

2015 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 2015, as part of the 2015 discharge procedure.

Analysis of the accounts of the EU Institutions: **European Commission.**

Legal reminder: the consolidated annual accounts of the European Union for the year 2015 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.

(1) Governance and budgetary principles: the organisational governance of the EU consists of institutions, agencies and other EU bodies. The main institutions in the sense of being responsible for drafting policies and taking decisions are the EP, the European Council, the Council and **the Commission.**

The EU Budget finances a wide range of policies and programmes throughout the EU. In accordance with the priorities set by the European Parliament and the Council in the Multiannual Financial Framework (MFF), the Commission carries out specific programmes, activities and projects in the field.

The budget is prepared by the Commission and usually agreed in mid-December by the Parliament and the Council, based on the procedure of Art. 314 TFEU.

According to the principle of budget equilibrium, the total revenue must equal total expenditure (payment appropriations) for a given financial year.

EU revenues: the EU has two main categories of funding: own resources revenues and sundry revenues. Own resources can be divided into traditional own resources (such as custom levies), the own resource based on value added tax (VAT) and the resource based on gross national income (GNI). Sundry revenues arising from the activities of the EU (e.g. competition fines) normally represent less than 10 % of total revenue. Own resources revenue make up the vast majority of EU funding.

Expenditure of the EU institutions: the EU's operational expenditure of these institutions takes different forms, depending on how the money is paid out and managed.

From 2014 onwards, the Commission classifies its expenditure as follows:

- **Direct management:** the budget is implemented directly by the Commission services.
- **Indirect management:** the Commission confers tasks of implementation of the budget to bodies of EU law or national law, such as the EU agencies.
- **Shared management:** under this method of budget implementation tasks are delegated to Member States. About 80 % of the expenditure falls under this management mode covering such areas as agricultural spending and structural actions.

Consolidated annual accounts of the EU: this Commission document concerns the EU's consolidated accounts for the year 2015 and details how spending by the EU institutions and bodies was carried out. The consolidated annual accounts of the EU provide financial information on the activities of the institutions, agencies and other bodies of the EU from an accrual accounting and budgetary perspective.

It also presents the accounting principles applicable to the European budget (in particular, consolidation).

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.

Audit and discharge: the EU's annual accounts and resource management are audited by the European Court of Auditors, its external auditor, which as part of its activities draws up for the European Parliament and the Council:

- an annual report on the activities financed from the general budget, detailing its observations on the annual accounts and underlying transactions;
- an opinion, based on its audits and given in the annual report in the form of a statement of assurance, on (i) the reliability of the accounts and (ii) the legality and regularity of the underlying transactions involving both revenue collected from taxable persons and payments to final beneficiaries.

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 (and other EU bodies) from its responsibility for management of a given budget** by marking the end of that budget's existence. This discharge procedure may produce three outcomes: (i) the granting; (ii) postponement; (iii) or the refusal of the discharge.

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) Implementation of the budget for the 2015 financial year: the document also comprises a series of annexes containing figures, the most important of which relates to budgetary implementation.

The document noted that in 2015 the Commission's budget was EUR 177.2 million (total payments in 2015 with an implementation rate of 97.76%).

As regards the **budgetary implementation of the Commission**, according to the document, expenses were, of EUR 155.9 billion, at a lower level than last year (2014: EUR 165.3 billion). A decrease of EUR 4.6 billion was noted for the European Regional Development Fund (ERDF) and Cohesion Fund (CF), which was due to the slow start of the implementation of the programming period 2014-2020. Expenses under the European Social Fund (ESF) fell by EUR 2.8 billion due to fewer cost claims submitted for the 2007-2013 multiannual financial framework period.

The main all of which relates to Commission activities. Some 70 % of the Commission's pre-financing concerns shared management, which means that the implementation of the budget is delegated to Member States (the Commission retains a supervisory role). The most significant pre-financing amount under shared management mode relates to ERDF & CF. The long-term pre-financing has increased by EUR expense items (EUR 112.4 billion) are transfer payments under the shared management mode. The main funds are: the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD) and other rural development instruments, ERDF and CF and the ESF. In the financial year 2015 these made up almost 71 % of total expenses.

Overall, the expenses incurred under direct and indirect management made up about 14 % of total expenses (EUR 22 billion).

Pre-financing: the total pre-financing (excluding other advances to Member States and contributions to trust funds) on the EU balance sheet amounts to EUR 40 billion (2014: EUR 45 billion), almost 12.6 billion related to the new MFF while short-term pre-financing fell by EUR 17.7 billion.

Leverage effect: the significance and volume of financial instruments financed by the EU budget under direct and indirect management increases from year to year. The basic concept behind this approach, in contrast to the traditional method of budget implementation by giving grants and subsidies, is that for each euro spent from the budget via financial instruments, the final beneficiary receives more than EUR 1 as financial support due to the **leverage effect**. This intelligent use of the EU budget aims at maximising the impact of the funds available.

Financial corrections and recoveries: in 2015, the total financial corrections and recoveries implemented amounted to EUR 3 853 million (2014: EUR 3 285 million). The implementation of financial corrections and recoveries may take a number of years mainly due to instalment or deferral decisions granted to Member States under the agricultural policy. Under the Cohesion policy the legal framework foresees the implementation at or after the closure of the programming period.

Managing the refugee crisis: in the second half of 2015, the European Commission has worked for a swift, coordinated European response to the risks and uncertainties related to the refugee crisis, tabling a series of proposals designed to equip Member States with the tools necessary to better manage the large number of arrivals. From tripling the presence at sea; through a new system of emergency solidarity to relocate asylum seekers from the most affected countries; via an unprecedented mobilisation of the EU budget of over EUR 10 billion to address the refugee crisis and assist the countries most affected; all the way to an ambitious proposal for a new European Border and Coast Guard, the European Union is bolstering Europe's asylum and migration policy to deal with the new challenges it is facing.

Despite these measures taken, uncertainty surrounding the strong inflow of asylum seekers and its economic impact remains high.

As a first and immediate step, the Commission reinforced funding for the years 2015 and 2016 of Frontex, Europol and EASO (EUR 170 million) and has increased financial contributions to the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF) from initially EUR 2 billion to EUR 3.7 billion. Immediate financial support for activities related to the refugee crisis outside the EU led to an increase in Humanitarian aid (EUR 2.2 billion), the creation of the EU Trust Fund for Syria (EUR 500 million), the creation of the EU Emergency Trust Fund for Africa (EUR 1.8 billion), the creation of the refugee facility in Turkey (EUR 1 billion) and other measures relating to security and boarder control (EUR 300 million), counter terrorism (EUR 100 million) and to the return of displaced persons and refugees (EUR 280 million).

In total, the measures taken in 2015 bring the overall package (future budgets) to assist European farmers to about EUR 500 million.

Budget implementation in 2015 in figures:

- **surplus of EUR 1.3 billion:** this surplus mainly comes from the revenue side, in particular the revision of VAT and GNI in 2014, including payments by Member States made in 2015.
- **expenditure:** payment appropriations of the final budget adopted, excluding special instruments, amounted to EUR 141.1 billion, which is 1.6% more than in 2014. The total amount of payments reached EUR 145.2 billion (against EUR 142.5 billion in 2014);
- **RAL commitments:** commitment appropriations available amount to EUR 181.3 billion were executed at an overall level of 97.7% - the outstanding commitments (the "RAL") have increased from EUR 189.6 billion at the end 2014 to EUR 217.7 billion at the end 2015. This increase reflects the intensification of the implementation of the new programming period.

