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Execution of the annual budgets 2007-2013: relevant recommendations for local and regional authorities

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Table of Contents

List of tables, figures and boxes

Executive Summary

EU budget expenditure is a key driver of socio-economic development in many of the EU's regions. Its proper management and timely execution are hence of critical relevance, particularly in the area of Cohesion Policy. This note reviews the most recent and relevant official assessments on EU budget execution and finds the following observations of relevance for regional and local authorities:

- Payments continue to be affected by material errors, which is particularly relevant for Cohesion Policy where the level is higher than average, though the rate is decreasing. Eligibility errors continue to be the dominant source of error.

- A lack of transparent information and, to some extent, weak management and control systems present challenges to better execution and management of budget expenditure under shared management. This particularly relates to the proportion of errors that could have been detected and corrected.

- Forecasting of expenditure has increased, leading to better management of overestimation rates. Outstanding commitments (RAL) continue to be challenging though.
    - Cohesion Policy represents close to two thirds (64%) of the overall RAL at the end of 2012. On the one hand, the increase in outstanding commitments is a normal phenomenon of EU budget implementation. On the other hand, the overall RAL at the end of the 2007-2013 MFF period is much higher (EUR 217 billion at the end of 2012) compared to the outstanding RAL at the end of the 2000-2006 MFF period.
    - The amount of outstanding claims that have to be moved to subsequent annual budgets has been steadily increasing from 2010 onwards. A backload of pending claims worth EUR 16.2 billion in Cohesion Policy was accumulated by the end of 2012 and needs to be funded through the 2013 budget. So far, additional budget injections amounting to EUR 7.3 billion have been made available through amending budget 02/2013, raising doubts about the ability to meet 2013 commitments under given payment appropriations, for both Cohesion and other areas.
    - The Member States most heavily affected by a high RAL are Poland, Italy and Spain.

- The European Court of Auditors has repeatedly issued recommendations of relevance to regional and local authorities, including the need for better guidance and training, further simplification of eligibility rules and strict compliance regimes, proper treatment of withdrawal practice and strengthening of sanctioning systems and corrective mechanisms. Better feedback mechanisms and alignment of reporting seem to be desirable.

1. Background

EU budget expenditure is a key driver of socio-economic development in many of the EU's regions. Its proper management and timely execution are hence of critical relevance, but it is also subject to a long-standing debate about means and the need to improve performance. To reflect on key issues the Committee of the Regions (CoR) has commissioned a review of recent EU documents, including the five most recent annual reports of the European Commission and the Court of Auditors on the execution of the EU budget, to identify key recommendations for Local and Regional Authorities (LRAs). The review also includes positions and reports adopted by European Parliament and Council, where relevant. The findings are to be presented in a 20 page file note.

This report draws on documents from the European Commission, European Parliament, Council of the European Union and European Court of Auditors. Given the time-frame for this study no additional interviews were carried out. In line with the Terms of Reference this note is structured as follows:

- Section 2 presents an overview of recommendations of relevance to local and regional authorities as included in reports on the implementation of the EU budget in the time period 2007-2011[1];
- Section 3 provides an analysis of pending claims and Reste à Liquider (RAL) over that time period and discusses the implications for regional and local authorities;
- The annex to this note contains an overview of the official EU information sources used as well as detailed textual analysis of the most recent European Court of Auditors Reports.

This note focuses particularly on funds under shared management, which include the European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Funds (CF), European Agricultural and Rural Development Fund (EARDF) and European Maritime and Fisheries Fund (EMFF). While all of these are relevant, this note focuses particularly on cohesion funding. Cohesion funding provides the bulk of finance directly relevant to LRAs, it is of strong relevance given shared management between European Commission and Member States, and it has been repeatedly identified as the policy area fraught with the greatest rate of errors in budget execution and management. Information for the other areas under shared management is provided where relevant.

[1] This time period was selected based on the availability of annual reports, i.e. reports on the 2012 financial year have not yet been published.

2. Execution of the EU budget 2007-2013: implications and recommendations for LRAs

Rather than presenting each report on its own, the following sub-chapters include a synthesis assessment of main recommendations for local and regional authorities (LRAs) across the analysed reports, in order to avoid repetition and to distil recurring recommendations which refer to pertinent topics. To provide a clearer overview of actors' positions, the chapter is structured according to actors, in the order of European Commission, the Court of Auditors, the Council and the European Parliament.

2.1 Synthesis of recommendations of relevance for LRAs made by the European Commission

Each year the European Commission publishes its Annual Financial Report, alongside other relevant documents on the Annual Budget procedure. The report reviews how the budget was spent in the previous year. It is structured around the expenditure per heading and Member State (Section I) and revenue (Section II). In addition, a third section details the management of the budget and annexes provide detailed historical data on budget expenditure and revenue.[2] The Annual Financial Report also builds on the analysis of budgetary implementation of the Structural and Cohesions Funds that the Commission publishes on an annual basis.

Analysis conducted for this report reviewed the last five Annual Financial Reports. As a purely factual document the Annual Financial Reports do not contain any statements or recommendations addressed to local and regional authorities. National managing authorities are only mentioned with regard to own resources, i.e. such resources can be defined without any subsequent decisions by national authorities.[3] Similarly, the analysis of budgetary implementation of Structural and Cohesion Funds remains on a factual basis.

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[2] The structure of the Annual Financial Report on the budget of 2011 has changed, with Section III becoming Section I and giving more detail. Revenue is now detailed in Section II and expenditure is indicated in Section III.

[3] Nevertheless, as an exception the Annual Financial Report concerning the financial year 2008 acknowledges the annual report of the European Court of Auditors in its introductory section and indicates that, although there is a positive trend in the management of payments, errors are still frequent in areas where grants are managed by national authorities, such as for cohesion policy (European Commission 2009).

In addition, the Commission provides responses to requests made by Parliament and Council as part of the discharge procedure for the annual budget. While these do not provide direct recommendations to LRAs, they give an overview of the Commission's interpretation of needs for action and change in terms of implementation action by LRAs. This information is included, where relevant, in the subsequent chapters discussing other actors' recommendations.

2.2 Synthesis of recommendations of relevance for LRAs made by the European Court of Auditors

As the European Union's external auditor the European Court of Auditors (ECA) audits the EU's accounts, budgets and revenues each year and formulates statements and observations that are relevant for LRAs.

In a nutshell, the ECA's key recommendations for LRAs between 2007 and 2011 cover fourteen pertinent topics (Box 1). In addition to this note, see Annex 2 which contains a detailed textual analysis of ECA reports.

Box 1: Overview of key ECA recommendations for LRAs

Recommendations of relevance to Cohesion funding:

- Provide better **guidance and training for managing authorities** to address weaknesses in 'first level check' to reduce error rates;
- further simplify **eligibility rules,** especially in view of the next programming period;
- ensure strict compliance with eligibility rules particularly in the area of **public procurement**;
- ensure that the substitution of ineligible expenditure with new expenditure (**withdrawal**) does not result in irregular expenditure;
- encourage national authorities to apply **corrective mechanisms** on Operational Programmes;
- strengthen **sanctioning systems** in terms of increased use of interruptions and suspensions of payments, especially in view of the next programming period;
- provide **guidance for audit authorities**;
- focus on the **feedback mechanisms between national authorities** in order to reduce the occurrence of errors;
- align the **reporting periods** of the annual control reports with the financial year of the European Union budget for the next programming period

Recommendations of relevance to Rural Development and EMFF funding:

- apply **administrative and on-the-spot checks** more rigorously under Rural Development;
- ensure that **beneficiaries respect their obligations** under Rural Development;
- **simplify the rules and conditions** under Rural Development;
- strengthen the system to ensure **cross-compliance rules**; and
- **address system weaknesses** affecting the EMFF.

2.2.1 Error rates

The rate of material error in budget implementation is calculated by ECA. Payments in the areas of Cohesion and Agriculture and Natural Resources have been regularly found to be affected by a material-level error of legality and regularity. Nevertheless, error rates **under Cohesion Policy** give much more cause for **concern**. For instance, the 2008 Annual Report concluded that the error rate in Cohesion Policy stood much higher than in other policy areas (ECA 2009, §1.35). In its 2011 Annual Report the ECA indicated, however, that the most likely error rate in Cohesion Policy has decreased (ECA 2012, §1.14). Table 1 provides a snapshot assessment of error rates over time.

Almost every year **eligibility errors** have been found to be the most frequent errors in the field of cohesion.[4] Such errors accounted for 80% of the total in 2009 (ECA 2010, Annex 4.1), 96% in 2010 (ECA 2011, Annex 4.1) and 94%[5] in 2011 (ECA 2012, Annex 5.1). For the ERDF, eligibility errors were regularly accounting for up to 90% or more. In 2009 they accounted for 89% (ECA 2010, Annex 4.1), in 2010 for 91% (ECA 2011, Annex 4.1) and in 2011 for 96% (ECA 2012, Annex 5.1). The ESF was found to have a broader mix of errors. For instance, in 2007 the most frequent errors related to issues such as the inclusion of ineligible costs, overestimation of staff costs and deficiencies in showing evidence that the overheads or staff costs were relevant to the project (ECA 2008, §6.26). The main causes of the occurrence of eligibility errors include not only the inclusion of costs which are not reimbursable, but problems with meeting specific fund conditions for the project beneficiaries and the failure to respect public procurement rules.

Under the EMFF eligibility errors are close to being the only error source. For instance, in 2010 such errors accounted for 100% (ECA 2011 Annex 3.1). On the contrary, for the EARDF **accuracy errors** were the most frequent error source. The ECA has also concluded that Rural Development continues to be more affected by errors than the EAGF (ECA 2009 §5.62).

Public procurement errors continue to be an important source of errors in Cohesion and Regional Policy. In 2009, failure to comply with public procurement rules accounted for 43% of all quantifiable errors and approximately three quarters of the estimated error rate (ECA 2010, §4.21). One fifth of transactions in 2010, and a quarter in 2011, were identified to be affected by breaches of public procurement rules (ECA 2011, § 4.26 and ECA 2012, §5.31).

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[4] In 2008, a mixture of other errors instead of eligibility errors was found to be the most frequent.
[5] This figure represents the frequency of eligibility errors only in the regional policy, transport and energy area.

Table 1: Development of error rates and frequency in errors in the Cohesion and Agriculture and Natural Resources policy area[6]

The error range under Cohesion Policy has steadily remained over 5%. In 2012, however, the ECA analysed regional policy and employment and social affairs separately and concluded that the most likely error of the ESF is much lower than for the ERDF. This might be the result of the different governance approaches between the two instruments, but this issue is not in the scope of the study. Although error rates for the EARDF and EMFF were found to be lower they are still significant compared to other areas, including the EAGF.

	Policy area	ECA 2008	ECA 2009	ECA 2010	ECA 2011	ECA 2012
Overall result	**Cohesion**	Materially affected by errors.	Materially affected by errors.	Materially affected by errors.	Materially affected by errors.	Materially affected by errors.
	Agriculture and Natural Resources	Materially affected by errors.	Materially affected by errors.	Materially affected by errors.	Materially affected by errors.	Materially affected by errors.
Error range	**Cohesion**	Greater than 5%.	Greater than 5%.	Greater than 5%.	Greater than 5%.	In regional policy, transport and energy it is greater than 5%, while in employment and social affairs it is between 2 and 5%.
	Agriculture and Natural Resources	Between 2 and 5%.	Less than 2%.	Between 2 and 5%.	Between 2 and 5%.	In agriculture market and direct support between 2 and 5%, for rural development, environment, fisheries and health greater than 5%.

[6] The structure of the ECA assessments has been altered over the years. In 2007, 2008 and 2009 the cohesion policy group covered regional policy and employment and social affairs policy. In 2010 the group was expanded to cover energy and transport policy. Finally, in 2011 the single chapter on cohesion, energy and transport was divided into two chapters: regional policy, energy and transport and employment and social affairs. The Agriculture and Natural resources area includes agriculture and rural development, the environment, fisheries and maritime affairs and health and consumer protection policy. In 2011, however, the area was divided into two chapters: agriculture market and direct support and rural development, environment, fisheries and health.

	Policy area	ECA 2008	ECA 2009	ECA 2010	ECA 2011	ECA 2012
Most likely error (MLE)	**Cohesion**	Not indicated.	Not indicated.	Not indicated.	7.7% (lower error limit 4.7% and upper error limit 10.7%) (ECA 2011, Annex 4.1).	In regional policy, transport and energy 6.0% (lower error limit 3.0%, upper error limit 9.0%) and in employment and social affairs 2.2% (lower error limit 0.9%, upper error limit 3.4%) (ECA 2012, Table 1.2). In the two areas together it is 5.1%, (lower error limit 3.2 % and upper error limit 7.1%) (ECA 2012, Table 1.3).
	Agriculture and Natural resources	Not indicated.	Not indicated.	Not indicated.	2.3% (lower error limit 0.8% and upper error limit 3.8%) (ECA 2011 Table1.2)	In the two areas together 4% (lower error limit 2.5%, upper error limit 5.6%. In agriculture market and direct support 2.9% (lower error limit 1.1%, upper error limit 4.7%) and in rural development, environment, fisheries and health 7.7% (lower error limit 4.5%, upper error limit 10.9%) (ECA 2012, Table 1.3).
Frequency of errors	**Cohesion**	Overall 54%.	Overall 43%. For ESF 18%, for ERDF 51%, for CF 59% (ECA 2009, Annex 6.1).	Overall 36%. For ESF 25%, for ERDF 40%, for CF 33% (ECA 2010, Annex 4.1).	Overall 49%. For ESF 30%, for ERDF 53%, for CF 75% (ECA 2011, Annex 4.1).	Overall 50% (ECA 2012, Table 1.3). For ESF 44% (ECA 2012, Annex 6.1), for ERDF 51%, for CF 82% (ECA 2012, Annex 5.1).
	Agriculture and Natural resources	Overall 31%.	Overall 32%. For EAGF 28%, for RD 40%, for environment, fisheries and health 64% (ECA 2009 Annex 5.1).	Overall 27%. For EAGF 24%, for RD 31%, for environment, fisheries and health 46% (ECA 2010 Annex 3.1.)	Overall 37%. For EAGF 27%, for RD 50%, for environment, fisheries and health 67% (ECA 2011 Annex 3.1.)	For EAGF 39%, for RD 58%, for environment, fisheries and health 44% (ECA 2011 Annex 3.1. and 4.1)

Source: Own compilation

2.2.2 *Withdrawal*

Withdrawal is the practice of replacing ineligible with new expenditure. The ECA highlights that '*withdrawal without effective ex-ante verification by Member States does not ensure that all irregular expenditure will be excluded from EU funding by programme closure*' (ECA 2009, §6.33). As payments to beneficiaries usually continue beyond the programming period, when programming periods are coming to an end there is a high risk of withdrawal as national authorities are under pressure to absorb the EU funds committed.

Although the ECA acknowledges that where irregularities are detected in the Cohesion area the Commission is willing to reduce funding to the OPs, it also emphasises that there is still a need to ensure that withdrawal does not result in new irregular expenditure being declared by the Member States.

2.2.3 *Root causes*

The ECA identifies several areas where policy frameworks and governance structures are not performing adequately and thus significantly contribute to the continued problem of high error rates. These include insufficient comprehensiveness and transparency in information and evaluation systems, difficulty in applying eligibility rules, lack of effective evaluation and audit systems (particularly for first level checks), often a lack of effective sanctioning systems and inconsistent requirements for reporting and monitoring. In addition, the ECA has stated in all reports that supervisory and control systems are only partially effective under both policy areas.

The ECA has repeatedly complained about a lack of sufficient **information on corrective mechanisms**[7] applied in Member States (e.g. ECA 2010, §4.31). In some cases information is not reliable, while in others relevant information is not communicated. Although the ECA has acknowledged that some improvement has been achieved in this area LRAs should continue to make their reporting practices more effective.

Member States' **management and control systems** related to the regularity of transactions are only partially effective. The main weaknesses of managing authorities include '*insufficient day-to-day checks of the reality of expenditure, failure to identify expenditure declarations not supported by appropriate evidence and failure to identify weaknesses in tender procedures*'. For paying authorities it is the '*failure to identify when managing authorities had not carried out adequate day-to-day check*' (ECA 2008, §6.29). Many of the

[7] Financial correction is a mechanism intended to correct irregular expenditure that has been included for EU funding and therefore has a negative impact on the EU budget (ECA 2009 §EC 1.40).

examined audit authorities did not undertake an adequate number of audits, had delays in performing their audits or had quality problems.

Another crucial problem is that the percentage of **errors which could have been detected and corrected** by Member State authorities before certifying expenditure to the Commission has sharply increased over the years. Sufficient information was available to detect and correct at least 30% of the errors found in cohesion transactions in 2009 (ECA 2010, §4.23), 58% in 2010 (ECA 2011, § 4.25) and 76% in 2011[8] (ECA 2012, §5.29).

In terms of the **budgetary management** the ECA concluded that in 2007 and 2008 Member States improved their expenditure forecast in the area of Structural Funds and therefore managed to reduce the over-estimation rates.[9] Nevertheless, Structural Funds represented the biggest share of outstanding commitments (RAL) throughout the whole programming period. In addition, the amount of RAL in the Cohesion area has been steadily increasing.

For Rural Development the ECA regularly identified three main problems. **Administrative and on-the-spot checks** were not carried out regularly enough and were found to be not effective. For instance, in 2009 weaknesses regarding on-the-spot checks under the EAFRD included the '*precision and completeness of control reports, the global evaluation of the results of the controls and the respect of deadlines for reporting to the Commission on the controls carried out*' (ECA 2010 §3.46). The ECA has repeatedly identified shortcomings linked to Member States' systems for ensuring the implementation and control of **cross-compliance rules**. Finally, the ECA highlighted that the EAFRD is particularly error prone due to **complex rules and eligibility conditions** (ECA 2008 §5.57).

2.2.4 Recommendations for LRAs

Based on the ECA's observations detailed above numerous recommendations were formed for regional and local authorities.

A general recommendation concerns **better guidance and training to LRAs** to address weaknesses in first level checks as problems in the verifications by national authorities were detected many times. '*Managing authorities and intermediate bodies should make early contact with project promoters in order to familiarise them with the requirements, help them in setting up their systems and make them aware of the risks of error, and should select and train staff capable of detecting the errors in the project cost declarations and in the*

[8] This percentage represents only the regional policy area.
[9] Over-estimation rates were reduced from 33% in 2006 to 18% in 2007 and 16% in 2008 (ECA 2009, §3.4).

beneficiaries' procedures and should equip them with checklists covering all the risks' (ECA 2008, §6.33).

The ECA has repeatedly emphasised the need to **simplify eligibility rules** (e.g. ECA 2011, §4.50) as unclear and complicated legal requirements have a considerable impact on the legality and/or regularity of transactions, especially in the Cohesion area. In ECA 2009 the Court indicated that the European Commission had already undertaken 28 out of 37 actions from the Action Plan to strengthen the Commission's supervisory role under shared management of structural actions[10], including simplification (ECA 2010, §6.34). Such actions had focused primarily on helping beneficiaries in their declaration of personnel and indirect costs, particularly under the ESF. A similar recommendation concerning the simplification of rules and conditions was also issued for Rural Development (ECA 2009 §5.66).

As noted above one of the most pressing errors relates to **public procurement**, particularly in the Cohesion area. Member States should apply both EU and national public procurement rules correctly. In this area the European Commission also has an important role in providing guidance for national authorities related to eligibility issues and public procurement and monitoring their actions. Another source of errors is the result of the substitution of ineligible with new expenditure: the practice of **withdrawal**. The ECA has emphasised the need to improve the mechanism through which withdrawals are intended to correct errors incurred (ECA 2009, §2.35). In order to limit withdrawal the European Commission has started to reduce support from funds to OPs where irregularities are detected. In light of this action, national authorities should urgently aim to tackle the problem of withdrawal.

National authorities have been repeatedly encouraged to apply **corrective mechanisms** rigorously before the certification of expenditure to the European Commission (ECA 2010, §4.37). If Member States' management and control systems are found to be inadequate the European Commission can suspend and interrupt the funding until national authorities undertake remedial corrective actions. This also links to one of the recommendations that come up regularly, i.e. that the **sanctioning system** needs to be strengthened and become more efficient (ECA 2008, §6.33). National authorities should therefore strictly comply with eligibility rules otherwise financial corrections will be applied by the European Commission.

[10] European Commission (2008) Communication from the Commission to the European Parliament, the Council and the Court of Auditors, An action plan to strengthen the Commission's supervisory role under shared management of structural actions, COM(2008) 97 final, Brussels, 19.2.2008.

The ECA has also emphasised that the work of the national **audit authorities** (AA) is only partially effective. For this reason the ECA recommends that **guidance** should be provided for AAs, '*in particular on sampling, the scope of verifications to be undertaken for audits of projects and the reporting of audit findings*' (ECA 2011, §4.50). In addition, the European Commission was advised to exercise its supervisory role and monitor the activities of AAs more effectively.

In order to reduce the underlying systemic problems of the occurring errors Member States are advised to focus on the effective functioning of **feedback mechanisms** between the different national authorities, including the loops from managing authority/intermediate body to beneficiaries, paying authority to managing authority, and audit body to managing and paying authority (ECA 2008 §6.33).

Finally, the ECA proposed in its 2010 annual report that in the next programming period the **reporting periods** of the annual control report should be **aligned** with the financial year of the EU budget of the Structural Funds. In addition, in order to aggregate the audit authorities' opinions for each Fund at both national and EU level, the different approaches should be harmonised (ECA 2011, §4.50).

Recommendations specifically addressing **Rural Development** include four pertinent topics. Member States have been repeatedly advised to carry out **administrative and on-the-spot checks** more rigorously in order to mitigate the risk of ineligible expenditure (ECA 2012 §4.54). As noted above, rules and conditions need to be further **simplified** and Member States should ensure that **beneficiaries respect their obligations** under Rural Development (ECA 2009 § 5.66). Finally, the ECA has repeatedly emphasised the need to strengthen the system in Member States which ensure the implementation of **cross-compliance rules**. For instance, for the financial year 2011 the ECA has specifically recommended that Member States should ensure that beneficiaries respect requirements concerning animal identification and registration (ECA 2012 §4.54).

The ECA's observations on the **Maritime and Fisheries Fund** are not as detailed as for Rural Development; however, one general recommendation has been made repeatedly. As eligibility rules are a significant cause for concern in this area, the Court has recommended that **system weaknesses** should be overcome in order to avoid the payment of ineligible expenditure (ECA 2010 §3.76).

2.2.5 *Role of the European Commission*

The ECA has repeatedly stressed the need for the European Commission to maintain a stricter and more effective **supervisory role** of national authorities and grant discharge only on the basis of full and transparent information. Particular attention should be paid to the effective supervision of primary controls in Member States. The Commission has been encouraged to make greater use of available sanctions including temporary withholding of payments and continuation of payments only on the basis of available full and clear audit information and measurable action to address causes of budget implementation shortcomings. In addition, as mentioned above the monitoring of national audit authorities should be reinforced. The European Commission has an important role in ensuring strict compliance with eligibility rules, particularly with public procurement rules. In light of this, in 2011 the Commission published a green paper[11] on the topic of procurement rules and workshops were organised in order to help in the training of national authorities.

2.3 Recommendations of the Council and implications for LRAs

The Council of the European Union adopts conclusions each year concerning the ECA's annual reports and makes a recommendation to the European Parliament as to whether it should grant discharge in respect of the implementation of the budget for the given financial year.

This section reviews the observations and recommendations relevant for LRAs made by the Council for the financial years 2008, 2009 and 2010.[12]

The Council acknowledged that, although significant improvements had been achieved over the years, the Cohesion area remained very problematic with very high error rates and only partially effective control systems. Specific attention was drawn to eligibility errors and problems regarding compliance with public procurement rules. In this context the Council reiterated that a high percentage of errors could have been detected by the national authorities and therefore urged the Member States to **apply ex-ante controls more effectively** (Council 2011). As managing authorities and intermediate bodies were found to be only partially effective, the Council emphasised the need for Member States to **improve their management and control systems overall**.

[11] European Commission (2011) Green Paper on the modernisation of EU public procurement policy, Towards a more efficient European Procurement Market, COM(2011) 15 final, Brussels, 27.1.2011.
[12] The indicated years represent the years when sufficient information was available.

The Council agreed that **eligibility rules should be further simplified** and that **guidance and training should be provided for managing and certifying authorities** (Council 2010). In this context the importance of the exchange of best practices and information dissemination was highlighted. Nevertheless, regarding simplification attention was drawn to the need to maintain the balance between simplification and achieving objectives with targeted expenditure. The Council has repeatedly asked the European Commission to closely **cooperate with Member States' authorities** and acknowledged the key role of national authorities' internal control systems in improving the accountability of shared management funds (Council 2010). In addition, the Council acknowledged the importance of the tripartite meetings between the ECA, the Commission and the national authorities especially in the Cohesion area. Such meetings help to achieve mutual understanding and resolve problematic areas. The Council agreed with the Court that **corrective mechanisms should be more rigorously applied to OPs** by Member States and more effective management verifications should take place (Council 2012). Due to the fact that the **information received from Member States on financial corrections** is still incomplete and unreliable national authorities were recommended to achieve improvements in this area (Council 2010).

The Council also recognised the serious problems with the outstanding commitments in the Cohesion policy area. On the other hand, it welcomed the fact that expenditure forecasts under the Structural Funds had been improved, but also encouraged the Member States to continue their efforts to **reduce over-estimation rates** (Council 2010).

Finally, the Council reiterated the importance of the **European Commission's supervisory role**, especially in interrupting or suspending payments whenever significant deficiencies are identified in the management and control systems of national authorities (Council 2012).

Under the **Agriculture and Natural Resources policy area** the Council acknowledged the improvements concerning error rates. It especially emphasised its satisfaction regarding financial year 2008 when **error rates** were below the materiality threshold, potentially due to new legislative provisions. Nevertheless, the Council has drawn attention to Rural Development, as it was still found to be affected by a higher incidence of errors. Consequently, the Council recommended that both the Commission and Member States should continue to **address system weaknesses** (Council 2010). The Council also reiterated the need to further **simplify rules and conditions** under Rural Development with a particular focus on clearer eligibility criteria and guidance to the beneficiaries (Council 2011). In light of the **CAP reform after 2013**, the Council stated that the improvement of measures should not result in unnecessary administrative burdens and additional complexity (ECA 2012). Specific recommendations concerning the EMFF were not made by the Council as only the importance of ex-post audits for detecting errors was highlighted in this area (Council 2010).

2.4 Recommendations by the European Parliament and implications for LRAs

Each year, the European Parliament decides, based on the review of annual accounts, the annual report of the ECA and the European Commission's responses, whether the EU budget for a given year is approved. The Parliament gives its consent by a discharge, which also takes into account the recommendations made by the Council of the European Union.

This section examines the discharges for the financial years 2008, 2009 and 2010.[13]

Many of the conclusions formed by the ECA and the Council have been repeatedly reiterated by the European Parliament (EP) in its discharges, including the positive trend in the Cohesion area with still high error rates, the high level of errors in Rural Development, the problems with eligibility and public procurement rules under Cohesion policy, the occurrence of the practice of withdrawal in the Cohesion area, the poor reporting on financial corrections, the positive impacts of the action plan on strengthening the Commission's supervisory role under shared management of structural actions and the high amounts of outstanding commitments, especially in Structural Funds. Nevertheless, some of the problems have been examined in more details. The Parliament drawn attention to the fact that the reduction of the most likely error rate under Cohesion might be a consequence of the ECA's sampling process, which cannot be considered representative enough (EP 2011, Section 9 §13). It also emphasised the differences between Member States' management and control systems, which affects the Commission's evaluation methods (EP 2011, Section 9 §33). Audit approaches in the Member States also differ to such a great extent that the results cannot be properly aggregated (EP 2011, Section 9 §108). Finally, it repeatedly concluded that the 2007-2013 legislative framework in the Cohesion area does not include sufficient incentives for national authorities to fully comply with the rules.

As in the case of the observations, **a number of recommendations have also been repeated** by the European Parliament, including the simplification of eligibility rules in Cohesion and the simplification of complex rules and

[13] The indicated years represent the years when sufficient information was available.

eligibility conditions under Rural Development, tackling the failure to comply with public procurement rules, improvement of the reporting system of financial recoveries, guidance to national authorities, strengthening the supervisory role of the EC and cooperation between the Commission and Member States. In addition to these pertinent issues a number of new recommendations have been formed by the European Parliament.

The Parliament has repeatedly noted the complex nature of the Cohesion area where Member States have an important role in the management of the funds. In light of this, the importance of **cooperation** between the Commission and national authorities has been mentioned, i.e. it should be **strengthened in day-to-day management** (EP 2011, Section 9 §116) and the European Commission should create working groups with the Member States in order to **create uniform auditing standards** (EP 2011, Section 9 §125).

Regarding the **reallocation of ineligible expenditure** the Parliament advised that such practices should be allowed only if the irregularity was discovered by the Member States themselves (EP 2010, Section 7 §138).

The **European Commission's strengthened supervisory role** has been examined through a number of new recommended actions. The introduction of mandatory **national management declarations (NMD)** has been repeatedly proposed by the Parliament as an instrument which can significantly improve the functioning of the national management and control systems (EP 2011, Section 9 §120).[14] As noted above the European Parliament highlighted the differences between the quality of the national management and control systems. In light of this, it advised the Commission to **assess the strengths and weaknesses of the individual Member States** (EP 2011, Section 9 §35). The need to strengthen the **sanctioning system** of the Commission has been further emphasised for which the following specific actions have been recommended: Member States should aim to recover ineligible expenditure from financial beneficiaries as far as possible, national authorities should be incentivised not only to comply with the rules of Cohesion policy, but to implement them effectively, efficiently and economically, those Member States which have repeatedly failed to comply with rules should be penalised and national authorities should provide all relevant information to the Commission (EP 2012a, Section 9 §124).

[14] In June 2013an agreement was reached on the national management declarations. The European Commission indicated in its draft declaration on national management declarations attached to the draft Council regulation laying down rules on the MFF that it is '*prepared to examine this request and is willing to invite the European Parliament and the Council to participate in a working group*' (Council 2013).

The Parliament repeatedly stated that **tripartite meetings** between the ECA, Commission and national authorities should be held not just in the Cohesion area, but under the Agriculture and Natural Resources policy area (EP 2011, Section 9 §95).

Finally, a number of **recommendations have been proposed for the ECA** which have direct relevance for LRAs. The Parliament suggests that the ECA should asses the quality of the managing authorities' external evaluations in the Cohesion area and the capacity of the national audit authorities to carry out the audits (EP 2010, Section 7 §145&146).

3. Analysis of pending claims and Reste à Liquider (RAL)

Section 3 provides an analysis of outstanding claims, also known as RAL (Reste à Liquider), for the current budget as well as over time and discusses the implications for regional and local authorities in view of the current and the forthcoming MFF implementation.

3.1 Understanding concepts and terms

In a strict sense, the EU budget includes two budgets, namely one budget in **commitment appropriations** and one budget in **payment appropriations**. It is important to note that payments can be made during the same year of commitment (non-differentiated spending) or can be spread over several years (differentiated spending). Commitments refer to the amounts reserved in a given budget year for projects or programmes, whereas payments refer to the amounts authorized in any given budget year for “real” money spent in response to obligations stemming from commitments.

Commitments represent an agreement made by Parliament, Council and Commission to spend money in the future, and in case of differentiated expenditure this can encompass several years. When a commitment has been approved as part of any given annual budget but has not been paid yet it is classified as **outstanding commitment**, otherwise known as **RAL** (Reste à Liquider). Whether that money is actually spent depends on a number of factors, including the need to meet all conditions for grants or the need to send claims for reimbursement within deadlines (European Commission 2013b).

Given that expenditure in a number of policy areas spreads over a number of years, payments increase towards the end of each MFF period. Commitments stay above the level of payments under each annual budget with the consequence that over time the **amount of outstanding commitments is regularly increasing**. The amount of outstanding commitments is normally in the order of two to three years of commitments. The financing rules for annual allocation of money from the Structural and Cohesion Funds provide that an automatic decommitment of budget allocations happens if requests for payments or the actual payment have not been made at the end of the second year (n+2 rules). This period is extended to three years for the EU-10 Member States plus for Greece and Portugal until 2010 (n+3 rule).[15] The financial rules for the Research and Innovation funds currently operate on an n+1 rule. From a historic perspective the volume of decommitments has never been significant (European Parliament 2012b, European Commission 2013a). It might become even less under the 2014-2020 MFF, where the n+3 rule should be applied to all programmes (European Council of 7/8 February 2013).

Problems can arise when the increasing rate of submission of payment claims in an budget year towards the end of a MFF period is not matched by an appropriate level of payment appropriations under the annual budget, i.e. when the Commission cannot fully honour payment claims, which hence remain to be paid in the next year and reduce the level of payments that are available in that year to finance the original commitments under that same year. **Limitations on payments** of that kind are a major reason for the stronger increase in RAL towards the end of the MFF period.

Through amendment budgets Parliament, Council and Commission can agree to additional payments in a given annual budget year reacting to information on increasing gaps between commitments and payments due to lower than expected payment profiles or increasing claims for payment.

3.2 General development of outstanding claims and payment issues

The Commission regularly assesses and reports on the development of the RAL (Reste à Liquider). The information presented in this note is based on the most recent report on budgetary and financial management for the financial year 2012 (European Commission 2013b). Table 2 provides a summary for 2012.

Table 2: Overview of outstanding commitments in 2012

(million EUR)

Policy Area	RAL as at 01.01.2012	Payments on RAL	Commitments 2012	Payments on 2012 Commitments	Decommitments 2012	RAL as at 31.12.2012
1a. Competitiveness	23 856	7 316	16 256	5 778	-463	26 554
1b. Cohesion	135 851	47 584	52 744	906	-388	139 717
2. Natural Resources	25 302	12 983	60 817	46 113	-137	26 886
3a. Freedom, Security and Justice	1 589	311	1 395	606	-260	1 807
3b. Citizenship	541	236	1 498	1 222	-71	510
4. The EU as a global player	19 567	4 870	9 752	2 192	-828	21 429
5. Administration	339	303	4 981	4 665	-32	320
TOTAL	**207 046**	**73 605**	**147 443**	**61 482**	**-2 178**	**217 222**
Other Institutions	397	325	3 841	3 272	-53	588
TOTAL	**207 443**	**73 930**	**151 284**	**64 754**	**-2 233**	**217 810**

Source: European Commission 2013b

[15] This means that all commitments between 2007 and 2011 will need to be covered by the end of 2013, i.e. including payment requests for the 2010 commitments for EU-10 plus Portugal and Greece and payment requests for 2011 commitments for all Member States.

As can be seen from table 2 the **overall RAL** at the end of 2012 was EUR 217.8 billion. The RAL increased from EUR 207.4 billion at the beginning of 2012. This difference is based on new commitments, minus payments made and decommitments on new or old commitments. An additional EUR 6 billion in payment appropriations through amending budget 6/2012 and automatic decommitments in form of EUR 2 billion slowed the increase in RAL compared to the initially projected EUR 18 billion increase (European Commission 2013b). For 2012, total commitment appropriations authorised (including reserves, but without other institutions) amounted to EUR 151 billion, with actual commitments for 2012 amounting to EUR 147.4 billion. Total payment appropriations authorised (including reserves, but excluding other institutions) amounted to EUR 139.2 billion, with actual payment appropriations amounting to EUR 135 billion: this was EUR 9.4 billion more than was spent under the 2011 EU budget (Table 3).

Table 3: Implementation of the 2012 EU budget

(million EUR)

Implementation Table											
	Initial budget	Carryover from 2011	Amending budgets	BA transfers	COM transfers	Assigned revenue	Total appropria-tions[7]	Actual 2012	Rate	Actual 2011	Carry-over to 20123
CA	143 075	279	1 242	95	548	5 851	151 094	147 443	98%	141 001	3 108
PA	125 352	681	6 717	89	124	6 293	139 268	135 087	97%	125 883	4 027
	RAL as at 01.01.2012	Payments on RAL	Commitments 2012	Payments on 2012 commitments		Decommitments 2012		RAL as at 31.12.2012		Evolution of the RAL (%)	
RAL	207 046	73 605	147 443	61 482		- 2 178		217 222		+5%	

Source: European Commission 2013b

Table 2 also shows that the **total RAL for heading 1b** "Cohesion for growth and employment" amounts to EUR 139.7 billion at the end of 2012, following the 2012 EU budget and financial management report (European Commission 2013b).[16] This marks a major share of the overall RAL, amounting to 64.3%, and makes it the main budget line affected by outstanding EU payment claims.

Table 4 breaks down the RAL further by specific programmes of funding.

[16] Note that the latest analysis of the budgetary implementation of the Structural and Cohesion Funds in 2012 notes an overall RAL for Cohesion Policy of EUR 137.4 billion, including EUR 131.7 billion for 2007-2013 and EUR 5.6 billion for 2000-2006 as well as EUR 0.1 billion for RAL pre 2000 (European Commission 2013a).

Table 4: RAL per main programme of funding

	RAL amount billion EUR	RAL in year of commitments 2011	As % of RAL	As % of 2012 differentiated CA
Total Heading 1a*	26.4	1.7	**12%**	**16%**
7th Research Framework Programme	14.0	1.7	6%	9%
Transport programmes	3.7	2.4	2%	2%
Total Heading 1b	**139.7**	**2.7**	**64%**	**54%**
Convergence objective	79.3	2.5	37%	33%
Competitiveness objective	19.9	2.8	9%	7%
Cohesion fund	29.0	2.5	13%	12%
Total Heading 2	**26.9**	**1.7**	**12%**	**16%**
Rural development	22.6	1.5	10%	16%
Total Heading 3	**2.3**	**0.8**	**1%**	**3%**
Total Heading 4	**21.4**	**2.4**	**9%**	**9%**
Pre-accession (IPA)	5.3	2.9	2%	2%
Neighbourhood (ENPI)	5.2	2.3	2%	2%
Development cooperation	7.7	2.8	4%	3%
Total of current programmes	**186.8**	**2.3**	**86%**	**84%**
GRAND TOTAL	**216.7**	**2.3**	**100%**	**100%**

Source: European Commission 2013b

The level of claims sent to the Commission under Cohesion Policy in 2012 rose strongly, and year-end execution of the EU budget exceeded the initially agreed budget by close to 11%. The Commission's report on budgetary implications for the 2012 EU Cohesion Policy notes a **backlog of pending claims** amounting to EUR 16.2 billion at the end of 2012, i.e. after the additional appropriations have been made available through amending budget 06/2012 and the related initial injection of additional EUR 6 billion, of which EUR 4.4 billion was for Cohesion Policy, which was EUR 1.4 billion lower than originally requested by the Commission (European Commission 2013a). This was 50% more compared to 2011, and 2.5 times higher than the amount of outstanding claims at the end of 2010 (European Commission 2013a). The Member States affected most by outstanding pending claims are Italy (20%), Spain (14%) and Poland (12%). Accordingly, a **much larger proportion of 2013 payment appropriations than expected** will need to be used to honour 2012 claims (European Parliament 2012b).

Draft amending budget 02/2013 provides for an initial total budget increase of EUR 11.2 billion to cover outstanding claims, of which EUR 9 billion are linked to Cohesion Policy. The amount of EUR 11.2 billion is the amount possible under the overall MFF ceiling for the 2013 annual budget, but the Commission considered that based on an estimated expected implementation of the 2013 budget this would suffice[17]. On 14 May 2013, the Council only agreed to an additional injection of EUR 7.3 billion and postponed agreement about the approach to the remaining requested budget additions to the second half of 2013. The EUR 7.3 billion was approved by the ECOFIN Council on 9 July

[17] 'The requested payment appropriations will allow all the legal obligations left pending at the end of 2012, and those arising in 2013, to be covered in the 2013 budget.' P.5 of draft amending budget N2, 27 arch 2013.

2013.[18]This leaves the EU budget for 2013 with approx. EUR 151 billion in commitments and approx. EUR 144 billion in payment appropriations. It provides for approx. EUR 55 billion in claims for Cohesion Policy and approx. EUR 56 billion in payment appropriations for 2013 (table 5). Taking account of the outstanding commitments from 2012 which will be covered through 2013 payments, the **gap in meeting 2013 commitments through payment appropriations** remains present.

Table 5: Draft amending budget 06/2013 – summary by heading of financial framework

Financial framework Heading/subheading	Revised 2013 Financial framework		Budget 2013 (incl. DAB 1-5/2013)		DAB 6/2013		Budget 2013 (incl. DAB 1-6/2013)	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	15 670 000 000		16 168 150 291	12 886 628 095			16 168 150 291	12 886 628 095
Margin			*1 849 709*				*1 849 709*	
1b. Cohesion for growth and employment	54 974 000 000		54 958 049 037	56 349 544 736			54 958 049 037	56 349 544 736
Margin			*15 950 963*				*15 950 963*	
Total	**70 644 000 000**		**71 126 199 328**	**69 236 172 831**			**71 126 199 328**	**69 236 172 831**
Margin[12]			*17 800 672*				*17 800 672*	
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	48 574 000 000		43 956 548 610	43 934 188 711			43 956 548 610	43 934 188 711
Total	**61 289 000 000**		**60 159 241 416**	**58 095 492 961**			**60 159 241 416**	**58 095 492 961**
Margin			*1 129 758 584*				*1 129 758 584*	
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	1 661 000 000		1 440 827 200	1 046 033 652			1 440 827 200	1 046 033 652
Margin			*220 172 800*				*220 172 800*	
3b. Citizenship	746 000 000		753 287 942	669 173 557			753 287 942	669 173 557
Margin			*7 320 000*				*7 320 000*	
Total	**2 407 000 000**		**2 194 115 142**	**1 715 207 209**			**2 194 115 142**	**1 715 207 209**
Margin[13]			*227 492 800*				*227 492 800*	
4. EU AS A GLOBAL PLAYER	**9 595 000 000**		**9 583 118 711**	**6 898 914 260**			**9 583 118 711**	**6 898 914 260**
Margin[14]			*275 996 289*				*275 996 289*	
5. ADMINISTRATION	**8 492 000 000**		**8 430 374 740**	**8 430 049 740**			**8 430 374 740**	**8 430 049 740**
Margin[15]			*147 625 260*				*147 625 260*	
6. COMPENSATION	**75 000 000**		**75 000 000**	**75 000 000**			**75 000 000**	**75 000 000**
Margin								
TOTAL	**152 502 000 000**	**144 285 000 000**	**151 568 049 337**	**144 450 837 001**			**151 568 049 337**	**144 450 837 001**
Margin[1617]			*1 798 673 605*	*14 770 941*			*1 798 673 605*	*14 770 941*

Source: European Commission 2013b

This will reduce the budget's ability to meet all 2013 commitment appropriations. A similar account is observable for research and innovation policy. Importantly, the new regulations for Horizon 2020 state that all grant agreements have to be concluded within a total of 9 months (6 months for information and 3 months for signature) and must also be paid in shorter period of times. This will put **greater pressure on annual budgets from 2014** onwards and intensifies the additional pressure arising from carry-over of pending claims from 2013.

This situation underlines the **need for and relevance of greater flexibility**, as politically agreed between Council and Parliament for the implementation of the budget under the 2014-2020 MFF, particularly when viewed against the budget surplus in 2012 due to under-spending on payments (EUR 244 million), over-registration of revenue (EUR 719 million) and positive balance on monetary exchange (EUR 60 million): A total of EUR 1.02 billion will be redistributed to Member States via decreased contributions (European Council 2013).

[18] Council of the European Union, Press release of the 3252nd Council meeting, Economic and Financial Affairs.

Looking at the years of origin of the RAL, the **trend of strong RAL increase towards the end of MFF period** is clearly visible (table 6). Limits for honouring claims are a major reason. It needs to be noted that the RAL at the end of the 2007-2013 MFF period is much higher than it was at the end of the 2000-2006 MFF period, namely EUR 217 billion at the end of 2012 versus EUR 119 billion at the end of 2006 (European Commission 2013b).

Table 6: RAL over time >2007 and 2007-2013

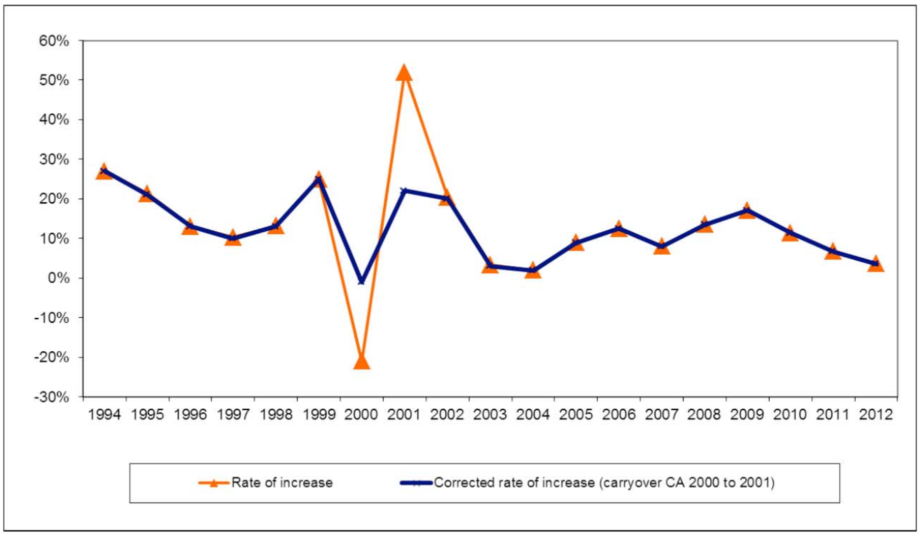
(million EUR)

RAL per year of origin by policy area									
MFF Heading	**<2007**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**TOTAL of individual commitments**	**Total RAL**
1a Competitiveness	223	111	600	1 696	5 581	5 575	8 557	22 343	26 554
1b. Cohesion	7 564	75	2 130	8 506	25 609	43 898	51 908	139 690	139 717
2. Natural Resources	805	9	80	241	1 887	8 963	14 535	26 519	26 886
3a. Freedom, Security and Justice	4	2	72	196	249	372	645	1 539	1 807
3b. Citizenship	3	9	11	17	46	112	267	465	510
4. The EU as a global player	787	150	414	1 112	2 067	3 297	5 557	13 384	21 429
5. Administration	0	0	0	0	0	3	317	320	320
Total Commission	9 386	356	3 307	11 768	35 439	62 220	81 786	204 262	217 222
Other Institutions						15	573	588	588
TOTAL						62 235	82 359	204 850	217 810

Source: European Commission 2013b

Figure 1 shows that the first half of the 2007-2013 MFF was characterised by an increase in the RAL for Cohesion Policy but this trend has reversed since 2010.

Figure 1: Development of increase rates for outstanding commitments



Source: European Commission 2013a

The Parliament has raised **concerns about the outlook for 2013** and has criticised the Council for creating inconsistency in terms of increasing claim levels while decreasing payment levels and preventing the cleaning of budget sheets for the 2014-2020 MFF period (European Parliament 2012b). The Commission notes in their 2012 budget and financial management for Cohesion Policy report that the total RAL for Cohesion Policy stands at 2.7 years of commitments, reflecting the N+2-N+3 automatic decommitment rules (European Commission 2013a). It noted, however, the significance of additional budget injection as part of draft amending budget 02/2013, which was only partially approved by Council.

In the broader context, the Parliament has been very critical of the overall RAL development, and also about the projected increase in the overall RAL to EUR 250 billion up to 2020, noting that the ceilings for the 2014-2020 MFF are already too low. The President of the European Parliament, Martin Schulz, described this position very clearly in his address to the European Council on 7 February 2013: "*This merely continued a trend: from 2010 to 2011 a shortfall of EUR 5.5 billion was carried over in this way, from 2011 to 2012 the figure was already EUR 11 billion and now – in 2013 – we have reached EUR 16 billion. And yet from 2014 onwards you are proposing to lower the payment ceilings even further. This is the beginning of the slippery slope towards a deficit Union*." (Schulz, 2013).

3.3 Implications for Member States

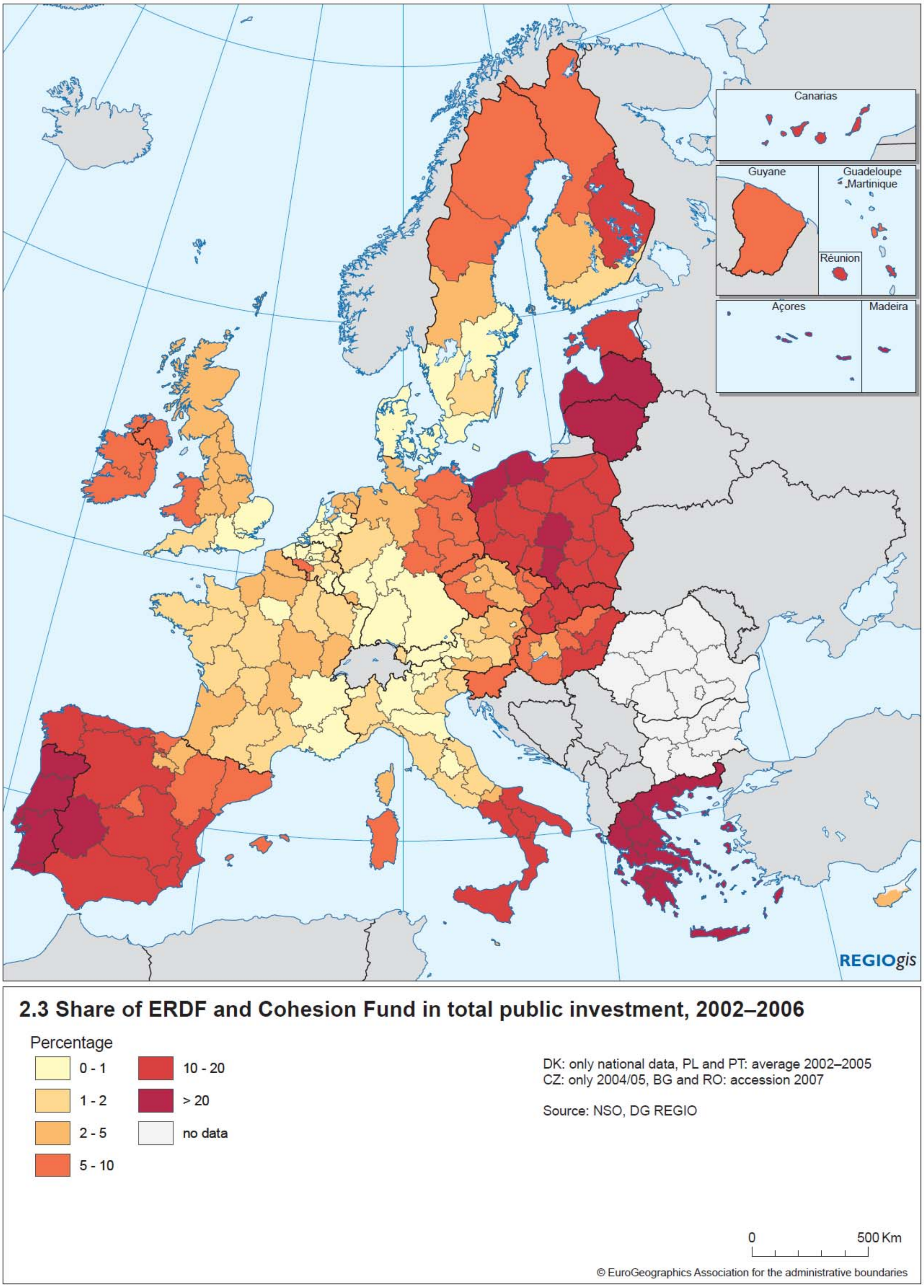
The main implications arise under funds under shared management, most notably the ERDF, CF, ESF under Cohesion Policy and EAFRD, EFF, EAGGF-Guidance and FIFG under Structural Funds of CAP and CFP.

Funding from the EU budget, particularly through the funds under shared management, has an important **socio-economic development support function** in many of Europe's regions and cities, particularly in Eastern and Southern Europe. According to the 5th Cohesion Report, support from Cohesion Policy in Cohesion countries amounts to – on average – around 55% of expenditure on environmental protection, around 25% of expenditure on transport, telecommunications and energy and also around 10% of expenditure on human capital and development (European Commission 2010c). [19]

Figure 2 provides an overview of the share of ERDF and Cohesion Fund in total public investment in Member States for the period 2000-2006.

[19] For an overview of the types of projects funded and their impact on regional socio-economic development, see:
http://ec.europa.eu/regional_policy/sources/docgener/presenta/projectbook/dg_regio_project_book_en.pdf.

Figure 2: Share of ERDF and Cohesion Fund in Member State public investment for the period 2000-2006



Source: European Commission 2010c

Table 7 shows that the **Member States with the largest pending EU claims** are Poland, Italy and Spain. Ireland, Denmark, Cyprus and Luxembourg have the lowest amount of pending EU claims. Delays in payments and uncertainties around payment conditions can have an impact on regional and local socio-economic development, particularly through increasing the risk of regions losing investment on co-financed projects if these are delayed and run into higher financing costs or operating difficulties due to late payments. On the other hand, low absorption capacity and the n+2/n+3 rules entail the risk of Member States submitting proposals that are not mature or robust enough.

Table 7: RAL in Member States for shared management funds

RAL per MS at 31/12/2012*	Total	Heading 1b (ERDF, ESF, CF)			H2 Structural (EAFRD, EFF, EAGGF-Guidance, FIFG)		
			2007-2012	2000-2006		2007-2012	2000-2006
in EUR million	H1b + H2 Structural 2000-2012	Total H1b 2000-2012	H1b 2007-2012 (ERDF, ESF, CF)	H1b 2000-2006 (ERDF, ESF, CF)	Total H2 Structural 2000-2012	TOTAL EAFRD +EFF	TOTAL (EAGGF-G and FIFG)
PL	25.336	21.467	20.767	699	3.869	3.845	24
IT	19.617	16.295	15.214	1.080	3.323	3.184	138
ES	17.963	14.862	12.432	2.430	3.102	2.862	240
RO	14.172	11.135	11.135		3.036	3.036	
CZ	12.607	12.228	12.157	71	378	378	
HU	11.108	10.053	9.769	283	1.055	1.039	16
DE	10.039	8.450	7.982	468	1.590	1.571	19
EL	9.461	8.073	7.498	574	1.388	1.303	85
PT	7.254	6.069	5.582	488	1.185	1.085	100
FR	7.023	5.711	5.585	127	1.311	1.283	28
SK	5.052	4.891	4.772	119	161	161	
UK	5.007	3.907	3.479	428	1.101	1.044	57
BG	4.233	3.026	3.026		1.207	1.207	
LT	1.784	1.411	1.308	102	373	373	1
SI	1.606	1.419	1.405	14	187	187	
LV	1.562	1.401	1.356	45	161	161	
NL	937	761	652	109	176	168	8
BE	882	854	806	48	29	27	2
AT	871	431	399	31	440	440	0
EE	864	725	695	30	139	139	
SE	771	515	513	2	256	247	8
FI	746	515	515	0	231	227	3
MT	432	403	401	2	29	29	
DK	420	234	202	32	186	169	18
IE	411	378	237	140	34	32	2
CY	349	296	296		53	53	
LU	20	17	17		3	3	
Multi-Country	3.646	3.643	3.484	159	2		2
Total	164.171	139.168	131.685	7.483	25.003	24.253	750

*These end 2012 figures are still provisional.

Source: European Commission, quoted in European Parliament 2012b

There are **a variety of reasons** for the differences in RAL between Member States, but these often have a specific domestic element as well and it is difficult to generalise them. Problems at various stages of the programme and project development (from planning through selection to execution) can be very context-specific, for example. Explanatory factors (see Ciffolilli et al, 2013) include among other things the adverse development of economic context conditions. For example, credit constraints in Italy or Spain can help explain a large part of the high RAL due to co-financing problems. Complex rules and administrative delays are another factor, and absorption capacities in Member States are affected by administrative capacities. Inconsistency between programmatic planning and project selection and pipelines is another frequent problem that has been reported, for example, for Poland (Ciffolilli et al 2013). The **quality and capacities of local and regional authorities** seem to be a key influencing factor, whereas the level of political decentralisation seems to be less relevant, as regions within the same Member State can show diverging performance (Filippetti, Reggi 2012).

Annex 1: List of reviewed official EU documents

Ciffolilli, A., Greunz, L., Naldini, A., Ward, T., and E. Wolleb (2013) Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-2013, Synthesis of National Reports 2012 January 2013. A report to the European Commission Directorate-General for Regional and Urban Policy. Brussels.

Council of the European Union (2010) Recommendations of the Council of the European Union on the discharge for implementation of the European Union general budget for the financial year 2008, 5826/10 ADD 1, Brussels, 3.2.2010

Council of the European Union (2011) Recommendations of the Council of the European Union on the discharge for implementation of the European Union general budget for the financial year 2009, 5891/11 ADD 1, Brussels, 3.2.2011

Council of the European Union (2012) Recommendations of the Council of the European Union on the discharge for implementation of the European Union general budget for the financial year 2010, 6081/12 ADD 1, Brussels, 8.2.2012

Council of the European Union (2013) Draft declarations attached to the Draft Council Regulation laying down the multiannual financial framework for the years 2014-2020 and Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, cooperation in budgetary matters and on sound financial management, 11307/13, Brussels, 20.6.2013

Court of Auditors (2008) Annual report on the implementation of the budget concerning the financial year 2007, 2008/C 268/01, Official Journal of the European Union, 10.11.2008

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Court of Auditors (2010) Annual report on the implementation of the budget concerning the financial year 2009, 2010/C 303/01, Official Journal of the European Union, 9.11.2010

Court of Auditors (2011) Annual report on the implementation of the budget concerning the financial year 2010, 2011/C 326/01, Official Journal of the European Union, 10.11.2011

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European Commission (2008a) Communication from the Commission to the European Parliament, the Council and the Court of Auditors, An action plan to strengthen the Commission's supervisory role under shared management of structural actions, COM(2008) 97 final, Brussels, 19.2.2008

European Commission (2008b) EU budget 2007: Financial Report, Luxembourg: Publication Office of the European Union, ISBN 978-92-79-08496-6

European Commission (2009a) EU budget 2008: Financial Report, Luxembourg: Publication Office of the European Union, ISBN 978-92-79-12018-3

European Commission (2009b) Report on budgetary and financial management accompanying the Community accounts, Financial year 2008, Report by DG BUDGET, Report pursuant to Article 128 of the Financial Regulation

European Commission (2010a) EU budget 2009: Financial Report, Luxembourg: Publication Office of the European Union, ISBN 978-92-79-14962-7

European Commission (2010b) Report on budgetary and financial management accompanying the Community accounts, Financial year 2009, Report by DG BUDGET, Report pursuant to Article 128 of the Financial Regulation

European Commission (2010c) Investing in Europe's future, Fifth report on economic, social and territorial cohesion, Report from the Commission, Brussels.

European Commission (2011a) EU budget 2010: Financial Report, Luxembourg: Publication Office of the European Union, ISBN 978-92-79-19878-6

European Commission (2011b) Report on budgetary and financial management accompanying the Community accounts, Financial year 2010, Report by DG BUDGET, Report pursuant to Article 128 of the Financial Regulation

European Commission (2012a) EU budget 2011: Financial Report, Luxembourg: Publication Office of the European Union, ISBN 978-92-79-24938-9

European Commission (2012b) Report on budgetary and financial management accompanying the Community accounts, Financial year 2011, Report by DG BUDGET, Report pursuant to Article 128 of the Financial Regulation

European Commission (2013a) Analysis of the budgetary implementation of the Structural and Cohesion Funds in 2012, Directorate-General Budget, European Commission, Brussels.

European Commission (2013b) Report on budgetary and financial management on the Financial year 2012, Report by DG BUDGET, Report pursuant to Article 142 of the Financial Regulation

European Council (2013) Council agrees additional funds for 2013 budget. Press release, 14 May 2013, Brussels.

European Parliament (2010) 2008 discharge: Commission, P7 TA-PROV(2010)0134

European Parliament (2011) 2009 discharge: Section III - Commission, P7 TA(2011)0194

European Parliament (2012a) 2010 discharge: EU general budget, Section III, Commission, P7 TA(2012)0153

European Parliament (2012b) Working document on outstanding commitments (RAL) and the payments issue. Committee on budgets, report by rapporteurs Balzani, La Via and Mulder, accessed
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONSGML%2BCOMPARL%2BPE-489.663%2B01%2BDOC%2BPDF%2BV0%2F%2FEN

Filippetti, A, Reggi, L. (2012) Multi-Level governance in European Union Cohesion Policy and the quality of regional governments; paper prepared for the International Associations of Centres for Federal Studies(IACFS) Conference: Federalism, Regionalism, and Territory, September, 19/20/21, 2012.

Schulz, Martin (2013): speech at the European Council meeting, 7/8 February 2013, Brussels.