



EUROPEAN
COURT
OF AUDITORS

Rapid case review
Outstanding
commitments in the
EU budget
– A closer look

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ECA team

Executive summary

I Outstanding commitments, i.e. amounts committed but not paid, have regularly focused the attention of numerous stakeholders in the EU budget. This is due to the cumulative size of these commitments and their constant rise in value.

II The ECA follows the evolution of outstanding commitments as part of its annual audit of the EU accounts. This review focuses on the level of outstanding commitments at the end of 2017, the most recent year for which we have completed our annual audit. Its purpose is not to provide assurance on this amount, but to analyse the main factors that influenced it. We base our report on a review of relevant documents, analysis of the data available in the Commission's systems and other reports, discussions with Commission staff and an examination of a limited number of outstanding commitments.

III After years of almost uninterrupted increase, the value of outstanding commitments had reached €267 billion by the end of 2017. It is largely influenced by the gap between commitment appropriations and payment appropriations combined with the overlapping of multi-annual financial frameworks and the slow implementation of programmes financed by the EU. A part of the increase can also be attributed to the growth of the EU budget, including the need to adapt to the accession of new Member States.

IV The rules governing spending in various areas of the budget have had a significant impact on the increase in outstanding commitments. The European Structural and Investment (ESI) funds contributed the largest share, €189.9 billion at the end of 2017, owing mainly to:

- The overlap between the periods when ESI programmes can be implemented;
- Late adoption of the legislative framework for ESI programmes;
- Extension of the automatic decommitment period from two to three years;
- Delays created by new procedures and requirements for ESI spending for the 2014-2020 period.

V We highlight the significant risks that a high level of outstanding commitments can create for the EU budget. It may lead to the impossibility to settle payment requests on time due to insufficient amounts in the annual budgets and increases the financial exposure of the EU budget.

VI The level of outstanding commitments can be decreased by:

- changing the levels of its budgetary components: commitments, payments and decommitments;
- addressing the factors for its increase; and
- ensuring financial discipline and simpler rules for spending the budget.

VII We highlight possible solutions that we have considered in our previous work.

For example:

- the timely adoption of the 2021-2027 MFF and its associated multiannual programmes;
- simplification of the rules for spending the budget;
- sound forecasting of payment needs; and
- ensuring an appropriate balance between appropriations for commitments and payments.

Introduction

01 The cumulative value of outstanding commitments – also known as the “RAL”¹ - has been the subject of debate by numerous stakeholders in the EU budget. For many years we have used our annual reports to voice concern about its increasing trend² recommending the Commission act to reduce its level. With this review, we aim to provide insight into how the amount of outstanding commitments has evolved until end of 2017 and the main factors behind this trend. We highlight the main risks associated with a high RAL and conclude by taking into account some of our previous recommendations.

02 This is not an audit report. It is a review mainly based on publicly available information. We prepared it following questions received during the presentation of our annual report for the financial year 2017, on 4 October 2018 in the budgetary control committee of the European Parliament. The review uses work done for our annual reports and a number of special reports. We have also examined relevant documents produced by the Commission and other bodies and held meetings with Commission departments representing key spending areas that contribute to the RAL³.

03 For our annual reports we test a sample of commitments, composed of commitments made during the audited financial year and of outstanding commitments from past years. We have drawn on the results of our testing of commitments in the context of our annual report 2017, supplementing this with an additional sample of 30 outstanding commitments with the purpose of understanding why they remain open.

¹ From the French “*reste à liquider*”.

² For example, see paragraph 2.48 of the 2017 report; paragraph 2.14 of the 2016 report; paragraph 2.40 of the 2015 report; paragraphs 1.37 and 1.38 of the 2011 annual report; paragraphs 3.8 to 3.11 of the 2007 annual report; paragraphs 2.16 to 2.20 of the 2003 annual report.

³ We visited the Directorate-Generals responsible for managing the EU budget (DG BUDG), regional and urban cohesion policy (DG REGIO), rural development (DG AGRI), neighbourhood and enlargement negotiations (DG NEAR) and research and innovation (DG RTD).

What is the RAL?

04 To be able to enter into legal obligations to provide financing (“legal commitments”) the Commission must have an annual budget approved by the European Parliament and the Council. The annual budget includes commitment appropriations, amounts available to be committed in the year, but which will not necessarily be paid out in the same year, and payment appropriations, actual amounts available for payment in the year.

05 The RAL comprises all commitments made in the current and previous years that have not yet been paid or cancelled (“decommitted”). Most of them represent a future financial obligation of the EU budget.

06 There is normally an inherent time lag between the start of a programme⁴, when funds are usually committed in full or in annual instalments, and the date on which payments are made. Depending on the type of project, before work can begin, the procedures may include a call for expressions of interest, the appraisal of applications for EU funding, decisions granting EU funding, as well as calls for tenders and the award of contracts. Once these steps are completed and the project is being implemented, expenditure incurred needs to be declared, checked and certified before the Commission is sent a payment claim. The length of these procedures varies according to the project and can last over several years in case of complex infrastructure projects.

07 Therefore, as commitments are made every year, they may remain outstanding for several years while the projects are being implemented. During this time they constitute the RAL, the value of which increases when new commitments are entered into and is reduced when payments or decommitments are made.

08 Not all outstanding commitments are finally paid. Some are cancelled (decommitted) for a range of reasons defined in the regulations. These decommitments reduce the RAL. Examples include amounts committed from the EU budget that exceed the time limits by when payments can be made or the surplus if total payments are less than what was contracted. The value of decommitments is

⁴ In the case of heading 1b of the MFF, operational programmes are detailed plans in which the Member States set out how money from the EU budget will be spent. The programmes are implemented through projects which are selected and monitored by the Member States.

relatively low, over the past 11 years (2007-2017) they accounted for 2.1 % of the total commitments made.

Basis for commitments

09 The typical basis for commitments varies from one budget area to another.

Table 1 shows examples of the basis for commitments under each heading of the EU's multiannual financial framework (MFF).

Table 1 – Basis for commitments

MFF heading	Basis for commitments
Heading 1a Competitiveness for growth and jobs	Contracts with researchers and research organisations, financing agreements for infrastructure projects, organisations handling space programmes, national agencies handling ERASMUS programmes.
Heading 1b Economic, social and territorial cohesion	Annual instalments set in the financing plan of operational programmes for planned Cohesion spending.
Heading 2 Sustainable growth: Natural resources	Annual instalments set in the financing plan of operational programmes for planned rural development spending. Fisheries agreements based on Protocols signed between the Council and third countries to secure fishing rights.
Heading 3 Security and citizenship	Contracts and agreements with Member States or other third parties to promote health, culture, asylum, equality and justice.
Heading 4 Global Europe	Financing agreements signed with development partners for a specific period.
Heading 5 Administration	Procurement contracts for supplies and services.

Source: ECA.

10 Certain commitments – for example those for infrastructure projects – can remain outstanding for several years. In 2017, the total RAL of €267.3 billion represented, on average, 2.7 years of commitments made that last more than one

year⁵. This varied between MFF headings because of the different nature of the commitments and projects under each heading (*Table 2*).

Table 2 – RAL in years of commitments lasting more than one year

MFF heading	RAL in years of commitments
1 Smart and inclusive growth	
1a Competitiveness for growth and jobs	1.7 years
1b Economic, social and territorial cohesion	3.0 years
2 Sustainable growth: natural resources	2.3 years
3 Security and citizenship	1.2 years
4 Global Europe	2.7 years
5 Administration	not applicable
All MFF Headings	2.7 years

Source: Commission report on budgetary and financial management for 2017.

11 Most of the headings combine commitments made and paid in the same year with commitments carried forward to future years. The European Agricultural Guarantee Fund (EAGF), under heading 2, and heading 5 “Administration” consists almost entirely of commitments paid in the same year and therefore, have no influence on the RAL. *Annex I* provides more information for the main programmes.

Accounting for the RAL

12 The RAL is disclosed in the “Consolidated annual accounts of the EU”, both in the budgetary implementation reports and in the financial statements. The budgetary implementation reports show the total amount of RAL, while in the consolidated annual accounts as of end of 2017⁶, the total value of the RAL of €267.3 billion is split between liabilities (€45.9 billion) and off-balance sheet items (€221.4 billion).

⁵ Calculated as the amount of RAL at the end of 2017 divided by the amount of differentiated commitment appropriations of the 2017 budget. The differentiated commitment appropriations represent amounts that are, in general, not paid in the same year, but in the future.

⁶ COM(2018)521 – Consolidated annual accounts of the European Union 2017.

13 The part of the RAL recognised on the balance sheet as a liability represents the amount which has been included in the expenses and is shown:

- either as an amount payable, for cost claims or invoices received but not yet paid;
- or as an accrued charge, corresponding to amounts for which no claims have yet been received, but which can be tied to the progress of a programme or project.

14 The part of the RAL disclosed as an off-balance sheet item⁷ represents commitments which cannot (yet) be tied to an amount of expenditure. They are contingent obligations which will be either paid or decommitted in future years.

15 The draft Agreement on the withdrawal of the United Kingdom from the EU stipulates that the United Kingdom shall be liable to the Union for the United Kingdom's share of the EU budgetary commitments⁸ outstanding on 31 December 2020⁹. An increasing RAL therefore means a higher settlement amount. However, this does not increase the overall UK contribution as an increasing RAL also means that there are lower contributions for the same amount in the period before 31 December 2020.

Development of the RAL

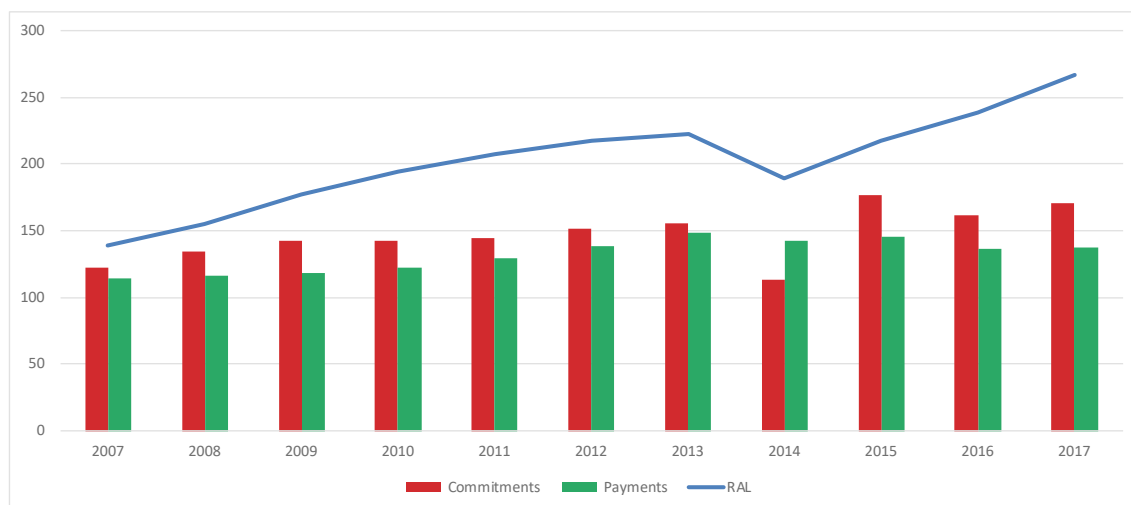
16 The RAL has gradually increased as shown in *Figure 1*, with a marked acceleration in recent years. It grew from €138.7 billion at the end of 2007 to €267.3 billion at the end of 2017, a 93 % increase. The increase is expected to continue in the future (*paragraph 91*).

⁷ Under note 5.1 “Outstanding budgetary commitments not yet expensed” for the consolidated annual accounts of the EU 2017.

⁸ And the budgets of the Union decentralised agencies.

⁹ And for the United Kingdom's share of the commitments made in 2021 on the carryover of commitment appropriations from the budget for 2020.

Figure 1 – Evolution of the RAL (in billion euros)



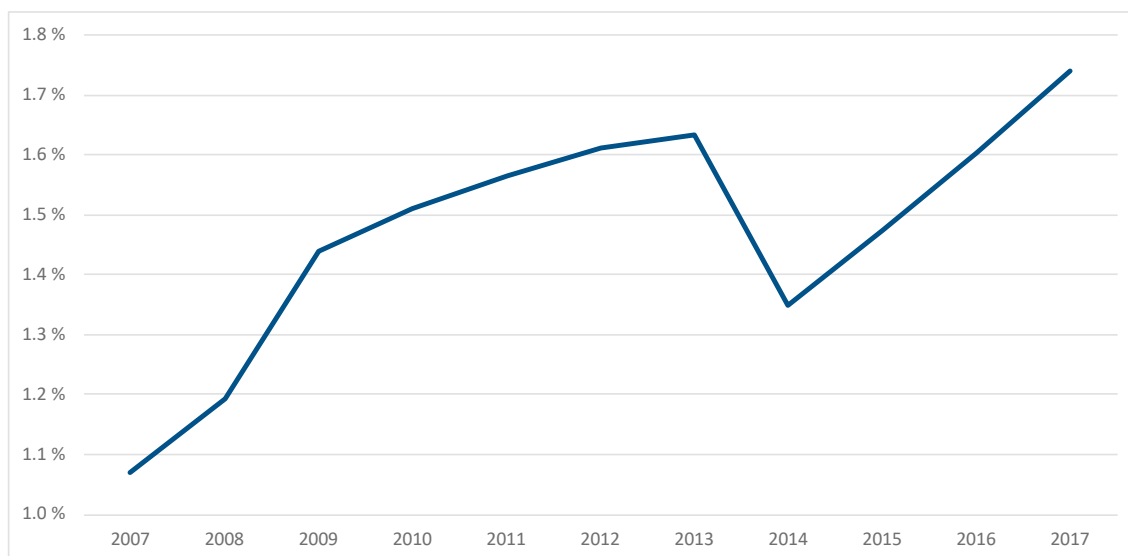
Source: ECA, based on Commission reports on budgetary and financial management.

17 2017 is the fourth year of the 2014-2020 MFF. The RAL in 2017 was 25 % of total commitment appropriations of the MFF. In the fourth year of the 2007-2013 MFF, 2010, the RAL was only 20 % of total commitment appropriations. The RAL in years of commitments lasting more than one year also increased from 2.4 years in 2010 to 2.7 in 2017.

18 The RAL is a nominal value. Its evolution includes inherently an element of inflation over the years, affecting the underlying commitments and payments that create it. The impact of inflation can be significant when comparing long periods of time¹⁰. In order to take into account the effect of inflation, we show in [Figure 2](#) the evolution of the RAL as a percentage of the Gross National Income (GNI) of the EU. When comparing the fourth year of the corresponding MFFs, the RAL has increased from 1.5 % of the GNI in 2010 to 1.7 % in 2017.

¹⁰ In line with Article 6(1) of the MFF Regulation, the Commission adjusts each year the MFF to reflect the impact of inflation, by applying a fixed deflator of 2% per year.

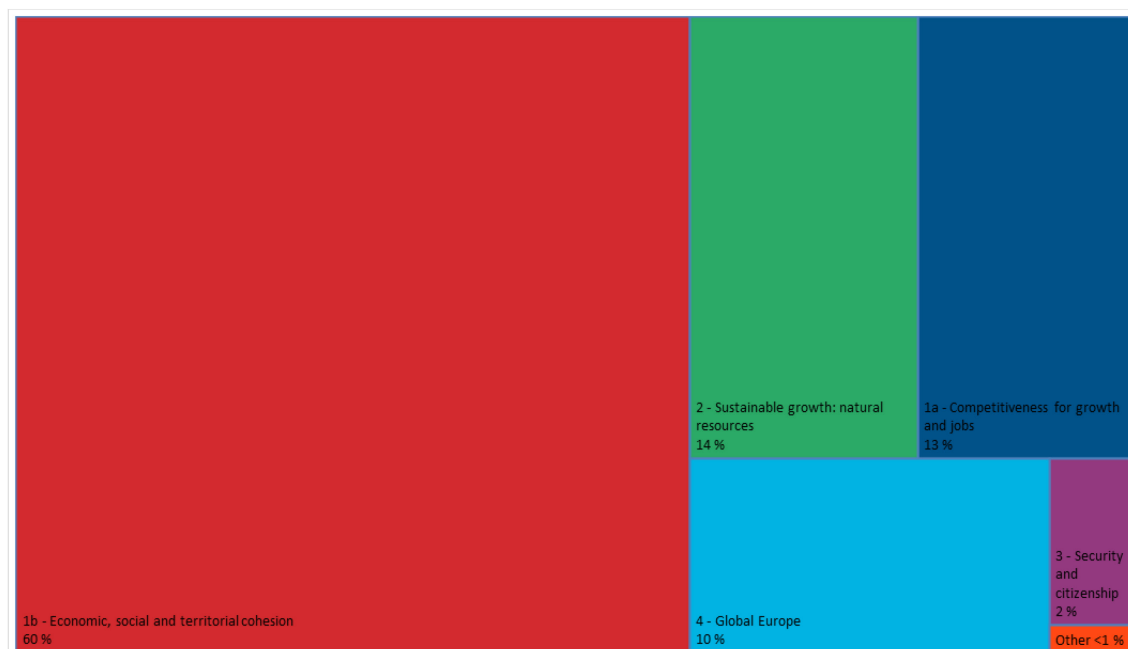
Figure 2 – Evolution of RAL as a percentage of EU GNI



Source: ECA, based on Commission reports on budgetary and financial management and data from the Commission annual macro-economic (AMECO) database.

19 Heading 1b was the main contributor to the total RAL of €267.3 billion at the end of 2017, followed by the part of heading 2 implemented through commitments that last more than one year as shown in [Figure 3](#).

Figure 3 – 2017 RAL by MFF heading

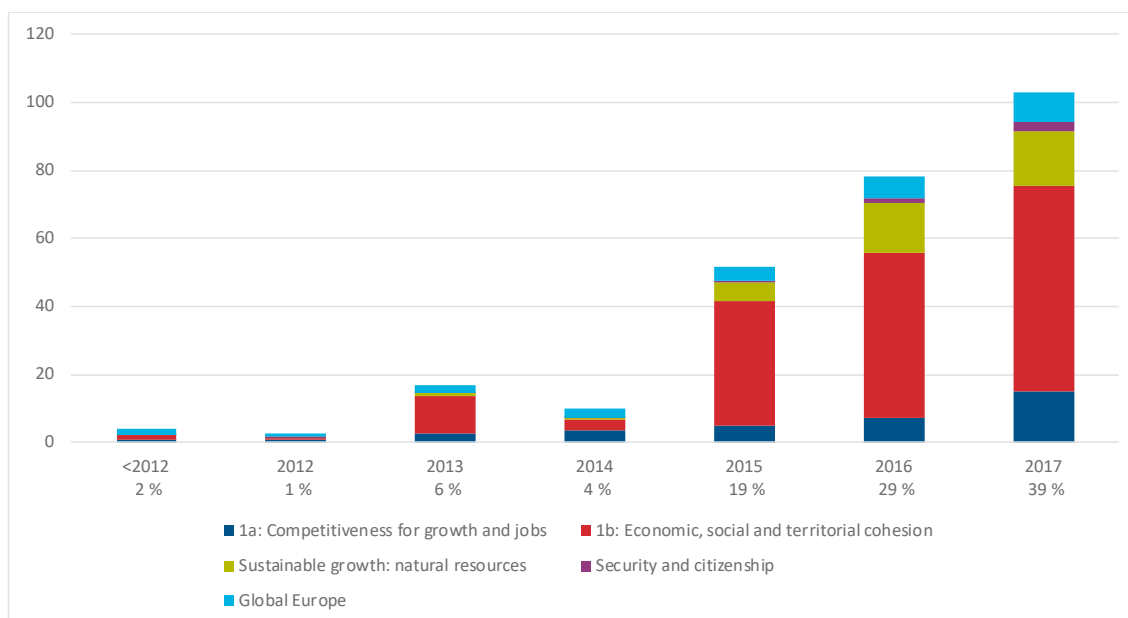


Source: ECA, based on the consolidated annual accounts of the EU for 2017.

20 Most of the RAL at the end of a given year relates to commitments made in the previous three years. This largely reflects the pattern of spending for the European Structural and Investment (ESI) funds, where Member States risk losing funds if they

do not make claims for reimbursement within three years (*paragraphs 44-46*). The age of commitments in the 2017 RAL in *Figure 4* illustrates this, as 87 % of the full amount was generated during the previous three years.

Figure 4 – 2017 RAL by year of origin (in billion euros)



Source: ECA, based on the consolidated annual accounts of the EU 2017.

21 The enlargement of the EU with 13 new Member States¹¹ in 2004, 2007 and 2013 automatically led to an increase of the EU budget and as a result, an increase of the RAL. The 2007-2013 MFF was the first period that included 27 Member States (28 when Croatia joined in 2013). Commitment appropriations grew from €752 billion for the 2000-2006 MFF to €976 billion for the 2007-2013 MFF and €1 087 billion for the 2014-2020 MFF. This led to an increase in the RAL. The ESI funds' RAL attributable to the new Member States was €53.4 billion in 2010 and €93.7 billion in 2017.

¹¹ Czech Republic, Estonia, Cyprus, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia joined the EU in 2004, Bulgaria and Romania in 2007 and Croatia in 2013.

What impacts the RAL?

22 The following sections outline the impact of different factors on the RAL. While their individual impact cannot be precisely determined, we provide, where possible, figures that could explain how they each contribute to the RAL. We have focused in particular on the current MFF (2014-2020), during which most of the commitments in the current RAL were created, and on the previous one (2007-2013), as it allows us to examine one almost complete MFF.

23 Some of the factors influencing the RAL have an impact on the budget as a whole (e.g. the gap between commitment and payment appropriations, the size of the MFF), while others materialise more strongly in specific spending areas (e.g. the automatic decommitment rules). As the ESI funds generate more than two thirds of the RAL, we examined their evolution and patterns of expenditure in greater detail. We also comment in our analysis on the MFF headings 1a, 3 and 4. The European Agricultural Guarantee Fund (EAGF) part of heading 2 and the entire heading 5, Administration¹² are using appropriations paid in the same year they are committed and have almost no contribution to the RAL, so we did not include them in our analysis.

Gap between commitment and payment appropriations within a MFF

24 The budget of the EU is adopted in such a way that the commitments budgeted for any given MFF will not match the budgeted payments. The gap between the two reflects commitments not paid during the MFF, but which will have to be paid using payment appropriations from the future MFFs or be decommitted.

25 The gap was apparent, to a varying degree, in the most recent MFFs. However, the 2014-2020 MFF introduced the largest difference between the overall ceilings for commitment and payment appropriations¹³ of €51.5 billion in 2011 prices (the difference in the 2007-2013 MFF was €50 billion in 2011 prices). “The Commission

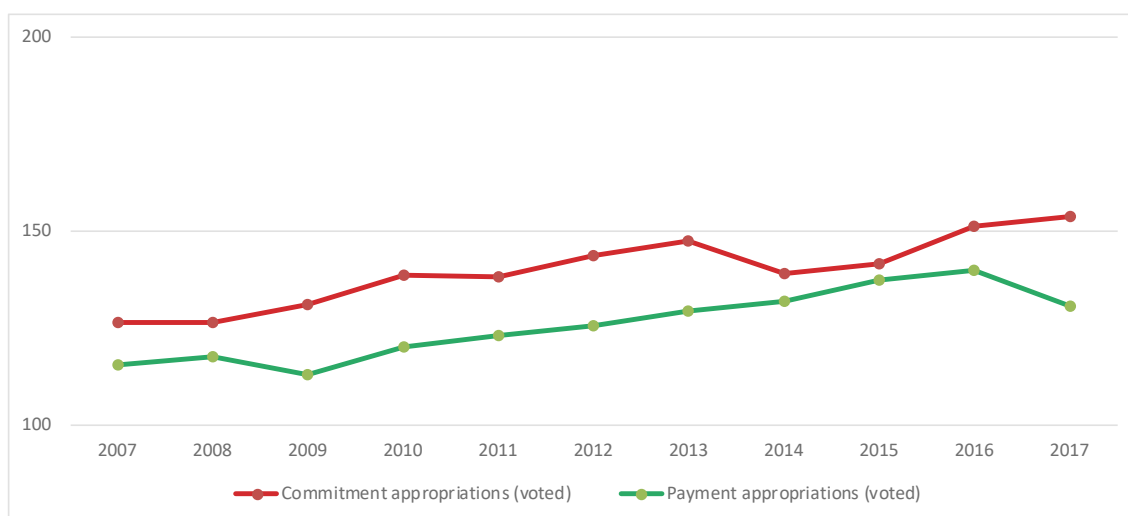
¹² The RAL for heading 5 “Administration” at the end of 2017 was €867 million, of which €508 million related to EU institutions other than the Commission.

¹³ The MFF lays down the maximum annual amounts (“ceilings”) which the EU may spend over the period, expressed in commitment and payment appropriations. The difference (“margin”) between annual ceilings and budgeted appropriations can be used in case of unforeseen needs and emergencies.

declared at the time that this difference was just compatible with the principles of sound financial management and legal requirements”¹⁴.

26 Figure 5 shows the annual gap between voted commitment and payment appropriations in the EU budgets for the years 2007 to 2017, totalling €153.4 billion, which increases the RAL.

Figure 5 – Annual gap between voted commitment and payment appropriations (in billion euros)



Source: ECA, based on information from Commission reports on budgetary and financial management.

27 According to the Commission, this factor will continue to drive future increases in the RAL: “the RAL is expected to continue its increasing trend due to the gap between commitment and payment appropriations”¹⁵.

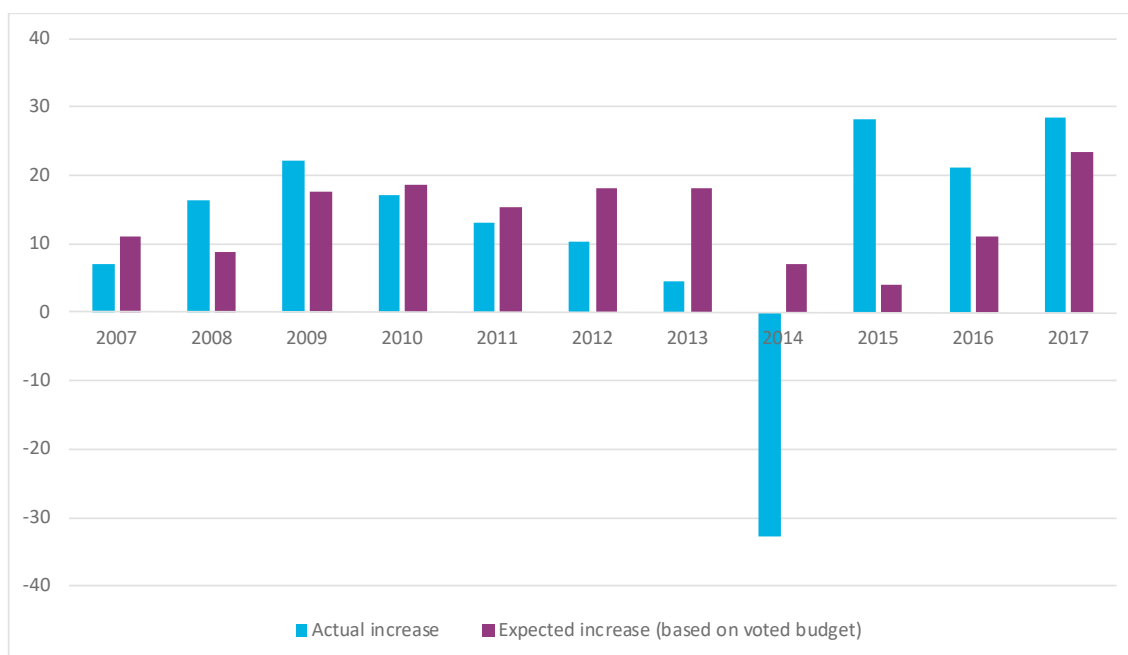
28 Figure 6 below compares the annual increase in the RAL with what might have been expected based on the level of commitment and payment appropriations included in the voted budget. The lower than expected increase in 2012 and 2013 can be explained by an addition of payment appropriations during these years to address the insufficient payment appropriations, while the decrease in 2014 was a consequence of the re-programming of commitments ([paragraph 61](#)).

¹⁴ Commission Staff Working Document accompanying the Communication from the Commission to the European Parliament and the Council, Mid-term review/revision of the multiannual financial framework 2014-2020 – An EU budget focused on results, SWD(2016)299 final.

¹⁵ See page 37 of the Commission report on budgetary and financial management for 2017.

29 The actual increase in the years 2015 to 2017 was much higher than expected, even taking account of the re-programming of 2014. This was mainly due to delays in the implementation of the programmes, mostly under heading 1b, leading to payment needs lower than budgeted.

Figure 6 – Actual versus expected increase in the RAL (in billion euros)



Source: ECA, based on information from the Commission reports on budgetary and financial management.

Slow implementation of the MFFs

30 Between 2007 and 2010, budget spending was significantly slower than was forecast when the respective MFF ceilings were agreed. In particular, there were delays in the start of new cohesion programmes. As Member States were more focused on completing the 2000-2006 MFF programmes on time, the level of payment appropriations in annual budgets remained significantly below the respective ceilings¹⁶. At the same time, however, commitments were utilised almost to the full every year. This led to a rapid increase in the RAL, from €131.7 billion at the start of the MFF period (end of 2006), to €194.4 billion at the end of 2010.

31 Between 2011 and 2013, the pace of programme implementation accelerated. It was at this time, however, that the effects of the 2007 financial crisis led to severe recession and deterioration of public deficit and debt levels. As a result, the payment appropriations were insufficient and payment claims worth several billions of euros

¹⁶ See page 96 of European Union public finance – 5th edition.

were delayed. The result was that the RAL increased to €217.8 billion by the end of 2012. We drew attention to this phenomenon in our annual reports for 2011 and 2012¹⁷.

Box 1

The “abnormal” payment backlog

The Commission classifies the amount of outstanding payment claims at year end (backlog) as “normal” and “abnormal”. The normal one consists of claims received too late to be processed before year end, while the abnormal one refers to claims that cannot be paid due to a lack of sufficient payment appropriations in the budget.

At the end of 2011, the Commission received a large amount of payment claims from Member States, mainly under ESI funds. Of these, claims amounting to €11 billion could not be paid due to insufficient payment appropriations in the 2011 budget. They were settled in the first months of 2012. Similar situations occurred during the following years, the backlog reaching a peak of €24.7 billion in 2014. In 2015, in a “Joint statement on a payment plan”¹⁸, the European Parliament, the Council and the Commission agreed to progressively phase out the 'abnormal' backlog of outstanding payment claims by the end of 2016. The actions taken, combined with the effects of the delayed start of the 2014-2020 ESI programmes, eliminated the abnormal backlog by the end of 2016.

32 The 2014-2020 MFF was adopted on 2 December 2013. Consequently, most operational programmes of the ESI funds were not approved in 2014 necessitating the transfer of €33 billion¹⁹ of commitment appropriations to future years. This decrease of commitment appropriations made the RAL to drop temporarily to €189.6 billion by the end of 2014.

33 The significant payment backlog of 2013 and 2014 as well as the late adoption of the legal framework caused delays in the launch of other spending programmes under

¹⁷ Paragraphs 1.34 and 1.38 of the 2011 report; paragraphs 1.51-1.55 of the 2012 report.

¹⁸ Joint statement on a payment plan 2015-2016, Outcome of the interinstitutional meeting on payments of 26 May 2015.

¹⁹ In line with Article 19 of the MFF regulation, due to the late adoption of the programmes under shared management in headings 1b, 2 and 3, commitment appropriations of €21.1 billion were transferred from 2014 to, mainly, 2015 and also 2016 and 2017. This re-programming has not changed the overall commitment ceiling expressed in current prices, but it reflects the delay in the implementation of those programmes. An additional amount of €12 billion of commitment appropriations were carried over from 2014 to 2015.

headings 1a and 4²⁰, and a one-year delay in the implementation of rural development programmes under heading 2. These delays in combination with other factors analysed below, accelerated the increase of the RAL in the most recent years.

The particular case of the ESI funds

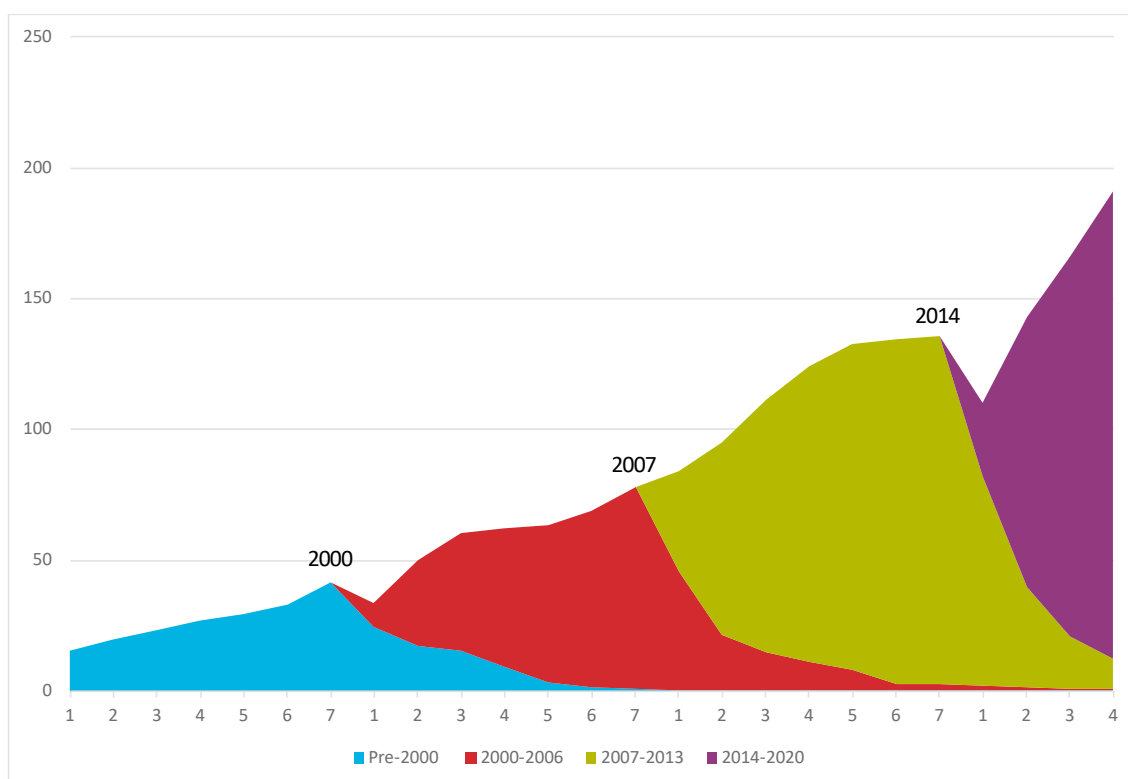
34 The ESI funds contribute the largest share to the RAL. For the 2014-2020 MFF, the ESI funds are the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), including the Youth Employment Initiative (under heading 1b), as well as the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) (under heading 2). At the end of 2017, outstanding ESI funds' commitments stood at €189.9 billion (2016: €165.2 billion), 71 % of the total RAL. This situation is partly due to the high share of these funds in the overall budget, and partly to the special rules for managing them.

MFFs overlap by around 7 years

35 *Figure 7* shows the extent to which the commitments and payments from different MFFs overlap. In the early years of an MFF, many payments relate to the commitments of the previous MFF. This overlap prevented the total RAL to decrease, as by the time the commitments of an MFF started to be paid, the commitments of the next started to be created. Any additional time granted for justifying the expenditure at final closure increased the overlap and therefore, the RAL.

²⁰ See Commission's document "Elements for a payment plan to bring the EU budget back onto a sustainable track", 2015.

Figure 7 – Evolution of the ESI funds RAL in successive MFFs (in billion euros)



Source: ECA, based on information from the Commission reports 'Analysis of the budgetary implementation of the ESI funds'.

36 As we have previously noted²¹, the EU budget rules have given Member States additional time after the end of the last three MFFs to spend the funding allocated to them. In 2000-2006 and 2007-2013, they were allowed to continue spending for two years beyond the end of the MFF. Thus the eligibility period for 2007-2013 continued until 31 December 2015 (rather than the end of 2013). Furthermore, the Member States could submit final closure documents until March 2017 for cohesion and 30 June 2016 for rural development.

37 In the first years of the 2014-2020 MFF, implementation of a vast majority of programmes had not started because unspent funding was still available from the previous period and Member States focused on closing the corresponding programmes. The overlapping of eligibility periods clearly created a disincentive to start the new period's programmes promptly²².

²¹ See paragraph 58 of our special report 36/2016: "An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes".

²² See paragraph 64 of SR 36/2016.

38 Under the rules for the 2014-2020 MFF, expenditure will be eligible for not two but three years after the end of the MFF. The work of Member States in connection with the annual acceptance of the accounts (*paragraph 52*) for 2014-2020 programmes will overlap with the implementation of new programmes as from 1 January 2021. The extended eligibility period is up to the end of June 2024 for rural development and to 15 February 2025 for cohesion (*Table 3*).

Table 3 – Cohesion - eligibility periods and deadlines

MFF	End of MFF	Eligibility period	Closure documents submission date
2000-2006	31.12.2006	1.1.2000 – 31.12.2008	31.3.2010
2007-2013	31.12.2013	1.1.2007 – 31.12.2015	31.3.2017
2014-2020	31.12.2020	1.1.2014 – 31.12.2023	15.2.2025

Source: ECA, based on legal acts.

39 The Commission considers that “the closure process for the 2014-2020 MFF will be simplified due to the annual acceptance of the accounts and further examination of the legality and regularity aspects. The last year should only deal with the closure of the block of expenditure certified in relation to the last accounting year”²³.

Late adoption of the legislative framework

40 The Commission submitted its proposal for the 2014-2020 MFF in June 2011. The MFF was adopted by the Council and the European Parliament in December 2013. The “common provisions” Regulation²⁴ and the fund-specific regulations for the five ESI funds were adopted by the Council on 17 December 2013. The process took five months longer than for the 2007-2013 period, where the regulations were adopted in July 2006²⁵. The secondary legislation for 2014-2020 MFF (implementing and delegated acts) was not fully adopted until January 2016.

²³ SR 36/2016 – Commission’s reply to paragraph 68.

²⁴ Regulation (EU) No 1303/2013 of the European Parliament and the Council of 17 December 2013 (“common provisions” Regulation).

²⁵ See paragraph 35 of our special report 02/2017: “The Commission’s negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance”.

41 The delays prompted the Council to transfer the commitment appropriations that could not be used in 2014 to later years²⁶. The amount concerned was €20.7 billion (36 % of that year's total commitment appropriations for ESI funds) ([paragraph 61](#)).

Automatic commitments and decommitments

42 In line with the rules for the ESI funds²⁷, the Commission makes an annual “automatic commitment” for each operational programme during the seven years of the MFF. The amount committed is based on the financing plan for the programme, which presents an annual breakdown of the programme's budget. The only condition for the commitment to be made is that the Commission must have approved the programme. Therefore, at the moment a commitment is made, there is no link with the actual progress of programme implementation. Member States have three years to use the funds committed and declare costs to the Commission for reimbursement (the “n+3” rule). After that time, a system of “automatic decommitments” is meant to clear any unused funds ([paragraph 45](#)).

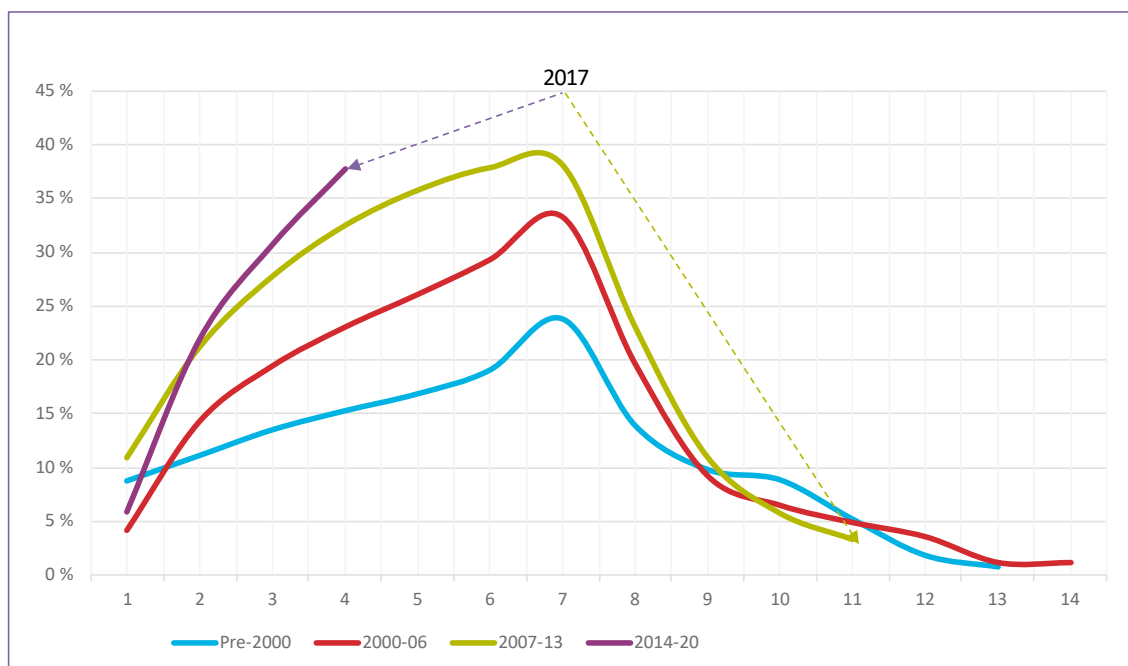
43 At the beginning of each year, the value of outstanding commitments is thus automatically increased, currently by around €50 billion (it was €30 billion annually during the 2007-2013 MFF)²⁸. Commitments made in one year are added to those outstanding from previous years and, if the corresponding payments of that year are lower, the RAL increases in each year of the MFF, as illustrated in [Figure 8](#). The amount of the RAL for a given MFF only starts to decrease after the last year of the MFF, after which is not possible to make any new commitments.

²⁶ Article 19 of the MFF regulation provides that, in the event of the adoption after 1 January 2014 of new rules or programmes under shared management for the ESI funds, the MFF was to be revised in order to transfer to subsequent years, in excess of the corresponding expenditure ceilings, allocations not used in 2014.

²⁷ Article 76 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013.

²⁸ Expressed in prices of the corresponding MFF.

Figure 8 – Evolution of the ESI funds RAL per year of MFF until end 2017



Note: The RAL is expressed as a percentage of total commitment appropriations for ESI funds under the corresponding MFF.

Source: ECA, based on figures from the Commission reports “Analysis of the budgetary implementation of the ESI funds”.

44 There are two ways in which the RAL decreases. One is for payments to be made. The other is when amounts are decommitted. Decommitments for headings 1b and 2 take place either following the application of the ‘n+3’ rule or at the closure of the period.

45 ESI rules provide for the automatic decommitment of amounts not used by specified deadlines. The automatic decommitment rule²⁹ aims to promote financial discipline and timely implementation of the programmes by creating a link between the amounts committed and the amounts paid. If funds committed in year “n” have not been justified by payment claims within the required number of years, they are no longer available for use and get decommitted. This should also help contain the increase of the RAL.

46 The rule was first introduced for the 2000-2006 MFF, when two years were allowed after a commitment (“n+2”)³⁰, before the outstanding amount was cancelled. During the 2007-2013 MFF, the period was extended to three years for some Member

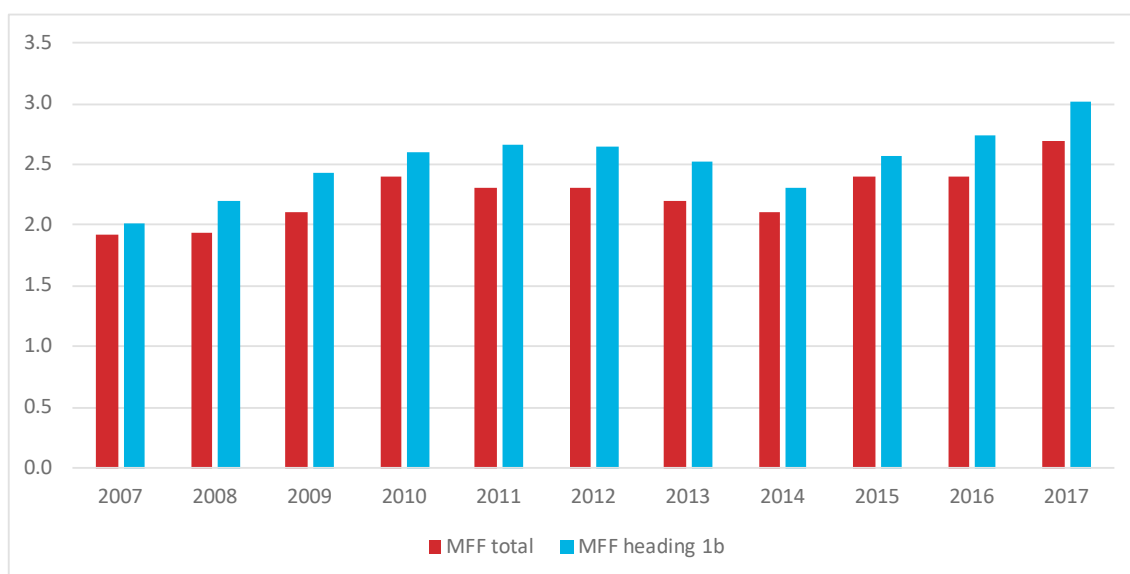
²⁹ See Article 136 (1) of the “common provisions” Regulation.

³⁰ Article 31(2) of Council Regulation No 1260/99 of 21 June 1999.

States and some funds³¹. The “n+3” rule was extended to all Member States and ESI funds for the 2014-2020 MFF. Extending the deadline by one year had the direct effect of increasing the RAL.

47 *Figure 9* shows how the RAL has evolved as a multiple of years of commitments (RAL divided by commitment appropriations lasting more than one year). In principle, under the “n+3” rule, the RAL should not be worth more than three times the amount of annual commitments. In 2017, it reached this limit for heading 1b.

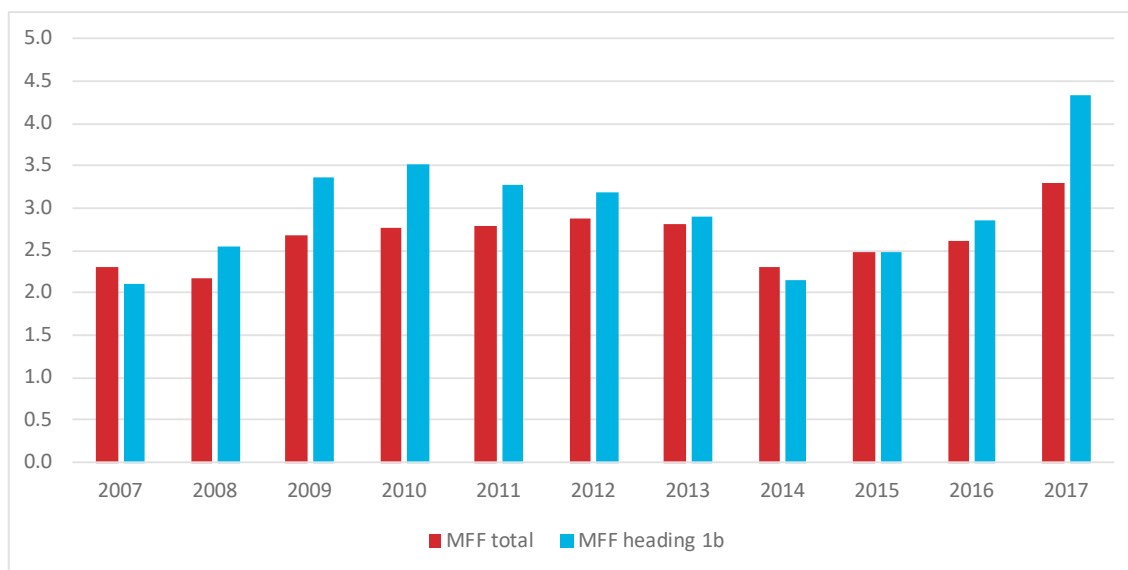
Figure 9 – RAL in years of commitments



Source: ECA, based on information from our annual reports and the Commission reports on budgetary and financial management.

48 *Figure 10* shows the evolution of the RAL as a multiple of years of payments (RAL divided by payment appropriations). It should give an estimation of the number of years required to pay out the RAL of a given year, assuming the same level of payments would be maintained in future years. We note however that the payment levels can fluctuate significantly.

³¹ Article 93 of Council Regulation No 1083/2006 of 11 July 2006.

Figure 10 – RAL in years of payments

Source: ECA, based on information from our annual reports, the Commission reports on budgetary and financial management and the Commission's data warehouse.

49 The financial impact of the automatic decommitment rule is limited, since the amounts decommitted have been small. For the 2000-2006 MFF, the total value of decommitments resulting from the “n+2” rule was €1.3 billion (0.6 % of the commitments for the period)³². For the 2007-2013 MFF, at the end of 2017, total decommitments resulting from the “n+2”/“n+3” rule were worth €1.6 billion (0.5 % of all commitments for the period)³³. There had been no automatic decommitments for the 2014-2020 MFF by the end of 2017³⁴.

50 For the 2021-2027 MFF, the Commission has proposed to the European Parliament and the Council to revert to “n+2”. This measure is a step in the right direction and could contribute, though not on its own, to reduce the overall RAL, which also depends on other factors. When introducing the “n+2” rule for the 2000 – 2006 MFF, the Commission considered that the rule “should result in a stabilised level of

³² Analysis of the budgetary implementation of the structural and cohesion funds in 2013.

³³ After analysing the closure packages the Commission decommitted another €2.8 billion.

³⁴ 2017 was the first year in which the risk of “n+3” automatic decommitment applied. Based on the Commission report “Analysis of the budgetary implementation of the ESI funds in 2017”, following the examination of the payment applications received, the maximum amount at risk of decommitment was around €50 million, concerning a limited number of programmes.

outstanding commitments over the next few years”³⁵. Despite the “n+2” rule, the RAL continued to increase.

New requirements for the 2014-2020 MFF

51 A number of new elements were introduced in the rules for the 2014-2020 MFF, for example, a performance framework and the ex-ante conditionality rule. The introduction of these elements alongside strengthened management and control systems, required time and resources.

52 The designation procedure³⁶ for the 2014-2020 MFF is a Member State responsibility which aims to ensure that the national authorities have set up the appropriate systems necessary for the management and control of the EU funds. This designation process proved to be long. As it had to be completed before payment claims could be submitted, there were delays in paying the corresponding amounts and consequently in decreasing the RAL. This requirement did not generate the same delays for EAFRD³⁷.

Annual acceptance of accounts

53 An acceptance of accounts procedure was introduced for the 2014-2020 MFF by which the Commission accepts (or rejects) the accounts of each operational programme once a year. Under the previous MFFs, the final check on legality and regularity of the submitted expenditure did not take place until the programme closure.

54 For the ERDF, ESF, CF and EMFF, the reimbursement of interim payments is limited to 90 % of the total reimbursable amount. The remaining 10 % forms part of the RAL for a short time period until it will be paid after the annual examination and acceptance of the accounts.

³⁵ See the replies to our annual report for 2003 (paragraph 2.48) and 2004 (paragraph 2.24).

³⁶ Articles 123 and 124 of the “common provisions” Regulation.

³⁷ Article 65(2) of the Rural Development Regulation 1305/2013, requires Member States to designate, for each rural development programme, the Managing Authority, the accredited paying agency and the certification body. For the 2014-2020 MFF, the continuation of existing accredited paying agencies allowed interim payments for rural development to take place as soon as the related programme was adopted.

55 While this arrangement has the potential to improve the control system and reduce errors, in certain cases it could lead to additional delays, as Member State authorities could decide to postpone the declaration of expenditure until they are sure it is legal and regular.

Performance reserve

56 One of the novelties introduced for the 2014-2020 MFF is the establishment of a performance framework. This led to the requirement that Member States set aside part of their EU funding in a “performance reserve” for most ESI funds programmes. The performance reserve accounts for 6 %³⁸ of resources allocated to the ERDF, ESF and CF under the “investment for growth and jobs” goal (around €20 billion), the EAFRD, and measures financed under shared management in accordance with the EMFF Regulation. These reserve funds are included in the programmes and automatically committed annually, thereby increasing the RAL, but can only be used subject to the outcome of the performance review by the Commission in 2019. These amounts are not subject to the automatic decommitment procedure and thus, can be used or will remain in the RAL until the final eligibility date for the MFF. The total amount allocated to the performance reserve up to the end of 2017 was around €14 billion, and this amount was included in the RAL at the end of 2017.

Impact of pre-financing

57 The 2014-2020 MFF rules require the Commission, after adopting an ESI funds operational programme, to pay an initial pre-financing amount³⁹. Unused initial pre-financing will only be totally cleared at programme closure.

58 From 2016 until 2023, for the ERDF, ESF, CF and EMFF, the rules require also the Commission to pay additional annual pre-financing worth from 2 % to 3 % of the allocated funds)⁴⁰.

59 Pre-financing reduces the amount of RAL and, effectively “protects” that amount from automatic decommitment. Therefore, the higher the amount of pre-financing

³⁸ See paragraph 101 of our special report 15/2017.

³⁹ According to Article 134 (1) of the “common provisions” Regulation, it ranges between 1 % or 1.5 % of the total amounts committed and is paid in yearly instalments between 2014 and 2016.

⁴⁰ Article 134 (2) of the “common provisions” Regulation.

paid, the lower the amount that could be decommitted using the “n+3” rule. The total pre-financing paid (initial and annual) from 2014 to 2017 was €34 billion.

60 The Commission examines the accepted annual accounts of an operational programme to determine how much annual pre-financing is not covered by interim payment claims during the corresponding accounting period. It recovers the amounts concerned, which become available assigned revenue, thus creating new commitment and payment appropriations for the same spending objectives. New commitment appropriations can be used until programme closure⁴¹, but new payment appropriations can be used only until the end of the following year. The amounts committed will increase the RAL and are not subject to automatic decommitment. In 2017, the first year when the annual acceptance of the accounts took place, the amount of pre-financing recovered was €6.5 billion. 100 % of this was committed and 84 % was paid. These amounts may become more significant in future years. We note that the Commission proposed to reduce the pre-financing from 2021 to 2023⁴².

Adjustments to the MFF

61 As allowed by article 19 of the MFF Regulation, commitment appropriations of €20.7 billion not used in 2014 because of delays in the adoption of programmes were transferred mainly to 2015 (and to 2016 in the case of the EAFRD). This significantly increased the commitments for 2015 and equally decreased the commitments for 2014 (*Table 4*). While the overall level of commitments for the MFF remained the same, the decommitment deadline for the amounts concerned moved from 2017 to 2018.

⁴¹ Article 12(4)(b) of the Financial Regulation – Regulation (EU, Euratom) 2018/1046: “Commitment appropriations [...] which are available on 31 December arising from repayments of pre-financing payments may be carried over until the closure of the programme and used when necessary, provided that other commitment appropriations are no longer available”.

⁴² The Commission proposed to reduce the annual pre-financing for the last three years (2021-2023) from 3 % to 1 %. See COM(2018) 614 Proposal for a Regulation of the European Parliament and the Council amending Regulation (EU) No 1303/2013 as regards the adjustment of annual pre-financing for the years 2021 to 2023.

Table 4 – Transfer of unused appropriations from 2014 (million euros)

	2014	2015	2016	2017
MFF 1b	- 11 216	11 173		43
MFF 2	- 9 446	5 093	4 353	

Source: Council Regulation (EU, Euratom) 2015/623 of 21 April 2015.

62 In 2017, in line with Article 7 of the MFF Regulation⁴³, the Commission reviewed Member States' allocations under the 'Investment for Growth and Jobs' goal of cohesion policy. Based on this review, the ceiling for commitment appropriations for 2017-2020 was increased by €4.6 billion and the ceiling for payment appropriations by €1.4 billion (at current prices). Following the extension of the Youth Employment Initiative to 2020, an additional €1.2 billion (at current prices) were allocated to heading 1b. This increased even further the gap between commitment and payment appropriations from 2017 onwards.

Payment forecasts

63 The rules⁴⁴ require Member States to send the Commission, by 31 January and 31 July of each year, a forecast of the payment claims they expect to submit during the current and subsequent financial years. After adjusting the figures to its own models⁴⁵, the Commission uses these forecasts to determine the level of payment appropriations needed and propose to amend the budget accordingly.

64 In 2017, the Commission applied a correction of 25 % to the Member States' July forecast and proposed decreasing the level of payment appropriations for the ESI funds by €5.9 billion. The payment claims actually submitted by the end of the year were slightly lower than the Commission's estimate (by €0.3 billion).

⁴³ Council Regulation No 1311/2013 of 2 December 2013.

⁴⁴ Article 112(3) of the "common provisions" Regulation (EU) for the CF and the Structural Funds.

⁴⁵ A number of other elements are taken into account by the Commission, such as the evolution of project selection on the ground, observed trends in implementation and automatic de-commitment risk targets.

65 While the accuracy of the Member States' forecasts has been increasing (from 52 % in 2016 to 80 % in 2017⁴⁶), a significant difference remained between the amounts expected and the amounts actually claimed. Consequently, the RAL did not decrease to the extent expected.

Financial instruments in shared management

66 The EU budget can also be spent using new tools such as financial instruments. Although the amounts paid from the budget into these instruments reduce the RAL, these amounts are not immediately paid further to the final beneficiary. Therefore, this creates outstanding commitments at the level of the instrument, which are outside the EU budget and not subject to the automatic decommitment rule⁴⁷.

67 By the end of 2017, €14.2 billion had been committed from ESI funds to financial instruments and €4.4 billion had been paid. Of these, €1.5 billion had been paid to final recipients⁴⁸. In our special report 19/2016, we noted that a significant number of financial instruments were oversized compared to the market needs. We found that a contributing factor to this was Member State's intention to circumvent the "n+2" rule⁴⁹.

Rural development

68 The EAFRD follows slightly different financial rules from the other ESI funds. The provisions for initial pre-financing, the "n+3" rule for decommitments and the 6 % performance reserve all apply, but there are no significant differences to the previous period. Member States programme around half of the allocated amounts for the so-called "annual measures", where payments are made within one year following the commitments. The remainder is devoted to "investment measures" similar to those financed by the ESI funds under heading 1b.

69 The EAFRD did not experience the same delays as the other ESI funds in the designation of programme authorities, as the process did not change from the

⁴⁶ Calculated as percentage of claims estimated by the Member States against claims actually submitted. Based on the Commission report "Analysis of the budgetary implementation of the ESI Funds in 2017".

⁴⁷ See paragraphs 54 to 57 of our special report 2/2012.

⁴⁸ Financial instruments under the ESI Funds - Summaries of the data on the progress made in financing and implementing the financial instruments for the programming period 2014-2020 – situation as at 31 December 2017.

⁴⁹ See paragraph 150 of our special report 19/2016.

previous MFF. As a result, the delay in the start of the programme implementation was shorter and it was mainly because the legislative framework was adopted late. This still led to the re-programming of the commitment appropriations for 2014 ([paragraph 61](#)).

RAL in other budgetary areas

External actions

70 In the field of external actions (heading 4 Global Europe) the commitment procedure follows a different cycle than ESI funds. For this heading, the RAL represents 2.7 years of commitments⁵⁰, which reflects the length of the process from commitment to payment. Commitments are usually made in two steps. A global commitment is made first, followed by individual commitments⁵¹. For example, programmes for which a global commitment was made in year “n”, are formalised with a non-EU country during year “n+1”, and contracts forming the basis for individual commitments are then concluded up to year “n+4”. Projects and programmes are closed, and any unused funds decommitted, once all contractual obligations have been met and the corresponding payments and recoveries have been made.

71 At the beginning of a MFF, a large part of the RAL for heading 4 consists of global commitments. As these are being implemented through individual commitments, their share of the RAL is decreasing. At the end of 2017, the share of the part of RAL generated by global commitments under heading 4 was €8.3 billion⁵² (32 % of the RAL for heading 4, the rest coming from individual commitments).

72 The annual activity reports of DG NEAR and DG DEVCO (the Commission directorates-general implementing most expenditure under heading 4) include key performance indicators (KPIs) for the amount of RAL. KPI 4 “RAL absorption period”⁵³

⁵⁰ This indicator is even higher for some of the programmes under this heading. It is 3.3 for the Instrument for pre-accession assistance and 3.1 for the European neighbourhood instrument.

⁵¹ A commitment is “individual” if the recipient and the amount of expenditure are known. A commitment is “global” if at least one of the elements is unknown.

⁵² At the end of 2017 the total RAL generated by global commitments for all headings of the MFF stood at €17 billion (6.4% of the total).

⁵³ Calculated by dividing the RAL at the end of the year by the value of payments made during that year.

has an annual target of “less than 4 years”. The actual figure for 2017 was 4.24⁵⁴ years for DG NEAR (compared with 4.15 in 2016) and 3.7 years for DG DEVCO (compared with 3.88 in 2016).

Other programmes

73 Spending under heading 1a (Competitiveness for growth and jobs) follows a similar pattern to heading 4, in that global commitments (e.g. based on calls for proposals) are followed by individual commitments (when signing a grant agreement). Heading 1a consists of a series of different programmes with diverse characteristics influencing the RAL, such as the duration of the programme and its implementation mode (mostly direct and indirect management).

74 For example, for Horizon 2020, which, in line with allocated budget⁵⁵, is the main contributor to the RAL under this heading, contract signature is followed by the payment of pre-financing (usually 10-30 %). The average duration of a contract is around two or three years and leads to interim payments and a final payment at closure.

75 Most of the funding allocated under heading 3 (Security and Citizenship) is implemented using shared management with Member States through the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund. These follow similar rules as the ESI funds. The Member States submit multi-annual plans; once the plans have been approved amounts are committed annually in line with a financing plan. An “n+2” automatic decommitment rule applies. The late adoption of the legislative framework for the AMIF⁵⁶ meant that Member States had little time in which to prepare and submit their multi-annual plans. This in turn delayed the implementation of commitments. In the last years, the implementation speed increased and, at the end of 2017, 90 % of the RAL for this area was generated in 2016 and 2017.

⁵⁴ DG NEAR gives the following explanation for the indicator being above target: “twelve delegations did not meet the benchmark for this KPI. This is the result of a combination of high financial amounts committed during the year and low level of payment during the reporting year”.

⁵⁵ Representing more than 60 % of the commitment appropriations under heading 1a of the 2014-2020 MFF.

⁵⁶ INFO(2017)60 – “Active monitoring and forecast of budget implementation - summer information note”.

‘Potential abnormal RAL’

76 The “potential abnormal RAL” (PAR) exercise is an annual analysis performed by the Commission. Its main purpose is to identify all unjustified RAL, commitments recorded in the accounts, but which are considered to be potentially lacking a legal and/or factual justification for further payments. The analysis includes the commitments that have been in the accounts for at least five years and commitments for which no payment has been made in the last two years. In principle, all such “abnormal” commitments should be decommitted. The analysis is done on a case-by-case basis by the Commission departments managing the commitments in question.

77 The Commission presents the results of this exercise in the “Draft budget - working document Part V – Budget implementation and assigned revenue”.

78 During the years 2010 to 2017, the amount identified as PAR was on average around 2.1 % of the RAL for the year. A small fraction of this amount (e.g. 0.15 % of the RAL at the end of 2017) was abnormal and was decommitted at a later stage.

Table 5 – Results of the PAR exercise (in billion euros)

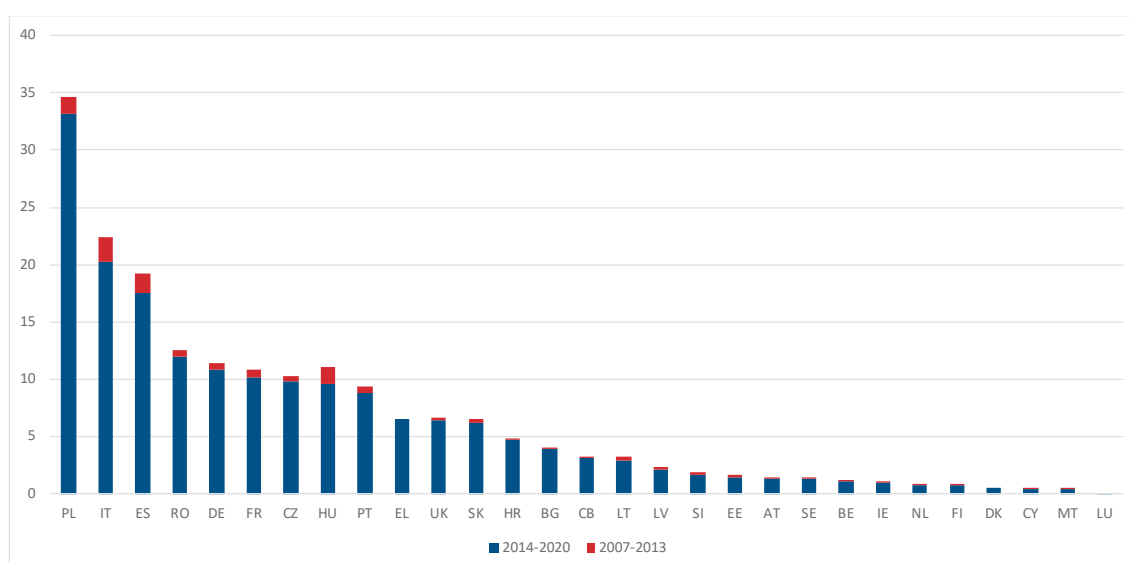
Year	2010	2011	2012	2013	2014	2015	2016	2017
Total RAL	194.4	207.4	217.8	222.4	189.6	217.7	238.8	267.3
Total PAR	1.9	2.4	9.4	5.2	4.1	2.8	3.0	8.5
% PAR/RAL	1.0 %	1.1 %	4.3 %	2.4 %	2.2 %	1.3 %	1.2 %	3.2 %

Source: ECA, based on the working documents of the draft budget.

A comparison between Member States

79 Since outstanding commitments for ESI funds are implemented through shared management, they can also be analysed at the level of the Member States. Of the total RAL for the ESI funds at the end of 2017 (€189.9 billion), €178.2 billion (94 %) consisted of commitments from 2014-2020 and €11.7 billion (6 %) of commitments from 2007-2013. A breakdown by Member State is given in *Figure 11*.

Figure 11 – ESI funds’ RAL by Member State and period of origin (in billion euros)



Note: CB refers to cross border programmes.

Source: ECA, based on information from the Commission reports ‘Analysis of the budgetary implementation of the ESI funds’.

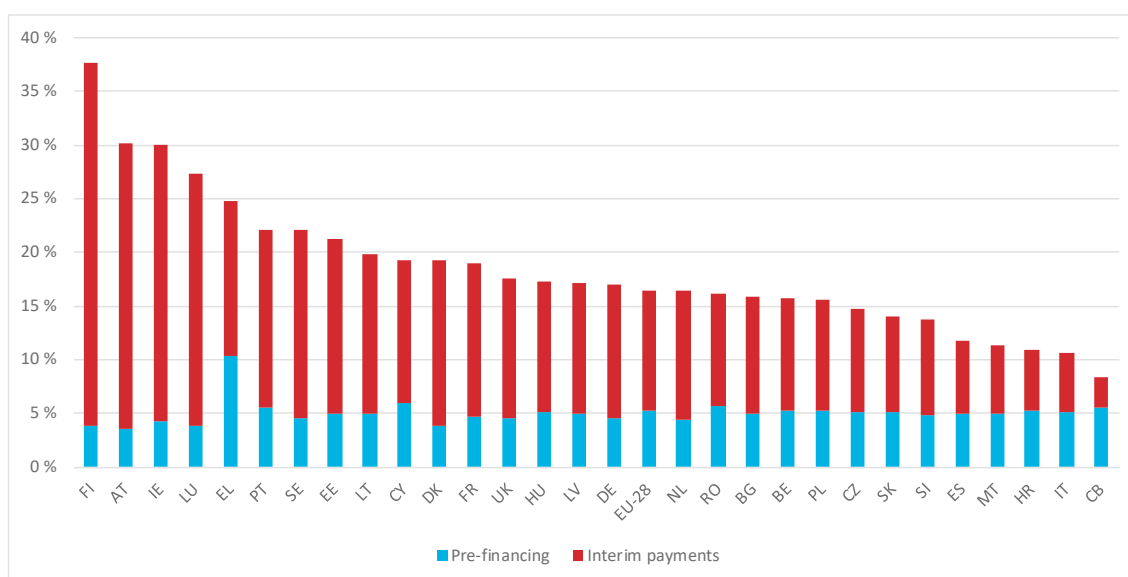
80 The three Member States with the highest RAL in 2017 also had the largest allocations of commitment appropriations in the MFF. They were Poland, Italy and Spain (€34.6 billion, €22.3 billion and €19.2 billion of RAL respectively), representing 40 % of the 2017 RAL for the ESI funds at the end of 2017.

81 In relative terms, the Member States with the highest RAL as a proportion of their respective allocations for the 2014-2020 MFF were Cyprus, Italy and Malta, with 48 %, 46 % and 44 %. The Member States with the lowest ratios were Finland, Austria and Ireland, where the RAL accounted for, respectively, 19 %, 26 % and 27 % of total allocations⁵⁷.

⁵⁷ Commission report “Analysis of the budgetary implementation of the ESI funds in 2017”.

82 By the end of 2017 (the fourth year of the MFF), 16.4 % of the ESI funds budget for the period had been implemented (5.3 % in pre-financing and 11.1 % in interim payments). In the fourth year of the 2007-2013 period the implementation rate was higher, at 22.1 % (8.7 % pre-financing and 13.4 % interim payments). *Figure 12* shows the cumulative implementation by the end of 2017 in each Member State. More detailed information is provided in *Annex II*.

Figure 12 – Cumulative implementation at the end of 2017 by Member State for the 2014-2020 period (compared to allocations)



Note: CB refers to cross border programmes.

Source: Commission report “Analysis of the budgetary implementation of ESI funds in 2017”.

83 If Member States implemented programmes at a roughly comparable rate, their share of the RAL should be proportionate to their share of total commitment appropriations. However, differences arise because Member States absorb funding at different rates. For the 2014-2020 MFF, the Member States with the highest absorption rates to the end of 2017 were Finland, Austria and Ireland (all above 25 %), while those with the lowest rates were Italy, Croatia, Malta and Spain (all lower than 12 %) ⁵⁸. We reported on the reasons for low absorption in our 2017 annual report ⁵⁹ and a recent special report ⁶⁰. The main reasons were the late closure of the previous MFF, the late adoption of legal acts and difficulties in adapting to and implementing

⁵⁸ Commission report “Analysis of the budgetary implementation of the ESI funds in 2017”.

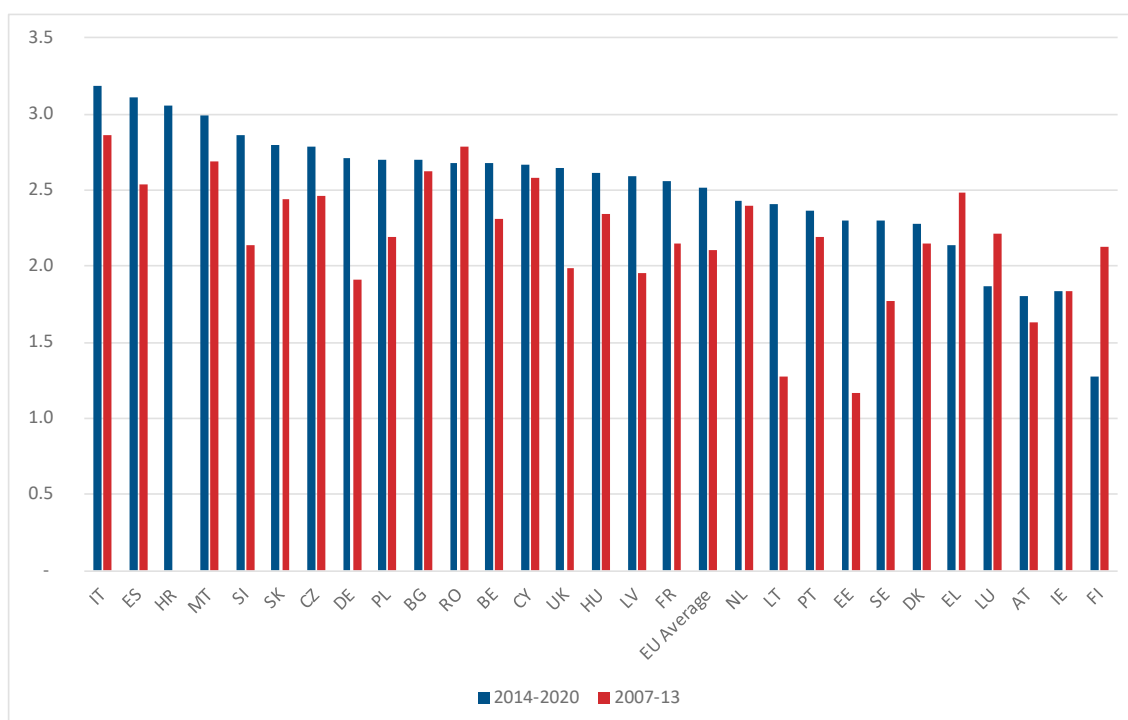
⁵⁹ ECA annual report for 2017 – Chapter 2.

⁶⁰ Special report 17/2018: “Commission’s and Member States’ actions in the last years of the 2007-2013 programmes tackled low absorption but had insufficient focus on results”.

substantial changes introduced in the 2014-2020 MFF. We also pointed out that Member States may face challenges in identifying sufficient high-quality projects in a short period of time⁶¹.

84 The different implementation rates are illustrated in *Figure 13*, in terms of the years of commitments lasting more than one year represented by the RAL. In 2017, the RAL for most Member States accounted for between two and three years of commitments, as can be expected under the “n+3” rule.

Figure 13 – RAL / average annual commitments



Source: ECA, based on information from the Commission report “Analysis of the budgetary implementation of ESI funds in 2017”.

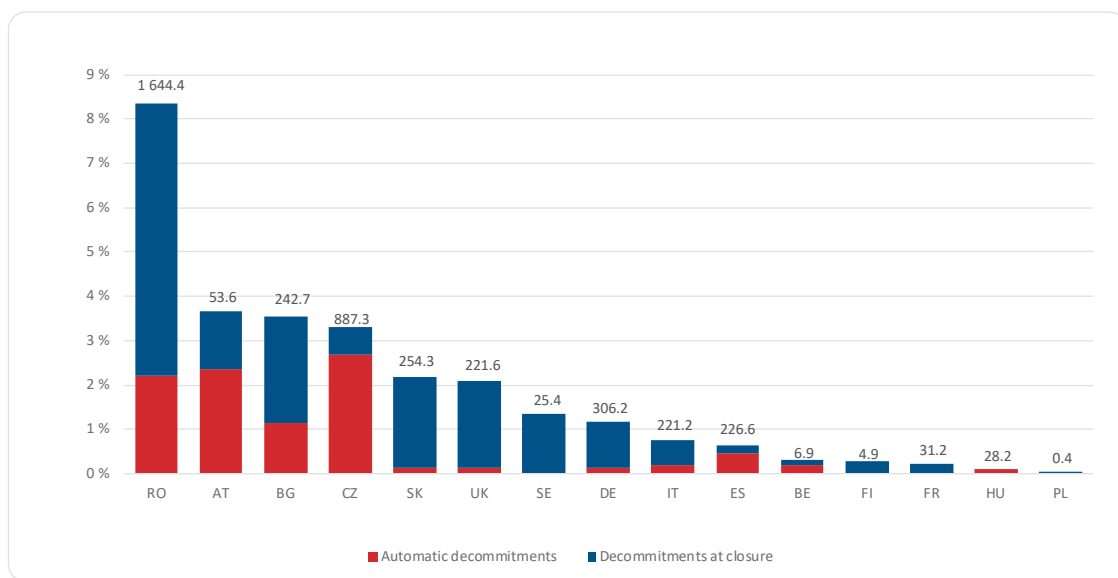
85 Total decommitments for the 2007-2013 period were €4.4 billion made up of €1.6 billion corresponding to automatic decommitments and €2.8 billion to decommitments at closure. These decommitments decrease the RAL, but are amounts that cannot be used anymore and are, therefore, lost for the Member States concerned and the EU budget⁶². In its proposal for the 2021-2027 MFF, the Commission has proposed to establish a “Union reserve”. This would be financed

⁶¹ See paragraph 2.17 of our annual report for 2017.

⁶² Contrary to the unused payment appropriations which are recorded as a surplus of the EU budget and will reduce the Member State contributions to the EU budget in the following year.

through funds that have been committed but ultimately not used as well as from margins left available under the ceilings for commitments of the previous financial year⁶³. **Figure 14** shows the breakdown of the €4.4 billion amount amongst the 15 Member States concerned, the largest part of which was due to Romania.

Figure 14 – Cumulative decommitments for the 2007-2013 MFF as percentage of total allocations and as absolute amounts



Note: Amounts are expressed in million euros.

Source: ECA, based on figures from Commission reports.

⁶³ COM(2018) 321 – Communication from the Commission to the Council and the European Parliament – A modern budget for a Union that protects, empowers and defends – the multiannual financial framework for 2021-2027.

Conclusion and the way forward

86 Many of the factors for the RAL that we have examined in this document are similar to those presented by the Commission in its 2002 analysis⁶⁴ of the RAL during the 2000-2006 MFF. They include the overlapping of two MFFs, the impact of the automatic decommitment rule and the delayed start of programmes. New ones, such as the requirements for ESI funds under the 2014-2020 MFF, have contributed to reaching the current record level of the RAL. Based on our estimations⁶⁵ as well as the Commission's forecasts, the increase is set to continue in future.

History is repeating

87 A reprogramming exercise similar to the one carried out in 2014 took place in 2000, resulting in the transfer of commitments from 2000 to 2001. As we have seen ([paragraph 30](#)) the start of the 2007-2013 MFF was also affected by delays.

88 In 2004, the level of outstanding commitments for the 2000-2006 programmes was €3.7 billion higher than the Commission predicted in 2002. Outstanding budgetary commitments for the 1994-1999 programmes were €3.3 billion, while the Commission's 2002 analysis expected them to have been completely liquidated⁶⁶. This shows that the forecasted levels of RAL were constantly underestimated.

89 When the 2007-2013 MFF was agreed in May 2006, it was based on the assumption that the RAL would amount to €180 billion by the end of 2013⁶⁷. The actual amount was €222 billion.

90 The payments forecast for 2014-2020 programmes was based on historical data from the previous two MFF periods (2000-2006 and the first years of 2007-2013). The Commission assumed that the delays faced in 2007 and 2008 would not be repeated

⁶⁴ COM(2002) 528 – Communication from the Commission to the Council and the European Parliament – Evolution of the budget execution of the Structural funds, in particular outstanding commitments (RAL).

⁶⁵ See paragraph 2.7 of our annual report for 2017.

⁶⁶ See paragraph 2.20 of our annual report for 2004 – paragraph 2.20.

⁶⁷ Working document on outstanding commitments (RAL) and the payments issue - Committee on Budgets of the European Parliament.

and that the new programmes would start earlier⁶⁸. This assumption proved to be wrong, and in fact, the delays were even longer than in the previous period.

91 When the current MFF was adopted in 2013, a RAL of more than €260 billion was forecast for the end of 2020⁶⁹. Owing mainly to the slower-than-expected start of the implementation of the ESI funds, the actual figure is predicted to be substantially higher. The Commission's 2018 forecast⁷⁰ is for a RAL of €295 billion at the end of 2020, and €314 billion at the end of 2023⁷¹.

92 The Commission reports that, the accurate forecasting of the evolution of payments for the 2014-2020 MFF has proven to be extremely challenging, in particular as regards the ESI funds. "A (±) 1 % change in the pace of the implementation leads to a (±) €4 billion change in the payment needs"⁷².

93 Even though forecasting the RAL or the future need for payment appropriations is a complex exercise, it is an essential part of preparing future budgets and avoiding the build-up of an abnormal payment backlog. Having consistently recommended that the Commission produce long-term payment forecasts⁷³, we welcome that the 2018 Financial Regulation includes an obligation for the Commission to send the European Parliament and the Council an annual long-term forecast of future inflows and outflows covering the next five years⁷⁴.

⁶⁸ Commission Staff Working Document accompanying the Communication from the Commission to the European Parliament and the Council, Mid-term review/revision of the multiannual financial framework 2014-2020, An EU budget focused on results, SWD(2016)299 final.

⁶⁹ Draft Budget 2019 – Statement of estimates prepared by the Commission.

⁷⁰ COM(2018) 687 10.10.2018 - Report from the Commission to the European Parliament and the Council "Long-term forecast of future inflows and outflows of the EU budget (2019-2023)".

⁷¹ Under the assumption that the next MFF proposals are adopted as proposed by the Commission.

⁷² Commission medium term payment forecast – 16 October 2017.

⁷³ See our Opinion 1/2017 (paragraphs 110-112), our 2017 annual report (paragraph 2.49), our 2015 annual report (paragraph 2.10) and our 2014 annual report (paragraph 2.22).

⁷⁴ Article 247(1) of the Regulation (EU, Euratom) 2018/1046.

Risks for future budgets

94 The Commission considers that “the increase in the level of outstanding commitments for the ESI funds in the third year of the programming period is part of the normal cycle of implementation observed previously for these funds. The smooth annual profile of the commitment appropriations over the 2014-2020 period, the introduction of the “n+3” rule and the slow implementation led to a significant increase in outstanding commitments”⁷⁵. We consider, however, that the current high levels of the RAL could lead to the following risks for the EU budget.

Insufficient payment appropriations in the final years of the 2014-2020 MFF

95 We have already noted in our annual reports that a high RAL increases the risk of an abnormal payment backlog, similar to the one encountered during 2013-2015, as the number of claims is set to rise substantially during the final years of the 2014-2020 MFF⁷⁶.

96 This risk can be reduced by the “global margin for payments”, a special instrument that allows the carry-forward of unspent margins to the following years⁷⁷.

97 According to the Commission⁷⁸, there was no abnormal payment backlog at the end of 2017. However, the backlog at the end of 2017, consisting mainly of claims for 2014-2020 programmes that were received too late to be paid that year, amounted to €2.3 billion. This backlog is likely to increase in future years as programme implementation advances.

Insufficient payment appropriations in the next MFF

98 As in previous periods, delays in implementing programmes under MFF 2014-2020 meant that the payment appropriations required for these programmes were very low in the first four years. However, unlike under the previous MFFs, the annual payment appropriations were used almost to the full in 2014 and 2015 to pay the RAL

⁷⁵ Reply to paragraph 2.14 of our annual report for 2016.

⁷⁶ See our annual report for 2017, paragraph 2.47.

⁷⁷ See our annual report for 2017, paragraphs 2.9 to 2.12.

⁷⁸ Commission Active Monitoring and Forecast of Budget Implementation – 2017 Information Note, 16 March 2018.

of the 2007-2013 MFF⁷⁹. This means that the implementation delays had also a positive effect in budgetary terms and helped to reduce the pressure on payments. However, if there had not been delays, the payment needs would have been much higher in the first years of this MFF. A situation of insufficient payment appropriations, similar to the one of 2011-2015, risks being created for the next MFF⁸⁰ ([paragraph 38](#)).

99 The Commission noted this issue in its long-term forecast⁸¹. It stated that the agreed payment ceilings for 2019-2020 and those proposed for 2021-2023 are in line with the expected needs of 2014-2020 programmes, and the smooth phasing-in of the 2021-2027 programmes. Any further delays in the implementation of ESI funds may put pressure on the 2021-2023 payment ceilings and affect their ability to cover the new spending programmes.

100 The Commission and the budgetary authorities need to address this risk in line with the Council decision on own resources⁸², which requires the maintenance of an orderly balance between commitment and payment appropriations. Our annual reports for 2016 and 2017 have included recommendations addressing this issue. In our annual report for 2016 we recommend that the Commission take into account the growth in outstanding commitments in its forecast of payment appropriations for the next MFF in order to help ensure an orderly balance between commitment and payment appropriations⁸³. In our annual report for 2017 we recommend that the Commission invite the European Parliament and Council, in the context of the debate on the MFF post-2020, to provide for mechanisms to better manage the risk of payment backlogs, given the high level of outstanding commitments in the current and previous MFFs⁸⁴.

⁷⁹ In 2014, in fact, the contingency margin for payments was used as an emergency measure to bring forward payment appropriations to cover the needs of the year.

⁸⁰ See our annual report for 2016, paragraphs 2.36 and 2.37.

⁸¹ COM(2018) 687 - Long-term forecast of future inflows and outflows of the EU budget (2019-2023).

⁸² Council Decision 2014/335/EU, Euratom of 26 May 2014.

⁸³ See paragraph 2.48, recommendation 1 of our annual report for 2016.

⁸⁴ See paragraph 2.62, recommendation 3 of our annual report for 2017.

Increased exposure of the EU budget

101 In addition to outstanding commitments, the EU has a number of significant long-term liabilities, guarantees and legal obligations⁸⁵. These include staff pensions, guarantees for loans and financial instruments. A high RAL increases the amounts owed by the EU and therefore, increases the financial exposure of its budget.

How can the RAL be reduced?

102 In order to prevent a shortage of payment appropriations towards the end of the current MFF and the abnormal shift of RAL from one year to another, the European Parliament, the Council and the Commission agreed⁸⁶:

- o to monitor closely the level of RAL;
- o that the decommitment rules shall be applied strictly, in particular the rules for automatic decommitments;
- o analyse and discuss the Commission's estimates as to the required level of payment, to ensure that the EU can fulfil its financial obligations in the period 2014-2020.

103 By definition, the level of RAL can be decreased in three ways by:

- o increasing the level of payment appropriations when insufficient;
- o decommitting funds; or
- o reducing the level of commitment appropriations in future budgets, thus leaving sufficient payment appropriations to pay outstanding commitments⁸⁷.

104 Increasing the payment appropriations and decreasing the commitment appropriations is a decision of the budgetary authorities. Decommitments are strictly determined by financial rules, which have to be respected by the Commission when applying them. While the volume of decommitments was low in past years, they still

⁸⁵ See ECA Annual report for 2016 paragraphs 2.15 to 2.20.

⁸⁶ Financial Regulation applicable to the general budget of the Union – July 2018, Annex - Interinstitutional cooperation during the budgetary procedure.

⁸⁷ See paragraph 2.36 of our annual report for 2016.

represent unutilised budgetary resources that can no longer contribute to the policy objectives.

105 The RAL from the 2014-2020 period is expected to decline from 2020 until 2025, when what remains will normally be insignificant. The main challenge will be to ensure that an even higher RAL does not start to build in the new period. Some of the measures the Commission introduced for the current MFF (such as the annual clearance of accounts) or proposed for the next MFF (change from “n+3” to “n+2” decommitment rule, lower pre-financing, maintaining similar management and control arrangements (such as the roll-over of the designated authorities in the Member States), greater flexibility in transferring funds within and between programmes)⁸⁸ may partially address this challenge.

106 The following measures would also help avoiding the build-up of the RAL under the next MFF:

- timely adoption of the 2021-2027 MFF and its associated multiannual programmes;
- simplification of the rules for spending the budget⁸⁹;
- sound forecasting of payment needs;
- ensuring an appropriate balance between appropriations for commitments and payments.

⁸⁸ Proposal for a Regulation of the European Parliament and the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument, COM(2018)375.

⁸⁹ See our briefing papers: “Simplification in post-2020 delivery of Cohesion Policy” – May 2018; “A contribution to simplification of EU research programme beyond Horizon 2020” – March 2018; “Future of CAP” – March 2018.

Annexes

Annex I — RAL by main programmes - 2014 to 2017 (in million euros)

MFF sub-heading	MFF sub-heading name	Cumulative RAL as at end of year				2017 voted commitment appropriations	RAL 2017 in years of commitments
		2014	2015	2016	2017		
a	b	c	d	e	f	g	h = f / g
1.2.11	Regional convergence (Less developed regions)	61 866	69 135	71 813	82 421	26 122	3.2
2.0.20	European Agricultural Fund for Rural Development (EAF)	16 550	24 643	29 641	32 742	14 366	2.3
1.2.13	Competitiveness (More developed regions)	16 292	19 157	22 235	25 870	8 251	3.1
1.2.15	Cohesion fund	24 499	22 223	23 497	24 398	9 056	2.7
1.1.31	Horizon 2020	19 947	20 434	19 945	19 928	10 346	1.9
1.2.12	Transition regions	2 771	8 873	12 382	16 151	5 627	2.9
4.0.3	Development Cooperation Instrument (DCI)	8 605	8 613	8 286	8 646	3 168	2.7
4.0.2	European Neighbourhood Instrument (ENI)	6 693	7 371	7 345	7 663	2 440	3.1
4.0.1	Instrument for Pre-accession assistance (IPA II)	5 948	5 898	6 402	6 901	2 115	3.3
1.2.6	Contribution to the Connecting Europe Facility (CEF)	-	1 806	3 402	4 704	1 593	3.0
1.1.82	Transport	4 175	3 510	3 892	3 673	1 723	2.1
1.2.2	European territorial cooperation	2 102	1 880	2 217	3 514	1 940	1.8
2.0.31	European Maritime and Fisheries Fund (EMFF)	1 549	2 170	2 595	3 218	912	3.5
1.1.10	European Fund for Strategic Investments (EFSI)	-	1 357	2 460	2 654	2 661	1.0
3.0.1	Asylum, Migration and Integration Fund (AMF)	689	980	1 734	2 447	1 620	1.5
1.2.5	Youth Employment initiative (specific top-up allocation)	1 540	2 142	2 215	2 248	-	
1.1.12	International Thermonuclear Experimental Reactor (ITER)	2 378	2 373	2 128	1 727	323	5.3
1.1.81	Energy	485	803	1 140	1 678	700	2.4
2.0.4	Environment and climate action (LIFE)	1 176	1 270	1 404	1 564	494	3.2
3.0.2	Internal Security Fund	738	982	1 191	1 421	739	1.9
1.1.11	European satellite navigation systems (EGNOS and Galileo)	582	919	1 267	1 300	897	1.4
1.2.4	European Aid to the Most Deprived (FEAD)	91	584	841	1 101	546	2.0
	Total for main multi-annual programmes	178 675	207 122	228 033	255 971	95 639	2.7
	Other programmes	10 509	10 042	10 332	10 817	8 378	
	Total	189 183	217 164	238 365	266 788	104 017	

Note 1: The programmes are ranked by their amount of RAL 2017.

Note 2: The total amounts of RAL do not include the RAL for other institutions.

Source: ECA, based on information from the Commission's data warehouse.

Annex II — Cumulative payment rates and RAL by Member State at the end of 2017 for the 2014-2020 MFF

Member State	Amounts allocated from MFF (billion euro)	Pre-financing until end-2017	Interim payments until end-2017	Total payment rate	2014-2020 RAL at end 2017 (billion euro)
a	b	c	d	e = c + d	f
FI	3.77	3.8 %	33.9 %	37.7 %	0.7
AT	4.92	3.5 %	26.7 %	30.2 %	1.3
IE	3.50	4.3 %	25.8 %	30.1 %	0.9
LU	0.14	3.8 %	23.6 %	27.4 %	0.0
EL	21.37	10.4 %	14.4 %	24.8 %	6.5
PT	26.09	5.6 %	16.5 %	22.1 %	8.8
SE	3.72	4.6 %	17.5 %	22.1 %	1.3
EE	4.42	4.9 %	16.3 %	21.2 %	1.4
LT	8.45	4.9 %	15.0 %	19.9 %	2.9
CY	0.95	6.0 %	13.3 %	19.3 %	0.4
DK	1.55	3.9 %	15.4 %	19.3 %	0.5
FR	27.84	4.7 %	14.3 %	19.0 %	10.1
UK	16.88	4.5 %	13.1 %	17.6 %	6.4
HU	25.11	5.1 %	12.2 %	17.3 %	9.5
LV	5.69	5.0 %	12.2 %	17.2 %	2.1
DE	27.93	4.5 %	12.5 %	17.0 %	10.8
NL	1.89	4.4 %	12.0 %	16.4 %	0.7
RO	31.18	5.7 %	10.4 %	16.1 %	11.9
BG	9.99	5.0 %	10.9 %	15.9 %	3.9
BE	2.87	5.3 %	10.4 %	15.7 %	1.1
PL	86.65	5.2 %	10.4 %	15.6 %	33.2
CZ	23.89	5.1 %	9.6 %	14.7 %	9.8
SK	15.49	5.1 %	9.0 %	14.1 %	6.2
SI	3.95	4.8 %	8.9 %	13.7 %	1.7
ES	42.56	5.0 %	6.8 %	11.8 %	17.5
MT	0.83	5.0 %	6.3 %	11.3 %	0.4
HR	10.93	5.2 %	5.7 %	10.9 %	4.7
IT	44.70	5.1 %	5.5 %	10.6 %	20.3
CB	9.26	5.6 %	2.7 %	8.3 %	3.1
Total	466.54	5.3 %	11.1 %	16.4 %	178.2

Note 1: CB refers to cross border programmes.

Source: ECA, based on the Commission report "Analysis of the budgetary implementation of the ESI funds in 2017".

ECA team

This ECA's Rapid Case Review "Outstanding commitments in the EU budget – A closer look" was adopted by Chamber V Financing and administration of the EU, headed by ECA Member Lazaros S. Lazarou. The task was led by ECA Member Annemie Turtelboom, supported by Dennis Wernerus, Head of Private Office; Margit Spindelegger, Principal Manager; Paul Sime, Head of Task; Michael Tatianos and Mircea-Cristian Martinescu. Thomas Everett provided linguistic support and Manuela Magliocca and Valérie Tempez-Erasmi provided secretarial assistance.

After years of almost uninterrupted increase, the EU budget's outstanding commitments reached a new high of €267 billion by the end of 2017. Most of them represent a future payment obligation of the EU budget. With this review, we provide insight into how their amount has evolved over time and what are the main factors behind the upward trend. Such factors include commitment appropriations being higher than payment appropriations, the closure of one MFF overlapping with the start of a new one and the EU financed programmes in the Member States facing slow implementation. We identify the risks posed to the EU budget by the large amount of outstanding commitments such as the impossibility to meet future payment needs, as well as possible solutions.

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