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from:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	27 May 2010
to:	Mr Pierre de BOISSIEU, Secretary-General of the Council of the European Union
Subject:	Commission staff working document: "Developing the tolerable risk of error concept for the rural development policy area" accompanying document to the Communication from the Commission to the European Parliament, the Council and the Court of Auditors: "More or less controls? Striking the right balance between the administrative costs of control and the risk of error"

Delegations will find attached Commission document SEC(2010) 640.

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COMMISSION STAFF WORKING DOCUMENT

Developing the tolerable risk of error concept for the Rural development policy area

Accompanying document to the

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

Commission Communication: More or less controls? Striking the right balance between the administrative costs of control and the risk of error

{COM(2010) 261 final}
{SEC(2010) 641}

1. INTRODUCTION

In December 2008, the Commission adopted a communication on the concept of tolerable risk of error (COM(2008)866)[1]. One of the two illustrative case studies included in the communication concerned rural development. Following the European Parliament's discharge resolution for 2007, the Commission was encouraged to pursue the concept of tolerable risk of error (TRE) and to make concrete proposals for TRE by budgetary area.

The purpose of this document is to present the technical aspects underlying the Commission's TRE proposal for the Rural Development pillar of the Agriculture and Natural Resources policy area. It sets out the relation between costs of controls and error rates for rural development measures and explains the results derived therefrom.

Part 2 of the paper sets out the importance and intrinsic risk of rural development policy and the main methodological assumptions of the proposal, together with the details on the approach that was applied. The rural development control environment is outlined, followed by the presentation of the dataset used and the assumptions used. After that there is an explanation of the methodology established in order to collect costs of control data on the one hand and the analysis of the errors on the other hand, followed by the results derived from the relationship between the costs and the errors.

Part 3 gives an overall description of the current situation as regards costs dedicated to control activities for rural development measures: control is defined as comprising any activities which are directly or indirectly related to the verification of the rights of the beneficiary and/or the regularity of the expenditure. In order to obtain reliable and detailed information about costs a new data collection exercise has been carried out, thereby updating the corresponding data which DG AGRI collected from Member States in 2007 and 2008.

Part 4 includes the conclusions and the proposal made on their basis.

2. THE IMPORTANCE AND INTRINSIC RISK OF RURAL DEVELOPMENT POLICY, THE MAIN METHODOLOGICAL ASSUMPTIONS AND THE APPROACH

2.1 Background

Agenda 2000 established rural development policy as the **2nd pillar** of the CAP, to accompany the further reform of market policy (the 1st pillar). The complementarity of the two pillars of the CAP has been accentuated by the recent reform of the CAP, introducing 'decoupling', 'cross-compliance' and 'modulation' (the transfer of funds from the 1st to the 2nd pillar), to be implemented from 2005 onwards. The 1st pillar concentrates on providing a basic income support to farmers, who are free to produce in response to market demand, while the 2nd pillar supports agriculture as a provider of public goods in its environmental and rural functions, and rural areas in their development.

[1] COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN COURT OF AUDITORS - Towards a common understanding of the concept of tolerable risk of error (COM(2008) 866).

The Community budget finances these two pillars mainly through two Funds: the European Agricultural Guarantee Fund (hereinafter '**EAGF**'), for the financing of market measures and direct aids, and the European Agricultural Fund for Rural Development (hereinafter '**EAFRD**'), for the financing of rural development programmes (the latter accounts for approximately 19 % of total expenditure covered by the relevant chapter of the Court of Auditors' annual report: "agriculture and natural resources").

Rural development policies are built mainly around the three thematic axes: competitiveness (**axis 1**), land management/environment (**axis 2**), and the wider rural economy (**axis 3**), in parallel with a 4th horizontal axis (Leader). Rural Development expenditure thereby covers a large number of measures such as agri-environmental measures in rural areas (under axis 2), preserving land management, including in areas with physical and natural handicaps, compensatory amounts for farming in less-favoured areas including investments, improving the social and economic fabric, in particular in the more remote rural areas.

2.2 The importance of rural development policy

As the EU finds its way out of the recent financial and economic crisis and seeks to lay foundations for long-term prosperity and well-being, it recognises the need to pursue economic, environmental and social progress as three cords of a rope which reinforce each other. This recognition has led to the emphasis on smart, sustainable and inclusive growth in the *Europe 2020* strategy.

This emphasis is clearly reflected in the EU's rural development policy, which aims to boost the competitiveness of the farm sector, care for the environment and preserve natural resources, and develop rural areas economically and socially.

Competitiveness (smart growth)

In purely economic terms, agriculture remains an important sector in the EU: the agri-food sector as a whole still accounts for 19 million jobs in the EU-27 and 4.3 % of its GDP. Furthermore, it is part of the foundations of the EU's food security, and without food security there can be no reliable economic growth.

Rural development policy aims to help the EU's farm sector to take up the competitiveness challenge at a time when increasingly globalised markets are bringing opportunities but also pressure from rival suppliers.

The policy supports modernisation for farms which would be more profitable with new facilities, as well as restructuring – especially in the New Member States. Support for the use of technology is making farms more productive and allowing them to use resources more efficiently. There is a strong emphasis on innovation – related not only to new production techniques and products but also new markets and forms of co-operation. Finally, investments are being made in essential skills, training and entrepreneurship.

The environment and natural resources (sustainable growth)

Agriculture and forestry are major land users: between them they occupy about 80 % of the area of the EU-27. Therefore, they exert a powerful influence on the EU's environment – its soil, water, landscapes and plant and animal life.

Rural development policy aims to underpin the sustainable management of natural resources – helping to care for the environment and to safeguard the production potential of the farm sector.

The policy supports land management with a high environmental value (beyond mandatory standards). Funding enables a more efficient use of key resources such as water, fertilisers and energy. Finally, aid is available for efforts to combat and adapt to climate change (for example, cuts to greenhouse gas emissions, as well as the production and use of renewable energy).

Developing rural areas (inclusive growth)

People who live in predominantly or partly rural areas are a demographically important group in the EU[2]. But their communities are developing in diverse ways, and some are facing particular challenges in comparison with urban areas.

Rural development policy helps to sustain the viability of rural areas as places in which to live and work, bringing out their full potential and thereby encouraging balanced development across the EU.

The policy helps farmers to diversify into non-agricultural economic activity, while also supporting the creation and development of micro-enterprises. Funding is available to help provide basic services which make life in rural areas viable. Finally, the policy supports local development strategies which closely tailor projects to local needs.

2.3 The intrinsic risk of error in rural development policy

Much of the strength of the EU's rural development policy lies in its flexibility. The policy sets strategic guidelines at EU level and provides a menu of policy measures. Member States and/or regions identify their own needs in line with the guidelines, develop their own strategies and multi-annual programmes and choose measures from the menu as they see fit.

Within a given rural development programme, the measures on offer are closely tailored to and targeted at the situation in the Member State or region in question. This "made to measure" approach gives rural development measures much of their value, but it also makes them much more complex than certain other policy tools – in terms of eligibility conditions, execution and audit. Inevitably, this complexity increases the risk of error.

Agri-environment schemes provide a good example. These schemes often involve multiple obligations for farmers, for instance:

- limitations on the use of fertilisers and pesticides;
- rotation plans;
- constraints regarding irrigation.

Often, commitments must be met different points in time. Moreover, in some cases it is a complex process to discern clearly the farmer's contribution to the result obtained, because

[2] According to a commonly used OECD methodology, in 2005 "predominantly rural" and "intermediate" regions were home to 54 % of the population of the EU-27. The Commission is currently looking at possible ways of adapting this methodology.

other factors also have an influence. For example, when a farmer cuts his/her nitrate usage, the actual result will also depend on weather conditions etc.

However, it is not possible to reap the value of agri-environment schemes in a simpler way. And it cannot be emphasised enough that this value is high. As studies have confirmed, agri-environmental measures provide solid public benefit in relation to soil protection, water quality and natural habitats, among other things.

2.4 Specific characteristics of the rural development control environment

In general, for the-post 2007 period, the management and control system for the expenditure under the newly created European Agricultural Fund for Rural Development (EAFRD) has been aligned with the EAGF system (Council Regulation 1290/2005), which has already proven its benefits. Thus, the advantages of the EAGF system, which are largely recognised, also cover the rural development expenditure. Key elements are that the annual accounts of the accredited paying agencies will have to be accompanied by an audit opinion and report of an independent audit service (certification body), and that the heads of the paying agencies have to sign a statement of assurance which is also accompanied by an audit opinion from the certification body.

Moreover, Commission Regulation (EC) No 1975/2006 has for the first time established a comprehensive and transparent legal control framework for rural development. The new rules provide for a reinforced application of the IACS to the measures under Axis 2, including enhanced cross-checks with data from the IACS for aid measures relating to parcels and livestock. In this way, controls performed build upon the robustness of the IACS and the experience acquired in this area. Furthermore, in order to ensure an efficient control of all areas for which payments are claimed, claims for area-related measures under Axis 2 have to be submitted within the same deadline as applicable for the area-related aid schemes financed by the EAGF. By building on established and proven control systems and procedures, this overall system is both clearer and simpler for Member States and beneficiaries.

During the programming period 2000-2006, controllability of rural development measures proved to be problematic. For example, the European Court of Auditors, in its special report 3/2005, concluded that the verification of the agro-environmental measures poses particular problems and is far more resource-intensive than verification of the first pillar measures and other rural development measures. In order to address this problem, measures have been taken for the programming period 2007-2013 to enhance the verifiability and controllability of rural development measures. Thus, Article 48 of Commission Regulation (EC) No 1974/2006 obliges the Member States to ensure that all rural development measures they intend to implement are verifiable and controllable and that control arrangements at the level of the Member States provide reasonable assurance that eligibility criteria and other commitments are respected. Article 5 of Commission Regulation (EC) No 1975/2006 provides that Member States shall ensure that all the eligibility criteria can be controlled according to a set of verifiable indicators.

In the framework of the approval of the rural development programmes 2007–2013, particular attention was paid to the question of the controllability of agri-environmental measures and the respect of the baseline requirements. In particular, a guidance note has been established, providing guidelines and additional explanations for the implementation of agri-environmental measures. The note provides assistance to Member States as regards the determination of the most appropriate control methods for these measures. Moreover, the

applicable legislation provides that each year at least 5% of all beneficiaries (3.6 Mio.) subject to rural development commitments must be subject to on-the-spot controls. According to the control statistics submitted by the Member States concerning financial year 2009 (control year 2008), some 300 000 beneficiaries of rural development measures have been controlled on the spot, thus largely exceeding the regulatory minimum requirement.

2.5 Data used and inherent limitations

The analysis presented in this working document is based essentially on error rates detected in 2008 covered by Rural Development and the annual costs spent by the Member States in 2008 for controlling activities belonging to this pillar. It was decided to use errors coming from the Member States as the Court's sample, while representative for the whole Chapter of agriculture and natural resources, is not designed to be representative at the level of Rural Development alone.

Data used and work carried out:

- For the estimation of the error rate for Rural Development expenditure, the Commission used Member States' statistics on the results of on-the-spot controls in the year 2008. This data has been to a large extent verified and validated by the certification bodies.[3]
- These statistics were obtained using mostly random sampling methods which comprise a very large number of on-the-spot controls. The results obtained are therefore believed to be representative for the rest of the population.

For practical reasons two **assumptions** also need to be made:

- Control costs are assumed to be broadly constant year on year. Therefore the costs incurred during the year 2008 can be considered to be representative for similar years.
- Linearity; this means the model excludes the audit risk (the risk of a control not detecting an existing error) as it assumes an error rate of 0% would be obtained if all beneficiaries were to be controlled.

2.6 Methodology for the collection of costs of control

In order to ensure that this proposal is based on recent and reliable data on Member States' costs of control, the corresponding data which DG AGRI collected from Member States for COM(2008)866 has been updated. For this, a new data collection exercise was launched concerning the costs of controls which Member States incurred in 2008 for controlling all rural development expenditure financed by the EAFRD. The data collection, on which the conclusions of this proposal are based, follows the same methodology as the previous one carried out and which related to the financial year 2005. Basically it follows a two-level approach:

1. In a first step all measures financed by the EAGF and EAFRD are covered. For the estimation of the costs of controls any control activities are considered which are directly

[3] For the EAGF expenditure covered by IACS, in around 89% of the cases the certification bodies carried out this work. In around 90% of these cases the bodies concluded positively on the accuracy of the control statistics. For the EAGF expenditure not covered by IACS, the figures are resp. 80% and 96%.

or indirectly related to the verification of the rights of the beneficiary and/or the regularity of the expenditure. The costs of controls are calculated on a pro-rata basis taking into consideration the number of agents working in the relevant entity in relation to the number of agents dedicated to the correspondent control functions or activities. By doing so, only the proportion of the budget related to the staff involved in control functions or activities is taken into account for the estimation of the costs of controls.

2. In a second step the costs of controls for rural development measures were calculated, based on the results of the first step, only measures financed by EAFRD are covered. Again the estimation considers any control activities which are directly or indirectly related to the verification of the rights of the beneficiary and/or the regularity of the EAFRD expenditure with a subset for agri-environmental measures. Similar to the first step, the costs of controls are calculated on a pro-rata basis taking into consideration the number of agents working in the relevant entity in relation to the number of agents dedicated to the correspondent control functions or activities.

Notions and scope

- **Notion of control:** control includes any activities which are directly or indirectly related with the verification of the rights of the beneficiary and/or the regularity of the expenditure for EAGF and EAFRD in the first step, and in the second step for EAFRD (rural development measures under axis 1, 2 and 3, with a separate subset for agri-environmental measures in Axis 2). In principle the following control activities are concerned: (1) administrative checks, (2) on-the-spot checks (ex-post checks), (3) other controls, being controls carried out by the internal audit service as well as the certifying bodies.

  All control procedures related to measures financed by EAGF and EAFRD as laid down in specific instructions and checklists (verification of documents, on-the-spot-visits and analytical measures) were considered as well as efforts for the qualification and training of control staff. Only the operational staff is counted and technical and administrative support staff has been excluded.

- **Notion of entity:** the following groups of entities are taken into account in the estimation: (1) accredited paying agencies (2) delegated bodies and managing authorities, (3) customs and (4) certification bodies.

- **Scope in time**: with respect to the budget of the entity the estimation of the costs of controls is based on the costs incurred in 2008.

Cost to be taken into account

- **General approach**: where in the year 2008 the entity concerned had its own separate budget, the expenditure effected in accordance with this budget was taken into account. Where there was no such budget, the expenditure incurred by the larger organisation of which the entity formed part was taken into account for the respective period. In both cases, the allocation of the costs of controls has been calculated on a pro-rata basis. This pro-rata was based on the total number of agents working in the entity or organisation in relation to the number of agents directly or indirectly involved in control functions or

activities related to measures financed by the EAGF and EAFRD/only EAFRD. The national currency was used.

- **Specification of budget taken into account**: the budget concerned could include all expenditure related to the normal functioning of the entity concerned including for example salaries, employers' contributions, travelling expenses, training expenses, maintenance costs, building expenses (rent, energy, cleaning, heating and cooling), costs invoiced by private companies and other cost of activity in relation to the entity, i.e. depreciation costs of cars, equipments and buildings. In contrast, exceptional one-off investment costs are in principle excluded. Instead, depreciation costs were taken into account.

- **Costs of certification**: the costs of the certification of the paying agencies were included in the estimation of the costs of controls. In case the annual certification of the paying agency is carried out by a private company on a contractual basis, the Member State has been requested to indicate the amount spent for the certification. If the certification is carried out by a separate public entity without a de facto transfer of an amount, the Member State was requested to estimate the costs of the certification following the pro rata approach as for estimating the costs of controls at paying agency level.

- **On-the-spot-checks**: according to the legal provisions[4], the Member States must carry out each year on-the-spot checks covering at least 5 % of all beneficiaries, this number being increased if significant irregularities are revealed. In order to put the results of the calculation referred to above into perspective, the number of on-the-spot controls carried out in 2008 for rural development (broken down by axis) was also collected for measures financed by the EAGF and EAFRD.

Calculation of the costs of controls

The allocation of the costs of controls has been calculated based on the number of full-time equivalents (FTE) on a pro-rata basis. The general principle for the calculation of the costs of controls is as follows:

$$\text{costs of controls} = \left[\frac{\text{budget FY 2008}}{\text{total No of agents}} \right] \times \text{No of agents involved in controls}$$

costs of controls	=	Costs of controls of the entity
budget FY 2008	=	Budget of the entity or larger organisation for financial year 2008
total number of agents	=	Total number of agents in the entity or larger organisation (estimated in **full time equivalents: FTE**), whereby the term 'agents' includes all persons working for the entity or larger organisation (employees, civil

[4] Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures.

		servants, contractual agents, consultants, managers, etc)
number of agents involved in controls	=	Number of agents directly or indirectly involved in the control function or activity related to measures financed by EAGF and EAFRD

The allocation of the costs of controls for rural development was calculated based on the number of full-time equivalents (FTE) involved in controls of rural development measures on a pro-rata basis. The general principle for the calculation of the costs of controls of rural development measures was the same:

$$\text{costs of controls RD} = \left[\frac{\text{budget FY 2008}}{\text{total No of agents}} \right] \times \text{No of agents controlling RD (EAFRD)}$$

costs of controls RD	=	Costs of controls for rural development measures of the entity
budget FY 2008	=	Budget of the entity for the year 2008
total No of agents	=	Total number of agents in the entity (estimated in full time equivalents FTE), to consider all persons working for the entity (employees, civil servants plus contractual agents, consultants, managers, etc.)
No of agents controlling RD (EAFRD)	=	Number of agents (estimated in full time equivalents FTE) controlling and/or participating in the control of rural development measures.

In other words, the calculation of the costs of controlling rural development measures refers only to those FTE dedicated to the control of rural development measures in comparison to the FTE dedicated to controls of all measures financed by EAGF and EAFRD.

For the estimation of the costs of controlling agri-environmental measures a similar approach has been followed.

2.7 Estimation of the error rates for rural development

In order to obtain reasonable assurance as to the regularity of the transactions underlying the EU accounts, the European Court of Auditors tested a single, representative, statistical sample of 204 transactions covering the whole of the expenditure dealt with in this chapter and assessed the supervisory and control systems. Based on the results of its audit work, the Court concluded that for the payments for the year ended 31 December 2008 for the policy group taken as a whole the estimated value of the overall error rate is slightly below the materiality threshold of 2 %. The Court further noted that Rural Development expenditure is still affected by a higher level of errors than EAGF, although it estimates the error level to be lower than in previous years[5]. However, it is not possible to estimate an individual error rate for Rural

[5] With regard to EAFRD operations, out of 42 transactions sampled, 17 (40 %) were affected by errors. 11 (55 %) of the errors were quantifiable. However, these errors are relatively small in financial terms. In its 2008 Annual Report, the Court estimates the level of error related to Rural Development only to be above 2 %.

Development on the basis of the Court's DAS exercise as the Court's sample is not representative at this level.

As a result, the estimation of the error rate for EAFRD expenditure is based on statistics received from Member States on the results of some 300,000 on-the-spot controls with respect to rural development concerning expenditure in financial year 2009. The statistics provided by the Member States resulted, once weighted according to the amount claimed by Member State, in a global error rate for rural development of some 2,8%.

It should be noted that statistics show that the error rate for axis 1 and 3 measures is rather low, the relatively more "risky" measures being found in axis 2, in particular agri-environmental measures. Rural development is particularly prone to errors because of the often complex rules and eligibility conditions. Special report No 3/2005 of the Court of Auditors on the control of environmental expenditure in agriculture also concludes that this expenditure is not only risky by its nature but that it is not possible to obtain assurance in this area at a reasonable cost.

The data based on the statistics received from the Member States on control results concerning axis 2 measures confirmed that error rates for axis 2 measures were higher than for other measures in rural development and indicated a (weighted) error rate of around 3,4% for these measures in 2009. In this respect it is crucial to keep in mind that measures pursuing environmental objectives are based on a number of technical requirements that must be implemented in a spatially differentiated manner, and complied with on a continuous basis or at different points in time. It is not possible to reap these considerable environmental benefits associated with these measures in a simpler way.

2.8 Modelling the relationship between the costs and errors

Rural Development

The Member States' statistics for 2008 show that for rural development the amount claimed (total public expenditure) by 3,6 million beneficiaries amounts to 13,7 billion EUR. The amount covered by on-the-spot controls carried out by the Member States is 1,6 billion EUR, in total some 300.000 beneficiaries were subject to an on-the-spot control.

In the population not controlled on-the-spot of 12,1 billion EUR (claimed) presented by 3,3 million beneficiaries, the average amount per beneficiary amounts to around 3 645 EUR. Applying the error rate (weighted) of 2,8 % for Rural Development, the average amount at error per beneficiary can therefore be estimated at around 100 EUR. The average cost per on-the-spot control for a rural development measure of around 507 EUR is around 5 times higher than the average amount at error per beneficiary. This means that from a financial perspective, an increase of on-the-spot controls would not be cost-efficient.

RURAL DEVELOPMENT	controlled population	population not controlled	total population
amount covered (billion)	1,6	12,1	13,7
number of beneficiaries (million)	some 0,3	3,3	3,6
average amount per beneficiary	5 220	3 648	3 783
error rate (taken from MS statistics received)		**2,8%**	
average amount at error per beneficiary		102	
average cost per on-the-spot control		507	
proportion cost/benefit		496%	

Table 1: Rural Development analysis

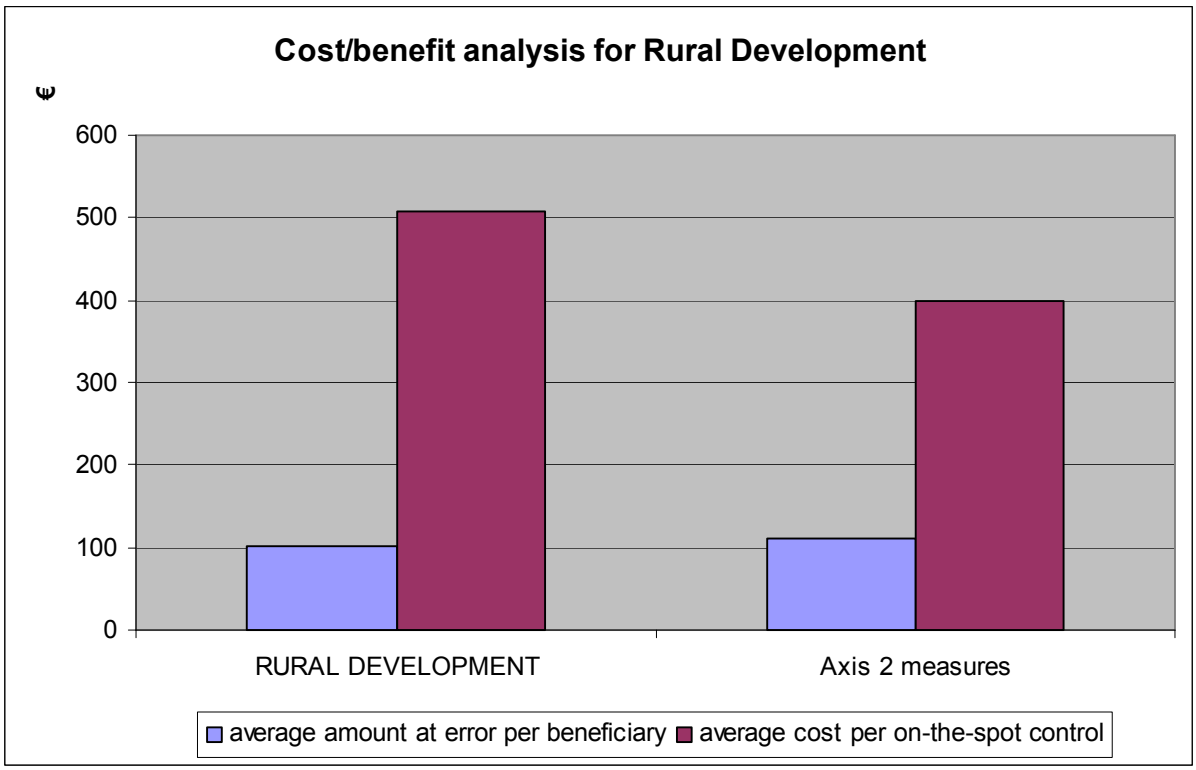
Axis 2 measures

For axis 2, statistics show that the amount claimed (public expenditure) by 3,26 million beneficiaries amounts to 10,9 billion EUR. Member States carried out on-the-spot controls covering around 280 000 beneficiaries, the amount covered by these on-the-spot controls is around 1,1 billion EUR. In the population not controlled on-the-spot of 9,8 billion EUR presented by 2,98 million beneficiaries, the average amount per beneficiary amounts to around 3 293 EUR. Applying the error rate (weighted) of 3,4 % for Axis 2 measures, the average amount at error per beneficiary is around 112 EUR. The average cost per on-the-spot control for Axis 2 measures of around 400 EUR is around 4 times higher than the average amount at error per beneficiary.

Axis 2 measures	controlled population	population not controlled	total population
amount covered (billion)	1,1	9,8	10,9
number of beneficiaries (million)	0,28	2,98	3,26
average amount per beneficiary	3 896	3 294	3 346
error rate (taken from MS statistics received)		**3,4%**	
average amount at error per beneficiary		112	
average cost per on-the-spot control		400	
proportion cost/benefit		360%	

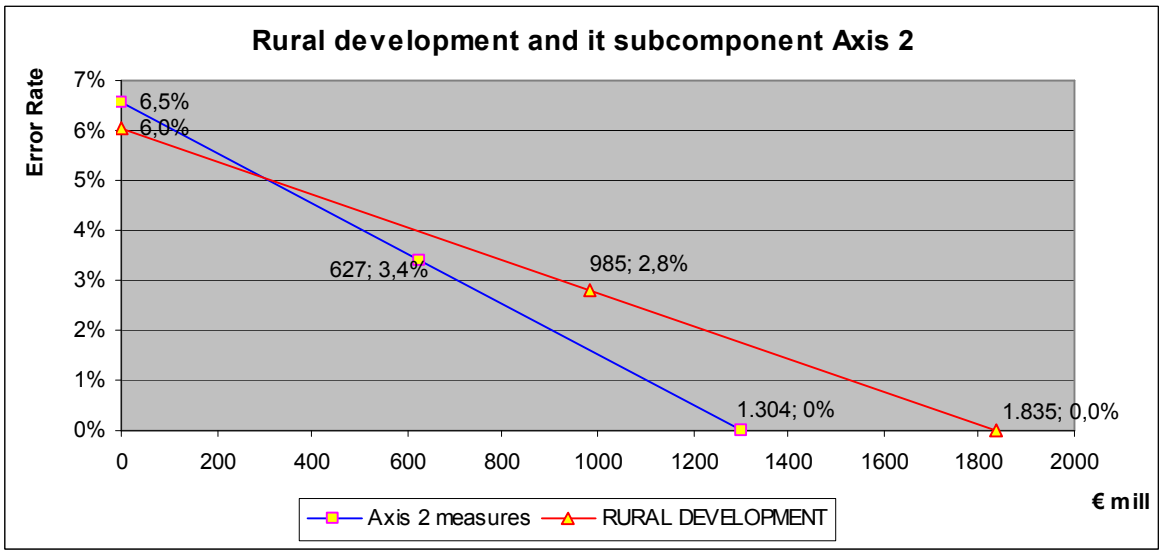
Table 2: Axis 2 measures analysis

The following graph illustrated the costs/benefits analysis:



Graph 1: Cost/benefit analysis for Rural Development

This approach assumes a simplification of the real world, as it assumes that all beneficiaries have the same size.



Graph 2: Rural development and its subcomponent Axis 2

Using an error rate of 2,8% and a cost of control of €507, we can actually calculate a break-even point for the size of the beneficiary below which it wouldn't be worth (in purely economic terms) controlling on the spot.

3. ANALYSIS OF THE STRUCTURE OF THE COSTS OF CONTROL IN THE RURAL DEVELOPMENT AREA

3.1 Results at EU level

The analysis is based on the figures provided by the Member States, which however in some cases were incomplete. For the EU-27 Member States the costs of controls add up to 2,7 billion EUR in total. Comparing these figures with total agricultural expenditure of 54,3 billion EUR in 2009 across EU-27, the average percentage of the costs of controls is 4.94 % (in 2005: 4,15 %), as shown in table 1.

	Agricultural expenditure 2009 (m EUR)	Costs of Controls (m EUR)	Percentage breakdown 2009		Percentage breakdown 2005 (EU-25)
EU-27	54 326,8	2 685,1	4,94 %		4,15 %

Table 3: Breakdown of costs of controls by total agricultural expenditure 2009

As regards the comparison to 2005, it should be noted that the exercise was limited to EAGGF Guarantee expenditure which, however, at the time also covered certain rural development measures, such as agri-environmental measures. Still, the increase can be explained by the more comprehensive coverage of rural development measures which, as shown below, have a bigger percentage of control costs in comparison to expenditure under EAGF.

When relating the costs of controls deriving from EAGF controls to the expenditure under the EAGF across the EU-27, the average percentage of the costs of controls is 2.73%.

	Agricultural expenditure EAGF 2009 (m EUR)	Costs of Controls (m EUR)	Percentage breakdown
EU-27	46 104,0	1 258,4	2,73 %

Table 4: Breakdown of costs of controls by agricultural expenditure EAGF (public expenditure) 2009

The costs of controls can also be expressed in relation to the used agricultural area (UAA). At EU-27 level, averages amount to 15,57 EUR/ha (in 2005: 13,56 EUR/ha).

	Costs of Controls (m EUR)	Used Agricultural Area ('000 ha)	Costs of Controls per UAA (EUR/ha)
EU-27	2 685,1	172 484,9	15,57 (2005 EU-25: 13,56)

Table 5: Breakdown of costs of controls per UAA

3.2 Rural development and its different components

On the basis of data received from the Member States, their control costs presented for rural development measures are roughly estimated at 985 m EUR. Comparing the costs of controls occurring from EAFRD controls with expenditure under EAFRD in 2009 (public expenditure, including EU-contribution and national co-financing from Member States) the average percentage of the costs of controls at EU-27 level is 7,27 %.

	Agricultural expenditure EAFRD (public expenditure) 2009 (m EUR)	Costs of Controls (m EUR)	Percentage breakdown
EU-27	13 547,9	985,0	7,27 %

Table 6: Breakdown of costs of controls by agricultural expenditure EAFRD (public expenditure) 2009

Axis 2 measures

With respect to axis 2 measures, Member States provided information that show related costs of control are estimated at 627,1 m EUR, equivalent to 4,63 % of EAFRD expenditure (total public expenditure, including EU-contribution and national co-financing from Member States) in 2009. Still these costs of control for Axis 2 measures represent around 63,7 % of the overall costs of controls for EAFRD.

4. CONCLUSIONS

A number of key conclusions can be drawn from the figures shown above:

On the costs of control

1. Expressed as a percentage of total expenditure under the EAGF and the EAFRD, the average cost of controls appears at an acceptable level;

2. As regards the relation of costs of controls and expenditure per fund, the percentage of costs of controls for EAFRD (7,27 %) is more than twice as high as the percentage for EAGF (2,73 %), which results from the more complex rules and eligibility conditions compared to the EAGF.

3. For rural development, any increase of the level of on-the-spot controls beyond the current level would not be cost-efficient as the costs of any additional controls would be 5 times higher than the gain which on average can be expected from these controls. For the more risky measures (axis 2) with a higher average recovery per on-the-spot control, the cost-benefit ratio would still be 4 times higher.

On the possible level of tolerable risk

4. The analysis above demonstrates that, even with control costs above 7% of the EAFRD budget, the level of undetected error in the population is likely to remain in the "yellow" zone (2% to 5%) in rural development.

5. It would not be cost effective to increase the number of controls and consequently the costs of control further as the cost of an additional on the spot control exceeds the likely benefit in terms of correction of errors.

6. As a result, The Commission proposes, for EAFRD expenditure, a TRE level in the yellow range (2% - 5%). A DAS error rate around the middle of this range would be acceptable and justified. Above this level, additional action would be taken to reduce the error rate through increased controls and addressing the major causes of error. The target for the first pillar of the CAP would remain in the green zone (2%).