# Financial rules applicable to the general budget of the Union. Financial Regulation

2010/0395(COD) - 25/10/2012 - Final act

PURPOSE: to establish the financial rules applicable to the general budget of the European Union.

LEGISLATIVE ACT: Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002.

CONTENT: following a first-reading agreement with the European Parliament, the Council adopted new rules aimed at **equipping the EU budget with simpler financial rules** while securing sound treatment of European taxpayers' money. The Netherlands' delegation abstained.

Regulation (EC, Euratom) No 1605/2002 of the Council on the financial regulation applicable to the general budget of the European Communities has been the subject of several substantial changes. As further changes need to be made, including taking into account the entry into force of the Lisbon Treaty, Regulation (EC, Euratom) No 1605/2002 is repealed and replaced by this regulation, in the interests of clarity.

The main objectives of the revised financial regulation are **to cut red tape, increase the leverage effect of limited EU funds and assure more accountability for the EU taxpayer.**

It maintains and strengthens the essential elements of financial rules at the same time: the role of the financial actors, the integration of the controls at the level of operational services, the internal auditors, the preparation of the budget by activity, the modernisation of rules and accounting principles as well as the principles applicable to grants.

The adoption of the financial regulation paves the way for the adoption of around 70 proposals for sector specific legislative acts covering areas such as agriculture, cohesion policy, research, environment, transport, energy and external aid. The main focus of the new regulation are as follows:

**Access to EU funds**: the regime of grants will be shifted from a **real-cost based management (inputs) towards a performance-based scheme (outputs)**. This move is expected to simplify significantly the procedural and documentary requirements for the benefit of beneficiaries. As an example of simplification, beneficiaries of EU funds will no longer be obliged to open a separate bank account to receive an upfront payment at the start of a project and to return to the Commission any interest yielded by this money while it stays on this account.

**Support for employment and growth**: in order to increase the leverage limited resources by the EU in support of the creation of jobs and growth, the revised financial regulation includes provisions to **facilitate the use of new financial instruments such as loans, guarantees, catches of participation or other instruments of sharing risk**. These instruments should comply with the principle of sound financial management.

**EU trust funds**: the new rules authorise the Commission to set up and manage multi donor EU trust funds for external actions, which would intervene in emergency, post-emergency crisis operations or for thematic actions. These funds would pool the contribution from the EU budget with funds from other donors and are expected to improve the delivery and visibility of EU aid.

**Public and private partnerships**: the revised financial regulation facilitates the pooling of EU resources with private funds via public and private partnerships, notably in the research field.

**Greater accountability**: where member states have been delegated the implementation of the budget by the Commission, ("shared management") they will have to **designate and supervise bodies responsible forthe management and control of EU funds**. These bodies will have to set up and ensure thef unctioning of an effective internal control system. Once a year they will have to providethe Commission with their accounts and with a management declaration confirming that the money has been spent for the intended purpose and that the control systems works properly.

**Grants**: the conditions for using **simplified forms of grants** determined on the basis of lump sums, unit costs and flat rates should be made more flexible. Grant rules should take account of the **specific remuneration schemes applied by small and medium-sized enterprises** (SMEs). Access to Union funding for entities with limited administrative resources should be facilitated by further simplifying procedures applicable to **low value grants**.

**External action**: this Regulation should establish general conditions under which budget support may be used as an **instrument in external action**. Such conditions should relate to ensuring a sufficiently transparent, reliable and effective management of public finances. It provides for a **differentiated approach** for when the Union is required to respond to humanitarian emergencies, international crises or the needs of third countries undergoing a process of democratic transition;

**Building projects**: institutions should inform the European Parliament and the Council in advance of their **future building projects** and at the different stages of those projects. The approval rather than just the opinion of the European Parliament and the Council should be required for building projects which have a significant impact on the budget.

ENTRY INTO FORCE: 27/10/2012.

APPLICATION: starting from 01/01/2013 (with the exception of certain provisions which shall apply from 27/10/2012, or from 01/01/2014).