2012 discharge: EU general budget, European Commission and executive agencies

2013/2195(DEC) - 26/07/2013 - Non-legislative basic document

PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2012, as part of the 2012 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 2012 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 2012**. 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);
- 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.

The document also 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.

- **Suspensions and interruptions:** there may be interruptions or total suspension of payments where there is evidence of significant deficiencies in the functioning of the management and control systems of the Member State concerned in particular with regard to policy cohesion. Total pending cases to this effect at 31.12.2012 amounted to EUR 1 639 million, the Member States particularly targeted were Italy and Poland. Concerning ERDF and the Cohesion Fund, suspension decisions were taken for 2 programmes in Germany and in Italy. Both suspensions were still effective at 31 December 2012. Concerning ESF, 2 suspension decisions were adopted in 2012 and concerned the Czech Republic and Slovakia;
- **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 2012, more than half of the **EUR 1 161 million** financial corrections confirmed/decided in 2012 (**EUR 631 million**) concern the current **programming period 2007-2013** as a result of stricter supervision by the Commission and a growing number of audits completed at this stage of implementation of the programmes. The amount of corrections decided /confirmed in 2012 related to the programming period 2007-2013 is mainly explained by corrections concerning Spain (EUR 267 million), the Czech Republic (EUR 111 million), Greece

(EUR 82 million) and Poland (EUR 77 million). These amounts do not include corrections to expenditure declared by beneficiaries at

- **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 2012, the document states that these two sectors plus 'others' in the EU budget resulted in recoveries of around **EUR 678 million**.

(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 31.12.2012, total long-term pre-financings amounted to **EUR 44.505 billion** compared with EUR 44.723 million at the end of 2011. 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.

The most significant non-current pre-financing amounts relate to Structural Actions for the 2007-2013 programming period: the regional development fund (ERDF) and the cohesion fund (CF) EUR 23.9 billion, the social fund (ESF) EUR 6.5 billion, the agricultural fund for rural development (EAFRD) EUR 6.1 billion and the fisheries fund (EFF) EUR 0.6 billion. As many of these projects are long-term in nature, it is necessary that the related advances are available for more than one year.

(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. At 31 December 2012, the budgetary RAL amounted to **EUR 217.81 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.

European Financial Stabilisation Mechanism (EFSM): the EFSF's mandate is to safeguard financial stability in Europe by providing financial assistance to Eurozone Member States. The EFSF does not provide new lending after 1 July 2013, in keeping with the current Framework Agreement. It is backed by guarantee commitments from the Eurozone Member States for a total of EUR 780 billion and has a lending capacity of EUR 440 billion. **It is not guaranteed by the EU budget**. The EFSF is a Luxembourg-registered commercial company owned by euro-area Member States outside the EU Treaty framework and thus is not an EU body and is entirely separate from and not consolidated in the EU accounts. Consequently it has no impact on the EU accounts, aside from the possible sanctions.

Loans outstanding at 31.12.2012: **EUR 103 900 million**.

European Stability Mechanism (ESM): the ESM has assumed the tasks fulfilled by the EFSM and, as from 1 July 2013, the tasks fulfilled by the EFSF becoming the sole and permanent mechanism for responding to new requests for financial assistance to Eurozone Member States. Consequently, the EFSF and the EFSM will no longer engage in new financing programmes or enter into new loan facility agreements, but will remain active in financing the on-going programmes for **Portugal, Ireland and Greece**. The creation of the ESM will thus not have an impact on the existing commitments under the EFSM. It must also be noted that the EU budget will not guarantee ESM borrowings. The ESM is backed by a robust capital structure, with a total subscribed capital of EUR 700 billion, of which EUR 80 billion in the form of paid-in capital provided by the Eurozone Member States. **Loans outstanding at 31.12.2012** : **EUR 39 468 million**.

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 2012 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 69 billion; rate of implementation: 97.4%;
- Preservation and management of natural resources: EUR 60.817 billion; 97.78%
- Citizenship, freedom, security and justice: EUR 2.892 billion; 98.21%;
- EU as a global player: EUR 9.753 billion; 98.21%;
- Administration: EUR 8.822 billion; 96.81%.

Total commitments: EUR 151.284 billion; 97.55%.

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

- Sustainable growth: EUR 61.585 billion; rate of implementation: 96.60%;
- Preservation and management of natural resources: EUR 59.096 billion; 97.83%
- Citizenship, freedom, security and justice: EUR 2.375 billion; 95.86%;
- EU as a global player: EUR 7.064 billion; 98.35%;
- Administration: EUR 8.564 billion; 87.18%.

Total payments: EUR 138.683 billion; 96.55%.

(c) budget implementation – conclusions: lastly, the document provides details on the implementation of the budget in more political terms. Financial year 2012 was the sixth annual budget implemented in the current MFF. For further details of the budgetary implementation of expenditures of Section III of the budget, please refer to the EU Budget 2012 – Financial Report. The financial year 2012 has been another year marked by a very high execution of the budget and the financial support activities of the EU for Member States under the EFSM facility. The level of long-term advance payments (pre-financing) remains stable at EUR 44.5 billion, practically the same as in 2011.

For commitments, the authorised budget, and hence the political targets set, were fully implemented (99.6%). The total level of payment appropriations was increased at the end of the year through Amending Budget 6/2012 for an amount EUR 6 billion.

The shortage of payments affected nearly all headings, and in particular heading 1b Cohesion for Growth and Employment. It must also be recalled that the EUR 6 billion agreed was EUR 3 billion less that the amount requested by the Commission. Finally, the 2012 budget result of EUR 1 019 million for the Union was returned to the Member States during 2013 through deduction of their contributions due for that year.

Cruising speed: the year 2012 was the sixth and penultimate year of the current programming period 2007-13. All major programmes were at cruising speed, and the inflow of payment claim increased significantly, as is normal as the cycle draws to a close.