

Programme Finance, Financial Management: moving from 2014-2020 to 2021-2027

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Financial Management Highlights, 2021-2027

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

New Regulations

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 X**
- **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, but...**
 - **flexibility of 5% between priorities, no Prog. amendment required, but...**

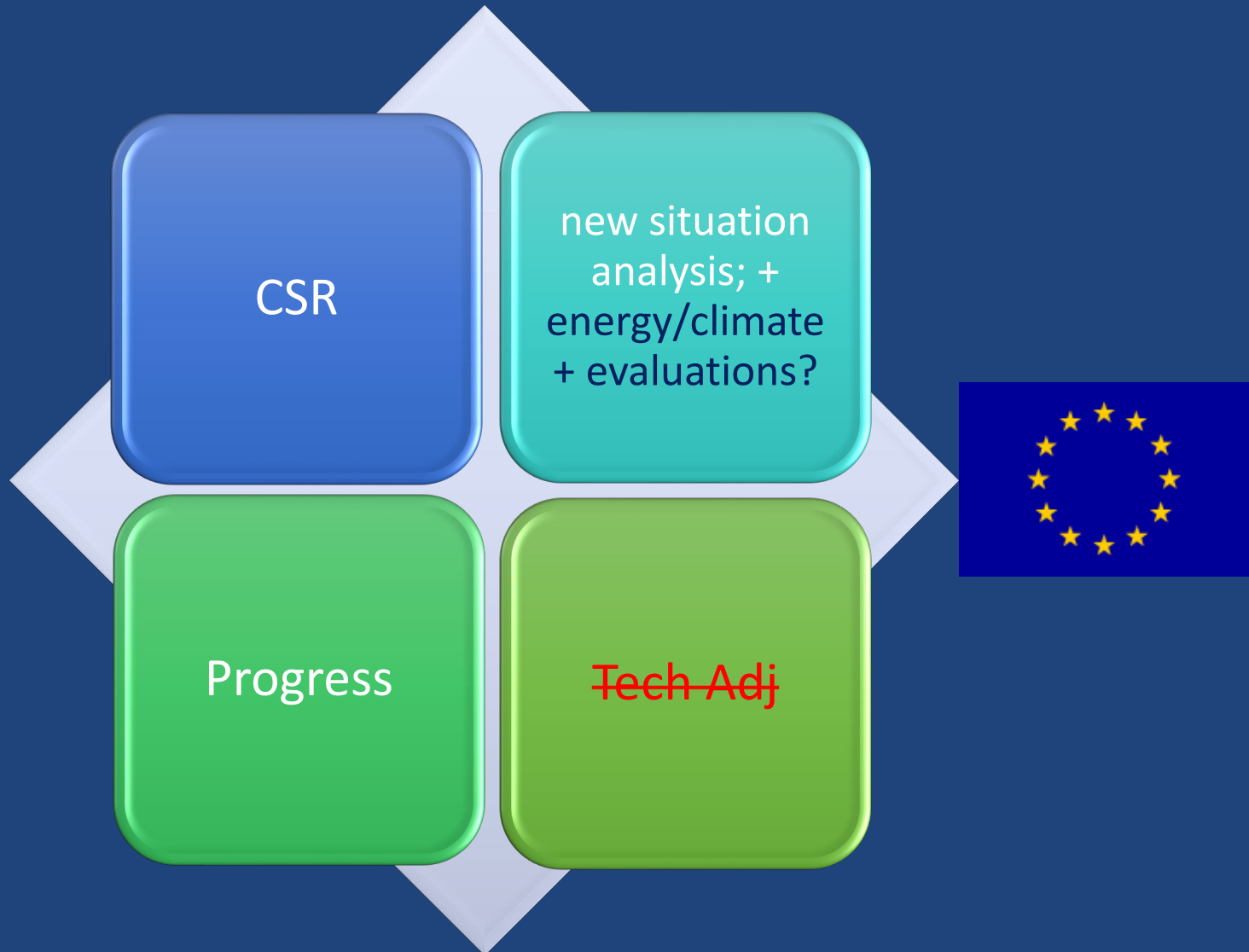
Financial Plans for Programmes, 2021-2027

Mid-term review: by end March 2025:

- per priority
 - EC proposal 5+2: new allocations for 2021-2027 (incl 26, 27)
 - for Programme amendment (!)
- ** final agreement, new CPR:
 - 2021-2027 allocations programmed at start of programme
 - 2026, 2027 allocations to include a “FLEXIBILITY AMOUNT” (50% fixed, 50% flexible)
 - final allocations decided after mid-term review
 - by Programme amendment
 - 8% of Priority € can transfer to other Priority
- per year
 - Revised sums for each financial year 25, 26, 27 as a result of the *technical adjustment* relating to criteria for financial allocations dropped



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%
- 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 (external borders higher)
JTF priority	85% LDR / 70% TR / 50% MDR

New Regulations

2. Automatic Decommithment

Automatic Decommithment, 2021-2027

- EC proposal: n+2 for all Programmes:
 - commitments
 - *versus*
 - interim payments
 - plus pre-financing
 - *calculated at programme level*

except that:

- for 2021 commitment: 60% of the commitment is target for end 2023
- then add 10% of 2021 commitment to each of 2022 to 2025 n+2 deadlines (2024 to 2027) *XX dropped XX*

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



New Regulations

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%



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- ✓ Final CPR: 0.5% confirmed*
 - ✓ *BUT 2021 & 2022 must be cleared by end of accounting year; 2023-26 cleared by end of final accounting year*

Interreg: 1% (2021/22) rising to 3% (2023/26)

New Regulations

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 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*
 - EC: less 10% withheld by EC until calculation of the annual balance (for each accounting year) *5% agreed (new CPR)
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- ***EC: technical assistance - Flat Rate ADD TO PAYMENT APPLICATION (ERDF/CF: 2.5%; ESF+ 4%) (ERDF now 3.5%) (JTF 4%) but options on TA.....→***
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- 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))*

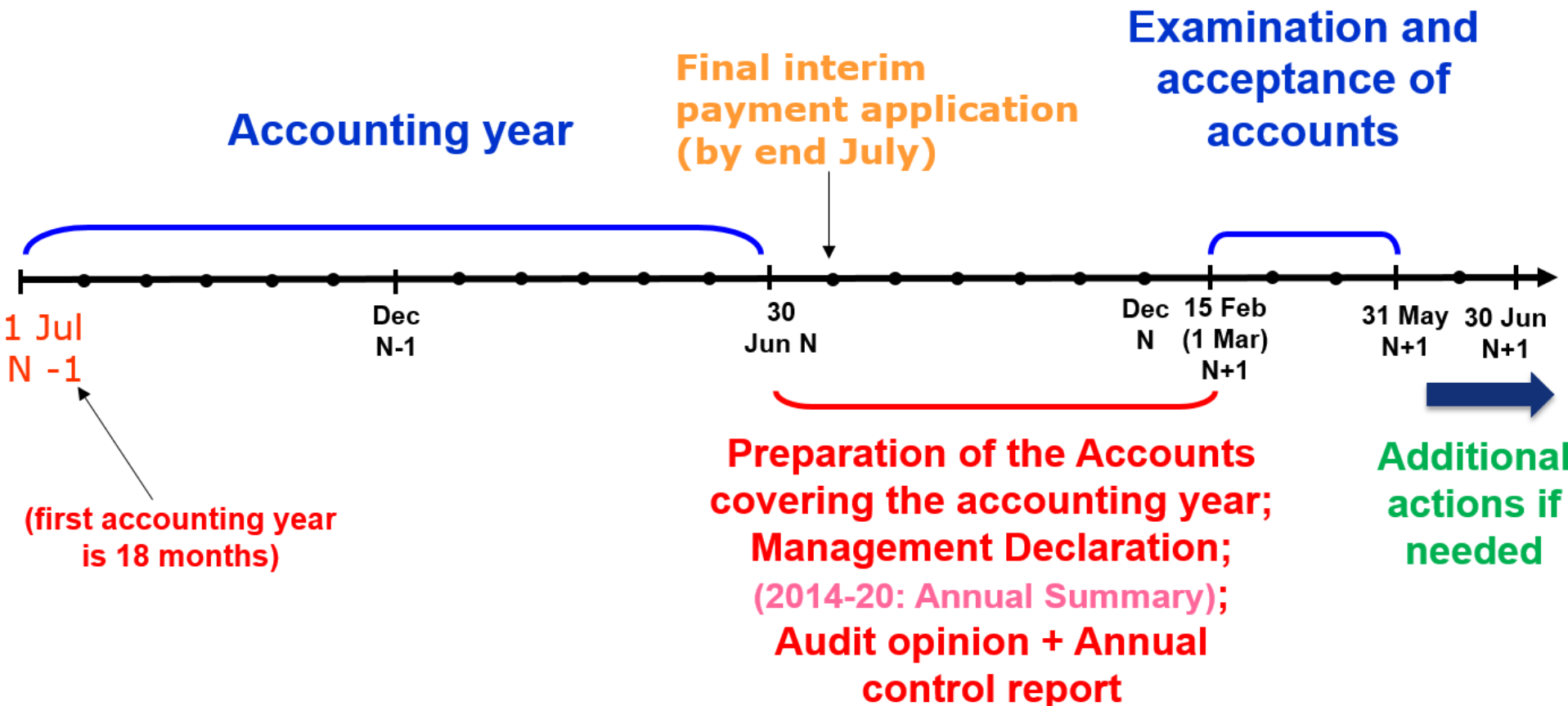
Technical Assistance

- *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%

New Regulations

5. The Accounting Year and Calculation of the Annual Balance

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

annual balance paid on acceptance of accounts (Σ5%, 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 also required in 2014-2020)

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

Calculation of the Annual Balance

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



6. The Annual Accounts

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

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)

7. 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)

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

EC proposal: 6x per year: by Specific Objective..... Final CPR:

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

Outputs – Milestone (2024), Target, Progress

Results – Baseline, Target (2029), Progress

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

8. 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



9. Financial Control & Audit

Control & Audit Highlights, 2021-2027

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

Accounting Function, 2021-2027

- MA: will ensure/confirm that legality and regularity of expenditure included in the annual accounts
-

- 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

Management Verifications, 2014-2020

- *All project payment claims will be checked (100%) - based on supporting documentation – audit trail is critical*
- *In practice:*
 - *administrative verifications: may be carried out on a sample basis – **verify a selection of expenditure items***
 - *but each item has the “possibility” to be selected...*
 - *..from list of all individual expenditure items*
 - ***thus, a risk-based selection can be complemented by a random sample (5%?)***

Management Verifications, 2021-2027

2021-2027

- *verifications shall be risk based...*
- *...proportionate to risks, as per written risk assessment*
- *expected to reduce admin costs by 2-3% of Funds*

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