2014 discharge: EU general budget, European Commission and executive agencies

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Having regard to the Treaty on the Functioning of the European Union, and in particular Article 319 thereof, the Council approved the recommendation concerning the discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2014.

Detailed analysis of expenditure:

- revenue amounted to EUR 143 940 117 720.62;
- expenditure disbursed from appropriations amounted to **-EUR 141 192 864 094.11**;
- cancelled payment appropriations (including earmarked revenue) carried over from year n-1 amounted to EUR 361 699 207.50;
- appropriations for payments carried over to year n+1 amounted to -EUR 1 781 565 358.20;
- EFTA payment appropriations carried over from year n-1 amounted to -EUR 5 526 599.22;
- the balance of exchange-rate differences amounted to EUR 109 930 505.17;
- the positive budget balance amounted to EUR 1 431 791 381.76;
- cancelled payment appropriations for the financial year amounted to EUR 25 227 460.62;
- EUR 1 304 124 840.15 (98.10 %) of the EUR 1 329 352 300.77 in appropriations for payments carried over to year n have been used.

Based on the observations in the report by the Court of Auditors, the Council recommended the European Parliament to give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2014. However, the Council has issued a series of comments in regard to budgetary implementation which will need to be fully taken into account when granting the discharge.

DAS: the Council welcomed the favourable opinion given by the Court on the reliability of the accounts for the financial year 2014. It welcomed the fact that the Commission has made notable improvements in the presentation of the accounts and encouraged it to ensure that the high quality of the accounts is maintained in the coming years, while taking into account the Court's observations on issues affecting the accounts, most notably the level of information on financial instruments under shared management.

The Council is pleased to note that EU budget revenue, which comprises own resources and other revenue, was legal and regular. However, it was concerned that **most spending continued to be affected by a material level of error.** The estimated **level of error** reported by the Court for payments as a whole was **4.4%** which remains well above the Court's materiality threshold of 2 % for all policy areas, except the expenditure area “Administration”.

The Council encouraged the Commission to continue to ensure **strict supervision** and to further strengthen its cooperation with Member States and to continue to provide appropriate and consistent guidance to national managing and audit authorities, in order to bring down the estimated level of error in Union spending. It called upon Member States to **continue cooperating with the Commission** and to prioritise increasing the quality – rather than the quantity – of first level checks in order to prevent or detect and correct errors before declaring costs to the Commission. In this context, the Council highlighted

the obligation deriving from the Financial Regulation to identify weaknesses in control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate action, such as **improvement of the control systems**.

Financial corrections: the Council called upon the Commission and Member States to undertake further actions aiming at strengthening the quality of management and control systems and making them more efficient, with special emphasis on first level checks. The Council also reiterated the need to apply **financial corrections and recoveries**, rigorously in line with the relevant rules, in order to protect the EU budget.

Public procurement: the Council highlighted the Court's finding that non-compliance with public procurement rules remains a major source of errors, affecting all spending areas. It encouraged the Commission to aim at further simplification and together with Member States to further strengthen their efforts to prevent errors in public procurement and to effectively carry out measures set up in the 2013 Commission Action Plan on public procurement.

Budgetary and financial management: the Council noted the Court's observation that 2014 was the year with the **second highest level of payments**, while the level of unpaid payment claims at the end of the year increased, and that most payments made in 2014 were related to the previous MFF (2007-2013). Furthermore, it also noted that although Member States contributions were consistent with the own resources decision, the level of payments was, as in 2013, higher than the MFF ceiling, due to carry-overs and assigned revenue.

RAL: the Council noted the Court's assessment that the level of outstanding commitments (RAL) **decreased**, although temporarily as a result of the reprogramming of unused 2014 commitments in the later years. It called on the Commission to continue monitoring the evolution of the amounts of outstanding commitments, by heading and by programme on a regular basis, and to settle or decommit them in a timely manner and in line with the relevant rules.

It recalled its request to the Commission to provide the budgetary authority with a long term cash flow forecast in order to better match payments and funds available with needs with a view to, inter alia, prevent the possible build-up of an excessive backlog. The Council stressed the Court's view that the high level of outstanding commitments requires a longer term perspective, and called on the Commission to prepare and publish annually a **long term forecast** covering budgetary ceilings, estimated payments obligations and needs until the end of the current MFF, capacity constraints and potential decommitments.

Getting results from the EU budget: the Council welcomed the Court's approach in evaluating results of EU spending. It considered the assessment of performance to be an important element in the annual evaluation of the sound financial management of EU funds. It supported the Court's recommendation to reinforce the focus on results in the partnership agreements and programmes, with a view to achieving coherence of the EU actions.

Revenue: the Council noted with satisfaction the Court's conclusion that the revenue part of the budget was not affected by material error, that the underlying transactions were found free from error and that the examined systems were assessed as being overall effective. It supported the Court's recommendation to the Commission to continue its work on a common revision policy, aiming at establishing a regular and harmonised timetable for major revisions to the GNI-based contributions.

The Council analysed each **budget area** and made the following comments:

- **Competitiveness for growth and jobs**: the Council regretted that the estimated level of error reported by the Court for payments in this policy area increased by 1.6 percentage points to 5.6 % in 2014. It strongly encouraged the Commission to take into consideration the Court's observation that

Horizon 2020 is designed to attract greater participation from SMEs and new entrants. It also encouraged the Commission and other bodies implementing Horizon 2020 to use all means of simplification available to them under this programme.

- **Economic, Social and Territorial cohesion**: the Council regretted that the estimated level of error reported by the Court for payments in this policy area increased by 0.4 percentage points to 5.7% in 2014, remaining well above the materiality threshold of 2%. It encouraged Member States to take full advantage of the new 2014-2020 legal framework in order to improve the management of EU spending, and to use the new **simplification** provisions, and expects a positive impact on the estimated level of error for future spending.
- **Economic, social and territorial cohesion**: the Council regretted that the estimated level of error reported by the Court for payments in this policy area increased by 0.4 percentage points to 5.7% in 2014. It encouraged Member States to take full advantage of the new 2014-2020 legal framework in order to improve the management of EU spending, and to use the new **simplification** provisions, and expects a positive impact on the estimated level of error for future spending. The Council also strongly invited Member States to avoid additional layers of complexity and/or administrative burden while establishing the eligibility criteria for EU funding. As regards **regional and urban policy**, it regretted that the estimated level of error reported by the Court for payments in this area remains high. The major source of errors for this policy area remains non-compliance with public procurement rules, followed by errors caused by breaches of eligibility rules, and errors related to the infringement of state aid rules. It urged the Commission to continue applying suspensions and interruptions of payments whenever significant deficiencies in the functioning of management and control systems are identified, including, where appropriate, the use of **net-financial corrections**, in accordance with the relevant rules. As regards **employment and social affairs,** the Council pointed out with concern that the main sources of error in this policy area continued to be the declaration of ineligible projects and the reimbursement of ineligible or inaccurately declared costs. It called on the Commission to continue reducing the administrative burden in this area.
- **Natural resources**: the Council noted that the estimated level of error reported by the Court for payments in the "Natural Resources" policy area decreased by 0.8 percentage points to 3.6 % in 2014, but regretted that payments were affected by material error. It agreed with the Court's recommendation that Member States make further efforts to improve the quality of the Land Parcel Identification System (LPIS) and continue their efforts to ensure the reliability and completeness of data. As regards **market and direct support**, the Council that most of the quantifiable errors detected by the Court related to the **overstated number of eligible hectares**. It called upon the Member States concerned to improve the quality of information contained in the LPIS databases, including the size and eligibility of agricultural land, notably of permanent pasture. Regarding **rural development, environment, climate action and fisheries**, the Council encouraged the Commission to make sure that the Member States concerned improve the action plans for reducing the rural development estimated level of error;
- **Global Europe**: the Council regretted that the estimated level of error reported by the Court for payments in the "Global Europe" policy area has increased by 0.6 percentage points to 2.7 % in 2014. It encouraged the Commission to pursue its efforts to reduce the estimated level of error in a cost-effective manner. It noted that the Court detected errors in the clearing of pre-financing expenditure by the Directorate-General for Neighbourhood and Enlargement (DG NEAR, formerly DG ELARG). It noted with concern that the Court found that some controls to prevent ineligible expenditure for grant contracts in the Directorate-General for International Development and Cooperation (EuropeAid) failed. It stressed the importance of a full and swift implementation of the recommendations made by the Court to the Commission.
- **Administration**: the Council welcomed the fact that, as in previous years, the administrative and related expenditure of the institutions and bodies of the EU remained free from material error and that the estimated level of error reported by the Court for this policy area decreased to 0.5 %.