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WORKING DOCUMENT

on ECA Special Report 7/2016 (2015 Discharge): The European External Action Service's management of its buildings around the world

Committee on Budgetary Control

Rapporteur: Ryszard Czarnecki

Introduction

On its creation in January 2011, the European External Action Service (EEAS) took over responsibility for running EU delegations around the world from the European Commission. It provides office space for 5300 staff in around 140 delegations. The EEAS is also responsible for the residences of heads of delegation and for providing, or reimbursing the costs of, accommodation for 2400 staff.

The effective management of EU delegation buildings contributes to achieving the EU's objectives in foreign policy, trade and development cooperation. Delegation offices aim to provide a stable, visible, functional and secure working and meeting environment for staff and visitors. Buildings should provide value for money, and sharing office premises with Member States or other EU institutions and bodies is actively promoted.

Some 80 % of delegation office buildings and residences of heads of delegation are rented, the rest are owned. EEAS expenditure on delegation buildings in 2014 amounted to 165 million euro.

Audit Scope and approach

The overall audit objective was to examine whether the EEAS manages delegation buildings well and the audit addressed the following sub-questions:

- a) Do delegation buildings meet the needs of the EEAS and provide value for money?
- b) Does the EEAS have effective procedures for selecting the right buildings?
- c) Does the EEAS have effective systems for monitoring the continued suitability of buildings and planning necessary changes?

The Court based its audit work on four main sources: (i) a survey sent to 133 delegations, (ii) a review of a sample of 30 building files submitted by the delegations to Headquarter in 2013 and 2014, (iii) visits of four delegations (Nepal, Tanzania, Turkey and United States - Washington DC) to examine building-management practices¹ and (iv) the review of documentation related to policies, procedures and tools as well as quantitative information on delegation buildings.

Court's Findings and Observations

- Do delegation buildings meet the needs of the EEAS and provide value for money?

The Court found that delegation buildings, whether office buildings, residences of heads of delegation or staff accommodation, generally meet the needs of delegations i.e. to ensure security, functionality, stability, visibility and best value for money².

¹ During the visits to the delegations, the Court also met heads of administration of Member States' embassies to discuss building-management practises (Belgium, Denmark, Finland, Germany, the Netherlands, Sweden and United Kingdom) and visited the Ministry of Foreign Affairs in the Netherlands to obtain further information on innovative policies for managing embassy buildings.

² These objectives are classified by order of importance i.e. reflecting the highest weighting given by respondents to the survey. Other factors were also mentioned such as flexibility, environmental impact and

However, in some cases, buildings do not provide best value for money for the following reasons:

- a) space in most office buildings, and some residences, exceeds the ceilings defined in the building policy according to which delegation offices should have a maximum size of 35 m² per person. The Court observed that for 85 delegations in 2014, the average space per person was 41 m². It was also found that 34 residences (or 24%) exceeded the maximum ceiling of 600m² as stated in the EEAS building policy;
- b) the EEAS owns buildings which it no longer uses. The Court identified that the EEAS no longer uses 20% of the delegation buildings it owns (7 out of 33 office buildings and 6 out of 30 residences) but has retained them and for some of them unoccupied since 2004 (Botswana and Gambia), since 2012 (South Africa and Cape Verde), the ex-residence of the head of delegation and a staff house in Tanzania unoccupied since 2009 with a cost of 25000 euro per year for security utilities and gardening;
- c) where delegations share their office premises with EU Member States¹ or EU institutions or bodies for ensuring better visibility of the EU, facilitating cooperation with Member States and saving costs, some charges to hosted organisations do not recover full costs. The Court analysis showed that there were different ways for calculating charges to co-locating organisations, some of them do not recover full costs. The Court found that in Washington DC only the two most recent agreements out of five with different organisations were including a contribution to administrative overheads, no contribution to offices rent in Nepal (amounting 8000 euro per year) have been found or to charge when renting to other organisations in all new agreements for the use of common areas according to the 2013 guidance to delegations.

- Does the EEAS have effective procedures for selecting the right buildings?

The Court's examination showed that there is a structured procedure for selecting delegation buildings but there are some weaknesses at each of the major stages when it is applied in practice.

The suitability of delegation buildings depends firstly on their initial selection and then on the way the EEAS ensures they continue to meet needs and provide value for money. The initial selection of buildings for rental or purchase is based on the building-file procedure. Before renting (or renewing a rental agreement) or buying, the delegation concerned submits a building file to headquarters for examination and approval². In providing a structured and documented basis for decision-making, the building-file procedure is an example of good practice.

However, there is a risk that the EEAS does not select the right buildings because there are some weaknesses in the practical application of each of the major stages of the selection procedure:

accessibility for disabled people.

¹ In 2015, 45 delegations were sharing their office premises with either EU Member States or EU institutions and bodies. The number of delegations hosting or hosted by Member States' embassies increased from 14 to 17 between May 2014 and May 2015.

² The building file is necessary when the total value reaches 60000 euro or more, before any acquisition of land and when renting staff accommodation if the rent exceed the EEAS' ceiling for the country.

- a) when some delegations search the local market, they have insufficient expertise to identify suitable options and do not receive sufficient support from headquarters;
- b) when delegations present options to headquarters, the proposed solution is sometimes not based on a sound technical and financial analysis. The Court identified cases in which delegations do not produce building files for all new contracts (no building file for 230000 euro contract for Venezuela or 240000 euro contract for the residence in Nepal), where building files are unnecessarily detailed when delegations have no intention of moving, cases where delegations do not present options in a comparable way and files where the possibility of buying is rarely discussed (only five building files out of the thirty examined discussed the possibility of buying and none of the building files reviewed by the Court presented a comparison of renting with buying). The Court also noted that the guidance related to the preparation of building files does not explain how the space rented to Member states' embassies and other organisations and the income generated by co-location should be taken into account;
- c) when the Headquarters Building Committee makes its final decision, it is sometimes too late to sign a contract (for instance, although the building files for the residences in Israel and Sri Lanka were approved, contracts were not signed) and it does not always demonstrate that the decision represents best value for money. The Court showed that some decisions - seven out of 30 building files examined - did not contain a convincing reason for the building committee's decision. In four of these seven cases it was not demonstrated that the selected solution was in line with market rates and for the other three files, the amount of office space per person and the recommended ceilings in the building policy were not sufficiently considered (in Sri Lanka, Jordan and Washington DC).

- Does the EEAS have effective systems for monitoring the continued suitability of buildings and planning necessary changes?

The Court pointed out that the information on the suitability of buildings is not reliable and is not used for planning, which is too short term and particularly weak for owned properties.

Once the EEAS has selected buildings, it regularly assesses whether they continue to meet the needs of delegations through site visits (namely through evaluations of delegations, health and safety inspections and security assessments), but it does not identify all shortfalls especially related to security issues. It was also found that the EEAS does not take into account all relevant factors when it monitors the space per person in office buildings nor does it monitor that rents of office buildings and residences remain in line with market rates and that charges to co-located organisations recover full costs. Furthermore, the Court stated that the EEAS does not reliably record the results of its monitoring in its information systems. If each delegation is responsible for encoding information related to its office buildings, residence and staff accommodation, the audit work revealed that 35% of office buildings and residences were not recorded in the information system 'Immogest' in 2014 and that the reliability of data of this system was not ensured. In addition, instead of using the system 'Immogest', the EEAS headquarters is using a central excel spreadsheet with the information on all delegation offices and residences and a separate inventory of owned properties but with incomplete or inaccurate data.

The Court considered that this lack of reliable basic information on delegation buildings has a negative impact on the overall planning process by headquarters and its effectiveness. Moreover, the Court found that headquarters does not make effective use of the information

available to draw up plans for taking corrective action and that the EEAS planning focuses on addressing short-term needs (i.e. around two years) without setting-up medium term priorities or options (i.e. to a 7-year horizon) in the management of delegations buildings.

It is the long-term objective of the EEAS to purchase more delegation office premises as less than 20% of delegation office buildings and residences are currently owned. In 2015, under the new provisions in the financial regulation (article 203.8), the EEAS arranged terms for borrowing up to 200 million euro over four years to buy real estate. However, the Court observed that the EEAS has limited experience in owning buildings and lacks real-estate management expertise and has not established effective systems for buying, maintaining and selling buildings. Consequently, it has not established effective systems to manage owned properties, for example to maintain properties in good condition or to sell buildings which it no longer uses.

Summary of the EEAS Replies

The EEAS agreed that there are some shortcomings in its management of infrastructure in EU delegations and underlined the complexity and political sensitivity of managing 180 office buildings and 140 official residences in 138 countries throughout the world, each with its own specific legal system and property market.

Given the acute, well-known budget constraints and the commitment on staff cuts, the EEAS reminded that this huge portfolio is managed by a headquarters team of only 13 staff backed by local administrative support at the level of delegations and stated that it has not been possible to accompany the significant expansion of the delegation network over recent years with a commensurate increase in the number of staff devoted to this task, which has been a management challenge.

The EEAS also agreed that the existing tool for real-estate inventory management was in need of replacement, a new system will be fully implemented at the end of 2016 that will allow the EEAS to develop a more effective system for advance planning and programming of expenditure.

Regarding the space in delegations' buildings, the EEAS recalled that in 2013 the guidelines for maximum office space per person were reduced from 42 m² to 35 m² as a general rule, with the possibility of additional space for specific needs such as meeting rooms for meetings with Member States. These new guidelines apply for all new acquisitions, but the EEAS acknowledged that it will take some time for the average to come down towards the new target. In cases where delegations have spare capacity, co-location with Member State embassies or other EU bodies is actively sought.

Regarding the owned buildings, there are indeed a number of properties that are owned by the EEAS that are no longer used, either because of the security environment or other local conditions. The relevant delegations have been asked to sell these properties, but this can be a lengthy and politically sensitive process.

Court's recommendations

The Court makes eight recommendations in order to fulfil the needs of delegations and to increase the value for money of the building policy:

1. Include environmental factors, access for disabled people and flexibility as objectives in the building policy for office buildings;
2. Ensure charges paid by other bodies hosted in Delegation buildings are consistent and recover full costs;
3. Strengthen the application of the procedure for selecting buildings;
4. Use a central source of information to verify and monitor market rental rates for office buildings;
5. Improve its real-estate management information system to provide more reliable and relevant information to feed into the planning process;
6. Reinforce expertise in real-estate management at Headquarters to develop a more strategic approach;
7. Establish medium-term priorities for rentals, purchases, sales, modifications and maintenance;
8. Introduce systems to manage owned buildings effectively.

Rapporteur's recommendations for possible inclusion in the Commissions' annual discharge report

[The European Parliament]

1. Welcomes the special report dedicated to the European External Action Service's management of its buildings around the world and sets out its observations and recommendations below;
2. Emphasises that the EEAS and the Member States have a shared interest in further developing local co-operation in the area of management of buildings with a specific and continuous attention to be devoted to security issues, best value for money and the Union's image;
3. Welcomes the increase in co-location projects of Union delegations with Member States with the signature of 17 co-location memoranda of understanding; encourages the EEAS to further seek ways to extend this good practice; considers that this policy should include innovative approaches aiming at defining both a coordinated strategy of co-location with Member States eager to do so and appropriate cost-sharing arrangements related to buildings and logistics;
4. Regrets the insufficient recording and inaccuracies in the information system for managing delegations office buildings and residences; asks for a regular review of the completeness and reliability of data encoded by Union delegations;

5. Urges the EEAS to reinforce its management control and monitoring tools of all the costs incurred in the building policy in order to ensure an accurate overview and follow-up of all the expenditure; considers that emphasis should be put on the respect of the ceilings defined in the building policy to decrease the total annual rent of delegations offices, the adequacy of contributions paid by co-located entities, the coverage of the running costs involved in co-location situations and the correctness of costs with local market conditions;
6. Believes that legal and technical expertise in real estate management should be swiftly developed while considering any cost-effective alternative options, such as hiring external expertise, like local brokers, to prospect the market or possibly negotiate with landlords;
7. Supports the implementation of a medium-long term strategy identifying all options from investment priorities or possibilities of purchases, renting renewals to the sharing of premises with Member States, taking account also of staff projections and policy planning and development.