Financial Management of Rural Development

Screening Serbia
20/3/2014
Topics

I. General principles
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I. General principles

a) Legal framework
b) General management rules
c) Electronic exchange of information
d) Rural Development financial programming
e) Submission and approval of RDP
I.a) Legal Framework

Financing the CAP

- Regulation (EU) No 1306/2013 on financing management and monitoring of the CAP
- Commission Regulation 883/2006 on keeping of accounts by the paying agencies and declarations of expenditure
- Commission Regulation 885/2006 on accreditation and clearance of accounts.
- Implementing and Delegated Regulations supplementing R. 1306/2013 (in procedure)
I.a) Legal Framework

Rural Development

- Regulation (EU) No 1305/2013 (applies to 2014-2020 RD programmes)
- Regulation (EU) No 1310/2013 - transitional provisions
- Regulation 1974/2006 on Implementing rules of Regulation 1698/2005
- Regulation 65/2011 on controls and cross-compliance in respect of Rural Development support measures
- Implementing and Delegated Regulations supplementing R. 1305/2013 (in procedure)
I.b) General Management rules

Management systems based on earlier experiences

- Multiannual programming
- Co-financing, Partnership
- Managing Authority, Monitoring Committee, evaluation
- Differentiated appropriations: commitments and payments (n+3 rule)
- Performance framework, ex-ante conditionalities
- A set of predetermined measures
- Paying agencies
- Annual clearance of accounts
I.c) Electronic exchange of information

Legal Bases:

- Article 74(4) of Regulation (EU) No 1303/2013

SFC (System for Funds Management in the European Community):

- Commonly developed by Structural Funds, Rural Development and Fisheries
- Channel for exchange of official information between the Commission and Member States.
- Access rights delivered by the Commission following request of a designated MS Liaison
- Read, upload and send right to be given to the managing and paying authorities
- Fully structured approach: National Strategies, Partnership Agreement, Rural Development Programmes, Annual reports, indicator tables, Financing plan, declarations of expenditure, expenditure forecast etc.
I.d) Rural Development financial programming

Main principles

- Financial envelope of each MS set out in Annex I of Reg. 1305/2013.
- EU contribution based on public expenditure and specific EAFRD contribution rate by measure. Minimum co-financing rate is 20%. Normal maximum rate is 53%. Art. 59 of R. 1305/2013
- Financing Plan including
  - a table setting out EAFRD contribution per year for the whole programme,
  - a table setting out for each measure and each type of operation with a specific contribution rate, the Union contribution planned for the whole period. Art. 8(1)(h) of R. 1305/2013
Only those Partnership Agreements and RDPs officially sent to the Commission via SFC are receivable. Art. 74(4) of Reg. 1303/2013

- Before submitting to the Commission the SFC verifies that the financing plan proposed complies with the allocation per MS, the co-financing rate ceilings, the minimum allocations for Leader and climate actions, etc.
- In case of non-compliance, SFC informs the MS by warning/error. Only after successful validation the RDP can be sent to the Commission.
- The same checks apply for modifications of the RDP, including check whether the proposal is a minor modification, or needs a new Commission decision.
- An RDP officially sent to the Commission via SFC can no longer be modified neither by the Commission nor by the managing authority. If changes are needed, the MS can propose a new version. This gives the guarantee that the SFC version in force is the one officially submitted by the MS and approved by the Commission.
- The Commission approves the RDP after consultation with other Commission services, discussion with the MS and approval by the Rural Development Committee.
II. National authorities involved in the implementation of RDP

a) Managing authority. Art. 66 of R. 1305/2013

- Responsible for RD programmes, indicator data, evaluation plan, ex-ante evaluation, annual progress report

b) Paying agency/coordinating body. Art. 7 of R.1306/2013

- Responsible for the management and control of expenditure: annual accounts, management declaration, annual summary of audits and controls.

- One national PA or one PA per region (coordinating body collecting information and sending to the Commission).

c) Certification body. Art. 9 of R.1306/2013

- Opinion on completeness, accuracy and veracity of the annual accounts of the PA, functioning of internal control system, legality and regularity of expenditure
III. Financial management

a) Commitments
b) Pre-financing (advance)
c) Payment deadline
d) Declaration of expenditure (interim payments)
   i. Declaration in structured form
   ii. Transmission via SFC
e) Interruption of payment deadline, suspensions
f) Forecast of expenditure.
g) Reporting facilities by SFC
III.a) EAFRD budget Commitments

- "Normal" and "Performance Reserve" commitments separately.  
  Art.76 of Reg.1303/2013
- Commission decision approving the RDP = financing decision, notification to MS = legal commitment.
- Annual commitments (before 1 May) according to financing plan of the RDP.
- Oldest commitments are used first. Art.77(1) of R. 1303/2013
III.b) Pre-financing

- Follows the first annual commitment after RDP approval
- 3 instalments in 2014, 2015 and 2016:
  - 1% + 1% + 1% of the whole programme amount
  - 1,5% + 1,5% + 1% for the financially assisted Member States
- Recovered if no declaration within 2 years.
- Interest on the account shall be used for actions under the programme, and cleared at closure.
- Remains as a continuous resource for the MS.
- The pre-financing shall be cleared before the closure of a programme.

Art. 35 of Reg. 1306/2013
III.c) Payment deadline

- From 2018 those RD payments, which are covered by the Integrated Administrative and Control System (area based and animal welfare measures, Art. 67(2) of R. 1306/2013) have to be made by the Member States to the beneficiaries between 1 December and 30 June of the following year.

- MS may continue, even after 2018, to pay advances of up to 75% for the area based and animal welfare measures prior to 1 December, but not before 16 October. Advances can only be paid after administrative checks (Art. 67(2) of R. 1306/2013) have been finalised.

Art. 75 of Reg. 1306/2013
III.d) Declaration of expenditure, Interim payments

- Interim Payments cover the amount of eligible public expenditure for which the paying agency has actually paid the EAFRD contribution. Art. 36 of R. 1306/2013

- The paying agency submits the declaration 4 times per year through SFC following deadlines in Art. 16(a) of R. 883/2006.

- Payments are calculated from the public expenditure declared, applying the co-financing rate in force on the 1st day of that period.

- Subject to resource availability, the Commission reimburses EU contribution within 45 days from reception. Art. 36(2) and 36(5) of R. 1306/2013

- Combined total of pre-financing and Interim Payments is limited to 95% of the EAFRD contribution to the RD programme (Art. 34(2) of R. 1306/2013), but the RDP continues to declare of expenditure in a normal way. Clearing of the pre-financing starts.

- Capping of EAFRD contribution per measure (entire programme period). Article 36(3)(b) of R. 1306/2013
Following the financing plan, a table for each measure and EAFRD specific contribution rate will be required, indicating separately expenditure for financial instruments under MA responsibility and open advances paid to beneficiaries.

**SFC**
- checks the figures and rules in the declaration. For example, it verifies the respect of the financing plan and caps exceeding expenditure per measure and at 95% level for the whole programme,
- calculates the EU contribution in accordance with the financing plan,
- Gives an indicative situation of the financial execution of the programme,
- Acknowledges reception and sends back a certified copy of the declaration
III.d.ii) Transmission via SFC

- Two possible ways of access to SFC
  - Access to the SFC website and manually entering figures
  - Web interface between SFC and the IT local system of the PA
- SFC checks that the declaration is send in time
  - Informs the paying agency when the period of declaration is open
  - Regularly send warnings if no declaration submitted
  - Does not allow transmission once the period expired
  - In case of error, the Commission can reject the declaration and then SFC allows sending an amended version.
- The declaration is processed by internal Commission IT systems, which analyse, calculate and prepare the payment, taking account of any additions/reductions from annual clearance of accounts. The PA is informed in detail via SFC of all these calculations.
III.e) Interruptions and suspensions

- Payment deadline (of 45 days) may be interrupted for up to 6 months (Art. 83 of Reg. 1303/2013), if:
  - Audit(s) show clear evidence of significant deficiency in functioning of management and control system.
  - Suspicion of irregularity with serious financial consequences.

- Payments may be reduced/suspended in following cases:
  - The respect of Union rules for an expenditure cannot be verified (A. 41(1) of R. 1306/2013)
  - Systemic deficiencies in control and recovery systems (A. 41(2) of R.1306/2013)
  - Late submission of control statistics (Art. 42 of R.1306/2013)
  - Non-fulfilment of ex-ante conditionalities (Art. 19(5-7) of R.1303/2013)
  - Serious failure to achieve Performance Framework milestones (Art. 22(6) of R.1303/2013)
  - MS under financial assistance fails to take action to maximise effectiveness of ESI Funds (Art. 23(6) of R.1303/2013)

- Commitments or payments may be suspended for failures in applying sound economic governance (A. 23(9) of R.1303/2013)
III.f) Forecast of Expenditure

- Has to be sent through SFC to the Commission 2 times per year (January, August).
- Covers a forecast for the current and the following budget year.
- SFC creates in-time reports comparing forecast with expenditure declared.

Art. 102(1)(c)(ii) of R. 1306/2013
III.g) Reporting facilities by SFC

• SFC will deliver a detailed report on financial execution for each programme usable as financial information to be provided in the annual report including:
  ➢ Table on financial execution per calendar year and per annual instalment showing the financing plan, commitments, pre-financing and clearings, interim payments, recoveries, outstanding commitments etc.
  ➢ Expenditure declared (public and EAFRD) per measure and per year and quarter, and reductions made by the Commission.

• SFC shall also deliver summary reports by country, region and for the whole European Union on:
  ➢ Financial execution per measure of RD programmes, commitments, payments, outstanding commitments, n+3 risk, etc.
  ➢ Summary table of the situation per priority / focus area.
IV. The annual accounts. Financial and conformity clearance

a) THE ANNUAL ACCOUNTS
b) THE FINANCIAL CLEARANCE OF ACCOUNTS
c) CONFORMITY CLEARANCE DECISIONS
d) IRREGULARITIES
IV.a) The annual accounts

- Agricultural financial year runs from 16 October of year N-1 until 15 October of year N (Art. 39 of R. 1306/2013).

- Include:
  - summary of expenditure by RD measure
  - extract of the debtors ledger
  - table of differences with amounts declared in quarterly declarations with explanation of these differences

- by 15 February of year n+1, the MS sends:
  - annual accounts at programme level
  - statement of assurance of the PA Director
  - certificate and reports draw up by the certification body
  - complete records of all the accounting information (X-tables)

Art. 102(1)(c)(iii) of R. 1306/2013
Art. 6 of R. 883/2006 (+ new IA)
IV.b) Financial Clearance of accounts

- Based on the annual accounts of the year « n » submitted by the paying agency on 15 of February n+1.
- The Commission informs the MS of any proposed amendments by 30 April n+1.
- The annual clearance decision is adopted by 31 May n+1 after consultation of the Committee of the Funds. It indicates for each RDP and per RD measure the amount accepted as EAFRD expenditure,
- It also indicates whether excluded amounts are or not reusable for the programme.
- Amounts payable or recoverable shall be deducted from or added to first payment for which the declaration of expenditure is submitted after adoption of the decision.

Art. 51 of R. 1306/2013
Art. 10 of R. 883/2006 (+ new IA)
IV.c) Conformity Clearance

- **Member States** are responsible for detecting and excluding of EU co-financing, expenditure not complying with EU rules.

- The **Commission** performs on-the-spot checks, in order to verify the audit system applied by the MS.

- In case of weaknesses of the MS audit system, or non-compliance with EU rules, the Commission may apply financial corrections (flat rate or others), to exclude the amounts concerned from Community financing.

- Cannot be excluded from co-financing: The amounts for which the final obligation of the beneficiary, or the final payment for a RD measure, occurred more than 24 months before the Commission notifies its findings to the MS.

- Financial corrections under conformity decisions always lead to recovery of the money from the RD programme (cannot be re-used).

Art. 52, 54 and 56 of R. 1306/2013
Art. 11 of R. 883/2006 (+ new IA)
IV.d) Irregularities

- MS shall correct irregularities by canceling the EU co-financing concerned.
- Amounts recovered, including interest charged to the beneficiary, can be re-used for the programme. In practice, these amounts are deducted from declarations of expenditure, which means that commitment appropriations for the programme are not consumed.
- MS annually provides an overview of irregularities and recovering procedures.
- Amounts not recovered after 4 years of first evidence (or 8 years for cases in Court) will be borne 50/50 by Commission and the MS. MS still has to pursue recovery.
- Duly justified, MS may stop pursue recovery, where recovery proves impossible or for small amounts where the cost of recovery exceeds the amounts to be recovered.

Art. 54 and 56 of R. 1306/2013
V. Closure of a Rural Development programme

- Programmes are closed on the basis of the last annual progress report on 30 June 2024 (Article 75(1) of R. 1305/2013) and clearance of last year accounts.
- Final date of eligibility for EAFRD expenditure is 31 December 2023.
- Annual accounts are submitted to the Commission by 30 June 2024 covering expenditure until 31 December 2023.
- The balance is paid within 6 months after the annual progress report is considered receivable by the Commission and the last annual account has been cleared.
- Any remaining commitments de-committed no later than 6 months following the payment of balance.

Art. 37 of R. 1306/2013