European Union budget: grants and transfers

CAG presentation 9 December 2019

Rosa Aldea Busquets, Accounting Officer of the Commission

EU expenses (EU income statement)

EUR million

	Note	2018	2017
EXPENSES			
Implemented by Member States	*3.9*		
European Agricultural Guarantee Fund		*(43 527)*	*(44 289)*
European Agricultural Fund for Rural Development and other rural development instruments		*(13 149)*	*(11 359)*
European Regional Development Fund and Cohesion Fund		*(30 230)*	*(17 650)*
European Social Fund		*(11 935)*	*(7 353)*
Other		*(2 826)*	*(1 253)*
Implemented by the Commission, executive agencies and trust funds	*3.10*	*(17 551)*	*(15 738)*
Implemented by other EU agencies and bodies	*3.11*	*(3 396)*	*(2 667)*
Implemented by third countries and international organisations	*3.11*	*(4 016)*	*(4 115)*
Implemented by other entities	*3.11*	*(3 569)*	*(1 478)*
Staff and pension costs	*3.12*	*(10 929)*	*(10 002)*
Changes in employee benefits actuarial assumptions	*3.13*	*–*	*(3 544)*
Finance costs	*3.14*	*(1 677)*	*(1 896)*
Other expenses	*3.15*	*(6 208)*	*(6 756)*
Total Expenses		**(149 014)**	**(128 101)**

Types of EU budget expenditure

Type	In exchange for
Transfers (e.g. grants)	Not directly (policy objectives)
Procurement	Goods and services
Financial instruments	Interest, dividends
Admin	Goods and Services

Main types of transfers

Grants (transfers) under agreements – Eligibility criteria, reimbursement of costs incurred by beneficiary, based on a grant agreement

- **Grants for actions -** financing actions intended to achieve an EU policy objective
- **Operating grants** – financing functioning of an entity that pursues an EU policy objective

Applied in direct implementation and indirect (e.g. via UN, world bank) implementation

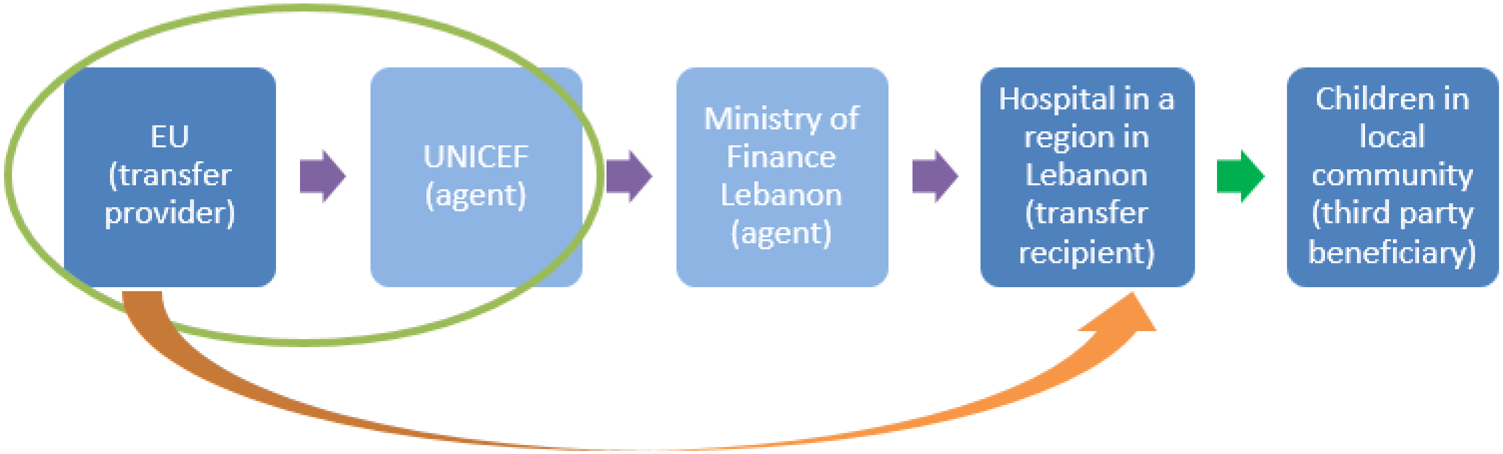
Main types of transfers

Entitlements – transfers made by the EU when the beneficiary meets specified eligibility criteria (based on regulations), not linked to reimbursement of eligible costs (e.g. in agriculture)

Reimbursements – reimbursement of member state authorities for cost declared by beneficiaries (based on eligible costs, lump sums, simplified cost options and other eligibility criteria, e.g. compliance with EU procurement rules etc.) or for milestones reached

Transfers - indirect implementation

Example 1: delivery of vaccination to children

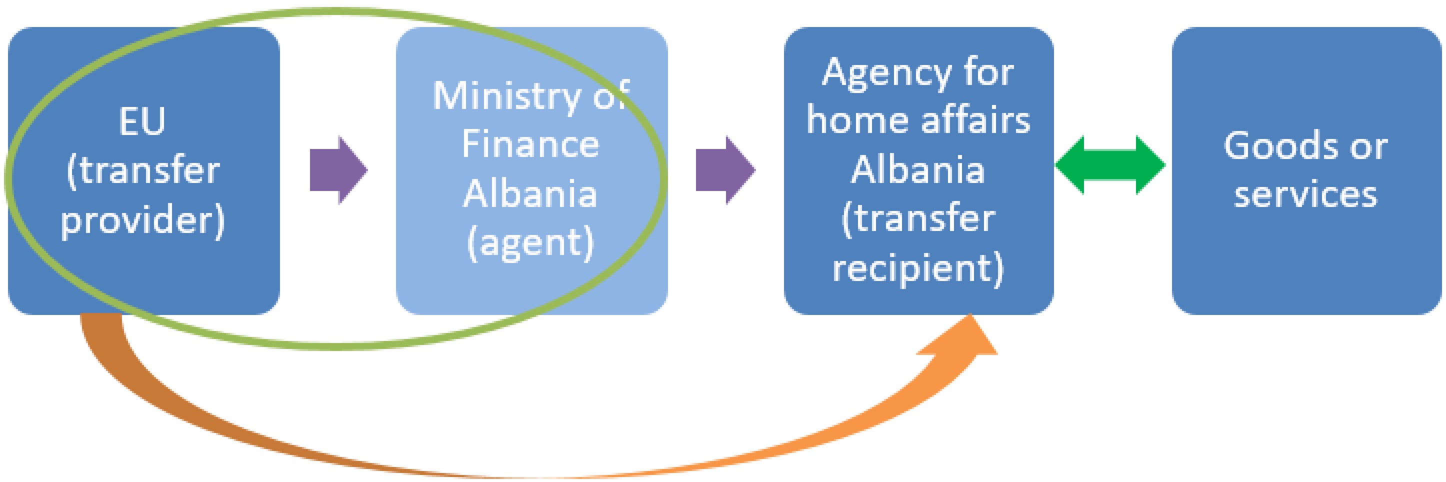


EU effectively confers enforceable obligations on the Hospital to perform vaccinations (and thus rights on the EU)

In substance, the binding arrangement exists between the EU and the hospital

Transfers - indirect implementation

Example 2: Capacity building: transfer recipients contract goods or services themselves



Objective is to enable the transfer receipient to contract goods and services themselves

Transfer recipient may eventually transfer goods & services to thrid parties or e.g. improve capacity of service delivery

Transfers in Agricultural Policy

- Payments to farmers (entitlements) as income support for decent standards of living for farmers and for meeting requirements for animal health, environment & food safety

- Transfers (reimbursements of eligible costs) for the purpose of regulating or supporting agricultural markets, incl. sector specific interventions: wine, olive oil, fruits (weather)

- Transfers (grants under agreements) in rural development programmes – mainly funding for SME's

Transfers in Cohesion Policy

Transfers under agreements & reimbursement of costs:

- to strengthen economic and social cohesion in the EU by correcting imbalances between its regions (innovation & research, digital agenda, SMEs, low carbon economy);

- to achieve economic & social cohesion for member states with GNI/inhabitant < 90% (infrastructure, transport networks, environment);

- to improve employment and education opportunities.

Characteristics of grant agreements

Rules for grants defined in the EU Financial Regulation:

Practically in all cases **enforceable performance obligation** (binding grant agreement; description of action or work programme to be fulfilled)

Practically in all cases **eligibility criteria (eligible costs to be incurred) and conditions attached** – typically return obligation for amounts unspent or misused; cases without conditions (i.e. restrictions) usually only for low value grants

Typically **no transfer of ownership** to the EU -> action is to support achievement of EU policy objective

Accounting Framework

Financial Regulation applicable to the EU budget:

The accounting officer of the Commission shall adopt rules based on internationally accepted accounting standards for the public sector. [FR Art. 80(1)]

No specific public sector guidance for non-exchange expenses available but general principle: "link expenses to the financial year in which they arise, irrespective of date of payment " -> *accrual accounting*

Two accounting rules adopted: EAR 3 ‘Expenses and Payables’ and EAR 5 ‘Pre-financing’

Expense - Recognition and Measurement

Recognition: in the period when the events giving rise to the transfer occured, when the eligibility criteria are met and the amount can be reliably estimated

Measurement: amount paid to cover eligible expenses incurred by the beneficiaries or an estimate of the progress of the implementation

Accounting for grants & transfers

Timing of expense recognition

Costs incurred & implementation at the final beneficiary level

Payment stage:

(i) for costs incurred -> recognition of expenses;

(ii) advance -> recognized as an asset (pre-financing)

At year-end: best estimate of stage of implementation based on reports provided for material grants or other methods of estimation

Action completed/fully implemented -> final acceptance and recognition of costs in the accounting system

Accounting for grants & transfers

Pre-financing is a payment to provide an advance (float) to the beneficiary -> recognized as asset in EU accounts (ca. EUR 50 bln, 30% of EU consolidated B/S)

Contractually the resources transferred (pre-financing) remain due (property) to the EU until implementation at beneficiary level and eligibility check performed based on cost claims & invoices received plus progress reports (financial and operational validation).

Pre-financing recovered if not performed or funds misused (compliance)

Impacts for financial management

Sound financial management – one of the most important results of accounting reform!

- Better safeguarding of EU budget (expenditure validated only when eligibility and implementation of action is checked)
- Avoidance of reputational risk (political criticism)
- Clear message to beneficiaries
- Follow-up of contracts/grant agreements
- Information on outstanding pre-financing (potentially to be recovered)
- Information in FS on the stage of implementation of the actions (focus on performance and achievement of results)

Relevant information for decision making processes (allocation of the budget) and for the accountability (effectiveness of the use of resources).

Thank you for your time!

http://ec.europa.eu/budget/explained/index_en.cfm