

2011 discharge: EU general budget, Section III, Commission and executive agencies

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PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2011, as part of the 2011 discharge procedure.

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

Legal reminder: the consolidated annual accounts of the European Union for the year 2011 have been prepared on the basis of the information presented by the institutions and bodies under Article 129(2) of the Financial Regulation applicable to the general budget of the European Union. They were prepared in accordance with Title VII of the Financial Regulation and with the accounting principles, rules and methods set out in the notes to the financial statements.

The objective of the financial statements is to provide information about the financial position, performance and cashflow of a body that is useful to a wide range of users. The objective is to provide information that is useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

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 2011.** It recalls that the 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 or indirect centralised management (by means of bodies or agencies of public law or other); decentralised management where the Commission delegates certain tasks for the implementation of the budget to third countries; and, thirdly, shared management where budget implementation tasks are delegated to Member States, in areas such as agricultural expenditure 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 (the consolidated financial statements of the EU comprise all significant controlled entities –institutions, organisations and agencies, this being 50 controlled entities, 5 joint ventures and 4 associates. In comparison with 2010, the scope of consolidation has been extended by 7 controlled entities (one institution, 6 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 (cash advances intended for the benefit of an EU organ);
- 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 recap, 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.

The document also details specific expenditure of the institutions, in particular: i) pensions of former Members and officials of institutions; ii) joint sickness insurance scheme and iii) buildings. For the Parliament, the outstanding contractual obligation relating to building contracts totalled EUR 434 million in 2011.

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 in implementation: in addition to legal aspects regarding the way in which the Union's expenditures are implemented, the document highlights the difficulties relating to the management and execution of certain of the Union's expenditures.

(a) financial correction and recoveries: the document provides an overview of the correction of errors and irregularities discovered, in particular in the part of the EU's budget that is implemented by means of shared management (**i.e. some 80% of the total budget**). In the context of shared management, the Commission relies on Member States for the implementation of EU programmes i.e. the EU contribution is paid to the Member States, generally to a specific paying agency, which is then responsible for the payments made to beneficiaries. As a result, **Member States are the primary party responsible for the prevention, detection and correction of errors and irregularities committed by the beneficiaries**, while the European Commission ensures an overall supervisory role (i.e. verifying the effective functioning of Member States' management and control systems).

The details provided by the Commission in its consolidated document only cover financial corrections and recoveries effected at EU level. The corrections effected by Member States following their own audits are not recorded in the Commission's accounting system because Member States can reuse, in most cases, these amounts for other eligible expenditure. Member States are however requested to provide the Commission with updated information on withdrawals, recoveries and pending recoveries of Structural Funds, and to separately identify EU corrections in the reporting related to the 2007-2013 period to avoid an overlap risk.

- **financial corrections:** financial corrections are the main tool used for the correction of errors and irregularities in the context of shared management. 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. In 2011, total financial corrections for the Cohesion policy alone amounted to **EUR 624 million** (compared with EUR 737 million in 2010) for the three cumulated programming periods (1994-1999, 2000-2006 and 2007-2013). In total, for all sectors combined, financial corrections amounted to **EUR 1.107 billion**;
- **recoveries:** recovery of amounts is a means of implementing financial corrections that merit a separate disclosure given that it concerns actual return of cash to the budget (or offsetting). These sums mainly concern the Common Agricultural Policy and Cohesion Policy. In 2011, the document states that these two sectors plus 'others' in the EU budget (such as the 7th Framework Programme for RTD) resulted in recoveries of around **EUR 733 million cumulated**.

(b) 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 pre-financing advance to the European Union. At 31.12.2011, total long-term pre-financings amounted to **EUR 40.625 billion** compared with EUR 40.298 million at the end of 2010. The largest pre-financing amounts relate to **structural actions for the 2007-2013 programming period**. Pre-financing represents a large portion of the EU's total assets, and thus receives proper and regular attention. It should be noted that the level of pre-financing amounts in the various programmes must be sufficient to ensure the necessary float for the beneficiary to start the project, while also safeguarding the financial interests of the EU and taking into consideration legal, operational and cost-effectiveness constraints. A closer look at the evolution of pre-financing reveals an accelerated increase in the years 2007 to 2009, which coincides with the early years of the 2007-2013 programming period. **The year 2011 marks a first decrease in the level of pre-financing**, a trend which confirms that the increase witnessed in the early years of the 2007-2013 Financial Framework is a normal development linked to the spending profile of multiannual programmes. In fact, **in 2011, total pre-financing has decreased by 1.5% or EUR 743 million compared to 2010**, an evolution related mainly to short-term shared management amounts.

(c) 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. The budgetary RAL is a normal result of the existence of multiannual programmes. At 31 December 2011, the budgetary RAL amounted to **EUR 207.443 billion**.

(d) borrowing and lending activities of the EU: the document also specifies that the EU is empowered by the EU Treaty to adopt borrowing programmes to mobilise the financial resources necessary to fulfil its mandate. The European Commission, acting on behalf of the EU, currently operates three main programmes under which it may grant loans and fund these by issuing debt instruments in the capital markets or with financial institutions: i) European Financial Stabilisation Mechanism (EFSM): support to Euro Area Member States, up to approximately EUR 60 billion, (EUR 28.3 billion outstanding at year-end); ii) Balance-of-Payments (BOP) assistance: to Member States that have not yet adopted the euro with up to EUR 50 billion (EUR 11.6 billion outstanding at year-end); and iii) Macro-Financial Assistance (MFA): financial aid programme to assist non-Member States (EUR 595 million outstanding at year-end). These activities have direct implications on the EU's budget. This for the EFSM alone, at 31 December 2011, **the budget is exposed to a maximum possible risk of EUR 28.344 billion** regarding these loans (the EUR 28 billion above being the nominal value). As the borrowings under the EFSM are guaranteed by the EU budget, the European Parliament scrutinises the Commission's EFSM actions and exercises control in the context of the budget and discharge procedure.

N.B. the document also examines the financial risks incurred by the EU and the mechanisms set in place to ensure the management of these risks.

3) Implementation of the budget for the 2011 financial year: the document also comprises a series of annexes containing figures, the most important of which relates to budgetary implementation:

(a) table on the implementation of commitment appropriations by heading and rate of implementation:

- Sustainable growth: EUR 65.238 billion; rate of implementation: 97.38%;
- Preservation and management of natural resources: EUR 59.907 billion; 97.66%
- Citizenship, freedom, security and justice: EUR 2.165 billion; 94.5%;
- EU as a global player: EUR 8.807 billion; 96.42%;
- Administration: EUR 4.884 billion; 96.98%.

Total commitments: EUR 141.001 billion; 97.41%.

(b) table on the execution of payment appropriations by heading and rate of implementation

- Sustainable growth: EUR 54.732 billion; rate of implementation: 96.05%;
- Preservation and management of natural resources: EUR 57.375 billion; 97.43%
- Citizenship, freedom, security and justice: EUR 1.827 billion; 91%;
- EU as a global player: EUR 7.102 billion; 96.42%;
- Administration: EUR 4.847 billion; 89.85%.

Total payments: EUR 125.883 billion; 96.36%.

(c) budget implementation – conclusions: lastly, the document provides details on the implementation of the budget in more political terms. Financial year 2011 was the fifth annual budget implemented in the current MFF. In 2011, EUR 117 336.9 million (90.7% of total implemented EU expenditure including EFTA contributions and earmarked revenue) was allocated to Member States. For further details of the budgetary implementation of expenditures of Section III of the budget, please refer to the [EU Budget 2011 – Financial Report](#).

Overall, many large programmes saw the implementation of their payments accelerate even if because of the general context of budget consolidation in the Member States the increase in payment appropriations was very limited and therefore **insufficient to ensure the necessary level of payment required in the course of the year**. In fact, despite a budgetary supplement of EUR 200 million, authorised thanks to amending budget 6/2011, the strong increase in demand for payments in the last three weeks of the year and the absence of sufficient payment appropriations to meet the demand resulted in **a shortfall of some EUR 11 billion** to honour the EU's credits in 2011 and which could only be honoured in 2012. The unused voted appropriations excluding the reserves amounted to EUR 1 580 million (2010: EUR 3 243 million) and after the carryover to 2012, a total of EUR 560 million (2010: EUR 1 730 million) lapses, mainly in Headings 2 and 4 of the financial framework.

For commitments, the authorised budget, and hence the political targets set, were fully implemented (99.6%).