



Setting up a database to assess impacts and effects of certain thresholds and limits in Regulation (EU) No 1303/2013 (CPR)

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Executive summary

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Executive summary

Objective

The use of European Structural and Investment (ESI) Funds plays an important role in helping the Member States of the EU (MS) achieve the objectives of the Europe 2020 strategy. In order to ensure that operations co-financed by the ESI Funds are implemented in accordance with the principles of sound financial management, EU Regulations set out minimum requirements for reporting and efficient management and control systems. These include rules on management verifications and audit and inter alia require Managing Authorities (MAs) and beneficiaries to record multiple pieces of information for each operation.

However, the act of complying with these control and reporting systems understandably implies costs for MAs and beneficiaries, as it entails performing administrative tasks. The legislative framework applicable to ESI Funds for the 2014-2020 period emphasises the principle of proportionality and the necessity to reduce administrative costs and burdens placed upon MAs and, in particular, beneficiaries.

In line with the principle of proportionality, the Common Provisions Regulation (CPR) establishes several new limits and thresholds in order to reduce administrative costs and burden in relation to monitoring, reporting, evaluation, management, and control. A number of these are linked to the financial volume of operations.

Given that the Commission only had access to aggregate data at the priority axis level of the Operational Programmes (OP), it was very difficult to assess the potential effects of thresholds with a view to reduce administrative costs and burden.

Therefore, DG REGIO sought to address this limitation by developing a representative and comprehensive database for all the operations financed by the ERDF and CF in the 2007-2013 period. This database was then used to produce simulations on the impact of six specified thresholds in order to assess whether these will help contribute to the reduction of the administrative burden and costs related to the support from ESIF.

Threshold No.	Parameter assessed	Level of the threshold
1	Total cost (revenue generating operations after completion)	EUR 1,000,000
2	Total cost (revenue generating operations during their implementation)	EUR 50,000
3	Total cost (major projects)	EUR 50,000,000 or EUR 75,000,000 if TO7
4	Total eligible expenditure (availability of documents)	EUR 1,000,000
5	Total eligible expenditure (maximum number of audits)	EUR 200,000
6	Amounts to be recovered	EUR 250

Data collected

Of the 322¹ OPs supported by the ERDF and CF in the 2007-2013 period, data on completed operations for 261 OPs was collected from their relevant Managing Authorities and stored into a database. These OPs, for which data on completed operations was collected, represent 80% of all funding support under ERDF and CF for the 2007-2013 period. For each operation, data on the following parameters was requested: total cost, total eligible expenditure, amounts to be recovered, revenue deducted, category of region, priority theme, territorial dimension, and form of finance.

Data for operations in 59 OPs were not collected within the allocated timeframe. For 35 of these OPs the requests for data were simply not answered and for 14 of these the data request was refused. 10 of the OPs for which a request for data was denied, were in Germany. In addition, the data collected covers only those operations which were completed by mid-2015. As such the database is not 100% complete.

However, given the very large sample size relative to the total population, the dataset collected can still be considered as a statistically significant sample of operations funded by ERDF and CF in the 2007-2013 programming period.

In order to increase the usefulness of the database and give a more comprehensive estimate of the effects of the six thresholds under investigation in this study, the total cost, number of operations, and their distribution were estimated for the 59 missing OPs. Furthermore, since category of region is assigned at the OP level, it was possible to assign this parameter to our estimated data as well. However, it was not possible to include estimates for the fields of priority theme, form of finance and territorial dimension. This is because their distributions vary substantially from OP to OP as well as from MS to MS, making it impossible to accurately estimating any distribution of these fields for the missing OPs. As such analyses regarding these fields were conducted using observed data only.

Analysis

With the collected data now stored in the database, it was possible to reliably model the distribution of operations above and below the six thresholds. This distribution was also modelled at the level of the whole dataset as well as across several parameters: by Member States, by Category of Region, by Priority Theme, and by Territorial Dimension.

This threshold analysis was also complemented through a sensitivity analysis whereby the effects of raising or lowering the six thresholds were modelled for each of the six thresholds at the level of the Member States. The findings of this can be found in Section 3.2.9 for Threshold 6 (amounts to be recovered), and in Appendix D for the five other thresholds. In addition, given that Threshold No.3 (major projects) is relevant to total eligible expenditure in the 2014-2020 period instead of total cost in the past period, a threshold analysis was conducted using total eligible expenditure. The findings of this threshold analysis can be found in Appendix E.

Finally the cumulative distribution of the contents of the database relative to the number of operations and to their value, was developed. This was done for each of the

¹ Due to technical reasons two programmes were not surveyed: 2007HU161PO010 and 2007HR161PO001.

six thresholds, for the Member States, and for the Thematic Objectives of the 2014-2020 period (which are mapped against the Priority Themes of the 2007-2013 period). The results of these analyses can be found in Appendices F, G and H respectively.

Conclusions

1) The **descriptive analysis of the collected data** shows a large variation by Member State. However, some common patterns can be identified when looking at the data from an EU-level perspective. For example, the **average total cost per operation varies significantly by Member State**. It ranges from Spain (EUR 59,488) and Greece (EUR 101,373) to Slovakia (3.68 million) and Cyprus (EUR 5.77 Million). The EU average is EUR 1.21 million.

At the EU-level, the distribution of operations shows a very large number of small operations and a very small number of higher value contracts in terms of total cost. It is worth noting that 52% of operations are worth less than EUR 50,000 and that 44% of operations have total cost of even less than EUR 20,000. Less than 4% of the operations are above EUR 2 million.

The **highest number of operations** can be found in priority themes "research, development and innovation" (57%), information society (12%) and "energy" and "environment protection and risk prevention" (both 7%). The **operations with the highest total cost** can be found in priority themes "research, development and innovation" (37%), "transport" (20%) and "environment protection and risk prevention" (14%).

The priority theme grouping "transport" had the **highest average cost** of operations (EUR 5.6 million). This is consistent with the nature of infrastructure projects. The priority themes grouping with the **lowest average** cost per operation were "Social Inclusion" and "Adaptability of workers and firms" at EUR 161,732 and EUR 239,211, respectively.

The distribution of operations, as regards the number and the total cost, shows that there is a high number of small operations which have a very low share of total costs, On EU average, more than half (52%) of all operations have total costs **below EUR 50,000** but they represent only **1% of total allocation**. However, there are considerable differences between MS. For example, Cyprus and Luxembourg have no operations below EUR 50,000 whereas Spain has 90% operations below this threshold. A threshold of EUR 1 million covers even 92% of all operations but only 22% of the total costs.

2) Table 1 here below provides a summary of the findings of the **threshold analysis**, indicating the number of operations in the database above and below each threshold, along with their value in total cost. The table also includes an overview of the sensitivity analysis.

Table 1: Summary of the findings of the threshold and the sensitivity analyses

	Threshold		Threshold analysis		Sensitivity analysis			
			Percent of total operations	Percent of total cost	Threshold lowered		Threshold raised	
					Percent of total operations	Percent of total cost	Percent of total operations	Percent of total cost
1	EUR 1,000,000 Total cost (revenue generating operations after completion)	Above threshold	8%	78%	To EUR 800,000 10%	To EUR 800,000 81%	To EUR 1,200,000 7%	To EUR 1,200,000 76%
		Below threshold	92%	22%	To EUR 800,000 90%	To EUR 800,000 19%	To EUR 1,200,000 93%	To EUR 1,200,000 24%
2	EUR 50,000 Total cost (revenue generating operations during their implementation)	Above threshold	48%	99%	To EUR 40,000 49%	To EUR 40,000 99%	To EUR 60,000 46%	To EUR 60,000 99%
		Below threshold	52%	1%	To EUR 40,000 51%	To EUR 40,000 1%	To EUR 60,000 54%	To EUR 60,000 1%
3	EUR 50,000,000 or EUR 75,000,000 if TO7 Total cost (major projects)	Above threshold	0,1%	20%	To EUR 40 million 0%	To EUR 40 million 22%	To EUR 60 Mio 0%	To EUR 60 Mio 19%
		Below threshold	100%	80%	To EUR 40 Mio 100%	To EUR 40 Mio 78%	To EUR 60 Mio 100%	To EUR 60 Mio 81%
4	EUR 1,000,000 Total eligible expenditure (availability of documents)	Above threshold	6%	70%	To EUR 800,000 8%	To EUR 800,000 73%	To EUR 1,200,000 5%	To EUR 1,200,000 67%
		Below threshold	94%	30%	To EUR 800,000 92%	To EUR 800,000 27%	To EUR 1,200,000 95%	To EUR 1,200,000 33%

	Threshold		Threshold analysis		Sensitivity analysis			
			Percent of total operations	Percent of total cost	Threshold lowered		Threshold raised	
					Percent of total operations	Percent of total cost	Percent of total operations	Percent of total cost
5	EUR 200,000 Total eligible expenditure (maximum number of audits)	Above threshold	21%	88%	To EUR 100,000 31%	To EUR 100,000 93%	To EUR 300,000 16%	To EUR 300,000 85%
		Below threshold	79%	12%	To EUR 100,000 69%	To EUR 100,000 7%	To EUR 300,000 84%	To EUR 300,000 15%
6	EUR 250 Amounts to be recovered	Above threshold	95%	97%	To EUR 100 99%	To EUR 100 100%	To EUR 500 95%	To EUR 500 99,99%
		Below threshold	5%	3%	To EUR 100 1%	To EUR 100 0%	To EUR 500 5%	To EUR 500 0,01%

3) The sensitivity analysis measures the impact of hypothetical changes to the 6 thresholds on the distribution of the number of operations and the total cost. This analysis shows that changes in lower value thresholds, such as Thresholds 2 and 4, have an impact on a greater number of operations than those at higher values. This observation does not hold when looking at the impact on total cost, where the distribution is more even across project values, and thus, among thresholds.

For **Threshold No.1**, 13% of the operations in **Croatia** would be affected by a lowered threshold of EUR 800,000 and the higher threshold of EUR 1,200,000. **Luxembourg** and **Sweden** were also equally sensitive to potential changes in threshold with 13% and 12% of their operations respectively being impacted.

For **Threshold No.2**, **Greece** could be the most impacted, with 18% of its operations being susceptible to the raising or lowering of the thresholds. This translates into a possible 9% change in terms of total cost. Finland comes second in terms of number of operations with an 11% potential swing, albeit with a negligible change in total cost of 2%.

In terms of percentage change, **Bulgaria** would be the most susceptible to alterations in **Threshold No.3** with some 0.26% of operations potentially affected. Slovenia is also susceptible with a potential swing of 0.17%. However, given that the total number of all operations above the original threshold equates to less than 0.1% of all operations in the EU, it is better to consider the absolute number of operations affected. In this light, **Poland** is most susceptible to potential changes in Threshold No.3, with a total of 29 operations affected should it be lowered or raised. This accounts for less than a 1% swing in the number of operations but almost EUR 1,500,000,000, a 4% swing in terms of total cost for the MS and approximately 1% of the total cost of all operations in the database. **Italy** and the **Czech Republic** are also particularly sensitive, with 19 and 13 operations affected respectively.

Threshold No.4 is of EUR 1 million in eligible expenditure. As with Threshold No.1, (which is EUR 1 million in total cost) **Croatia** and **Sweden** are sensitive to any potential changes, with 10% of its operations possibly affected by a lowering or raising of this threshold. Unlike with Threshold No.1, Luxembourg is less sensitive, with only a 4% increase in the number of operations beneath the threshold when it is raised.

Luxembourg is particularly sensitive to changes in **Threshold No.5**, with 46% of its operations being impacted by the raising or lowering of the EUR 200,000 threshold of total eligible expenditure. In terms of total cost this translates to 22%. **Belgium**, **Cross-border regions** and the **Czech Republic** are also particularly sensitive to such changes, with 31% of operations being impacted.

With regards to **Threshold 6**, the sensitivity analysis suggests that raising or lowering the threshold by some EUR 100 can result in a **change of 1 to 2 per cent** in the number of operations, the **impact in terms of total cost is marginal at best**. In addition, the impact would be limited to only some 18 MS which have a noteworthy number of operations with a non-zero value under "amounts to be recovered".

4) The establishment of a database at the operation level is considered a valuable exercise since it provides the European Commission and its stakeholders with a robust database with which to conduct reliable modelling of the effects of thresholds and limits, using data that was previously unavailable.

With the contents of the database being suitably representative of the investments made under ERDF and CF in the 2007-2013 period, it is possible to understand the distribution of operations around each of the six thresholds in question, by number of operations, by their cost, and by their cumulative number and cumulative cost.

In addition, it is now possible to further break down this distribution by observing the distribution of operations by MS, by category of regions, by priority theme, and by territorial dimension. It must be noted that while this data is robust at the level of the EU, it is less so at MS level, particularly for those MS, such as Germany and Italy, where substantial amounts of data had to be estimated.

While this study was focussed on data from the 2007-2013 period, its findings can be interpreted within the context of the 2014-2020 period. This is because many of the data fields are relevant from one period to the next, including category of region, priority theme (which can be mapped against the new Thematic Objectives), forms of finance, and territorial dimensions. This will allow future studies on operations in the 2014-2020 period to draw meaningful insights from the data in the database especially as regards introducing further or adjusted thresholds for simplification purposes. Therefore, the study will provide an analytical basis for further reflections on the future of the policy.

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