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**COMMUNICATION FROM MRS GRYBAUSKAITĖ
IN AGREEMENT WITH THE PRESIDENT TO THE COMMISSION**

**Streamlining financial rules and accelerating budget implementation to help economic
recovery**

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Streamlining financial rules and accelerating budget implementation to help economic recovery

In the face of the current acute economic crisis, every possible measure needs to be taken to ensure that public funds are implemented in the most efficient and effective manner: delivery should be quicker and administrative procedures should be adjusted to respond to the developing circumstances without compromising the quality of the projects or the indispensable checks that ensure sound financial management.

The simplification and streamlining of financial rules and procedures, which is a prerequisite for better implementation, has been one of the main objectives of this Commission since 2004. A first step in this dynamic process was accomplished with the revision of the Financial Regulation¹ (FR) in 2007, in particular through the improvement of delivery methods (contracts and grants) and accrued transparency. In parallel, the new generation of spending programmes 2007-2013 also brought in significant simplifications and further enhanced the efficiency of spending of EU money: the number of programmes has been reduced and legal instruments have been put on the same wavelength as the multiannual financial framework. As a result, the action of the EU has gained in visibility and budget execution has significantly improved throughout the mandate of this Commission, ensuring that EU resources are spent on the right things in the right place at the right time.

The next major step will be the forthcoming revision of the financial rules in 2010 (Financial Regulation and its Implementing Rules²) and the "reforming the budget, changing Europe" process, which will also focus on the delivery mechanisms, including simplification, of the EU budget. Indeed, this has been identified as a continuing priority following the public consultation held in 2008. Both these tracks offer the potential for more significant improvements, but they will take time to come into effect because they entail long interinstitutional negotiations.

With this in mind and building upon the reforms already introduced in 2007, the Commission believes that certain immediate measures can be taken, without reopening the existing legal texts, in order to generate some additional "quick wins", further enhancing budget execution and speeding the flow of EU resources to beneficiaries, thus contributing to the Commission's strategy to help economic recovery. The measures will focus on the part of the budget that the Commission implements directly (centralised management), so as to maximise the impact of public spending in a minimum time.

This is the purpose of the present Communication.

¹ OJ L 248, 16.9.2002, p. 1.

² OJ L 357, 31.12.2002, p. 1.

This Communication is presented together with a Commission proposal to reduce delays in payments by the Member States of invoices in commercial transactions³ (i.e. contracts) to 30 days. It aims at applying the same time-limits to the payments made by the Commission. Its scope is even larger, as the proposed targets for reduced time-limits concern both contracts and grants.

The following measures are envisaged:

1. QUICKER RELEASE OF EU FUNDS

The Commission has always been concerned and engaged to ensure that payments are made as rapidly as possible⁴. The last revision of the Financial Regulation introduced a series of measures in order to improve payment delays, including the mandatory payment of interest for late payments. Significant progress has been achieved since 2005, thanks to the measures taken by the Commission to address the reasons for late payments, the number of late payments has been reduced from approximately 43% to 22%. However, more needs to be done in these difficult times given the crucial importance of the need for increased fluidity of funds for all beneficiaries, and especially for the SME and NGOS.

This is why the Commission is now proposing to go a step further by implementing the following measures.

Measure 1: Speed up 'first' pre-financing payments under 20 calendar days

Pre-financing payments, by definition, do not involve as many checks as interim or final payments, which depend on the completion of a phase of a project and the approval of the corresponding reports and relevant supporting documents. Pre-financing payments which are not subject to any further check or condition and are due upon signature of the contract, grant agreement or decision ('first pre-financing'), should be made well before the 45 days (or 30 days for service and supply contracts) time-limit foreseen in the Implementing Rules (Article 106). The Commission therefore aims at achieving a target date for first pre-financing payment **below 20 days**, from the date of the conclusion (signature) of the contract, grant agreement or decision to the day on which the Commission bank account is debited⁵.

Measure 2: Speed up all other payments

For all other payments –i.e. 'renewed pre-financing', interim and final payments–, the Commission will apply a **30-day time limit** where currently 45 days apply (in the case of grants). When cumulated with the limits foreseen in the Implementing Rules for the approval of reports or certificates (Article 106), the following **maximum** time-limits should be respected by all Commission services for both the approval of

³ See Commission proposal of a recast of Directive 2000/35/EC on combating late payment in commercial transactions (COM(2009) 126 final).

⁴ This concern is particularly shared by the European Ombudsman who has recently launched an own initiative enquiry on the issue, following the one conducted in 2008.

⁵ Due to the constraints linked to the annual budgetary closure and the making available of carryovers, the period between 15 December and 15 January will not be taken into account for the delay targeted under this measure.

reports and the related payments (overall):

- for contracts: 60 days (versus 90 days at the moment);

- for grants: 90 days (versus 105 days at the moment).

In calendar days

	CURRENT TIME-LIMITS			TARGET		
	No report or certificate	Incl. report or certificate	TOTAL	No report or certificate	Incl. report or certificate	TOTAL
First pre-financing (service & supply contracts)	30	none	30	20	none	20
First pre-financing (other contracts & grants)	45	none	45	20	none	20
Other payments (contracts)	30	20/45/60	50/75/90	30	20/30	50/60
Other payments (grants)	45	45/60	90/105	30	45/60	75/90

Meeting this ambitious target will require a specific effort, given the number and volume of payments handled by the Commission and the proportion which is currently overdue compared to existing time-limits⁶.

The Commission believes that measures 1 and 2 should facilitate the start up and steer progress in the implementation of projects so as to further reduce the under-execution of EU funds. These measures are also in line with the Commission's announcements in the recovery plan⁷ and its proposal on late payments in commercial transactions.

Services ensure that effective payment times for interim and final payments only exceed the objectives set in the present communication if duly justified in the light of particular circumstances such as an objective need to schedule payment over a longer period. Payments times however remain within the limits set by the Implementing Rules.

The services of the Accounting Officer will monitor regularly progress in the implementation of the above measures on a quarterly basis in line with the Commission's commitment to the Ombudsman on this issue. The first appraisal will be made on the basis of payment delays observed during the last quarter of 2009. Interests for late payments will continue to be applied in accordance with the regulatory time-limits, as set in Article 106(5) of the Implementing Rules.

In addition, the Commission recalls that:

- Invoices and cost statements should be registered as soon as they are received;
- Time-limit of 60 days for the approval of reports or certificates should only be used in particularly complex circumstances, in accordance with Article 106(3), second subparagraph.

⁶ In 2007, 22% payments were late in number, representing 12% in volume.
⁷ COM(2008)800 final, 26.11.2008.

- In the cases where a report or a certificate cannot be approved, for instance because some documents are missing, services should not hesitate to suspend the time-limit payment as it is foreseen in the financial rules. In such cases naturally, the time of the suspension is not counted for the purpose of the present Communication. However, any suspension must be justified in accordance with the financial rules and the beneficiary concerned must be duly informed⁸.

Measure 3: Promote the use of flat rates and lump-sums for grants

Grants awarded from EU funds may take the form of: a) the reimbursement of part or all of the eligible costs of a project, b) a lump-sum (fixed amount) or c) a flat rate (a scale-of-unit cost). It can also combine these forms.

In order to accelerate the payment of grants, the Commission will make further efforts to promote the use of flat rates, for which there is no limit in the Implementing Rules, and lump sums. This should be implemented wherever it is appropriate, depending on the nature of grants awarded and provided that there is no obstacle in the legal bases. It is recalled that the Commission may authorise one or more lump sums up to EUR 25,000 to cover one or more different categories of eligible costs (Article 181(1) (a) Implementing Rules).

Services are therefore invited, and DG Budget will assist them, to prepare the decisions fixing flat rates and lump sums so as to extend their use.

In the same perspective, and in line with its proposals for the modification of the European Social Fund Regulation⁹, the Commission will propose that, when current programmes and actions are reviewed and new legislative proposals made, they include higher lump sums (Article 181(2) Implementing Rules), where appropriate.

2. FLEXIBILITY IN THE INTERPRETATION OF FINANCIAL RULES

In the day-to-day application of the financial rules, it is normal practice for the Commission to interpret them or define guidelines so that a common practice among its services is put in place.

In order to find as much flexibility as possible in interpreting the existing financial rules and thereby ease management, the Commission will focus on the following:

Measure 4: Possibility to launch calls for proposals covering 2 years

The launching of calls for proposals is authorised by a financing decision adopted with due regard to the principle of annuality. Therefore, under current guidelines, Commission's services should not launch a call allowing applicants to submit proposals within multiple deadlines spread throughout two successive years, even if the criteria of the call remain the same. Two financing decisions leading to two calls for proposals are necessary.

⁸ See Implementing Rules, Article 106 (1), third subparagraph, 106(3), fourth subparagraph and 106(4).
⁹ COM(2008)813 final, 26.11.2008.

Launching a call for proposals covering two successive years will be authorised provided that Commission services optimise the adoption schedule for financing decisions and insert the appropriate specific clause in the call.

This means that instead of having two separate calls for proposals, one launched for year N and the other launched for year N+1, one single call will be launched and potential beneficiaries will submit their proposals only once. The Commission may authorise immediately after the adoption of the Preliminary Draft Budget for year N+1 to complement with N+1 appropriations a call for proposals already launched with a specific clause allowing such complement. In the same way, a call for proposal with only one deadline may be reinforced with N+1 appropriations. This measure will save time, energy and resources, thereby benefiting all stakeholders.

Measure 5: Lighten the content of calls for proposals

For several policies, in particular Education and Culture, some Research programmes (Marie Curie) or Development Aid, calls for proposals are very repetitive and/or standardised. They usually are long and complex documents.

In such cases of repetitive and/or standardised calls, the Commission will, wherever possible, produce documentation distinguishing the stable information that is in principle valid for several calls, from information that is specific for a particular call. Subject to feasibility and the complexity of projects, the Authorising Officer concerned could then authorise its services to opt for a two-steps approach for defining the framework for the award of grants.

- (1) The first step would be for the Commission to establish a practical guide for the award of grants, which would contain all the general information, guidelines and financial rules forming the bulk of calls for proposals. This guide would be published on the internet site of the concerned programme.
- (2) The second step would be the adoption of the annual financing decision and the publication of the calls for proposals themselves, whose content should be limited to the strictly specific and variable elements, such as the budget foreseen for the call, the dates for the submission of the proposals and other elements which are new or differ from the guide (i.e. new priorities). The calls for proposals shall explicitly refer to the corresponding documentation. These elements will also be published on the internet site of the programme together with detailed application forms that can be downloaded.

Such an approach, which is already being applied for the education and culture programmes, should be promoted in other policy areas in order to lighten their task and make the launch of calls for proposals easier, once the guide has been elaborated. For the potential beneficiaries of EU funds, this approach would be more user-friendly and provide a better oversight: eventually, it should help them answering calls for proposals faster and more accurately, and thereby contribute to grants being awarded in a shorter time-span.

This measure will be carried out progressively and be assessed by the end of the year 2009 in order to evaluate the effects of the approach.

3. INTERNAL AND EXTERNAL SUPPORT

In order to facilitate and accelerate implementation of the Budget, the Commission hereby proposes the following progressive approach, to be implemented both at internal and external levels.

3.1. Support from DG Budget to other Commission services

Measure 6: Reinforce proactive advice by DG Budget

The Financial Regulation (Article 75(2)) requires as a pre-condition that any use of EU money be preceded by the adoption of a financing decision, which marks the political endorsement, by the Commission, of the financing of a project. In order to help the services in the preparatory phase and thereby accelerate the adoption of financing decisions by the Commission, DG Budget will provide the following additional guidance to facilitate the work of the services, in particular:

- Propose a model for all financing decisions: today, financing decisions adopted by the Commission often contain much more information than the requirements set in the financial rules and the basic act. A simple and streamlined model will therefore be proposed to ease the drafting by operational services directly managing Community funds. It should also allow for a quick appraisal in inter-service consultations, reduce the volume of documents and of required translations. This model is envisaged as a support tool only and services who wish to continue using their own model agreed with DG Budget may choose to do so. The model prepared by DG Budget will be subsequently annexed to the Internal Rules adopted by the Commission each year. This model will be made available by the end of May 2009 so that services can use it as from 1.6.2009.
- Encourage the services to make more use of the flexibility offered by the financial rules (Article 90.4 Implementing Rules) for the modification of the financing decisions: this notably allows Authorising Officers to adopt non-substantial modifications of the implementing conditions of the action without having to modify the initial financing decision by a new Commission decision (by means of a written procedure, by empowerment or delegation). Such flexibility clause would notably be most appropriate when the complete implementation of the action authorised by the College requires to increase the appropriations up to 20% of the initial amount approved or to extend the initial duration of the implementation period up to 20%. DG Budget will provide the relevant flexibility clause to the services and will include it in the financing decision model. This measure should be operational by the end of April 2009.
- Encourage the full use of other flexibility measures foreseen in the financial rules as, for instance, where services can decide whether appropriate to waive the obligation of candidates to produce documents they have already produced in another procedure, pursuant to Article 134(6) IR), or where the presentation of financial guarantees and other documents by procurement contractors and grant beneficiaries is optional. In this context, guidelines will be drafted in order to

underline the optional character of such requirements and to assist the services to evaluate the related risks¹⁰.

- Encourage where appropriate the services to prepare their financing decisions/annual programmes as early as possible after the adoption of the Preliminary Draft Budget, in order to have them adopted by the Commission immediately afterwards.
- Optimising the use of framework contracts: as far as possible, services will be further encouraged to share the use of their future framework contracts to the profit of other Directorates General or agencies in order to avoid duplication of unnecessary procurement procedures. This approach will be sought systematically for standard procurements (e.g. furniture, communication) or, for more specialised services, within the same family of programmes such as external actions or research (ongoing).
- Promote the use of partnerships for grants: over the life time of projects, the use of partnerships can significantly avoid duplication of the same formalities. Within the frame of the internal guidelines available, the Commission will therefore further encourage the use of such partnerships.

A framework partnership arrangement may be established as a long-term cooperation mechanism between the Commission and some beneficiaries of grants, where appropriate (Article 163 of the Implementing Rules). The partnership specifies the common objectives, the nature and the general conditions for the planned actions and the procedure for the award of grants. The grants are subsequently awarded through specific agreements implementing the partnership, which fix the modalities, the grant amount and the duration of the grant. Only specific agreements require in advance a budgetary commitment, allowing therefore a long-term cooperation with some beneficiaries without committing at once all the necessary appropriations.

3.2. Support from the Commission to potential contractors and other beneficiaries from EU funds

Measure 7: accelerated procedures for procurement and grants

- The Commission will continue its efforts to **simplify procurement procedures** and reduce their overall time span, in particular for big-value contracts. In addition to this, the minimum time limits foreseen in restricted and negotiated procedures with prior publication for the receipt of requests to participate and, in case of restricted procedures, also for the receipt of tenders, will be, whenever appropriate and justified in view of the economic crisis, reduced as provided in Article 142 of the Implementing Rules. This provision allows, under certain conditions, to reduce these time limits from 77 to 20 days in cases where urgency renders impracticable the regular time limits. This is coherent with the guideline

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These documents will be available online on BUDGWEB, the internal Commission website dedicated to all financial and management issues. They will also be presented to all Commission services through the RUF (Réseau des unités financières). http://www.cc.cec/budg/index_en.html

adopted by the European Council in order to reduce the overall time limits for major public projects from 87 to 30 days¹¹ in Member States.

- A similar approach should be applied in order to reduce the overall time span in the **grant awarding procedures**, taking into account that the Financial Regulation does not impose time limits. This may involve in particular the following:

The acceleration of the selection process by using the flexibility offered in the Implementing Rules (Article 178(1a)). In particular when a call for proposals envisages that applicants submit their proposals in two stages (two stage submission procedure), the first stage should involve minimum efforts from applicants: for instance, applicants should be required to submit only a short concept note describing, in general lines, the principal elements of their project (summary description, objectives, results, time frame and implementing framework) together with a summary implementing budget. Only those applications upheld in the first phase will submit a complete proposal.

This mechanism is particularly relevant for programmes which traditionally encounter a high rate of submission and may save costs for applicants. It allows the Commission to concentrate its resources on the best proposals, by effecting early elimination of many proposals. Several services apply this two-phased submission and evaluation procedure (e.g. EAC, AIDCO and RTD) and the feedback has generally been positive.

However, where outline proposals require substantial efforts as in the case of complex projects, this procedure may entail a longer process and thus a heavy burden for applicants. To be efficient, it should therefore be privileged when outline proposals are straightforward.

Alternatively, a call for proposals may provide that the applicants submit a complete proposal, but only the proposals which pass the first stage of evaluation against a limited set of criteria would go forward for further evaluation (two-stage evaluation procedure).

- Accelerated procedures for contracts and grants also concern developing countries in particularly difficult situations for which the Commission has declared a "situation of crisis". The Commission will regularly monitor the situation of the most vulnerable developing countries and adapt the list of countries in "crisis situation" accordingly.¹²

Measure 8: Simplify and lighten control measures wherever possible

¹¹ Cf. European Council conclusions, 12 December 2008, point 11, bullet point 8. The Commission endorsed this approach in Press Release IP/08/2040, dated 19.12.2008, recognizing that the exceptional nature of the current economic situation could justify the use of the accelerated procurement procedure according to Article 38(8) of Directive 2004/18/EC, which reduces the relevant time limits to 10 days.

¹² Cf. COM(2009)160. In accordance with article 168 (2) of the Implementing Rules, crisis situations allow for the use of more flexible procedures.

The Commission will seek a better balance between cost and efficiency in its financial management and control measures: the objective would be to reduce the number of intervening agents (as an example: the lightest financial circuit should be systematically implemented for pre-financing payments due upon signature of the contract – Cf. Measure 1), to reduce the delays in the control and management circuits, and possibly to review their organisational structures. Another objective will be to rationalise the reporting process linked to payment with the evaluation of various supporting documents and the financial statements running in parallel instead of consecutively.

This approach requires that services reconsider their systems in the light of experience gained in the implementation of their programmes, in order to identify bottlenecks or unnecessary checks. It also needs to take into account the risks analysis made by authorising officers according to the type of action. The success of such approach lies primarily with operational services, since they hold the responsibility for the internal organisation of their own management and control circuits.

4. CONCLUSION

The measures proposed in this Communication are in line with the Commission's objective to simplify and improve delivery in the implementation of the budget and give it a new impetus in order to accompany its recovery plan submitted to Parliament and Council. The success of the measures requires not only the continuous commitment and efforts of the services to achieve the goals but also the understanding and cooperation of all the stakeholders. They should be appreciated as further steps in a continuing process of simplification to which the forthcoming budget review and the tri-annual revision of the Financial Regulation will also contribute.

All the voluntary measures presented in sections 2 and 3 aim at helping Commission services reach the objectives set in section 1 for the reduction of payment delays. It is up to services to assess which of these measures are the most appropriate for them to reach the targeted payment periods. However, services will be required to justify their choice if they cannot reach the targets for payments periods.

These measures will be included in a continuing process of simplification of the financial rules to which the Commission is firmly committed.

The Commission instructs its services to implement all the above measures. In particular, services should start working without delay on reducing current payment times in view of reaching the targets set in measures 1 and 2 on 1 October 2009. The Commission Accounting Officer is entrusted with monitoring progress in the delivery of results of these measures, for the first time on the basis of payment time-limits observed in the last quarter of 2009.

Finally, stock-taking will be made in the Annual Activity Reports (AARs) to be provided by Directors-General and Heads of Service for the year 2009, as well as in the Annual synthesis report on management achievements by the Commission for 2009.