

Special Report

Office accommodation of EU institutions – Some good management practices but also various weaknesses

(pursuant to Article 287(4), second subparagraph, TFEU)



EUROPEAN
COURT
OF AUDITORS

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Acronyms and abbreviations

Glossary

Audit team

Replies of the European Parliament

Replies of the Council of the European Union

Replies of the European Commission

Replies of the Court of Justice

Replies of the European Central Bank

Executive summary

I The institutions spend around 11 % of their budget for administrative expenditure on buildings. The composition of the buildings portfolio differs and depends on each institution's mandate and organisational structure, nevertheless a significant share of the space used is devoted to office accommodation. The Commission has the largest buildings portfolio of which more than 80 % is used as office space.

II In order to address the overall question "Is EU spending on office accommodation managed efficiently?" we examined whether the EU institutions with most office accommodation (Parliament, Council, Commission, Court of Justice and ECB):

- (a) establish building strategies and cooperate in order to achieve cost savings;
- (b) obtain their office accommodation in an efficient manner;
- (c) monitor and report on their office accommodation portfolio appropriately.

III Overall, we found that the institutions manage their spending on office accommodation efficiently, but the building strategies are not always formalised and the related planning is not optimal; financing mechanisms of the large construction projects we analysed were often complex and thereby in some cases affected budgetary transparency. Most of these projects were affected by delays and, in some cases, substantial additional costs. The monitoring and reporting of the buildings portfolio of most institutions is not adequate.

IV The institutions cooperate and apply similar decision-making principles. However, they set out their main principles and objectives for property management in various documents. Some are outdated and some are being implemented without formal approval. They do not consider different scenarios in planning their property requirements. At the time of the audit, the institutions had not yet evaluated the implemented New Ways of Working (NWoW) projects.

V The host countries offer to the institutions preferential conditions for purchasing or renting office accommodation and support them in their major construction projects. We found that decisions regarding office accommodations were well founded. However, financing mechanisms of the large construction projects we analysed were often complex and this affected budgetary transparency. Most of these projects were delayed, in some cases leading to additional costs.

VI Most institutions do not monitor regularly indicators related to efficient use and cost of buildings for their internal management purposes. While the institutions with their buildings in Brussels and Luxembourg agreed on harmonisation in the measurement of surfaces, the data are not fully standardised and comparing them is difficult. The reporting to the budgetary authorities on buildings does not allow for comparison and efficiency analysis.

VII Our analysis shows that the use of office space is comparable between institutions. Moreover, we found that the rents the institutions negotiated were generally below market levels. Further analysis of rented buildings shows that the annual rents per person vary significantly per building. The costs of construction and acquisition reflects the nature of the building.

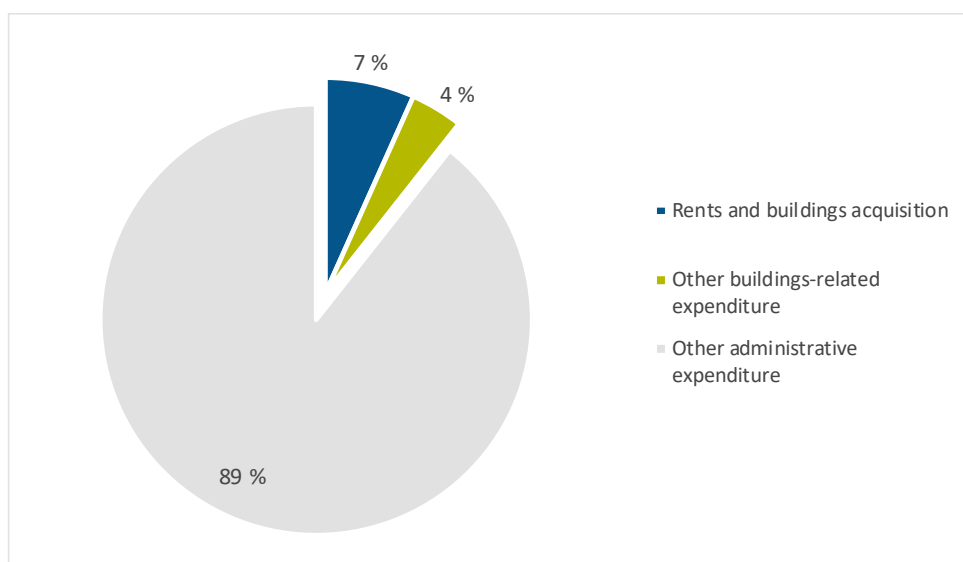
VIII On the basis of the observations in this report, we recommend that the institutions should:

- (a) Update and formalise their building strategies and regularly update planning documents;
- (b) Evaluate the New Ways of Working projects;
- (c) Increase budgetary transparency of the use of financing mechanisms for construction projects;
- (d) Set up adequate management procedures for large construction and renovation projects; and
- (e) Improve consistency of data and monitoring of the buildings portfolio.

Introduction

01 Spending on buildings represents around 11 % (€1 billion) of the total administrative expenditure of the European Union's (EU) institutions¹, as shown in **Figure 1**. This percentage remained stable over the last five years, although it decreased in relation to the situation ten years ago. Around two thirds of spending on buildings concerns the cost of acquiring and renting buildings, with the remainder spent mainly on maintenance, security and energy. **Figure 2** shows that there are differences between the institutions. These differences mainly reflect the differences in their buildings portfolios.

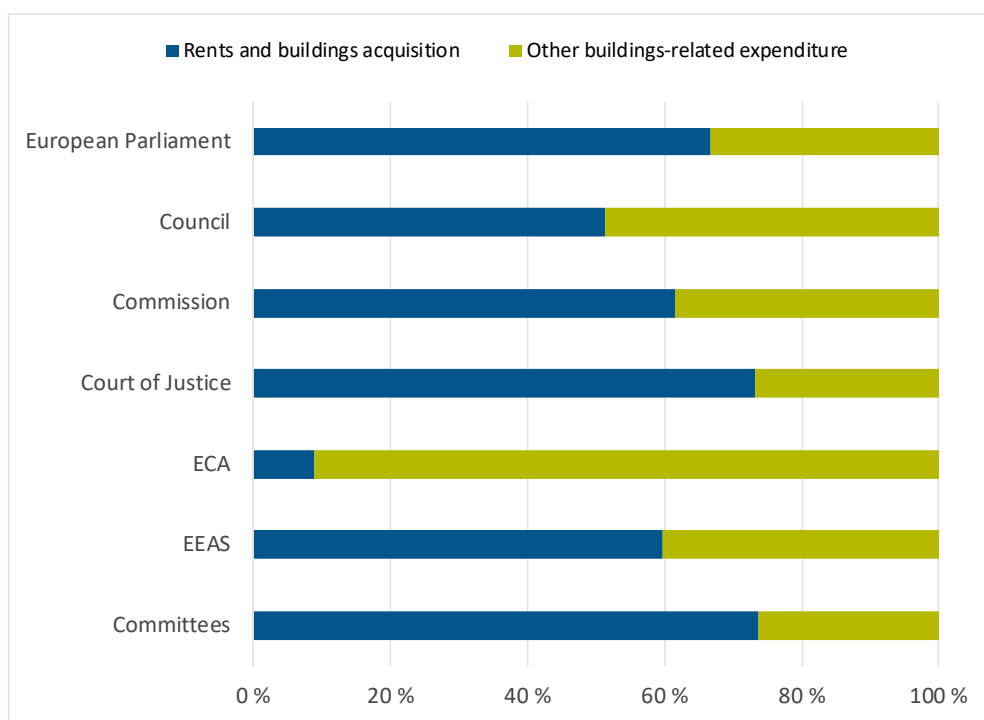
Figure 1 – Administrative expenditure of the EU institutions



Source: ECA, based on the EU general budget for the financial year 2018.

¹ Parliament, Council, Commission, Court of Justice, ECA, EEAS, Committees (Committee of the Regions and European Economic and Social Committee).

Figure 2 – Spending on buildings²



Source: ECA, based on the EU general budget for the financial year 2018.

02 At the end of 2016, the above institutions occupied a total building surface of 2.5 million square metres (m²)³. This is 26 % more than in 2004, an increase explained by the 22 % rise over the same period in staff working on the institutions' premises⁴.

03 The institutions have different accommodation needs. For example, the Commission devotes the majority of its accommodation to offices. Other institutions such as the Parliament, the Council and the Court of Justice use more of other types of areas, such as meeting rooms, assembly rooms, courtrooms and public reception areas. Office areas⁵ represent approximately 70 % of the total⁶ and are mostly located

² The ECB and EIB are not included in this analysis because the annual accounts of these institutions do not include details on budgetary expenditure on buildings.

³ Total net surface above ground; ECB excluded.

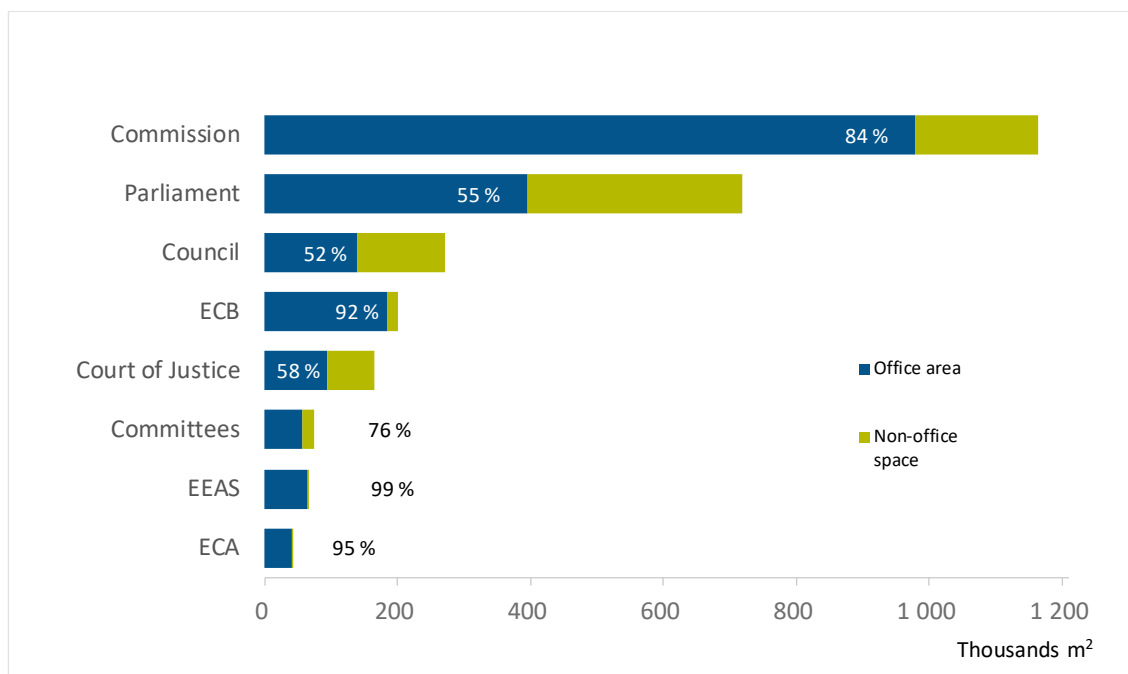
⁴ Source: '*Comparaison des coûts entre les Institutions dans le domaine immobilier*', CPQBF Juin 2005. The report does not include the ECB.

⁵ "Office areas" include offices and ancillary spaces such as corridors, lifts, lavatories, restaurants, etc.

⁶ The total net surface above ground.

in Brussels, followed by Luxembourg, Strasbourg and Frankfurt. **Figure 3** shows the total net surface occupied by the institutions and the proportion of office area.

Figure 3 – Office areas as a proportion of total surface occupied



Source: ECA, based on the annual reports on buildings and data provided by the institutions.

04 The seats of the institutions depend on political decisions. The most recent political agreement on the location of the seats of the institutions was made in 1992 at the European Council meeting in Edinburgh.

Audit scope and approach

Audit Scope

05 In order to address the overall question “Is EU spending on office accommodation managed efficiently?” we examined whether the EU institutions:

- establish building strategies and cooperate in order to achieve cost savings;
- obtain their office accommodation in an efficient manner;
- monitor and report on their office accommodation portfolio appropriately.

06 The audit focused on the five institutions with the most office accommodation (Parliament, Council, Commission, Court of Justice and ECB), covering their office accommodation in Brussels, Luxembourg and Frankfurt⁷. Where possible, the audit compared data and management procedures of these institutions with those of the European Economic and Social Committee, the European Committee of the Regions, the European External Action Service (EEAS), the European Court of Auditors (ECA) and the European Investment Bank (EIB).

07 We did not analyse buildings used for purposes other than office accommodation (e.g. conference centres, technical facilities, etc.) or buildings with less than 20 % office space. The audit mainly focused on the cost of obtaining office accommodation. It did not cover maintenance, cleaning, security or other buildings-related operating costs.

Audit approach

08 We carried out our audit from September 2017 to June 2018 and based our observations on the following sources of evidence:

- institutions’ building strategies and reports to budgetary authorities;
- questionnaires and visits to the institutions;

⁷ A complete list and map of buildings occupied by the EU institutions can be found on the Commission’s website: Official directory of the European Union (<http://europa.eu/whoiswho/public/index.cfm?fuseaction=idea.hierarchy&nodeID=10>).

- questionnaires and visits to other international organisations;
- internal audit work where applicable;
- technical/measurement reports on buildings;
- accounting, financial and contractual information on buildings;
- visits to inter-institutional bodies and host-country authorities.

Observations

The institutions apply common principles and cooperate extensively

09 We examined whether the EU institutions define a strategy that includes principles and objectives for their property management. We examined whether these strategies are complemented with short to medium-term planning based on a regular assessment of needs. We reviewed whether the strategic and/or planning documents include scenario planning. We also analysed how the institutions in the same location cooperate in order to find cost-saving opportunities (for example by pooling expertise or purchasing power). In addition, we examined how the institutions implemented the New Ways of Working approach (NWoW).

The institutions define their building strategies but some are outdated and do not include scenario planning

10 The institutions define their property management principles and objectives in various documents. Some are outdated and some are being implemented without formal approval (see **Figure 4**).

Figure 4 – Building strategies

EU institution	Building strategies
Parliament	Bureau decision of 24 March 2010 ⁸ (2010-2014). Draft medium-term building strategy (2015-2019). This document was never formally adopted. Building Strategy beyond 2019, adopted by the Bureau on 16 April 2018.
Council	Document presented during the public hearing of 18 November 2013 ⁹ .
Commission	Communication on policy for the accommodation of Commission services in Brussels and Luxembourg ¹⁰ . Last update in 2007.
Court of Justice	Annex to the 2017 annual management report ¹¹ .
ECB	Building strategy approved in July 2017.

Source: ECA.

11 The Commission outlined the main principles of its buildings strategy in a 2007 communication. Although it was planned to further clarify some aspects of the building strategy through studies (impact of building procurement methodology, correct balance between acquisition and rental, impact of new working methods on quality of life at work and possible savings), the studies were not carried out. In addition, some important aspects included in the 2007 communication changed over time. For example, deferred payment and emphyteusis contracts are no longer preferred methods of financing the acquisition of buildings and the Commission recently included Executive Agencies in its multiannual planning. Although the Commission considers the main principles and guidelines of the communication still to be valid, it

⁸ Bureau Decision of 24 March 2010: “Property needs and medium-term building policy of the European Parliament”.

⁹ Public hearing of the European Parliament’s Committee on Budgetary Control: “The cost-efficiency of the EU Buildings policy” of 18 November 2013.

¹⁰ COM(2007)501 final of 5 September 2007: Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions on policy for the accommodation of Commission services in Brussels and Luxembourg.

¹¹ Management report 2017, Annex 5 - Report to the Budgetary Authority: ‘Updated Plan of Investment in Buildings 2017-2022’.

has not updated the building strategy or consolidated it into a single revised document with recent changes.

12 The Commission's Offices for Infrastructure and Logistics in Brussels (OIB) and Luxembourg (OIL) base their medium-term planning tool, the multiannual policy framework (MAPF), on the Commission's building strategy. The MAPF sets out each Office's main priorities and projects for the next ten years and provides an overview including yearly updates on the Commission's office space needs. It is based on fluctuations in staffing levels and on the available stock of office space, taking into account the expiry and extension of leases and renovation/refurbishment works. We consider the MAPF to be a useful tool that is well suited to institutions with larger building portfolios.

13 We did not find evidence that the institutions considered different scenarios in planning their property requirements linked to, for example, budgetary constraints, staffing changes or the consequences of political decisions such as enlargement or changes in the role and mandate of the institution.

The institutions apply common decision-making principles

14 The institutions operating in the same location do not have a single common building strategy, but nonetheless apply similar decision-making principles¹².

Alignment with mandate and organisation

15 The institutions align their building strategies with their mandate and organisation. The strategies reflect their needs for specific spaces such as large conference rooms, courtrooms or assembly rooms. In some cases, the institutions review their building strategy in response to a change in their mandate. For example, the ECB initially planned to accommodate all staff in one building, but had to revise this approach due to unforeseen circumstances (see **Box 1** below).

¹² Some principles are applied although not specified in the documents describing the institutions' building strategy.

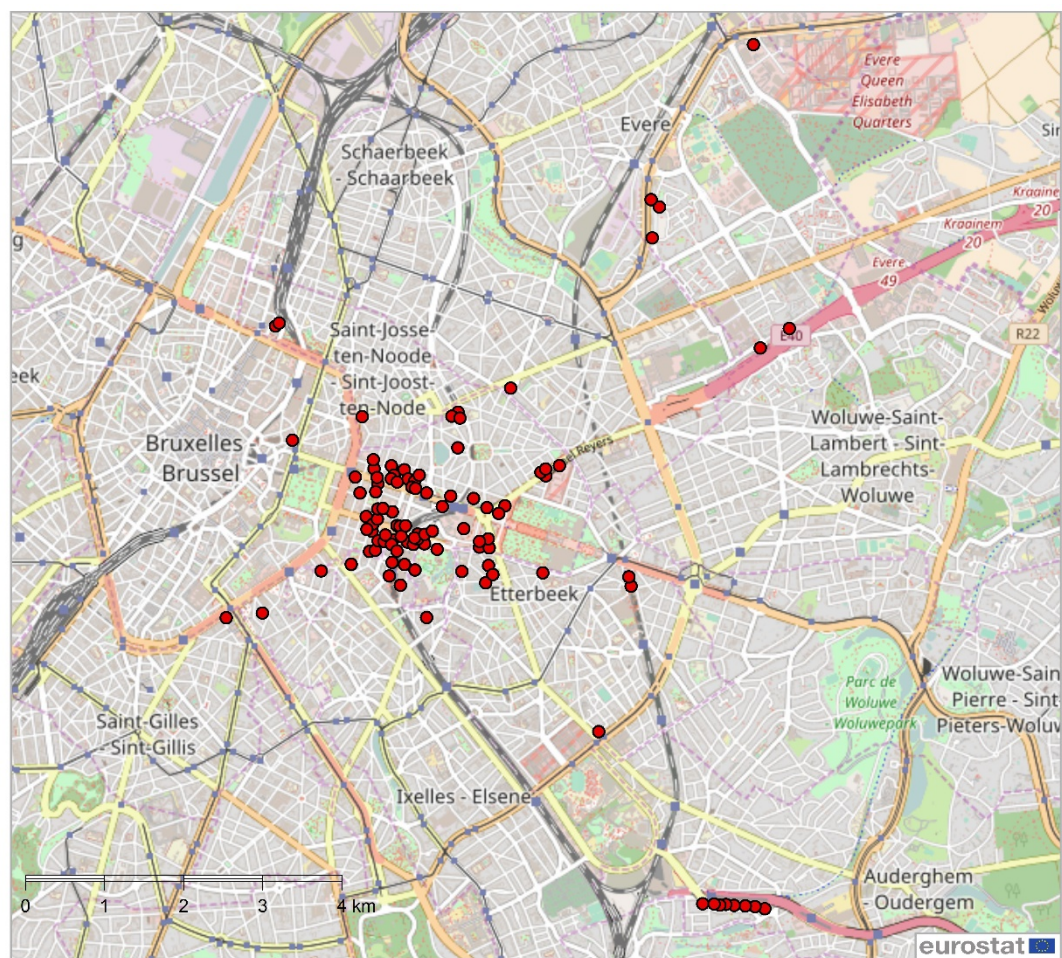
Box 1**Adaptation of the ECB's property approach to its new mandate**

In 2012, the Member States decided to extend the ECB's mandate to include Single Supervisory Mechanism (SSM) tasks. Although construction of its main building was already underway, the ECB had to find office space for around 1000 additional staff to meet the requirements of the SSM. The ECB reduced the amount of office space in the room allocation guidelines by increasing the proportion of shared and team offices and by reducing the flexibility reserve target (surplus to allow for moves, e.g. in case of refurbishment) from 10 % to 5 %. The institution nevertheless had to abandon its plan to concentrate its staff in one building and rent two additional buildings in Frankfurt.

Concentration

16 The institutions tend to concentrate in fewer but larger buildings that are located in one or a few areas, preferably near other institutions. This preference is justified by economies of scale, security reasons, better working conditions, increased productivity (e.g. reduction of time spent travelling between buildings) and public image. Applying this principle reduces by default the number of buildings suitable to purchase or rent. **Figures 5** and **6** below show the geographical distribution of the institutions' buildings in the main locations, Brussels and Luxembourg.

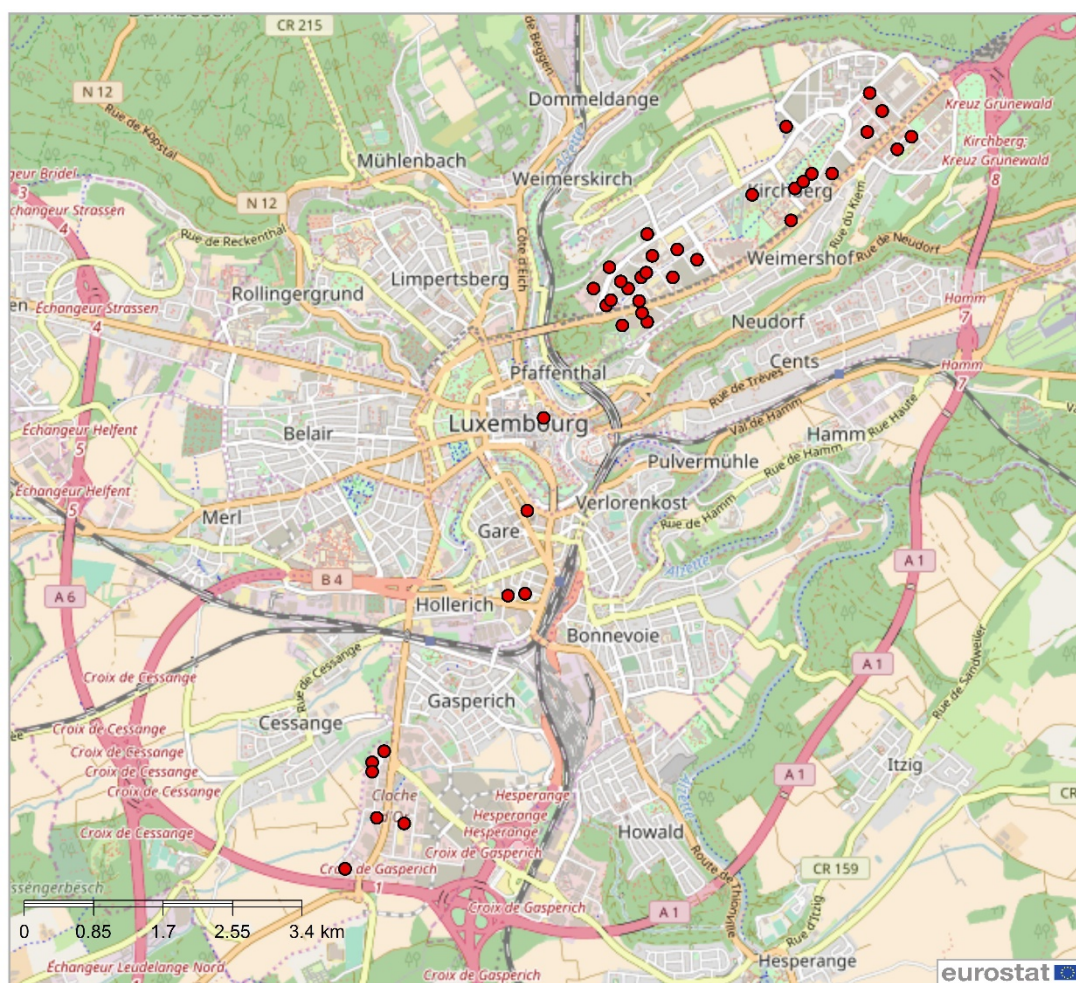
Figure 5 – Location of EU institutions, agencies and bodies in Brussels¹³



Source: Publications Office of the EU.

¹³ The Commission's warehouse located at Chaussée de Vilvorde, 140-142, Neder-Over-Heembeek (Brussels) is not shown on the map.

Figure 6 – Location of EU institutions, agencies and bodies in Luxembourg



Administrative boundaries: © OpenStreetMapContributors

Cartography: Eurostat — GISSCO, 06/2018

Source: Publications Office of the EU.

17 Rationalisation of the property portfolio via concentration in a smaller number of larger buildings for example is one of the main principles of the Commission's building strategy. In 2007, two thirds of the Commission's buildings in Brussels were under 15 000 m² and only 8 out of 61 (13 %) were larger than 20 000 m². Ten years later, 22 out of 52 buildings included in our analysis (42 %) are larger than 20 000 m². Although figures are not fully comparable, as our analysis only included buildings mainly used as office buildings, they show that the Commission implemented the principle of fewer but larger buildings.

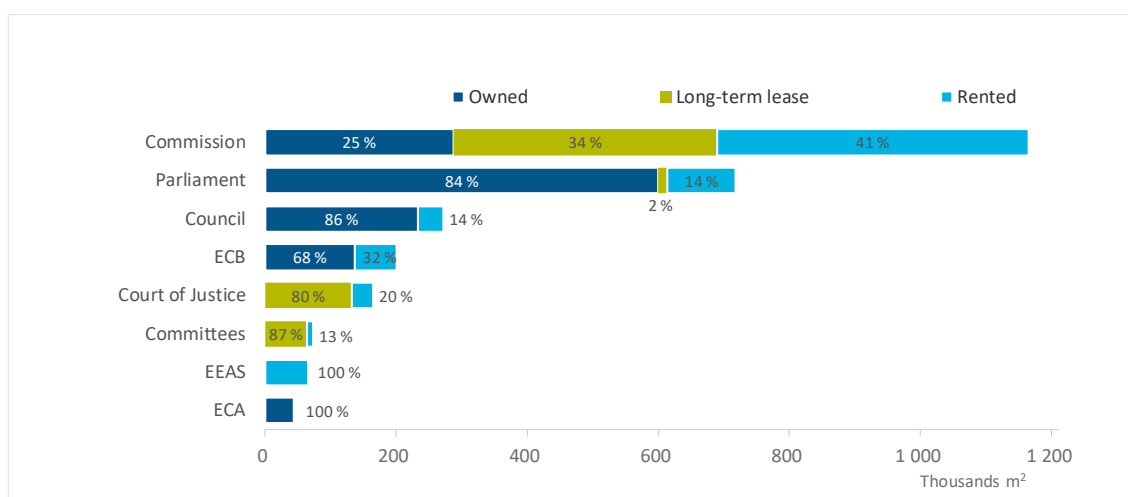
Ownership over renting

18 All the institutions examined prefer ownership to renting. **Figure 7** below compares the total surface owned (office and non-office space) with the total surface

rented¹⁴. Although renting allows flexible building management, owning buildings offers a number of advantages for the institutions:

- reduced long-term costs (added value if redeveloped, recovery of building value if sold);
- preferential conditions offered by the host country, such as the possibility of buying or using land free of charge;
- stability of costs (protection from rent increases) and better medium-term budgetary planning;
- freedom to use and improve property without landlord constraints.

Figure 7– Building surface rented and owned (property or long-term leases)



Source: ECA, based on data available in annual reports on buildings and data provided by the institutions.

19 In total, the institutions included in our analysis own¹⁵ around 70 % of the surface they occupy, compared to around 60 % in 2004¹⁶. The ratio will increase in the near future on completion of major building projects such as the extension of the

¹⁴ Based on the total net surface above-ground.

¹⁵ The institutions consider long-term leases with option to buy (emphyteusis) as ownership, although they have not yet exercised the option to buy in the majority of cases.

¹⁶ Source: 'Comparaison des coûts entre les Institutions dans le domaine immobilier', CPQBF Juin 2005, and data provided by the ECB.

Parliament's KAD building, the Court of Justice's third office tower and the Commission's JMO II complex.

Inter-institutional cooperation is extensive

20 The institutions discuss strategic property issues in a number of inter-institutional working groups¹⁷. In these meetings, the institutions inform each other of their upcoming property projects to avoid competing on the same market. They also exchange information on the space available in their buildings. This has enabled institutions to share or sub-let properties¹⁸, or take over accommodation no longer needed by another institution¹⁹. They also discuss other buildings-related matters, such as environmental and energy-related issues.

21 One of the main achievements of these working groups is their close cooperation in tendering. Institutions set up inter-institutional tendering procedures to purchase, for example, removal services, furniture supply, office equipment and supplies, insurance and property expertise. These purchases increase the institutions' leverage over service providers and suppliers and lead to economies of scale. At the same time, however, they increase the eligibility criteria for tenderers, which can discourage SMEs from participating in calls for tenders.

22 The institutions manage their buildings portfolios autonomously and show limited interest in creating an inter-institutional property agency. They consider that specialised building management teams located close to the decision-makers in each institution are better able to satisfy their specific needs.

¹⁷ The Inter-Institutional Infrastructure, Logistics and Internal Services Working Group in Brussels and the 'Groupe Interinstitutionnel de Coordination Immobilière à Luxembourg' in Luxembourg.

¹⁸ For example, the inter-institutional warehouse shared by the Commission and the Council on the outskirts of Brussels.

¹⁹ For example, after the Commission left the SDME building in Brussels, the Parliament was able to negotiate a better price for the building to meet their residual needs. The EEAS is currently negotiating over the SCAN buildings, which the Commission also left. The Parliament took over the lease for the GEOS building in Luxembourg from the Court of Justice and transferred the lease for their previous building (President) to the EIB. The Court of Justice has sub-let surplus space to the EIB, the Court of Auditors and the Translation Centre for EU Bodies for temporary periods.

The institutions to some extent opt for New Ways of Working, but have not yet assessed the costs and benefits of implemented NWoW projects

23 The NWoW approach seeks to transform the office environment by introducing collaborative working spaces in combination with a more flexible working culture²⁰. NWoW do not necessarily mean reduced office space, but rather a transformed office environment and work culture in cooperation with, and with the engagement of, management and staff.

24 The EU institutions have introduced NWoW through a number of initiatives and developments. Institutions have for example implemented occasional or structural teleworking²¹. In the Council and the Committees, the introduction of structural teleworking led to a more dense use of office space via the introduction of shared offices for structural teleworkers.

25 The Commission introduced partitioned and collaborative spaces in three buildings²² in Brussels to optimise use of the available surface area. According to the Commission, this resulted in an average increase in occupancy of 46 % in these buildings. The results of the satisfaction survey of staff working in a collaborative environment in these three buildings were not yet available at the time of the audit. In Luxembourg, the Commission is using collaborative working spaces for approximately 200 staff in two buildings²³.

26 The Parliament commissioned feasibility studies with a view to creating collaborative spaces in two new building projects²⁴. Although the project in its original form was later abandoned, the Parliament is implementing some of its elements in these two buildings based on a dialogue with the services concerned.

²⁰ NWoW requires that specific tools be developed in three main areas: Human resources /culture of organisation (including activity-based approach, teleworking policy and staff evaluation), Information and communication technology (paperless, reliable IT infrastructure) and Workspace (quiet rooms, collaborative spaces, office layout etc.).

²¹ Opportunity to alternate regular periods of teleworking and working in the office, where possible.

²² MO15, MERO, CSM1.

²³ Drosbach and Euroforum.

²⁴ Martens and KAD.

27 NWoW entails additional investment costs and is generally applied as part of renovations or new building projects. The institutions have not yet fully assessed the economic and other benefits of implemented collaborative working spaces, such as increased productivity.

Decisions regarding office accommodation are well-founded, but construction project financing mechanisms are often complex thereby affecting budgetary transparency

28 We examined how the institutions approach the host countries in order to obtain the best conditions when selecting their buildings.

29 We analysed whether the decisions on new building projects were based on sound financial management criteria.

30 We also looked at whether the financing mechanisms selected by the institutions take account of the options available under the Financial Regulation, are transparent and promote accountability.

Host countries generally offer support and preferential conditions to the institutions

31 Most of the buildings in the institutions' portfolios are located in Brussels and Luxembourg, while the ECB is located in Frankfurt. In compliance with the EU treaties²⁵, the host countries exempt the institutions from direct taxes on revenue, property and other assets and from indirect taxes²⁶. Some host countries also offer the institutions other advantages, depending on the possibilities and the outcome of negotiations.

32 The following two cases are recent examples of preferential conditions provided by Belgian authorities. For the Europa building, the Belgian authorities offered the Council the land and the existing building for a symbolic €1 and managed the building project free of charge. For a building plot in the 'Rue de la Loi', the Commission has received the right to almost double the construction capacity. The Commission

²⁵ Article 3 of the Protocol (No 7) on the privileges and immunities of the European Union (TFEU).

²⁶ Tax exemption by remit or by refund.

estimates that building to maximum capacity here would save up to €130 million in land investment elsewhere in the area.

33 In Luxembourg, the institutions also enjoy preferential conditions and state support in relation to their building projects. For example, the Luxembourgish authorities offered to the Parliament and the Court of Justice the land for their building complexes for a symbolic €1²⁷ and both institutions rent some of their buildings from the state for a preferential amount. The level of involvement of the competent national authority in the institutions' building projects varies: it is providing technical support to the Parliament for the construction of its new KAD II complex, but takes full responsibility for the management of Court of Justice building projects.

34 The Commission agreed with the Luxembourgish state to replace its main building in Luxembourg (the Jean-Monnet building - JMO). In December 2015, subsequent to the Commission's decision to vacate the JMO building²⁸, they reached a political agreement on sharing the costs of temporary replacement accommodation. The replacement building (JMO II) will house the majority of local Commission staff and eliminate the need for most of its rented buildings.

35 In 1998, the ECB signed an agreement with the government of the Federal Republic of Germany setting out the respective roles and responsibilities. The national authorities did not offer the ECB any preferential conditions for its building projects. The ECB bought the land²⁹ to build its headquarters from the city of Frankfurt under standard market conditions. However, as part of the purchase the city of Frankfurt committed to contribute to the costs arising from, inter alia, soil pollution as a result of the site's previous use.

²⁷ The state has a pre-emptive right to acquire the buildings.

²⁸ Based on 2013 technical studies, which revealed higher risks related to the presence of asbestos in the building than previously assumed.

²⁹ Grossmarkthalle site, Frankfurt's former wholesale market hall, which is a listed historical monument, built in 1928.

On the whole, decisions on obtaining office accommodation were sound

36 We analysed twelve of recently purchased and rented office buildings and ongoing construction projects of the Parliament³⁰ and the Commission³¹, the institutions with the largest portfolio of buildings, in order to assess whether decisions were based on:

- an assessment multiannual accommodation needs;
- respect of budgetary constraints;
- compliance with technical specifications;
- market prospection;
- cost-benefit analysis;
- consideration of the costs linked to the entire life-cycle of buildings in terms of initial refurbishment, maintenance, running costs and renovation;
- a comparison of financing options.

37 We found a few exceptions³²:

- (a) According to the Rules of Application of the Financial Regulation³³, building contracts³⁴ may be concluded by negotiated procedure after prospecting the local market. The Commission in principle applies the so-called “Kallas methodology”, which involves the prior publication of a building prospection notice. However, the methodology was not applied in two cases included in our sample: for the ORBAN building in Brussels and for Drosbach – Wing D in Luxembourg. In both cases, the derogation was justified by the fact that the Commission was already

³⁰ KAD II, Martens, SQM.

³¹ MERO, MO15, PLB3, L15, ORBN, ARIA, LACC, JMO II, Drosbach D.

³² ORBN, JMO II, Drosbach D.

³³ Article 134.1 of the Rules of Application of the Financial Regulation.

³⁴ According to article 121 of the Rules of Application of the Financial Regulation, building contracts cover the purchase, long lease, usufruct, leasing, rental or hire purchase, with or without option to buy, of land, existing buildings or other immovable property.

occupying adjoining buildings³⁵. The Commission plans to revise this methodology.

- (b) The Commission includes in its Notes to the Budgetary Authority³⁶ a cost-benefit analysis of new projects. We found no evidence of such analysis in the JMO II project documentation. The project will be pre-financed by the Luxembourgish state and the Commission has the option to acquire the building once finalised. There is no indication that the Commission analysed any other financing options.

Financing mechanisms of large construction projects are often complex thereby affecting budgetary transparency

38 Since 2013, it has been possible to finance building acquisition or construction through a commercial loan under the Financial Regulation³⁷. Most ongoing or recently completed construction projects started before this date. To finance these projects (see the projects examined in paragraphs 43 to 50), the institutions often used complex financing methods involving state or financial intermediaries (see an example in **Box 2**). As a result, they are not directly in control of the financial aspects of the projects.

Box 2

Complex financing in Court of Justice construction projects

Since 1994, the Luxembourgish national authorities have managed Court of Justice construction projects using a private developer that obtains the necessary funds on the financial markets. Once the rent payments will have covered all construction, financial and additional costs, the Court of Justice will take ownership of the building.

The Luxembourgish national authorities and the private developer are legally responsible for the decisions taken. Ultimately, however, the Court of Justice bears the cost.

³⁵ The derogation for the ORBAN building was additionally justified by the urgent need to address office space requirements. This arose because negotiations could not be concluded for the building initially selected.

³⁶ Pursuant to Article 179.3 of the Financial Regulation applicable until the end of 2012 and Article 203.5 of the Financial Regulation applicable from January 2013.

³⁷ Article 203.8 of the Financial Regulation. This regulation does not apply to the ECB.

39 The Parliament obtained bank loans for the Konrad Adenauer building (KAD II) extension via a complex financing structure involving an intermediary company (owned by a commercial bank), which undertook financing of the project. The company signed two financing contracts, one with the EIB and one with a commercial bank providing each 50 % of the financing for the project.

40 The Parliament and the Court of Justice pre-financed building projects using unused appropriations from other budget lines:

- Between 2012 and 2016, the Parliament transferred €260 million from various budget lines to finance the KAD II project. Out of the €474 million credit line obtained, the Parliament used €16 million. The Parliament estimated that this saved interest costs up to €85 million.
- Following the same mechanism, the Court of Justice has made prepayments for its building projects amounting to €89 million since 2007. According to the Court of Justice, this significantly reduced the budget impact of lease-purchase payments to 2026 due to estimated savings on financing charges of more than €24 million over the whole period.

41 The Council paid the Belgian authorities advances for the Europa building project amounting to €294 million thanks to unused appropriations transferred from other budget lines. The advances paid by the Council yielded interest worth €10.3 million (net value). The advances paid over the first three years did not correspond to the progress of the work, so in practice the Council was pre-financing the project (see **Box 3** below).

Box 3**Advances for the construction of the Council Europa building not reflecting the progress of the project**

In the agreement on the construction of the Europa building (formerly known as the 'Residence Palace') the Belgian state agreed to pre-finance the project. However, over the first three years of the project (2008 to 2010³⁸), the Council paid to the Belgian state advances representing 82 % of the total estimated budget (€235 million) even though the costs incurred represented only 12 % of the budget and the construction phase of the project had not yet started³⁹. The Council continued to pay advances of approximately €10 million a year until project completion.

42 Although some institutions (Parliament, Council) regularly made significant advance payments on their construction projects, they did not plan the amount of advances in the corresponding budget lines of the EU budget. This practice generally leads to a high level of budgetary transfers at year-end, which affects the transparency of the budgetary procedure. This pragmatic approach allows for the budget of the overall administrative expenditure to evolve in a stable manner over time. However, we do not consider that this practice saves money to the EU taxpayer as suggested by the EU institutions.

Major construction projects are affected by delays and, in some cases, by substantial cost overruns

43 We analysed the implementation of four major construction projects carried out by the Parliament, the Council, the Commission and the Court of Justice.

³⁸ The detailed convention was signed in March 2008; €235 million was paid until 31 December 2010.

³⁹ Internal Audit report 'Acquisition du Résidence Palace' of 8 June 2011.

The Court of Justice's project: within budget and on schedule

44 In recent years, the Court of Justice has carried out three major construction projects⁴⁰ in close collaboration with the Luxembourgish authorities. The national authorities managed the works free of charge. They managed the tenders, ensured that studies and works were carried out correctly, and were responsible for quality control and obtaining the certification required by law. They provided their market knowledge, technical expertise and expertise in managing and supervising construction projects. Moreover, as the Court of Justice did not act as developer, only a small number of its staff were needed to follow-up the project. The projects were completed on schedule and with no additional costs. At the time of our audit, the ongoing construction project of a third tower (CJ9 project) was within the estimated budget and on schedule.

The Council's Europa project: within budget but delayed

45 In 2005⁴¹, the Council delegated the management of the renovation of Block A of the 'Residence Palace' to the Belgian authorities. The building was to host meetings of the European Council and the Council of the European Union.

46 The final negotiated price⁴² did not significantly exceed the original budget: €246 million compared to €240 million in the original budget with both prices based on 2004 values. However, construction ended three years late. The delays were caused by

⁴⁰ CJ4 (2001-2008) Renovation of the Palais and 4th extension of the Court's buildings (Anneau, Gallery, Tower A, Tower B); CJ8 (2006-2013) Renovation and upgrading of Annex buildings (Erasmus = Annex A, Thomas More = Annex B and Annex C); CJ9 (2013-ongoing) Construction of a fifth extension - 3rd Tower.

⁴¹ The complete timeline of the project is available on the Council's website (<http://www.consilium.europa.eu/en/contact/address/council-buildings/europa-building/timeline-europa-building/>).

⁴² The convention foresaw a possibility for an amicable settlement of the final price of the project based on supporting documents provided by the state, analysed, and approved by the Council. This allowed the Council to negotiate the price which then became final and discharged of all past, present and future obligations.

project changes due to unforeseen circumstances⁴³. A number of project management weaknesses contributed to the delays:

- The national authorities did not properly manage change requests nor did they pay contractors on time;
- The consulting firms contracted by the national authorities had limited capacity to transcribe the Council's complex functional and quality requirements into tender specifications. This hampered the project throughout its life and led to most of the change requests;
- Reaching an agreement on the final price was complicated because, even six months after delivery, the national authorities were not able to provide the complete list of invoices.

47 The Council partially mitigated the impact by enlarging its project team and stepping up project management procedures and internal controls.

The Parliament's KAD II project: significant delays leading to additional costs

48 Initially, the KAD II building delivery date was due to be 2013. The current estimate is the following: East construction site - end of 2019, West construction site - 2022. The main explanations for this delay are the Parliament's limited experience as a developer at the beginning of the project and an unsuccessful first tender for construction works. The set-up of the financial structure and financing model was delayed by three months due to the first unsuccessful tender.

49 The original estimated budget of €317.5 million was revised in 2009 to €363 million⁴⁴. In order to ensure the success of the tender, while respecting the allocated budget, the Parliament reduced the size of the project, modified the technical specifications and allowed more competition in the procurement procedure

⁴³ The majority of these changes were due to a new configuration of the European Council and the creation of the post of President with special prerogatives in terms of representation of the Union towards third countries, both a consequence of the Lisbon Treaty. Significant delays were also due to the appeal to the Court of First Instance brought by one of the unsuccessful competitors in the award procedure, the discovery of significant ground pollution and increased security requirements.

⁴⁴ In 2005 prices including costs for construction only.

by increasing the number of lots. As the project is not yet finished, the final price is unknown. The Parliament intends to keep the costs within the current budget of €432 million⁴⁵. Taking into account an 8 % increase in the price index for construction work between 2012 and 2017, construction costs could increase further.

50 Due to the delay, the Parliament has to rent other buildings in Luxembourg for a longer period than initially planned. This additional renting cost amounts to €14.4 million per year or €86 million over the six-year period. In accounting terms, this additional renting cost is outweighed by a later start of the depreciation of the new building investment (€17.3 million per year). The EU taxpayer is nevertheless paying the additional renting cost in addition to paying for the construction of the new building.

The Commission's JMO II project: delays and additional costs

51 Lengthy negotiations with the Luxembourgish state delayed the start of the Commission's major construction project in Luxembourg, JMO II. It took 15 years to reach an initial agreement in 2009.

52 The Commission and the Luxembourgish authorities planned that the building would be delivered in two phases, the first mid-2016 and the second at the end of 2019. The timeline for delivery of the building was revised several times before the construction works began. The last known timetable for the JMO II project sets the delivery date for phase one as February 2023 and for phase 2 as February 2024.

53 The delayed start of the construction project was mainly caused by uncertainties regarding the architectural competition, administrative issues in the tender procedure for earthmoving works, and the additional security measures that had to be incorporated in the project. It is still unclear how costs resulting from these delays will be shared with the Luxembourgish authorities. In addition, in 2015 the Commission had to evacuate its main building in Luxembourg, the JMO building as a precautionary measure to avoid exposing staff to any potential danger arising from the presence of asbestos. It thus rented additional office space in several buildings to relocate the staff.

⁴⁵ In 2012 prices for construction only, excluding fees for architects, project development, costs of possible upgrading of the current KAD building.

54 Considering the initial agreement and the latest known timetable, we estimate that the Commission will incur rental costs of €248 million⁴⁶ due to the delayed start of the construction project and the need to rent additional office space following the evacuation of the JMO building. This delay however results in a later start of the lease payments for the JMO II building. The Commission estimates the lease payments not paid during the period of delay at €176.2 million⁴⁷.

Monitoring and reporting are insufficient

55 We examined how the EU institutions monitor different aspects of their existing building portfolio (e.g. space and facilities management, contractual conditions, compliance with technical specifications) including indicators related to the efficient use and cost of buildings. This would provide them with an overview of their portfolio, enabling them to identify potential areas of improvement. We examined whether the institutions had improved the standardisation of surface measurement and categorisation and whether it was possible to compare efficiency using the data available internally and reported to the budgetary authorities.

The institutions monitor various aspects but not indicators related to efficient use and cost of buildings

56 The institutions use a variety of IT systems and tools to manage and monitor their building portfolio. Each aspect of the building portfolio, such as facilities management, space allocation, energy consumption, financial, legal and accounting aspects, is monitored using IT systems or manually via spreadsheets.

57 The Commission in Luxembourg uses space allocation reports to manage in a consistent manner the space allocation entitlements defined by the 'Housing Conditions Manual'. In Brussels, the Commission has been developing its integrated real estate management software since 2015, which should eventually provide one point of access to any information related to the building portfolio of the Commission. However, the system currently in use does not produce reports to monitor whether

⁴⁶ The estimate is based on the latest known schedule from the Commission concerning its abandonment of rented buildings and relocation of staff into JMO II.

⁴⁷ Based on the Commission's hypothesis from 2013, established at the time of signature of the framework contract with the Luxembourgish authorities.

the space allocated to policy departments (DGs) is in line with the conditions defined in the Housing Conditions Manual.

58 The Parliament's system for managing office space and planning accommodation needs can generate various reports⁴⁸. We found no evidence, however, that the Parliament uses these reports regularly to monitor their office space. The Parliament is planning to develop by 2026 a system allowing electronic storage of all building-related information.

59 The majority of institutions do not regularly monitor indicators to assess the efficiency of their building portfolio for management purposes.

60 The Commission in Brussels uses just one indicator linked to the efficiency of office accommodation in its building portfolio: the net office surface allocated per workstation. It reports an average of 14 m² with a target of 12 m² to be reached by 2020, mainly by introducing collaborative spaces. We did not find any indicators linked to the efficiency of office accommodation in the relevant annual activity reports of the Parliament, Council or Court of Justice, nor did these institutions produce any other management reports assessing the efficiency of office accommodation management.

61 The Commission has nevertheless definitions⁴⁹ for efficiency indicators such as net floor area/gross floor area; usable area above ground/net floor area above ground; office area/net floor area above ground. We found evidence that the efficiency of the areas of the building is one of the criteria considered when evaluating offers for new building projects. However, the Commission does not monitor these indicators on the level of the entire portfolio of buildings.

62 The ECB applies a well-developed approach to monitoring and reporting on its building portfolio (see **Box 4** below).

⁴⁸ For example, the GPI 480 report provides a snapshot of the surface areas of all buildings, by site, broken down as office space/ specific space/ facilities.

⁴⁹ Definitions are set in the 'Measuring Code applicable to Commission buildings in Brussels'.

Box 4**ECB's monitoring and reporting on its building portfolio**

Based on a facility and space management system, the department in charge of building management analyses parameters such as the space allocation per directorate, the average office area per workplace, the average office space per staff member, etc. It also analyses different types of costs linked to buildings (rent, maintenance, energy, cleaning services and other operational costs). The ECB reports on its building portfolio in a monthly management report, which includes for instance the evolution of available and occupied workplaces, the evolution of the reserves and information on workplaces per business area.

The available data is not standardised, so institutions cannot easily be compared

63 In 2009, the EU institutions⁵⁰ adopted the Inter-institutional Measuring Code. This code defines measurement methods and basic types of building areas based on German standards. Each institution has further developed this code into more detailed area categories, making it difficult to compare data from different institutions⁵¹. The Commission in Brussels and Luxembourg even use different area categories. This makes it difficult for the Commission to draw up reports based on the same parameters.

64 Although three of the five institutions examined⁵² use the same IT platform for their space management, each one was individually customised. This has a negative impact on the availability of comparable data.

65 Every year by 1 June, the institutions provide the budgetary authorities with a detailed report about their building policy⁵³. This requirement was introduced by the Financial Regulation in 2013. The report must include expenditure and surface per building, as well as the expected evolution of the programming of surfaces and

⁵⁰ Although the ECB is not part of this agreement, it applies the same standards.

⁵¹ For example, the Council includes small meeting rooms in the lowest sub-category of office space, whereas other EU institutions (Commission, Parliament, Court of Justice) do not.

⁵² Council, Court of Justice, Commission (OIL).

⁵³ Annual report on buildings pursuant to Article 203.3 of the Financial Regulation (not applicable to the ECB).

locations for the coming years. This requirement made the institutions' property situation and actions more transparent for the budgetary authorities and, for some institutions, the public⁵⁴.

66 *Figure 8* below shows that in their annual reports on buildings, each institution uses different surface categories, so these categories cannot be used for comparison purposes. The Financial Regulation does not require information to be included on the number of workstations or staff accommodated. It also does not require the inclusion of any efficiency indicators.

Figure 8 – Annual reports on buildings - office space categories

Surface categories in the annual report on buildings	Institutions using these categories in their annual report
Office space (above ground, below ground, total) Specific areas (above ground, below ground, total) Facilities (above ground, below ground, total)	Council
Office space above ground Non-office space above ground	Commission Court of Justice
Total gross surface area	European Parliament

Source: ECA, based on the institutions' 2017 annual reports on buildings.

67 In addition, the Commission's report does not provide a clear picture of the different types of area in its building portfolio, as it does not clearly define the criteria separating office and non-office space. Furthermore, the surface areas used by the Commission in the annual report on buildings are not comparable with those recorded in the space management tools.

68 The most recent attempt to produce consolidated information on the buildings of the EU institutions dates back to 2010. The EU institutions drew up a report in the context of the Draft Budget 2011 in response to a request by the Parliament and the Council to "provide comprehensive information on building matters with the

⁵⁴ The Council's, the Commission's, and the Court of Justice's annual reports on buildings are public documents.

preliminary draft budget/estimates”⁵⁵. This report⁵⁶ presented data on the following ratios for the institutions’ building portfolio:

- share of office and non-office space in total space;
- office space/employee;
- average expenditure/ m².

69 The values of the indicators varied substantially between institutions. We did not receive any evidence that the data provided had been analysed, or that the institutions would be required to improve the comparability of the indicators or produce the reports more regularly.

Surface indicators are comparable between institutions but costs vary considerably

70 Based on the information available and making corrections where necessary, we compared the efficiency of the institutions building policies. To do so, we calculated and analysed surface area indicators and recently negotiated rents in relation to market levels.

71 We also calculated yearly paid rents per person and the cost per square metre for buildings recently constructed or acquired.

Average office surfaces are comparable

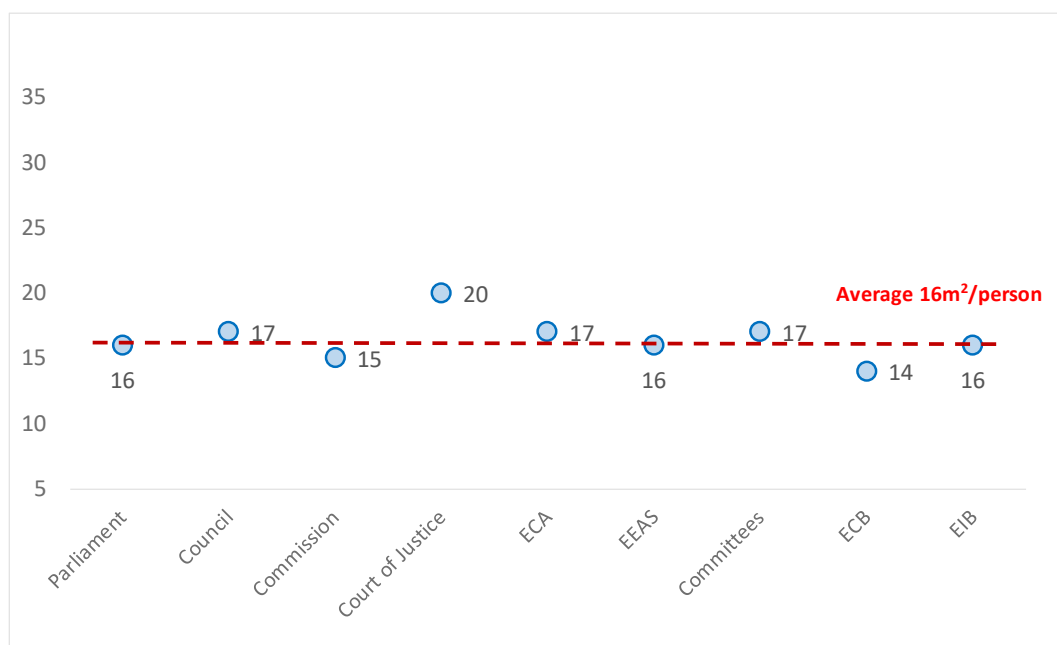
72 To compare the use of office accommodation, we calculated surface indicators based on the data obtained from the EU institutions (see *Annex I* for the methodology used).

⁵⁵ Press release of the 2975th meeting of the Council of the European Union (Economic and financial affairs (Budget)) in Brussels on 18 November 2009, , p. 15 (http://europa.eu/rapid/press-release_PRES-09-333_en.htm).

⁵⁶ ‘Consolidated information on buildings provided by the European institutions with the Draft Budget 2011’, 20 May 2010.

73 **Figure 9** below shows that the average office surface per person in most institutions is close to the weighted average for all institutions of 16 m² per person⁵⁷, while **Figure 10** below shows that the office surface per person in most buildings is below or close to the average, and identifies the outliers.

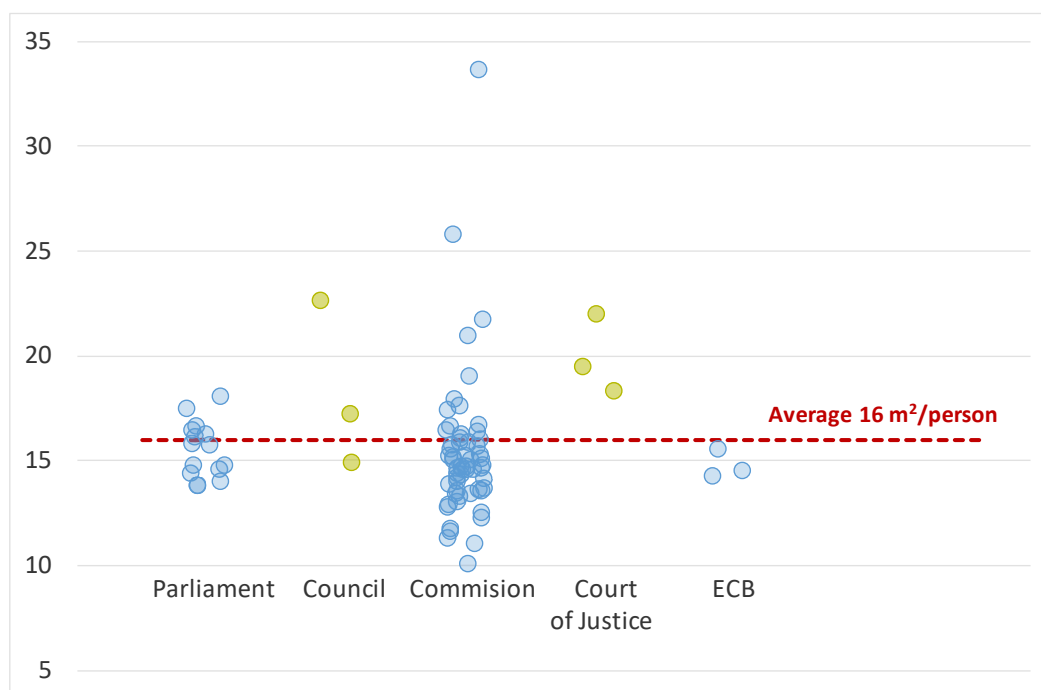
Figure 9 – Average office surface per person by institution



Source: ECA, based on the data provided by the institutions.

⁵⁷ Including data obtained from the ECA, EEAS, Committees and EIB.

Figure 10 – Office surface per person by building



Source: ECA, based on the data provided by the institutions.

74 Following the completion of the Europa building, around 9 % of the Council’s net office area was available. At the time of the audit, this space was used for temporary accommodation (e.g. evacuation of the Europa Building, holding a summit of the Asia-Europe Meeting, renovations). This affects the net office surface per person for the Council and for the Europa building itself.

75 The three dots relating to the Court of Justice in **Figure 10** represent two building complexes⁵⁸ and the T-building. The Court of Justice currently has 2 962 m² of unoccupied offices in the T-building, representing around 19 % of the building’s net office area and 6 % of the total net office area. The extra space was previously sub-let to other institutions and is currently empty. Although the building exceeds its current needs, the Court of Justice decided to continue renting it for several reasons. Firstly, the Court of Justice rents the building from the state at a preferential rate (below market levels). Secondly, the entire building had to be rented, and third; the Court of Justice has significant security and confidentiality requirements, which limit options for subletting the extra space. Lastly, the Court of Justice will end the lease on completion of the third tower, scheduled for the summer of 2019. If we deduct this space from the

⁵⁸ The Palais complex (Anneau, Tour A, Tour B, Galerie) and annexes (Erasmus, Thomas More, Annexe C).

office surface, the average office surface per person is 19 m² for the Court of Justice and 18 m² for the T-building.

76 The lower than average office surface at the ECB can be explained by a significant proportion of shared and team offices and team areas out of the total office space. In the case of the Commission, it can be explained namely by a very low buffer space compared to other institutions.

77 The ECB and EIB also monitor density based on installed workstations. This ratio does not take into account the actual occupancy and is 12 m² per workstation for both institutions⁵⁹.

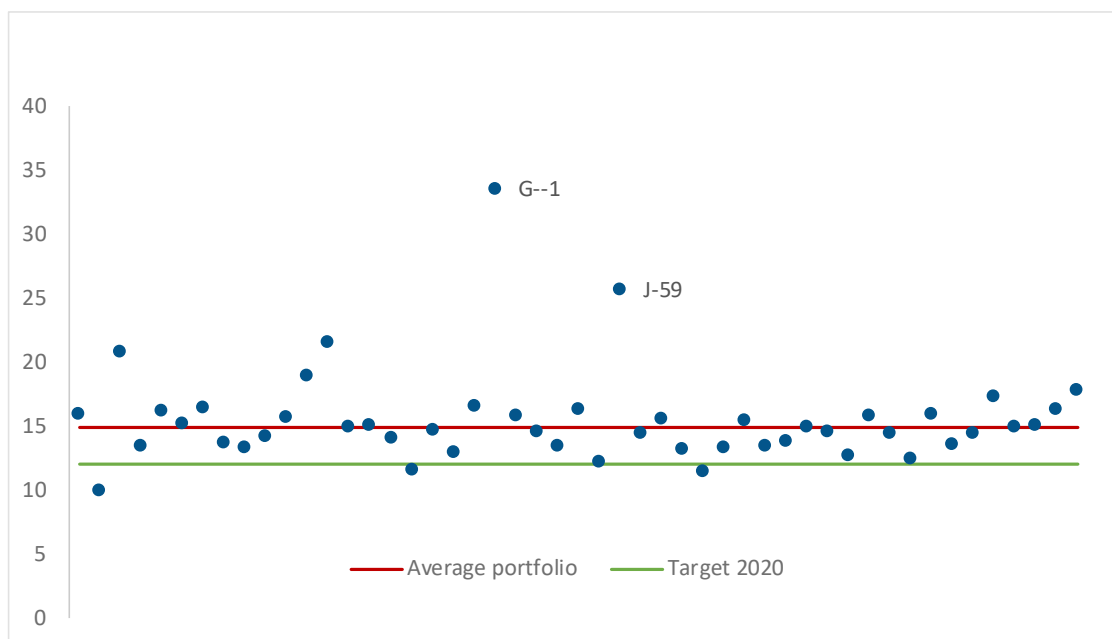
78 The Commission's target for the portfolio in Brussels is 12 m² per workstation by 2020⁶⁰ and, according to its own calculations, it currently achieves 14.5 m² per person. At the time of our audit, only five buildings in Brussels had a density below or close to 12 m² per person⁶¹. These buildings represent 9 % of the total office surface of the buildings included in our analysis (see **Figure 11**).

⁵⁹ In the case of the ECB, the difference between the ratio based on installed workstations (12 m² per person) and the ratio based on occupied workstations (16 m² per person) is explained by the buffer space of 18 % of installed workstations at the end of 2016.

⁶⁰ 2017 OIB Annual Management Plan. OIB does not specify whether the target includes vacant offices and buffer space.

⁶¹ B-28, CSM1, L-15, J-54, MO-59.

Figure 11 – Office surface per person in Commission buildings in Brussels



Source: ECA, based on the data provided by the Commission.

79 The Commission's target buffer space in Brussels is 15 000 m², which represents approximately 2 % of its building portfolio. As at December 2017, the Commission had at its disposal buffer space equal to 895 free workstations, split over nine buildings. This explains why the average office surface per person is relatively high for certain buildings (for example the G-1 building). One building (J-59) was at the time of our analysis in a transitional period (empty between moves) and is currently occupied by the EACEA executive agency.

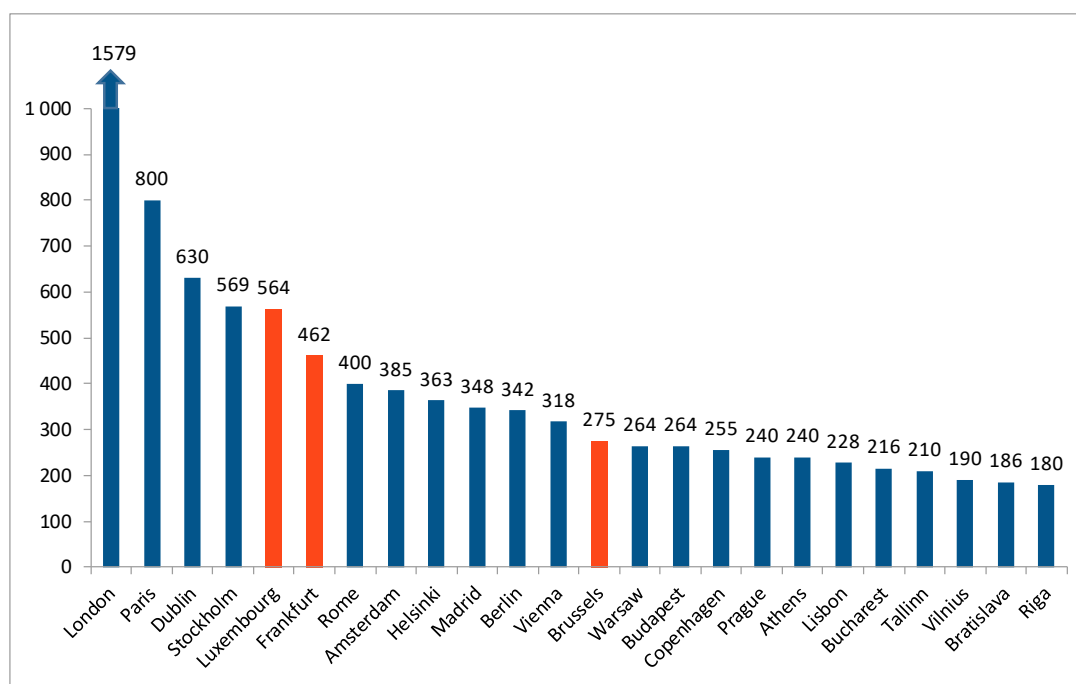
Negotiated rents are generally below market levels but rents per person vary significantly between buildings

Rent compared to market rate

80 **Figure 12** below shows the prime market rent in 23 EU capital cities and Frankfurt. The Brussels prime rent ranks in the middle. Luxembourg is the fifth most expensive city, followed by Frankfurt. Within cities, prime rents vary according to location. For example, the Luxembourg prime rent of €564/m²/year applies to the most expensive area – the city centre. However, the institutions locate most of their

buildings in Kirchberg and Cloche d'Or, where the prime rent was €408/m²/year and €354/m²/year respectively⁶².

Figure 12 – Prime office rent in 23 EU capital cities and Frankfurt - Q4 2016



Source: ECA, based on BNP Paribas Real Estate European Office market report (Edition 2017) reflecting prices for Q4 2016.

81 For a sample of nine recent rental contracts, we compared the negotiated rent with market conditions (See **Annex I** for more details on our methodology and data source). Five of the six buildings in Brussels were rented by the Commission⁶³ and the other by the Parliament⁶⁴. The majority of the contracts were signed for 15 years. We observed that the rent negotiated by the institutions was consistently below Brussels prime rent and below or close to the market average in the Quartier Léopold, where the buildings are located (See **Figure 13** below). The rental amounts negotiated by the Commission for the three buildings in Luxembourg⁶⁵ were below the prime market rent and average rent.

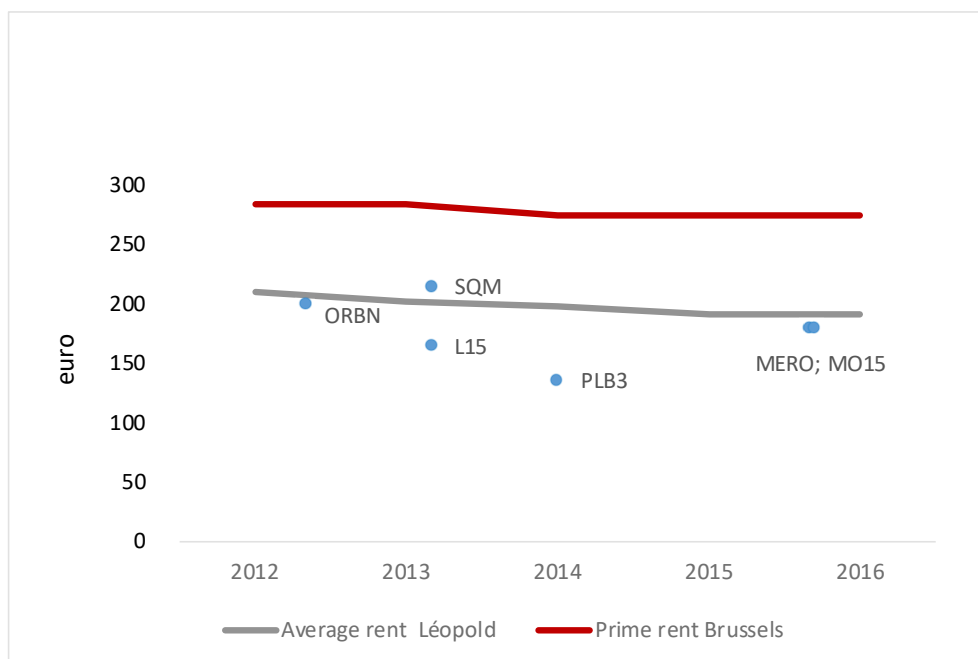
⁶² Source: JLL office market report for Q4 2016.

⁶³ MERO, MO15, PLB3, L15, ORBN.

⁶⁴ SQM.

⁶⁵ ARIA, LACC, Drosbach D.

Figure 13 – Rent vs prime and average market rent in Brussels



Source: ECA, based on publicly available market reports and data provided by the institutions.

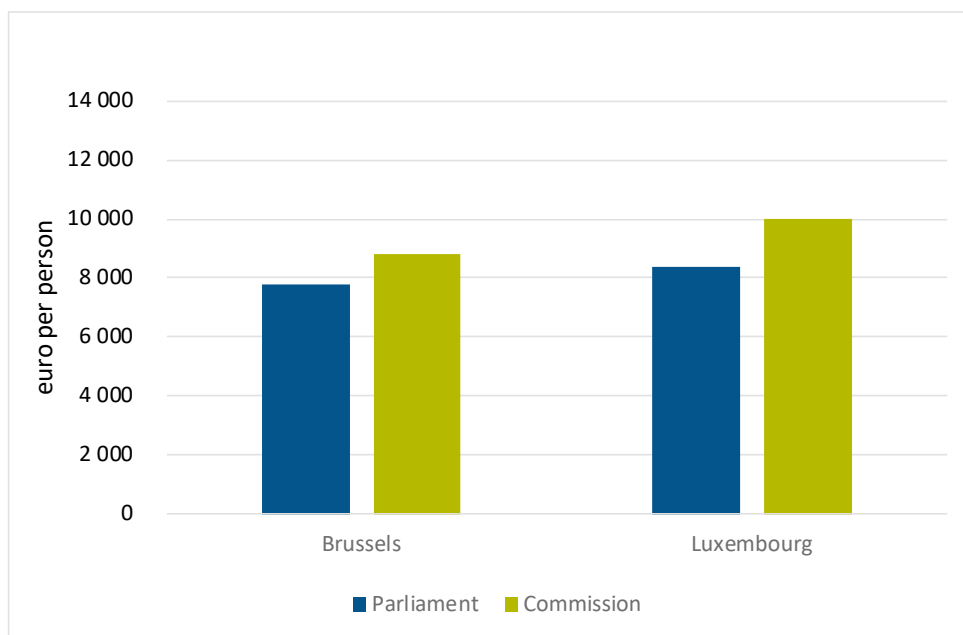
82 Some building owners offered incentives to the European institutions. In six out of nine contracts examined, the owners offered the institutions rent-free periods, while in four cases the refurbishment costs were partially borne by the property owners.

Rent per person

83 **Figure 14** below compares the weighted average annual rent per person in the two main locations, Brussels and Luxembourg (See **Annex I** for details on our methodology)⁶⁶.

⁶⁶ The Council does not rent any office buildings.

Figure 14 – Average annual rent per person



Source: ECA, based on the data provided by the institutions.

84 The Parliament rents two office buildings in Brussels and four in Luxembourg. The Commission rents 26 office buildings⁶⁷ in Brussels and eight in Luxembourg. The Court of Justice rents one building in Luxembourg. Most of the buildings in Brussels are rented under usufruct contracts, which offer additional fiscal benefits compared to normal leases (see *Annex I, paragraphs 12 and 13*). In Luxembourg, most of the institutions' contracts are normal leases.

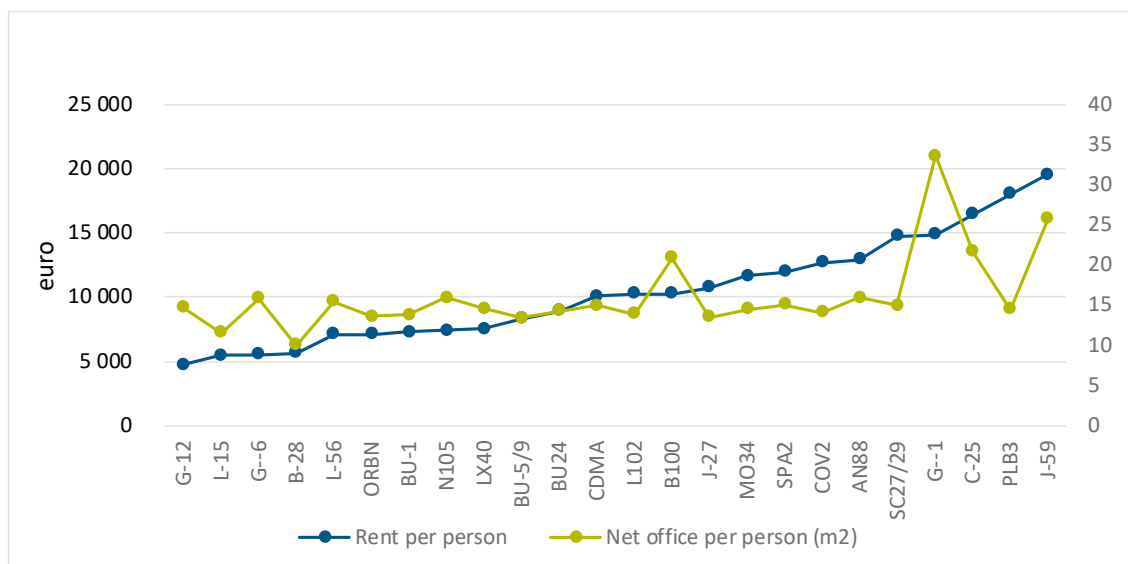
85 The average annual rent per person is generally higher in Luxembourg than in Brussels. This is due to differences in market rents in the two cities as shown in *Figure 12*. The Parliament's lower average rent per person in Luxembourg is explained by the fact that Parliament rents three of its four buildings from the national authorities and enjoys preferential conditions until the new KAD II is built. The average annual rent per person for the Court of Justice is relatively high (€12 500 per person) and not included in *Figure 14* because it is based on one building only (T-building), a significant portion of which is currently empty. The Court of Justice will stop leasing the building in 2019 (see *paragraph 75*).

86 We noted that the annual rent per person varies significantly between buildings. For example, in the case of the Commission in Brussels, it varies between €4 800 and €19 500, while in Luxembourg it varies between €9 400 and €14 500. As *Figure 15*

⁶⁷ Buildings with more than 20 % office space.

below shows, the annual rent per person in the Commission's buildings in Brussels to some extent correlates with the office surface per person.

Figure 15 – Average annual rent per person and office surface per person



Source: ECA, based on the data provided by the institutions.

The cost of construction and acquisition depends on the type of the building

87 We calculated the price per square metre of the total surface of two large, recently completed construction projects, the Council's Europa building in Brussels and the ECB's Main Building in Frankfurt. Both construction projects included renovation of the existing listed historical buildings and had to meet high technical security and safety standards. Both are flagship buildings that create a new landmark in the city, and both are mixed-use. While the Europa building's main functions are to host EU summits and provide space for national delegations and the President of the European Council, the ECB's Main Building is mixed-use, with a higher proportion of office space. The Council building was built by the state, while the ECB ran the project internally with the support of an external project manager.

88 The cost per square metre for the ECB's Main Building is €4 600 and €4 000 per square metre for the Europa building. The ratio does not take into account the cost of the land. The Council acquired the land for the Europa building for a symbolic 1 euro, whereas the ECB paid the market price for the land.

89 In 2016, the Parliament purchased a standard office building (the Martens building in Brussels) at a cost of €2 700⁶⁸ per square metre. The Parliament occupies the building since 2018, following refurbishment.

⁶⁸ Includes cost of building and refurbishment works; excludes price of land.

Conclusions and recommendations

90 Overall, we found that the institutions manage their spending on office accommodation efficiently. However, the building strategies are not always formalised and planning is not optimal. Furthermore, financing mechanisms of large construction projects we analysed were often complex and thereby in some cases affecting budgetary transparency. Most of these projects were affected by delays and, in some cases, substantial additional costs. The monitoring and reporting of the buildings portfolio of most institutions is not adequate.

91 The institutions set out their building strategies in various documents. Some of these were outdated or not yet formally approved. We identified good practice at the Commission, which complements its buildings strategy with a regular update of the evolution of needs against available office space. The institutions do not consider different scenarios in planning their property requirements (see **paragraphs 10 to 13**).

92 Although the institutions in the same location do not formally share a building strategy, they apply similar decision-making principles. The institutions base their building strategies on their mandate and organisational needs. For practical and economic reasons, they aim to concentrate their buildings in one or a few areas, they prefer to operate a smaller number of large buildings and they prefer to own buildings rather than rent (see **paragraphs 14 to 19**).

93 The institutions in the same location established inter-institutional working groups where they discuss strategic property issues. This cooperation enabled institutions to share, take-over or sub-let properties. It resulted in setting-up several inter-institutional tendering procedures for supplies of goods and services linked to the operation of the buildings portfolios (see **paragraphs 20 to 22**).

Recommendation 1 – The institutions⁶⁹ should update and formalise their building strategies and regularly update planning documents

The institutions should define their main decision-making principles in building strategies, which should be approved by management and reflect the latest evolution in the institutions' mandate, policies and objectives.

The institutions should complement their building strategies by medium-term planning, which

- are regularly updated based on the evolution in the needs and in available office accommodation, and
- include the analysis of various development options ("scenario planning").

Timeframe for implementation: by the end of 2020.

94 The institutions started introducing New Ways of Working (NWoW). Some aspects, such as teleworking and, in some occasions, collaborative working space have already been implemented. However, results of surveys and evaluations of implemented projects were not available at the time of the audit (see [paragraphs 23 to 27](#)).

Recommendation 2 – The institutions should evaluate the New Ways of Working projects

The institutions should (i) evaluate the results of implemented NWoW projects and (ii) integrate their results into strategic reflections on the development of their building strategies and Human Resources policies.

Timeframe for implementation: (i) by the end of 2019 and (ii) by the end of 2020.

95 The host countries offered to the institutions preferential conditions for purchasing or renting office accommodation. They also support the institutions in their major construction projects (see [paragraphs 31 to 35](#)).

⁶⁹ The Parliament, the Council, the Commission, the Court of Justice and the ECB.

96 Overall, the decisions on obtaining office accommodation were well founded (see paragraphs 36 and 37).

97 For financing of large construction projects under our review, the institutions used complex mechanisms. As a result, they are not directly in control of the financial aspects of the projects. The use of unused appropriations from other budget lines to make anticipated payments is a common practice when financing construction projects, however it affects budgetary transparency (see paragraphs 38 to 42).

Recommendation 3 – The institutions should increase budgetary transparency of the financing mechanisms for construction projects.

For the financing of construction projects, the institutions should aim for more budgetary transparency and less complexity. This could for instance be done by adequately disclosing the advance payments on building projects in the appropriate budget lines during the budgetary procedure.

Timeframe for implementation: for projects starting after the end of 2019.

98 Institutions have different ways to manage their major construction projects. Some delegated construction to the state, while others decided to manage the project internally with some external support. Most of the recent construction projects we analysed were affected by delays, mostly caused by unforeseen circumstances, which led to project changes. Other elements contributed to delays, for example in case of the Europa building project of the Council it was weaknesses in national authorities' operational and administrative project management. At the beginning of the KAD II project the Parliament lacked necessary internal resources and expertise to manage such projects. In two projects, the delays led to additional costs (see paragraphs 44 to 54).

Recommendation 4 – The institutions should set up adequate management procedures for large construction and renovation projects

The institutions should set up adequate management procedures for large construction and renovation projects based on assessments of risks, which would

ensure sufficient administrative and operational follow-up of the project and ensure that the financial costs linked to delays are minimalised.

Timeframe for implementation: by the end of 2019.

99 The institutions monitor each aspect of the building portfolio, such as facilities management, space allocation, energy consumption, financial, legal and accounting aspects, using a variety of IT systems and tools, but they do not regularly monitor indicators to assess the efficiency of their building portfolio for management purposes. We found a good practice for monitoring and reporting in the ECB (see [paragraphs 56 to 62](#)).

100 Although the institutions with their buildings in Brussels and Luxembourg adopted common Inter-institutional Measuring Code, due to differences in the detailed area categories adopted by each institutions, the collection of data for institutional comparison is difficult. Differences in the IT systems used by the institutions and the two Commission's offices (OIB and OIL) for space management also affect comparability of data. The annual reporting to the budgetary authorities on buildings does not allow for comparison namely because the institutions use different space categories (see [paragraphs 63 to 69](#)).

101 The surface indicators we calculated show that the use of office space is comparable between institutions (see [paragraphs 72 to 79](#)). We found that the rents the institutions negotiated were generally below market levels (see [paragraphs 80 to 82](#)). We also found that the annual rents per person vary significantly per building (see [paragraphs 83 to 86](#)). The total cost per square meter of two recently constructed flagship buildings is higher than the cost of a standard office building (see [paragraphs 87 to 89](#)).

Recommendation 5 – The institutions should improve consistency of data and monitoring of the buildings portfolio

The institutions should:

- (a) develop indicators to monitor the efficiency of their buildings portfolio for their internal management purposes and for that use the potential of their IT tools;
- (b) adopt a common methodology for the calculation and presentation of surface area and cost indicators, and share such data on a regular basis in inter-institutional fora;
- (c) agree on a common methodology and presentation of the data in the annual reporting to the budgetary authorities in order to ensure comparability of information.

Timeframe for implementation: by the end of 2020.

This Report was adopted by Chamber V, headed by Mr Lazaros S. LAZAROU, Member of the Court of Auditors, in Luxembourg at its meeting of 5 December 2018.

For the Court of Auditors

Klaus-Heiner LEHNE
President

Annexes

Annex I — Calculation methodology for surface and cost indicators

01 In our questionnaire, we asked the institutions to provide us with data on surface and costs illustrating the situation as at the end of 2016. We based our calculations on the data provided.

Surface indicators

02 The data on surface provided by the institutions was not directly comparable, mainly due to discrepancies in interpretation of terminology (net office area, gross office area). We therefore established our own definitions, which are close to those used by most institutions. We requested additional data where necessary and adjusted the original data accordingly. As no institutions except the ECB keep detailed historical data on surface, we could not analyse changes in the building portfolios over time. For the same reason, the additional data requested was not available at the end of 2016, but refers to the date of extraction from the systems in 2017. As the various space sub-categories did not change significantly in size over time, we consider this data sufficient for our analysis.

03 For the purposes of our analysis, we established that the **office surface** includes individual and shared offices and collaborative space. Offices used for other purposes, such as meetings or storage, are excluded. Vacant offices and offices kept as buffer space are included in the office surface¹.

04 The **number of staff** refers to the staff using the office space, including external consultants working on site.

05 We retained only buildings with at least 20 % office space. We excluded from the analysis buildings that are not typical office buildings, such as warehouses, training centres and childcare facilities. For the analysis of the area efficiency ratios, we also

¹ Buffer space is space set aside in order to allow a certain degree of flexibility. It is used for moves; renovations; unforeseen minor staff increases, etc.

excluded unoccupied buildings. In the case of the Commission, we excluded office space occupied by executive agencies and other bodies (e.g. EEAS, EACEA).

06 In the case of Parliament, we excluded buildings in Strasbourg from our analysis, as they are not permanently occupied and most staff assigned to those buildings have another office in one of the other seats of the Parliament².

07 We calculated the indicators by dividing the office surface by the number of staff working in the building. The **weighted average** ratios were calculated by dividing the total³ office surface by the total number of staff working in the buildings.

Cost indicators

Comparison with market rent

08 We based our analysis on publicly available market reports by real estate agents (e.g. Jones Lang LaSalle (JLL) and BNP Paribas Real Estate). The market reports mostly contain analyses of prime rent. JLL defines⁴ the **prime office rent** as:

- the top open market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter).

09 In order to take into account the fact that the buildings rented by the institutions are not always of the highest standard, we extended our analysis by comparing the rent with the average annual office rent applicable to the location. In the case of Luxembourg, as the information was not available for the years relevant to our analysis, we used an estimate. According to JLL⁵, the **weighted average rent** represents:

² In July 2014, the Court produced an analysis of potential savings to the EU budget if the European Parliament centralised its operations in Brussels (www.eca.europa.eu).

³ Either total for all buildings in the portfolio of one institution or total for all institutions combined.

⁴ Source: JLL Office Market Report Luxembourg Q4 2015.

⁵ Source: JLL Office Market Report Luxembourg Q4 2015.

- o the mean value of all known face rent⁶ achieved on leasing transactions completed within a market during the survey period weighted with the floor space. It excludes any unrepresentative deals.

10 Rent included in the market reports is based on the ‘face rent’. This rent does not take into account incentives provided by the property owner, such as a rent-free period or the contribution by the property owner to additional costs (e.g. refurbishment or additional technical improvements linked to security). Therefore, in order to use a comparable basis as far as possible, we compared the market rent reported for contract signature period with the rent for office space stipulated in the contract. It should be noted that most of the rental contracts signed by the institutions include provision for indexation, which is normal market practice.

11 For rented buildings, the institutions use different legal arrangements:

- standard rental;
- usufruct⁷;
- long-term leasehold (“emphyteusis”⁸) without the option to buy.

12 The party using a building in accordance with a usufruct or emphyteusis contract is required to pay the taxes, such as registration tax, VAT, property tax and other regional taxes linked to the property. By contrast, under a lease contract, the lessor (owner) is required to pay those taxes and pass on the costs incurred to the lessee.

13 The EU institutions benefit from exemptions in accordance with the Protocol on the Privileges and Immunities of the European Union. When the institution uses a building in accordance with a usufruct or emphyteusis contract, the taxes are not

⁶ The rent for the office space stipulated in the contract.

⁷ Usufruct - Right to use a building. The user (usufructuary) has more rights than under a rental contract but also more obligations when it comes to repair works. Most taxes are the responsibility of the user, not the owner. The usufruct payment (redevance) is generally lower than the cost of leasing the same building.

⁸ Emphyteusis - The right to use land or a building in exchange for rent, for a fixed amount of time (under Belgian law, minimum 27 and maximum 99 years). The owner has virtually no obligation to repair or maintain the building. It can be complemented with a purchase option which, when exercised, gives full ownership.

applicable at all, i.e. they are not owed by either party. Usufruct and emphyteusis are contractual arrangements used in Belgium and Luxembourg but not in Germany.

Annual rent per person

14 For the purposes of the comparison, we did not analyse the rental contracts in detail to take into account the price differences based on category of space⁹. We based our calculations on the data provided by the institutions regarding the total rental costs per building for 2016. The figures therefore do not represent an exact calculation of the rent paid for office space alone. In the case of a grace period, we adjusted the yearly rent by dividing the total rent over the entire duration of the contract by the number of contractual years. This was only possible for recent contracts, when the information was available. In some cases, the rent includes the repayment of initial specific fitting-out works, while in other cases these costs are borne by the property owner. We adjusted the rent by adding the annual cost of fitting-out works when the data was available. For the selection of the buildings included in our analysis, the criteria set out in ***paragraph 5*** of this Annex apply *mutatis mutandis*. We calculated the annual rent per person ratio by dividing the annual rental costs for 2016 by the number of staff as defined above.

Cost of construction and acquisition

15 In our analysis of newly constructed and acquired buildings, we took into account the information available to us regarding all costs linked to the acquisition of the building, e.g. construction costs, architectural and developer costs and financing costs. It should be noted that, for some buildings, the land was acquired from the host country for a symbolic 1 euro or free of charge, so we excluded the price of land from our analysis. We divided the costs by the total gross surface (above and below ground).

⁹ In practice, rental contracts usually set a higher price per square metre of office space than, for example, for archives and other ancillary spaces. The price for parking is usually determined per unit.

Annex II — List of buildings mentioned in the report

Abbreviation	Name	Institution	City	Address
AN	Anneau	Court of Justice	Luxembourg	Rue Charles Léon Hammes
AN88		Commission	Brussels	Rue d'Arlon 88 (SCAN)
ARIA	Ariane	Commission	Luxembourg	400, route d'Esch
B100		Commission	Brussels	Rue Belliard 100
B-28		Commission	Brussels	Rue Belliard 28
BU-1		Commission	Brussels	Avenue de Beaulieu 1
BU24		Commission	Brussels	Avenue de Beaulieu 24
BU-5/9		Commission	Brussels	Avenue de Beaulieu 5/9
BUILD_C	C Building (Annex C)	Court of Justice	Luxembourg	Boulevard Konrad Adenauer
BUILD_T	T-building	Court of Justice	Luxembourg	90, boulevard Konrad Adenauer
C-25		Commission	Brussels	Avenue de Cortenbergh 25
CDMA		Commission	Brussels	Rue du Champ de Mars 21
CJ_PALAIS	Palais	Court of Justice	Luxembourg	Rue Charles Léon Hammes
CJ_TOA	Tower A	Court of Justice	Luxembourg	Rue du Fort Niedergrünwald
CJ_TOB	Tower B	Court of Justice	Luxembourg	Rue du Fort Niedergrünwald
-	Tower C (3rd tower, 5th extension)	Court of Justice	Luxembourg	In construction
COV2		Commission	Brussels	Place Rogier 16
CSM1		Commission	Brussels	Cours Saint-Michel 23
DRB	Drosbach	Commission	Luxembourg	12, rue G. Kroll
EB	Europa Building (Residence Palace)	Council	Brussels	Rue de la Loi 155
ERA	Erasmus (Annex A)	Court of Justice	Luxembourg	Rue du Fort Niedergrünwald
EUFO	Euroforum	Commission	Luxembourg	12, rue Robert Stümper
G-1		Commission	Brussels	Rue de Genève 1
G-12		Commission	Brussels	Rue de Genève 12
G-6		Commission	Brussels	Rue de Genève 6-8
GAL	Gallery	Court of Justice	Luxembourg	Rue du Fort Niedergrünwald
GEOS		Parliament	Luxembourg	22-24, rue Edward Steichen
J-27		Commission	Brussels	Rue Joseph II 27
J-54		Commission	Brussels	Rue Joseph II 54
J-59		Commission	Brussels	Rue Joseph II 59
JMO	Jean Monnet	Commission	Luxembourg	Rue Alcide De Gasperi
JMO II	Jean Monnet II	Commission	Luxembourg	In construction
KAD	Konrad Adenauer	Parliament	Luxembourg	Rue Alcide De Gasperi
KAD II	Konrad Adenauer II	Parliament	Luxembourg	In construction
L102		Commission	Brussels	Rue de la Loi 102
L15		Commission	Brussels	Rue de la Loi 15
L-56		Commission	Brussels	Rue de la Loi 56
LACC	Laccolith	Commission	Luxembourg	20, rue Eugène Ruppert
LX40		Commission	Brussels	Rue du Luxembourg 40
MB	Main Building	ECB	Frankfurt	Sonnemannstraße 20

Abbreviation	Name	Institution	City	Address
MERO	Merode	Commission	Brussels	Avenue de Tervuren 41
MO15		Commission	Brussels	Rue Montoyer 15
MO34		Commission	Brussels	Rue Montoyer 34
MO-59		Commission	Brussels	Rue Montoyer 59
N105		Commission	Brussels	Avenue des Nerviens 105
ORBN		Commission	Brussels	Square Frère Orban 8
PLB3		Commission	Brussels	Philippe Le Bon 3
PRE	President	EIB	Luxembourg	37B, avenue John F. Kennedy
SC27/SC29	SCAN	Commission	Brussels	Rue de la Science 27/29
SPA2		Commission	Brussels	Rue de Spa 2
SQM (SDME)	Square de Meeûs	Parliament	Brussels	Square de Meeûs 8
THM	Thomas More (Annex B)	Court of Justice	Luxembourg	Boulevard Konrad Adenauer
WIM	Martens (Trebel)	Parliament	Brussels	Rue Belliard 80

Acronyms and abbreviations

CPQBF: Interinstitutional Committee for the Preparation of Budgetary and Financial Questions

EACEA: Education, Audiovisual and Culture Executive Agency

ECA: European Court of Auditors

ECB: European Central Bank

EEAS: External Action Service

EIB: European Investment Bank

EPSO: European Personnel Selection Office

GISCO: Geographic Information System of the Commission

MAPF: Multiannual Policy Framework

OIB: Office for Infrastructure and Logistics in Brussels (Commission)

OIL: Office for Infrastructure and Logistics in Luxembourg (Commission)

OLAF: European Anti-Fraud Office

SSM: Single Supervisory Mechanism

TFEU: Treaty on the functioning of the European Union

VAT: Value Added Tax

Glossary

Annual report on buildings: (Pursuant to Article 203(3) of the Financial Regulation): Detailed report about their building policy that the institutions provide every year to the budgetary authorities.

DIN-277: Standards developed by the German Institute for Standardization. These define standard rules for the measurement of the buildings' surfaces and the classification of the areas.

Emphyteusis: A right to enjoy a land or a building in exchange of rent and for a fixed amount of time (under Belgian law, no less than 27 year and maximum of 99 years). The owner has virtually no obligation to repair or maintain the building. It can be complemented with a purchase option which, when exercised, will give full ownership.

Gross surface: Defined as the Gross Floor Area by DIN-277 (*Brutto-Grundfläche*), the Inter-institutional measuring code adopted by the EU institutions in 2009 and the Measuring Code of the Commission (both based on DIN-277). It represents the outer edge of construction features delimiting the building, including coatings, measured at floor level.

Indexation of the rent: Periodic adjustment of the price of the rent following the change of a price indicator (e.g. inflation rate or construction price index).

Net surface: The total floor area that is actually usable by the occupant of the building and excludes all construction features.

NWoW - New Ways of Working: A new approach that seeks to transform the office environment by introducing collaborative working spaces in combination with a more flexible working culture.

Property tax: A tax on real-estate property to be paid by the owner of the right (i.e. full owner, *usufruitier*, *emphytéote*).

Protocol on the Privileges and Immunities of the European Community: An annex to the Treaties that grants certain privileges to the EU, amongst which a tax exemption status.

Purchase with deferred payment scheme: Allows the Commission to purchase a building and pay its price over several years (generally 27 years). The property rights are transferred to the Commission the day of the purchase.

Refurbishment: Fitting-out works on an otherwise finished building, to make it compliant to the rules and needs of the Institutions.

Registration tax: A tax levied on the registration of notarised contracts at the property register. It is levied on the owner of the right (i.e. full owner, *usufruitier*, *emphytéote*).

Usufruct: Right to use a building. The user has more rights than under a rental contract but also more obligations when it comes to repair works. Most taxes are owed by the user and not by the owner. The usufruct payment is generally lower than the lease of the same building.

Audit team

This ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was carried out by Audit Chamber V Financing and administration of the EU, headed by ECA Member Lazaros S. Lazarou. The audit was led by ECA Member Jan Gregor, supported by Werner Vlasselaer, Head of Private Office and Bernard Moya, Private Office Attaché; Bertrand Albugues, Principal Manager; Jana Janečková, Head of Task; Luis Rosa, former Head of Task, Cristina Jianu, Wiktor Szymczak and Andreas Duerrwanger, Auditors.



From left to right: Werner Vlasselaer, Bernard Moya, Andreas Duerrwanger, Jana Janečková, Jan Gregor, Wiktor Szymczak.

Replies of the European Parliament

EXECUTIVE SUMMARY

III. Parliament welcomes the analytical work conducted by the Court of Auditors, which shows that overall the institutions manage their buildings efficiently. Regarding the other part of the observations, we refer to our replies to Executive Summary IV, V and VI.

IV. In March 2010, Parliament's Bureau endorsed its first "Medium and Long Term Buildings Strategy" outlining a multiannual planning for its future property policies and needs for the years ahead. The decisions progressively taken by the Bureau in recent years ensured a successful consolidation of Parliament's real estate and the achievement of the objectives of the strategy especially concerning office needs. The Building Strategy beyond 2019, approved by the Bureau in April 2018, represents the continuation of this strategic planning focusing on needs not yet sufficiently addressed such as flexible meeting facilities for trilogues, bringing the Parliament closer to citizens (Europa Experience) and enhancing security. This strategy was the result of a thorough needs analysis taking into account budgetary constraints.

Regarding the NWoW project, evaluations have been conducted with an impact on building projects and Parliament's building strategy. Although the project in its original form was later abandoned (following a decision by the former President), the Parliament is implementing some of its elements in two of its buildings based on a dialogue with the services concerned.

V. As far as Parliament is concerned, it needs to be stressed that the chosen financing structure of the KAD II project provided the possibility of external financing, which was necessary for reasons of financial management and flexibility. So far, Parliament has been able to finance the project almost completely without using the loan facility. Budgetary transfers made in this respect were conducted in full transparency (see Parliament's replies to paragraphs 42, 97 and Recommendation 3). Until now there were no cost overruns and the project is forecasted to remain within budget (see Parliament reply to paragraph 49).

VI. Parliament uses information deducted from tailor-made data reports for its future office allocation plan. Further improvements, including the introduction of specific IT tools, are already scheduled.

Parliament welcomes the initiative of monitoring the efficiency of buildings portfolio of all institutions on a harmonised basis respecting the particularities of each institution.

VIII. Parliament refers to its replies to the Recommendations.

OBSERVATIONS

13. The Building Strategy Beyond 2019, approved by Parliament's Bureau in April 2018, was the result of a thorough analysis of clearly identified needs and intense discussions taking into account all relevant aspects concerning the foreseeable future. The planning of property requirements is based on a needs analysis and takes into account budgetary constraints.

26. In spring 2018, approximately 1 000 colleagues from five different Directorates-General moved into the Martens building, a building that highly benefits from elements of the NWoW approach. The feedback received from occupants is very positive as regards office space, common areas and meeting rooms.

27. According to studies made by the Parliament in 2015, the full use of NWoW in the Martens and KAD buildings would have brought an approximate amount of savings of €110 million over the period of 20 years. Although the project in its original form was later abandoned in 2015, the Parliament is implementing some of its elements in two of its buildings based on a dialogue with the services concerned. This means that in future 60 % of Parliament's staff will benefit from this.

38. Due to the relevant rules of the Financial Regulation, in particular the budgetary principle of annuality, financing mechanisms for the institutions' large multiannual construction projects are often complex. Parliament would like to emphasise that the existence of a financial intermediary did not affect its control over the financial aspects of the KAD II project, since it authorises all financial flows. As an additional precautionary measure, the compliance by the financial intermediary with its contractual obligations towards Parliament is subject to a regular external audit.

39. Parliament would like to emphasise that the financing structure, which was set up following a decision of the Bureau and based on best practices experienced by some other Institutions, fully complies with all legal and regulatory requirements. Moreover, the financing structure reflects the complexity of the regulatory environment for a large multiannual building project, covering potential financial needs by offering the possibility of external financing while at the same time providing a maximum of internal financial flexibility. The size of the KAD II project (211 000 m²) required such flexibility in order to be able to provide for cost peaks during the construction phase.

40. The average budgetary year-end transfer of unused appropriations in those 5 years amounted to 2%-3% of Parliament's annual budget - representing a normal level of deviations between incurred administrative expenditure and estimations. The use of these appropriations allowed Parliament, in line with sound financial management, to limit indirect bank loans to the contractual minimum. Given the impossibility to guarantee specific annual budget appropriations to fund multiannual large building projects, Parliament obtained through the financial intermediary, at very moderate cost, a flexible credit line that covered the financial contractual obligations Parliament had entered into in order to construct the KAD II complex. An important intention of the budgetary transfers was to reduce financing costs.

42. Year-end transfers of unused appropriations for the KAD II project represented limited portions of the annual budget. These budget transfers are transparent procedures that are also used by some other institutions. The transfers are duly proposed and approved within the applicable legal and regulatory framework by Parliament's Committee on Budgets acting on behalf of the Budgetary Authority. This financing mechanism avoids the costs of using the credit line. It also allows, in combination with this credit line, for a maximum flexibility of political decision-making by the Budgetary Authority during the construction period. See also Parliament's reply to paragraphs 40 and 97 and Recommendation 3.

49. In 2009, the Bureau approved a number of additional options, for example in the area of environmental performance and security, to be incorporated into the project.

Projects running over several years are usually planned in fixed prices. Applying indexation, the current budget of €432 million corresponds to the budget approved by the Bureau in 2009 and the Budgetary Authority. So far, there have been no cost overruns and Parliament's current forecasts indicate that the project is within the budgetary envelope. Because the contracts signed with construction companies already cover around 90% of the project budget, any remaining financial risk mainly relates to unforeseen events and risks.

50. The delay in the delivery date (end of 2019 for the east site and 2022 for the west site) was mainly caused by a first unsuccessful tender for construction works. Parliament's economic reasoning has been to prioritise the respect of the project budget over the avoidance of delays.

Until the finalisation of the new building, Parliament incurs preferential rental cost of EUR 14.4 million per year plus financing cost for the building project. In accounting terms, this is largely outweighed by a later start of the depreciation of the new building investment (EUR 17.3 million per year). After the move into the new ADENAUER building, the depreciation of this new building is largely offset by the long-term use of a state-of-the-art building owned by Parliament with low energy costs, equal working conditions for all staff and efficiency gains (the entire workforce in the same building instead of in six locations).

58. Information deducted from tailor-made data reports is used by Parliament for its office management plan. In the future, the so-called Building Information Modelling (BIM) will be deployed. This is an IT tool already used in some Member States that will become standard in the European building sector in the coming years.

60. The indicator of an average amount of space per staff member features in Parliament's latest key document, its Building Strategy Beyond 2019, adopted by Parliament's Bureau on 16 April 2018. More concretely, an important update in the Buildings Strategy is how Parliament now plans and uses its office space based on a participative and client-oriented consultation of the users on their specific needs: the answer is a modern, collaborative and socially responsible use of office space. For the administration, the updated Strategy moves away from a category-based calculation of office space for each Directorate-General towards providing an average amount of space per staff member (approx. 10 m²). This new approach allows each Directorate-General to influence its specific working conditions

e.g. by introducing more social and concentration areas to staff or otherwise by choosing more collaborative ways of working. Measurement and reporting on this key indicator will be done on a regular basis.

CONCLUSIONS AND RECOMMENDATIONS

90. In 2010, Parliament formalised for the first time a multiannual building strategy, which was substantially updated in 2018.

Please see the replies to paragraphs 40 and 42 (budgetary transparency of the financing mechanism), paragraph 50 (delays and costs), and paragraphs 58 and 60 (monitoring and reporting).

We also refer to our replies to Executive Summary IV, V and VI.

91. In April 2018, Parliament's Bureau approved the new Building Strategy beyond 2019. The Bureau is regularly briefed on the progress of various parts of the strategy (see also the reply to paragraph 13 and Recommendation 2).

Recommendation 1

The recommendation is accepted.

In 2010, Parliament's Bureau adopted an ambitious strategy for Parliament's property policy. Based on this strategy, the decisions progressively taken by the Bureau contributed to ensure a successful consolidation of Parliament's real estate and facilities and the achievement of the objectives initially fixed in the strategy. In April 2018, Parliament's Bureau approved the Building Strategy Beyond 2019. The Bureau is regularly briefed on the progress of various parts of the strategy, as it has been the case since the first adoption of a Building Strategy.

In addition, pursuant to Article 203(3) of the Financial Regulation Parliament's annual Working Document on Building Policy provides the Budgetary Authority with information on the expected evolution of the global programming of surface area and locations for the coming years, including a description of the building projects in planning phase that are already identified.

94. We refer to the reply to paragraph 27.

Recommendation 2

The recommendation is accepted.

Some evaluations have already been conducted on the NWoW project. These evaluations had a positive impact on the Martens and KAD II building projects and are also reflected in the new Building Strategy Beyond 2019 (such as a consultative process for allocation of office space, increased use of collaborative office space, determination of m²/staff member).

97. As far as the KAD II project is concerned, Parliament would like to point out that it is in full control of the financial aspects of the project (see the reply to paragraph 38). The complexity of the financing mechanism reflects the complexity and the multiannual nature of the project and the resulting

financial needs. It also reflects Parliament's complex regulatory environment (see the reply to paragraph 39). We also refer to our replies to paragraphs 40 and 42 (concerning budgetary transparency) and to Recommendation 3.

Recommendation 3

The recommendation is accepted.

Parliament fully shares the general aim of budgetary transparency of financing mechanisms for construction projects (see also the replies to paragraphs 40, 42 and 97).

In order to create more transparency, Parliament will provide a detailed overview of the financing of the KAD II building project in its annual financial management report which is submitted to the Committee on Budgets, the Committee on Budgetary Control and the Bureau as well as published in the Official Journal.

Recommendation 4

The recommendation is accepted.

Parliament has analysed the different lessons learned from previous projects and always aims at putting in place the most adequate management procedures for large construction and renovation projects. The Martens, Havel and House of European History projects were concluded successfully. Measures in the context of the KAD II project include the introduction of lean management and a reinforced partnership with Luxembourgish authorities. This partnership, additional internal resources and an efficient financial structure avoided that project delays resulted in additional cost (see the reply to paragraph 50).

99. See the replies to paragraphs 58 and 60.

Recommendation 5

The recommendation is accepted.

Further improvements are scheduled, including the introduction of specific IT tools. A Master Plan 2019 for office management was developed.

Parliament is currently developing a system of lead indicators.

Parliament welcomes the recommendation of monitoring the efficiency of buildings portfolio of all institutions on a harmonised basis taking into account the particularities of each institution as well as the limitations of the Treaties.

Replies of the Council of the European Union

OBSERVATIONS

Inter-institutional cooperation is extensive

21. The Council is aware of the impact the inter-institutional call for tenders could have on the participation of SMEs. The decision to propose or associate itself with an inter-institutional project takes into consideration such implications and, whenever possible, the Council encourages the participation of SMEs in calls for tenders.

Financing mechanisms of large construction projects are often complex thereby affecting budgetary transparency

38. The last construction project conducted by the Council was the Europa building project, which envisaged a simple financing method. The Belgian state would lead and pay for the project whilst the Council would reimburse the amount to the state, by means of deferred payments.

42. The Council partially agrees with the ECA's observation; nevertheless, this practice resulted in considerable savings in terms of interest in the case of the Europa building project, estimated at EUR 23 million (amount resulting from the difference between the total amount to be paid in case of deferred payments and the actual amount to be paid).
The practice is compliant with the Financial Regulation.

The Council's Europa project: within budget but delayed

46. The Council reacted to these shortcomings by putting together a team of professionals and project managers who managed to keep risks, deadlines and the budget under control.

CONCLUSIONS AND RECOMMENDATIONS

Recommendation 1.

The Council accepts the recommendation. The building strategy will be formalised and the planning documents will be updated regularly.

Recommendation 2.

The Council accepts the recommendation. It will implement it for the future NWOW project. A pilot phase is scheduled for 2019 and a Steering Committee has been appointed and mandated to assess the costs, risks and benefits of implementing the programme in the Council and to make recommendations to the Secretary-General regarding further implementation.

Recommendation 3.

The Council accepts the recommendation. The financing mechanism of future construction projects will be assessed on a case-by-case basis. The Europa building project was financed through a simple

mechanism compared to other institutions' projects, however.

Recommendation 4

The Council accepts the recommendation and has already taken measures to formalise a project management procedure.

Recommendation 5

The Council accepts the recommendation.

Regarding point (a), an assessment will be conducted in order to identify possible indicators and ways of implementing them.

Regarding points (b) and (c), the Council will participate in any initiative to implement the common methodology. The Council agrees to discuss this matter in the inter-institutional Infrastructure, Logistics and Internal Services (ILIS) Working Group.

Replies of the European Commission

OBSERVATIONS

13. The Commission adapts on a yearly basis to changing conditions related to, e.g., budgetary constraints, staffing policies and other political decisions by means of the Multiannual Policy Framework (MAPF).

This tool takes into account all likely decisions and constraints affecting the planning of property requirements for a 10-year horizon.

In this context, there is no need to develop different scenarios.

27. The Commission would like to highlight that the main driver for the Commission to consider and engage, wherever appropriate, in new ways of working is primarily the creation of an optimal working environment.

Even though external benchmarking shows that new ways of working can, to a certain extent, result in cost savings, these are considered as side effects and the intention is to largely re-invest them in staff wellbeing through improved quality of office space and IT equipment.

Explorative work in that respect and the implementation of pilot projects are ongoing.

37.

(b) Concerning the financing options, the Commission will have to borrow funds on the market in order to acquire the JMOII building. To this aim, in 2012, different scenarios were developed based on size of the loan, interest rates, and duration of the loan.

42. The Commission considers that its budgetary procedure is transparent and would like to note that:

1. The principle of specification means that appropriations may be used only for the purpose for which they have been provided. This requirement is basically satisfied by dividing the budget into chapters, the budget appropriations used were also earmarked for administrative expenditure;

2. These transfers are expressly authorised by the Treaty on the Functioning of the European Union (Article 317), under the conditions laid down in the Financial Regulation. It permits the final matching up of identified needs and expected surpluses with a view to achieving an optimum outturn. The Commission considers that by approving these transfers, the budgetary authority recognises the financial advantage of the advance payments.

53. The Commission will negotiate with the Luxembourgish authorities how the additional costs will be shared. This is due to the changes to the project schedule relative to the December 2015 Georgieva – Asselborn agreement, taking into account the role of both parties for the delays.

54. The Commission does not agree with this observation.

The Commission considers that the rental costs due to the moving out of JMO to the replacement buildings (T2, Ariane and Laccolith) are independent from the changes in the construction calendar of JMO II, as the move was due to the asbestos in the JMO building.

Had the Commission been able to remain in the JMO building, it would have continued to rent it from the Luxembourgish authorities for a very low amount (EUR1), therefore the rental costs would have been reduced by EUR 90 million.

69. The Commission would like to highlight that, in real estate matters, the different size, needs and localisation of each institution lead to the specific characteristics that can have an important influence on comparability of results.

86. The Commission would like to clarify that the reported variance of rent per person is due to several factors, such as the valuation method of the purchased buildings, the potential cost of fitting-out works, the consideration of buffer spaces, etc.

CONCLUSIONS AND RECOMMENDATIONS

Recommendation 1 - The institutions¹ should update and formalise their building strategies and regularly update planning documents

The Commission partially accepts the recommendation.

Concerning the building strategy, the main principles of the Commission's real estate policy as outlined in the Communication COM(2007)501 are to the largest extent still up-to-date. This policy might be reviewed in light of the developments concerning the NWoW being implemented and on the outcome of 2021-2027 MFF negotiations.

Concerning planning documents, the Commission considers that these documents (MAPFs and Working Document on Buildings accompanying the Draft Budget) are already updated annually. Consequently the Commission is not concerned by this part of recommendation. See also reply to paragraph 13.

Recommendation 2 – The institutions should evaluate the New Ways of Working projects

The Commission accepts the recommendation.

97. The Commission acknowledges the complexity of the financial regulations but does not agree with the statement that the mechanisms are not transparent (see replies to paragraph 42).

Recommendation 3 – The institutions should increase budgetary transparency of the financing mechanisms for construction projects.

The Commission does not accept the recommendation.

Concerning budgetary transparency, the Commission refers to its replies in paragraph 42.

Yet, margin for improvements will be assessed.

Moreover, the Commission could provide each year in the Working Document on Buildings accompanying the Draft Budget, the information about advance payments that would be made for the various projects.

For example, the advance payments made in 2018 would be included in the Working Document for 2020.

Recommendation 4 – The institutions should set up adequate management procedures for large construction and renovation projects

The Commission partially accepts the recommendation.

The Commission considers that the required building management procedure is in place.

This might be reassessed in the mid-term, particularly in relation to construction and renovation projects such as Loi 130.

¹ The Parliament, the Council, the Commission, the Court of Justice and the ECB.

Recommendation 5 – The institutions should improve consistency of data and monitoring of the buildings portfolio

The Commission accepts the recommendation.

The Commission would like to highlight that in real estate matters the different size, needs and localisation of each institution lead to the specific characteristics that can have an important influence on comparison results.

Replies of the Court of Justice

INTRODUCTION

In general, the Court of Justice of the European Union ('the Court of Justice') welcomes the very positive findings made by the European Court of Auditors ('the Court of Auditors') concerning the efficiency of its buildings policy, its successful cooperation with the other institutions and with the Luxembourg authorities and the excellent results achieved by the three major building projects audited.

The building policy of the Court of Justice has two major objectives:

- firstly, having first followed a policy of renting, the Court intends, since the definitive fixing of its seat in Luxembourg (decided at the Edinburgh European Council in 1992), to become the owner of the buildings which it occupies, like the other institutions and in line with the recommendations of the Court of Auditors Special Report (No 2/2007) which underlined the budgetary savings of such a policy;
- secondly, the Court intends to have premises suitable for its specific judicial needs and to bring all its services together on a single site so as to optimise its functioning.

The consistency with which that has been followed, combined with excellent cooperation with the Luxembourg public authorities, has given rise, over time, to very good results.

Through the establishment of a system of rigorous and effective internal monitoring, the Court of Justice, with restricted human and financial resources, has run the three audited projects in strict compliance with the specifications of requirements, the timetables and the budgets set.

The Court of Justice emphasises that the configuration of its buildings complex had to be adapted to the task and judicial activities of the institution and to the needs of its occupants, mostly lawyers.

The buildings strategy of the Court of Justice pursues the objective of transparency and responsibility, its achievements being presented annually to the European Parliament and the Council of the European Union in reports which are also available to the public on its website.

The building policy of the Court of Justice has also developed in such a way as to comply with environmental standards, which enabled it to obtain EMAS registration.

OBSERVATIONS

38. Response to points 38 to 41 of the report:

The financing of three audited building projects of the Court of Justice was in fact complex but at the same time perfectly supervised and conducted in a fully transparent manner.

The documents used to establish the financial framework were drawn up by the competent authorities of the host State in accordance with the legal provisions applicable and have been published or made available to the audit bodies and the budget discharge authorities.

There was no overrun of the budgets or timetables laid down in respect of the two most recent building projects completed by the Court of Justice, as is apparent from paragraph 44 of the report. The same is true, at this stage, of the last project currently in progress.

This has been possible as a result of the establishment by the Court of Justice, in partnership with the Luxembourg authorities, a rigorous and effective internal monitoring system covering the progress of each project, its technical and financial aspects, the performance time limits and the management of the overall financial envelope.

60. Further to the request of the European Parliament and the Council of the European Union, set out in the 'Joint declaration on building policy of EU institutions and bodies' of 17.12.2009, the EU institutions agreed on a common methodology based on pre-established standards (standard DIN 277) and on concrete, objective and verifiable data.

That methodology allows users to set out the most meaningful indicators of efficient land use.

The annual report of the Court of Justice, available on its website, contains important information enabling the efficiency of its buildings policy to be established.

64. The administration of the Court of Justice uses standard DIN277 without any deviation or alteration. The adaptation of the space management tool to its needs and, above all, the architectural and spatial configuration of its complex is appropriate and does not affect the comparability of its data.

85. The building rented by the Court of Justice (T/Tbis) has an annual cost of EUR 270/m², which is a preferential price granted by the host State, significantly below the market price in Luxembourg City (EUR 564/m² — see Figure 12).

It should be recalled that the Court of Justice has decided to continue to rent the entire T/Tbis building, despite its surface area being larger than its needs, instead of leasing a building smaller in size but more expensive. Furthermore, the T/Tbis building was offered for rent only in its entirety.

The Court of Justice was therefore not in position to lease only part of its area for a limited duration.

The rental of the entire building has allowed the Court of Justice to make maximum use of the flexibility offered by the additional area. That option has been beneficial for other institutions which, according to their specific needs, have obtained the agreement of the Court of Justice to install their offices in a part of the building to meet temporary needs. That is the case of the Court of Auditors, the Translation Centre, EPSO and the European Investment Bank.

In addition, the constraints of the Court of Justice as regards confidentiality and security did not permit it to sublet the unused area to private companies.

The fact that the Court of Justice has been increasingly unable to continue to sublet the unoccupied part of the building over the last two years, due to its leaving the building, which is planned for the end of August 2019, is not without importance.

CONCLUSIONS AND RECOMMENDATIONS

Recommendation 1

The Court of Justice agrees with that recommendation and points out that it has long had a well-defined buildings strategy, which it has consistently followed and which has been successful over the years.

The Court of Justice plans its building development carefully, together with the Luxembourg administration, according to its medium and long-term needs, by including analysis of the various options possible. The results of that planning are formalised in both annual activity reports and other strategic documents of the institution.

Recommendation 2

The Court of Justice agrees with that recommendation, all the more so as it regularly assesses the working conditions and space allocation and continuously monitors developments and changes in that area, both on the private market and in other institutions or national or international public bodies.

Recommendation 3

The Court of Justice agrees with that recommendation in so far as it concerns the requirement to make the funding of building projects less complex. In that regard, the Court of Justice, drawing on the relevant provisions of the Financial Regulation, has decided to finance the work to make its buildings secure, soon to be carried out, by taking out a loan which it will contract directly with a financial body.

Recommendation 4

The Court of Justice agrees with that recommendation, since the procedures put in place within the Court for the management of complex building projects demonstrate their merits every time (in particular in respect of the building projects CJ4, CJ8 and, currently, CJ9).

Those procedures are the result of an excellent working relationship with the Luxembourg authorities and the effective involvement of the host State in the proper conduct of those projects. The fact of having had the benefit of the expertise, human resources and the moral authority of the host State's public administration has enabled not only the completion of projects on time and within the budget allocated, but also significant savings for the institution's budget.

The contractual arrangement between the host State and the Court of Justice has been constantly improved over time. It is, at present, balanced, ensuring that the Court of Justice has effective involvement which has enabled it to acquire 'full administrative, technical and financial control' of its building projects, as recommended by the Court of Auditors in its Special Report No 2/2007 (point 45).

The Court of Justice has been and continues to be supported in that process by an external consultant, who has the role of verifying the proper implementation of the contract and monitoring its application within the framework defined.

Recommendation 5

The Court of Justice agrees with that recommendation and stresses the need for close interinstitutional cooperation, in ensuring its full availability to take part and to share its experience.

In Luxembourg, the Interinstitutional Property Management Coordination Group (GICIL) will be the forum for sharing information in the field in question. Furthermore, it has already undertaken to update and refine the methodology for measuring, classifying and displaying property data, developed in 2009 by the Swedish Council Presidency, so that the institutions' annual reports and in particular the annex concerning property matters, can provide relevant and common indicators, enabling easier comparison between the institutions.

Replies of the European Central Bank

EXECUTIVE SUMMARY

III. The ECB would like to note that (i) it has a formalised and periodically revised building strategy (see also the ECB's comment on recommendation 1), including office accommodation-related planning; (ii) it was excluded from the institutions analysed in respect of large construction projects (see paragraph 43); and (iii) the ECA assessed the ECB's monitoring and reporting of its buildings portfolio as "*well-developed*" (see paragraph 62).

IV. The ECB considers different scenarios in the planning of its property requirements, including teleworking arrangements and collaborative working areas. In addition, it is currently undertaking an NWoW pilot project which includes new concepts for office workspace planning and activity-based working modes. The pilot project was launched in January 2018 with a test floor in the main building, and other test floors are expected to be set up in the remaining buildings. The responses from the various business areas involved in the project are being continuously monitored and evaluated by way of customer feedback loops. The potential improvements identified are recorded for follow-up or implemented immediately where possible. A final evaluation can only take place towards the end of the project, which is expected in 2020, when the majority of business areas have had experience of the pilot floors.

V. Please see item (ii) of the comment on paragraph III of the executive summary.

VIII. Based on the audit observations and conclusions in this report, it is the ECB's understanding that it is only addressed in recommended topics (a) and (b). Please also see the comments on the individual recommendations below.

Regarding recommended topics (c) and (d), the ECB was excluded from the institutions analysed with respect to the financing mechanisms and management procedures of large construction projects (see paragraph 43). Regarding recommended topic (e), the ECA assessed the ECB's monitoring and reporting of its buildings portfolio as "*well-developed*" (see paragraph 62).

OBSERVATIONS

14. The ECB is the only audited EU institution that has its offices in Frankfurt. This limits the opportunities for closer cooperation with the other EU institutions referred to in the report.

27. Please see the comment on paragraph IV of the executive summary.

In addition, as part of the ongoing monitoring (from January 2018 onwards) of the ECB's NWoW pilot project, the evaluation demonstrated that it outperforms the ECB's historic floor layout, providing

approximately 20% more workplaces, which preliminarily indicates an overall cost reduction per workplace. As the project is still ongoing (expected to be completed in 2020), it is not yet possible to accurately assess the potential economic and other benefits of the NWoW.

31. The headquarters agreement between the Government of the Federal Republic of Germany and the ECB does not offer any privileges in terms of tax exemptions other than those outlined in the Protocol on the privileges and immunities of the European Union.

CONCLUSIONS AND RECOMMENDATIONS

Recommendation 1

The ECB welcomes this recommendation. The ECB has a building/real estate strategy which was approved by management in July 2017. The strategy was reviewed during the second quarter of 2018 (including an update of the various development options) and approved by management in August 2018.

Recommendation 2

The ECB welcomes this recommendation. The ECB will evaluate its NWoW pilot project (launched in January 2018 and expected to be completed in 2020) from an economic cost and benefit perspective and will consider integrating the results into strategic reflections on the development of its relevant policies.

Recommendation 3

It is the ECB's understanding that it is not addressed by recommendation 3. Please see the comment on Paragraph VIII of the executive summary.

Recommendation 4

It is the ECB's understanding that it is not addressed by recommendation 4. Please see the comment on Paragraph VIII of the executive summary.

Recommendation 5

It is the ECB's understanding that it is not addressed by recommendation 5. Please see the comment on Paragraph VIII of the executive summary.

Event	Date
Adoption of Audit Planning Memorandum (APM) / Start of audit	6.6.2017
Official sending of draft report to auditees	19.7.2018
Adoption of the final report after the adversarial procedure	5.12.2018
Official replies received in all languages	Parliament: 23.11.2018 Council: 15.11.2018 Commission: 30.11.2018 Court of Justice: 18.12.2018 Central Bank: 27.11.2018

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The institutions spend around 11 % of their budget on administrative expenditure for buildings. The composition of the buildings portfolios differs and depends on each institution's mandate and organisational structure, nevertheless a significant share of the space used is devoted to office accommodation. The Commission has the largest buildings portfolio of which more than 80 % is office space. We examined the management of expenditure on office accommodation of the five institutions with the most office accommodation (Parliament, Council, Commission, Court of Justice and ECB). We covered their buildings in Brussels, Luxembourg and Frankfurt and compared their data and management procedures with other EU institutions and bodies.

Overall, we found that the institutions manage their spending on office accommodation efficiently and decisions on office accommodation were well founded. They cooperate with each other and apply similar decision-making principles. However, their building strategies are not always formalised and were sometimes outdated. The financing mechanisms of the large construction projects we analysed were often complex and, in some cases, affected budgetary transparency. Most of these projects were delayed, which in some cases, led to additional costs. Most institutions do not adequately monitor their buildings' portfolio. The institutions need to develop common indicators and improve the consistency of data presented to the budgetary authorities.



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