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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the follow-up to the discharge for the financial year 2016 (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 THE FINANCIAL YEAR 2016

INTRODUCTION

Continuous efforts by the Commission, Member States and other partners involved in managing the EU budget have led to a sustained improvement in financial management over the last years. This was confirmed by the fact that the European Court of Auditors in its 2016 Annual report - for the first time since it began to provide an annual statement of assurance in 1994 - issued a qualified and not an adverse opinion on the legality and regularity of the payments. About half of the EU spending audited was below the 2% threshold for a material level of error. The level of error dropped within all policy domains.

The European Parliament and the Council examined the Annual report and other relevant reports from the European Court of Auditors as well as the Commission's Integrated Financial Reporting Package. In addition, the European Parliament exchanged views with selected Commissioners, the Secretary-General of the Commission and Directors-General, and it received replies to more than 450 written questions.

On 18 April 2018, the European Parliament – on a recommendation by the Council – granted the Commission discharge for the financial year 2016.

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. It also offers an opportunity for all stakeholders to reflect on past developments and identify weaknesses to be addressed as well as good practices to be spread with the aim of further improving financial management and achieving even better results with the EU budget in the future.

The 2016 discharge offered a particularly good opportunity to learn from the past to improve the future as it took place in parallel with the reflection process for the next Multiannual Financial Framework.

On the basis of the reports of the European Court of Auditors, the Commission's reports on the management and performance of the EU budget, and exchanges of views with Commissioners, **the European Parliament set out political priorities which were very much forward-looking. These priorities are to a quite large extent reflected in the Commission's proposal for the Multiannual Financial Framework for 2021-2027** which is based on the following principles:

- A stronger focus on European added value;
- A more streamlined and transparent budget;
- Less red tape for beneficiaries;
- A more flexible, agile budget;
- A budget that performs.

The Commission's proposals for the future Multiannual Financial Framework and the underlying financial programmes focus on delivering results (performance) while ensuring strong financial management (compliance).

The performance framework for the EU budget was already improved in the 2014-2020 programmes but more needs to be done. For this reason, in its proposals for the 2021-2027 programmes, **the Commission proposes to strengthen the focus on performance across all programmes**, including by setting clearer objectives and focusing on a smaller number of higher quality performance indicators. This will make it easier to monitor and measure results and to make changes when necessary.

The Commission will do its utmost to ensure that rules are continuously simplified, financial risks addressed in a proactive manner, and the EU budget ultimately protected. This commitment has led to a further reduction in **the Commission's overall amount at risk, which for the 2017 reporting year is estimated to be below 2%**[1] - it is also reflected in the proposals for the future financial programmes.

This report provides a summary of the Commission's follow up on the key requests made by the European Parliament and the Council in the 2016 discharge and is part of the Integrated Financial Reporting Package for the financial year 2017. It focusses in particular on: 1) Political priorities, 2) Budgetary and financial management, 3) Performance, 4) Revenue, 5) The inclusion of the European Development Fund in the general budget and 6) Speeding up the discharge procedure.

More 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 2016 discharge procedure, will be published at a later stage.

1. POLITICAL PRIORITIES

In the general discharge resolution for the 2016 discharge year, the European Parliament highlights its political priorities. They were extensively discussed during the discharge procedure, in particular with the rapporteur and the Members of the Budgetary control committee. In the letter by Commissioner Oettinger on 28 February 2018, evidence was given of the Commission’s formal commitment to implement fully and timely a series of actions and measures. A large part of them are linked to the **next Multiannual Financial Framework and the legislative proposals** presented by the Commission in May and June 2018.

These proposals are based on the results of a comprehensive spending review which helped the Commission to identify what has worked well in the past and what should be preserved, but also revealed where reform is needed to unlock the full potential of the EU budget.

As for the **requests linked to the next Multiannual Financial Framework**, the Commission has addressed in its proposals the following issues:

As regards the **alignment of policy objectives, financial cycles with the duration of the mandates of the European Parliament and the Commission**, the proposed Financial Framework will run for seven years, from 2021 to 2027, with a midterm review in 2023, which will give the opportunity to make any necessary adaptations. Whilst the Commission recognises the merit of progressively synchronising the duration of the Multiannual Financial Framework with the five-year political cycle of

[1] COM(2018) 457 final

the European institutions, moving to a five-year cycle in 2021 would not offer an optimal alignment. The proposed seven-year cycle will give the Commission taking office following the European elections of 2024 the opportunity to present a new framework with a duration of five years, starting in 2028.

The European Parliament also stressed that the EU budget should **be a true European added value budget,** aiming for common European Union objectives promoting sustainable economic and social development of the whole Union, which cannot be achieved by individual Member States on their own. By pooling resources at European level, Member States can achieve more than they could by acting alone. The EU budget complements national budgets and a wide array of legislative and regulatory instruments to support shared objectives, to help tackle common challenges and to implement European policies. European action will be taken when it is more effective and efficient than national, regional or local action.

European added value is thus about achieving the objectives set out in the Treaty and helping to uphold fundamental values, rights and freedoms. It is also one of the building blocks of the Commission's Better Regulation framework. The assessment of EU added value, following the criteria set out in the Reflection Paper on the future of the EU finances[2] was an integral part of the impact assessment process for future financial programmes, as well as one of the main guiding principles while designing the next Multiannual Financial Framework. The communication accompanying the Multiannual Financial Framework proposal describes each new programme including its European added value.

As for the **long-term budget for the Union's priorities, the new proposals** bring the structure and the programmes of the EU budget fully into line with the positive agenda of the Union post-2020 as agreed by the Leaders of the 27 Member States in Bratislava and Rome. In this context performance is put at the core of the EU budget.

The new architecture of the future Multiannual Financial Framework provides greater transparency on what the EU budget is for and how the different parts of the budget will contribute. It also provides the flexibility necessary to respond to evolving needs. Programmes are arranged around the main thematic spending priorities. Within each priority, programmes are grouped in policy clusters, which will be reflected in the titles of the annual budget. This provides greater clarity on how they will contribute to policy goals.

The EU budget will invest even more in areas where one single Member State cannot act alone or where it is more efficient to act together such as research, migration, border control or defence, whilst continuing to finance traditional, but modernised policies, such as Common Agricultural Policy and Cohesion Policy.

In order to **further simplify rules**, the Commission proposes to make rules more coherent on the basis of a common rulebook. This will reduce the administrative burden for beneficiaries and managing authorities while maintaining a high level of assurance of legality and regularity. It will facilitate participation in EU programmes and accelerate implementation. It will make it easier for different programmes and instruments to work together to boost the impact of the EU budget. In addition, the Commission proposes to simplify and streamline State aid rules to make it easier to link up instruments from the EU budget with national funding. The new Multiannual

[2] Available at : https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

Financial Framework offers as well complementarity and flexibility between programmes and streamlining the use of financial instruments.

The European Parliament called on the Commission to **speed up the delivery of Cohesion policy with a view to reducing the length of the implementation period to year n+2** (as opposed to the n+3 rule applicable in 2014-2020). The Commission's proposal will lead to tighter financial management and, combined with the possibility of phasing 2014-2020 projects, a quick start of the programming period. Taking into account the importance of commitments remaining to be paid out from the 2014-2020 period, the pre-financing rate will be lowered.

The new Multiannual Financial Framework as proposed by the Commission gives support to the work of national authorities to provide reception to asylum seekers and migrants in the period immediately after arrival on EU territory, as well as developing a common asylum and migration policy and ensuring effective returns. The **Asylum and Migration Fund** will be complemented by the European Social Fund Plus, which will provide support for the long-term integration of migrants. The monitoring and evaluation framework will be improved to track delays in the implementation of national programmes, take remedial actions and adjust future policy interventions where necessary. Ways to strengthen monitoring and evaluation include improving the indicators, managing the Fund in closer cooperation with partners and performing a mid-term performance review.

A modernised Common Agricultural Policy is proposed for 2021-2027. The Commission's proposal allows a fully integrated Single Market for agricultural goods in the EU, access to high quality, affordable, nutritious and diverse food with greater emphasis on the environment and climate. It will support the transition towards a fully sustainable agricultural sector and the development of vibrant rural areas.

The reformed policy will continue to be built around two pillars: direct payments to farmers and rural development funding with flexibility between them.

However, the Commission proposes to introduce a new delivery model, shifting from today's compliance-based policy to a result-oriented policy to deliver on common objectives set at EU level but more flexibly implemented at national level.

Direct payments to farmers will be streamlined and better targeted. A more balanced distribution will be promoted and a compulsory cap on amounts received or degressive payments will be introduced at farm level. This will mean that support is redistributed towards medium-sized and smaller farms, and possibly to rural development.

To meet this challenge the Common Agriculture Policy will be simplified with a minimum of administrative burden, and made even more coherent with other EU policies to maximise its contribution.

More broadly, in line with the Paris Agreement and the commitment to the United Nations Sustainable Development Goals, the Commission proposes to set a more ambitious goal for **climate mainstreaming across all EU programmes**, with a target of 25% of EU expenditure contributing to climate objectives.

The European Fund for Regional Development and the Cohesion Fund will contribute to reducing disparities between Member States and regions. The Commission proposes to focus on the five key policy objectives of a Smarter, Greener, more Connected, more Social and closer to citizens Europe. The proposals allow for more flexibility in the design of individual EU funded programmes, in order to better tailor them to specific regional needs but also respond to unforeseen events.

The European Social Fund Plus aims to create a more performing and resilient 'Social Europe' and implement the European Pillar of Social Rights, as well as the social and employment priorities endorsed by the European economic governance process. This fund will merge the European Social Fund, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation Programme and the Programme for the Union's action in the field of health. The concentration of available resources within this new single, comprehensive instrument allows for an enhancement of the synergies between complementary EU instruments, and for a simplification of fund programming and management, thus reducing the administrative burden for authorities and beneficiaries.

The objectives of the European Fund for Regional Development, the Cohesion Fund and the European Social Fund Plus will be **more closely aligned with the European Semester of economic policy coordination**. The detailed analysis of Member States' challenges in the context of the European Semester will serve as a basis for the programming of the funds at the start and at mid-term of the next period. This will serve as the roadmap for the short, mid- and long-term planning and monitoring of the funds. A system of ex-ante conditionalities and macro-economic conditionality will be maintained, but made simpler. Through the European Semester process, the Commission and the Member States will ensure coordination and complementarity of financing from cohesion policy funds and the new Reform Support Programme with regard to the support to structural reforms.

A simplified and **more effective approach to delivery** is a key element of the proposals including: a common rulebook covering 7 EU funds implemented in shared management[3] facilitating synergies, reduction of administrative burden (increased availability of simplified cost options for beneficiaries), more proportionate audits and controls (lighter system of control for programmes with good track records, extension of the single audit principle) flexibility in the form of an in-depth mid-term review to adjust investment decisions, if necessary, and increased use of financial instruments including trough a voluntary participation in the new centrally managed InvestEU Fund.

For the European Structural and Investment Funds, new reporting requirements for Member States will allow citizens to follow the **progress of implementation almost in real time on the Open Data Platform launched in the 2014-2020 period**.

In relation to the possibility for authorities designated or accredited to fulfil management, certification and audit functions during the period 2014-2020, the Commission has proposed to roll-over the current management and control systems which proved to function well.

Concerning Research and Innovation, **the new European research programme**, **Horizon Europe** will continue to promote research excellence and strengthen the focus on innovation, through the development of prototypes, intangible assets, knowledge and technology transfer. A new European Innovation Council will

[3] Including the Cohesion Fund, European Social Fund Plus, European Maritime and Fisheries Fund, European Regional Development Fund, Asylum and Migration Fund, Border Management and Visa Instrument, Internal Security Fund

provide a one-stop shop for high potential and disruptive innovators, aiming to make Europe a front-runner in market creating innovation.

Building on the success of the European Fund for Strategic Investments in catalysing private investments throughout Europe, the Commission proposes to set up a new, fully integrated investment fund, InvestEU. With the European Investment Bank Group as the main implementing partner and other partners such as National Promotional Banks contributing to the delivery, **InvestEU will anchor all centrally managed budgetary guarantee and financial instruments inside the EU in a single, streamlined structure**.

This new approach will reduce overlaps, simplify access to funding and reduce administrative burden.

2. BUDGETARY AND FINANCIAL MANAGEMENT

Two requests made by the European Parliament and already covered by the Communication on the next Multiannual Financial Framework relate **to the issue of whether or not special instruments are counted within the ceilings for payment appropriations** in the Multiannual Financial Framework and a **better balance between predictability and responsiveness of the EU budget**.

On the first issue, the proposed Regulation laying down the Multiannual Financial Framework for the years 2021 to 2027 specifies clearly that both commitments and payments appropriations mobilised for special instruments shall be entered in the budget over and above the relevant MFF ceilings. Also, the Commission has reviewed the scope of special instruments such as the Emergency Aid Reserve, the European Union Solidarity Fund and the European Globalisation Adjustment Fund. The Commission proposes, where appropriate, to widen the scope of the instruments, for instance by allowing the activation of the Emergency Aid Reserve for emergencies inside the EU. The Commission also proposes to streamline the procedures for mobilising these instruments.

On the second issue, and in order to respond quickly and effectively to unforeseen demands, the Commission is proposing to make the budget more agile by removing the constraints on built-in Multiannual Financial Framework flexibility as well as to increase the size of the flexibility instrument to EUR 1 billion (in 2018 prices) per year.

This includes increasing flexibility within and between programmes, strengthening tools such as the Global Margin for Payments and the Contingency Margin as well as creating a new “Union Reserve” to tackle unforeseen events and to respond to emergencies in areas such as security and migration.

The European Parliament also requested the Commission to provide it with **a report about the indirectly managed and implemented EU budget by the European Investment Bank group** and to **establish annually an updated long-term cash-flow forecasts**.

The Commission already produces a comprehensive annual report to the European Parliament and the Council on all financial instruments. It covers the financial instruments under the 2007-2013 and 2014-2020 Multiannual Financial Frameworks, including (but not restricted to) those subject to implementation via the European Investment Bank Group (European Investment Bank or European Investment Fund).

The report was annexed as a working document[4] to the EU Draft Budget submitted to the budgetary authority in June 2018.

As for the request for long-term cash-flow forecasts, Article 247(1) of the new Financial Regulation sets out an obligation for the Commission to communicate annually to the European Parliament and the Council an integrated set of financial and accountability reports, including a long term forecast of future inflows and outflows covering the next five years. In October 2017, the Commission provided its medium-term forecasts of the payment requirements resulting from the 2014-2020 Multiannual Financial Framework together with the forecasted level of outstanding commitments ("RAL") at the end of 2020[5].

Finally, on the **call to assist Member States, which encounter difficulties with timely and smooth absorption** of available EU funding, the Commission has already taken a number of initiatives to assist Member States with timely absorption**.**

Inter alia due to the follow-up of the 2016 related recommendations from the European Court of Auditors and/or the Discharge Authority, the Commission has further enhanced its management reporting.

The Commission has further improved its segmented assurance building, especially in External Relations. It has also further enhanced its reporting on EU Trust Funds, increased the consistency in the calculations of the relevant expenditure and the estimation of the related amounts at risk, in particular Cohesion's 10% retention mechanism and annual clearance of accounts, which are fully and consistently embedded in the common methodology.

As a result, for the 2017 reporting year, the main achievement is that - for the first time - the **estimated overall amount at risk at payment is below 2%.**

Furthermore, the financial impact from the management reservations has decreased as well, both in expenditure (from EUR 1.6 billion for 2016 to EUR 1.1 billion for 2017) and in revenue (from EUR 0.5 billion to EUR 0.4 billion)[6].

3. PERFORMANCE

In its Annual Report of 2016 the European Court of Auditors recommended that the Commission make further efforts to ensure that **performance reports provide a balanced picture, covering both programme achievements and challenges** encountered. The Commission is committed to producing balanced reports and has, for example, provided extensive coverage in its 2017 Annual Management and Performance Report on the lessons drawn from the mid-term evaluations of financial programmes.

In the Commission's proposal for the **next Multiannual Financial Framework, the performance framework for the future programmes is significantly streamlined**. In particular, the number of indicators embedded in spending programmes will be drastically reduced and their quality improved to ensure consistency (relevance at programme and policy level) to be able to provide meaningful information primarily for communication and reporting purposes all along the programme execution.

4 http://ec.europa.eu/budget/library/biblio/documents/2018/DB2018_WD10_en.pdf

5 Note of 16 October 2017 "Forecast of payment appropriations after 2020 presented in accordance with point 9 of the Interinstitutional Agreement of 2 December 2013"

6 Available at the following address: http://www.europarl.europa.eu/cmsdata/149400/COM_COM(2018)0457_EN.pdf

Furthermore, the Commission proposals include provisions to set-up monitoring and evaluation frameworks, including indicators for the purpose of evaluations. Evaluations will be carried out in a timely manner to feed into the decision making process. More meaningful performance information will also allow programme managers to take better decisions on programme implementation and on the design of future programmes.

In the European Parliament resolution, the Commission is requested **to take political responsibility in the Annual Management and Performance Report for the information on performance**.

In order to improve transparency the Commission will provide information on the source and quality of data where available. Given that a significant amount of performance data is provided by Member States, the Commission will analyse to what extent they provide information on the quality of performance data.

The Annual Management and Performance Report relies on the performance data from the Annual Activity Reports and as a consequence also relies on the assessment done by the Commission services on the source and quality of the performance data. Acknowledging the importance of data quality, the Commission services paid particular attention to the quality of performance data when preparing their 2017 Annual Activity Reports. Data sources are clearly identified and any concerns regarding data quality clearly flagged.

The European Parliament requested the Commission to make **performance information more easily accessible by developing a dedicated web portal** and search engine. In this regard as indicated in the reply to the 2016 European Court of Auditors Annual Report[7], the Commission will strive to make performance information more easily accessible. It is committed to carrying out an assessment to appraise the feasibility, the costs and the potential benefits of such a web presence. The action as recommended would be implemented subject to the outcome of this assessment.

Under the EU Budget Focused on Results initiative, a specific EU Results website[8] has been developed. This website is one of the first Commission collaborative projects, which involves all the Directorates-General and a number of agencies running programmes on behalf of the partner Directorates-General. The ambition is to communicate concrete results of projects financed from the EU budget as well as their geographic location. The website is a single entry point harvesting data coming from a number of online sources, which aims to inform both stakeholders and citizens about the EU budget's contribution in their immediate neighbourhood.

By the end of 2017, the website has hosted entries on more than 1 500 EU funded project entries in the EU and outside. This number of entries is expected to grow in the near future.

This EU Results website has been shortlisted among the best four entries registered for the European Ombudsman Award for Good Administration 2017, in the category "Excellence in communications".

4. REVENUE

[7] Official Journal of the European Union C 322/115 (28.9.2017)

[8] http://ec.europa.eu/budget/budget4results/index_en.cfm

The European Parliament resolution requests the Commission to take all the measures to ensure the **recovery of EU own resources that have failed to be collected by the United Kingdom authorities as to the import of textiles and shoes from China**, and to consider launching a timely infringement procedure.

The Commission is following up this issue very closely, including during two traditional own resources inspections in 2017. Since the inspection findings corroborated and further clarified the findings of the relevant OLAF report, the Commission decided on 8 March 2018 to send a letter of formal notice to the United Kingdom authorities. By this letter, the Commission initiated an infringement procedure against the United Kingdom because, despite repeated requests, it had failed to implement any of the measures requested by the Commission before 12 October 2017 and refused to make available the estimated traditional own resources lost because of that failure.

The European Parliament also calls on the Commission to analyse in cooperation with Member States all the potential **implications of multiannual activities on the estimation of GNI** and to confirm during the **GNI verification cycle that Research & Development assets have been correctly captured in Member States' national accounts**. This issue has a high priority and is currently being dealt with taking duly into account the current GNI verification cycle and the upcoming 2019 national accounts benchmark revision in most Member States. The objective for this timeframe is to contribute to a reasonable understanding of consistent treatment of globalisation phenomena across Member States. An 'Early warning' procedure is operational where national authorities inform Eurostat as soon as an important multinational enterprise restructuring case becomes known to them.

The case of the treatment of multinational enterprises not restructuring, is being addressed in a pilot exercise with all Member States. The pilot exercise covers a variety of globalisation related issues relevant for national accounts. Guidance to Member States will be provided. Research and development is also subject to a cross-country comparison review.

5. THE INCLUSION OF THE EUROPEAN DEVELOPMENT FUND IN THE GENERAL BUDGET

Following the reiterated European Parliament request to include the European Development Fund in the general EU budget, the Commission is proposing in the Multiannual Financial Framework for 2021-2027 a strategic simplification of the financing instruments in EU external action, including the integration of the European Development Fund in the Neighbourhood, Development and International Cooperation Instrument. This will lead to an increase of the overall expenditure ceiling while preserving existing flexibilities.

In accordance with the Treaty on the European Union, a new instrument to finance European peace keeping operations - the European Peace Facility - will remain outside the Multiannual Financial Framework.

6. SPEEDING UP THE DISCHARGE PROCEDURE

In its 2016 discharge resolution, the European Parliament called on the Commission to **speed up the preparation of the Annual accounts**, and ensure that **reliable information from Member States on shared management spending** is obtained in a more timely manner. The objective is to adopt a discharge decision for financial year N in year N+1 while ensuring high data quality and sound financial management.

The Commission considers the discharge as a continuous process allowing stakeholders to learn from the past to improve the future. In order to keep this continuity there is a need for the political debate to be finalised within reasonable time while maintaining reliable high-quality information as input. Ultimately, there will be a trade-off between doing things well and doing them faster so as to adopt a discharge decision in year N+1 (instead of in year N+2).

The issue was also part of the negotiations on the new Financial Regulation. In that context, the Commission agreed that it would provide the 2017 Annual accounts by 30 June 2018 and that it would be committed to providing its replies to the European Court of Auditors' Annual report for the financial year 2017 by mid-August 2018.

The Annual accounts were indeed adopted before the end of June, and the Commission will do its utmost to respect the commitment it took for provision of its replies to the European Court of Auditors' Annual report. The Commission also adopted the Annual Management and Performance Report in June and the current report on the follow-up of discharge requests in July, making thus available all the key documents from the Commission to the European Parliament and the Council by early July 2018.

Member States' data is a key input to assurance building and measurement of performance and is provided to the Commission by March each year. Shortening the discharge in a considerable manner may thus require Member States to provide their data sooner than expected.

Further progress in shortening significantly the discharge procedure will require the institutions concerned (European Parliament, Council, European Court of Auditors, Commission) to work closely together. The Commission is committed to do its utmost to find the best way forward towards a shorter discharge procedure.

7. CONCLUSION

The Commission takes its role in the discharge process very seriously. It is committed to implement the main requests made by the European Parliament, the Council and the European Court of Auditors with the aim of further improving the management of the EU funds.

The Commission has taken into account lessons learned during the recent discharge procedures in its proposals for the next Multiannual Financial Framework 2021-2027.

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