2010 discharge: EU general budget, Section III, Commission

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PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2010, as part of the 2010 discharge procedure.

Analysis of the accounts of the EU Institutions: **Section III - European Commission**.

CONTENT: this Commission document sets out the consolidated annual accounts of the European Union for the financial year 2010 as prepared on the basis of the information presented by the institutions, organisations and bodies of the EU, in accordance with Article 129 (2) of the Financial Regulation applicable to the EU's General Budget, including the European Commission.

(1) Purpose: the document helps to bring insight into the EU budget mechanism and **the way in which the budget has been managed and spent in 2010**. It recalls that European Union's operational expenditure covers the various headings of the financial framework and takes different forms, depending on how the money is paid out and managed.

In accordance with the Financial Regulation, the Commission implements the general budget using the following methods: direct centralised management: direct implementation of the budget by the Commission services; indirect centralised management: the Commission confers tasks of implementation of the budget to bodies of EU law or national law, such as the EU agencies of public law or with public service missions; decentralised management: the Commission delegates certain tasks for implementation of the budget to third countries; shared management: under this method of management budget implementation tasks are delegated to Member States. The majority of the expenditure falls under this mode "Shared Management" involving the delegation of tasks to Member States, covering such areas as agricultural spending and Structural Actions.

The document also presents the different financial actors involved in the budget process (accounting officers, internal officers and authorising officers) and recalls their respective roles in the context of the tasks of sound financial management.

Amongst the other legal elements relating to the implementation of the EU budget presented in this document, the paper focuses on the following issues:

- accounting principles applicable to the management of EU spending (business continuity, consistency of accounting methods, comparability of information ...);
- consolidation methods of figures for all major controlled entities (institutions and agencies);
- the recognition of financial assets in the EU (tangible and intangible assets, financial assets and other miscellaneous investments);
- the way in which EU public expenditure is committed and spent, including pre-financing;
- the means of recovery following irregularities detected;
- the modus operandi of the accounting system:
- the audit process followed by the European Parliament's granting of the discharge.

To recall, the **final control is the discharge of the budget for a given financial year**. The discharge represents the political aspect of the external control of budget implementation and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission from its

responsibility for management of a given budget by marking the end of that budget's existence (please refer to the follow-up reports presented in this procedure file).

Lastly, the document presents a series of tables and detailed technical indicators on (i) the balance sheet; (ii) the economic outturn account; (iii) cashflow tables; (iv) technical annexes concerning the financial statements.

(2) Balance sheet of financial implementation: achievements and difficulties of implementation: in addition to the legal elements of how expenditure of the Union is executed, the document highlights the difficulties as regards the management and the implementation of certain expenditure of the Union:

(a) the issue of pre-financing: Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. If the beneficiary does not incur eligible expenditures, he has the obligation to return the prefinancing advance to the European Union.

At year-end, outstanding pre-financing amounts are valued at the original amount(s) paid less: amounts returned, eligible amounts expensed, estimated eligible amounts not yet cleared at year-end, and value

reductions. Total Pre-financing at the year end amounted to EUR 49 421 million compared to EUR 48 827 million in 2009. The most significant long-term pre-financing amounts relate to **Structural Actions** for the 2007-2013 programming period. In this regard, it was found that although initially these payments had been made, until 2010 included, as expenditure in the accounting system of the Commission, all resources were not used. The Commission therefore considers that it would be more appropriate to consider them as assets on the balance sheet. It also found a lack of information on the intended destination of these amounts (the Member States are not required to submit specific reports on these funds). Further details are expected in the future. Other direct effects of the increase of pre-financing amounts, appears in increased amounts to be paid by Member States within the budget of around EUR 2.6 billion.

(b) irregularities and financial corrections: the document highlighted the correction of errors and irregularities discovered, especially in the part of the EU budget that is implemented under the shared management mode (about 80% of the total budget). Financial corrections are made by the European Commission so as to exclude from EU funding expenditure that is not in accordance with applicable rules and regulations. The total financial corrections for cohesion policy alone amounts to **EUR 925 million for 2010**.

(c) recoveries: based on data received so far, in terms of EU contribution, Member States have reported a total of some **EUR 5.1 billion** of cumulative financial corrections resulting from their national audit work for the 2000-2006 programmes (of which withdrawals total some EUR 4 billion and recoveries approximately EUR 1.1 billion). The on-the-spot audit work undertaken by DG Regional Policy for recoveries related to the 2000-2006 programming period was completed in 2010 for the six remaining Member States, having covered thus all 25 concerned Member States (there was no reporting obligation for Bulgaria and Romania for the 2000-2006 period). Significant weaknesses still existed in respect of the completeness of data and the system for recording and reporting irregularities for some 2000-2006 programmes in Italy, Spain, France and the Netherlands. To a lesser extent, weaknesses also existed in programmes in the UK, Slovenia, Finland, Sweden and Latvia. Even if improvements have been identified in all Member States during the years 2007-2010 by the Commission audits, the Commission remains prudent at closure and requested all programmes authorities to report on the follow-up (including financial corrections) that was made at national level for all irregularities registered for each programme. The Commission will not close programmes until it assesses this information as being consistent and complete.

The main amount, **EUR 1 775 million**, relates to shared management and is made up of:

- EUR 1 331 million concerning the European Agricultural Guarantee Fund (EAGF),

- EUR 19 million for TRDI,
- EUR 146 million for SAPARD,
- EUR 279 million for Structural Actions.

(d) RAL (**budgetary commitments made, payments still pending**: the budgetary RAL ("Reste à Liquider")) is an amount representing the open commitments for which payments and/or de-commitments have not yet been made. At 31 December 2010, the RAL amounted to **EUR 194 395 million** compared to EUR 177 272 million at the end of 2009.

(3) Implementation of appropriations under Section III of the budget for the financial year 2010 : the annexes include the following tables:

(a) Table showing the commitment appropriations by heading (including the % of implementation):

1. Sustainable growth: EUR 64 453 million (97.3%)
2. Preservation & management of natural resources: EUR 60 251 million (96.69%)
3. Citizenship, freedom, security and justice: EUR 1 795 million (94.2%)
4. The EU as a global partner: EUR 8 247 million (97.97%)
5. Administration: EUR 7 797 million (95.3%)

Total commitments: EUR 142 744 million (96.93%).

(b) Table showing the implementation of payments by heading:

1. Sustainable growth: EUR 48 828 million (93.71%)
2. Preservation & management of natural resources: EUR 56 647 million (95%)
3. Citizenship, freedom, security and justice: EUR 1 373 million (84.93%)
4. The EU as a global partner: EUR 7 487 million (92.41%)
5. Administration: EUR 7 896 million (87%)

Total payments: EUR 122 231 million; 93.64%.

(c) budget implementation - conclusions: lastly, the document provides details on budget implementation itself (in more political terms). The year 2010, the fourth year of the current programming period, saw programmes reaching their cruising speed and the start of the final closure of old programmes. At the end of the year outstanding commitments made before 2007 represent some 10% of the total RAL.

For commitments, the initial budget and hence the political targets set were carried out virtually as planned. **The implementation rate**, excluding the unused reserve of EUR 415 million for European Globalisation Adjustment Fund and EUR 28 million of unused provisional appropriations (amounts placed in reserve pending the fulfilment of certain conditions, which remain in reserve at the end of the budgetary year) reached **99.4%.** Adjustments during the year concerned EUR 80 million for the European Solidarity Fund, unforeseeable expenditure by nature, and for administrative expenditure EUR 10 million related to the setting-up of the European External Action Service and EUR 10 million for the European Parliament following the entry into force of the Lisbon treaty.

The total implementation of EUR 140 554 left EUR 554 million unused. After the carryover of EUR 259 million to 2011, the largest item being Energy Projects to aid Economic Recovery for EUR 147 million, an amount of EUR 295 million lapsed.

The implementation rate for payments, excluding un-mobilised Emergency Aid Reserve (EUR 193 million) and provisional appropriations (EUR 48 million), was 97.4% of the budget.

Contrary to previous years, there was no reduction in payment appropriations via an amending budget at the year-end. The main adjustment was carried out via the global transfer which reinforced Regional policy by EUR 1 125 million by reducing appropriations for Rural Development. The Commission reinforced also the Cohesion Fund with some EUR 600 million via internal transfers. The unused voted appropriations, excluding reserves, amounted to EUR 3 243 million and after the carryover of EUR 1 513 million, a total of EUR 1 730 million spread across the Multi-annual Financial Framework ("MFF") headings lapsed.

For more detailed information as regards the budgetary implementation of expenditure of Section III of the budget, please refer to: EU budget 2010 Financial Report and the Commission's annual activity reports.