Opinion of the Committee of the Regions — the execution of the EU Budget

(2014/C 271/10)

Rapporteur Adam Struzik (PL/EPP), Marshal of the Mazovia region

I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

1. draws attention to the fact that this is the first time that it is drafting an opinion on the execution of the EU budget in order to present the views of local and regional authorities with respect to both the current financial perspective and the years 2014-2020;

2. notes that, in order to improve the quality of the opinion, a survey was carried out among local and regional authorities (LRAs) ([1]), which met with a significant response; this reflects the level of interest in this issue and points to a desire to cooperate on identifying solutions to the problems and drawing on the potential which lies within the territorial approach;

3. stresses that the EU budget is a key instrument for achieving the European Union's objectives. There is a need to stress its role, especially now, in the context of a public finance crisis which is still continuing in many countries and in view of the need to support the competitiveness of the European economy, create jobs and promote common European values;

4. notes that the EU budget provides resources for achieving the objectives of the European Union as set in the Treaties and agreed at the very highest political levels (between the Council of the EU, the European Parliament and the European Commission) yet is also a vital instrument for helping to deliver the objectives of public policies carried out in the Member States as well as the actions of LRAs. In this context considers that a more results-orientated approach will promote a better choice of objectives and instruments to reflect the different situations of the various EU territories and will thus enhance the effectiveness and efficiency of the EU budget;

5. considers that local and regional authorities participate in the execution of the EU budget as direct beneficiaries and as managers of EU funds; nonetheless, the responsibility for budget execution at local and regional level is shared with the Member States, the European Commission and the other EU institutions;

6. welcomes the fact that the role of the territorial dimension in the implementation of EU policies has been strengthened under the legal provisions for the 2014-2020 programming period; accordingly, the role of LRAs in the execution of the EU budget will increase further;

7. this opinion focuses on those EU funds which have the greatest impact on local and regional authorities, including, above all, the European Structural and Investment Funds (ESIF): the European Regional Development Fund (ERDF), the Cohesion Fund, the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF); nonetheless, also points to the importance of other funds such as HORIZON 2020 for achieving the development objectives identified at European, national, regional and local level;

Speed of budget implementation

8. considers that, in view of the current socioeconomic situation, the fact that the legal framework for EU funding for the years 2007-2013 was adopted later than scheduled and that numerous European policies were established with a view to delivering long-term structural objectives rather than promoting short-term supply-side effects, the speed of implementation of the EU's budget should be considered to be satisfactory;

9. notes with concern that, although the speed of implementation of the EU budget is in general satisfactory, there are significant differences in the rate of budget implementation between the various Member States and funds;

([1]) Results of the online survey/consultation on the execution of the EU budget, Committee of the Regions; Unit E.2 — Subsidiarity Network/Europe 2020 Monitoring Platform/Covenant of Mayors/EGTC. The Europe 2020 Monitoring Platform Team.

10. considers that the differences in terms of the speed of implementation of the EU budget among the Member States are the result of many factors, only some of which are directly linked to the implementation of expenditure at LRA level. The factors which have an impact on the speed of implementation of the EU budget include:

— effectiveness of management systems in the individual Member States;

— differences in the internal rules of individual funds and their level of complexity;

— quality of national legal frameworks;

— availability of funds for co-financing;

— administrative capacity;

— efficiency of coordination, multilevel governance and partnership systems;

11. notes that, according to local and regional authorities, it is the Member States which have the largest impact on the speed of implementation of the EU budget at European level, while in the case of projects co-financed from the EU budget, it is the administrative capacity of local and regional authorities which has the largest impact on the speed of implementation, followed by the availability of funds (both public and national) for co-financing and the level of complexity of the rules of individual funds;

12. notes in this context that the complaint that the slow rate of implementation of projects co-financed by the EU budget is due to the poor administrative capacities of local and regional authorities is only partly justified. Local and regional authorities are aware of the often inadequate level of their own administrative capacities, yet the speed of implementation of EU funds at local and regional level is also affected by issues that fall under the competences of the Member States and the European Commission;

13. in view of the above, calls on the Member States to increase cooperation and to coordinate their action with LRAs when preparing operational programmes and specific implementing solutions in order to ensure optimal speed and quality for the implementation of EU funds and to minimise the burden for beneficiaries;

14. calls on the European Commission and the Member States to adopt a more pro-active approach towards the new financial perspective and, in particular, to introduce information and training programmes for LRAs in order to improve the speed and quality of EU budget implementation;

15. notes that the identification by the European Commission of best practice projects could also have an impact on the speed of budget implementation, particularly in areas which require an integrated approach incorporating multiple funds, programmes and partners, including projects carried out under such new instruments as Integrated Territorial Investment (ITI) or Community-Led Local Development (CLLD);

16. in addition, points to other means of improving the speed of implementation of EU co-financed projects at local and regional level:

— focus more on simplifying procedures for beneficiaries;

— timely implementation by Member States of *ex-ante* conditions which, for the most part, lie beyond the remit of LRAs;

— apply simplified cost options more widely;

— apply maximum rates of EU co-financing;

— ensure simplified access to other national, private and EIB finance instruments;

— the European Commission should consider lifting the requirement to include co-financing in the calculation of public sector deficits;

17. is confident that the new rules for ESIF will have a positive impact on the speed of implementation of EU co-financed projects at local and regional level. Nevertheless, at the current stage of preparations for the launch of the 2014-2020 financial perspective, it is impossible to assess the extent of this acceleration or where it will occur;

18. welcomes the publication by the European Commission of the 'Final Simplification Scoreboard for the MFF 2014-2020' ([2]);

19. in relation to the next programming period (post-2020), calls for the quality and effectiveness of the dialogue between European institutions and the Member States to be improved in order to present draft regulations, carry out negotiations and conclude all discussions on legislative proposals sufficiently early to enable the implementation of the EU budget to begin at the start of 2021;

20. notes that there is a lack of full statistical data regarding the involvement of local and regional authorities in the implementation of the EU budget. Accordingly, calls on the European Commission and the Member States to regularly publish data on this issue (including in their annual implementation reports and periodic cohesion reports) and to conduct regular assessments of this matter, which should be discussed with the Committee of the Regions;

Budget implementation errors and other management-related issues

21. indicates that, according to the information provided by the European Commission and the European Court of Auditors, the main areas of error are the following:

— non-eligibility of expenditure;

— non-compliance with public procurement rules;

22. notes that the cost of control of auditing cohesion expenditure can be estimated at around EUR 860 million or 0,2 % of the total ERDF/CF and ESF budget ([3]);

23. welcomes that since 2009 the Court of Auditors found that the level of irregularities for cohesion-related expenditure incurred under the 2007-2013 programming period is clearly below the level observed for the 2000-2006 period ([4]);

24. considers that the error rate in these areas does not reflect abuses in the use of resources (fraud) but rather the ability of groups of beneficiaries such as LRAs to comply with the rules, and the quality of national and European coordination, control and management systems;

25. notes in this context that reducing the amount of errors in these two areas requires coordinated action on the part of the LRAs, the Member States, the European Commission as well as other EU institutions. Therefore calls for closer cooperation not only when implementing EU co-financed programmes and projects but also when drafting legal rules and guidelines. Points to the need for the Commission's departments to verify the compliance of national eligibility and public tender systems with EU law before launching programmes and projects and not only during their implementation;

26. notes that financial corrections are made when irregularities are brought to light; this not only affects the speed of implementation of EU funds but also reduces the likelihood of the expected results being achieved;

27. welcomes the fact that the rules on the eligibility of expenditure will be applied more flexibly during the new programming period. Against this background, the proposals under the ESF, which allow for the wider use of lump sum payments and fixed rates instead of the reimbursement of actual costs, should be seen as a positive development. This should have a positive impact in terms of reducing the administrative burden for beneficiaries, provided that the Commission monitors the situation with care so as to encourage hesitant Member States to deploy the simplified mechanisms;

([2]) COM(2014) 114 final, 3.3.2014.

([3]) Ibid, pp. 43 and 45.

([4]) See: Martin Weber, Chrysoula Latopoulou and Jorge Guevara López: 'The Cost of Control' of Auditing Cohesion Expenditure', EStIF 1/2014, p. 39.

28. given that simplified costs are not used for public procurement projects, calls on the Commission to examine the possibility of introducing similar simplifications for projects that are financed by funds other than the ESF;

29. acknowledges the steps that have been taken towards harmonising the rules and procedures for all ESIF; notes, however, that there is considerable uncertainty among LRAs about the impact of the new regulations in terms of facilitating project implementation or increasing the scope for coordination between the ESIF and other external funds such as HORIZON 2020. This points to the need for the organisation of an information and training programme by the European Commission, the European Court of Auditors and the Member States, including training which promotes the use of the simplified cost models ([5]);

30. notes that establishing a common set of basic rules for all ESIFs and allowing Member States to draw up their own national rules on the eligibility of expenditure, based on specific local needs, should have a positive impact on reducing the level of irregularities;

31. with regard to control systems, suggests that greater attention should be paid to ensuring the coordination of controls carried out by the various management and audit bodies: national, regional, the European Commission and the European Court of Auditors. Considers that controls must fulfil their purpose: to improve the quality of project implementation. Notes in this context that, in the view of LRAs, financial corrections are often out of all proportion to the scale of the irregularity;

32. expresses concerns with the regard to the fact that due to a lack of administrative capacity and resources, audit authorities tend increasingly to outsource their audit work to private sector audit firms (48 %), thereby increasing the global public cost of auditing and 'losing grip' on the programming of the projects;

EU budget liquidity and financial planning problems

33. notes that each year it becomes more difficult to ensure a steady flow of income from the Member States for the EU budget. This is due to the ever increasing number of unpaid debts at the end of each budget year;

34. indicates that this problem can have a significant impact on the activities of LRAs by lengthening the waiting time for the reimbursement of expenditure, which is a particular cause for concern in those countries most affected by the crisis;

35. notes that the causes of this increase in unpaid debts owed to the EU budget are:

— Member States' difficulties with the detailed planning of annual expenditure and the very mechanical programming of payment appropriations by the European Commission;

— disputes over the contributions of individual Member States to the financing of the EU's annual budget expenditure;

36. notes with concern that this may lead to an increase in the RAL amount ([6]). This problem particularly applies to cohesion policy and rural development. Assuming that the application of the automatic decommitment rule does not in principle lead to any substantial loss of Member States' budget allocations, a significant increase in the EU budget for 2014 and 2015 could be necessary;

37. notes that the prolongation in the new programming period of the automatic decommitment rule to year N+3 could potentially result in an even higher level of RALs. This should not, however, be interpreted as an incentive for the Commission to decommit even more resources, but rather as pointing to a need to improve the quality of financial planning at all levels — local, national and European;

([5]) See Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2012, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2013.331.01.0001.01.ENG.

([6]) RAL: 'reste à liquider' (French expression commonly used in English) which means outstanding commitments. The difference between the amount of commitments and payments each year represents the additional RAL for that year.

38. considers that one positive way of improving the quality of financial planning at local and regional level would be to ensure greater clarity regarding the use by beneficiaries of advance payments made available to Member States by the Commission and the introduction in new cohesion policy regulations of a deadline of 90 days for the allocation of payments to beneficiaries;

Focus on results

39. considers that the results of EU fund expenditure are always much more visible in a local and regional context than at macroeconomic level. Nevertheless, it is often not possible to accurately show the impact of the EU budget on the development of Europe and individual countries and regions due to the unsatisfactory quality of the analyses and the fact that attention is focused on the speed of expenditure rather than on achieving the planned objectives;

40. in this connection, welcomes the fact that all EU funds, in particular the ESIF, will be more results-focused under the 2014-2020 financial perspective. According to the results of the survey, this will enable more effective use to be made of EU funds and increase the scope for achieving the EU's objectives through thematically and regionally focused interventions;

41. notes that a greater focus on results should be achieved by ensuring that the set objectives, indicator values, performance framework and monitoring and evaluation system are all linked together in a logical manner;

42. notes, however, that it will only be possible to make proper use of an approach that is more focused on results if the process of setting targets, indicators and their values at operational programming level is of high quality and reflects not only European targets but also specific targets with regional variations;

43. considering that this increased focus on EU budget results is both important and new, calls on the European Commission to launch a series of information and training programmes on setting targets, identifying indicators and their values and on the establishment of performance frameworks. Indicates that monitoring and evaluation systems in the Member States should undergo further improvement, taking account of the role and needs of local and regional authorities;

44. notes that the quality of the negotiations on operational programmes, which should be treated by the European Commission and the Member States as a mutual learning process, will be of key importance for the success of a more results-focused approach;

45. Reiterates its concerns that the Performance Reserve which amounts to 6 % of the cohesion budget under the Investment for Growth and Jobs goal and the same for rural development is not the appropriate tool to meet these requirements;

Involvement of local and regional authorities in strategic debates

46. notes that increased EU fund efficiency and effectiveness can only be achieved with the active participation of all stakeholders — particularly those responsible for the bulk of expenditure who consequently contribute most to achieving the objectives of EU policies, including LRAs in particular;

47. in accordance with the survey's findings, declares its readiness to be an active participant in the key discussions conducted at European level and a credible partner for the Member States and EU institutions during the preparation and implementation of the EU budget. In particular, this will involve greater involvement in the work of the other EU institutions, including drafting its own opinions (such as the present document), analyses and reports on those issues that are of greatest importance for EU residents.

Brussels, 26 June 2014

The president
of the Committee of the Regions

Michel LEBRUN