

EUROPEAN PARLIAMENT

2004



2009

Committee on Regional Development

2008/0245(COD)

29.1.2009

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DRAFT REPORT

on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing (COM(2008)0838 – C6-0473/2008 – 2008/0245(COD))

Committee on Regional Development

Rapporteur: Emmanouil Angelakas

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend the common position
- *** Assent procedure
majority of Parliament's component Members except in cases covered by Articles 105, 107, 161 and 300 of the EC Treaty and Article 7 of the EU Treaty
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend the common position
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission.)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. In the case of amending acts, passages in an existing provision that the Commission has left unchanged, but that Parliament wishes to amend, are highlighted in **bold**. Any deletions that Parliament wishes to make in passages of this kind are indicated thus: [...]. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). Suggested corrections of this kind are subject to the agreement of the departments concerned.

CONTENTS

	Page
DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION.....	5
EXPLANATORY STATEMENT.....	10

DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing

(COM(2008)0838 – C6-0473/2008 – 2008/0245(COD))

(Codecision procedure: first reading)

The European Parliament,

- having regard to the Commission proposal to the European Parliament and the Council (COM(2008)0838),
 - having regard to Article 251(2) and Article 162 of the EC Treaty, pursuant to which the Commission submitted the proposal to Parliament (C6-0473/2008),
 - having regard to Article 160 of the EC Treaty,
 - having regard to Rule 51 of its Rules of Procedure,
 - having regard to the report of the Committee on Regional Development (A6-0000/2009),
1. Approves the Commission proposal as amended;
 2. Instructs its President to forward its position to the Council and the Commission.

Amendment 1

Proposal for a regulation – amending act
Recital 4

Text proposed by the Commission

(4) In order to ensure that the objectives of *economic and social* cohesion as set out in Article 158 of the EC Treaty are met, interventions should *target low-income households, as defined by the national legislation in force*.

Amendment

(4) In order to ensure that the objectives of cohesion *policy* as set out in Article 158 of the EC Treaty are met, interventions should *support social cohesion*.

Or. en

Amendment 2

Proposal for a regulation – amending act Recital 4 a (new)

Text proposed by the Commission

Amendment

(4a) The European Court of Auditors recommended in its 2007 annual report that the legislative authorities and the Commission be prepared to reconsider the design of future expenditure programmes by giving due consideration to simplifying the basis of calculation of eligible cost and making greater use of lump sum or flat rate payments instead of reimbursement of "real costs".

Or. en

Amendment 3

Proposal for a regulation – amending act Recital 4 b (new)

Text proposed by the Commission

Amendment

(4b) In order to ensure the necessary simplification in the management, administration and control of operations receiving an ERDF grant, particularly when linked to a result-based reimbursement system, it is appropriate to add three additional forms of eligible costs, namely, indirect costs, lump sums and flat-rate standard scales of unit cost.

Or. en

Amendment 4

Proposal for a regulation – amending act Recital 4 c (new)

Text proposed by the Commission

Amendment

(4c) In order to ensure legal certainty in relation to the eligibility of expenditure, these additional forms of eligible costs should be applicable to all grants from the ERDF. Retroactive application should therefore be necessary with effect from 1 August 2006, date of entry into force of Regulation (EC) No. 1080/2006.

Or. en

Amendment 5

Proposal for a regulation – amending act Article 1 – point 1 Regulation (EC) No 1080/2006 Article 7 – paragraph 1a

Text proposed by the Commission

Amendment

1a. ***Expenditure*** on energy efficiency ***improvement*** and on the use of renewable energy in existing housing ***in favour of low-income households*** shall be eligible ***for all Member States***.

1a. ***In each Member State, expenditure*** on energy efficiency ***improvements*** and on the use of renewable energy in existing housing shall be eligible ***up to an amount of 4% of the total ERDF allocation***.

Member States shall define categories of eligible housing in national rules, in conformity with Article 56(4) of Regulation (EC) No. 1083/2006, in order to support social cohesion.

Or. en

Amendment 6

Proposal for a regulation – amending act

Article 1 – point 2 a (new)

Regulation (EC) No 1080/2006

Article 7 – paragraph 3 a (new)

Text proposed by the Commission

Amendment

(2a) The following paragraph shall be inserted:

"3a. The following costs shall be expenditure eligible for a contribution from the ERDF as defined in paragraph 1 provided that they are incurred in accordance with national rules, including accountancy rules, and under the specific conditions provided for below:

in the case of grants:

(i) indirect costs declared on a flat-rate basis, up to 20% of the direct costs of an operation;

(ii) flat-rate costs calculated by application of standard scales of unit cost as defined by the Member State;

(iii) lump sums to cover all or part of the costs of an operation.

The options referred to in points (i), (ii) and (iii) may be combined only where each of them covers a different category of eligible costs or where they are used for different projects within the same operation.

The costs referred to in points (i), (ii) and (iii) shall be established in advance on the basis of a fair, equitable and verifiable calculation.

The lump sum referred to in point (iii) shall not exceed EUR 50 000."

Or. en

Amendment

Proposal for a regulation – amending act Article 2

Text proposed by the Commission

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Amendment

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 1(3) of this Regulation shall apply with effect from 1 August 2006.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Or. en

EXPLANATORY STATEMENT

On 26 November, in response to the ongoing financial crisis and slow-down in the European economy, the European Commission presented a wide-ranging Economic Recovery Plan for Europe.

EU Cohesion Policy, as the largest source of investments in the real economy, makes an important contribution to this plan. More than 65% of its total allocation for the period 2007-2013 is already "earmarked" for investment in the four priority areas of the Lisbon strategy for growth and jobs. It comes as no surprise, therefore, that both legislative and non-legislative measures have been taken to help accelerate project implementation on the ground and build confidence and dynamism in the economy.

In this context, the Commission presented proposals to revise three of the current EU Structural Funds Regulations for the period 2007-2013: the General Regulation, the European Regional Development Fund (ERDF) Regulation, and the European Social Fund (ESF) Regulation. In general terms, the purpose of these legislative changes is to improve cash flow and liquidity in the Member States, facilitate the use of financial engineering instruments, simplify and broaden the use of flat rate and lump-sum costs, and expand the possibilities for support to investments in energy efficiency and renewable energy in housing.

Commission proposal - ERDF Regulation

The Commission introduced one amendment to Article 7 ("Eligibility of Expenditure") of the ERDF Regulation (1080/2006) with the aim of enabling all EU Member States and regions to **invest in energy-efficiency and renewable energy measures in housing** with the support of the EU Structural Funds.

Consequently, ERDF may be used to co-finance national, regional or local authority schemes to install, for instance, double-glazing, wall insulation and solar panels in housing, or replace old boilers for more energy-efficient ones. This measure will apply to the whole EU-27, and was originally intended to be targeted only at low-income households.

It should be recalled that, under the current Regulation, the ERDF already supports interventions in the housing sector, including energy efficiency, but only for the new Member States (EU-12) and under several conditions. In practical terms, the ERDF could only be used for common parts of a building (or the entire building in the case of social housing) in deprived urban areas.

This proposal does not increase funding and has no implications for the Community budget. It simply enables Member States, if they so wish, to shift their priorities and re-programme their Operational Programmes in order to finance actions in this field.

Council compromise on the ERDF Regulation

The Council managed to reach a compromise at first reading on the revision of the ERDF Regulation within a very limited timeframe. The Council's Working Party on Structural Measures negotiated a number of changes to the Commission proposal on **housing**, namely:

- The elimination of the reference to “low-income households”, which was problematic not least because of the different definitions of this term under national rules. Instead, it is stated that interventions in the housing sector should support social cohesion, leaving it to the discretion of the Member States to determine the exact categories of eligible housing.
- A ceiling of 4% of the total ERDF allocation for each Member State has been imposed on expenditure on energy efficiency improvements and on the use of renewable energy in existing housing.

The Council maintained the distinction contained in the Commission proposal, namely that this new type of interventions in the housing sector should be made available in all EU Member States, while “new” Member States (EU-12) will still be able to finance other types of housing expenditure under the exiting ERDF rules (and for a maximum amount of 3% of the ERDF allocation to the operational programmes concerned or 2% of the total ERDF allocation on a national level). Total expenditure on housing in each of the new Member states, acting under different rules and provisions, could reach 6% of their total ERDF allocation.

The Council decided also to integrate into the ERDF Regulation a new paragraph in order to ensure the necessary **administrative simplification** in the management, monitoring and control of operations. This new paragraph, originally proposed by the European Commission only for the ESF Regulation (1081/2006), has also been included by the Council in the ERDF Regulation to ensure uniformity of the rules between the Structural Funds.

This new rule follows the recommendation of the European Court of Auditors¹ to simplify the basis of calculation of eligible costs and make greater use of lump sum or flat-rate payments instead of the reimbursement of “real costs”. This is meant to simplify the declaration of expenditure and introduce a more result-based reimbursement system. It should prove particularly beneficial for operational expenditure and will allow public authorities to prepare projects and measures faster and efficiently.

According to the new provision, three additional forms of eligible costs are introduced for all ERDF grants and in accordance with national rules: indirect costs (up to 20% of the direct costs of an operation), lump sums (for a maximum amount of EUR 50.000) and flat-rate standard scales of unit costs.

Evaluation of the proposed revision of the ERDF Regulation

¹ see Court of Auditors' report 2007

Your rapporteur views very favourably the proposed change to the ERDF Regulation, as regards investments on energy efficiency and the use of renewable energy in the **housing sector** and for all EU Member States.

This new measure will not only contribute to the promotion of EU competitiveness and job creation across the EU, but can also have an impact on achieving the objectives of the EU Energy and Climate Change Strategy, as it is estimated that buildings alone are the source of 40% of greenhouse gas emissions in the EU, while too much energy is wasted in buildings because of inefficient heating, air-conditioning systems and lighting. The (Commission considers that cost-effective energy savings in the building sector could reach 28% by 2020).

It needs to be stressed that the decision to support energy investments in buildings lies within the exclusive competence of Member States, as there is no EU competence in this field. However, this new measure, in accordance with the subsidiarity principle, would provide Member States with the possibility of making this kind of investments with the support of EU structural funds, leaving the decision as to its use at the discretion of Member States.

The broadening of the scope of the ERDF eligibility rules regarding housing to include actions in the “old” Member States was one of the demands of the European Parliament in its resolution of 10 May 2007 on “housing and regional policy”. Initially the Commission was against such an extension. It is regrettable that we needed the “impetus” of a financial crisis to introduce such a measure for the whole Union.

Your rapporteur also considers that the compromise reached in the Council represents an improvement to the original Commission proposal. The elimination of the reference to “low-income households”, where these investments were originally meant to be targeted, is a correct measure. Member States should have the power to decide the categories of eligible housing according to national rules, thus setting their own criteria (on the basis, for instance, of geographical features of the areas where investments will be made, e.g. in islands or mountainous regions).

In addition, the setting of a 4% ceiling for this kind of expenditure is also fair, as it will prevent Member States from abusing the new rule by re-orienting a disproportionate amount of their national ERDF envelope to this kind of investments. However, it is important to note that recent data on the new Member States (which have been able to benefit from investments in the housing sector since the beginning of the current programming period) show that in most cases these investments have not reached even 1% of the total ERDF allocation on a national level, not reaching the 2% ceiling.

As regards the new provision on **broadening the use of flat-rates and lump sums**, the rapporteur believes that it is expected to have a very positive impact on the day-to-day management of the Structural Funds. For that reason, and even if only proposed in a time of crisis, these rules merit the full support of the European Parliament, which has repeatedly advocated for such simplification and been particularly active over the past two years in pointing to the need for further simplification and called repeatedly on the Commission to take urgent steps to that effect.

However, the European Parliament must view this as the first important step in a series of measures that need to be taken in order to simplify the delivery mechanisms of EU cohesion policy. The Commission established a task force with the view to reviewing the current Structural Funds Regulations 2007-2013, as well as the Commission Regulation for the implementation of these Regulations. Parliament, therefore, eagerly awaits further Commission simplification proposals in the coming months. Whether these should be translated into concrete legislative amendments of the Regulations, needs to be further analysed. Your rapporteur would welcome such a development, if these proposals can already be implemented during the second half of the current programming period.

The report of the European Parliament

The revision of this Regulation will be done in accordance with the co-decision procedure, which gives to the European Parliament and the Council equal rights and powers to amend the Commission proposal.

In an exchange of views with the Czech Presidency, represented by Deputy Prime Minister Mr Jiří Čunek, and the Commissioner responsible for Regional Policy Danuta Hübner, in the REGI Committee on 19 January 2009, the need for Parliament to reach a swift agreement was clearly stressed, especially given the fact that the respective Council Working Party managed to reach consensus in only three consecutive meetings. The main argument presented was that new provisions introduced in the amended Regulations needed to be implemented without delay, for the benefit of European citizens,, especially since that the revision of the legislative package aims at helping Member States to overcome -among other obstacles- their existing liquidity problems.

Your rapporteur fully acknowledges the urgency of the matter and the need to conclude this co-decision procedure at first reading, considering that:

- these are exceptional circumstances that call for exceptional measures, and the EU's response to the financial crisis should be both efficient and timely,
- the Commission proposal as amended by the Council represents a very good compromise that can have a very positive effect on the ground,
- additional proposals are being prepared by the Commission for further simplification of the existing rules for the management of Structural Funds.

Your rapporteur has decided, therefore, not to present new amendments, proposals or additions to the compromise text of the Council, which would require a series of informal trilogues and possibly a second reading for the adoption of this Regulation. Therefore, the draft report includes amendments that correspond only to the Council position, given the urgency of the matter and the undeniable need to provide European citizens with a swift response to the crisis..

Before the adoption of this legislative package in plenary, Parliament has requested the European Commission to publicly declare its intention to conduct an evaluation in 2010 on the reforms undertaken following the adoption of the three revised Regulations.