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WORKING DOCUMENT

on ECA Special Report 11/2020 (Discharge 2019): Energy efficiency in buildings: greater focus on cost-effectiveness still needed

Committee on Budgetary Control

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Energy efficiency in buildings: greater focus on cost-effectiveness still needed (ECA Special Report n° 11/2020)

Summary

EU leaders have committed to saving 20 % of the EU Member States' projected energy consumption by 2020 and 32.5 % by 2030. Improving the energy efficiency of buildings is a key tool to achieving these targets. Buildings consume the greatest share of energy and have the largest energy savings potential.

The Court analysed five Member States (Bulgaria, Czechia, Ireland, Italy, and Lithuania) that allocated some €2.9 billion of their Cohesion policy funds for energy efficiency in buildings, and assessed whether this budget was being used cost-effectively and whether the Commission and Member States had implemented recommendations from the Court's special report 21/2012 on energy efficiency in public buildings.

The audited Member States had guiding principles in place for the selection of operations; in the case of Bulgaria, those principles included the identification of highest priority buildings that contributed to the energy efficiency indicators as well as to the cost effectiveness of the investment; in Lithuania, national authorities now quantify investment needs and potential energy savings.

The audited Member States received approval for the respective operations by the European Commission on the basis of ex-ante assessment of the operational programmes. There is a positive development in Bulgaria, Czechia, Italy and Lithuania regarding the minimum energy efficiency requirements ensuring projects with a minimum level of ambition in comparison to previous findings.

We welcome the achievements of the respective operational programmes in the audited Member States. Energy efficiency investments generate other benefits than energy savings such as urban rehabilitation, reduction of energy poverty, energy bills and air pollution. In Bulgaria, energy efficiency investments lead to: a reduction of energy consumption by 66,587,099 kWh per year, forecasted reduction of greenhouse gas emissions by over 30 thousand tonnes; 4,600 households with improved energy efficiency class.

The Court's conclusions

The Court concluded:

- The Commission has issued extensive guidance for improving energy efficiency investments in buildings, including their cost-effectiveness, as the Court recommended in its special report 21/2012. The Court found examples of good practice: the use of financial instruments combined with grants and the modulation of the level of the aid rate to increase the leverage of private funding and reduce the risk of deadweight.
- However, the improved Commission's guidance on needs assessment has had a limited impact on overall targeting. The needs identified by the Member States in the National Energy Efficiency Action Plans could not be properly considered when designing the 2014- 2020 operational programmes due to timing constraints.

- Project selection is not sufficiently driven by cost-effectiveness rationale. Member States required projects to be based on an energy audit, to deliver some levels of energy savings, and to improve the buildings' energy rating. In most cases, they allocated the budget to projects on a first-come first-served basis.
- The performance framework remains weak. The monitoring system does not provide data on energy saved through spending EU funds on renovating residential buildings. This means that the Commission is unable to assess the EU budget's contribution to the EU energy efficiency target. No indicator measures the other benefits these investments may generate.
- The 2014-2020 European Regional Development Fund and the Cohesion Fund planned €14 billion for investments in energy efficiency in public and residential buildings. Member States topped up these budgets with €5 billion of national co-financing.
- All the five Member States visited identified, in their partnership agreements and operational programmes, the need to increase the energy efficiency of their building stocks, in particular residential buildings. Most of these planning documents referred to needs assessment included in the National Energy Efficiency Action Plans (NEEAP) or other national energy strategic documents.

The Commission's position

The Commission accepted the Court's recommendation on improving the planning and targeting of investments, and partially accepted the recommendations on improving project selection procedures and making the performance framework more result-oriented to better monitor the progress toward the EU energy efficiency targets and improve accountability.

The Court's recommendations

1 – Improving the planning and targeting of investments

Before approving programmes that propose to spend Cohesion policy funds on energy efficiency measures, the Commission should assess whether these:

- (a) are based on analysis of the actions needed to put in place financial instruments or market mechanisms, such as energy performance contracting, and promote the cost-effective use of EU funded grants for deep renovations going beyond minimum energy performance requirements taking into account the specific market conditions;
- (b) are aligned with the National Energy and Climate Plans and the national Long-Term Renovation Strategies;
- (c) define the estimated energy saving from the use of EU funds;

Timeframe: In time for the approval of the 2021-2027 programmes.

2 – Improving project selection procedures

For the 2021-2027 period, the Commission should ensure that managing authorities fulfil the requirements of the Financial Regulation in relation to the principles of economy, efficiency and effectiveness, notably by using project selection procedures that:

- (a) set minimum and/or maximum thresholds for key parameters (e.g. the quantity of energy to be saved, the minimum energy rating the building should reach after project, the net present value, the simple payback time or the cost per unit of energy saved);
- (b) assess the relative costs and benefits of projects and select those delivering higher energy savings and other benefits at lower cost.

Timeframe: In time for the approval of the 2021-2027 programmes.

3 – Make the performance framework more result-oriented to better monitor the progress toward the EU energy efficiency targets and improve accountability

The Commission should:

- (a) provide information both on the aggregate expenditure and amount of energy saved or other results generated by the investments;
- (b) define indicators for monitoring the cost-effectiveness of the investments;
- (c) use these indicators when making decisions on the allocating resources in the 2021-2027 period mid-term review.

Timeframe: In time for the approval of the 2021-2027 programmes for (b) and once all the 2021-2027 programmes are approved for (a) and (c).

The Rapporteur's Recommendations

The European Parliament,

1. Welcomes the Court's special report, its findings and the Commission's readiness to implement its recommendations, at least partially;
2. Recalls that against a background of increased ambition for the EU energy efficiency targets and a perspective of tightening budgets, ensuring cost-effectiveness of the spending is more important than ever;
3. Notes that Member States required projects to be based on an energy audit, to deliver some levels of energy savings, and to improve the buildings' energy rating and that, in most cases, they allocated the budget to projects on a first-come first-served basis, which did not allow them to assess their relative costs and benefits and meant they rarely prioritised projects delivering energy savings or other benefits at lower costs;
4. Deplores that cost-effectiveness is not guiding EU spending on energy efficiency in buildings;
5. Stresses that better management, especially in the area of project selection, could lead to higher energy savings per euro invested; notes in this regard the need for stronger role of the Commission and calls for redesign of its guidance to the Member States;
6. Invites the Commission to help the EU to achieve its 2030 energy efficiency targets by improving the cost-effectiveness of its 2021-2027 Cohesion policy spending. These targets cover planning and targeting investments; selecting projects delivering higher energy savings and other benefits at lower costs through assessing relative costs and

benefits; using indicators to measure energy savings and other benefits, and rewarding measures that save energy in a cost-effective way;

7. Notes that until now, the financing for energy renovation programmes, has not been high enough. We need to increase the funding through the EU Recovery Fund, in order to allow to the member states to proceed with ambitious energy renovation programmes.
8. Welcomes the European Commission's announcement of a doubly increased renovation rate of the building stock across Europe; however believes that a dedicated fund within the recovery package that would cover the upcoming renovation wave is needed.
9. A dedicated renovation fund should be accompanied by technical assistance, helping Member States to absorb EU funds for building renovation.
10. The allocation of EU spending on energy efficiency in buildings must be fair for all Member States.