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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the follow-up to the discharge for the 2015 financial year (Summary)

REPORT ON THE FOLLOW-UP TO THE REQUESTS MADE BY THE EUROPEAN PARLIAMENT IN ITS DISCHARGE RESOLUTIONS AND THE COUNCIL IN ITS DISCHARGE RECOMMENDATION FOR BUDGETARY YEAR 2015[1]

0. INTRODUCTION

On 27 April 2017, the European Parliament – on a recommendation by the Council – granted the Commission discharge for the financial year 2015. Discharge is the process by which the European Parliament and Council scrutinise the implementation of the EU budget and hold the Commission accountable for its financial management. The Annual report and special reports of the European Court of Auditors are key inputs along with the Commission's own reporting on the EU accounts as well as the management and performance of the EU budget.

The discharge procedure for the financial year 2015 was throughout marked by a fruitful interinstitutional exchange of views on how to improve the management of EU funds for the benefit of the EU citizens. During the closing debate in the European Parliament in April 2017, the key actors from the European Parliament and the Council supported a **stronger focus on results**, confirming that achieving results with the EU budget is as important as ensuring that formal rules are complied with. This is fully in line with the Commission's initiative 'EU Budget Focused on Results' which aims at strengthening the systematic focus upon performance and results, while making it easier for citizens and stakeholders to understand the objectives and impacts of the EU budget. The European Court of Auditors also pledged to continuously develop its annual report and focus more on performance aspects.

Discharge is a continuous process which provides an opportunity to learn from the past to improve future EU spending. During the plenary debate, Mr Zeller, as rapporteur for the Commission's discharge, expressed a wish that the discharge resolution would be properly followed up. In order to provide **faster feedback** on the key priorities of the European Parliament and the Council, the Commission decided this year to proceed with this follow-up report already in July.

This report follows up on the key requests made by the European Parliament and the Council in the discharge and is part of the EU Budget Integrated Financial Reporting Package 2016. It focusses in particular on: 1) The future of EU finances, 2) Budgetary and financial management, 3) Getting results from the Union budget, and 4) The management of the African Peace Facility.

The detailed replies to the specific discharge requests made by the European Parliament and Council, including requests made in relation to special reports of the European Court of Auditors also covered by the 2015 discharge procedure, will be published at a later stage.

1. KEY REQUESTS RELATED TO THE FUTURE OF EU FINANCES

The rapporteur, Mr Zeller, noted that the EU budget in 2015 had to support longer term political objectives such as the political priorities of the Commission and the

[1] Pursuant to Article 319(3) of the Treaty on the Functioning of the European Union (TFEU), Article 166 of the Financial Regulation, and Article 119(5) of the 9th European Development Funds (EDF) Financial Regulation and Article 144 of the 10th EDF Financial Regulation.

Europe 2020 strategy while also having to respond to crisis situations in various policy areas, including migration. In this context, he raised the questions of how to achieve a better balance between political priorities and budgetary resources in the future as well as how to ensure parliamentary control with all funds linked to EU strategies.

Mr Zeller also expressed concern about the use of financial mechanisms 'not directly financed by the EU budget or recorded in the Union balance sheet' and the possible risks associated to an increased use of financial instruments.

These issues were discussed extensively during the discharge proceedings and will form part of the overall reflection process to prepare the next Multiannual Financial Framework (MFF). The Commission's White Paper on the Future of Europe published in March 2017 launched the overall debate on Europe in 2025, including Europe's financial outlook, set out in detail in a reflection paper on the future of EU finances of 28 June 2017.

The political process will be complemented by a review of the spending programmes' efficiency, effectiveness and EU added value. This will support the preparation of the next generation of funds and the modernisation of the EU budget.

In addition, the Commission is continuously improving its reporting on performance as part of its strategy 'Budget Focused on Results'. The 2018 draft budget provides programme statements which show what the programmes have achieved to date and what is expected of them in terms of results, progress, and challenges ahead. This supports a performance based budgeting approach.

Sections 1.1 and 1.2 comment in more detail on the two main concerns of the European Parliament.

1.1. A NEW BALANCE MUST BE STRUCK BETWEEN POLITICAL AGENDA SETTING, POLICY IMPLEMENTATION AND FINANCIAL FRAMEWORKS (§§ 9-17):

The European Parliament (EP) endorsed the suggestions made by the European Court of Auditors (ECA) in its "Briefing paper on the mid-term review" of 28.10.2016 that *'it is time for the Commission to explore options such as:*

- a rolling budgeting programme with a five year planning horizon, clause(s) of revision by objectives and policies and a rolling evaluation programme;

- determining the duration of programmes and schemes on policy needs rather than basing it on the length of the financial planning period; requiring Member States and the Commission to present well-justified needs for (a) Union funding and (b) results to be achieved, before spending is set;"

The Commission will indeed examine the most suitable **duration of the next MFF** with a view to striking the right balance between the duration of the respective terms of office of the members of the EP and the Commission and the need for stability for programming cycles and investment predictability.

The MFF is discussed and agreed as a package with the legislation on own resources. As this determines the annual ceilings on commitment appropriations corresponding to the Union's major sectors of activity and the annual ceilings on payment appropriations, the legislation on spending programmes is proposed so as to reflect and comply with the political and budgetary choices made in the context of the MFF.

Therefore, that legislation includes, in general, **review clauses** aligned with the respective MFF period.

The EP also requested to put the suggestions made by the ECA in its briefing paper on the mid-term review and the recommendations of the High-level group on own resources on the agenda of the next **expert meeting on Budget Focused on Results**. The Commission will propose to the group to discuss the issues raised by the EP. On the elements directly linked to the performance of the budget, general considerations on issues like reporting on performance and the use of performance information in the decision making process for the budgetary cycle have already been and will continue to be part of the discussions in the expert meetings. The Commission will analyse how to integrate the recommendations of the High-level group of own resources in the work of the expert group. The experiences shared in the expert meetings will be taken into account when preparing the 2017 annual EU Budget Focused on Results Conference.

The EP also calls on the Commission to take into account the Paris agreement to increase **the Climate-related spending target** in the EU budget from 20% to 30%. The Commission has explained its position on the feasibility of major changes in the current MFF in its replies to the ECA Special report no. 31/2016[2], which assesses the Commission's progress towards achieving climate spending of 20 % of the budget, thus making the EU budget a pioneer in fostering mainstreaming.

The Commission will seek to further align the budget spending to EU policy targets in the context of the existing legislative framework. With its mid-term review of the current MFF, the Commission already took steps to reinforce the budget's ability to address EU priorities. The Commission proposals for future EU budgets (and the future MFF) will take due account of the Union's political priorities and international commitments. The aim for the MFF after 2020 is to have an aligned, efficient and effective set of EU programmes delivering on political priorities.

1.2. 'SHADOW BUDGETS' SHOULD BE BROUGHT UNDER THE ROOF OF THE UNION BUDGET (§§ 24-27)

The Commission is requested to propose measures to make Union funding arrangements for implementation of the EU budget better equipped to ensure transparency and accountability; to submit an assessment of the impact of the European Fund for Strategic Investments (EFSI) on other programmes and financial instruments; to ensure that financial instruments are compatible with the EU strategy; and to prepare a communication on the so-called 'shadow budgets'.

The Commission notes that some of these mechanisms were created to respond to the Euro area crisis and are of an intergovernmental nature. For this reason, they are outside the framework of the EU budget. Other instruments such as EFSI and the European Investment Fund complement the more traditional delivery mechanisms of the EU budget, enhancing its outreach and leverage effect.

Consequently, the current EU financial architecture has allowed for the mobilisation of funds for new needs and for doing more with less. The impact of the instruments

[2] Available at the following address: http://www.eca.europa.eu/Lists/ECADocuments/SR16_31/SR_CLIMATE_EN.pdf

in the EU budget is explained in the EU annual accounts which are audited by the ECA. Specific reports on financial instruments, trust funds and the Facility for Refugees in Turkey are also provided, ensuring transparency and accountability.

As for the communication on this issue requested by the EP, the Commission notes that the White Paper on the Future of Europe in 2025 launched an overall debate and reflection process preceding the preparations of the next MFF. In this context, the Commission has just adopted a reflection paper on the future of EU finances. The issue of the EU financial architecture will form part of the overall reflection process to prepare the next MFF.

Concerning the **compatibility of financial instruments with the EU strategy**, the Commission underlines that financial instruments are a tool at the service of EU policies. They do not jeopardise agreed policies and should not be seen as a threat for any policy. Their use in future years will depend on the level of ambition placed on the EU budget and policies and whether they constitute an appropriate instrument to serve these policies.

With its proposal for revision of the **Financial Regulation/Omnibus**[3], the Commission already aims at bringing the different Union funding arrangements, particularly trust funds, strategic investment funds, guarantee funds, facilities, financial instruments and macro-financial assistance within the single regulatory framework of the Financial Regulation and in particular Title X. Moreover, rules on structural and investment funds and on funds managed by the Commission are streamlined to the extent possible. The proposal is currently under discussion with the EP and the Council. The Commission therefore welcomes any proposal by the Parliament that aims to further improve the way these problems are addressed.

On the request to re-evaluate the ex-ante assessment for the **Connecting Europe Facility (CEF) debt instrument** in the light of the creation of the EFSI and to submit an assessment of the impact of EFSI, the Commission considers that market developments occurring after the launch of a financial instrument should be assessed during the mid-term review process of this instrument.

This being said, the Commission accepts to assess the coherence of the CEF Debt Instrument with other EU initiatives, including EFSI, in the CEF mid-term review which is ongoing and expected to be concluded in late 2017, following the finalisation of the evaluation report by external consultants. Furthermore, an addendum to the CEF ex-ante assessment, which reflects upon the investment needs post EFSI launch and the potential for an equity instrument in the CEF sectors will become public.

Moreover, the Commission may present an assessment of the **impact of EFSI** on other financial instruments in the context of the evaluation of EFSI, as appropriate.

2. BUDGETARY AND FINANCIAL MANAGEMENT (§§ 40-42)

The EP and the Council have put forward three main requests concerning respectively the monitoring regarding outstanding commitments; the establishment of an annually updated long-term cash-flow forecast; and the need to consider the capacity constraints in some Member States and provide them with technical

[3] COM(2016) 605final, 14.09.2016

assistance in order to increase the absorption rates especially in the area of the European Structural and Investment Funds.

As regards **outstanding commitments**, the Commission will continue taking measures vis-à-vis the Member States to reduce these and make wider use of net corrections in cohesion while respecting the regulatory framework.

On the **support to Member States**, the Commission has already put in place a Task Force for Better Implementation in order to improve the implementation of the European Structural and Investment Funds in certain Member States, while ensuring full respect of legality and regularity of expenditure within the framework set out by the MFF and the relevant legislation. The Commission intends to ensure that full benefit is drawn from the work of the Task Force and will focus on delivering a proactive and targeted approach to Member States in order to support the implementation of the Cohesion policy funding in 2014-2020.

Concerning an updated **long-term cash-flow**, in the communication on the mid-term review/revision of the MFF, the Commission has presented a payment forecast assessing the sustainability of the current ceilings and including an estimate of de-commitments and the evolution of the *reste à liquider* (RAL) until the end of the current MFF.

The Commission will continuously monitor the implementation and update its forecast accordingly.

Furthermore, in 2017, the Commission will update the forecast for payment appropriations after 2020, according to point 9 of the Inter-institutional Agreement on budgetary discipline, on cooperation in budgetary matters and on sound financial management.

3. GETTING RESULTS FROM THE UNION BUDGET (§§ 83, 85, 97, 99, 101)

The EP has put forward several requests concerning respectively the **Annual Management and Performance Report (AMPR)** and Horizon 2020.

Over the years, the Commission has introduced performance reporting mechanisms designed to explain spending programmes operations and demonstrate how EU funds are being used to achieve policy goals.

All legal and implementing basic acts of the spending programmes under the 2014-2020 MFF contain performance frameworks defining objectives and setting out indicators to measure progress, as well as monitoring, reporting and evaluation arrangements. Implementation of the performance framework is updated once a year in the working document accompanying the draft budget i.e. the Programme Statements. **The AMPR brings together information on both the performance and management of the EU budget and provides a holistic view on how the EU budget is being used to support the Union's political priorities**.

As of 2016, the Commission's AMPR combines two former reports: the Evaluation Report produced in accordance with Article 318 of the Treaty on the Functioning of the European Union; and the Synthesis Report required by Article 66(9) of the Financial Regulation. The report draws on the Annual Activity Reports (AARs) of the Commission departments and also on other sources of detailed performance information such as the Programme Statements presented with the annual budget, evaluation reports of the EU budget programmes, and the General Report on the

Activities of the Union. Bringing together information on the performance and management of the EU budget, the AMPR provides a comprehensive overview of how the EU budget supports the Union's political priorities.

The achievements in the AMPR are described in accordance with the different levels of maturity of the programmes, ranging from input data for the early phase of the programme to results for finalised programmes. The Commission presents information which is available at the time of the AMPR preparation. It is normal that, in the early phase of programme implementation, this information concerns inputs (financial allocation) and, when possible, outputs. This information presents a good indication of the EU budget spending and the EU budget contribution to the political priorities. Once programme execution is more mature, information on results and impacts will become available. Reporting on the performance of the current MFF programmes will continue to be provided in future editions of the AMPR.

The EP calls on the Commission for an earlier publication of the AMPR. It also calls on the Commission to better evaluate in its next performance reports the outputs and the outcomes of all policies, and to clearly and synthetically show the contribution of European policies to Union objectives and to evaluate their respective contribution to the Europe 2020 targets.

The Commission adopted the 2016 AMPR on 13 June 2017, before the legal deadline of 15 June in application of article 66(9) of the Financial Regulation. A significantly earlier publication of the AMPR would however not be compatible with the current legal deadlines for Member States' transmission of relevant data to the Commission. These data are a key input to AARs for DGs responsible for funds under shared management.

From 2016 onwards and based on the Strategic Plans produced by each Commission department, the AARs will explain how the specific objectives contribute to the political priorities and will further clarify the links with Europe 2020.

Both EP and Council made requests concerning better performance of reporting and management framework of **Horizon 2020**.

On performance reporting, the Commission will report in the Horizon 2020 Interim Evaluation Report and in the AMPR on progress under Horizon 2020 and the programme's contribution to Europe 2020 based on the latest available performance information. Moreover, it will assess the performance of work programmes which will be implemented for the Work Programmes 2018-2020.

As for the performance management framework, **the Commission will ensure consistent use of the terms, input, output, result and impact in line with the better regulation guidelines**. It will continue to promote a consistent application of these guidelines by raising awareness and appropriate training.

4. MANAGEMENT ACHIEVEMENTS AND COMMISSION INTERNAL GOVERNANCE TOOLS (§§ 62, 70-73, 215E, 306)

The EP and the Council welcome the clean opinion by the ECA on the EU accounts, and that revenue was free from material error. The ECA also found commitments to be legal and regular in all material aspects. However, although both EP and Council notes that the overall estimated level of error for payments has improved in recent years, they are still disappointed that payments were materially affected by error.

The EP stresses the need to **use all available information to prevent, detect and correct errors**. It calls on the Commission to issue a **"Statement of Assurance"** based on the AARs of the Directors-General, to produce an own **statistical estimate of the level of error** and to evaluate separately the amount of EU money the Commission envisages to recuperate through **recoveries / financial corrections** linked to the financial year 2015.

The Council invites the Commission and the ECA to work together in order to converge their approaches in the valuation of the impact of financial correction on the estimated amount at risk at closure and to provide comparable data. It also calls on the Commission to provide the budgetary authority with a **comprehensive report on the areas where the estimated level of error identified is persistently high and outline its root causes**.

As the manager of the EU budget, the objective of the Commission is to ensure sound financial management of the EU budget by applying preventive and corrective controls, taking account of the multi-annual nature of programmes. It takes preventive measures such as ex ante controls, suspension and interruption of payments as well as corrective measures such as financial corrections and recoveries.

The Commission reports on these measures in the AMPR, drawing on the AARs of the Commission departments. As requested by the Council, it will continue working together with the ECA in order to further improve reporting.

Following requests of the EP in previous discharge procedures, the amount at risk at closure was introduced in the 2015 AMPR to estimate the amount of expenditure potentially at risk once the multiannual control cycle is concluded and corrective measures have been applied. It is based on the Commission's best and conservative estimate of the amount at risk for the budget and the corrections which are expected to be implemented. Relevant data from Member States is also taken into account.

The Commission will continue to report on the overall amount at risk in the AMPR. **The amount at risk closure for the financial year 2016 is estimated to be between 0.65% and 1.07% of total 2016 expenditure.** This shows that the Commission effectively manages the risks related to the legality and regularity of expenditure in a multi-annual perspective.

By adopting the AMPR for the EU Budget, the College of the Commission takes overall political responsibility for the management of the EU Budget. The Commission considers that this encompasses accountability for the work of its services.

In relation to the request for a statistical estimate of the level of error, the Commission considers that such an approach would result in an additional layer of audit, in particular for funds under shared management with Member States. The Commission will continue to cooperate with Member States Audit Authorities and define in common a statistically valid approach to estimate the level of error, and to use such error rates after validation. The Commission thus implements the ‘Single Audit' principle by focusing its activity on auditing the Member State auditors and validating their audit work.

The Commission adopted a report on root causes of errors and action taken on 28 February 2017[4]. The report concluded that the Commission and the ECA reach the same conclusions in general about the nature and root causes of persistently high levels of error: weaknesses in management and control systems which are sometimes aggravated by a complex legal framework. The Commission therefore continues to pursue its agenda of simplification of rules, e.g. in the context of the proposal to revise the Financial Regulation/Omnibus.

The EP also calls on the Commission to add an **annual statement on governance** and a **statement on mid- and long-term fiscal sustainability** to the financial statement.

The Commission will update and publish its governance arrangements on a regular basis. Information on the amounts at risk at closure is presented in the AMPR.

As regards a mid- and long-term fiscal sustainability statement, due to differences in the debt dimension (i.e. capacity to meet financial commitments or refinance or increase debt) and the revenue dimension (i.e. capacity to vary existing taxation levels or introduce new revenue sources) the Union's Budget is not comparable to national budgets. In the EU context, the MFF is the tool for ensuring medium to long-term stability and predictability of future payment requirements and budgetary priorities. The Commission reports on these aspects later in the year as the budgetary cycle does not allow publishing that information together with the annual accounts.

As for the call by both EP and Council to be proactive concerning the **"single audit"** approach, the Commission confirms that this is already the case in the multilevel control systems in the policy areas implemented in cooperation with the Member States and international organisations.

Concerning the request related to conduct an analysis of the so-called **"retrospective projects"** which should include ex-ante assessments verifying that replacement projects meet the planned objectives, the Commission points out that replacement with such projects is possible within the existing legal framework. Under shared management, it is the responsibility solely of the Member State and it has to respect the eligibility conditions of the programme concerned, as clarified by the Commission in its guidance. The legislation allows this approach. It is not the Commission's role to perform ex-ante evaluations of these projects under shared management principles. However, the Commission regularly performs audits to check that Member States fulfil their obligations.

5. THE MANAGEMENT OF THE AFRICAN PEACE FACILITY §§ 92-93

In the context of the EP resolution concerning the European Development Fund, the EP has put forward two important requests to the Commission concerning the management of **the African Peace Facility** related to governance and reporting on corrective measures in the management of funds.

On governance, the Commission and the European External Action Service (EEAS) signed in January 2017 a new inter-service arrangement setting out a clear division of labour between DG DEVCO and the EEAS (Headquarters and Delegation) for the management of the African Peace Facility.

[4] (COM(2017)124)

As far as corrective measures are concerned, the Director General of DEVCO made a presentation in the joint CONT/DEVE Committee on 31 January 2017. It was agreed with the Chairs of the Committees that a follow-up presentation would take place in due course.

Furthermore, a new Action Plan aiming at addressing further the remaining weaknesses in the control system was adopted and launched by DG DEVCO in 2016 following the reservations issued in its 2015 Annual Activity Report concerning high risk spending areas identified through an error rate analysis. A special focus is given to the monitoring of operations with International Organisations as is one of the two specific areas associated with a higher risk of error. A third reservation on the African Peace Facility was raised separately and relates to a series of focused measures that are being implemented.

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