

Programme Finance and Financial Management 2021-2027

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Financial Management Highlights, 2021-2027

- Performance Reserve & Review **XX**
- EC proposed: Lower co-financing rates ↓ (proposal scrapped XX)
- Flexible finance for last 2 years of Prog. ↕ (altered)
- Some flexibility between Priority financial allocations
- EC proposed: n+2 rule for all Programmes (proposal scrapped XX)
- specified payment application dates
- Certification of payment claims dropped **XX**
- Technical assistance – flat-rate added to regular spend (option)
- Extension of SCOs

1. Programme Finance, Commitments, Co-financing

Financial Plans for Programmes, 2021-2027

Programme Decision includes 2 key tables:

- **per year**
 - support from each Fund, for each financial year
 - used for **commitments** →
 - initial commitment with Decision, subsequent instalments each year
 - **Performance reserve dropped XX**
- **per priority**
 - support from Funds; plus national co-financing
 - used for **payments** (co-finance rate)
 - specifies whether based on **total** or **public** eligible exp.
 - “5+2” proposed: first 5 years only planned, then re-programme for 7 years **but... XX**
 - flexibility of 5% between priorities, no Prog. amendment required, **but...**

Financial Plans for Programmes, 2021-2027

Mid-term review: by end March 2025:

**** final agreement, new CPR:**

- **per year**
 - 2026, 2027 commitments: 50% fixed; 50% flexibility amount (Art. 86.1 CPR)
 - (Revised sums for each financial year 25, 26, 27 as a result of the *technical adjustment* relating to criteria for financial allocations dropped XX)
- **per priority**
 - 2021-2027 allocations programmed at start of programme
 - but includes a “FLEXIBILITY AMOUNT” ...
 - ...final priority allocations decided after mid-term review
 - by Programme amendment
 - 8% of Priority € can transfer to other Priority
 - no amendment required



2021 commitment

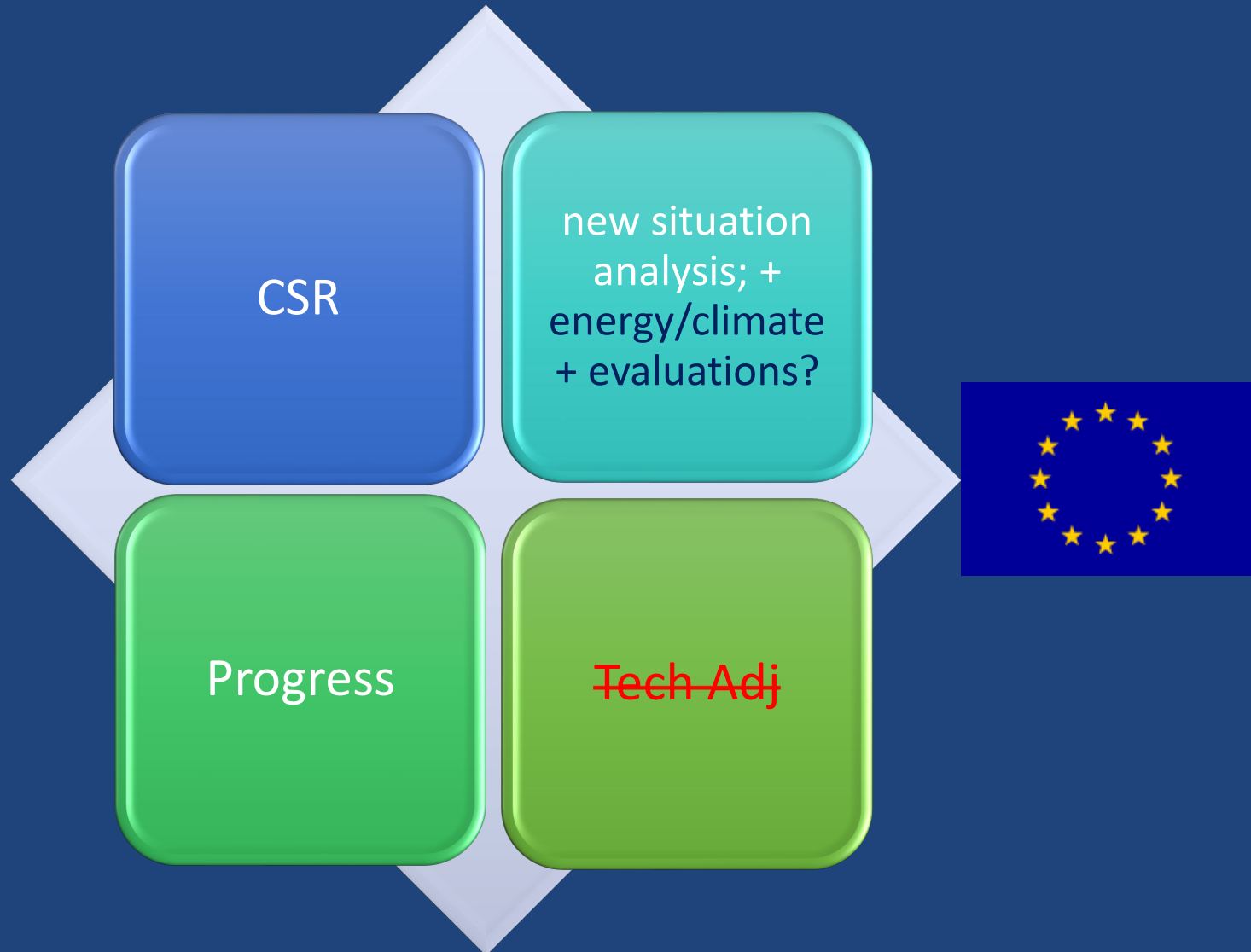
- MFF reg
 - 2021 commitment spread between
 - 2022
 - 2023
 - 2024
 - 2025
- *one-quarter each*



*** not possible for 2022 commitment***

- **Had to be agreed in 2022...**
- **...or would lose 2022 commitment**
- **2021-2027: over 400 programmes approved...**

Mid-term Review, 2024-2025



Co-financing rates and ceilings

- 2014-2020: 85%-80%, 60%, 50%
- some exceptions to regional ceilings (+10%) where priority axis delivered through financial instruments or CLLD, social innovation or transnational cooperation or combination
- 2021-2027: EC proposal: LDR: 70%; TR: 55%; MDR: 40% XX
- Cohesion Fund: 70% (Interreg, Outermost regions: 70%)
- (some exceptions: ESF innovations; ETC ex; Econ Crisis)
- *state aids rules are co-finance limits for company support → based on GGE (gross grant equivalent)*



Co-financing rates and ceilings

LDR	85% maximum (plus outermost regions)
TR	70% maximum (LDR in 2014-2020)
TR	60% maximum (other)
MDR	40% maximum (50% ex-transition etc.)
Cohesion Fund	85% maximum
Interreg	80% maximum (outermost regions higher...)
JTF priority	85% LDR / 70% TR / 50% MDR
FAST CARE	Up to 100% under this new priority (to 30.6.24) (max 5% of ERDF/ESF+ funding total)

2021-2027

2. Automatic Decommithment

Automatic Decommithment, 2021-2027

- commitments
 versus
- interim payments
- plus pre-financing
- *calculated at programme level*

*** Final CPR: $n+3$ for 2021-2026
(& 2027 commitment: $n+2$)



2021-2027

3. Advances / Pre-financing

2014-2020: pre-financing

- initial and annual advances both count as expenditure against the n+3 automatic decommitment rule:

-
- initial pre-financing (advances) of 1% for 2014, 2015, 2016,
 - available for whole programme - must be spent (accounted for) by end 2023 and thus cleared at final closure

-
- plus annual pre-financing (advances) 2016 to 2023
 - 2% for 2016, rising each year to 3% (2020); 3% for 2021 to 2023**
 - *but annual advances which are not absorbed during the accounting year are paid back to EC (or subsequent advances reduced), so not available for the whole programming period*

****reduced to 2%, Amending Reg. 2020/1542**

2021-2027: pre-financing

- (EC proposal: pre-financing (advances) of 0.5% for first six programming years: 2021, 22, 23, 24, 25, 26 (not 2027))
- paid before 1 July each year
- available for whole programme - must be spent (accounted for) by end 2029 and thus cleared at end of final accounting year (*look like initial advances in 2014-20*))
- **EP wanted higher %: to start at 0.7%, rising to 2%

-
- ✓ CPR: 0.5% confirmed* (+0.5% in 2022 and 2023 – FAST CARE)
 - ✓ BUT 2021 & 2022 must be cleared by end of accounting year (*look like annual advances of 2014-2020*) except FAST CARE element (0.5%)
 - ✓ 2023-26 cleared by end of final accounting year
- *Interreg: 1% (2021/22) rising to 3% (2023/26)*



2021-2027

4. Payment Applications / Interim Payments, Technical Assistance

Payment Applications, 2021-2027

- MS submits (maximum) 6 times per year (by time limit of end Feb, May, July, Oct, Nov, Dec). (EC had proposed max 4x/year)



- *total eligible expenditure (EE) incurred by beneficiaries, paid for implementing operations, and entered into the accounting system (of relevant body)*
- **only admissible if Assurance Package (Accounts etc.) submitted**
- **EE submitted may only relate to Specific Objectives where the ENABLING CONDITIONS have been fulfilled**
- attributed to oldest open commitment

Payment Applications and Technical Assistance

- *payment = eligible expenditure x priority co-finance rate*
- *less 5% withheld by EC until calculation of the annual balance (for each accounting year) (10% withheld in 2014-2020)*

- *EC proposal: technical assistance - Flat Rate ADD TO PAYMENT APPLICATION (ERDF/CF: 2.5%; ESF+ 4%)
(ERDF now 3.5%) (JTF 4%), but options on TA.....→*

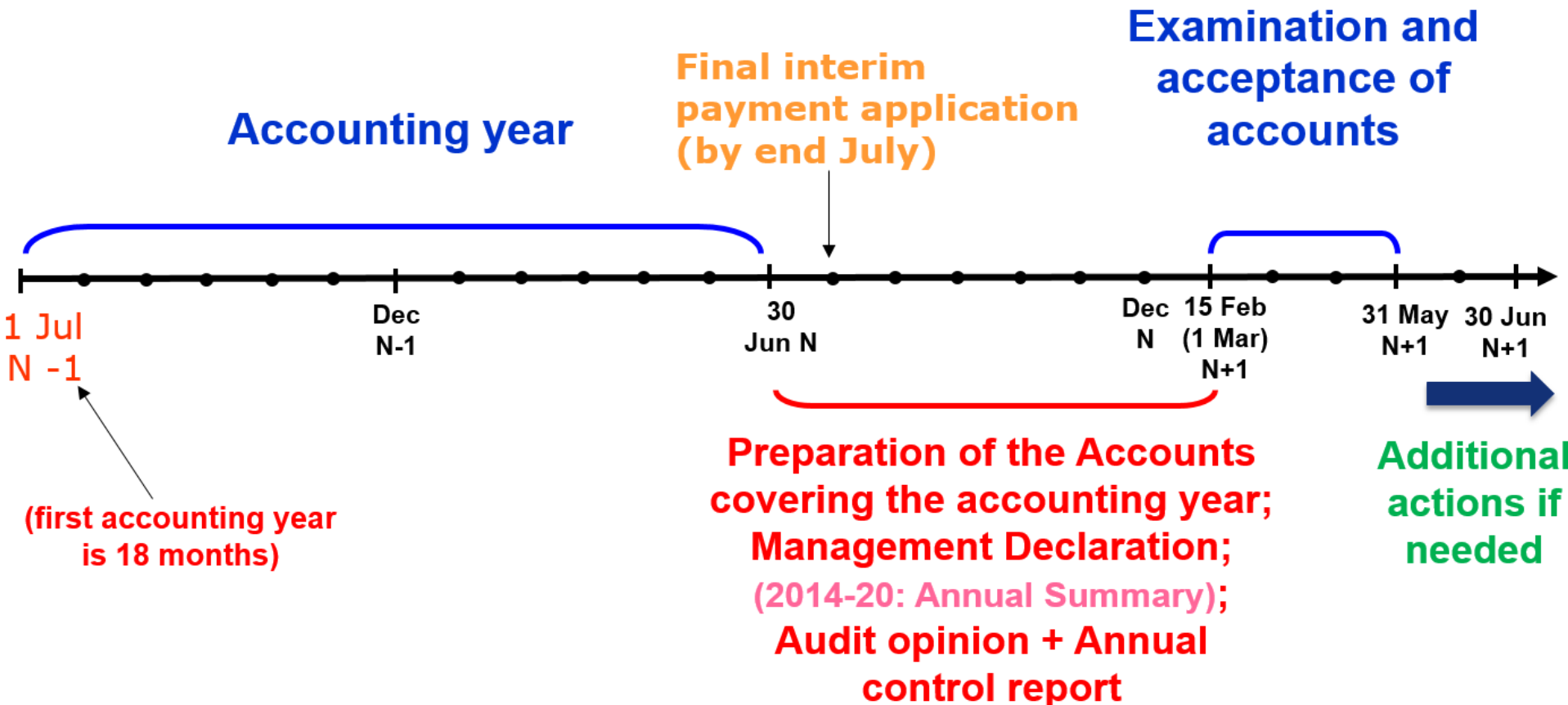
- *EC to make interim payment no more than 60 days after payment application*
- *(payments up to final accounting year balance payment cannot be higher than the total eligible public contribution declared in all payments (as per 2007-2013))*

Technical Assistance

- *Final CPR: possibility now to choose between flat-rate and having a TA Prog, or TA priority in Prog*
 - but cannot mix the methods; within the PA: all Programmes must use the same method for TA
 - smaller Progs, under €1bn: TA at 6%
 - if real cost TA method used, there must be a Performance Framework, with output indicators, milestones and targets
 - max. 100% co-finance rate for TA priorities
 - ESF+ material deprivation has TA: 5%

5. The Annual Accounts

Accounts Cycle



Annual Clearance of Accounts

accounting year 1 July (year n) to 30 June (n+1)

last payment application relating to accounting year to be made by 31 July (n+1)

only 95% paid over for each interim payment claim

calculation of annual balance made – on acceptance of accounts
(£5%, less what is owed to EC)

Annual Accounts to be submitted by 15 February (year n+2), with Management Declaration, ACR and OPINION. *(Annual summary of Controls and Audit findings was required in 2014-2020)*

Commission acceptance by 31 May (balance - adjust next payment)

What Expenditure goes into the Annual Accounts?

By priority (*and Fund and region if applicable*):

- total eligible expenditure by beneficiaries (until 30 June) AND which has been included in payment applications to EC up to 31 July and entered into accounting system;
 - and declared
 - with corresponding public contribution paid/to be paid;
 - and public contribution paid to each FI;
 - amounts withdrawn during the accounting year
 - (2014-2020: recoveries) XX
 - € where ENC not fulfilled

Reconciliation (see Annex XX)

- annual accounts – includes a reconciliation of:
 - sums included in payment applications, for the period up to 31 July
 - and sums “DECLARED” in the accounts
- the difference will be withdrawals made and stated in accounts – related to corrections made...
- ...or ongoing assessments (excluded)
- other amounts as necessary to reduce the residual error to 2% or less →

(so the accounts procedure remains a type of “rolling closure” of expenditures)

Examination and acceptance of Annual Accounts, 2021–2027 (Arts. 98-102, CPR)

- *Accounts not admissible if MS has not made corrections to reduce the residual risk on legality and regularity of expenditure to under 2%*
- EC must satisfy itself that accounts are COMPLETE, ACCURATE & TRUE by 31 May, unless contradictory procedure, where:
 - AA provides qualified or adverse OPINION (on completeness, accuracy, veracity)
 - Or EC has evidence of problem with unqualified opinion

Calculation of the Annual Balance

	+	-
2014-2020	sum of 10% retained by EC	annual advances (unused part); (withdrawals); sums excluded from accounts
2021-2027	sum of 5% retained by EC	advances (2021, 2022); (withdrawals); sums excluded from accounts



6. Forecasts and Transmission of Data

Forecasts / Transmission of financial data, 2014–2020

Annual Forecast, 2007-2013 (Art.76.3 General Reg):

- Member States (Managing Authorities) have to transmit every year to Commission, before 30 April, their forecasts of requests for payment for the current year and for the following year

Annual Forecast, 2014-2020 (Art.112.3,CPR):

- Member States (Managing Authorities) have to transmit every year to Commission, by 31 January and 31 July (for current and subsequent financial years)

Progress of Expenditure, 2014-2020 (Art.112.1, CPR)

- 31 January, 31 July, 31 October: planned expenditure of approved operations and beneficiaries payment claims (see Annex II of EC Implementing Reg. 1011/2014)...

→ Real-time reporting (2021-27); forecasts continue

7. Closure

Key Closure Dates

- Last day of eligible expenditure (n+3, n+2): 31 December 2029
- Last accounting year ends 30 June 2030
- Final payment claim: 31 July 2030
- Final accounts/CR etc. Submitted latest: 15 February 2031
- + FPR: latest at 15 February 2031
- Acceptance of accounts: 31 May 2031 (unless a contradictory procedure)
- Payment of Accounting Balance linked to acceptance of FPR



8. Financial Control & Audit

Control & Audit Highlights, 2021-2027

- No new Designation procedure XX
- No need for CA XX →
- Management verifications: risk-based approach re-inforced →
- Annual Summary (MA) XX
- Audit of operations – more flexibility
- Simpler audit requirements for programmes with good track record
- Extended use of Simplified Cost Options (SCO)
- Revenue generating projects grant calculation X

Control & Audit, 2021-2027

- MS/Prog identifies MA, AA...
- ...and a body which performs accounting function (MA or other), which includes accounts/payment applications - *designation procedure discontinued – rollover of current MCS*
- MS ensures functioning of Management and Control Systems (MCS);
 - *assurance from early AA audits of systems*
- MS shall prepare a description of MCS by end July 2022 (and at latest end June 2023), and keep it updated
- *MCS functioning in accordance with new list of Key Requirements (Annex X)*

MCS Key Requirements 2021-2027 (Annex XI)

body	No. of KR
MA	9
MA/ accounts function body	1
AA	5
total	15

Accounting Function, 2021-2027

- MA: will ensure/confirm that legality and regularity of expenditure included in the annual accounts
 - provide Management Declaration
-
- Accounting function: drawing up accounts; preparing & submitting payment applications to EC (*and receives payments...*)
 - *Accounting function: will not comprise verifications at level of beneficiaries (old CA could)*
-
- AA: continues to audit annual accounts + systems + expenditure in operations – provide INDEPENDENT assurance to EC of MCS and legality and regularity of expenditure in accounts
 - AA provides annual audit opinion with annual control report (ACR)

Management Verifications, 2021-2027

2021-2027

- ✓ *verifications shall be risk based...*
- ✓ *...proportionate to risks identified*
- *MA to prepare risk management strategy (with written risk assessment)*
- *expected to reduce admin costs by 2-3% of Funds*

audit: proportionate approach continues in 2021-2027 (Arts. 77-80)

- AA annual audit opinion with annual control report (ACR)
- AA prepares audit strategy – updated annually:
 - based on a risk assessment (using MCS description plus audits of systems /operations)
 - include system audits of new managing bodies
- AA-EC meeting regularly, and at least once per year
- MA to protect audit trail – supporting documents of an operation 5 years after the end of year in which last payment from MA to beneficiary

proportionate approach continues in 2021-2027

- (random) statistical sampling methods for expenditure of operations
 - can be non-statistical method where fewer than 300 sampling units, but a minimum of 10% of sampling units
- further strengthening of the « single audit » arrangements – level of risk – avoid duplication of audit of same expenditure
- smaller projects (up to €400K ERDF/CF and €300K ESF) audited only once before completion
- EC and AA to coordinate audit plans

* (Interreg: EC select a common sample of ops (population is from all Progs), executed by AAs)*

Enhanced proportionate arrangements, 2021-2027

(Arts. 83-85)

- MS can apply for enhanced proportionate arrangements (at start, or during period):
 - MCS working well for 2 years **AND**
 - error rate below 2% each year
-
- ✓ Use national procedures for MV
 - ✓ AA may limit audit (stat.) sample to 30 sampling units
 - ✓ EC to audit only work of AA (unless deficiencies in AA work)
 - ✓ *note: the conditions must be ongoing*

2021-2027

9. Finance and performance

Performance Framework, 2014-2020

Priority	Indicators	Milestones 2018	Targets 2023
ESF: P1	• Total (EU) Spend (€)* • Output - no. of trainees (by age group etc.) • Result - no. with jobs; no. active in labour market	• Financial; • Output; • Result	• Financial; • Output; • Result
P2	(NB: *Spend = total certified eligible expenditure)		

Priority	Indicators (and unit of measurement)	Milestones for 2018	Targets for 2023
ERDF: P1	▪ Spend (€)* ▪ Output – eg. no. new companies assisted ▪ Stage of project / initiative	▪ Financial; ▪ Output; ▪ Key implementation step	▪ Financial; ▪ Output;
P2			
P3			

Performance Review, 2019

- indicators must cover activities that spend at least 50% of financial allocation
- Performance Review - progress to end 2018, reported in AIR 2019
- to award Performance Reserve (6% of Fund)
- success – indicators
 - **where 1 or 2 indicators per priority, all must reach 85% of milestone or target (where more than 2 indicators per priority, all but one must reach 85%, the other must reach 75%)**
- revision of targets where failure to get performance reserve or...if extra funds allocation from other priorities following performance review
- **Progress to end 2023? Potential financial correction if serious failure**

Priority	Indicators (choose unit of measurement)	Success	"Serious Failure"	Achievement rates 2023	Correction scale
P1	1 or 2 indicators used Financial (F) Output (Q) Key Implementation step (K)	All indicators reach 85% of milestone or target	Any indicator does not reach 65% of milestone or target	Calculate average achievement rate (A) of both indicators; Divide by S (absorption rate of €) x100 (%); ie. achievement rate as % of (spend) absorption rate	60-65% Flat 5% financial correction to priority contribution 50-60% Flat 10% financial correction
P2	More than 2 indicators used Financial (F) Output (Q) Key Implementation step (K) (Result) (R)	All indicators reach 85% of milestone or target OR all but one reach 85%, 75% for the other	At least 2 indicators do not reach 65% of milestone or target.	Average achievement rate (A) of all indicators; Divide by S (absorption rate of €)	Below 50% Flat rate 25% financial correction Correction rates can be reduced by up to 50%
Note:	Q and K correspond to more than 50% of priority €	By priority, assessed for each Fund, each category of region	YEI assessed separately	A and S are final value / target value (%) for each indicator	

Monitoring and reporting, 2021-2027

- Annual Report (AIR) X GONE
- Performance Framework - modified
- Performance Reserve (6%) X GONE
- Performance Review X GONE
- Annual Review Meeting (MS-EC) becomes
- **Annual Performance Review (MS-EC)**

- **REPORTING: closer data monitoring approx every 2 months**
 - transmission of financial data, **PLUS...**
 - Performance Framework data - wider / more comprehensive / more common indicators (except for ESF) →

“Real Time Reporting”, 2021-2027



Transmission of data, 2021-2027 (Annex VII, CPR)

by Specific Objective.....

- 5x per year Financial information (3 elements)
 - 2x per year physical indicators
- Progress of Expenditure: BY INTERVENTION TYPE (planned exp. in Prog)
- planned expenditure of approved operations
 - expenditure declared by beneficiaries in payment claims
 - number of operations
- Financial Instruments eligible expenditure

Outputs – Milestone (2024), Target, Progress

Results – Baseline, Target (2029), Progress

- Annex VIII: Annual Forecast (end Jan; end July)
- forecasts of EU contribution in payment applications - current and subsequent financial years

Performance Framework, 2021-2027: Split tables at level of SO

e.g. ESF: Priority 1 OUTPUTS	Indicators (and unit of measurement)	Milestones for end 2024	Targets for end 2029
SO1	Output - no. of trainees (by age group etc.)	Output;	Output;
	❖ Common AND programme-specific indicators		

ESF: Priority 1 RESULTS	Indicators (and unit of measurement)	Baseline or Reference Year	Targets 2029
SO1	Result - no. with jobs; no. active in labour market	Result;	Result;
	❖ Finance (spend) excluded here ❖ No Key Implementation Steps for ERDF/CF	(Note: result milestones not required)	

PF and Indicators, 2021-2027

- PF provides one part of Mid-term Review (MS) – progress – allocation of flexibility amount
- all relevant common and programme-specific indicators into PF
- common indicators coverage wider for ERDF/CF:
 - 97 common *OUTPUT* indicators (*by SO, but can be for multiple SOs*)
 - PLUS 66 common *RESULT* indicators now added for ERDF/CF
 - (NB: « direct results » for beneficiary, rather than longer-term/wider impacts)
- try to reduce number of programme-specific indicators
- fewer common indicators for ESF+
- (ESF: use registers for ESF data; less reliance on questionnaires, which are a burden to get data)

Setting Milestones and Targets

- PF indicators to cover much more expenditure than before (ESF+ should cover 100%)
- **criteria for selecting indicators; calculation method**
- **milestones and targets – other factors of influence?** (*Use unit cost benchmarks?*)

revision of targets... in line with financial allocation revision /MTR

- *account for forecast profile of expenditure of priority / SO*
- *account for MINIMUM expenditure in order to avoid n+3/n+2 automatic de-commitment*

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