European Commission

Integrated Financial Reporting Package

Overview

Financial year 2017

#EUBudget

Budget

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Günther H. Oettinger,
European Commissioner
for budget and human resources

"The EU budget delivers concrete results on the ground in support of our political priorities. We create jobs, boost research and innovation, stimulate investment, support farmers, work with neighbours, fight against climate change and provide responses to our challenges such as the migration crisis, to name just a few. The EU budget brings real added value to our citizens. The Integrated Financial Reporting Package demonstrates how every euro was managed and spent in 2017."

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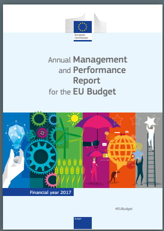
I. Integrated Financial Reporting Package 2017

The Integrated Financial Reporting Package (IFRP) brings together comprehensive information on the implementation, performance, results, sound financial management and protection of the EU budget in 2017.

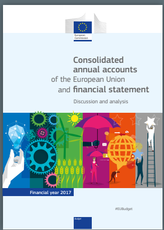
The package consists of four reports: the 2017 Annual Management and Performance Report, the Consolidated annual accounts of the European Union 2017, the Report on the follow-up to the discharge for the 2016 financial year and the Programmes' Performance Overview. These documents provide essential input for the annual 'discharge procedure' through which the European Parliament and the Council hold the Commission accountable for the way it manages EU taxpayers' money. This is in line with the highest international standards for transparency and accountability.

This brochure summarises the reports of the package, highlights their key messages and explains the key features of the EU budget.

Content of the Integrated Financial Reporting Package



The **2017 Annual Management and Performance Report** provides an overview of the performance, management and protection of the EU budget. It explains how the EU budget supports the EU political priorities and describes both the results achieved and the role of the Commission in ensuring the highest standards of financial management.



The **Consolidated annual accounts of the European Union 2017** contain financial information on the activities of the year, the assets and liabilities, the revenue and expenditure of the institutions, agencies and other bodies of the EU. They are produced in accordance with International Public Sector Accounting Standards.

In the **Report on the follow-up to the discharge for the 2016 financial year** the Commission reports on how it proceeded with the requests made by the Parliament and the Council during the discharge procedure. They cover wide-ranging topics and help the Commission to further improve the way it manages and implements the EU budget.

The **Programmes' Performance Overview** is an extract of the Programme Statements. It provides a uniform and comprehensive presentation of each of the spending programmes, their performance framework, benefits for EU citizens, implementation status and highlights key achievements. The Overview is for the first time published in the IFRP 2017 and offers concise, uniform, quickly to grasp information for all EU spending programmes.

Find out more about the **Integrated Financial Reporting Package** here:
https://publications.europa.eu/en/webpub/budg/reports/ifrp-2017/

II. The EU budget in a nutshell

What is it?

The EU budget is primarily an investment budget. This makes it unique compared to national budgets which are used in large part for providing public services and funding social security systems. The budget must be balanced, this means that it can neither run a deficit, nor borrow money.

How does it work?

The EU budget is based on a longer-term plan (the so-called Multiannual Financial Framework). This plan sets maximum annual limits (known as 'ceilings') of EU expenditure in total and in the different policy areas over at least a 5-year period. The overall ceiling is also expressed as a percentage of the EU's estimated GNI in order to check that the EU's total estimated level of payments is compatible with the maximum amount of own resources which the EU may raise during a year (1.20 % of the EU's GNI in the current programming period). This provides a stable long-term vision and predictability, which is a prerequisite for investment planning. The long-term budget sets the limits for the EU's annual budgets which determine all EU expenditure and revenue for one year and for all EU policy areas. Expenditure and revenue must be in balance.

The current long-term EU budget covers 2014-2020 and allows the European Union to invest around EUR 1 trillion over that period.

Where does the money come from?

There are essentially three main types of revenue – 'own resources' - today:

Customs duties go directly to the EU budget. Member States retain 20 % as collection costs.

The VAT bases of all Member States are harmonised. A uniform rate of 0.3 % is levied on each Member State with some exceptions.

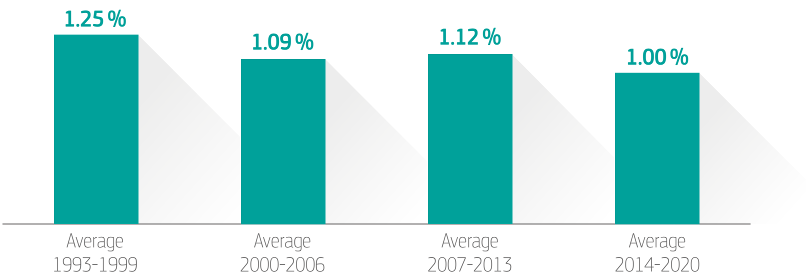
The GNI own resource finances the part of the budget not covered by other revenues. The same percentage is levied on each Member State's GNI. The rate is fixed as part of the annual budgetary procedure. Some Member States benefit from a reduction.

The maximum annual amount of own resources that the EU may raise during a year is limited to 1.20 % of the EU GNI.

How big is it?

Over the years the EU budget has remained a small part of total public expenditure in the EU, accounting for around 1 % of EU income and only around 2 % of EU public expenditure.

The size of the EU budget as percentage of Gross National Income (GNI)
Commitments ceiling in % EU GNI



Source: European Commission

Where does the money go?

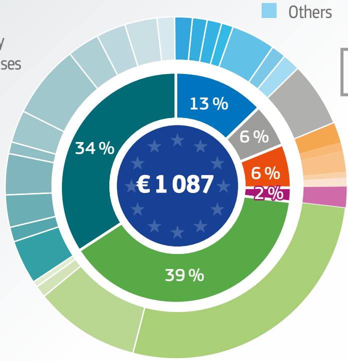
Areas financed by the EU budget for the period 2014-2020
In EUR billion and percentage, current prices

Competitiveness for growth and jobs
€ 142.1

- Education
- Energy
- Industry and small and medium enterprises
- Networks and technology
- Research and innovation
- Transport
- Others

Economic, social and territorial cohesion
€ 371.4

- Research and innovation
- Information and communications technology
- Small and medium enterprises
- Low-Carbon Economy
- Climate change and risk
- Environment and resource efficiency
- Transport and Energy
- Employment
- Social inclusion
- Vocational training
- Other



Administration
€ 69.6

Global Europe
€ 66.3

- Development and international cooperation
- Humanitarian aid
- Neighbourhood and enlargement
- Foreign policy instruments
- Others

Sustainable Growth: Natural Resources
€ 420

- Agriculture
- Rural development
- Fisheries
- Environment and others

Security and citizenship
€ 17.7

- Migration and home affairs
- Health and food safety
- Culture
- Justice
- Others

Note: Commitments; adjusted for 2018
Source: European Commission

Who benefits from it?

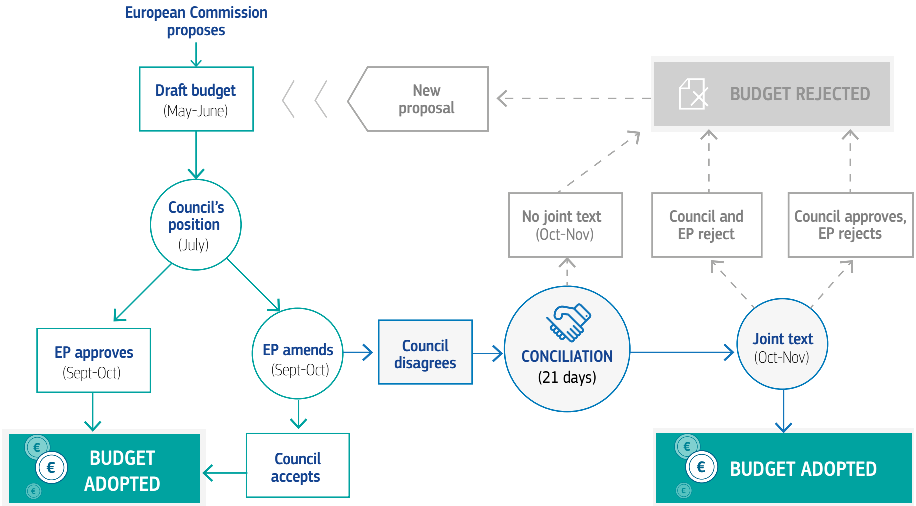
- Citizens
  Young people
- EU farmers
- Regions and cities
- Researchers
- Small and medium enterprises
- NGOs
  Third countries

Who decides on it?

The long-term budget as well as the system of own resources are proposed by the European Commission. The long-term budget must be adopted with unanimity by the Member States after obtaining the consent of the European Parliament. For the system of own resources, laid down in the Own Resources Decision, the European Parliament is consulted and after adoption in the Council by unanimity, ratification by all Member States is required.

The annual budgets are approved by both the European Parliament and by a qualified majority in the Council (55 % of Member States, representing at least 65 % of the EU population).

Approval process of the annual budget



Who controls it?

In order to ensure that the EU budget is well spent, management controls are applied at all levels of implementation. Furthermore, the EU budget is subject to the independent scrutiny by the European Parliament, the Council and the European Court of Auditors.

The European Court of Auditors is the external auditor of the EU institutions and bodies.

As independent guardian of the EU's financial interests, the Court checks that the EU funds are correctly accounted for, are raised and spent in accordance with the applicable rules and have achieved value for money.

The Integrated Financial Reporting Package and the Court's audit work form the basis of the discharge procedure which is the final step of a budget lifecycle. The discharge represents the political dimension of the external control of budget implementation and is the decision by which the European Parliament, acting on a Council recommendation, 'releases' the Commission and other EU bodies from its responsibility for the management of a given budget.

III. EU annual accounts – providing an accurate vision of EU finances

More information
Annual accounts of the EU 2017

The EU is accountable to its citizens via their representatives in the European Parliament and the Council for the money invested in the EU programmes. The European Commission is the steward of the EU budget and reports on how it has carried out this responsibility. The **EU consolidated annual accounts** are one of the key documents to deliver on this transparency and accountability obligation. They include both the financial statements of the EU (based on accrual accounting) and the reports on the implementation of the EU budget for that year (modified cash basis). The EU accounts are prepared according to the highest available standards, the International Public Sector Accounting Standards (IPSAS). Adhering to these standards ensures that the accounts provide relevant, reliable, comparable and understandable financial information for citizens. They are audited by the European Court of Auditors, the EU's external auditor, and the EU has for ten years in a row received a clean opinion on the reliability of the accounts.

Highlights of the 2017 EU budget

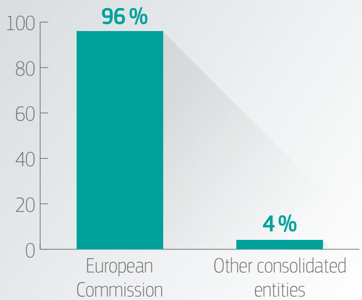
The 2017 adopted budget focused on two main policy priorities for Europe: supporting the ongoing recovery of the European economy, and addressing the security and humanitarian challenges in our neighbourhood.

- The implementation of the EU budget in 2017 totalled **EUR 171.1 billion in commitment appropriations**, and **EUR 137.4 billion in payment appropriations**.
- Nearly half of the funds (EUR 83.3 billion in commitments) **stimulated growth, employment and competitiveness**. This included funding for research and innovation under Horizon 2020, education under Erasmus+, small and medium sized enterprises under the programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), the Connecting Europe Facility (CEF), the guarantee fund for the European Fund for Strategic Investments (EFSI) which is the vehicle behind the Investment Plan for Europe, and to foster convergence among Member States and among regions through the European Structural and Investment Funds (ESIF).
- European farmers were supported to the amount of EUR 44.7 billion.

- The budget was used to **reinforce security inside and outside the Union**. It strengthened the EU's external borders and addressed the refugee crisis and irregular migration by funding stronger tools to prevent migrant smuggling. The EU budget also addressed the long-term drivers of migration in cooperation with countries of origin and transit, as well as stronger policies for legal migration, including resettlement for persons in need of protection, and instruments to support Member States with respect to the integration of refugees inside the EU.

EU consolidated accounts

The annual accounts provide information on the financial position (the balance sheet) of the EU as well as detailed explanations of assets, liabilities, financial commitments and obligations of the EU. They also show how the EU budget was implemented during the year.



The consolidated financial statements of the EU comprise more than 50 entities (including the Parliament, Council, Commission and EU agencies). The European Commission is the most significant entity, comprising **96 %** of the total assets of the consolidated financial statements.

Balance sheet of the EU 2017

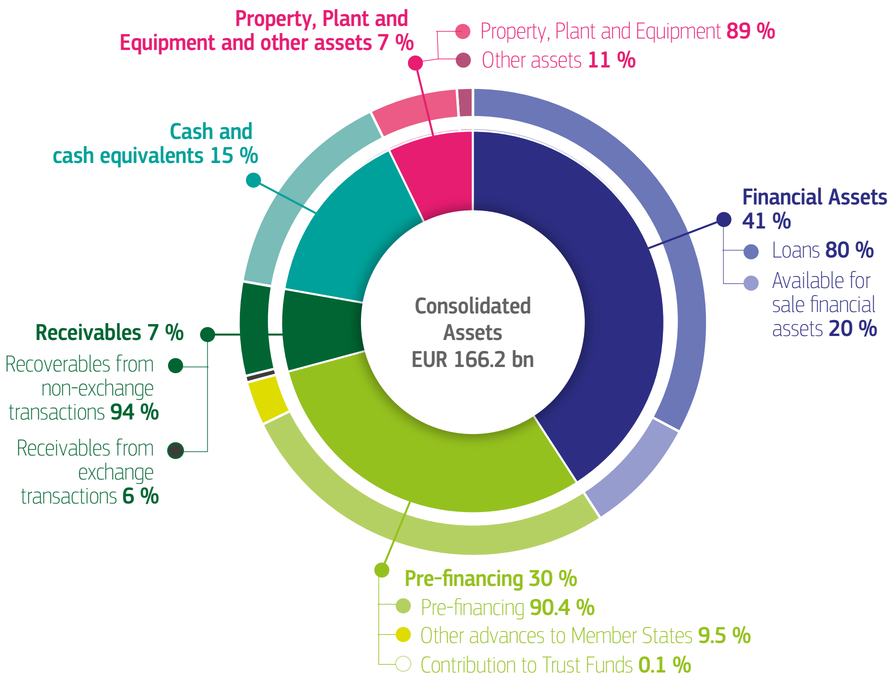
(billion EUR)	2017	2016	Δ	Δ %
Assets				
Financial Assets	68.6	65.9	2.7	4 %
Pre-financing	49.0	45.5	3.6	8 %
Receivables	12.4	11.6	0.7	6 %
Cash and cash equivalents	24.1	28.6	(4.5)	-16 %
Property, Plant and Equipment and other assets	12.0	11.1	0.9	8 %
TOTAL	**166.2**	**162.7**	**3.4**	**2 %**
Liabilities				
Post-employment benefits	73.1	67.2	5.9	9 %
Financial liabilities	56.9	57.4	(0.4)	-1 %
Payables	39.0	40.0	(1.0)	-2 %
Accruals	63.9	67.6	(3.7)	-5 %
Other liabilities	3.5	2.6	0.9	36 %
TOTAL	**236.5**	**234.8**	**1.7**	**1 %**
Net assets				
Reserves	4.9	4.8	0.0	1 %
Amounts to be called from Member States	(75.2)	(76.9)	1.6	-2 %
TOTAL	**(70.4)**	**(72.0)**	**1.7**	**-2 %**

Net assets: the excess of liabilities over assets does not mean that the EU institutions are in financial difficulty, it rather means that they will be funded by Member States via future annual budgets. Many expenses are recognised in 2017, under the principle of accrual accounting rules, although they may be actually paid in the following years and funded by the budget of 2018 and later.

Assets

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

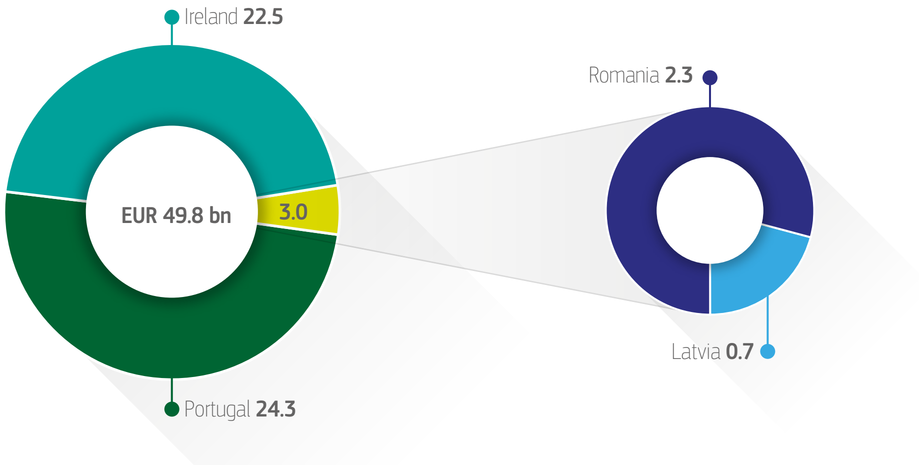
EU assets include buildings, receivables and cash but also EU-specific items such as the satellites of the Galileo & Copernicus programmes, loans given to Member States as financial assistance and advances (pre-financing) given to recipients of EU funds – primarily Member States.



Financial Assets

Loans: The EU provides financial support activities **to preserve financial stability in Europe** and to grant financial assistance to Member States in financial difficulties. In this context, the EU borrows money on the capital markets or with financial institutions which is lent under the same conditions (**back-to-back operations**) to the Member States concerned. Loans outstanding at 31 December 2017 by Member States in billions of euros:

Loans for financial assistance



Available-for-sale financial assets: The EU holds available for sale financial assets in the form of debt securities, equity instruments and other types of investments. These investments are made as part of the implementation of the budget **to maximise the impact of the funds available for programmes and policy areas**. As compared to the traditional method of budget implementation (grants etc.) the final recipient receives more support due to the leverage effect, triggering additional sources of support.

The guarantees provided by the EU cover loans granted outside of the EU as well as debt and equity operations, mainly held by the European Investment Bank (EIB) Group. In order to mitigate the risk guarantee calls by the EIB Group could have on the EU budget, the EU has created dedicated guarantee funds, i.e. the Guarantee Fund for external actions and the European Fund for Strategic Investments (EFSI) Guarantee Fund with values at the year-end of EUR 2.2 billion and EUR 3.5 billion respectively.

The main categories of such instruments are as follows:

- Budget Fines Fund (BUFI) for competition fines received, but contested, EUR 2.2 billion at 31 December 2017;

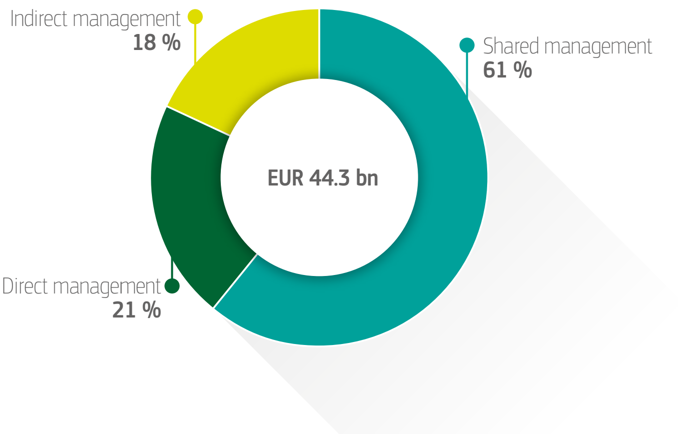
- Guarantee Funds for budgetary guarantees (i.e. EFSI and external actions) EUR 5.6 billion; and
- Other financial instruments of EU programmes financed by the budget of EUR 4 billion.

Pre-financing

Pre-financing is an essential instrument for the implementation of the EU budget. It is a **cash advance** for the recipient to implement a specific programme. The recipient has to report eligible expenditures incurred to the EU; if failing to do so, the funds must be returned to the EU.

61 % of the EU's pre-financing concerns shared management, which is when the **implementation of the budget is delegated to Member States**.

Pre-financing by management mode



Property, Plant & Equipment – Space Assets

Space assets at 31 December 2017 amounted to EUR 3.5 billion. This category covers operational fixed assets related to the two EU space programmes: the Global Navigation Satellite Systems (i.e. Galileo and EGNOS) and the Copernicus European Earth observation programme.

Galileo	+ 4 satellites in 2017	=	18 satellites in total
Copernicus	+ 1 satellite in 2017	=	5 satellites in total

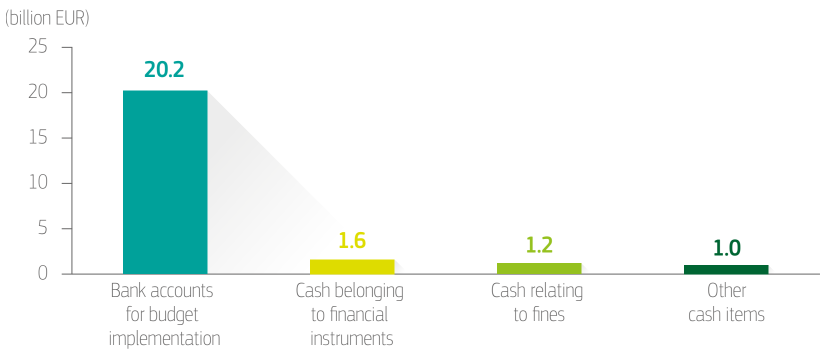
The total value of Copernicus operational fixed assets increased to EUR 1.1 billion, net of accumulated depreciation. Another EUR 1.4 billion related to Copernicus satellites is recognised as assets under construction.

The total outstanding value of Galileo operational fixed assets amounted to EUR 2.3 billion at 31 December 2017, in addition to the remaining assets under construction totalling EUR 1 billion including the four satellites launched in December 2017 for which the in-orbit testing had not yet been completed at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents include cash at hand, deposits held at call or at short notice with banks and other short-term highly liquid investments with original maturities of three months or less. There are three main categories:

- **Bank accounts for budget implementation:** cover the funds which the Commission keeps in its bank accounts in each Member State and EFTA country (treasury or central bank), as well as in commercial bank current accounts. The highest part is held in treasury and national central banks. The balance can be quite high at year-end for example due to amounts to be returned to Member States following amending budgets or competition fines cashed just before year end.
- **Cash belonging to financial instruments:** primarily concerns cash managed by fiduciaries on behalf of the Commission for the purpose of implementing particular financial instrument programmes funded by the EU budget.
- **Cash relating to competition fines:** cash received in connection with fines issued by the Commission for which the case is still open. These amounts are kept in specific deposit accounts that are not used for any other activities. When the case is closed the cash is either given to the EU budget, or, when the fine was successfully appealed, returned to the entity.



Receivables

There are three main receivable amounts at the year-end:

- **Fines:** amounts due to the EU arising from competition fines issued;
- **Traditional Own Resources** (TOR): amounts to be collected from Member States; and
- **Agriculture:** amounts due to the EU budget in the area of the European Agricultural Guarantee Fund (EAGF) and Rural Development.

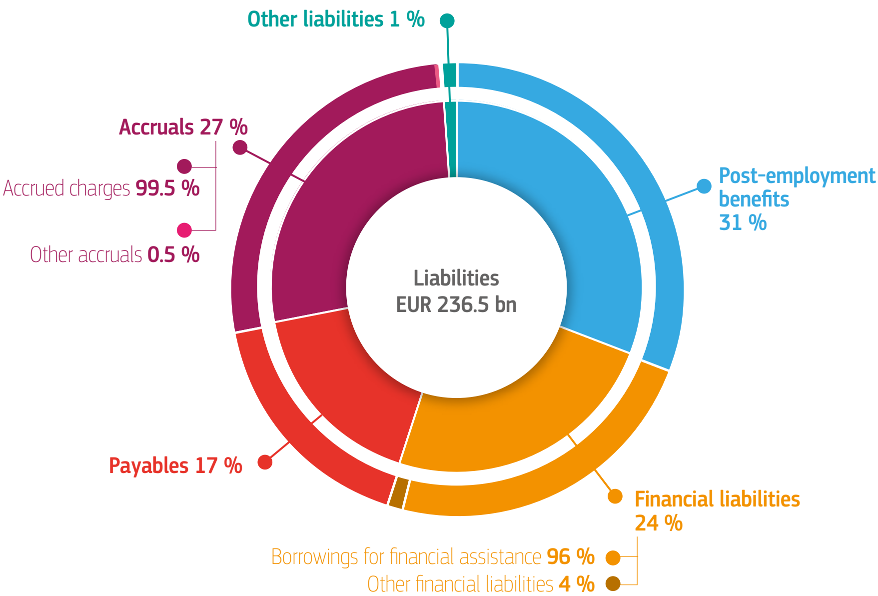
Liabilities

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

The EU liabilities are amounts owed to recipients of EU funds, as well as borrowings, pensions and other employee benefits. Some of the largest amounts concern the European Agricultural Guarantee Fund (EAGF) and Structural Funds. Borrowings are made by the EU in order to provide financial assistance to Member States.

Main categories of liabilities

- **Payables** include invoices and cost claims received but not yet paid at the year end. The largest amounts mainly concern Structural Actions, where Member States request reimbursement of expenditure made in the current or previous years.
- **Accrued charges** include estimated amounts concerning invoices and cost claims not yet received, i.e. where the EU estimates that beneficiaries have incurred expenditure that the EU budget will have to reimburse in the following year(s). The largest amount at year-end relates to EAGF, where the amounts are primarily paid from the budget in the first quarter of the following year.
- **Post-employment benefits** are employee benefits that are payable after the completion of employment. The EU provides a defined benefit pension plan and post-employment sickness benefits for its staff.
- **Borrowings** related to the loans (back-to-back transactions). The EU raises funds in the capital market and grants the loans, back-to-back, to the Member States.



Payables and Accrued charges

(billion EUR)

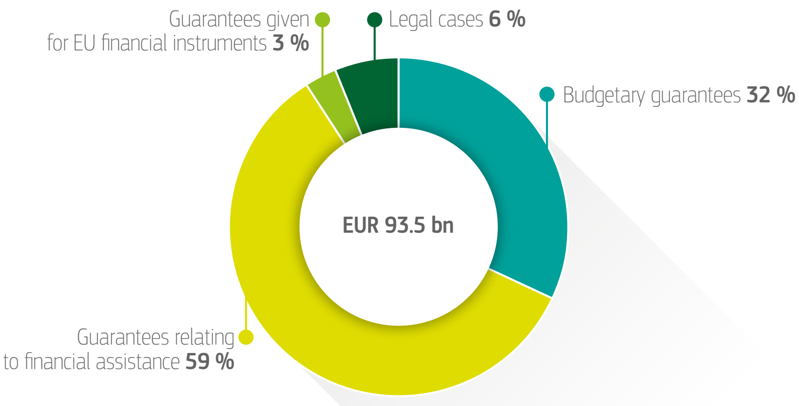
	Accrued charges	Payables	TOTAL
European Agricultural Guarantee Fund (EAGF)	33.3	11.5	44.8
European Agricultural Fund for Rural Development (EAFRD) and other rural development instruments	17.5	0.5	17.9
European Regional Development Fund (ERDF) and Cohesion Fund (CF)	4.2	11.7	16.0
European Social Fund (ESF)	2.9	3.9	6.8
Other	5.7	11.4	17.1
Total	**63.6**	**39.0**	**102.6**

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the EU.

(billion EUR)	2017	2016
Budgetary guarantees	30.1	25.5
Guarantees relating to financial assistance	55.5	56.6
Guarantees given for EU financial instruments	2.5	2.1
Legal cases	5.5	4.1
TOTAL	**93.5**	**88.3**

Contingent liabilities 2017



Contingent liabilities of the EU relate mainly to financial guarantees given (on loans and financial assistance programmes) and to legal risks. All contingent liabilities, except those relating to fines and guarantees covered by specific funds, should they fall due, would be financed by the EU budget (and thus the EU Member States) in the years to come.

Contingent liability for budgetary guarantee: The EU provides guarantees to the EIB Group on loans granted outside of the EU and on debt and equity operations covered by the EFSI guarantee. This is done to support the EIB Group operations. In order to mitigate the risk guarantee calls by the EIB Group could have on the EU budget, the EU has created dedicated guarantee funds, i.e. the Guarantee Fund for external actions and the EFSI Guarantee Fund. At 31 December 2017, the total asset value of the Guarantee Fund for external actions was EUR 2.2 billion which covers an exposure of loans disbursed by the EIB of EUR 19.9 billion (loans agreement signed of EUR 28.9 billion, and a ceiling for guarantees of EUR 37.5 billion).

EFSI Guarantee operations: EFSI is an initiative that aims to increase the risk bearing capacity of the EIB Group by enabling the EIB to extend its investments in the EU. The objective of EFSI is to support additional investments in the EU and access to finance for small companies. The EFSI risk reserve offers protection to the EIB against potential losses for underlying operations. The EFSI operations are conducted within two windows: the Infrastructure and Innovation Window (IIW) implemented by the EIB (EFSI EU guarantee of EUR 13 billion) and the SME Window (SMEW) implemented by the EIF (EFSI EU guarantee of EUR 3 billion), both of which have a debt portfolio and an equity portfolio.

Contingent liability regarding EU financial assistance activities: The EU borrowing and lending activities for financial assistance programmes are non-budget operations (the EU borrows money on the capital markets to finance these loans). The Commission has put procedures in place to ensure the repayment of these borrowings in case of a loan default by the recipient. Borrowings of the EU constitute direct and unconditional obligations of the EU and are guaranteed by the EU Member States (budgetary contingent liabilities). Borrowings undertaken to fund loans to countries outside the EU are also covered by the Guarantee Fund for external actions, and in some cases third party guarantees.

Legal Commitments

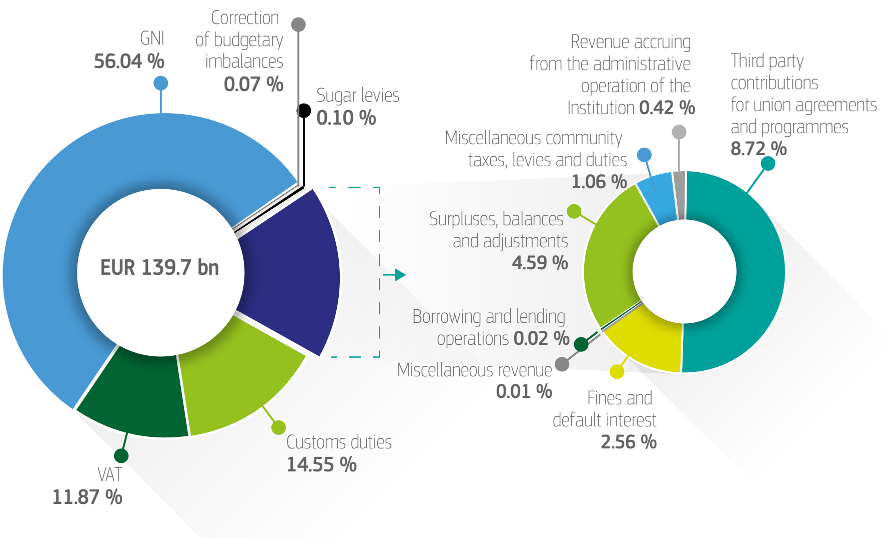
As at 31 December 2017 the EU has committed to pay based on the fulfilment of the contractual agreements as follows:

(billion EUR)	
Outstanding budgetary commitments not yet expensed	221.4
Shared management legal commitments under the current MFF pending implementation	211.7
Significant legal commitments in other areas	20.0
TOTAL	**453.1**

Implementation of the EU budget in 2017

Revenue in 2017

The EU budget is funded from 'own resources', namely: contributions based on Member States' gross national income (GNI), custom duties, and contributions from the value-added tax (VAT); they are supplemented by other sources of revenue (taxes on EU staff salaries, contributions from non-EU countries to certain programmes, fines on companies for breaching competition laws, etc.).



Expenditure in 2017

Commitment appropriations and implementation

The long-term budget, (Multiannual Financial Framework, MFF) defines the programmes and sets out the ceilings for commitment appropriations by heading and for payment appropriations in total within which the EU may enter into budgetary and legal commitments, and ultimately make payments for a period of 7 years. These commitments represent the future funding needs of the EU already committed to by the Member States.

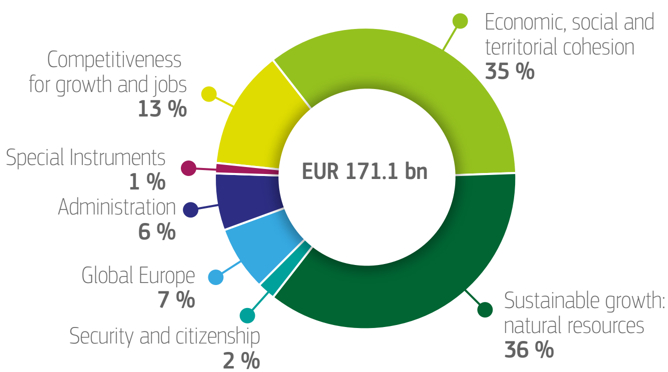
(billion EUR)

MFF Heading	Final budget adopted	Additional appropriations	Total commitment appropriations	Commitments made
Competitiveness for growth and jobs	21.3	3.2	24.5	22.7
Economic, social and territorial cohesion	54.1	6.6	60.7	60.6
Sustainable growth: natural resources	58.6	4.2	62.8	60.9
Security and citizenship	4.3	0.2	4.5	4.1
Global Europe	10.7	1.7	12.4	11.8
Administration	9.4	0.8	10.2	9.8
Special Instruments	1.5	0.1	1.5	1.3
Total	**159.8**	**16.7**	**176.6**	**171.1**

Note:

- *Final budget adopted includes the initial adopted budget, plus amending budgets and transfers*
- *Additional appropriations include carry-overs and assigned revenue*

Commitment implementation



Commitment appropriations are designed to cover the entire cost of projects, contracts, and grants. Appropriations are consumed when the EU makes a commitment, which represents a legal obligation to fund the project. Although in the first financial year commitments are made for the full amount of the project, payments take place in installments in subsequent financial years, as the project progresses.

These **outstanding commitments** are carried over to the following years until they are cleared and all payments done.The 2017 implementation for all types of appropriations reached 97 % for commitments and 93.9 % for payments .

For the sub-heading Economic, social and territorial cohesion, the financial implementation of 2014-2020 programmes progressed significantly compared to 2016, while the first closure payments were made for the 2007-2013 programmes. The reduction of payment appropriations through Amending Budget No 6 of the European Union for the financial year 2017 was fully offset by the use of assigned revenue from the clearance of accounts procedure, and the final amount spent for payments nearly equalled the budget initially foreseen.

Payment appropriations and implementation

Payment appropriations represent the actual capacity to pay recipients in a given year. Appropriations are consumed when the European Union pays a contractor or third party to fulfill the legal obligation.

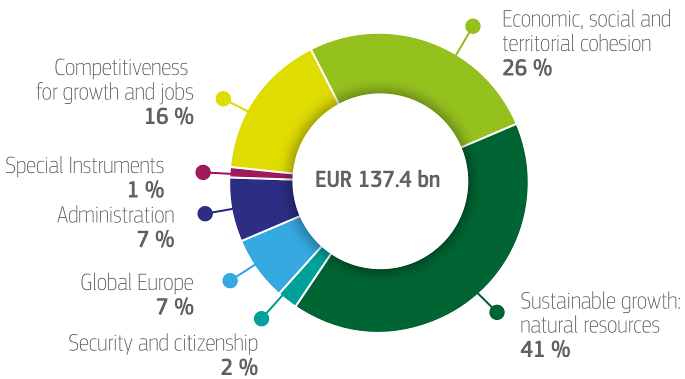
(billion EUR)

MFF Heading	Final adopted budget	Additional appropriations	Total payment appropriation	Payments made
Competitiveness for growth and jobs	20.1	4.3	24.4	21.4
Economic, social and territorial cohesion	29.8	7.0	36.8	35.7
Sustainable growth: natural resources	54.5	4.1	58.6	56.7
Security and citizenship	2.8	0.2	3.0	2.9
Global Europe	8.9	2.0	10.9	9.8
Administration	9.4	1.6	11.0	9.7
Special Instruments	1.3	0.1	1.4	1.3
Total	**126.8**	**19.3**	**146.1**	**137.4**

Note:

- *Final budget adopted includes the initial adopted budget, plus amending budgets and transfers*
- *Additional appropriations include carry-overs and assigned revenue*

Payment implementation



IV. EU budget performance – delivering maximum results

More information
• 2017 Annual Management and Performance Report, section 1
• Programmes' Performance Overview

The EU budget is key for implementing European policies and priorities. It is an investment budget and executed together with the Member States. Its programmes are multiannual in nature, providing a stable and predictable framework which is ideally suited to supporting strategic investments over the medium to longer term. It leverages national budgets and other policy instruments at European level to address the many challenges, and opportunities, faced by the Union. This requires strong accountability and optimal control mechanisms to ensure the budget is properly and effectively spent.

Ensuring that the EU budget delivers on what it promises

The EU budget has an advanced framework for measuring and reporting on performance. Its key elements are:

- Clear objectives for each spending programme;
- Indicators reporting progress towards the objectives;
- Monitoring, reporting and evaluation arrangements.

This performance framework is a **new compulsory feature** in the legal basis of all spending programmes of the current **2014-2020 long-term budget.** It is a key pillar of the increased focus on results across the budget.

Performance framework – transparent results

The current performance framework of the spending programmes includes indicators measuring the performance against general and specific objectives set at the start of the programmes. In 2017, most of these indicators have been reported upon. For the next long-term budget, the Commission proposes to reduce the number of indicators and the objectives embedded in spending programmes. The implementation of the performance framework is updated once a year in the Programme Statements accompanying the draft budget.

Not all of the indicators measure EU budget performance directly. Some provide either high level contextual information (e.g. 'the Europe R&D target of 3 % GDP' or 'share of researchers in the EU active population') or process related information (e.g. 'quality of project applications', 'number of participants').

Key documents reporting performance information

Programme Statements are prepared by the Commission in relation to the funding requested for each of the EU spending programmes in the annual budget procedure. They include information on the rationale and EU added value of each programme, actual and forthcoming implementation, progress on performance (objectives, indicators, milestones and targets), contribution to the main EU policies and objectives and highlight recent key achievements.

The Annual Management and Performance Report covers the results achieved with the EU budget across all budget headings and policy areas. It summarises the latest evaluation results on the performance of EU programmes.

Example: COSME

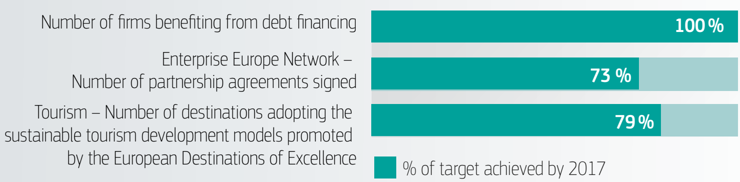
GENERAL OBJECTIVE

- To strengthen the competitiveness and sustainability of the Union's enterprises, particularly SMEs.
- To encourage entrepreneurial culture and to promote the creation and growth of SMEs.

SPECIFIC OBJECTIVES

- To improve framework conditions for the competitiveness and sustainability of Union enterprises, particularly SMEs, including in the tourism sector.
- To promote entrepreneurship and entrepreneurial culture.
- To improve access to finance for SMEs in the form of equity and debt.
- To improve access to markets, particularly inside the Union but also at global level.

COSME Progress towards the target (2020)



The Programmes' Performance Overview is an extract of the Programme Statements and was for the first time published in the Integrated Financial Reporting Package 2017. It provides stakeholders with concise, uniform, quickly to grasp information for all spending programmes.

In 2017, the Commission also carried out a Spending Review, a detailed bottom-up analysis of all spending programmes based on all available information, amongst which mid-term evaluations and Programme Statements. This review contributed to the set of new and reformed programmes proposed by the Commission in May and June 2018 for the next long-term budget.

Delivering results for all citizens – the essence of the EU budget

2017 was the fourth year of implementation of the current long-term budget for the period 2014-2020. Most spending programmes are now at cruising speed following the delays at the beginning of the implementation period and results are felt on the ground.

The EU budget is the key tool to implement European policies and priorities. It is about achieving the objectives set out in the Treaty and helping to uphold fundamental values, rights and freedoms. The EU budget focuses on areas where pooling resources to tackle common challenges can deliver results for all European citizens, which could not be achieved as effectively or efficiently by Member States acting alone.

The **Common Agricultural Policy** — anchored deeply in the EU Treaty — plays a key role in ensuring a level playing field for agricultural producers, safe and environmentally-friendly farming practices, international food export competitiveness and sustainable rural development. By the end of 2016, Rural Development Programmes contributed to the restructuring and modernisation of almost 45 000 agricultural holdings.

Cohesion policy decreases disparities in economic and social development between regions of the EU through strategic investments in key infrastructure, research, innovation, education and social inclusion. This has substantial spill-over effects and economic stimulus in other countries by creating opportunities for businesses and individuals.

Around 156 000 new jobs are expected to be created in small and medium enterprises and 1 million additional households had broadband access by the end of 2016 as a result of support from the European Regional Development Fund.

Cross-border research projects funded by Horizon 2020 secure economies of scale and pool expertise instead of duplicating efforts in Member States. Thanks to the EU's research and innovation programme the first microprocessor for examining brain activity in high resolution was developed, a major boost to the fight against diseases like epilepsy.

The **European Fund for Strategic Investments** (EFSI) was launched in 2015 and has mobilised public and private investment through the provision of public guarantees to address the investment gap in the EU. It enables investment in key infrastructure across the EU at a fraction of the EU budgetary cost. It is estimated that projects financed by the European Fund for Strategic Investments will generate an increase of Gross Domestic Product in the Union of 0.7 % and create 700 000 new jobs by 2020.

Building bridges, in the broadest sense of the word, from infrastructure to student exchanges, is another budget action that is more efficiently done at the EU-level. The **Connecting Europe Facility** is dedicated to infrastructures for energy, transport and digital connectivity across the EU, supporting the development of world-class transport networks, the Digital Single Market and the Energy Union. Investment in a new electricity line between Alytus (Lithuania) and the Lithuanian border with Poland ended the energy isolation of the Baltic States.

Similarly **Erasmus+** enhances the mobility of persons within the single market and strengthens social resilience and skills of EU citizens, especially the young, impacting positively the employability of students. Willingness to move abroad permanently is higher for Erasmus+ participants (31 % more willingness compared to non-participants); also they identify themselves more as an EU citizen (19 % more).

The **single market**, ensuring the free movement of goods, persons and services and driving the competitiveness of firms via economies of scale and scope, is the economic essence of EU integration. By the end of 2017 the COSME programme provided financing to more than 275 000 small and medium sized companies (of which 50 % were startups) in 25 countries that would otherwise have struggled to secure private financing due to their high risk profile.

Finally, there is increased efficiency in programmes and actions that are dedicated to **joint political action in the international arena**, joint response to global challenges and close cooperation with our neighbours. Thanks to the EU Regional Trust Fund in Response to the Syrian Crisis, more than 450 000 refugee and host community children and youths had improved access to quality education, protection, and psycho-social support in 2017.

The **migration crisis** has also shown the importance of concerted European action to support the effective management of Europe's external borders to ensure the functioning of the Schengen Area as well as to support common actions in the area of asylum and return. All citizens benefit from the actions supported by the EU budget taken in 'front line' Member States, protecting the external border. In 2017, the European Border and Coast Guard Agency contributed to rescuing 111 000 migrants that arrived in Italy via the Central Mediterranean Route.

Likewise, by putting together resources devoted to **humanitarian assistance and development policy**, the EU responds more effectively to a variety of global challenges, and uses public funding more efficiently to promote stability and fundamental values in our neighbourhood and throughout the world. From 2012 until 2017, EU humanitarian funding supported the education of over 4.7 million children caught up in emergencies in over 50 countries.

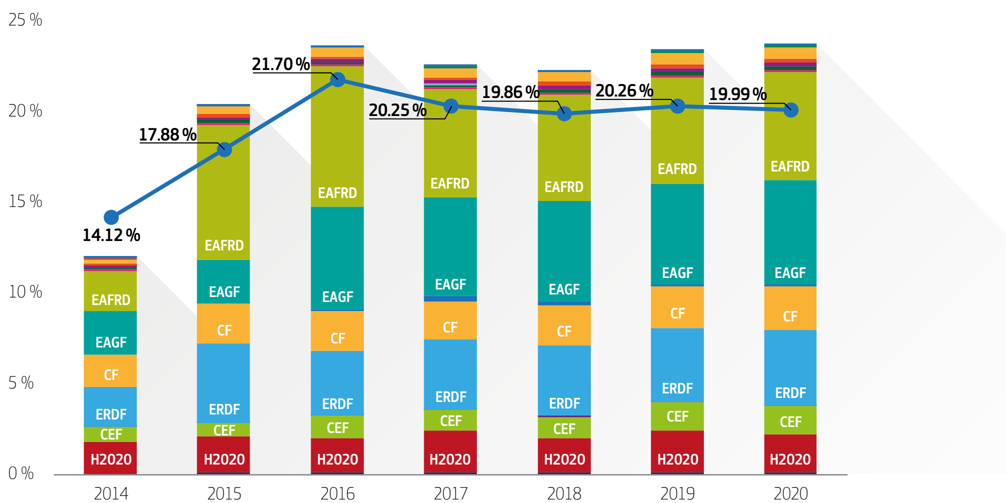
Achieving cross-cutting policy objectives with the EU budget

For the 2014-2020 long-term budget all major EU policies work together to support the achievement of cross-cutting policy objectives including to tackle climate change, protect biodiversity and promote gender equality.

Example: Climate change

One aim of the EU is to spend at least 20 % of its budget for 2014-2020 – EUR 180 billion over the whole period – on actions related to tackling climate change. Mitigation and adaptation actions are being integrated into all major EU spending programmes, including cohesion, agriculture, maritime and fisheries, research and innovation, and external aid programmes. In 2017 the total EU budget contribution to climate mainstreaming was estimated at 20.25 %. On average, 19.3 % of the current long-term budget 2014-2020 is forecast to be allocated to climate action.

Main EU spending programmes contributing to tackle climate change



EAFRD: European Agricultural Fund for Rural Development ■ EAGF: European Agricultural Guarantee Fund
CF: Cohesion Fund ■ ERDF: European Regional Development Fund ■ CEF: Connecting Europe Facility
H2020: Horizon 2020

Source: European Commission

V. EU budget financial management – every euro counts

More information
2017 Annual Management and Performance Report, section 2

To achieve maximum results with the money spent through the EU budget, the Commission needs a strong internal control framework and sound financial management practices. In order to maintain the highest standards in financial management, the Commission is consistently improving its rules and procedures, organisational fitness and agility. The aim is to further increase the efficiency and lower administrative burden, review the cost of controls and shorten 'time to grant and pay' to recipients.

Efficient & effective control systems

The Commission departments' control systems ensure sound financial management and prevent, identify and correct errors. Control systems should have a reasonable cost compared to the funds managed. With this in mind, measures are taken to **develop synergies and seek efficiency gains**, for example by simplifying rules and procedures, improving and linking financial IT systems, and further pooling financial expertise. Ultimately, control strategies lead to a lower bureaucratic burden, proportionate costs for controls on recipients, lower error rates, improved data quality, and shorter payment times.

In 2017, all 50 Commission departments have duly assessed their own control systems and concluded that their controls are cost-effective. In terms of efficiency of the control systems, the global average payment time of the Commission departments has steadily decreased over the years to **20.4 days** in 2017.

Legality and regularity of financial transactions

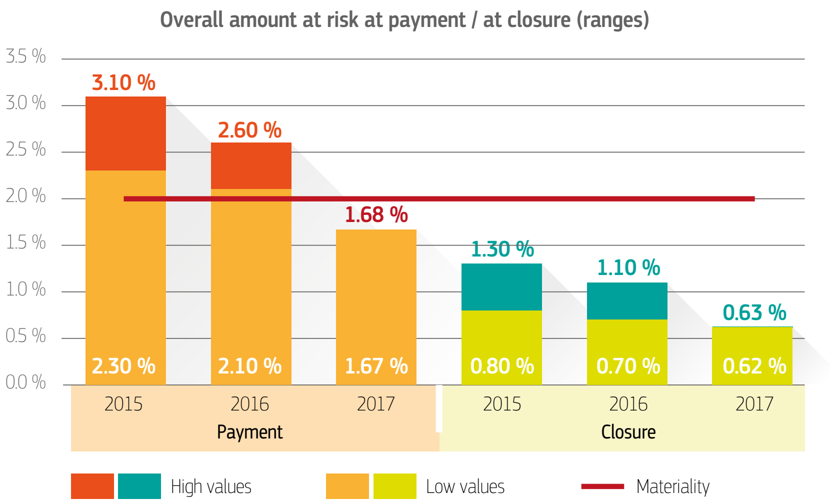
Amount at risk at payment		Estimated future financial corrections and recoveries		Amount at risk at closure
1.7 %	**–**	**1.1 %**	**=**	**0.6 %**

The EU spending programmes and their control systems and management cycles are multiannual by design, they cover more than just the year of funding and implementation of the projects. This means errors can be detected in any given year, and corrected in subsequent years until after the end of the programmes' lifecycles. Ex ante controls of the Commission's payments may not be able to detect errors that ex post controls can. This is for example the case with some ineligible costs reimbursed through grants that can only be verified in-depth by on-the-spot audits on the premises of the recipient. The Commission estimates the overall amount at risk *at the moment of payment* in 2017 at **1.7 %**.

A sizeable proportion of the errors detected, 1.1 % of the 2017 expenditure, is estimated to be corrected subsequently. This estimation is to some extent based on the average actual corrections made in previous years and adjusted or replaced as needed.

Deducting the future corrections from the amount at risk at payment, the amount at risk at closure provides a forward-looking conservative estimate of the error that could remain after all projected corrections will have been made by the end of the programmes' lifecycles, **0.6 %** in 2017.

The significant decrease of error compared to 2016 can be explained by simpler rules and more effective control systems introduced in the current programmes.
These measures are now bearing fruit as the 2014-2020 programmes, which have an inherent lower risk, are coming up to speed.



Given that the estimated overall amounts at risk are below the 2 % materiality threshold, this demonstrates that the Commission departments' multiannual control mechanisms in general ensure an adequate management of risks relating to the legality and regularity of the transactions.

The ultimate goal is cost-effective financial management: protecting the EU budget at a reasonable cost compared to the funds managed – by taking preventive and corrective action against errors, irregularities and fraud.

The new Financial Regulation which will enter into force as from 2019 (some provisions already in the second half of 2018) is one of the answers to this goal. It will be applicable to the management of the post-2020 generation of funding programmes which by design focus on maximising simplification, synergies and efficiencies, as well as risk-differentiated and cost-effective control systems. The aim is to achieve both the policy/programme objectives and the internal control objectives, i.e. fast payments, low errors and low cost of control.

Measures taken to protect the EU budget

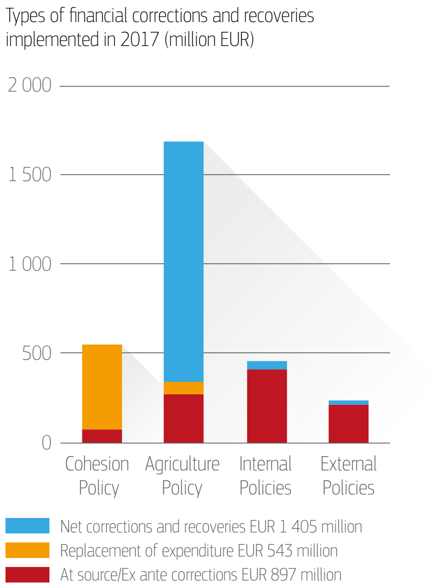
System weaknesses when implementing the EU budget may lead to errors, irregularities or fraud and need to be prevented or detected and subsequently corrected. The Commission and Member States take preventive (before the payment) and corrective actions to ensure that the EU budget finances only expenditure that is in accordance with the legal framework.

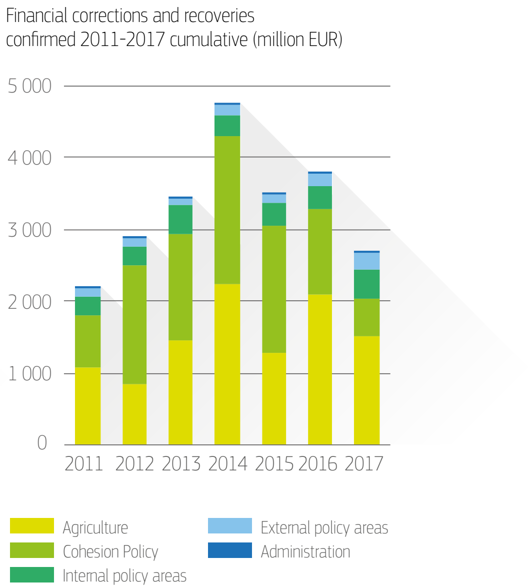
Financial corrections and recoveries made in 2017 (irrespective of the year during which the initial expenditure had been made) amounted to **EUR 2.7 billion confirmed** or **EUR 2.8 billion implemented:**

- **Preventive measures:** EUR 836 million confirmed and EUR 897 million implemented
- **Corrective measures:** EUR 1 826 million confirmed and EUR 1 949 million implemented

The Commission focuses more and more on preventive measures such as interruptions, suspensions and reduction of financing. This aims to incentivise Member States to reduce irregular payments and apply corrections only as a last resort. Furthermore, the Commission organises training and seminars to improve efficient implementation and management of the EU Funds.

Types of financial corrections and recoveries in 2017 and cumulative results 2011-2017





During the 2011-2017 period, the Commission departments' multiannual control systems enabled them to detect and correct, on average, EUR 3.3 billion or 2.4 % of the average amount of payments made from the EU budget. These cumulative figures take into account the multiannual character of most EU spending and neutralise the impact of one-off events. This reflects the significance of corrective mechanisms used.

Accountability and transparent management reporting

The Commission takes **overall political responsibility for the management of the 2017 EU budget**. It can do so because it has received reasonable assurance on control systems and financial management from each of the 50 Commission departments (formally set out in their 2017 Annual Activity Reports) and also from the work of the independent Internal Audit Service.

When the Commission departments face particular challenges or weaknesses in their control systems or in financial management, the declarations of assurance are qualified by reservations. These reservations are a key element of sound financial management: they ensure transparency and are accompanied by action plans aimed at mitigating future risks and strengthening the control systems.

In 2017, the financial impact of the reservations on management assurance has decreased to EUR 1 053 million for expenditure (EUR 1 621 million in 2016) and to EUR 431 million for revenue (EUR 517 million in 2016).

Half of the number of reservations in 2017 concern the 'legacy' generation of the 2007-2013 programmes, which are phasing out.

In 2017, the Commission departments have further improved the quality of their management reporting:

- **better segmentation of the assurance building for their portfolios,**
- **transparency of reporting on EU Trust Funds,**
- **consistency in the calculations of the relevant expenditure and the estimations of the related amounts at risk.**

VI. EU budget scrutiny – making sure the budget is spent correctly, efficiently, and effectively

More information
Report on the follow-up to the discharge for the 2016 financial year

The EU's independent external auditor — the European Court of Auditors — examines the implementation of the budget, and publishes annual reports on how the budget has been spent as well as a number of special reports on thematic issues. More particularly, every year the European Court of Auditors examines:

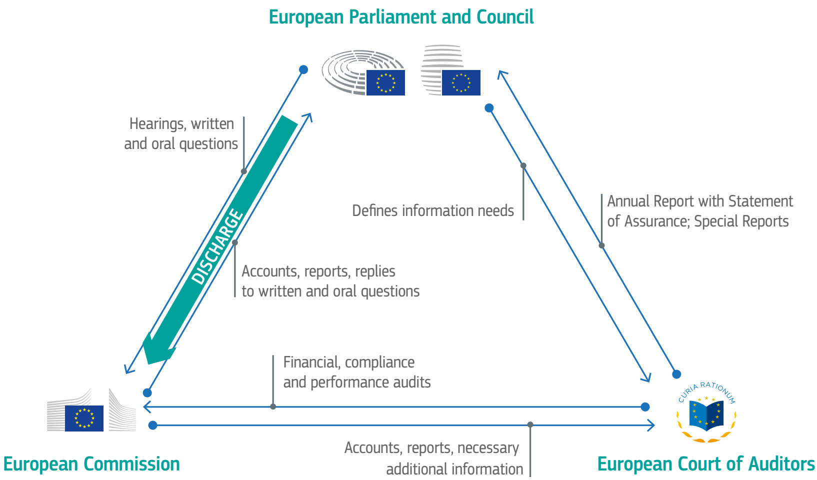
- the reliability of accounts;
- whether all revenue has been received and all expenditure incurred in a lawful and regular manner;
- whether the financial management has been sound.

Every year, the European Parliament decides on whether to give its final approval, known as 'discharge', for the way the Commission in cooperation with the Member States has implemented the budget.

When deciding whether to give discharge, the Parliament takes into consideration the Integrated Financial Reporting Package prepared by the Commission, along with the relevant reports from the European Court of Auditors. The European Parliament also receives further information from the Commission through the replies provided to questionnaires from the Committee on Budgetary Control as well as through exchanges of views with Commissioners about the EU budget in their respective policy areas.

Before deciding on the discharge, the European Parliament receives a recommendation from the Council which also scrutinises the reports from the Commission and the European Court of Auditors.

Discharge procedure



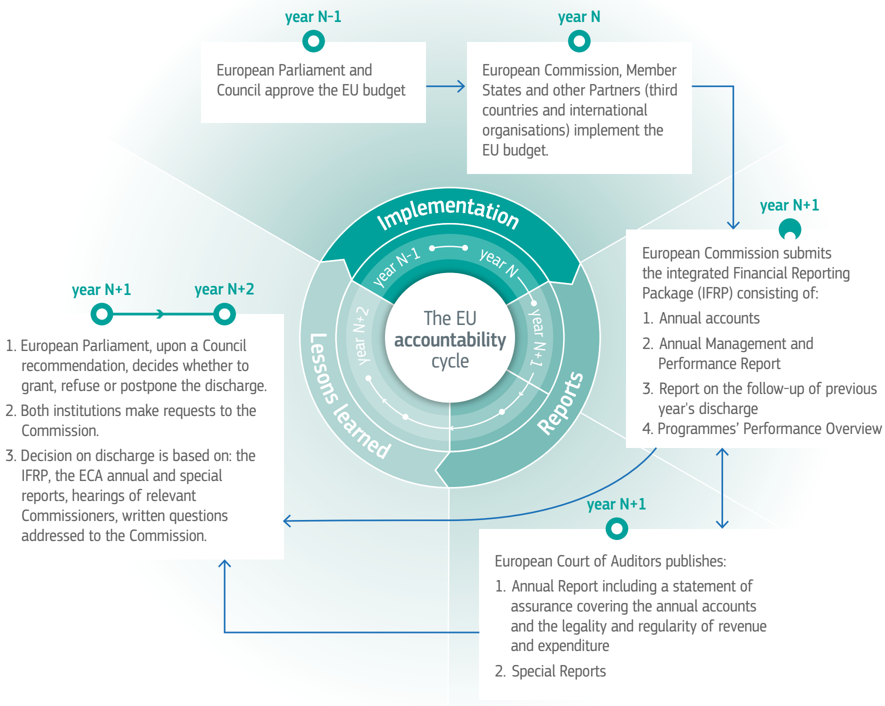
The discharge procedure offers an opportunity for all stakeholders to reflect on past developments and identify areas for further improvement as well as good practices to be spread in relation to the financial management of the EU budget and achievement of results.

The 2016 discharge procedure was a particularly good occasion **to learn from the past to improve the future** as it took place in parallel with the reflection process for the next long-term budget. The European Parliament and the Council made requests covering a wide range of topics, e.g.:

- Further simplify rules
- Improve transparency and accountability of EU budgetary instruments
- Streamline performance reporting
- Speed up delivery of Cohesion policy
- Review key elements of the Common Agricultural Policy

In the report on the follow-up to the 2016 discharge, the Commission reports on how it is following up on these and other requests. Many elements fed into the Commission proposal of the next long-term budget and are reflected in the legislative proposals for the next generation of programmes.

The EU accountability cycle



Find out more about the Integrated Financial Reporting Package here:
https://publications.europa.eu/en/webpub/budg/reports/ifrp-2017/

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