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WORKING DOCUMENT

on the European Court of Auditors' Special Report No 20/2015 (2014 Discharge): "The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture"

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Audit scope, objectives and approach

The Court conducted an audit of the cost-effectiveness of non-productive investments (NPI) in contributing to the European Agricultural Fund for Rural Development objective of a sustainable use of agricultural land in the 2007-2013 programming period, with a view:

– to examine how the principle of sound financial management has been respected by Member States and the Commission; and

– to provide recommendations regarding the new programming period.

NPIs are investments which do not generate a significant return, income, or revenue, or increase the profitability of a beneficiary's holding, but have a positive environmental impact. Public support for NPIs provides a financial incentive for the owners of agricultural holdings to undertake this type of environmentally friendly investments. Specific for the public aid (EU assistance plus national co-financing) granted to NPIs is that it could reach 100 % of the total investment costs. NPIs have a varied content, ranging from the restoration of landscape features (traditional boundaries, wetlands, hedges and dry - stone walls), to creating and/or restoring a habitat or landscape element (restoring heathland, species - rich grassland, etc.).

The audit focused on answering to following main question:

– Have NPIs provided a cost-effective [1]contribution to the sustainable use of agricultural land?

With regard to this, the Court's report provides answers to the following sub-questions:

a) Have NPIs effectively contributed to the achievement of agri−environmental objectives linked to the sustainable use of agricultural land?

b) Were the costs of the supported NPIs justified and reasonable?

c) Have the Commission and the Member States identified and corrected the weaknesses affecting the cost-effectiveness of NPIs in the 2007-2013 period in order to make improvements for the 2014-2020 period?

The audit was carried out between July 2014 and April 2015. It covered the management and control systems related to NPI support and a sample of 28 projects that reflected the most relevant NPIs in four Member States: Portugal (Mainland), Denmark, United Kingdom (England) and Italy (Puglia). These Member States represented 80 % of EAFRD expenditure and 60 % of the beneficiaries of measure 216[2] at the beginning of the audit. Audit evidence was collected through documentary reviews and audit visits to Managing Authorities and

[1] For the purpose of the ECA audit, non-productive investments are considered to be cost-effective when: (i) they are effective (when the objectives are achieved) and; (ii) there is no evidence that the same investments could have been implemented at lower costs.

[2] During the 2007-13 period, the European Agricultural Fund for Rural Development (EAFRD) granted support for NPIs under measure 216. This measure is part of Axis 2 of the EU rural development policy relating to the overarching objective of sustainable use of agricultural land. For the 2007-13 programming period, approximately 1 014 million euro, i.e. 1, 5 % of public funding (EAFRD plus national co financing) for the sustainable use of agricultural land was programmed for non-productive investments.

beneficiaries.

Court's findings and observations

The Court concludes overall, that NPI support to the visited projects has contributed to the achievement of environmental objectives linked to the sustainable use of agricultural land, but for the majority of the projects this was done in a way that was not cost-effective.

1. Achievement of agri-environmental objectives

The Court found indications of effective NPI support: 71 % of the audited NPIs contributed to the achievement of objectives linked to the sustainable use of agriculture land such as landscape and biodiversity protection. The positive observations are also related to: overall consistency between the type of NPIs selected by Member States and the agri-environmental needs described in their Rural Development Plants, as well as examples of synergy with other rural development measures (16 of the 28 visited projects) and complementarity to other agri-environmental objectives (21 of 28 visited projects).

2. Cost-inefficient expenditures

The overall effectiveness of the support was undermined by weaknesses in the Member States' selection procedures. These weaknesses led to NPIs receiving support that were ineligible, with unreasonably high costs or insufficiently justified.

The Court found clear indications of unreasonable costs in 75 % of these projects. As a result, only 5 of the 28 (18 %) audited projects proved to be cost-effective.

According to the Court, the fact that the NPIs investment costs funded with public money is higher (can reach up to 100 %) than for other EAFRD investment measures, may, on the one hand lead beneficiaries to have less incentives to contain their cost, and, on the other hand, requires from Member States to be more vigilant and to reimburse only investment costs which are reasonable and appropriately justified. They should also pay attention to the requirement that NPIs should not provide a significant economic return to the beneficiary. However, the Commission did not provide guidance as to what a significant economic return is or how Member States should assess it.

The weaknesses observed with the reasonableness of costs of NPIs are not confined to the sample of projects, since the concrete cases identified stem from weaknesses in the management and control systems of the Member States. In particular, they reimbursed investment costs on the basis of unit costs which were much higher than the actual market costs, or did not appropriately verify the reality of the costs claimed, or accepted the most expensive offer for undertaking the investment without requiring justification from the beneficiaries or without comparing the proposed costs against benchmarks.

In addition, the audit revealed several cases in all the Member States audited where NPIs with obvious remunerative characteristics benefitted from the maximum aid rates stipulated for this type of investments, which meant that, in most cases, they were fully funded with public money. In the Court's view, the fact that Member States did not reduce these high aid rates to take account of the remunerative aspects entailed the overpayment of the related investment costs. Indeed, once deducted the benefits that the investments provided to the beneficiaries, these costs could be actually lower than the aid granted.

3. Unsufficient monitoring and control

The audit revealed that neither the Commission nor the Member States had relevant information about the direct results of NPI support. For the period 2007-2013 only common indicators were used by the "Common Monitoring and Evaluation Framework", which cannot fully capture all the effects of individual support schemes. In this context the Court considers useful that Member States also set a limited number of additional baseline indicators. However, they did not define such indicators in relation to NPIs support during the programming phase for the period 2007-2013, which otherwise could facilitate the measurement and comparison of the results achieved and the impact of the investment for NPIs.

The Court found that at the time of the audit only the mid-term evaluations carried out towards the middle of the period were available. However, they did not provide relevant information on the results achieved by NPI support mainly due to the combination of late implementation and the lack of relevant monitoring information.

In the context of the 2014-2020 period the audit points out that the Commission and the Member States have not yet corrected most of the weaknesses identified by the Court. The main reason is that they did not do enough to identify weaknesses in a timely manner. On the one hand, the Member States did not analyse the causes of the irregularities detected through their own controls to improve the management of the scheme. On the other hand, the Commission's audits took place too late to help Member States identify and correct management shortcomings during the 2007-2013 period.

Replies of the Commission

The Commission accepts all the recommendations issued by the Court of Auditors but noted as to its own mission of control that since the amount of funding for non-productive investment is relatively low (see footnote 2), the priority should be given to more financially important measures where weaknesses in management and control system could have a bigger financial impact on the EU budget.

Draftman's recommendations for possible inclusion in the annual discharge report

The European Parliament recommends that:

1. The Commission encourages Member States to implement NPIs more in synergy with other rural development measures and/ or environmental schemes and that the Commission monitors relevant Member States' implementation through their annual implementation reports from 2017;

2. The Commission provides guidance to Member States on NPIs selection criteria for 2014-2020 period and checks that they apply appropriate procedures for the selection of projects; in this context recommends that Member States ensure that the NPIs selection procedures are transparent, made public and effectively implemented, and that they verify effectively the compliance with these criteria;

3. The Commission ensures that the contribution of NPIs to achieving the EU agri-environment objectives is monitored, or at least specifically assessed during the evaluations of the 2014-20 programming period;

4. The Commission encourages and assists those member States where NPI support is significant to define specific result indicators for the NPIs most frequently funded in order to ensure better monitoring and assessment of the NPIs contribution to achieving the EU agri-environmental objectives; in this regard, Member States should report on these indicators in their annual implementation reports starting from June 2016 and include the assessment of the results of NPIs in their evaluation plans;

5. The Commission provides further guidance on the definition of criteria which determine the remunerative characteristics of NPIs benefiting from the highest aid rates and that Member States establish such criteria without any delay and use them to modulate the intensity of support;

6. Member States implement, without delay, procedures to ensure that the costs of the supported NPIs do not exceed the costs of similar types of goods, service or works offered by the market; in this regard Member States should define appropriate benchmarks and/or reference costs against which the costs of NPIs are systematically verified as part of their administrative checks;

7. The Commission uses the information provided by the Member States regarding the controllability and verifiability of the measures for the approval of their RDPs for 2014-2020 to ensure that Member States define and implement adequate procedures regarding the reasonableness of costs, and to verify Member States' effective application of the controls foreseen in this regard; recommends also that the Commission facilitates exchange of good practices between Member States concerning establishment of procedures for cost-reasonableness checks;

8. Member States define, before the first on-the-spot controls for the 2014-20 period are performed, a method for the timely consolidation and analysis of the cause of the errors found during these controls, and to undertake necessary measures for improvement of their management and control systems of the NPIs schemes;

9. The Commission takes into consideration the weaknesses identified by the Court in the area of NPIs expenditures and takes relevant measures together with Member States to ensure proper financial management for these kind of investments.