the CIP, especially since it cannot address the issues related to project selection, procurement and financial management.

The externalisation to an Agency would provide the best way of dealing with resource constraints, since it enable access to a pool of stable labour that the DGs cannot take advantage of.

In general it is argued that the creation of an Agency enables there to be a focus on specific skills in programme management and for improvements in programme management to result. The ability to focus on management and not be involved in the daily requirements of policy development has been a strong factor in this. However, the CIP involves a high level of support to policy development and there are problems in separating activities into "pure policy" and "pure management". This benefit therefore may not be as strong here as in agencies working on more traditional programme implementation activities. It is however addressed by the DGs' decision not delegate measures where such risks might occur to the Agency.

On the other hand, the need to attract and recruit high quality staff is also very important to the success of the programme. It does seem that the quality of candidates for posts, including of a highly technical nature in the Intelligent Energy Europe programme has been very high so far.

Externalisation to an Agency provides scope for the development of specific management and technical skills needed for the successful implementation of the programme and for the development of the implementation mechanisms that can take advantage of these.

Experience so far is that there is not a major problem recruiting the right profiles of staff to an Agency, but this still presents some risk. There might, for example, be some loss of continuity if current external staff were not able or willing to transfer to an Agency.

Comparing an Agency to an internal solution based on statutory staff would result in a saving to the Community budget of 34 million Euro over the life of the programme.

Comparing it to an internal solution based on the use of contract agents would result in no net difference, but is not a feasible solution since there are no available budget lines to enable this to be adopted as a model.

The Agency solution provides saving to the budget because the majority of staff are lower cost than established staff inside the DGs or temporary agents. This means that the greatest savings are achieved when the maximum of tasks are externalised. It also means that posts can be released for the overall Commission pool.

Overall, the Agency solution provides the best results for the management of the programme for practical and financial reasons.

The case is clear for the Intelligent Energy, eco-Innovation and network management activities. The case is less strong for the other areas because of the link between policy and implementation. However, there are still gains to be made through efficient management and focus that would be beneficial for these areas, although this would require changes in how tasks were managed and some new working practices, Management of procurement activities on behalf of the DG could lead to some difficulties in relationships where these relate to specific or complex activities, and would be best avoided. However, the notion of a central procurement resource is still valid and could be managed within DG Enterprise to lessen some of the difficulties currently experienced. Activities of a recurring nature within the work programme, such as the standardised sectoral industrial competitiveness studies could be entrusted to the Agency.

2 Introduction and background

This report has been produced for DG Enterprise and Industry of the European Commission to comply with the requirement of the Regulation on executive agencies (EAs) for a cost-benefit analysis (CBA) on the outsourcing of elements of the implementation and administration of the Competitiveness and Innovation Framework Programme (2007-2013).

The analysis takes into account a series of factors, in particular the financial costs of the various options. However, it also examines a series of non-monetary costs and benefits that need to be taken into account when assessing the various options.

The study has been based on an analysis of the various documents relating to the Framework programmes, the regulatory environment and on information coming from the DGs involved in the implementation of the new Framework programme.

2.1 Purpose of the study

The study has two main tasks – firstly to examine the tasks that could be externalised, and secondly to compare the costs and benefits of the different potential implementation models analysed, looking at options involving internal management and the externalisation of tasks to a range of different entities.

The European Commission is the EU's executive arm, and carries out the decisions taken by the Council. The Commission is largely responsible for managing the EU's common policies, such as agriculture, research, transport, regional policy, etc. It also manages the budget for them, including the implementation of specific programmes in support of the policies. However, the resources available to the Commission for these activities are limited, and there is a political wish to ensure that these resources do not grow, and indeed that there should be a reduction. At the same time the budgets allocated to some of these programmes, including the CIP have shown a substantial increase. In order to be able to manage the programmes the Commission has traditionally had to call on the services of external organisations. These ranged from the Member States themselves and bodies appointed by them, to private organisations providing specialist services or complete technical assistance offices. As part of the reform of the Commission, this recourse to external bodies was reviewed and new rules and frameworks set in place – the process itself being referred to as externalisation.

The new externalisation framework was designed to assign the institutions' officials to essential tasks and recover effective control of executive and support activities through better-managed structures having the necessary qualified staff. This means that although referred to as *externalisation*, in some cases or models the action would be to *internalise* activities either within the DGs or an executive Agency.

The extent to which the Commission can call on external resources to assist in the management or programmes has limits. These include, of course, financial limitations, but relate also to the level of control and the competence of the

Commission. The Financial Regulation provides for a number of new entities for the management of programmes. In the broad context of externalisation, the Commission can now consider a number of options ranging from the creation of new centralised administrative entities known as executive agencies⁴, which nevertheless form part of the broad European public service, to the delegation of implementing responsibilities to national entities, still with a public service mission. In some cases externalisation to the private sector has remained an option for consideration.

The principal aim of this study is to examine, in terms of cost-effectiveness, the different options for the externalisation of certain tasks regarding the implementation of the Competitiveness and Innovation Framework Programme⁵. The options under consideration are:

- ◆ Internal options
 - Full internalisation with the DGs ENTR, ENV and TREN, including project management tasks currently externalised to Technical Assistance Offices.
 - The baseline scenario, based on the current situation for the programme elements that will be integrated into the CIP
- ◆ External options
 - Full externalisation by DGs ENTR, ENV and TREN to the existing IEE Executive Agency
 - Full externalisation by DGs ENTR and ENV to a new CIP Executive Agency; full externalisation by DG TREN to the IEE Executive Agency
 - Full externalisation by DG ENTR and ENV to another existing or planned Executive Agency; full externalisation by DG TREN to the IEE Executive Agency

The study initially examines the feasibility of the various options, and then looks beyond the financial costs and benefits and addresses certain non-financial or intangible costs and benefits which are also crucial to good management

The issue is studied from the perspectives of:

- ◆ effectiveness – the relationship between intended and actual results, **spending wisely**
- ◆ efficiency – the relationship between outputs and resources, **spending well**
- ◆ economy – minimising cost, **spending less**

2.2 Background

The renewed Lisbon strategy calls for bigger, simpler and more visible and targeted Community tools to address the issues of innovation and competitiveness. The Competitiveness and Innovation programme (the CIP) provides a response to this requirement and brings together several existing EU activities with proven and successful track records that support competitiveness and innovation, notably eco-

⁴ Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes

⁵ Including those elements currently externalised either to the IEEA or through private contracts.

innovation and the sustainable use of resources. The CIP is one of a series of programmes that will define the Commission's actions from 2007. They will work in parallel and complement each other. The CIP will complement other major programmes covering cohesion activities, research, technological development and demonstration activities and lifelong learning.

As well as bringing together a series of activities to address issues of scale and synergy, the CIP also provides significant increases in the resources devoted to the programme activities. However, in order to implement the required activities successfully, the Commission needs to provide the resources to manage and add value to the actions. The Commission therefore has to look at the options available to it for dealing with this.

2.3 Assessment criteria

The study forms part of the regulatory requirements for the setting up of executive agencies by the European Commission. The factors addressed are those set out in the regulation as requirements for the study, focussing on the three core requirements.

- ◆ The ability to address resource constraints
- ◆ The capacity to provide specific management or technical skills
- ◆ Potential savings to the Community budget

To complement these issues a number of other criteria are set out in the requirements, which contribute to the assessment of the various options. These include

- ◆ The effectiveness and flexibility of outsourced tasks
- ◆ The potential for simplification of procedures
- ◆ The proximity of outsourced activities to final beneficiaries
- ◆ The ability to maintain know-how within the Commission

3 The Competitiveness and Innovation Framework Programme

The Competitiveness and Innovation Programme has three main pillars: the Entrepreneurship and Innovation programme, the ICT Policy Support programme and the Intelligent Energy - Europe programme. Running from 2007 to 2013 it has a budget of approximately EUR 3.6 billion. It represents a 60% increase in annual spending on actions related to competitiveness and innovation by 2013 compared to 2006.

3.1 The main pillars

The Framework Programme is made up of the following three pillars.

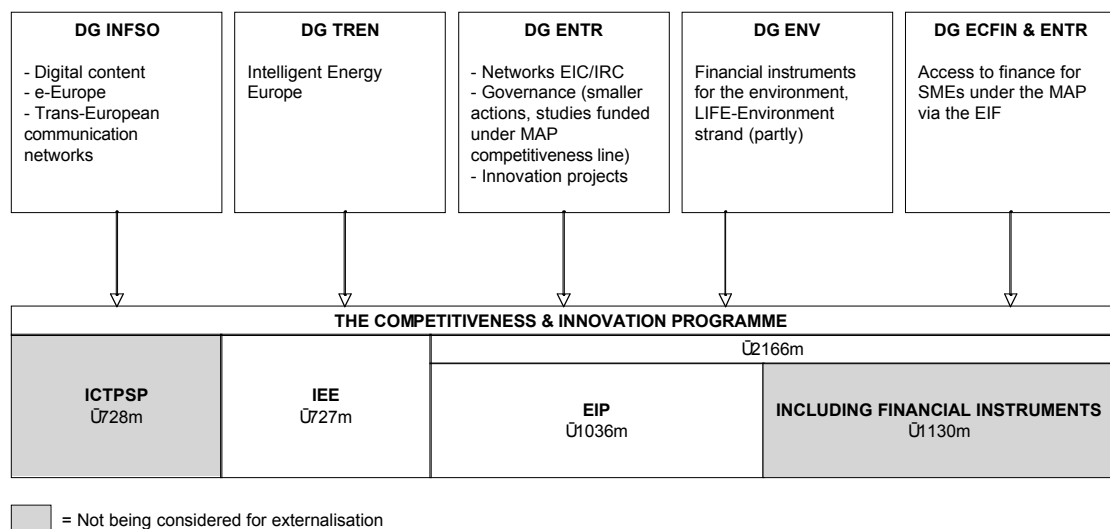
- ◆ **The Entrepreneurship and Innovation programme** which will support, improve, encourage and promote access to finance for the start-up and growth of SMEs; co-operation via European business support services for SMEs; and economic and administrative reform. It will also provide for action to support,

improve, encourage and promote innovation in enterprises (including eco-innovation), and innovation governance and culture.

- ◆ **The ICT policy support programme** which will provide for action to develop the single European information space and to strengthen the internal market for information services; to stimulate innovation through a wider adoption of and investment in ICT; and to promote an inclusive information society
- ◆ **The Intelligent Energy Europe Programme** which will provide for action to foster energy efficiency and the rational use of resources; to promote new and renewable energy sources.

The way in which current actions and programmes relate to the new CIP is depicted below.

Exhibit 1 Structure of the CIP



3.2 Comparison to current situation

One of the important aspects of understanding the potential move to externalisation, is to consider what activities are currently being undertaken that will come under the remit of the CIP when it comes into being.

Exhibit 1 illustrates what programmes will be operating under the CIP and how they are currently distributed. The following sections present further detail on the current budget and scope of these programmes.

3.3 The IEE sub-programme

The part of the programme is managed by DG Transport and Energy. The current programme has the following objectives

- ◆ To foster energy efficiency and the rational use of energy resources
- ◆ To promote new and renewable energy sources and to support energy diversification
- ◆ To promote energy efficiency and the use of new and renewable energy sources in transport

Intelligent Energy – Europe’ (IEE) is a main means of converting EU policy for smart energy use and more renewables into action on the ground, addressing today’s energy challenges and promoting business opportunities and new technologies.

IEE supports European projects, one off events, and the setting up of local/regional energy agencies with a total budget of €250 million, covering up to 50% of the costs.

The programme currently supports more than 200 international projects, 30+ local/regional energy management agencies, and almost 40 European events in the areas of

- ◆ New and renewable energy sources
- ◆ Energy efficiency, notably in buildings and industry
- ◆ Energy aspects of transport
- ◆ Co-operation with developing countries

The latest call for proposals was published in May 2006.

Current management arrangements

The Intelligent Energy - Europe programme is currently managed by an Executive Agency. The IEEA was set up by Decision No 2004/20/EC and started operation in early 2005. It is responsible for implementing the Intelligent Energy - Europe programme, except for programme evaluation, monitoring of legislation and strategic studies, or any other action that comes under the exclusive competence of the DG. This includes the following tasks:

- ◆ Managing all the phases in the lifetime of specific projects in the context of implementing the Community programme Intelligent Energy - Europe on the basis of Decision 1230/2003/EC and the work programme provided for in this Decision and adopted by the Commission following the advice of the committee of the programme, as well as the necessary checks to that end, by adopting the relevant decisions where the Commission has empowered it to do so;
- ◆ Adopting the instruments of budget implementation for revenue and expenditure and carrying out, where the Commission has empowered it to do so, all the operations necessary to manage the Community programme and, in particular, those linked to the award of contracts and grants;
- ◆ Gathering, analysing and passing on to the Commission all the information needed to guide the implementation of the Community programme, as well as any other information or report for the Commission provided for in the work programme or in the instrument of delegation.

On 6 April 2005, the Commission adopted a proposal for the continuation of the Intelligent Energy - Europe programme during the period 2007-2013, as part of the Competitiveness and Innovation framework Programme (CIP).

Under the CIP the budget allocated to this activity is significantly increased.

IEE programme budget

2003-2006	2007-2013
€250m	€728m

The following shows the detailed breakdown by year of the budget allocation for the IEE sub-programme.

	2007	2008	2009	2010	2011	2012	2013	Total
IEE Total	65	70.4	88.3	109.2	113.6	131.2	150.6	728.3

3.4 The Enterprise and Innovation sub-programme (EIP)

This element of the programme is managed by DG Enterprise and Industry and by DG Environment. It focuses particularly on SMEs.

The following shows the detailed breakdown by year of the budget allocation for the EIP sub-programme⁶.

	2007	2008	2009	2010	2011	2012	2013	Total
EIP total	264.9	286	291.9	304.9	332.9	339.9	352	2172.4

3.4.1 Activities within DG Enterprise and Industry

The activities to be moved to the EIP under the CIP are as follows:

- ◆ Business and innovation support structures (network)
- ◆ Governance (smaller actions, studies funded under MAP and the Competitiveness line). This includes funding for communication, conferences, meetings, studies and updates, surveys, impact assessments, and competitiveness report
- ◆ Innovation projects.

The indicative budget for DG Enterprise for the CIP is shown below.

	2007	2008	2009	2010	2011	2012	2013	Total
Network	86.6	78.8	0	46.2	46.2	46.1	46.1	350
Governance	10.7	10.2	9.9	9.9	9.9	9.9	9.9	70.4
Innovation	17.7	16.4	97.0	34.5	51.0	52.5	52.0	320.8

3.4.1.1 Business and innovation support structures (network)

Community support for European business and innovation support services under the CIP aims to help partner organisations operating in the Member States to provide SMEs with additional business and innovation support services and to foster business cooperation throughout the EU. A common support structure is planned with individual centres able to offer decentralised information and advisory services by cooperating with partner organisations that are well integrated into the economic life of their region. This common support structure will provide:

⁶ This includes the budget allocated for EcoInnovation, Enterprise activities and programmes such as the networks, and the Financial Instruments. The figures are based on current prices.

- 1 Information, feedback, business cooperation and internalisation services
- 2 Services for innovation and for the transfer of both technology and knowledge, and
- 3 Services encouraging the participation of SMEs in the Community Framework Programme for RTD

There are currently two major networks managed by DG Enterprise and Industry and which will become a single network under the remit of the CIP.

The Innovation Relay Centre network has the mission of supporting innovation and transnational technological co-operation in Europe with a range of specialised business support services. IRC services are primarily targeted at technology SMEs, but are also available to large companies, research institutes, universities, technology centres and innovation agencies. The IRC Network is organised into 71 IRCs and 236 regional offices which are supported by business services. Most IRCs are operated by consortia of qualified regional organisations such as Chambers of Commerce, Regional Development Agencies and university Technology Centres. Altogether, almost 220 partner organisations are involved. The IRCs are co-financed actions within the Member States. It is estimated that approximately 80% of the time of the unit responsible is spent on contract management and associated issues.

The IRC network has a secretariat that acts as an external service provider to the network. They provide a common communication tool, undertake a benchmarking service, link up the IRCs and provide brokerage and training. The secretariat role is currently undertaken by Intrasoft International and is located in Luxembourg. The work plan for 2004-2006 outlines some of the key tasks that the contractor has been assigned to deliver. These include:

- ◆ Network survey, monitoring and orientation including support to the advisory group, data research and survey,
- ◆ Tool and procedures including maintenance and improvement of the IRC Intranet, public website, guidelines procedures and documentation.
- ◆ Consultation and support for example through the provision of advice, and supporting Technology Events and Thematic groups, identification of less well performing IRCs
- ◆ Professional training and network HR development including induction workshops and on-line training

The current contract runs from 2004-2006 and is for approximately €1.7 million.

The Euro Info Centre network is designed to help SMEs to gain access to Community programmes and initiatives. They offer a range of services oriented to local needs and focussing on information about and assistance with matters relating to the EU, its laws and programmes. The statutory mission of the EICs is divided into three functions:

- ◆ Information advice and assistance
- ◆ Promoting business-to-business cooperation
- ◆ Listening to enterprises

together with a number of specific actions

The EIC network is supported by an external contractor that provides technical and administrative assistance (the Central Support Structure). The contractor (ESN-SOGES) has an approximate yearly budget of €3.1 million. A further contract currently exists, for IT and ICT support (the ICT Support Structure). The central support service is responsible for the animation of the network, which delivers services to the partners/network members in order to improve the status of the network partners and improve the quality of the services to the stakeholders, since the Commission does not have the necessary resources or structures internally to carry out these tasks. In addition to these animation activities, the structure also carries out a range of activities that assist the DG with the overall co-ordination of the network such as following the contracts of the individual EICs.

In the first half of 2005 the EIC network comprised 272 EICs (of which 12 are network coordinators), 337 relay points, 28 associate members and 14 Euro Info Correspondence Centres (EICC) in the MEDA countries and other non-EU countries.

The Commission follows up contractual arrangements including the work of the network partners, and makes all payments. It is responsible for all political and policy tasks, such as writing speeches for the cabinet and contributing to policy. Project officers within the Commission also answer questions from the network partners. Commission staff are responsible for the processes of the calls and annual renewals of the contracts with the EICs, and it is estimated that the staff within the Unit responsible spend about 90% of their time managing contracts.

The current Central Support Structure provides administrative coordination of the network, information on and the promotion of community policies and training, and monitoring and assessment of network member activities.

The ICT support structure provides management of ICT tools including the administration of the computer system, provision of a helpdesk, technical support and user training together with the development and maintenance of existing applications and an Intranet and Internet web editor.

The future for the Network

It is the intention that there will be closer integration between the two networks. In reality this may mean that a host organisation will offer both services to SMEs. The opportunity will be provided for bids from consortia. More management will therefore occur within the consortia themselves but it is hoped that synergies will be gained from the two networks being brought together. It is also recognised that the current design of the contracts with host organisations is very burdensome. An integrated network, it is hoped, will reduce the number of contracts by half. The exact manner in which the integrated networks are to be managed has yet to be finalised, and it is recognised that both networks offer fairly distinct services. The activities carried out by the EIC support structure that fall within the definition of project management should, under the Financial Regulation, no longer be entrusted to external bodies in this way and alternative arrangements ought to be found – either moving the tasks within the DG or entrusting them to an Agency.

There is a difference in the legal nature of the current externalisation contracts, in that the EIC Central Support Structure is a Technical Assistance Office and there is a strong commitment from the Commission, under the new framework, to phase these out and delegate to external contractors only minor tasks. The IRC secretariat does not strictly have this status, but the potential integration planned between the networks means that any future administrative support would equally need to be integrated.

Exhibit 2 Budget for the Networks (EIC and IRC) under the CIP⁷

Networks	2007	2008	2009	2010	2011	2012	2013	Total
EIC extension	12.8	0	0	0	0	0	0	12.8
New integrated network	73.8	78.8	0	46.2	46.2	46.1	46.1	337.2

3.4.1.2 Innovation projects in DG Enterprise and Industry

These are mainly the domain of Units D1 (innovation policy development) and D2 (support to innovation) and are currently funded under the Sixth Framework Programme for Research and Technological Development. Most of the activities take the form of calls for proposals. The majority of the activities in this area have been grouped under the Pro Inno Europe initiative, the Europe Innova initiative and the Innovating Regions in Europe Network (IRE). Pro Inno concentrates on the overall analysis of innovation performance and innovation policies. The IRE network is the main communication channel with European regions on innovation policy matters. The Europe Innova initiative provides a pan-European platform for innovation professionals to develop, discuss, test and exchange good practice, ideas, tools and policy recommendations leading to a better understanding of the innovation patterns in different industrial sectors, helping to improve sectoral innovation performance and shaping future innovation policies. It is aimed at broadening public-private partnership and improving governance in the fields of entrepreneurial innovation, cluster management, innovation financing and European standards.

In D1 the largest call for proposals is INNOV-9 under the PRO INNO Europe Initiative. This represents about one third of the total workload of the Unit. It is estimated that other project management activities represent another third and that the remainder of the work is policy related. The key activities managed are

Programme	Budget	Number of contracts
INNOV-9 (under PRO-INNO Europe)	€33.8m	19 to be managed until 2009
INNOV-10	€5.75m	3 (+ a service contract to be concluded in 2007 for €0.5m)
Europe INNOVA	€29.7m	28

In addition there are a series of innobarometer surveys that are conducted by Eurostat.

The key activities managed in D2 are

⁷ Figures based on current prices

Programme	Budget	Number of contracts
INNOV-7	€10.5 million	15 contracts
INNOV-4	7.3 million	43 projects
INNOV-3	€4 million for 3 years	IPR Helpdesk
INNOV-2	€74 million for 4 years	Innovation Relay Centres
Tender ENTR/03/23	€9.5 million	IRC/IRE Secretariats

These projects fall into two types – those that are relatively stable and cover areas where the results are data that feed back into the policy process, and those where the content is directly related to policy development or where there is a high level of interaction with the policy units.

3.4.2 Studies

There are also series of studies aiming to analyse priority factors shaping innovative performance and to reflect the increasing appreciation of the economic and social importance of innovation, and a set of studies on broader competitiveness issues.⁶ Commission departments carry out analysis and updates with the help of external technical support through periodic calls for tender on studies on innovation matters. These studies also fall into the two types discussed above.

3.4.3 Eco Innovation

The Eco Innovation programme is carried on from the activities on the promotion and demonstration of environmental technologies covered by the Life programme, the element being subsumed into the CIP being part of the Life-Environment strand, the remainder continuing under the new Life+ programme.

Certain project management tasks relating to the relating to pilot and market replication projects and for projects for the promotion of environmental technologies are already implemented with the support of an external body in the form of a contract under private law for a small technical assistance office. In this case the Commission manages the programming, calls for projects and information to the public, reception and evaluation of proposals (using external experts), the awarding of grants and management of the grant agreements. One TAO contract carries out the monitoring of projects as advises project managers, and another is responsible for the dissemination of programme and project results.

Areas covered by the current programme include:

- ◆ Land use development and planning – integrating considerations about the environment and sustainable development into land use development or planning. This category includes urban environment, air quality, noise abatement, and management of sensitive areas - coast, wetlands or mountainous areas.
- ◆ Water management – promoting the sustainable management of groundwater and surface water - including projects addressing water management at river basin level, groundwater protection, waste water treatment, the prevention and reduction of diffuse and dispersed sources of pollution, planning and organisational aspects of water management.

- ◆ Impacts of economic activities – minimising the environmental impacts of economic activities through the development of clean technologies, integrated environmental management, or the reduction of greenhouse gases.
- ◆ Waste management – preventing, reusing, recovering or recycling waste of all kinds, ensuring the sound management of waste streams.
- ◆ Integrated Product Policy – reducing the environmental impact of products through an integrated approach to production, distribution, consumption and handling at the end of their lifetime. This category includes eco-design, eco-efficiency, eco-labelling and the development of green financial products.

LIFE-Environment also finances Preparatory Actions, aimed at the development of new or revised Community environmental policies, and the European Commission calls for these on an ad hoc basis. ⁶

Only part of the scope of LIFE-Environment is to be covered by CIP: 'land-use development and planning' and 'preparatory actions' fall outside the scope while 'impacts of economic activities' and 'integrated product policy' are covered; the two remaining areas (water management and waste management) are not excluded by the legal basis but do not fit completely with the objectives of CIP on eco-innovation and will probably be covered only marginally by CIP. ⁷

LIFE-Environment co-finances up to 30% of total eligible costs if the project to generate an income (either during or after the life-time of the project), or 50% of the total eligible costs if it is not looking to make a profit. Typically, projects last between 18 and 36 months, and cost between €1m and €2m. Projects can last up to 60 months and cost as much as €5m.

Exhibit 3 EIP Eco-Innovation budget under the CIP (pilot and market replication projects and eco-innovation networks)

	2007	2008	2009	2010	2011	2012	2013	Total
Eco Innovation	1	29	31	33	35	38	38	205

A small budget (10 M€) is reserved for projects similar to the projects funded under the 'Europe INNOVA' initiative⁸ but specialised on eco-innovation. The decision to manage these projects internally or to have them managed by an Agency will be aligned with the decision relating to 'Europe INNOVA'.

3.4.4 Financial Instruments

In addition to these areas the EIP consists of a range of SME finance initiatives that will be implemented by the European Investment Fund, which is able to provide specialist expertise in these activities. Since these activities are therefore already externalised, they do not come within the remit of this study.

These finance initiatives are:

- ◆ the High Growth and Innovative SME Facility (GIF)
- ◆ the SME Guarantee (SMEG) Facility

⁸ See section 3.4.1.2

- ◆ the Capacity Building Scheme (CBS)

The European Investment Fund (EIF) is the Community's specialised vehicle for providing risk capital and guarantee instruments for SMEs. It pays special attention to supporting microfinance as well as early-stage finance in accordance with market demand and best practice. The EIF has been selected to ensure the required continuity in the management of Community programmes and has extensive experience of managing these activities. The operation by the EIF of Community financial instruments for SMEs on behalf of the Commission has therefore been considered a good practice by independent evaluations. The EIF also has the expertise to support emerging actions based on public-private partnerships launched by Member States aiming at attracting high-risk investment streams from the capital markets to the benefit of innovative small businesses.

3.5 ICT Policy Support

The final element of the CIP is the ICT Policy Support Programme (the second pillar), which is managed by DG Information Society and Media. This programme builds on the previous e-Ten, Modinis and e-Content programmes, aiming to stimulate the new converging markets for electronic networks. Actions under this part of the programme will cover:

- ◆ development of the Single European information space and strengthening of the internal market for ICT products and services and ICT-based products and services;
- ◆ stimulation of innovation through the wider adoption of and investment in ICT;
- ◆ development of an inclusive information society and more efficient and effective services in areas of public interest, and improvement of quality of life.

This element of the programme is not included in the externalisation plans, and is not considered in this study.

4 Defining the options

This section looks at which tasks could be externalised and attempts to define a set of activities that can form the basis of the analysis.

4.1 Tasks for externalisation

Before examining the tasks that could be externalised, it is important to set out the tasks that cannot be included. These are defined as tasks involving a large measure of discretion implying political choices. This in real terms means that the DGs must always be responsible for tasks that are concerned with:

- ◆ Defining objectives, strategies and priority areas of action
- ◆ Adopting work programmes serving as financing decisions, and specific financing decisions⁹

⁹ as defined in Article 75 of the Financial Regulation and Article 15 of the Internal Rules

- ◆ Representing the Commission in the Programme Committee and the submission to it of measures to be taken where there is a comitology procedure
- ◆ Undertaking inter-service consultations within the Commission
- ◆ Activities involved in launching and taking enforceable recovery decisions¹⁰

These tasks are therefore expressly excluded from any possible externalisation discussions.

To this group should be added the activities under the ICT Policy support programme which were expressly excluded from this study.

Other tasks may be externalised, but the degree to which this is permitted will depend on the nature of the body to which they are being confided. Possibly of most significance is that private sector contractors cannot undertake any tasks forming part of the public service mandate, which concretely translates into the fact that they cannot make contracts or handle money on behalf of the Commission. This limitation does not apply to Executive Agencies, which were expressly created to be part of the Commission's public service mission.

Assessment of potential tasks for other agencies have been centred on the management of traditional programme activities – concentrating on the management of projects and the associated parts of the programme cycle. The CIP, however, has a different structure from classic programmes in that it encompasses activities that do not fit into this standard design. Pulling together firstly a list of potential tasks for externalising, and an agreement on what tasks could be externalised, has therefore been an extremely complex and occasionally contentious process.

However, the following groups of activities were included in the considerations:

4.1.1 Tasks associated with management of projects

This included that standard elements of programme cycle management, such as:

- ◆ Preparation and publication of calls for proposals based on the priorities set out in the work programme
- ◆ Provision of information on the call for potential beneficiaries, evaluation of proposals in accordance with criteria set out by the DGs, including supporting material
- ◆ Awarding grants in accordance with the conditions of the calls
- ◆ Preparation and signature of contracts and subsequent management of the contractual arrangements
- ◆ Monitoring of projects, including potential site visits and assessments of reports and deliverables
- ◆ Assessment of the impacts of the projects
- ◆ Reporting on the implementation of individual projects and the overall programme
- ◆ Dissemination of project and programme results

¹⁰ specifically under Article 256 of the EC Treaty and Article 72 of the Financial Regulation

These tasks specifically relate to the Intelligent Energy and eco-Innovation activities, both of which are already externalised to varying degrees through an Agency (IEEA) and a private sector contractor respectively. Within DG Enterprise there are innovation activities managed through calls for proposals that also fall into this category. These tasks are generally not contentious and there is broad agreement as to the potential for externalisation.

There is a difference between what can be delegated to an Agency and what can be contracted out as follows:

	Agency	Private contractor
Preparation and publication of calls for proposals based on the priorities set out in the work programme	All	Part only
Provision of information on the call for potential beneficiaries	All	All
Awarding grants	All	None
Preparation and signature of contracts and subsequent management of the contractual arrangements	All	None
Monitoring of projects, including potential site visits and assessments of reports and deliverables	All	Part
Assessment of the impacts of the projects	All	All
Reporting on the implementation of individual projects and the overall programme	All	All
Dissemination of project and programme results	All	All

4.1.2 Tasks associated with management of networks

Until recently this has not been an area undertaken to any great extent by executive agencies. The tasks fall into two groups:

- ◆ Tasks associated with the selection and management of the network members
- ◆ Network co-ordination, animation, information and training

The activities associated with the network partners include most of the activities included in the "classic" project management tasks as set out above, and are subject to the same restrictions regarding the nature of the externalisation. These relate to a standardised set of tasks and a cycle of work similar to that of the existing Agencies. For the EIC network, many of these activities are currently undertaken internally within the DG although much of the dossier management and the organisation and management of project reviewers is carried out in the Technical Assistance Offices. There was not a consensus among people currently working in this area as to whether these activities could or should be externalised (or internalised) to an Agency, which turns on the nature of the link with the policy process and occasionally the nature of the network partners. One factor that is important to the success of the networks is responsiveness and flexibility that the current system can provide. It was stressed that this element was seen as a priority and must be matched by any alternative solution.

Network co-ordination and animation activities are currently outsourced, in both cases to the private market. There is therefore no legal reason why these could not be externalised to an executive Agency, although there are other reasons that have been brought up as to why this might not be an optimal solution. Again there was

consensus that externalisation was something that should be continued, but not as to whether an executive Agency should provide the relevant services. This type of activity is not currently something that is carried out in large measure by the existing Agencies, although some elements of it are being considered in the context of the extension of the EACEA.

Given the intention to move to a closer integration of the two networks, it is important that the solution adopted be coherent across the networks to ensure consistency, clarity and a reduction in the burden for the network members.

4.1.3 Other tasks associated with management of the EIP

In addition to these tasks, the programme covers a wide range of activities in the field of innovation including collection and exchange of information, studies, conferences and dissemination and support activities. These actions generate a great deal of administrative activities, some of which require specific technical knowledge but are undertaken in a dispersed manner that means there is no central source of the necessary know-how, leading to inefficiencies. These activities are therefore also examined from the perspective of potential for externalisation. Such activities would include:

- ◆ Preparatory work to support the DGs in drawing up the annual work programmes. This might include administrative and logistical support to working parties and other consultation activities
- ◆ Public procurement procedures and management of the resulting contracts in a manner analogous to the management of other projects. This would be appropriate in the case of studies where the outputs are stable and standardised and the activities form part of the general planning process. The sectoral industrial competitiveness studies would fall into this category.
- ◆ It might also include support activities such as the organisation of expert meetings (including the procedures for reimbursing the travel and subsistence allowances of experts) and conferences – some of these are already contracted out, and relate to meetings where there is a defined objective and which form part of an overall work programme.

4.1.4 Tasks associated with management of the Community Financial Instruments for SMEs

The European Investment Bank will be responsible for implementing a large proportion of the CIP budget through, broadly, bank guarantees and risk capital investments. This is currently externalised in this way under the MAP and no plans for change are envisaged.

The question of whether some support activities could be externalised to the Agency was discussed but would involve a splitting of tasks and responsibilities that would not make for effective management and have therefore not been pursued.

Specifically – in the case of monitoring and follow-up activities, these involve a level of specific skills and knowledge that an Agency would find it difficult to provide, and may also raise issues of geographical location. In the case of the Intelligent Energy and eco-Innovation these monitoring activities will be carried out by external experts.

If this were the case also for the Financial Instruments there would be little gain from having these managed by the Agency, since this would merely introduce an additional link into the management chain.

In the case of other activities such as the compilation of additional statistical data that cannot be gathered as part of the ongoing monitoring and reporting process, this is an area that does not fall within the types of activity generally envisaged for the Agency.

This is in line with the philosophy followed throughout the Agency scenario that what should be carried out by the Agency should be tasks related to programme implementation, which do not, at least initially, include wider support activities. This is mainly to ensure that the Agency is able to plan on an organised basis, and that there can be clear and simple lines of management and communication between the Agency and the various DGs. This has also been reflected in the tasks examined for externalisation under the other areas of the programme.

However, it is clear that there is a need for some specialised monitoring of the financial instruments – going beyond the financial monitoring carried out by the EIF – relating to policy and socio-economic aspects of the programme objectives. Some of this may involve monitoring on the ground, which would fit within a similar basis as the monitoring of the Eco-Innovation and Intelligent Energy – although in those cases the intention is to use independent experts.

A further part relates to carrying out of statistical analysis of data to contribute to the programme monitoring. In principle, this might be analogous to some of the studies element of the EIP, but again much of that work is expected to be contract management rather than direct undertaking of the work.

The total workload involved is small – estimated to be in the order of 3FTE per annum, which would make it difficult to have a separate unit for this, but it should be possible to have a "cellule" within an appropriate unit that could provide the necessary services.

The advantage of this is that the work would be integrated into the remainder of the CIP and allow for the maximum benefit to be drawn from working with other areas of the programme. The disadvantages relate to the fact that the work is not "standard" within the agency and has a close relationship to policy, making it potentially more difficult to set boundaries between the DGs and the Agency. It is also an area of work involving two DGs (with a good working relationship), and adding a third entity to this might lead to unforeseen complications in reporting lines.

4.1.5 Other tasks

The possibility of including in these outsourcing activities the capacity to provide support for the elements of the Seventh Framework Programme for RTD managed by DG Enterprise (Space and Security) was also raised. However, it was difficult to find a case for including a completely separate funding structure within this process, given that an integrated support system for the whole of FP7 is being constructed. In addition, since any CIP executive Agency would already involve several parent DGs, this would introduce an additional layer into the management that would make its

operation somewhat complicated. This element was, therefore not pursued in this study.

4.2 Options for externalisation

The options for externalisation that are examined as possibilities within this study are as follows:

4.2.1 Full internalisation with the DGs ENTR, ENV and TREN, including project management tasks currently externalised to Technical Assistance Offices

Within this option there are two possibilities

- ◆ Internalisation using Commission civil servants, forming part of the normal establishment plan and having permanent contracts,
- ◆ Internalisation using the new status of contractual agent, where the staff have a temporary contract limited to a maximum duration of 3 years. There are limits to the number of such staff that can be recruited since the operational budget cannot be used in these circumstances

In terms of costs and feasibility there are significant differences between these options that must be taken into consideration. The options may also have some impact on the potential quality of service provided. DG Budget has advised us that the calculations should be based on the use of a standard cost for officials.

This option would also involve the closure of the current IEEA and the allocation of resources for carrying out its activities within DG TREN.

4.2.2 The current situation

This option is the de facto baseline, and could be said to represent the "no change" option. It involves internalisation within DGs Environment and Enterprise with the support of external contractors for some elements and a continuation of the Intelligent Energy Agency as currently implemented. However, the extent to which this method can provide the resources required for the management of the CIP in the various DGs and the implications of fragmented management have yet to be examined.

Externalisation to private law entities has limits – no activities involving public authority (especially the handling of public moneys) can be entrusted to such entities, which can in some case limit the attractiveness of the option. In this case the notion is to continue outsourcing activities which are currently entrusted to private sector bodies but not, at this stage, to add additional activities. It should be noted that some of the activities that are currently outsourced to Technical Assistance Offices fall outside the scope of what is considered desirable, and it is felt that this situation is not one that should continue under the Financial Regulation requirements and policy commitments. Some change will therefore be required regardless of the final option selected, although this will depend on the different contractual bases concerned – in some cases they are already in conformity with accepted practice and in others modifications would be required.

4.2.3 Full externalisation by DGs ENTR, ENV and TREN to the existing IEE Executive Agency

This option is based on the current IEEA being significantly expanded to take on board all the new activities that are identified for externalisation, It would entail a significant expansion of the existing Agency, and include taking in all the activities currently outsourced to the private market – specifically the network support activities and the Life-Environment TAO.

4.2.4 Full externalisation by DGs ENTR and ENV to a new CIP Executive Agency; full externalisation by DG TREN to the IEE Executive Agency

This option is based on a new Agency being set up to manage the CIP but leaves the IEEA functioning for the management of the Intelligent Energy programme. Tasks currently outsourced to the private market would be carried out by the new executive Agency.

4.2.5 Full externalisation by DG ENTR and ENV to another existing or planned Executive Agency; full externalisation by DG TREN to the IEE Executive Agency.

Agencies to be considered under this option include the existing EAC/INFSO Executive Agency or the planned Executive Agency for the implementation of FP7. Externalisation by DG TREN remains to the IEE Executive Agency.

4.3 Method

A major task of the study was to collect data and information (quantitative and qualitative) on a number of items – costs, human resource issues, quality of service factors, transition effects, legal issues – relating to current arrangements and to the possible alternatives (Executive Agency, private market or With the DGs). Estimates were made of the magnitude and importance of uncertainties and risks at each stage.

The interviews were undertaken for collection of data that consisted of two major components:

- ◆ A quantitative part relating to the estimation of division of effort spent on the tasks identified. The estimation of staff numbers was initially undertaken by the DGs and Agency staff and has been reviewed in the light of the workload and benchmarked against other agencies, both Commission and national.
- ◆ A more qualitative part relating to issues such as
 - details of processes involved in the task
 - expected variations of costs, manpower and other resource requirements
 - processing times (total and per-unit), elapsed time used for completing the particular processing stage, any ‘bottleneck’ problems
 - workloads, variations in workload over time (trends and ‘seasonal’ effects), extent of system flexibilities to cope with variations
 - skill requirements, possible losses of key skills
 - opportunity costs
 - quality considerations, performance standards
 - process sensitivities and risks

Wherever available, quantitative data was used to support the cost benefit analysis (for example, costs relating to buildings, time spent on tasks by Commission officials, existing subcontracting for given tasks). The most important method of data collection involved structured interviews with those currently involved in the administration of the Programmes, both in the DG and in the Agency. We also had discussions with one of the network support contractors.

We have also investigated, with the help of Commission experts including staff of the existing agencies, DG Admin and DG Budget, more general issues relating to the possible alternative administrative arrangements, such as

- ◆ start-up costs and close out costs
- ◆ possible transitional arrangements
- ◆ legal requirements and control mechanisms
- ◆ costs of co-ordination and control, e.g. communication between the DGs involved in the operation and management of the programme, and between the Commission's horizontal DGs and the executive Agency

Finally, we attempted to put into the present context some of the general, less tangible costs and benefits associated with externalisation. In particular, one should account for the specific nature of some of the activities, where they require specialist or highly technical knowledge.

The information used for this study was collected in the course of interviews with all the directors and heads of unit in the DGs and in the Agency responsible for the various programme strands. A wide range of documents both programme and administrative were also consulted, together with documents from other executive agencies, existing and planned. Finally DGs Budget and Admin were consulted with regard to the horizontal issues.

5 Options assessment

In this section we look at two issues – which tasks can be externalised, and which of the scenarios should be retained for further analysis.

5.1 Finalisation of tasks that could be externalised

In looking at which tasks should be externalised, people had a number of different drivers that guided their views on the subject.

A first, and the most important, was the need to find additional resources. It was universally felt that there was already a shortage of resources in the DGs, there was pressure on the Commission as a whole to reduce the overall level of resources which was completely incompatible with the need to implement significantly larger and more complex programmes. Externalisation of various types does give the ability to use programme resources to provide, among other things, additional appropriate manpower, allowing flexibility and the ability to recruit specific skills, to try and bridge this gap.

Secondly, there were issues associated with the need for the Commission to focus within the DGs on its core business – policy development, which was difficult when it had to be managed at the same time as programme implementation, the two operations having different needs, and different rhythms that do not necessarily co-exist comfortably. Externalisation would mean that staff within the DGs could focus on the policy elements of their work including ensuring the annual work programmes are adapted to evolving policy priorities, while the external body could build on expertise in the administrative and project management fields.

Leading from this were issues associated with the apparently increasing complexity of procedures. This means both that staff need to have knowledge of these administrative and financial procedures – an area of acknowledged shortage in the DGs and indeed across the Commission, and that the number of transactions to be handled most cases is extremely high. This combination of volume and complexity consumes a great deal of scarce resource – time. Externalisation would firstly enable a development in the specific expertise required for programme management, and secondly the resulting focus might, in some scenarios, enable the streamlining of procedures and resulting improvements in efficiency and service quality.

However, programmes do not exist in a vacuum and the link with policy development is extremely important. Externalisation of implementation tasks without an effective link to the policy function would be counterproductive. In most areas this can be achieved and the persons involved felt comfortable with the proposed division between the responsible parties.

In the case of the network management, however, this is less clear to the people currently involved. This covered two elements:

- ◆ The management of the processes surrounding the contractual management of the network partners
- ◆ Animation activities for the network

For the management of the contractual aspects, the Unit responsible for the EICs felt that there is a definite need to outsource as it has too few staff and support is needed. An executive Agency would be able to recruit additional staff, and might also be able, in consultation with the DG, to amend the procedures to make them less onerous on all parties. Currently network partners have to submit work programmes and the central support structure prepares the dossiers and this takes months every year. An Agency would be able to manage the whole process rather than just part of it and the focus on implementation may also lead to reduced delays in the payments. Additionally staff could be freed up in the DG to work on other tasks.

However, it is also the case that the separation between operational and political tasks is not always clear – for example in agreeing ad-hoc actions.

This issue is the main one cited in the case of the IRC network where although there are similar difficulties of resources but where there was a strong feeling that it would be difficult to separate the contract negotiation and contract management elements, especially given the nature of the contracts and how they are managed, and that therefore externalisation would not be a viable option. However, the planned

implementation arrangements under the CIP would do away with this need for negotiation and make the process more easily externalisable.

Similarly for the central support services the argument is that these need to be highly responsive to the requirements of the DG and that only a contractual relationship with an private sector contractor would give both this element of control for the DG and flexibility for the unit itself.

Much of the difference in views can be traced back to a difference in the understanding of what an Agency is, how it can operate and the nature of its relationship with the DGs.

Executive agencies are designed to support the Commission in the implementation of Community programmes, through the delegation of certain tasks relating to their management, particularly those:

- ◆ Where there is a clear separation between the programming and implementation of projects, permitting management against targets and organisational learning
- ◆ Comprising projects which are disconnected from the policy process *per se*
- ◆ Where economies of scale can be achieved by encouraging specialisation or entrusting a range of similar programmes to a single Agency
- ◆ Requiring technical and financial expertise throughout the project cycle.
- ◆ Where programmes, their objectives and methods are rolled over periodically

The management of the traditional programme activities fall comfortably within the definition and this, together with the encouraging experience so far with the IEEA explains why these elements are viewed positively for externalisation to an Agency.

There are two schools of thinking emerging about executive agencies – one where the Agency is seen as a form of back office for the DGs and deals only with the administrative processing of contracts and proposals, and one (the IEEA model, which also holds true for the EACEA to a large extent) where the Agency is responsible for adding value to the programmes and therefore has to be able to provide programme related skills, and to work closely with the DGs to ensure that the programmes reflect policy requirements and feed information back into the policy formulation process.

If an Agency is seen as merely a processing body, then it is clear that it would find it difficult to respond to the needs of the DG in implementing its networks. If the other model – which will be the dominant view when all the activities for externalisation are taken together – then there would be no problems in managing the networks, but the DG would need to be comfortable with a relationship with the Agency that might be rather different from its current thinking. It can already be seen from the EACEA that the Agency operates best on the second model, and that where the former model is still dominating thinking in the DG there are tensions that still need to be resolved. It would be important therefore that there was a consistent approach in the case of a CIP Agency or an expansion of the IEEA.

The "back office" model is also behind the thinking that an Agency could provide a type of central purchasing solution for the DGs, especially for studies and other such

activities. While this has some attractions in terms of the concentration producing expertise in an increasingly complicated area, it does not fit well with the type of situations foreseen where an Agency could intervene. Secondly, in such a model, the contractual relationship would be between the Agency and the supplier, although the ultimate client would be the DG at best this could result in an extra step in the process but at worst would make the carrying out of studies to the satisfaction of the DG almost impossible.

Finally an executive Agency could organise conferences and provide conference support, but this represents a very small percentage of the tasks carried out. However, it does represent some specific skills and concentration might enable the DGs to focus more on the content if the organisational aspects were externalised.

5.2 Comparison and implications of options

Looking across the options, therefore it is clear that there are different possibilities depending on the solution selected. These can be summarised as follows, showing that there are possibilities for the tasks that can be externalised according to the solution.

Exhibit 4 Comparison of possibilities under the different options

	Current situation ¹¹	Expansion of IEEA	New CIP Agency	Other agencies
Tasks to be externalised				
Preparatory work for the elaboration of the annual work programme	,	444	444	,
Management of calls for proposals	,	444	444	444
Awarding of grants and management of the resulting grant agreements (IEE and ecolnnovation)	,	444	444	4
Monitoring of projects implemented under the programme (IEE and ecolnnovation)	444	444	444	4
Dissemination of programme and projects' results (IEE and ecolnnovation)	444	444	444	4
Awarding of grants and management of the resulting grant agreements (Innovation)	,	4	4	4
Monitoring of projects implemented under the programme (Innovation)	,	4	4	4
Dissemination of programme and projects' results (Innovation)	,	4	4	4
Contributing to the evaluation of the impact of the programme	,	444	444	4
Network grant management	,	4	4	4
Network co-ordination and animation	444	4	4	4
Public procurement procedures and management of the resulting contracts	,	4	4	4

Externalisation possible and stakeholders in favour	444
Externalisation possible but differing stakeholder views on implementation	4
Externalisation not permitted ¹²	,

This table looks at what could be done under the different options – it makes no judgement on the feasibility or quality of the solution if this were adopted. Clearly the internal solution could undertake all the activities, had it the resources available to it. The current situation – that is to say, recourse to the private market for some tasks is more limited in what it can do. The Agency model – regardless of whether this were an enlarged IEEA or a new CIP Agency could undertake all the tasks but there is not full consensus within the DGs, or indeed between those currently responsible for implementation of these activities, on whether this is desirable or not. In the case of externalisation to another Agency, the EACEA or an FP7 Agency, this would be less likely to undertake many of the tasks because they would have a significant impact on their own activities and operating model.

¹¹ not including IEEA which has Agency status

¹² or not currently undertaken in existing situation

We therefore examined each of the scenarios in more detail to look at whether there were any that could be excluded at this point.

5.2.1 Full internalisation

This could be done in two ways. Internalisation of all tasks, including those carried out by the IEEA and the private contractors using staff made up entirely of established staff within the DGs, This is clearly an unrealistic option. However, since this is the cost baseline option that is used for the calculation of potential savings to the Community budget, we have to include this in the analysis.

A second option would be to internalise the activities using contract agent staff in a similar way to an executive Agency. This is not entirely comparable since the DGs can only recruit contract agents under article 3b of the Conditions of employment of other servants of the European Communities, who may be recruited for period of not more than three years, a much shorter period than an Agency. There are also strict limits on the budget lines that can be used for this recruitment, no specific lines having been foreseen in the CIP. This is a lower cost solution, and is slightly more feasible than the full cost version, and is therefore also included in the analysis.

It should be recalled in addition that DG Enterprise has been able to call on staff recruited under the Research budget for the implementation of those tasks falling under the RTD Framework programme. Once these tasks are transferred into the CIP this facility will no longer be available and there will therefore be an additional resource requirement.

5.2.2 The current situation

The current situation is the mix of solutions involving the IEEA and a number of private market contracts. This solution is the real baseline and is included on that basis. There is a general view that while individual parts of the solution function quite well, the solution overall is not adequate to deal with the current situation as well as people would wish, and would struggle to deal with the increased responsibilities under the CIP. An example of this is the current situation of payment delays, which is not sustainable and has a significant detrimental effect on the beneficiaries. The IEEA has shown that it is able to significantly speed up the rate of processing of payments compared to the in-house situation. In addition, the EIC Technical Assistance solution is no longer acceptable and an alternative must be found – together with resources to implement it.

5.2.3 Executive Agency solutions

Executive agencies have the advantage of being able to use resources to recruit additional staff and adapt to changing needs. These fall into two categories:

- ◆ Temporary staff, consisting of established staff of the Commission seconded in the interests of the service to posts of responsibility, and temporary agents

recruited by the Agency. This category may not exceed 25% of the total staff of the Agency¹³, and of this not more than one third may be statutory staff.

- ◆ Contract staff recruited under article 3a of the Conditions of employment of other servants of the European Communities. The major difference between contract staff recruited by the DGs and those in Executive Agencies is, very broadly speaking, that contract agents in the Agencies are not limited to a three year maximum tenure, whereas those inside a DG are¹⁴.

In principle this means that they can provide specialist staff and stability of employment, both of which are lacking in the internal solution. While externalisation to private contractors can meet the need for specialists, it cannot provide stability because of the nature of the procurement process.

Three different Agency solutions have been put forward:

- ◆ Expanding the current IEEA
- ◆ Setting up a new CIP Agency
- ◆ Using other existing agencies

Expanding the IEEA is regarded favourably by all parties, both within the DGs and the horizontal services, since it provides the opportunity to increase the size of the Agency and potentially to move towards a notional "critical mass" whereby the overhead costs are reduced. It seems likely that this would also respond to some of the concerns raised by the budgetary authorities regarding a potential proliferation of agencies. Underlying this is a strong consensus that the Agency has worked well to date for the IEE.

Another strong advantage is that there is a structure in place with experienced staff to ensure the horizontal functions that can ensure that the Agency can begin working on new programmes much more quickly than other solutions. Concentrating the execution of several pillars of the CIP programme into one Agency would help to avoid overlaps or duplication of projects as well as advising the DGs on how to prevent them when drafting their respective annual work programmes.

Setting up a new CIP Agency is more contentious, since there are high overheads concerned with setting up an Agency. This, together with the time it takes, makes it a less attractive solution. Splitting the CIP across two agencies seems to introduce unnecessary complications and to run the risk of failing to capitalise on the potential

¹³ In principle this is 25% of the staff of all agencies, but it has so far guided individual agencies as well

¹⁴ (i) AC3a may be engaged under their first contract for a fixed period of at least three months and not later than the term of the Executive Agency with a maximum period of five years.
(ii) Contracts in function groups II, III and IV can only be renewed once for a fixed period of at least six months and not later than the term of the Executive Agency with a maximum period of five years. The second renewal shall be for an indefinite period. A clause expressly states that it will automatically expire if the agency's lifetime is not extended.
(iii) Contracts in function group I can only be renewed three times for fixed periods of at least three months and not later than the term of the Executive Agency with a maximum period of five years. The fourth renewal shall be for an indefinite period. A clause expressly states that it will automatically expire if the agency's lifetime is not extended.)

synergies. Furthermore, for the eco-innovation element, DG Environment expressed a preference for the expansion of the IEEA to include this since there is an extremely good fit between the objectives and methods of the two parts of the programme. This would mean that the remaining elements of the programme would be relatively isolated, and fall short of the critical mass that would justify its setting up. There being a general lack of support for this option therefore, it is not pursued in the analysis.

Using other existing or potential agencies is not a viable option. There is as yet no certainty as to the solution to be adopted for FP7. Any Agency that is introduced would not be in place in time to provide adequate support for the CIP. Use of the EACEA, an Agency that is already multi-DG and manages a wide range of programmes would potentially be a solution. The EACEA would not have any difficulties of principle in taking on additional tasks. However, the addition of a further 2 DGs to its steering committee might produce difficulties given the restrictions of the regulation. In addition the timing of the issue is not ideal since the EACEA is currently negotiating the extension to its mandate for the new generation of programmes. If the integration of CIP activities was to be included this should have formed part of this exercise. For these reasons the option of using either of these agencies is not pursued.

5.3 Shortlisted options

Three options are therefore retained for further analysis in the remainder of the study. These are:

- ◆ Internalisation to the DGs of all activities, comparing the two staffing scenarios
- ◆ Externalisation of all activities to an expanded IEEA. The network support activities are included in this option on the basis that the DG and the Agency should be able to work together to achieve the requirements of the programme.
- ◆ Continuation of the status quo.

6 Comparison of costs and benefits for shortlisted options

This section looks at the costs and benefits of the different options, firstly from a qualitative perspective, and secondly from a financial perspective.

6.1 Qualitative evaluation of options

Sets of qualitative factors is set out in the regulation, and in the terms of reference of the study, and are therefore addressed here. There are however, additional factors that were identified in the course of the interviews that are of greater importance to the programmes in comparing the different options for programme management.

We begin with the factors that need to be addressed for the regulation.

6.1.1 Impact on human resources

The major area of difference in terms of the costs of the different scenarios lies in the different costs of the staff. Therefore the quantitative assessment of the options looks

in detail at those issues. However, in principle, externalisation to an Agency should free staff within the DGs to work on core issues, resulting in a saving of posts that can be reallocated to the central pool.

Not more than 75% of the staff of an Agency could be made up of contract agents. The remainder would be recruited as Temporary Agents, of whom not more than one third should be established DGs staff seconded in the interests of the service. Posts will also be frozen in the DGs as a result of secondments of established staff to the Agency.

Internalisation would have significant impacts on human resources since in the internal model posts would have to be found to replace all the staff currently employed in the IEEA, those in the IRC/IRE secretariats and the EIC and Life Environment Technical Assistance Offices. A small proportion of the activities would, in principle, need to be absorbed within the horizontal services, since some of these (eg management of premises or human resource management) would still need to be undertaken. The impact on the establishment plan would depend on whether the balance between established and contract agent posts was maintained as in the Agency, or whether the DGs would need to use established staff in all posts, and on what basis staff were recruited to replace activities currently outsourced. The hypothesis used for the costing exercise is that statutory staff would be used throughout.

Whether the right types of staff are able to be attracted to an Agency will depend on the way recruitment policies are implemented, and the availability of relevant staff within the labour market. It appears that initial reservations on the availability of high quality staff for contract agent posts have not been justified, and the existing agencies have attracted very large numbers of good candidates (over 7000, in the case of the EACEA). While that Agency has only required a limited number of specialist staff in certain technical areas, neither they, nor the Intelligent Energy Agency who did recruit specialists, had a problem finding suitable staff.

On the other hand, the status of executive agencies, and of the staff within them, have been subject to some confusion. The need for statutory staff to be recruited by the Agency as temporary agents, for example, has led to some apprehensions as to the effect of this on their career within the Commission. The process of maintaining "dual careers" has now been clarified and set in place. However, how this operates in practice and its actual impact is still not entirely clear to many potential recruits. This is a discouraging factor to some staff. Secondly the grades of the posts within an Agency are held to be lower than those in a DG¹⁵. Established staff transferred are in fact paid at their current grade, any additional costs being born by the parent DG so there is in principle no change for the individual. However, in the course of the interviews it was clear that there was a strong reluctance of staff to transfer. This is clearly a problem of perceptions, but it does nevertheless mean that positive steps will need to be taken to counter the misapprehensions that have grown up.

¹⁵ In fact, this is not connected with the agencies but arises from the reform of the staff regulation, which occurred at the same time as the agencies were created. All new posts will be at these lower levels.

In the case of a continued externalisation to the private market the impact on staffing is lower than the full internalisation scenario since some of the tasks are outsourced. However, the core activities of financial and contract management would have to stay within the DGs and therefore the scope for saving is limited. In addition, posts would need to be allocated for the management of the contracted out activities.

6.1.2 Efficiency and flexibility of externalised tasks

The work to be carried out remains the same, whether it is done within the DG or an Agency. Normally we would expect an Agency, being focused on the programme implementation issues to give a higher priority to these issues. The assessment of the current Agency's operation to date shows that potential for efficiency gains have been identified but it is likely the full benefit will not be realised until 2007/2008 once the full implications of the CIP have been realised.

Whether a private market contractor would be more efficient would depend on the tasks under consideration. Where the contractor provides only specialist tasks not requiring detailed checking and review by staff inside the Commission, then there may be extremely efficient implementation of these elements. Where contracts are issued on the basis of outputs rather than inputs then gains in efficiency might also be promoted. These efficiency gains, however, mostly come from the ability or requirement to focus on the specific tasks and to some extent therefore also apply to an Agency solution.

Increased flexibility of tasks is a more complex issue. Executive agencies do not have any margin of discretion implying political choices but they do enjoy a certain degree of operational autonomy, including the ability to sign contracts with suppliers and recruit staff. The experience of the IEEA has shown that some flexibility can be introduced to how tasks are managed, especially in dealing with short-term or one-off issues. However, an Agency is bound to follow the same financial and management standards as the DG, and thus there are limits on the degree of increased flexibility.

A private contractor can be more flexible in some areas – for example they can therefore contract on the open market to deal with short deadlines. However in principle, the norms and standards operated by the Commission should be passed on to a private contractor, which does limit this flexibility. The DG does, however have a degree of control over a private contractor that it would not have over an executive Agency. It is argued that this degree of control enables a private contractor to be more responsive to developing or changing policy needs as they are identified by the DG. However, the legal safeguards in case of failure to deliver by a contractor would not compensate for the damaging consequences for the beneficiaries and the image of the Commission. However, it is equally argued that the space afforded to staff in the DGs through giving the management tasks to an Agency means that there can be better quality management and therefore better planning. This is, of course dependent on good communication between the two bodies.

Whether an externalised solution is by definition more efficient or flexible than an internal solution is debatable. In theory, the improvements in efficiency or simplifications to procedures could equally be applied inside the DG as in an Agency since they are both subject to the same broad rules. However, it seems that an Agency is more likely in practice to be able to do so for two reasons – firstly, because

management is their core activity, they have more scope to identify and develop new solutions than people trying to manage programmes in the margins of policy work, and secondly because the change to an Agency solution seems to provide the step change that is the necessary impetus for modifications.

6.1.3 Proximity of activities to final beneficiaries

In terms of geographical proximity there is in general no difference, although an outsourcing to the private market could result in the work being done anywhere, depending on the terms of the contract, the Commission being free to stipulate that the tasks be carried out in Brussels if that were deemed appropriate. Of more importance is the ability of the final beneficiaries to identify their interlocutor and to have a single point of contact rather than several depending on the issue under consideration.

One of the current external contractors is currently situated in Luxembourg – historically close to the DG although reorganisation has meant that this is no longer the case. It is not felt to be a major disadvantage, however.

One area where this issue is of importance, however, is in the monitoring of projects under the eco-innovation strand. At present the external contractor draws on a network of experts across Europe that can be drawn on for monitoring visits. These experts do provide a real proximity to the projects. An Agency solution that envisaged all experts being based at a central location would not provide an optimal solution. An Agency would therefore need to be able to contract with experts for monitoring purposes in the same way as it can currently call on experts for other purposes including assessment of proposals.

6.1.4 Visibility of the Commission as promoter

The visibility of the Commission relates partly to the issue of a single point of contact. The fact that the executive Agency is perceived by outsiders to be part of the Commission means that there is no detracting from the visibility of the Commission. Where private bodies are involved the issue is more complex with the potential of the Commission's visibility being diluted. This has significance for the Commission, but it also may have an impact on the ability of outside contractors to perform their tasks. However, there are many initiatives within the DGs to integrate the wide range of activities under a more coherent innovation brand image – including an assessment of their communication policies. All of the scenarios would be an improvement on the current fragmented position, which is an acknowledged issue currently being addressed.

6.1.5 Need to maintain adequate level of know-how within the Commission

There are three areas of concern where this criterion is concerned

- ◆ The need to keep know-how within the Commission, which is an issue when the solution under consideration is to outsource to an external provider. In that case it is clear that there is a risk that the know-how will be held by the provider rather than the Commission, making it difficult for the Commission to seek alternate

solutions. Secondly there is a risk that this build up of know-how with the provider will effectively lock other competitors out of the market.

- ◆ The need to maintain the link between policy and implementation is clearly an issue in the case of externalisation, but also when looking at an Agency solution even though in that case the knowledge is strictly speaking still in the Commission. The greater the number of links in the chain, the greater the chance of loss of information. An outsourcing to private contractors, because of the breaks in the management process would provide the greatest risk of information loss. In all cases the risk is present unless a modus operandi can be agreed that will ensure that there is no loss of information. Indeed there could be an improvement in information if the Agency is able to carry out additional tasks in the way of project monitoring and follow-up that until now have been subordinated to other more pressing activities linked to the policy imperative.
- ◆ While knowledge of processes and systems can be documented and trained for, albeit at a cost, a high level of turnover in staff would risk a significant loss of know-how, not just in the practical issues but in loss of relationships with the beneficiary community. An outsourced solution to contractors, and the solution of contract agents in the DG both have a high level of turnover structurally embedded, and the cost of this could be extremely high, although difficult to measure.

It is clear that this is the area considered to be the most important for those who have reservations about the potential of an Agency solution. There is a perceived risk of policy developers losing vital lines of communication with the networks.

6.1.6 Need to ensure continuity of service to the programme beneficiaries

Having an Agency dedicated to the execution of a programme helps to ensure a continuity of high quality service to the beneficiaries of the programme which could be put at risk either in the case of potential reorganizations of Commission services or through changes in external contractors. Indeed, it may mean that reorganisations within the Commission services needed to reflect changes in policy development can be carried out more easily.

	Full internalisation	Current situation	Executive Agency
Capacity of solution to deal with key issues			
Impact on human resources	4	44	444
Efficiency and flexibility of externalised tasks	444	44	4444
Proximity of activities to final beneficiaries	444	44	444
Visibility of the Commission as promoter	444	44	444
Need to maintain adequate level of know-how within the Commission	4444	44	4444
Need to ensure continuity of service to the programme beneficiaries	44	44	4444

6.2 Key Benefits

From the perspective of the CIP the Agency solution provides three key benefits.

- ◆ Firstly, it is the only solution that can provide adequate resources to all the DGs involved, since it enables appropriate staff to be recruited that cannot be resourced in any other way in real terms.
- ◆ Secondly, it provides a coherent approach to management of strands with similar or related content or targets which will enable advantage to be taken of consistency and shared knowledge, to benefit the programme and its beneficiaries.
- ◆ Thirdly it provides a shorter management chain, a stability, and a high standard of governance that any solution involving outsourcing to the private market could provide. An additional benefit is that an expansion of the IEEA moves towards the development of a critical mass for the Agency and thus a reduction in the proportionate overheads. No other solution can address all these issues.

6.3 Financial costs and benefits

The financial costs and benefits are calculated on the basis of the potential saving to the Community budget – not just to the DGs concerned. A quantitative assessment in this case is extremely difficult. As a primarily policy orientated organisation, the Commission's systems have not been designed to provide for quantitative management data of this type to be captured in a comparative and systematic way, but we are also dealing here with a new programme with implementation mechanisms which are still in the process of definition and which are not yet tested or measured in terms of resource requirements.

The staff interviewed also had difficulties separating the policy and programme management tasks they undertake. They had different interpretations of the two elements which makes a consistent assessment of the potential for externalisation and the manpower required for the management of the programme problematic and the resulting calculations need to be treated with a degree of caution. The comparative costs of executive agencies are also difficult to ascertain since the only Agency of relatively similar size has not yet been operating for a full year and thus real costs are not yet confirmed. The quantitative data needs therefore to be treated with caution, and as an indicator rather than as a statement of expected costs.

6.3.1 Definition of costs

The most significant element of the costs is that of the staff. There are two elements to this – the staff numbers required and the costs of those staff. As far as the numbers are concerned, these are based on the collected data from the DG but are subject to a number of not always consistent assumptions. As far as possible they have been compared against other programmes. The costs of the staff are based on a set of standard costs supplied by DG Budget and are used consistently across all such studies. These numbers have to be used to avoid issues arising from the concrete costs of individual staff, which will depend very much on the profiles of the actual person recruited. However, we are advised that in the case of the EACEA, the standard costs do indeed provide an acceptable basis for calculation and are comparable with the real costs, in so far as they can confirm this at present.

In the case of the IEEA, the eco-innovation activities and the innovation projects, the required staff competences must cover all the aspects of programme implementation, from the call for proposals and the evaluation procedure to the selection decision and project management. This is also the case for the management of the network projects.

For network animation the competences required include, network animation, provision of training, development and maintenance of IT tools, and other activities associated with the running of networks.

The requirements point to a staff distribution with a high percentage of experienced and versatile senior staff. It is strongly held by the DG that these should be staff of Administrator (AD) grade, falling within the definition of temporary staff. This would cover the roles of:

- ◆ Project officers, from all areas of innovation, able to handle proposals (and their evaluation) and projects in their respective areas;
- ◆ Officers dealing with programming, reporting and communication;
- ◆ Financial and legal officers;
- ◆ IT specialists for the development and maintenance of the IRC/IRE and EIC networks
- ◆ Management staff.

The remainder of the staff (contract staff) would be responsible for administrative and IT support, contracts and accounting.

Analysis of the existing agencies shows that the staffing profile is different from original expectations in that the proportion of category 4 (highest level) contract agent is much higher. This reflects a change in management style – people are responsible for doing much more of the management of projects, the structure being very flat in the agencies compared to inside the DGs.

Other costs to be taken into account are infrastructure costs, including premises, utilities and office equipment, IT infrastructure and telecommunications costs, miscellaneous staff costs including socio-medical infrastructures, local taxes and general operating costs. In the case of Commission premises, these costs are covered

in the general overhead. However, as a separate legal entity, it has been deemed that an Agency must be directly responsible for its own costs, and for negotiating its own contracts. This makes an accurate comparison very difficult, especially since all of the real costs of a large Agency are not yet completely known¹⁶ – the development of the relevant service level agreements with the relevant horizontal DGs being only recently completed. The IEEA currently has the advantage of being located in Commission premises, which means that some of the factors complicating the start-up of the EACA were not of such significance. Whether this would still be the case for a larger Agency is not known at this stage and would be subject to negotiation with the OIB. What is important to note, however, is that in the case of an Agency these costs will be highly visible and attributed to the programme budget, which is less the case inside the DG. Secondly, in the case of an Agency, resources will still be required to manage these issues. The overall level of resources is more or less the same, since the tasks would otherwise be assured by the PMO, the OIB, DG DIGIT or other horizontal services, so we would not anticipate a marked difference in cost to the Community budget. However in the case of the Agency, they would here be very visible costs attributed to the programme budget, whereas within the Commission they would not be identified in such a transparent manner.

6.3.2 Costs of staff

The cost of staff in concrete terms depends very much on the individuals recruited – it is clearly impossible to work on the basis of real costs. Staff costs are therefore assessed on the basis of standard costs. There are currently a number of different cost yardsticks in use:

Agency scenario

All temporary staff (seconded staff and Temporary Agents recruited directly by the Agency) are costed at a rate of €93,000, regardless of whether these are AD or AST grade staff. A flat rate standard cost of €55,000 for is used contract staff. These figures are based on the current costs of the IEEA and agreed with DG Budget¹⁷. To these must be added overheads of €19,239 per person giving a total cost of €112,239 for TAs and €74,239 for CA staff. Statutory staff within the DG are costed at a rate of €117,000, which includes an overhead charge of €24,000.

Internalised within the DGs

This scenario is based on the staff being composed entirely of established staff. In fact, the DG would be able to draw on contract agents in the same way as an Agency could. However, they would be recruited under a different regime and their contracts would be limited to three years only. In an Agency they can be recruited for up to 5 years, with provision for renewal once followed by an indefinite contract. This distinction is important for two reasons:

- ◆ If the internal solution were adopted with contract agents a very high level of turnover would need to be factored in. This would have direct financial costs in

¹⁶ The EACEA, the existing Agency of comparable scale, has not yet been financially independent for a full 12 months and thus final real costs have yet to be reported.

¹⁷ It should be noted that these costs are somewhat lower than in the EACEA. Actual costs would depend on the grades of the posts advertised and the civil status of the persons recruited. In the interests of prudence this should therefore be regarded as a minimum cost.

terms of recruitment and training of staff, and indirect costs in the loss of knowledge and continuity which could impact adversely on the contacts with the community the CIP is designed to serve.

- ◆ The DG and an Agency are two bodies with distinct and different legal bases. It is not possible to recruit people into one body and transfer them to the other – a contract must be terminated and a new recruitment undertaken in accordance with the rules. This is important during the set-up phase of an Agency. The DG will be able to recruit on behalf of the Agency if and when the legal base is in place to cover the transition period, but this must be handled with care.

If the decision were to internalise the operations but to use contract agents, the costs would be the same as for the Agency option, however there would be two differences:

- ◆ There would not be a need for units in the DGs to manage the relations with the Agency, nor would there be a need for human resources management staff to manage the double career structure.
- ◆ This would be replaced by higher costs of recruitment and retention, and impacts on efficiency, knowledge transfer and stability, which we consider would outweigh this saving.

6.3.3 Other costs

The general principle has been adopted of locating agencies in the decentralised area of Brussels where the costs of property are approximately 30% lower than in the centre or Leopold districts and there is more available space¹⁸. The EACEA is located in rue Colonel Bourg, for example. The IEEA, however, is located in the Madou tower.

The overheads and operating costs of the IEEA amount to 38% of the overall costs of the Agency. In comparison the EACEA these costs are 34%. Since these relate mainly to accommodation costs that are closely linked to the number of staff because of the norms used for allocating space in agencies, there is scope for economies of scale, but only on a limited basis. The other major components are IT and communication costs and other costs of functioning including furnishings and equipment. The overhead may rise slightly depending on the location of premises. In both cases, however, this reflects also a difference in organisational structure in the Agencies and a concentration of tasks in horizontal units that may be dispersed in the DGs. This may make the level of horizontal activity seem higher than in a DG where tasks are more dispersed and horizontal activities more difficult to identify. In addition the IEEA uses many external experts for monitoring which also distorts the ratio. Simple comparisons therefore are likely to be misleading.

Taking all this into account, there is no expected significant difference in cost to the Community budget between the options.

6.3.4 Cost of closing the IEEA

In financial terms the cost of closure of the IEEA would be marginal. The major element of expenditure is staff salaries. Seconded staff would return to the parent DG,

¹⁸ Jones Lang Lasalle City profile

Temporary Agents and Contract Agents would have only limited rights to compensation, their employment being linked to the life of the Agency. The building is a Commission property and therefore no costs would be incurred for unexpired portions of leases and so forth. There would be an administrative cost for the transfer of the dossiers to the DG and a cost of disruption caused by the change of management regime. These costs could reasonably be assumed to be lower than the costs of starting up the Agency in the first place. There would also be a cost of loss of knowledge as there would be no guarantees that the staff would/could be recruited by the DG.

There would, however be immense intangible costs to the Commission and to all other existing and proposed agencies if this Agency were to be closed down. These costs cannot be measured but would be very great.

6.3.5 Staff numbers

The biggest problem in comparing the possible solutions is to identify the staff numbers involved.

In the case of Intelligent Energy this is not such a problem as there is an existing Agency that enables the numbers required for programme implementation to be identified accurately for the Agency and with a degree of confidence for the DG.

In the case of eco-Innovation it is rather more difficult as we have to extract information about the Life-Environment aspect only and it is not entirely clear how accurately this can be done. The new elements of the programme to be managed in the Agency are smaller than the old Life-Environment activities. Therefore a minimal staffing level has been proposed. The Agency would not be able to have staff in the Member States in the way currently assured under the TAO, for reasons of cost efficiency and critical mass, as well as the practical and personnel related issues. It is therefore assumed that programme monitoring would be carried out centrally from an Agency in a manner similar to that adopted for the Intelligent Energy programme. The level of staffing has therefore been based on the proportion of current Life-Environment activities to be transferred to the CIP, estimated across the Commission and the TAOs.

In the case of DG Enterprise the situation is made more complex because of the difficulty of definition of the tasks to be externalised. In the case of the networks, this can be identified in terms of the external contractors, plus the staff in the units. For the remainder of the activities it is almost impossible to quantify the effort in detail, and we have to rely on best estimates.

Both the survey of the units involved and the subsequent interviews showed that there were different understandings of what could and should be externalised, and great difficulty in identifying the resources currently devoted to the tasks of programme management.

This reflects three factors:

- ◆ The Commission systems are not designed to assess how staff resources are allocated in detail between tasks and therefore it is almost impossible to have reliable data
- ◆ There is genuine difficulty in separating the policy and programme activities in some cases. This is important as it has a bearing on whether tasks can be productively externalised since clarity is crucial to enable management of the two entities to be successful
- ◆ Despite agreement on the scarcity of resources, some people are clearly reluctant to relinquish control of some elements of the work for a range of reasons from practicality to a lack of trust in other mechanisms.

There are no useful benchmarks elsewhere in the Commission that can help in assessing the possibilities since all the programmes are so different in their scale, beneficiaries and implementation mechanisms that any attempt at comparison risks comparing apples with pears and can therefore only serve as broad comparative guidelines. However estimates have been drawn up following a great deal of consultation and are considered to be reasonably robust – although much will depend on the actual implementation of the CIP and the mechanisms selected.

Overall this gives the following picture of the resources involved in the management of the programme.

Scenario	Internalisation in DGs	Current situation with outsourcing	Executive Agency
Total staff cost (€000)	132,060	135,996	102,688
Total overheads	34,080	25,800	29,413
Other operating costs	23,112	23,112	23,112
Total cost of option	189,252	184,908	155,213

This gives the following savings to the budget:

	Total cost 2007-2015 (€000) ¹⁹	Cost difference (€000)	Cost difference (%)
All Commission	189,252	34,039	21.93%
Commission with private market and IEEA	184,908	29,695	19.13%
Agency	155,213	0	

The breakdown of these costs can be found in appendix 1.

7 Transition issues

The transition to an Agency solution is the period of maximum risk. In this case, since the Agency already exists many of the risks are already dealt with or minimised. However, there are a number of issues relating to the transition that still need to be taken into account.

¹⁹ At constant prices

7.1 Timing

It normally takes between 18 months and 2 years for an Agency to become fully operational. In this case the problem does not exist in this form. Nevertheless there are issues about at what point activities should be transferred into the Agency so as to minimise the impact on the management cycle. There is also an issue to do with the way of dealing with existing activities under the current programmes. While the notion of giving the Agency only new tasks and a clean start has its attractions, there is a drawback because of the need to maintain staff in both places for at least 2 years while the existing activities are wound up. This can be problematic if the expertise is in the Agency or DG and needed in the other.

This is not an issue for the IEE activities. DG Enterprise has indicated that it has a strong preference for only transferring activities funded under the new CIP budget into the Agency (with the exception of externalised tasks). The situation here is a little different from most other DGs and programmes in that the current activities are mainly financed under FP6 and there are specific posts associated with Framework programme activities, so there is less urgency to transfer tasks to an Agency. This also enables a separation to be maintained between the two programmes, their budgets and procedures, which will simplify the management arrangements.

Normally one of the factors that must be completed before the Agency can operate is the appointment of the Director. In this case the director is already in place, which will streamline matters a great deal.

7.2 Human Resources

Although the Agency will eventually be responsible for its own internal HR, there will be a period of capacity and skills building during the initial set-up period. Recruitment of staff would need to be carried out by the Agency, but they would rely heavily on support from the DGs, until EPSO can provide a full range of support. This recruitment will be on top of normal workload and could be expected to be extremely time-consuming. In addition, training courses will be required for all new recruits – again, the Agency itself would be responsible for this but would require support from the DGs since the volume of training provision needed from DG Admin during this start-up phase will be very high compared to the potential supply, since they too have resource constraints. The Agency would also need to work with DG Admin to set up training not currently part of the standard DG Admin offer.

The needs of the Agency will also impact on the DGs training strategy. As a consequence of the Agency there will be a reorientation of activities for the remaining staff in the DGs, with a greater need to increase the skills of staff in policy coordination. This is particularly the case for DG Enterprise.

7.3 Costs

Set-up costs of the agencies so far have been very great. However, a proportion of this has been part of the process of understanding a new entity. An expansion of the IEEA would benefit from these previous investments because the vast bulk of the problems have now been solved or systems for solving them have been devised. Nevertheless,

the transfer of staff, the transfer of dossiers and the recruitment of staff will all involve a significant amount of effort from the DGs.

7.4 Working relationships

Setting up the working relationships between the DGs and the Agency will be an area where much effort will be needed and care taken. Up till now the Agency has been a single DG Agency with clear lines of communication. This will all change when there are additional DGs involved since communication will be needed between the Agency and the DGs and between the DGs themselves, introducing a level of complexity which has not been present to date.²⁰

Negotiating coherent working practices and the relevant documenting of these agreements will be necessary and will require commitment from all parties involved.

8 Risks and uncertainty

In general the issues on risk and uncertainty highlighted in the interviews with Commission staff can be covered by four broadly interrelated themes.

- λ Complexity of multi-DG parentage
- λ Loss of existing knowledge, skills and expertise
- λ Loss of relationships and networks of knowledge flow
- λ The European added value

8.1 Complexity of multi-DG parentage

This is a straightforward point made by numerous interviewees in the course of this study. Directorates General have different interests, purposes, procedures and cultures. It may be that, where different DGs are acting together in a management function, the primacy of the management needs of the executive Agency is subordinated to the individual interests of DGs, potentially in disagreement. This could mean extended negotiations between DGs, leading to delays and loss of focus to the detriment of the operational efficiency of the executive Agency.

These risks are compounded by the fact that the scenario under examination is the expansion of a body that is already operating, reporting to a single DG, with its own operating principles and culture in place. In addition that parent DG is examining the possibility of using the Agency for the implementation of other programmes (outside the CIP).

The following steps need to be taken to ensure that risks in this area are minimised:

- ◆ There needs to be a mechanism for ensuring a balanced representation of the parent DGs on the Steering Committee that takes into account both the level of budget managed and the associated workload. There must be procedures in place

²⁰ It may also be affected if the decision is taken to include the Marco Polo programme in the remit of the IEEA since it would then also be multi-programme (rather than multi-strand).

for dealing with situations where it is not possible to reach a consensus, should these arise.

- ◆ In the same vein, the operating costs of the Agency need to be borne by the parent DGs in an open and fair manner, in proportion not only to the budget managed, but to the workload this involves. This includes contributing to the horizontal costs and overheads of the Agency.
- ◆ In the interests of continuity, the current director of the Agency should become the director of any enlarged Agency to ensure a smooth transition.
- ◆ The implementation procedures for the activities transferred to the Agency would need to be compatible with those already in place so as to minimise disruption to the existing activities. This means that they may need to be re-examined as part of the preparatory and transfer processes.
- ◆ The internal structure of the Agency needs to take into account the relationships with the parent DGs and responsibilities for the various programmes and sub-programmes to minimise the complexity of reporting and co-operation links. This would potentially also be helpful to beneficiaries.

8.2 Loss of existing knowledge and skills

One assumption is that existing experienced Commission staff will be willing to transfer to an executive Agency. However, uncertainty about the effect of such a move on career progression and prospects might deter some people. Again, if, as was the case with IEEA, all Agency staff have to go through a selection procedure (as opposed to an automatic transfer), Commission staff may be deterred. In order to counteract this, there will be a need to present the potential transfer to the Agency as a positive element in career development terms, and to ensure that any remaining uncertainties as to the practical consequences are clarified by DG Admin.

A second assumption is that there is a dynamic labour market which will supply the recruitment needs of specialised agencies with suitably qualified contract agents, willing to work for salaries and conditions lower than those of permanent Commission staff. While there is some evidence of this in the experience of the IEEA, there are yet fears that the labour market is volatile, with associated risks of the financial and professional costs of high staff turnover. While there is little that can be done to ensure a supply of suitably qualified candidates, it should be noted that there may be several new or expanding agencies recruiting at similar times. It would be logical to examine the potential for shared recruitment mechanisms to reduce the overhead to all concerned and ensure that suitable candidates have the best chance of being recruited. The recruitment of appropriate candidates can also be enhanced through clarity and focus of the profiles being sought.

In some quarters there are fears that the externalisation process is the thin end of the wedge in a general process of flexibilisation of structures and employment practices within the services of the Commission themselves. Involvement of the relevant staff committees would be important to ensure that these issues are addressed openly rather than becoming the subject of rumour. Policy makers and the budgetary authorities need also to be aware of any unease that may arise so that they can react accordingly.

A further concern is that a perception, internally, externally, or both, of the executive Agency as an autonomous entity, specialist in its fields, transcending the authority of

the parent DGs might develop. This partly reflects a hesitation in the face of change, and that an Agency is largely an unknown quantity. However, there is also a perception that an Agency will only carry out only tasks that are repetitive in nature and will therefore not be particularly specialist. The truth will emerge somewhere between the two, but will be dependent on good communication between the Agency and the DGs. There is nothing in the culture as it has developed in the IEEA so far to suggest that either of these extremes is likely to emerge.

8.3 Loss of networks of knowledge flow

It is inevitable that any new Agency will be physically separate from its parents, which might lead to reduced communications with the DGs. In turn, this could reduce knowledge flow between implementation and policy and programme design.

Equally, the loss of a direct relationship between staff in the DGs responsible for development of policy and the existing (or revised) IRC/EIC networks could be detrimental to the policy formulation process by virtue of the introduction of an executive Agency as an intermediary body. This may distance the DGs so far from the networks as to dilute influence upon the operations on the ground. This could put at risk the visibility and credibility, among MS, of the Commission as a pan EU developer of policy.

Clear communication procedures will do much to reduce any risk from these issues. It is also important that both parties in the dialogue understand and respect the role of each of the players. In addition, the human factor must also be taken into account – experience has shown that there is if anything an increase in knowledge where there are good informal as well as formal relationships. Given that the idea of an Agency is not universally popular, effort will need to be made, especially by those in positions of authority, to ensure a positive approach is taken to change.

8.4 The European added -value

Politically, the structures put in place by the European Union need to work both at the European level and throughout national and regional infrastructures. However, this balance is one that is difficult to achieve and maintain. Several interviewees highlighted the risk of losing the ‘European added value’ in this respect. The risk is that the externalisation process will simply lead to the subsidising of regional bodies to do what they would have done anyway because the Agency would not have the mandate or flexibility to ensure the content as well as the method of implementation.

This links in with the loss of knowledge and skills as there is much EU-level knowledge that needs to inform the operations of any new external bodies, otherwise there could be a risk of losing the substance of European Innovation policy.

In fact, providing the various CIP work programmes are well drafted by the DGs, and the issues of communication are addressed as above, there is no reason to feel that there would be a loss of added value.

9 Conclusions and recommendations

The selection of the options thus hinges on the criteria originally set out, and the capacity of each scenario to meet the requirements of the Commission, and the budgetary authorities.

9.1 Ability to address resource constraints

The Agency option has the ability to address the resource constraints. An option based on statutory staff within the DGs is completely impractical and would not be feasible under the current resource levels, and still less so in the light of current trends. It can therefore be ruled out as a viable option.

An option of using contract agents within the DGs, were it possible, would mitigate the resource constraint problem, but would rely on short-term staff with a high level of turnover and therefore high levels of overhead and associated risk.

The current arrangements provide some scope to deal with resource constraints but there are limits on the extent to which this can deal with the additional requirements of the CIP, especially since it cannot address the issues related to project selection, procurement and financial management.

The externalisation to an Agency would provide the best way of dealing with resource constraints, since it enable access to a pool of stable labour that the DGs cannot take advantage of.

9.2 Capacity to provide specific management or technical skills

In general it is argued that the creation of an Agency enables there to be a focus on specific skills in programme management and for improvements in programme management to result. The ability to focus on management and not be involved in the daily requirements of policy development has been a strong factor in this. However, the CIP involves a high level of support to policy development and there are problems in separating activities into "pure policy" and "pure management". This benefit therefore may not be as strong here as in agencies working on more traditional programme implementation activities. The decision has therefore been taken not to delegate measures to an Executive Agency where there is a risk that the separation may be unclear.

On the other hand, the need to attract and recruit high quality staff is also very important to the success of the programme. It seems that the quality of candidates for posts, including of a highly technical nature in the Intelligent Energy Europe programme has been very high so far.

Externalisation to an Agency provides scope for the development of specific management and technical skills needed for the successful implementation of the programme and for the development of the implementation mechanisms that can take advantage of these.

Externalisation to an Agency presents a risk that the right profiles of staff would not be available. There might be some loss of continuity if current external staff were not able or willing to transfer to an Agency. However, experience so far is that this is not a major problem.

9.3 Cost differences

Comparing an Agency to an internal solution based on statutory staff would result in a saving to the Community budget of 34 M€ over the life of the programme. Compared to the current situation there would be a saving of 29.7M€.

Comparing it to an internal solution based on the use of contract agents would result in no net difference, but is not a feasible solution since there are no available budget lines to enable this to be adopted as a model.

The Agency solution provides saving to the budget because the majority of staff are much lower cost than established staff inside the DGs or temporary agents. This means that the greatest savings are achieved when the maximum of tasks are externalised. It also means that posts can be released for the overall Commission pool.

Overall, the Agency solution provides the best results for the management of the programme for practical and financial reasons. The case is clear for the Intelligent Energy, eco-Innovation and network management activities. The case is less strong for the other areas because of the link between policy and implementation. However, while this would require changes in how tasks were managed and some new working practices, there are still gains to be made through efficient management and focus that would be beneficial for these areas. Management of procurement activities on behalf of the DG could lead to some difficulties in relationships where these relate to specific or complex activities, and would be best avoided. However, the notion of a central procurement resource is still valid and could be managed within DG Enterprise to lessen some of the difficulties currently experienced. Activities of a recurring nature within the work programme, such as the standardised sectoral industrial competitiveness studies could be entrusted to the Agency.

Appendix A Detailed calculations

Comparison is made on the basis of the tasks to be performed by the Agency for the three scenarios. The elements of the programmes managed by the DGs and elements relating to Financial Instruments and ICT policy Support are not part of this study.

A quantitative assessment is always difficult. The Commission's systems have not been designed to provide quantitative management data of this type in a comparative and systematic way, so despite the fact that the agency is able to measure many things which were previously not measured in such a transparent way, there is little in the way of comparative programme data against which to judge it. The comparative costs of executive agencies are also difficult to ascertain since the Agency has not yet been operating for a full year, which is the case also for the other Agencies. Real costs are thus not yet fully confirmed. The quantitative data needs therefore to be treated with caution, and as an indicator rather than as a statement of expected costs.

A.1 Scenarios

The scenarios used in this study are as follows:

- **Internalisation of all activities within the DGs.** This would include closing down the Agency²¹. All staff in the DG are assumed to be statutory staff. Limited staff savings are envisaged through reduction in co-ordination staff and reduction in staff for some horizontal activities, although some of these savings may be in the horizontal DGs. Savings in time spent on co-ordination activities will be spread around the DGs and may not be entirely cumulable into posts since they represent small savings by a large number of individuals.
- **Internalising activities within the DGs but with recourse to contracting out to the private market** as far as possible under the new system. As far as possible this reflects the current situation but the use of Technical Assistance Offices is restricted to permitted activities such as activities to do with, network animation, for example. Additional tasks such as the reception and processing of proposals and administrative support to elements of the selection process, mainly logistics and co-ordination of the experts selected by the Commission could be directly outsourced, but in the calculations we have assumed that this element is assured by the RTD ESP service as at present for all scenarios where relevant. Again this scenario would include closing down the Agency.
- **The use of the Intelligent Energy Executive Agency,** with the addition of the identified CIP activities in the area of support to innovation and entrepreneurship and ecoInnovation.

²¹ The IEAA in fact has a mandate until the end of 2008

A.2 Assumptions

Where possible, actual costs have been used but these are based on less than one year's operation and are therefore to be treated as indicative. For the costs in the DGs, no such costs are available and standard costs are used as provided by the Commission.

- The numbers used include all staff in the Agency plus staff in the DGs related to the supervision and co-ordination of the Agency's activities. It does not include staff in the parent DGs involved in programme implementation in areas not covered by this study. Staff within the DGs involved in the closing down of activities under the previous generation of programmes are not included, although staff within the IEEA are.
- Staff seconded from DG Enterprise and Industry and DG Environment and CA staff recruited on this element of the budget also include a contribution to the horizontal needs of the agency, representing an additional 8 posts overall. These posts are included in the total as calculated. These requirements have been set on the basis of discussions of the overall requirements of the Agency taking into account the existing horizontal functions, and not on the basis of individual aspects of the programme or individual DGs.
- The private market scenario out-sources the equivalent of 38 posts, reflecting the current externalised contracts but not including any activities related to project management.
- Figures for 2014 and 2015 are reduced on a proportional basis to reflect the closing down of the programmes
- Integration into the Commission is assumed to result in a saving of staff time for horizontal and co-ordination activities. This equates to two co-ordination posts in the DGs, plus a further 12 man months per year that could be saved in the day-to-day co-ordination of activities. However, these do NOT equate to posts since it represents a saving of small amounts of time across a large number of people – as this is a cost benefit study we must include the value of this time. Finally, the HR posts in the Agency would not be needed in the parent DGs. However since there would need to be an increase in resources to compensate in DG Admin and/or the PMO this is not an overall saving to the Community budget and is therefore not included.
- Statutory staff within the Commission are costed at a standard rate of €117,000 pa including overhead. For the calculations, overhead has been separated out and set at €24,000 per head by DG Budget for staff in the DGs, giving a net figure of €93,000. Temporary Agents and Statutory staff seconded to the Agency are costed at this €93,000 plus Agency overhead. This figure reflects the actual cost of the staff in the Agency at present. The Agency overhead is set at €19,239 per capita based on the actual overheads of the Agency, (see Appendix A.7)
- Contract agent staff are costed at €55,000 pa. This is the average cost of a contract agent in the Agency across all grades, and reflects the profiles recruited by the Agency, and is the figure agreed by DG Budget.
- Other cost categories included are programme operating costs which are the costs of the actual programmes and which would be incurred regardless of the scenario selected. These are based on the current operating costs of the Agency, but some

small economies of scale have been included for certain elements. However, these costs are assumed to be incurred by the programme regardless of its location and therefore have an impact on the final comparison of the options

- External staff are costed at €88,000 per annum **including** all overhead. This equates to an overall standard day rate of €400 which is in line with previous TAO costs and with market rates currently paid in other DGs. True costs would depend on the market prevailing at the time of outsourcing and the attractiveness of the contract for potential providers.
- All costs are quoted at 2006 prices to avoid issues with selection of discount rates. Therefore no DCF calculations have been applied.

A.3 Internalisation of all activities within the DGs

PERSONNEL COSTS	2007	2008	2009	2010	2011	2012	2013	2014	2015
Permanent staff									
DGs									
F	162	17'	17'	178	181	182	183	125	61
AC									
Total permanent staff	162	174	174	178	181	182	183	125	61
External staff	0								
Total external staff	0	0	0	0	0	0	0	0	0
Grand total	162	17'	17'	178	181	182	183	125	61
PERSONNEL COSTS									
Permanent staff									
DGs									
F	15,066	16,182	16,182	16,55'	16,833	16,926	17,019	11,59'	5,70'
AC	0	0	0	0	0	0	0	0	0
Total permanent staff	15,066	16,182	16,182	16,554	16,833	16,926	17,019	11,594	5,704
Grand total staff	15,066	16,182	16,182	16,55'	16,833	16,926	17,019	11,59'	5,70'
Programme operating costs	1,183	2,259	3,33'	3,33'	3,33'	3,33'	3,33'	2,000	1,000
Overheads	3,888	' ,176	' ,176	' ,272	' ,3''	' ,368	' ,392	2,992	1,' 72
Total Cost	20,137	22,617	23,692	24,160	24,511	24,628	24,745	16,586	8,176

A.4 Internalising activities within the DGs with recourse to the private market

PERSONNEL NUMBERS	2007	2008	2009	2010	2011	2012	2013	201'	2015
Permanent staff									
DGs									
F	105	126	126	130	133	13'	135	125	61
AC	0	0	0	0	0	0	0	0	0
Total permanent staff	105	126	126	130	133	134	135	125	61
Externalised activities									
External staff	57	' 9	' 9	' 9	' 9	' 9	' 9	' 9	9
Total external staff	57	49	49	49	49	49	49	49	9
Grand total	162	175	175	179	182	183	184	174	70
PERSONNEL COSTS									
Permanent staff									
DGs									
F	9,765	11,718	11,718	12,090	12,369	12,' 62	12,555	11,59'	5,70'
AC	0	0	0	0	0	0	0	0	0
Total permanent staff	9,765	11,718	11,718	12,090	12,369	12,462	12,555	11,594	5,704
Externalised activities									
External staff	5,016	' ,312	' ,312	' ,312	' ,312	' ,312	' ,312	' ,312	821
Total external staff	5,016	' ,312	' ,312	' ,312	' ,312	' ,312	' ,312	' ,312	821
Grand total	14,781	16,030	16,030	16,402	16,681	16,774	16,867	15,906	6,525
Grand total staff	1' ,781	16,030	16,030	16,' 02	16,681	16,77'	16,867	15,906	6,525
Programme operating costs	1,183	2,259	3,33'	3,33'	3,33'	3,33'	3,33'	2,000	1,000
Overheads	2,520	3,02'	3,02'	3,120	3,192	3,216	3,2' 0	2,992	1,' 72
Total	18,484	21,313	22,388	22,856	23,207	23,324	23,441	20,898	8,998

A.5 Recourse to an Executive Agency

PERSONNEL NUMBERS		2007	2008	2009	2010	2011	2012	2013	2014	2015
Permanent staff DGs										
	F	' 8	' 5	' 2	' 2	' 2	' 2	' 2	31	16
	AC	17	0	0	0	0	0	0	0	0
Total permanent staff		65	45	42	42	42	42	42	31	16
Agency										
	AT	25	33	31	35	36	36	36	21	12
	AC	71	98	100	103	105	106	107	71	36
Total permanent staff		99	131	134	138	141	142	143	95	48
Grand total		164	176	176	180	183	188	185	127	63
PERSONNEL COSTS										
DGs										
	F	' , ' 6'	' , 185	3,906	3,906	3,906	3,906	3,906	2,911	1, ' 57
	AC	935	0	0	0	0	0	0	0	0
Total permanent staff		5,007	3,961	3,697	3,697	3,697	3,697	3,697	2,758	1,379
Agency										
	AT	2,325	3,069	3,162	3,255	3,318	3,318	3,318	2,232	1,116
	AC	' , 070	5,390	5,500	5,665	5,775	5,830	5,885	3,923	1,962
Total permanent staff Agency		6,395	8,459	8,662	8,920	9,123	9,178	9,233	6,155	3,078
Grand total		11,794	12,644	12,568	12,826	13,029	13,084	13,139	9,069	4,535
Grand total staff		11,794	12,644	12,568	12,826	13,029	13,084	13,139	9,069	4,535
Programme operating costs		1,183	2,259	3,331	3,331	3,331	3,331	3,331	2,000	1,000
Overheads		3, ' 65	3,600	3,586	3,663	3,721	3,710	3,759	2,586	1,293
Total		16,442	18,503	19,488	19,823	20,084	20,158	20,232	13,656	6,828

A.6 Standard cost rates used

	Unit cost (year)		
	Net rate	Overhead	Full rate including overhead
Statutory staff (Commission)	93,000	2' ,000	117,000
CA	55,000	19,239	65,239
AT (Agency) ²²	93,000	19,239	112,239
External staff (contracted out)	-	-	88,000

A.7 Calculation of overheads

The cost basis in the Agency is based on actual costs to date. The basis for the Commission is a flat rate across the whole of the Commission. We have used these costs for the DGs in our calculations, but feel that they understate the costs of the operation of the programme which would not, in fact, differ whether in the Agency or the DG, and that therefore the comparative costs of the Agency are slightly overstated.

A.8 Programme Operating Costs

These are costs related to the operation of the programmes and therefore are assumed to be the same whether they are incurred in the Agency or in a DG. They are based on the existing costs with limited economies of scale expected in the costs of audit and the other administrative expenditure.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Costs of experts and meetings	500	1,000	1,500	1,500	1,500	1,500	1,500	900	' 50
Missions	160	320	' 80	' 80	' 80	' 80	' 80	288	1' '
Information, communication, publications	165	330	' 95	' 95	' 95	' 95	' 95	297	1' 9
Costs of audit	135	203	270	270	270	270	270	162	81
Information systems	90	180	270	270	270	270	270	162	81
Other operating costs	53	106	159	159	159	159	159	95	' 8
Other administrative expenditure	80	120	160	160	160	160	160	96	' 8
Total	1,183	2,259	3,33'	3,33'	3,33'	3,33'	3,33'	2,000	1,000

²² including seconded staff

Appendix B List of persons consulted

DG Enterprise

Name	Position
Heinz Zourek	Director General
Belinda Pyke	Director, Dir. R, Resources and management
Jan-Gert Koopman	Director, Dir. B - Industrial policy & economic reforms
Marcos Roman Parra	Deputy Head of Unit, Unit R1 (Financial Resources)
Christiane Bernard	Administrator, Unit H4, Preparatory action for security research
Outi Slotboom	Head of Unit, Unit B2, Competitiveness and economic reforms
Tapani Mikkeli	Deputy Head of Unit, Unit D4, Technology for innovation/ICT industries & e-business
Reinhard Buescher	Head of Unit, Unit D1, Innovation policy development
Katja Reppel	Administrator, Unit D1, Innovation policy development
Christian Weinberger	Head of Unit, Unit E1, Entrepreneurship
Paula Abreu Marques	Administrator, Unit D1
Marco Malacarne	Head of Unit, Unit H3, Space research and applications
Andre Brisaer	Head of Unit, Unit D3
Dana Eleftheriadou	Project Officer, Unit D4, Technology for innovation/ICT industries & e-business
Alfonso Gonzalez Finat	Programme Director, Dir. D
Jean-François Aguinaga	Deputy Head of Unit, Unit D3, Financing SMEs, entrepreneurs and innovators
Christoph Kautz	Dir. H, Aerospace, security, defence & equipment
Alain Liberos	Deputy Head of Unit, Unit D2, Support for Innovation
Pierre Roubaud	Project Officer, Unit D2, Support for Innovation
Didier Herbert	Head of Unit, Unit B1, Development of industrial policy
Giacomo Mattino	Deputy Head of Unit, Unit R2, Human resources
Albrecht Mulfinger	Head of Unit, Unit E3, Crafts, small businesses, cooperatives & mutuals
Maive Rute	Director, Dir. E, Promotion of SMEs' competitiveness
David White	Director, Dir. D, Innovation Policy
Bruno Pragnell	Head of Unit, Unit R2, Human resources
Christophe Guichard	Project Officer, Unit D1, Innovation policy development
Renate Weissenhorn	Head of Unit, Unit D2, Support for Innovation
André Richier	Project Officer, Unit D4, Technology for innovation/ICT industries & e-business
Jean-Luc Abrivard	Adviser, acting Head of Unit E2, Promotion of SMEs' competitiveness
Gwenole Cozigou (Mr)	Head of Unit, Unit H1
Herbert von Bose	Head of Unit, Unit H4, Preparatory action for security research
Peter Wragg	Head of Unit, Unit R4, Communication and information
Michel Bosco	Deputy Head of Unit, Unit R1, Financial resources
Georgette Lalis	Director, Dir. F, Consumer goods
Alice Wu	Project Officer, Unit D2, Support for Innovation
Pedro Ballesteros	Administrator, Unit D3
Pedro Ortun	Director, Dir. I, Basics industries, tourism, IDABC
Stefan Nonneman	Head of Unit, Unit R.3, Informatics
Mechthild Woersdoerfer	Head of Unit, Unit E.4, Horizontal aspects of SME policy
Tapani Mikkeli	
Peter Wagner	Head of Unit A.1 General coordination
Antti Karhunen	Deputy Head of Unit, Unit A.1, General coordination
Alfredo Escardino	Administrator, Unit A.1
Volker Brockmann	Assistant, Unit A.1

DG TREN

Andre Brisaer	Head of Unit D3
Paula Abreu Marques	Deputy Head of Unit A3
Pedro Ballesteros Torres	Unit D3

IEEA

Patrick Lambert	Director, IEEA
Guido de Clercq	Head of Unit, Resources, IEEA

DG Environment

Ian Clark	Head of Unit, G3 Research, Science and Innovation
Pierre Henry	Policy Officer - Environmental Technologies Action Plan
Jose Millan Navarro	Unit E4 Programme Manager - Desk Officer for LIFE projects

DG Admin

Ms. M-H. Pradines	Unit A1
Mr. J-L. Feugier	Unit A1

DG Budget

Martin Schauer	Unit D1
Marc Vallaey	Unit A6
Francesco Bonanomi	Unit A3
Donatella Ineichen	Unit A3

EACEA

Gilbert Gascard	Director
Sari Vartiainen	Assistant to the Director
Jaume Bardolet	Head of Unit R1
Hubert Cousin	Head of Unit R2