2013 discharge: EU general budget, European 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 2013, as part of the 2013 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 2013 have been prepared on the basis of the information presented by the institutions and bodies under Article 148(2) of the Financial Regulation applicable to the general budget of the European Union as well as in accordance with Title IX of this Financial Regulation.

(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 2013**. In this regard, the document recalls the EU'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.

For the 2013 accounts, the Commission classifies its expenditure as follows:

- **direct centralised management**: this is where the budget is implemented directly by the Commission services;

- **indirect centralised management**: this refers to cases where the Commission confers tasks of implementation of the budget to bodies of EU law or national law, such as the EU agencies;
- **decentralised management**: these are the cases where 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 covering such areas as agricultural spending and structural actions;
- **joint management**: under this method, the Commission entrusts certain implementation tasks to an international organisation.

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);
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- 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. When granting discharge, Parliament may make observations which it considers important and often recommend that the Commission **take action concerning these matters**.

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) Amounts to be called from Member States: the total amounts to be called from Members States at 31.12.2013 are approximately **EUR 50 billion**. This amount represents that part of the expenses already incurred by the Commission up to 31 December 2013 that must be funded by future budgets. The inclusion in the accounts of these liabilities coupled with the fact that the corresponding amounts are financed from future budgets, results in liabilities greatly exceeding assets at the year-end. The most significant amounts to be highlighted are the EAGF activities.

The document states that the above has no effect on the budget result – budget revenue should always equal or exceed budget expenditure and any excess of revenue is returned to Member States.

(b) 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 total amount of financial corrections and recoveries implemented in 2013 decreased by 25% compared to 2012. The increase of recoveries implemented in 2013 by 27% was offset by the decrease of financial corrections implemented in 2013 by 34%. This reduction is due to a significant case related to the implementation, and therefore recognition, in 2012 of a financial correction of EUR 1.8 billion concerning Cohesion programmes 2000-2006 in Spain (representing 49% of the total amount of financial corrections implemented in 2012). Out of the amount of EUR 1 759 million that concerned Cohesion

policy, EUR 693 million related to the 2007-2013 programming period, EUR 889 million related to the 2000-2006 programming period, and the remaining amount of EUR 177 million related to the 1994-1999 programming period.

(c) 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 31.12.2013, total long-term pre-financings amounted to EUR 38.072 billion compared with EUR 44.505 million at the end of 2012. 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. **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 19.6 billion, the social fund (ESF) EUR 5.6 billion, the agricultural fund for rural development (EAFRD) EUR 5.2 billion and the fisheries fund (EFF) EUR 600 million.

(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 2013, the budgetary RAL amounted to EUR 222.41 billion (2012: EUR 217.81 billion).

(e) Borrowing and lending activities of the EU: the document provides information on the EU's borrowing and lending activities - the European Financial Stability Facility (EFSF - not guaranteed by the EU budget and the amounts of which are not consolidated in the EU accounts) and the European stability Mechanism (ESM which entered into force on 1 July 2013 and is the only permanent mechanism that responds to requests for financial assistance from the Member States of the euro area. It must also be noted that the EU budget will not guarantee ESM borrowings. As this mechanism has its own legal personality and is funded directly by the Eurozone Member States, it is not an EU body and it has no impact on either the EU accounts or the EU budget. The document also highlights the level of risk that macro-financial assistance granted to third countries has for the EU.

(3) Implementation of the budget for the 2013 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 72.69 billion; rate of implementation: 96.84%;
- Preservation and management of natural resources: EUR 61.46 billion; 98.28%;
- Citizenship, freedom, security and justice: EUR 2.78 billion; 97.59%;
- EU as a global player: EUR 9.79 billion; 97.78%;
- Administration: EUR 8.87 billion; 95.57%;
- Compensations: EUR 75 million; 100%.

Total commitments: EUR 155.66 billion; 97.4%.

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

- Sustainable growth: EUR 71.24 billion; rate of implementation: 96.89%;
- Preservation and management of natural resources: EUR 59.52 billion; 98.54%;
- Citizenship, freedom, security and justice: EUR 1.88 billion; 85.71%;
- EU as a global player: EUR 7.05 billion; 97.99%;
- Administration: EUR 8.69 billion; 86.44%;

- Compensations: EUR 75 million; 100%.

Total payments: EUR 148.47 billion; 96.75%.

(**c) budget implementation – conclusions**: lastly, the document provides details on the implementation of the budget in more political terms. The year 2013 was the last year of the programming period 2007-2013. The initial budget for all institutions set commitment appropriations at EUR 150 898 million, representing an increase of 1.7% compared to the final 2012 budget. Payment appropriations were finally set at EUR 132 837 million, after a cut of EUR 4.96 billion to the Draft Budget 2013. This meant a decrease of 2.2% compared to the final budget for 2012. The initial level of payment appropriations in 2013 corresponded to 0.99% of the Union's GNI and left a margin of EUR 11.24 billion below the financial framework ceiling.

For commitments, the final budget appropriations, and hence the political targets set, were fully implemented (99.7% excluding the un-mobilised reserves). The most notable adjustments by means of amending budgets during the year concerned the amounts necessary to accommodate the accession of Croatia (EUR 655 million), the mobilisation of the European Union Solidarity Fund (EUR 415 million), unforeseeable expenditure by its very nature, and additional commitments under heading 1b for France, Italy and Spain (EUR 150 million), arising from an agreement by the European Council to increase their allocation under the structural funds. The total implementation of EUR 151 080 million left EUR 1 011 million unused.

Payment claims and outstanding claims: the total increases to the initial budgeted payment appropriations, introduced via amending budgets amounted to EUR 11.6 billion. Confronted with the heavy pressure of payment claims and the backlog of outstanding claims from 2012, the Budget Authority adopted increases of EUR 11.2 billion in payment appropriations. This brought the level of payment appropriations up to that of the ceiling of the financial framework, helping to reduce the growth of outstanding commitments (RAL).

The total implementation of final budget payment appropriations was EUR 142 883 million, being 98.9%. This is EUR 8 billion more than in 2012 but also EUR 7 billion more than the financial framework ceiling for 2014. Nevertheless **the backlog of unpaid payment claims at year-end increased further to EUR 26.2 billion**. Once account is taken of the carryover of payment appropriations to 2014, a total of EUR 238 million lapses. More than half of lapsing Commission’s appropriations arise from the rejection by the Council’s refusal to transfer appropriations related to the salary adjustment. From payment appropriations carried forward from 2012, an amount of EUR 97 million was cancelled.