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REFLECTION PAPER

on the implementation and financial management in the
multiannual financial framework

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Introduction

Article 317 of the TFEU¹ states that *the Commission shall implement the budget in cooperation with the Member States, in accordance with the provisions of the regulations pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principle of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the sound financial management.*

The Part III of the IIA of 17 May 2006² deals with the sound financial management of EU funds, integrating the European Parliament's requests for improving the qualitative aspects of the implementation of EU budget. This new part III is at the origin of the change in the title of the IIA, which also covers "sound financial management". It addresses notably:

- the recognition of the need for more efficient controls and simplification of rules, in particular in the context of shared management (annual summary, assessment of national management and control systems)
- the implementation of the budget in accordance with the principles of sound financial management

The Financial Regulation (FR) applicable to the general budget of the European Communities³ sets, in its Title IV, the general rules for the implementation of the EU funds.

Sound financial management and control

The principle of sound financial management is one of the budgetary principles, in compliance to which the budget shall be established and implemented. In accordance with this principle, the budget shall be implemented by respecting the principle of economy, efficiency and effectiveness⁴. The principle of economy requires that the resources used by the institutions for the pursuit of its activities shall be made available in due time, in appropriate quality and quantity and at the best price. The principle of efficiency is concerned with the best relationship between resources employed and results achieved. The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.

The budget shall be implemented in compliance with effective and efficient internal control as appropriate in each management mode, and in accordance with the relevant sector-specific Regulations.

The Court of Auditors examines the accounts of all revenues and expenditure of the Union and provides the European Parliament and the Council with statement of assurance as to the reliability of the accounts and the legality and regularity of the underlining transactions⁵.

¹ Ex-Article 274 TEC

² Interinstitutional Agreement on budgetary discipline and sound financial management of 17 May 2006, OJ L 139/1 of 14.06.2006

³ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, OJ L 248 , 16.09.2002

⁴ Article 27 of the Financial Regulation

⁵ Article 287 TFUE

Implementation Methods

In accordance with Article 3 of the Financial Regulation, the Commission implements the budget in the following ways: on a centralised basis, by shared or decentralised management and by joint management with international organisations.

Centralised management

Where the Commission implements the budget on centralised basis, implementation tasks shall be performed either directly by its departments or indirectly by delegating to third parties its executive power (i.e. executive agencies, other specialised Community bodies, such as EIB or EIF, national or international public sector bodies).

As regards the direct management, the operational implementation of the budget is delegated by the College to the Directors-General, who as a 'authorising officers by delegation', are responsible for the sound and efficient management of the resources and for ensuring adequate and effective control systems in their services. Directors-General report on the performance of their duties in the Annual activity reports, which includes a signed declaration of assurance focusing on their responsibilities and covering the legality and regularity of financial transactions. On the basis of the assurance and reservations made in their annual activity reports, the Commission adopts a Synthesis report⁶, assuming in this way its political responsibility for the management. It identifies key management issues to be addressed as a matter of priority and defines lines of action to address identified weaknesses. Thus, the Commission focuses on issues such as simplification the legislation, integrated internal control framework, strengthening of Commission's supervisory role in shared management of the EU funds.

The Commission stresses in its Report on the management achievements of 2009 that significant progress has been achieved in the management of the EU Funds thanks to far-reaching changes to management and control system, working methods and culture. However, it also acknowledged that there are still areas which require improvement, for example in shared management, where member States execute some 80% of the budget.

Shared management

When the Commission implements the budget by shared management, implementation tasks are delegated to the Member States. Without prejudice to complementary provisions in relevant sector specific Regulations, and in order to ensure that the funds are used in accordance with the applicable rules and principles, the MSs shall take all legislative, regulatory and administrative or other measures necessary for protecting the Community's financial interests. To that effect, the Member States shall conduct checks and shall put in place an effective and efficient internal control system and produce, on this basis, an annual summary at the appropriate national level of the available audits and declarations (Article 53 (b) of the Financial Regulation).

The implementation of major EU policies is characterised by the shared management of the Community budget, under which 80% of Community expenditure is administered by the Member States. *The improvement of the financial management in the Union must be supported by a close monitoring of progress in the Commission*

⁶ Synthesis of the Commission's management achievements in 2008 and 2009 (COM(2009)256 of 8 June 2009 and COM(2010)281 of 2 June 2010)

*and in the MSs, while the Member States should assume responsibility in the management of the EU Funds, ensuring the completion of the EU integrated control framework with the aim of obtaining a positive Statement of Assurance (DAS)*⁷.

The main policies, implemented under shared management are agriculture and rural development and cohesion policy. The cohesion policy, representing around 31% of the EU budget, remains the policy area with the highest error rate in the DAS 2008 (11%) and is the only policy area still receiving a red light from the Court of Auditors⁸. This is largely due to the ineffective functioning of the specific management and control systems in some Member States⁹. The complexity of the rules combined with implementation requirements, which differ from one MSs to another and sometimes even between regions, remain the main problem of the 'shared management' policies. Despite the marked improvements in the management and control systems introduced by the 2008 Commission action plan, which strengthened the Commission's supervisory role in the structural actions, only 31% of the systems work well and more than 60% require improvement.

In this context, the EP invites the Commission, in its supervisory role, to analyse the strengths and weaknesses of each Member State's national system for administration and control of the EU funds and to forward its comparative analysis to the European Parliament, the Council and the Court of Auditors; to take this evaluation into account while revising the Guidance Note concerning the annual summaries and to take the opportunity to include in the Guidance Note a framework for national management declaration for those MSs that decide to introduce them to develop its incentive-based approach¹⁰.

On the other hand, it stresses the need to strengthen the role of the Member States in the upcoming review of the Financial Regulation as well as to improve the quality, homogeneity and comparability of the data provided by the MSs so as to ensure the added value in the field of the control of EU Funds.

Joint management

Where the Commission implements the budget by joint management, certain implementation tasks shall be delegated to international organisations¹¹. External aid, development and enlargement, including the pre-accession and neighbourhood policies count among policy areas with a significant level of irregularity in payments¹².

In accordance with the European Court of Auditors' Special report n°15/2009, the EU assistance for development and humanitarian aid implemented through United Nations organisations increased from EUR 500 million in 2002 to over EUR 1 billion

⁷ EP resolution on discharge in the respect of the implementation of the European Union general budget for the financial year 2008, Text adopted in Plenary on 05.05.2010, P7_TA(2010)0134

⁸ Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2008, together with the institutions' replies, OJ C 269, 10.11.2009

⁹ Communication from the Commission to the European Parliament, the Council and the Court of Auditors, Synthesis of the Commission's management achievements in 2009, COM(2010)281 of 2.06.2010

¹⁰ *idem*, Points 40-46

¹¹ Article 53d of the Financial Regulation

¹² Court of Auditors Annual Report concerning the financial year 2008, of 24 September 2009

in 2008¹³. The EU contribution to UN organisations represents about 6% of UN resources, and in 2006 and 2007 the Commission made over 700 separate contributions to around 30 different organisations and spread over more than 90 countries¹⁴.

The Financial Regulation and the arrangements in the FAFA¹⁵, which applies to all funding agreements between the Commission and the UN, provide the framework enabling the Commission to contract directly with UN organisations. The individual agreements concluded with international organisations to which implementation tasks are delegated shall contain detailed provisions for the implementation of the tasks entrusted. However, those implementation tasks are carried out in accordance with the international organisations' own accounting, audit, internal control and procurement procedures, while the Commission remains responsible for the funds implemented through international organisations and accountable to the European Parliament.

The Court of Auditors special report notes that the "procedures for joint management with UN organisations differ from those required for actions implemented through NGOs, which generally involve competition and the use of Commission procedures" and concluded that the Commission does not convincingly demonstrate, before deciding to work with a UN organisation, that it has assessed whether the advantages offset any disadvantages" and that the "choice of a UN organisation is not based on sufficient evidence that this approach is more efficient and effective than other ways of delivering aid" (paragraphs 9 and III of the Special Report n°15/2009).

On the basis of this report, the Court of Auditors issued one recommendation to the Commission as regard improved decision-making and four as regards more focus on the achievement of results: to issue and ensure the implementation of practical guidelines in order to improve the decision-making process for selecting the implementing channel for the proposed task; to explore opportunities to rely on audit work carried out by UN bodies and to ensure that the FAFA is applied so that any issues of access to information are rapidly resolved; to ensure that UN reports provide adequate information on project performance and the achievement of results; to consider whether it can built on its expertise with one UN agency by contribution in a less fragmented way, for example at country level, to other UN organisations with view a to engaging in a similar high-level dialogue enhancing the focus on their performance in achieving objectives.

Improving the quality of implementation: economy, efficiency and effectiveness

In its opinion n°1/2010 "Improving the financial management of the EU: Risks and challenges"¹⁶, the Court of Auditors brings together the main messages of its recent annual and special reports in order to identify the main risks and challenges to reducing further the level of irregularity as well as improving the quality of EU spending.

In line with this opinion, the debate on how to improve implementation and financial management of the EU budget could address the following issues:

¹³ European Court of Auditors' Special report n°15/2009 - EU assistance implemented through United Nations organisations: decision-making and monitoring, point 1.

¹⁴ idem, points 4 to 5

¹⁵ Financial and Administrative Framework Agreement (FAFA)

¹⁶ <http://eca.europa.eu/portal/pls/portal/docs/1/4030745.PDF>

Quality of the implementation

- simplification and strengthening of delivery instruments
- streamline within and across the policies (EAV, clear and quantifiable objectives, improved eligibility criteria), develop synergies, clear repartition of responsibilities (notably in the area of shared management and development assistance);
- setting out of casual links between the funded activities and desired outcomes
- improvements in monitoring and evaluation arrangements
- transparency and accountability

Reduce the irregularities

- Simplification of rules and procedures could not only decrease the risk of error but can also reduce the control costs
- better balance between the cost of control and efficiency and benefit of such a control
- further improvement of Commission's internal financial management and control systems

TECHNICAL ANNEXES:

- Annex 1. Implementation of EU budget for 2000-2010 period (in payments) compared with the MFF and own resources ceilings (1a/ in absolute figures, 1b/ graphic presentation)
- Annex 2. Implementation of commitments and payments per MFF headings for 2007-2010 (million EUR and %)
- Annex 3. EU budget surpluses from 2000 to 2010 - Comparative table

Annex 1a. Implementation of EU budget for 2000-2010 period (in absolute figures)

Implementation of the EU budget compared to the ceilings in <u>payment</u> appropriations for 2000-2010 period											
(million EUR, current prices)											
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Own Resources ceiling*	105,884	109,542	113,435	114,948	126,319	131,527	137,169	151,354	152,446	144,014	147,194
MFF ceiling	91,322	94,730	100,078	102,767	111,380	114,060	119,112	122,190	129,681	120,445	134,289
Adopted budget	87,945	92,569	95,655	97,503	99,724	106,300	111,970	115,497	120,347	116,096	122,937
Final budget**	89,440	93,780	95,656	92,525	101,807	105,684	107,378	113,846	115,771	113,035	122,937
Implementation***	80,449	80,558	85,766	89,377	99,934	104,000	105,809	110,049	110,449	109,055	87,301

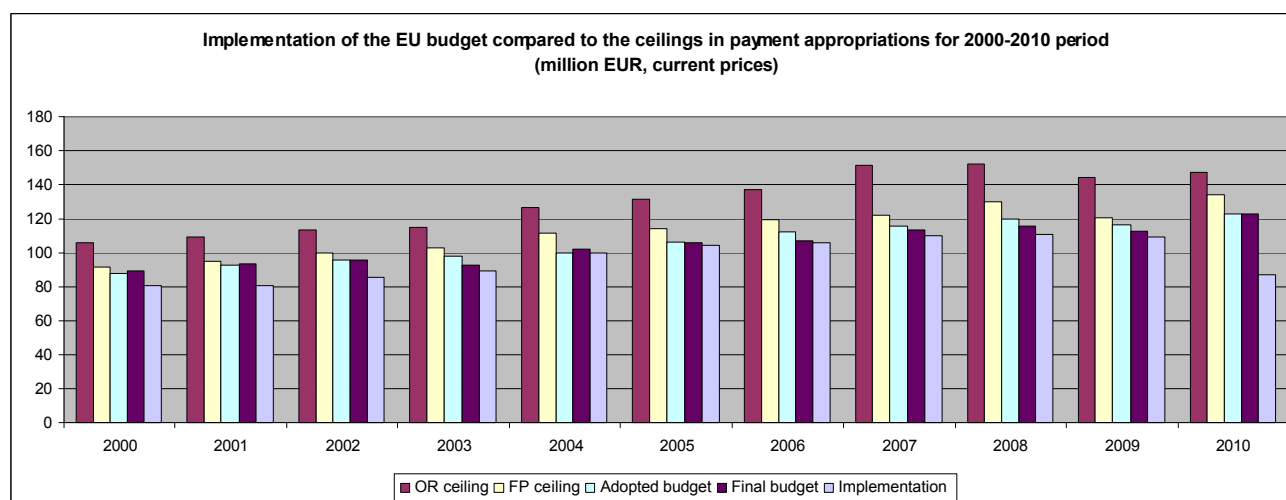
* Based on a yearly established GNI figure multiplied by 1,24% (and 1,23% for 2010)

** Including subsequently adopted amending budgets (except or 2010)

*** 2010 data based on the latest provisional figures from 27 September 2010

Source: European Commission, provided by Policy Department D

Annex 1b. Implementation of EU budget for 2000-2010 period (graphic presentation)



Source: European Commission, provided by Policy Department D

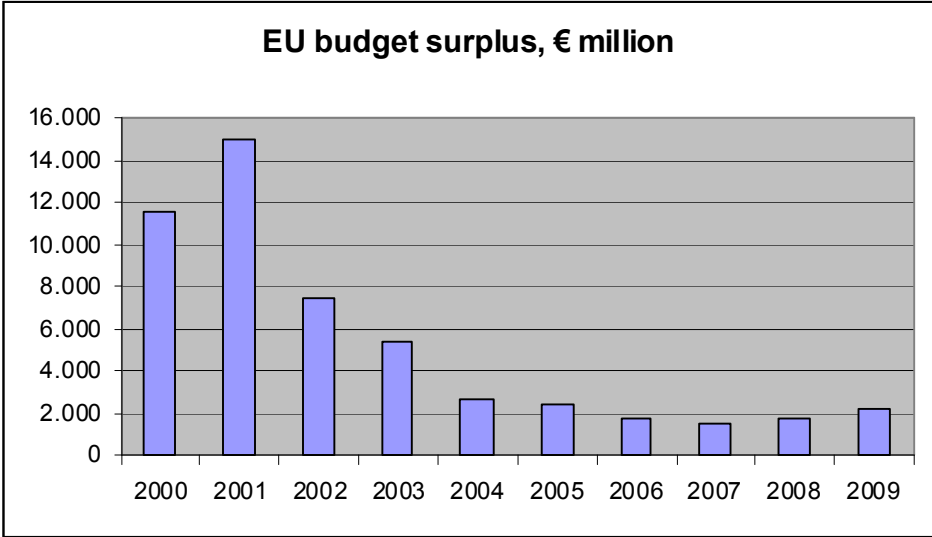
Annex 2. Implementation of commitments and payments per MFF headings for 2007-2010 (million EUR and %)

IMPLEMENTATION OF COMMITMENTS AND PAYMENTS PER MFF HEADINGS FOR 2007-2010 (million EUR and %)

HEADING	2007				2008				2009				2010*			
	CA		PA		CA		PA		CA		PA		CA		PA	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
1. SUSTAINABLE GROWTH	53.723,3	97,9	43.178,0	98,7	57.919,1	99,0	45.057,0	98,1	61.649,7	99,1	43.994,8	96,9	61.419,6	95,5	29.852,7	61,4
1a. Competitiveness for growth and employment	8.821,8	94,1	6.203,3	92,6	10.558,7	95,3	9.502,2	94,3	13.242,3	96,1	10.062,2	96,2	12.070,2	81,0	7.003,2	60,4
1b. Cohesion for growth and employment	44.901,5	98,7	36.974,6	99,8	47.360,4	99,9	35.554,8	99,2	48.407,4	99,9	33.932,6	97,2	49.349,3	99,9	22.849,4	61,6
2. PRESERVATION AND MANAGEMENT OF NATURAL RES	52.563,2	94,2	54.016,5	99,2	56.767,9	99,7	52.266,9	98,0	56.037,9	99,5	50.424,2	99,4	57.142,4	95,7	48.843,4	84,0
of which CAP expenditure	42.148,4	99,6	42.096,4	99,5	40.948,9	99,8	40.752,6	99,6	41.046,5	100,0	40.907,8	99,8	41.382,1	94,4	41.086,8	93,9
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE	1.368,3	97,6	1.010,7	82,9	1.521,4	93,6	1.261,7	91,0	2.201,1	99,4	1.930,5	94,6	1.282,4	76,6	895,3	63,7
3a. Freedom, security and justice	567,2	96,1	199,5	59,3	640,9	87,8	380,0	85,6	932,5	99,1	666,6	90,4	769,5	76,5	454,9	61,5
3b. Citizenship	801,1	98,7	811,2	91,8	880,6	98,3	881,8	93,5	1.268,6	99,6	1.263,9	96,9	512,9	76,7	440,4	66,1
4. THE EUROPEAN UNION AS A GLOBAL PARTNER	6.478,5	95,1	7.091,0	94,8	7.352,9	96,1	7.190,5	90,1	8.309,8	99,2	7.786,3	91,8	6.683,1	82,4	4.059,7	51,7
5. ADMINISTRATION	4.329,9	98,4	4.308,4	90,2	4.510,7	97,9	4.466,7	90,1	4.739,8	98,9	4.710,8	91,3	4.730,3	95,6	3.650,7	68,8
GRAND TOTAL	118.907,9	96,1	110.049,1	98,2	128.278,7	99,1	110.449,5	97,0	133.147,3	99,3	109.055,7	97,4	131.257,7	94,6	87.301,8	71,9

*Based on the latest provisional figures from 27 September 2010

Annex 3. EU budget surpluses from 2000 to 2010



Source: European Commission, provided by Policy Department D

LINKS

General Rules

IIA of 17 May 2006 on budgetary discipline and sound financial management
http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/comm_2010_0073_en.pdf

Financial Regulation applicable to the general budget of the European Communities
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002Q1605:EN:HTML>

Financial Regulation Triennial revision
http://ec.europa.eu/budget/library/documents/sound_fin_management/financial_regulation/comm_2010_260_en.pdf

Budget Review

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of Regions and National Parliaments on the EU Budget Review
http://ec.europa.eu/budget/reform/library/com_2010_700_en.pdf

Discharge for the implementation of the EU budget

2008 Discharge
<http://www.europarl.europa.eu/document/activities/cont/201005/20100511ATT74395/20100511ATT74395EN.pdf>

2007 Discharge
<http://www.europarl.europa.eu/document/activities/cont/200905/20090519ATT56154/20090519ATT56154EN.pdf>

Commission's Reports

Synthesis of the Commission's management achievements in 2009
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0281:FIN:EN:PDF>

Synthesis of the Commission's management achievements in 2008
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0256:FIN:EN:PDF>

Court of Auditors Reports

Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2008, together with the institutions' replies
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:269:0001:0256:EN:PDF>

Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2007, together with the institutions' replies
<http://eca.europa.eu/portal/pls/portal/docs/1/1569525.PDF>

Special Report No 15/2009: EU assistance implemented through United Nations organisations: decision-making and monitoring
<http://eca.europa.eu/portal/pls/portal/docs/1/3632657.PDF>

Opinion No 1/2010: Improving the financial management of the European Union budget: Risks and challenges
<http://eca.europa.eu/portal/pls/portal/docs/1/4030745.PDF>