European Commission

Integrated financial and accountability reporting

Overview

#EUBUDGET

FINANCIAL YEAR

2021

INTEGRATED FINANCIAL AND ACCOUNTABILITY REPORTING 2021

Budget

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Integrated financial and accountability reporting

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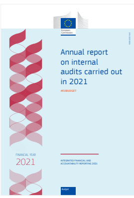
Introduction

The integrated financial and accountability reporting package brings together comprehensive information on the implementation, performance, results, sound financial management and protection of the EU budget in 2021. It consists of five reports.

The **2021 annual management and performance report** and its annexes provide an overview of the performance, management and protection of the EU budget, including the performance and compliance aspects of the Recovery and Resilience Facility (RRF). It explains how the budget supports the EU's political priorities and describes both the results achieved with the EU spending programmes by the end of 2021 and the role of the European Commission in ensuring the highest standards of financial management.

The **2021 consolidated annual accounts of the European Union** contain financial information on the activities during the year, the assets and liabilities, and the revenue and expenditure of the institutions, agencies and other bodies of the EU. They are produced in accordance with the International Public Sector Accounting Standards.

The **report on the follow-up to the discharge for the 2020** financial year reports on how the Commission proceeded with the requests made by the European Parliament and the Council of the European Union during the discharge procedure. The requests cover wide-ranging topics and help the Commission to further improve the way it manages and implements the EU budget.



The Commission **report to the discharge authority on internal audits carried out in 2021** presents a synthesis of the recommendations made by the Internal Audit Service (IAS) and the actions taken on those recommendations to improve the Commission's governance, risk management and control processes.

The **long-term forecast of future inflows and outflows of the EU budget (2023–2027)** provides the payments and revenue forecast covering the new multiannual financial framework (MFF), and the European Union Recovery Instrument – NextGenerationEU (NGEU).

These documents provide essential input for the annual discharge procedure, through which the European Parliament and the Council of the European Union hold the Commission accountable for the way it manages the EU budget. This is in line with the highest international standards for transparency and accountability.

This brochure highlights the key messages of these reports and explains the main features of the EU budget.

Foreword

In 2021, the EU proved once again that it is up to the task as it faced ever increasing challenges.

In such an unprecedented period of crisis, it is even more important that the EU budget be spent effectively and correctly. For citizens and businesses, every euro counts – not only to mitigate the impact of the pandemic but also to invest in the future.

The integrated financial and accountability package includes five reports and shows tangible results for the people, for Europe.

The annual management and performance report explains how the budget supports the EU's political priorities and achieves results. Complementing this, the annual accounts report provides all the financial information on the activities carried out during the year.

As we are continuously improving the way of managing and implementing the EU budget, the package also includes the outcome of the discharge procedure and the opinion of the internal auditor. In addition, the long-term forecast provides an overview of the expected future inflows and outflows.

With this transparent and comprehensive report, we continue to adhere to the highest international accounting standards. The EU taxpayers trust the Commission to spend their money in an efficient and effective way, and the integrated financial and accountability package is proof that we take this responsibility seriously. This package shows that the EU is the best answer not only to overcome the crises but also to emerge stronger – thanks to a budget that helps build the foundations for a greener, more digital and more resilient Europe.

Johannes Hahn, European Commissioner for Budget and Administration

Section I

Highlights of the 2021 EU budget and NextGenerationEU

A strong budgetary performance amid unprecedented challenges

Highlights of the 2021 EU budget

In 2021 the EU budget, supplemented by the NextGenerationEU recovery instrument, continued to play a key macroeconomic role, supporting and steering the recovery from the COVID-19 crisis towards the twin transition. Thanks to the effective tools in place and to the proactive management of the EU budget, the Commission was able to deliver on its policy objectives and respond to multiple challenges with the necessary degree of flexibility, while ensuring sound financial management and maintaining an appropriate level of assurance on the management of the EU budget.

In 2021, the EU sent a **signal of solidarity and strength**, countering the unprecedented crisis. The EU funds continued to play a critical role in the EU's response to the coronavirus pandemic and its consequences. Key projects included financing the introduction of the digital COVID-19 certificate which has set a standard well beyond EU borders, the procurement of healthcare-related material, assistance to medical personnel, operational support for mobile medical-response capacities and the purchase of vaccines for lower-income countries. The EU provided **liquidity to Member States** by using all available budgetary resources. The **coronavirus response investment initiatives**, established in 2020, allowed the fully flexible mobilisation of all the remaining funds in the 2014–2020 cohesion policy programmes. EUR 23 billion was reallocated to the health sector and to measures to address the effects of the crisis. Finally, through additional financing from NextGenerationEU via REACT-EU, an additional EUR 7 billion was paid out, leading to Member States receiving a total of EUR 140 billion in liquidity in 2021. However, the focus of cohesion policy on the fight against COVID-19 increased operational pressure and diverted some funding away from other long-term investment priorities, such as research infrastructure and support for small and medium-sized enterprises.

In June 2021 **NextGenerationEU** started its borrowing for the recovery operations – to great acclaim and with record demand. By the end of 2021, the Commission had raised almost EUR 71 billion in long-term funding, complemented by EUR 20 billion of short-term EU-Bills, to fund the first planned disbursements to Member States under NextGenerationEU. These novel EU bonds have been very well received by the markets, partly because they are assuming the role of a euro-denominated safe asset, something the market has been requesting for some time. The borrowing cost in 2021 for a 10-year borrowing was mostly negative, and well below the average of the borrowing costs of individual Member States.

The immediate large-scale activation of the funding programme allowed the Commission to disburse a total of EUR 71.6 billion to Member States. In addition, with a further EUR 50.1 billion disbursed under the **support to mitigate unemployment risks in an emergency** (SURE) programme, the EU continued to support Member States both in maintaining employment rates and in supporting industries that were affected by the pandemic. With this record stimulus package, the EU economy started rebounding in 2021 – faster than expected.

The recovery effort was targeted towards strengthening EU open strategic autonomy and building a greener and more digital future. The EU has increased its ambition for climate-related financing to 30% of the overall EU budget including NextGenerationEU, which also also reflects a willingness to honour its global commitments, including the Paris Agreement and the sustainable development goals. In an expression of the EU's true commitment to the green and digital transformation, 22 **national recovery and resilience plans** of the new performance-based instrument at the service of EU recovery adopted in 2021 exceeded these minimum requirements. Overall, Member States committed about 40% of financing to tackling climate change and about 26% to furthering the digital transition which led in 2021 to EUR 137.5 billion being committed under both the EU budget and NextGenerationEU, to fight against climate change. This amount represents nearly two thirds of the amount reached overall in the 2014–2020 period, putting the EU on a good path towards reaching the overall target for 2021–2027.

In parallel, the EU responded to diverse **global challenges** by using the EU budget effectively and flexibly. To respond to the structural investment gap globally, the EU launched the **Global Gateway initiative**. The initiative will mobilise EUR 300 billion between EU institutions and Member States, in a "Team Europe" approach, to support investments in digital, energy and transport infrastructure and strengthening health, education and research systems. The new integrated **Neighbourhood, Development and International Cooperation Instrument** reinforces the EU's capacity as a geopolitical actor at a time of exceptional challenges in Europe's neighbourhood and beyond. At the beginning of 2022, in response to the **Russia's unprovoked and unjustified invasion of Ukraine**, the EU budget was mobilised both to provide immediate assistance to Ukraine and its people and to help Member States support those fleeing Ukraine. Essential in-kind support, such as medical supplies and equipment, is being channelled to Ukraine through the EU Civil Protection Mechanism. Emergency macro-financial assistance will help Ukraine address its financing needs and strengthen economic stability. The EU has also provided unprecedented support to Ukraine through the European Peace Facility.

Major progress has also been made in setting up the Recovery and Resilience Facility and its implementation. In 2021, the Commission disbursed EUR 54.4 billion in pre-financing payments to those Member States whose plan had been positively assessed by the Commission and endorsed by the Council. Out of the 22 Member States in this group, one did not request pre-financing and one received it in 2022. The pre-financing helped ensure the fast implementation of the investment and reform measures outlined in the recovery and resilience plans.

As of the end of 2021, five operational arrangements had been concluded, with Greece, Spain, France, Italy and Slovakia, and four Member States had submitted their first regular payment requests. The Commission disbursed a first payment, of EUR 10 billion, to Spain in December 2021.

The start of the new generation of programmes was delayed due to the late adoption of the legal acts by the co-legislators in the course of 2021. However, thanks to intensive preparatory work, the Commission was able to launch many of the programmes without further delay, in particular those directly managed by the institution itself. In shared management, the late adoption of the common provisions regulation, setting out the regulatory framework for programmes under shared management with Member States (such as the cohesion policy funds), meant that the implementation of the new programmes could not begin in 2021, even though preparations on the ground had started. While the 2021 budget was carried over to future years, the Commission is working intensively with the Member States to adopt partnership agreements and programmes as soon as possible.

The Commission has also presented new methodologies used to track the contribution of the EU budget to the following three EU policy horizontal objectives:

- **The fight against climate change**, where the updated tracking methodology relies on an effect-based classification of interventions. It has been enshrined in a consistent manner across all key basic acts.

- **Halting and reversing biodiversity loss**, where the tracking methodology has been largely updated in a similar fashion.

- **Furthering gender equality**, where a pilot methodology is being applied, which reflects the fact that most of the EU budget has the potential to contribute positively to furthering gender equality

At the point of transition between long-term budgets, in 2021 the EU programmes under the 2014–2020 budget continued to make progress towards their respective performance targets with 85% of performance indicators being on track.

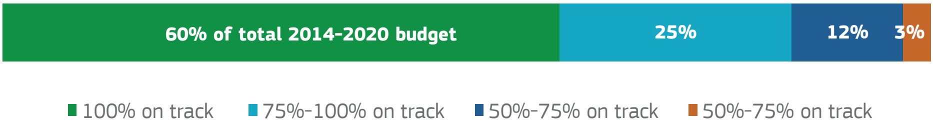


Chart: Breakdown of the 2014-2020 budget by progress of the underlying programmes. The graph displays progress as measured by the share of the indicators selected for the programme performance overview that have met or are well on track to meet their respective targets. For example, it shows that for programmes accounting for 60% of the 2014-2020 budget, all indicators have met or are well on track to meet their respective targets.

Source: European Commission.

All these results were achieved while ensuring the **EU budget is well-protected against fraud and irregularities**, in the interest of taxpayers (for more information see Section III).

Section II

EU annual accounts

Providing an accurate picture of EU finances

Highlights of the 2021 EU accounts

The EU consolidated annual accounts provide a complete overview of EU finances and the implementation of the EU budget. They are prepared according to the highest available standards, the International Public Sector Accounting Standards (IPSAS). They also show how the EU budget complemented by NextGenerationEU was implemented during the year.

Throughout 2021, the EU continued to implement unprecedented solutions and responses to the economic and political challenges caused by the COVID 19 pandemic. In this context the NextGenerationEU, a new recovery instrument played, a central role in providing funding to the Recovery and Resilience Facility and reinforcing several existing EU programmes and policies ([1]).

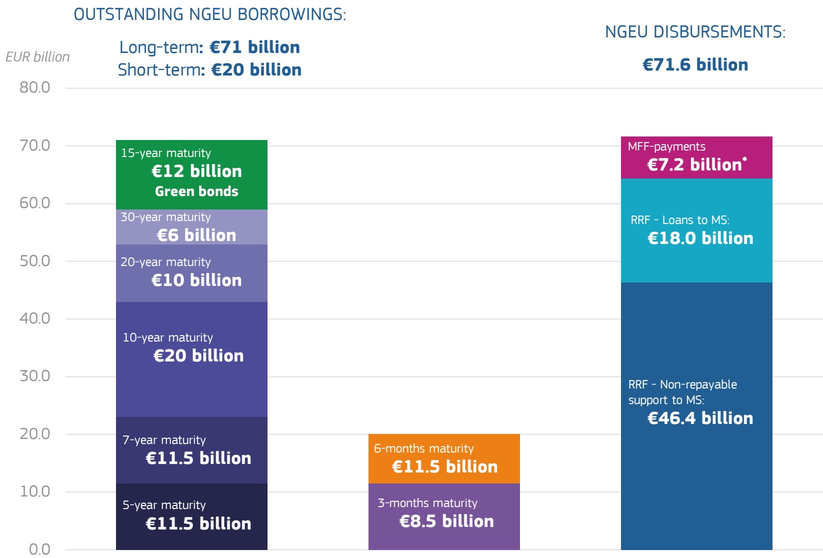
From the successful launch of the NextGenerationEU funding operations on 15 June 2021 to the end of 2021, the Commission raised EUR 71.0 billion of long-term funding, mainly by issuing bonds in syndicated transactions. In addition, as of December 2021, the Commission had EUR 20 billion of short-term EU-Bills outstanding.

The total disbursements under NextGenerationEU amounted to EUR 71.6 billion, of which:

- A total amount of EUR 64.4 billion as loans and non-repayable support, under the Recovery and Resilience Facility (RRF). This includes EUR 54.4 billion of pre-financing (EUR 18 billion in the form of loans and EUR 36.4 billion as non-repayable support) and EUR 10 billion of payments for milestones and targets as non-repayable support.

- A contribution of EUR 7.2 billion to other MFF programmes.

([1]) NextGenerationEU overall contribution to other programmes: REACT-EU (European Regional Development Fund / European Social Fund) – EUR 50.6 billion, Just Transition Fund – EUR 10.9 billion, rural development (European Agricultural Fund for Rural Development) – EUR 8.1 billion, InvestEU – EUR 6.1 billion, Horizon Europe – EUR 5.4 billion, rescEU – EUR 2.0 billion.



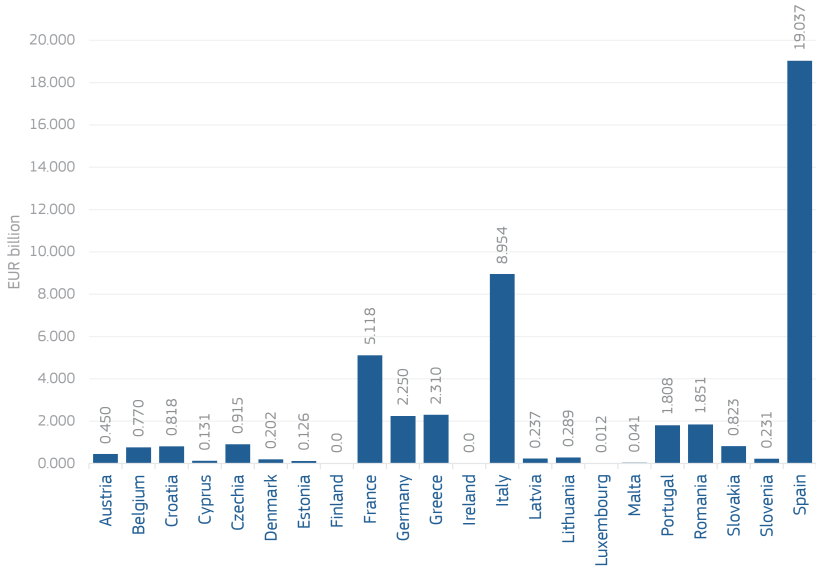
* A further EUR 1.4 billion of funds were held in the Commission's central treasury account pending disbursement to the budget for MFF programmes.

Chart: Outstanding NextGenerationEU borrowings and NextGenerationEU disbursements at 31 December 2021.

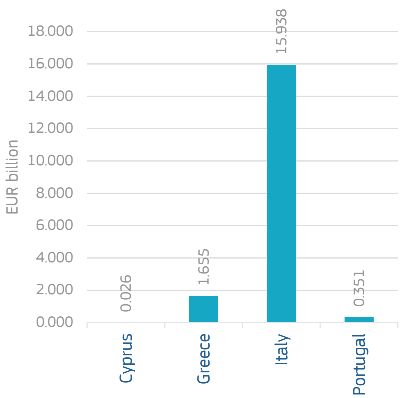
Source: European Commission.

Disbursments under NextGenerationEU - EUR 71.6 billion split between Member State non-repayable support, Member State loans and MFF programmes

Member State non-repayable support
EUR 46.4 billion



Member State loans
EUR 18.0 billion



MFF programmes
EUR 7.2 billion

	EUR billion
React EU	7.007
- of which ERDF	4.926
- of which ESF	2.081
InvestEU	0.151
Rural Development (EAFRD)	0.065
Horizon Europe	0.018
RescEU	0.002
Total	**7.243**

Chart: Total disbursements under NextGenerationEU at 31 December 2021 split between non-repayable Member State support, Member state loans and contributions to MFF programmes.
Source: European Commission.

Additionally, the temporary **Support to mitigate Unemployment Risks in an Emergency (SURE programme)** which was established in 2020 to provide financial assistance to Member States experiencing, or seriously threatened by, a severe economic disturbance caused by the COVID-19 pandemic continued to deliver. At the end of 2021, under SURE, Member States signed loan facility agreements amounting to EUR 94.3 billion and out of this amount EUR 89.6 billion were disbursed by year-end 2021. The amount of new loans disbursed in 2021 amounted to EUR 50.1 billion.

On top of rapid crisis response, the European Union continued to **deliver on its policy objectives**. The 2021 budget was the first budget of the current multiannual financial framework, with budget implementation amounting to **EUR 268.3 billion in commitments made**.

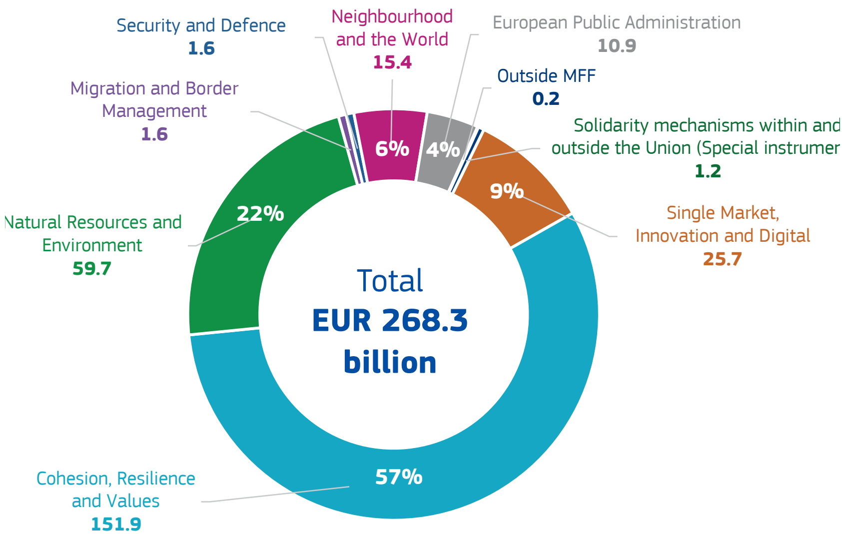


Chart: : Budget implementation of commitments made in 2021.
Source: European Commission.

Implementation of commitment appropriations in 2021

In 2021, the first year of the new 2021–2027 MFF, the final adopted budget amounted to EUR 166.8 billion of commitment appropriations and EUR 168.0 billion of payment appropriations. NGEU reinforced the key programmes by an additional EUR 421.1 billion of commitment appropriations and EUR 55 billion of payment appropriations inscribed in the EU budget as external assigned revenue.

The 2021 implementation for all types of appropriations (budget, carry-overs from previous year and assigned revenue) was 44% for commitments and 92% for payments.

The implementation of the 2021 budget was significantly impacted by the delays in the adoption of new legal bases and the new rules for structural funds. The majority of the 2021 commitment appropriations for structural funds (with a net value of EUR 49 billion) were re-programmed to 2022–2025 according to article 7 of the MFF regulation.

Outstanding commitments (commonly referred to as RAL – reste à liquider), which are committed amounts not yet paid, stood at EUR 341.6 billion at the end of 2021.

The outstanding commitments without the NextGenerationEU decreased compared to 2020 (by EUR 51.5 billion) and this decrease was larger than initially forecasted, as most of the commitments for programmes under shared management (with a net value of EUR 49 billion) planned for 2021, were postponed to 2022 and following years, in accordance with Article 7 of the MFF regulation.

The main driver of the 2021 increase of the total RAL was the start of the NextGenerationEU implementation (the non-repayable part) – contributing EUR 89.9 billion (26%) to the total RAL at the end of 2021. The NextGenerationEU assigned revenue will lead to the increase of the RAL in the coming years as all commitments will be entered by 31 December 2023 and will be honoured by payments up to 31 December 2026, in accordance with Articles 3(4) and 3(9) of the European Union recovery instrument (EURI) regulation.

The budget result (surplus) increased from EUR 1.8 billion in 2020 to EUR 3.2 billion in 2021, due to the higher-than-expected revenue from customs duties and fines.

	2021	2020
Revenue for the financial year	239 596	174 306
Payments against current year appropriations	(226 175)	(171 721)
Payment appropriations carried over to year *N* + 1	(4 244)	(2 086)
Cancellation of unused appropriations carried over from year *N* – *1*	265	78
Evolution of assigned revenue (B) – (A)	(6 338)	1 398
Unused appropriations at the end of current year (A)	*14 032*	*7 694*
Unused appropriations at the end of previous year (B)	*7 694*	*9 092*
Exchange rate differences for the year	126	(207)
Budget result	**3 230**	**1 768**

Table: Budget result for 2020 and 2021.
All amounts in EUR million.
Source: European Commission.

Consolidated financial statements

The consolidated financial statements of the EU comprise more than 50 entities (including the European Parliament, the Council, the Commission and EU agencies). The Commission is the most significant entity, accounting for almost all of the total assets of the consolidated financial statements.

	2021	2020
ASSETS		
Financial assets	188.6	113.1
Pre-financing	93.4	62.7
Receivables	72.4	74.5
Cash and cash equivalents	44.9	16.7
Property, plant and equipment and other assets	14.7	13.0
Total	**414.1**	**280.0**
LIABILITIES		
Post-employment benefits	122.5	116.0
Financial liabilities	246.1	95.0
Payables	46.4	32.4
Accruals	78.1	64.6
Other liabilities	3.3	5.4
Total	**496.4**	**313.5**
NET ASSETS		
Reserves	1.3	5.1
Amounts to be called from Member States	(83.6)	(38.5)
Total	**(82.3)**	**(33.4)**

Table: 2021 and 2020 balance sheet of the EU.
All amounts in EUR billion.
Source: European Commission.

The excess of liabilities over assets at 31 December 2021 amounted to EUR 82.3 billion (2020: EUR 33.4 billion). The considerable increase of EUR 48.9 billion is mainly due to the borrowings in relation to non-repayable support taken out under NextGenerationEU in 2021 (resulting in an increase of direct management expenses of EUR 42.9 billion). Therefore, unlike back-to-back borrowing and lending operations, there is a liability but not the equivalent asset to match it. It is noted that the excess of liabilities over assets does not mean that the EU institutions and bodies are in financial difficulty, but rather that certain liabilities will be funded by future annual budgets. Many expenses are recognised under accrual accounting rules in the current year although they may be actually paid in following years and funded using future budgets; the related revenues will only be accounted for in future periods. Apart from the borrowings for NextGenerationEU, which are to be repaid between 2028 and 2051, and the employee benefits liability, which is to be paid over several decades, the most significant amounts to be highlighted are the activities relating to the European Agriculture Guarantee Fund, the bulk of which is usually paid in the first quarter of the following year.

ASSETS

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

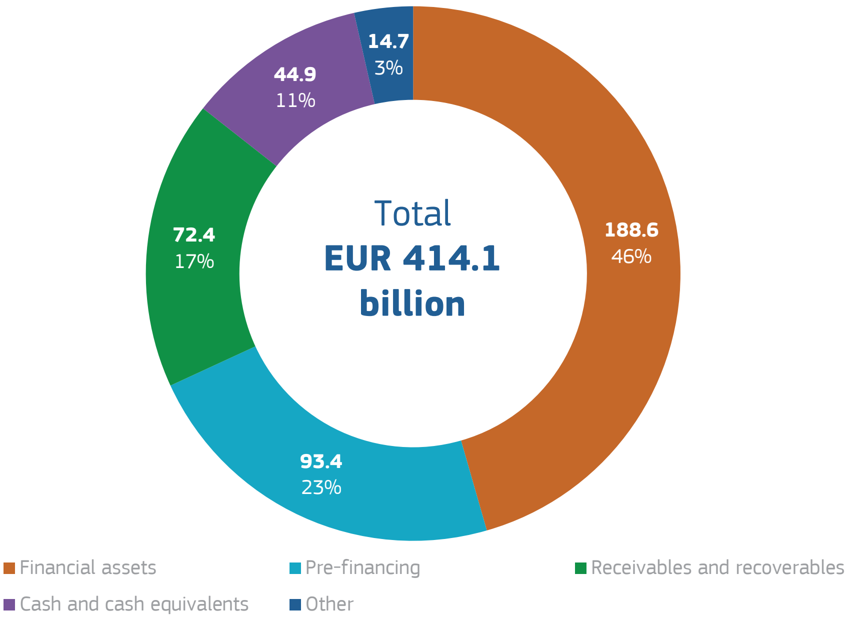


Chart: EU assets in 2020 (major categories).

Source: European Commission.

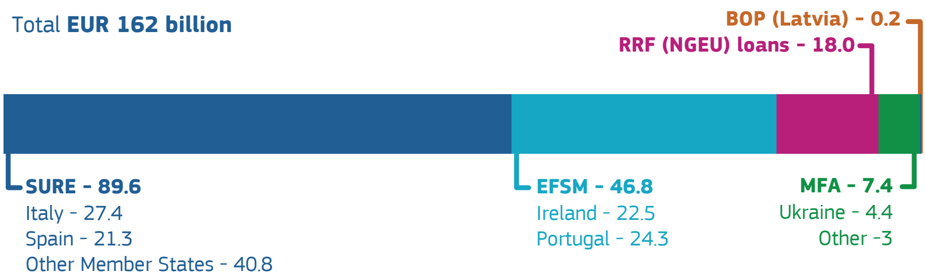
Financial assets

Loans. The EU provides financial support to preserve financial stability in Europe and to grant financial assistance to Member States (and some non-EU countries, e.g. Ukraine) in financial difficulties. In this context, the EU raises funds on the capital markets or with financial institutions, which are lent under the same conditions (back-to-back operations) to the Member States and partner countries concerned.

In 2021, further loans were disbursed under the SURE instrument established in 2020 as part of its emergency support package to tackle the economic impact of the COVID-19 pandemic in the EU, and under the programme providing macro-financial assistance to enlargement and neighbourhood partners.

Furthermore, in 2021 the EU granted the first loans under the Recovery and resilience facility programme (RRF). The borrowings issued to finance the RRF programme under the NextGenerationEU instrument are not equal to the loans granted as they also serve to finance the non-repayable support in the form of grants. Due to the pooled borrowing approach, borrowings given out as loans are not back-to-back operations. Thus at the end of 2021 the loans recognised on the balance sheet did not match the borrowings (for further information on NextGenerationEU please refer to chapter 'Highlights of the 2021 accounts' above).

The graph below shows the nominal amounts of the loans outstanding at 31 December 2021 by programme and recipient state.



EFSM: European Financial Stabilisation Mechanism

SURE: Support to mitigate unemployment risks in an emergency

MFA: Macro-financial assistance

BOP: Balance of payments

RRF (NGEU): Recovery and Resilience Facility (NextGenerationEU)

Chart: Nominal amount of loans granted for financial assistance EFSM, SURE, MFA, BOP, RRF (NGEU).

Source: European Commission.

Financial assets at fair value through surplus or deficit. The EU holds financial assets at fair value through surplus or deficit in the form of debt securities, equity instruments and other types of investment. 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. The basic concept behind this approach is to encourage the contribution of additional private and public funds to the programmes in question, maximising the impact of the funds available (the leverage effect).

Pre-financing

Pre-financing is an essential instrument for the implementation of the EU budget, and it represents a cash advance given to recipients to implement a specific programme. The recipient is required to report the eligible expenditure incurred to the EU, and any ineligible or unused amounts must be returned to the EU. For further information on this topic please refer to the "Consolidated Annual accounts of the European Union", p.28.

Receivables

Receivables are amounts owed up to the EU arising from competition fines issued, traditional own resources (e.g. customs duties) and other amounts to be collected from Member States (e.g. amounts relating to the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development, as along with remuneration to be received from financial institutions for the financial guarantees issued by the EU). Following the United Kingdom's withdrawal from the European Union in 2020, this position also includes the net amount receivable from the United Kingdom based on the obligations of the withdrawal agreement signed between the EU and the United Kingdom.

Property, plant and equipment — space assets

This category covers operational fixed assets related to the two EU space programmes: the global navigation satellite systems (i.e. Galileo and the European Geostationary Navigation Overlay Service) and the Copernicus European Earth observation programme.

Space assets at 31 December 2021 amounted to EUR 4.5 billion, with a further EUR 3.5 billion recognised as assets under construction. For Galileo, two satellites were launched in December 2021. They are expected to be declared operational in 2022. The operational constellation includes 26 satellites. When completed, the Galileo constellation will comprise 30 satellites (including six spare satellites). Regarding Copernicus, satellite 6A was declared operational in June 2021.

LIABILITIES

EU liabilities are amounts owed to recipients of EU funds, but also borrowings, liabilities stemming from financial guarantee contracts, pensions and other employee benefits.

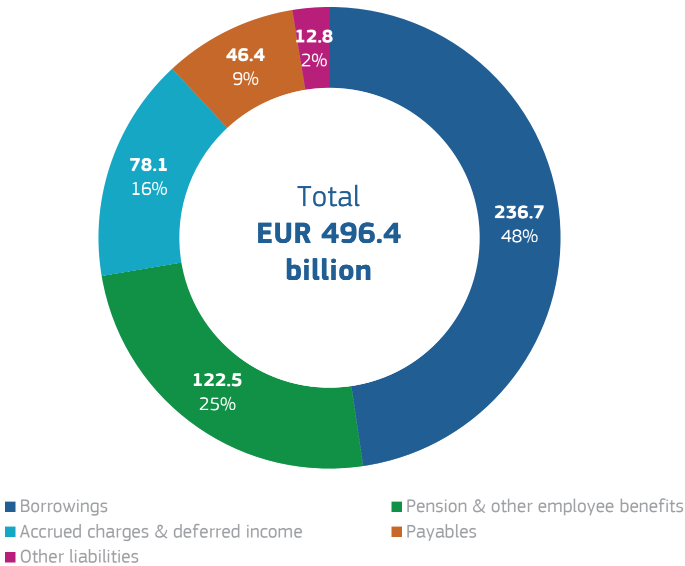


Chart: EU liabilities in 2021.

Source: European Commission.

Post-employment benefits

The EU grants a set of post-employment benefits to employees, which include retirement, invalidity and survival pensions, as along with medical coverage. The benefits are provided under a defined benefit pension plan and post-employment sickness scheme. The increase in the total employee-benefits liability is primarily driven by the continued decrease in one of its key factors the real discount rate, which remained negative for the third year running.

Financial liabilities (primarily borrowings)

The EU borrows money on the capital markets to grant back-to-back loans to the countries (i.e. under the same conditions) – see ‘Financial assets’ above – and to finance RRF loans, RRF non-repayable support and other MFF programs (for more information on NextGenerationEU please see the section ‘Highlights of the 2021 accounts’ above).

Payables and accruals

Payables and **accruals** are amounts owed to third parties. Payables include invoices and cost claims received but not paid at year-end (e.g. Member States requesting the reimbursement of expenditure made in the current or previous years). Accrued charges include the estimated amounts of invoices and cost claims not yet received, which will have to be reimbursed the following year. The largest amount at year-end relates to the European Agricultural Guarantee Fund, for which the amounts are primarily paid from the budget in the first quarter of the following year.

Contingent liabilities

A **contingent liability** is an amount that represents an exposure of the EU budget to the possible or potential risk of having to pay out amounts in the future.

The EU mainly discloses the outstanding nominal amounts of the financial guarantees given (on loans and financial assistance programmes) and contingent liabilities relating to legal risks. All contingent liabilities – except those relating to fines, guarantees and financial instruments up to the level to which they are covered by funds – would be financed, should they fall due, by the EU budget (and thus the Member States) in the years to come.

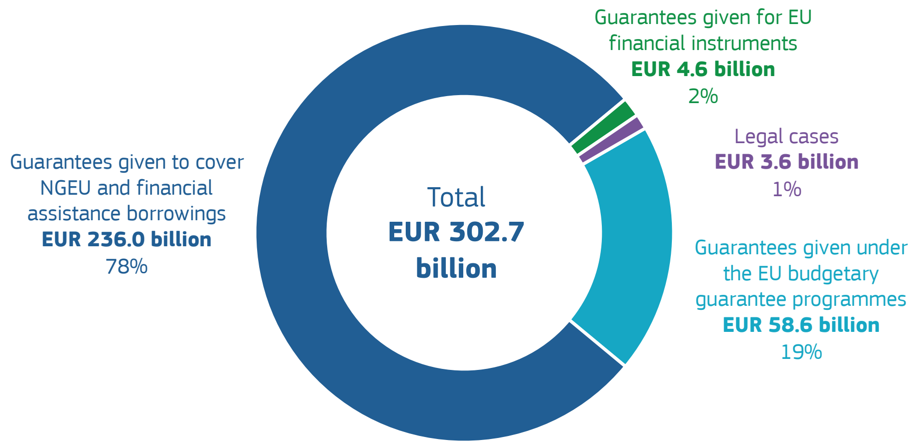


Chart: Contingent liabilities in 2021.
Source: European Commission.

Guarantees given under the EU budgetary guarantee programmes. The EU provides guarantees to the European Investment Bank (EIB) Group for its loans granted outside of the EU (under the external lending mandate) and for debt and equity operations within the EU covered by the European Fund for Strategic Investments (EFSI) guarantee. In addition, the EU guarantees investments in partner countries in Africa and in the European neighbourhood undertaken by several implementing partners under the European Fund for Sustainable Development and External Action Guarantee established by the Neighbourhood, Development and International Cooperation Instrument – Global Europe. In order to mitigate the risk that guarantee calls by the EIB Group or other financial institutions could present to the EU budget, the EU has created dedicated guarantee funds, i.e. the Guarantee Fund for External Actions, the European Fund for Strategic Investments Guarantee and the European Fund for Sustainable Development Guarantee. In 2021 those funds were transferred to a common provisioning fund managed by the Commission.

Guarantees given to cover NextGenerationEU and financial assistance borrowings. The EU's borrowing and lending activities for financial assistance programmes and NGEU are non-budget operations (the EU borrows money on the capital markets to finance these loans, and to finance grants in the case of the RRF). Borrowings of the EU constitute direct and unconditional obligations of the EU and are thus guaranteed by the EU budget (budgetary contingent liabilities). Out of the guarantees given to cover NGEU and financial assistance borrowings outstanding at 31 December 2021, EUR 163 billion relates to loans for financial assistance and NGEU, EUR 53.6 billion relates to RRF grants and contributions to MFF programmes, and EUR 19.4 billion has not yet been disbursed. The Commission has put procedures in place to ensure the repayment of these borrowings in case of a loan default by the recipient. For the SURE instrument, Member States provided EUR 25 billion in guarantees.

Long-term forecast for 2023–2027

The report on the long-term forecast of future inflows and outflows complements the information on budget implementation presented in the annual accounts report by providing a long-term view of the expenditure and revenue of the future EU budgets. The forecast covers the next 5 years, in accordance with financial regulation requirements (2). The 2022 report is the second forecast issued after the adoption of the 2021–2027 MFF and NextGenerationEU. Besides providing MFF estimates, this forecast updates the projections of payments on all programmes under NextGenerationEU.

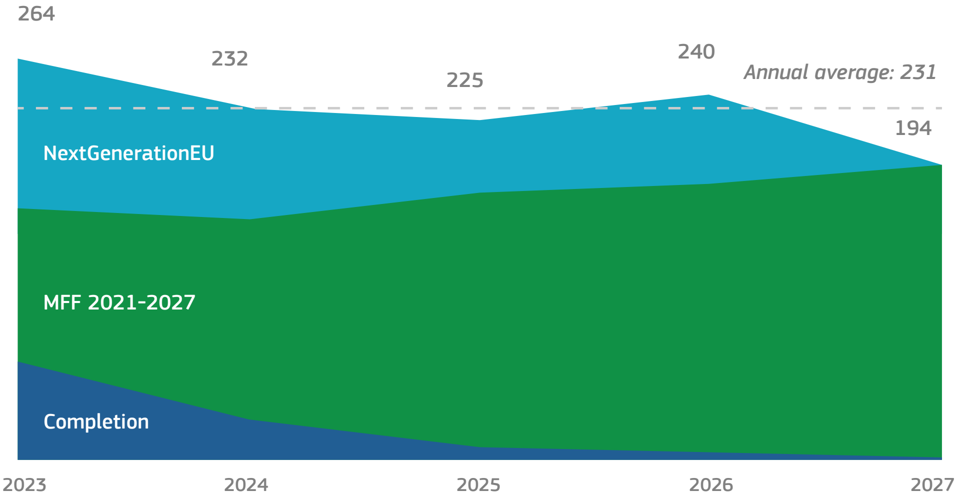


Chart: Payment forecast for 2023-2027 by category in EUR billion.
Source: European Commission.

The payments over the next 5 years of the MFF are expected to reach EUR 1 156 billion, including EUR 873 billion under the MFF payment ceiling and EUR 278 billion for NextGenerationEU non-repayable support. The forecast is drawn up in a context of high uncertainty resulting from the war in Ukraine. The initiatives already put forward for supporting Member States and specific sectors facilitate full absorption and accelerated payments for ongoing programmes. External financing instruments are making more funding available for Ukraine and the neighbouring partner countries. Going forward, demand is expected to remain high, implying advanced disbursements from the relevant EU budget instruments, as reflected in the forecast.

(2) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193, 30.7.2018, p. 1.

The MFF payment ceiling remains sufficient to cover the projected payments in each of the next 5 years thanks to the MFF mechanisms for automatic adjustment, notably the possibility to transfer unused amounts towards the end of the period when needs will peak. However, the net margin over 2023–2027 is roughly EUR 1.3 billion. Its size will have to be closely monitored going forward, especially to measure the potential effects of new policy initiatives or of the further acceleration of payments for ongoing programmes.

While the completion of ongoing programmes has advanced, the late adoption of the legislative package of the 2021–2027 MFF triggered by the COVID-19 pandemic has given rise to more delays at the start of the MFF and higher de-commitment risks than previously anticipated for the majority of new programmes in shared management, and in particular for cohesion policy. This backloads payment needs to the remainder of the MFF. Another consequence is the higher risk of effective loss of funds in the later years of the programming period due to automatic de-commitments if Member States do not deploy efforts to recuperate the initial delays, already starting in the first years of effective implementation.

Thanks to NextGenerationEU's support to investments and reforms, the EU budget will continue to be at the heart of the European post-COVID economic recovery in the next years, when the previous MFF programmes come to an end and before the new programmes reach cruising speed. The necessity to implement NextGenerationEU funds ahead of the deadline for disbursements by 2026 may affect Member States' capacity to put in additional effort to accelerate the launch of the new programming period for funds in shared management under the MFF.

NextGenerationEU will also have a temporary effect on the level of EU outstanding commitments, which will peak at the end of 2023 and then gradually return to levels comparable with the start of the MFF period by the end of 2027. While the RAL nominally increases at the end of the MFF compared to 2023, it reduces when measured as a share of the EU gross national income, which shows that the nominal growth of the EU economy outweighs the accumulation of outstanding commitments from the EU budget.

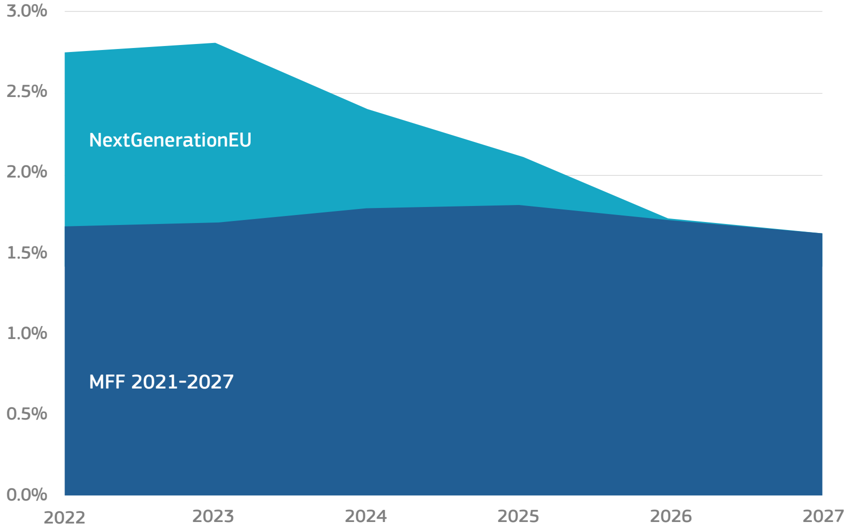


Chart: Evolution of the level of outstanding commitments (RAL) over 2023-2027, measured in percentage of the EU's gross national income.

Source: European Commission.

The forecast revenue (mostly EU own resources), which is necessary for financing the budget, will steadily grow in line with the MFF expenditure. Yet the size of the available margin under the own resources ceiling (the 'headroom') will remain relatively stable, as the increasing revenue needs to match the projected nominal growth of the EU economy.

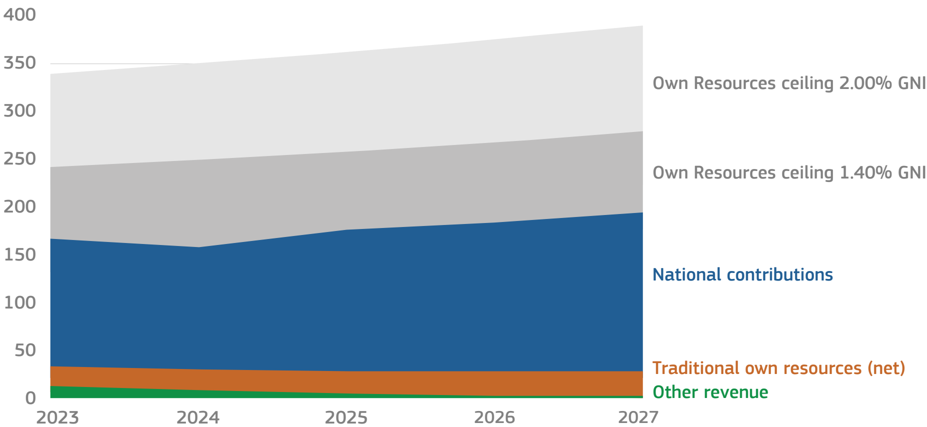


Chart: Revenue forecast for financing the 2023-2027 MFF. All amounts in EUR million.
Source: European Commission.

Section III

EU budget financial management and internal control

EU budget financial management and internal control

The European Commission attaches great importance to the sound financial management of the EU budget and NextGenerationEU, a temporary instrument to power the recovery. In order to make the best possible use of taxpayers' money, it is essential to ensure that funding reaches the intended beneficiaries in compliance with the applicable rules. To achieve this objective, the Commission relies on a number of tools, which have proved to be fit for purpose over the years:

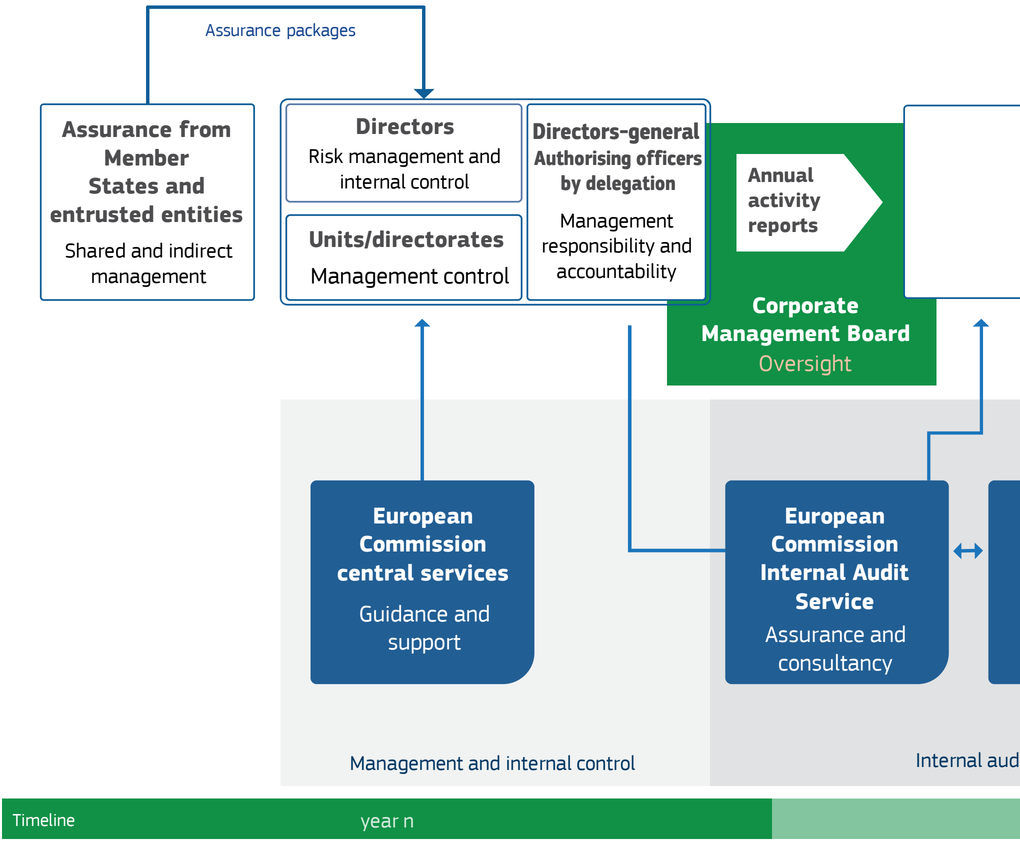
- **strong governance arrangements** leading to a solid chain of assurance building and accountability at department and corporate levels;
- a **robust corporate internal control framework** with tailored control strategies based on common features designed to reduce the risks to the legality and regularity of transactions;
- **control results** that confirm that the EU budget is well managed;
- a **multi-layered anti-fraud strategy** and the implementation of a zero tolerance policy on fraud;
- the assurance obtained through the work of the **Internal Audit Service (IAS)**;
- the **European Court of Auditors** as external auditor, and the discharge procedure with the **European Parliament** and the **Council**.

Effective tools are in place to ensure sound financial management

The Commission's governance system and chain of accountability are tailored to its unique structure and role. The College of Commissioners is politically responsible for the management of the EU budget. It delegates the day-to-day operational management to the 51 authorising officers by delegation, who manage and steer their departments and are accountable for the share of the EU budget implemented in their department. Their annual activity reports contain a declaration of assurance on the use of the resources assigned to them, which they may qualify with reservations in case of weaknesses.

This robust governance set-up helps the College of Commissioners to deliver on the Commission's objectives, to use resources efficiently and effectively and to ensure that the EU budget is implemented in accordance with the principles of sound financial management. The main building blocks of this solid chain of assurance and accountability are presented in the figure below.

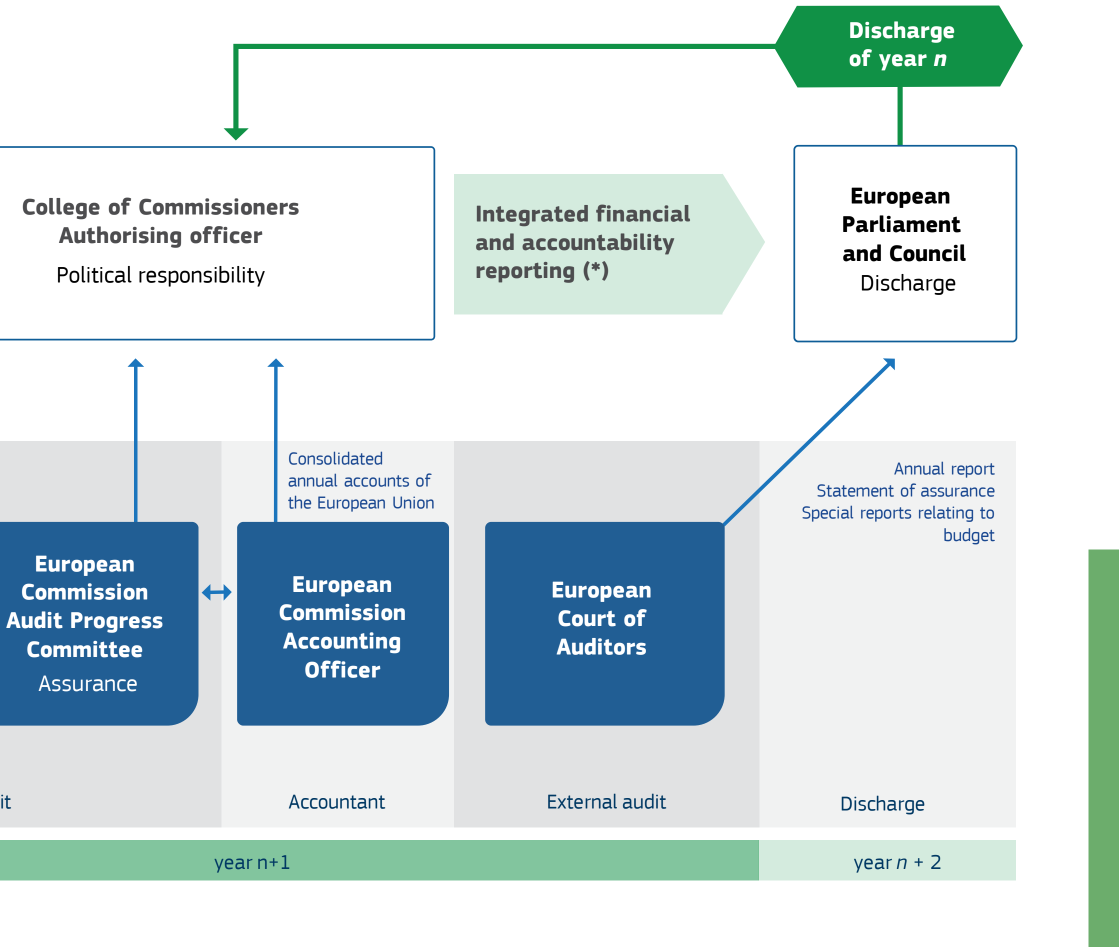
Commission's assurance building and accountability for the EU budget: clear roles and responsibilities



(*) Integrated financial and accountability reporting:

— Consolidated annual accounts of the European Union
— Annual management and performance report
— Long-term forecast of future inflows and outflows
— Annual internal audit report
— Report on the follow-up to the discharge

Source: European Commission.


Discharge of year *n*
College of Commissioners
Authorising officer
Political responsibility
Integrated financial and accountability reporting (*)
European Parliament and Council
Discharge
Consolidated annual accounts of the European Union
Annual report
Statement of assurance
Special reports relating to budget
European Commission Audit Progress Committee
Assurance
European Commission Accounting Officer
European Court of Auditors
it
Accountant
External audit
Discharge
year n+1
year *n* + 2

Robust corporate internal control framework

The Commission's **internal control framework** is an essential safeguard for it's operations. This is all the more the case in the context of the pandemic and the ensuing response measures. In 2021, the Commission continued to closely monitor the risks arising from the pandemic and their effective mitigation. The Commission's anti-fraud strategy has continued to play a significant role in preventing the possible misuse of EU funds.

In 2021, the relevant departments put a particular focus on the adaptation of their internal control systems to the needs of NextGenerationEU, be it through setting up a high-level risk and compliance policy for borrowing and lending activities or by designing specific audit and control strategies for spending under the Recovery and Resilience Facility.

Zero tolerance for fraud

ERRORS VERSUS FRAUD

The procedures in place ensure that most errors are detected and addressed. Errors do not mean that EU money is lost, wasted or affected by fraud. Errors mainly stem from misinterpretations of public procurement rules or from administrative mistakes in applications submitted by beneficiaries, for example when documents are missing. In fact, fraud affects approximately 0.2 % of the total EU budget.

The Commission has zero tolerance for fraud and relentlessly pursues its efforts to fight corruption. This starts with the robust controls applied to its daily financial transactions and continues, where necessary, through the investigations carried out by the European Anti-Fraud Office. The European Public Prosecutor's Office also contributes to reinforcing the Commission's action in this domain.

The Commission's control results confirm that the EU budget is well managed

Within its internal control framework, the Commission relies on multiannual and risk-differentiated control strategies to prevent, detect and correct errors and weaknesses in the control systems. In shared management, the Commission relies on the management and control systems put in place by the Member States. Altogether, the Commission and Member States perform hundreds of thousands of checks every year.

As a result of its controls and audits, in 2021 the Commission implemented preventive and corrective measures for an amount of EUR 1 063 million, EUR 298 million of which represented preventive measures, while the corrective measures implemented added up to EUR 765 million. This brings the cumulative amount of preventive and corrective measures implemented for the years 2017–2021 to EUR 26 billion. In addition, the Member States themselves implemented preventive and corrective measures for a total amount of EUR 4 557 million, partly based on Commission audits.

The Commission estimates that risk at the time of payment, after its preventive controls, is 1.9 %, which is similar to 2020.

The Commission deploys substantial efforts to perform controls after the payments and to make corrections until the closure of the programmes. These efforts are reflected in the estimated risk at the closure of the programmes. This corresponds to the risk at payment minus the Commission's forecast future corrections, which are estimated at 1.1 % in 2021. For 2021, the risk at closure is estimated at 0.8 %. As this is below the threshold of 2 % – which is also used by the Court of Auditors – the Commission considers that the budget as a whole is effectively protected. This is confirmed by the internal auditor's opinion.

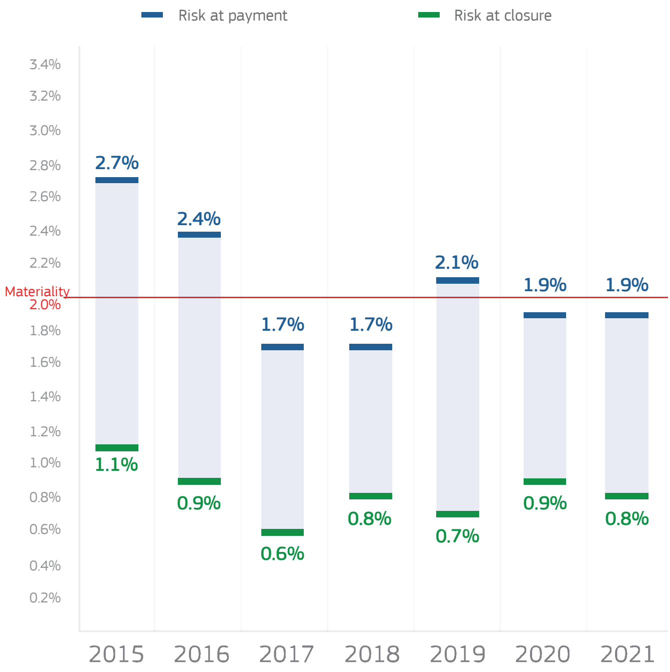


Chart: Risks at payment and at closure, for the entire Commission, for 2015-2021. .
Source: European Commission.

Notwithstanding this overall good result, the Commission identifies which programmes have a higher level of risk, allowing it to focus its action where it matters most. Thanks to its detailed analysis, the Commission has robust evidence that demonstrates the differentiated level of risk for EU expenditure. Based on the risk at payment, the Commission can precisely divide the annual expenditure into three categories of risk: lower (risk at payment below 1.9 %), medium (risk at payment between 1.9 % and 2.5 %) and higher (risk at payment above 2.5 %). This allows the Commission to focus its efforts where it matters, to provide its support in an efficient manner and to address specific weaknesses.

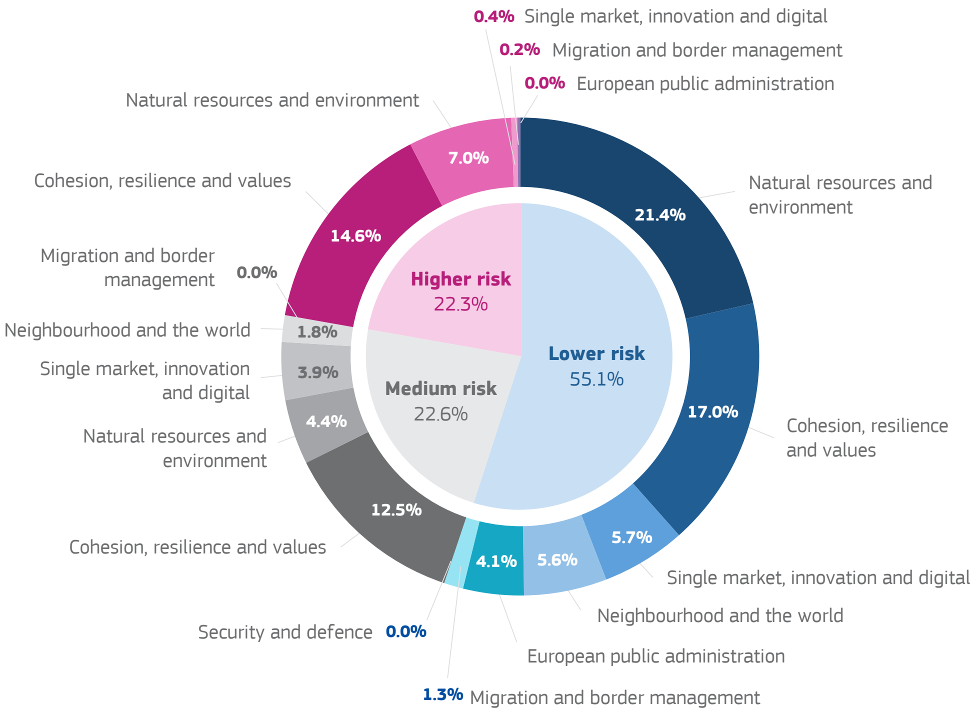


Chart: The Commission's relevant expenditure, EUR 172 billion for 2021, split into higher, medium and lower risks.

Source: European Commission annual activity reports.

In addition to applying financial corrections and recoveries, the Commission is taking action to address weaknesses leading to medium and higher risks. These include communication targeted at the most error-prone beneficiaries, more extensive use of simplified forms of grants, better controls and building the capacity of national authorities with deficiencies in their management and control systems.

The Recovery and Resilience Facility – a swift start on the ground

Established at the beginning of 2021, the **Recovery and Resilience Facility is a new performance-based instrument**, of an exceptional and temporary nature, at the service of EU recovery. Member States are the beneficiaries of the funds, which are disbursed against the achievement of predefined milestones and targets.

Being a performance-based instrument, the legality and regularity of the payments made by the Commission depend on the actual achievement of the milestones and targets which is the focus of the Commission's controls. In terms of sound financial management, the Commission relies on the Member States' controls, while complementing them as necessary. In 2021, based on the positive assessment of evidence for the fulfilment of the milestones of the payment request, the authorising officer by delegation gave reasonable assurance of the legality and regularity of the single payment made.

Constant improvements to the EU budget management

The **EU is a very transparent institution**, providing information about its accounts and spending. Every euro the EU spends is recorded in the books and accounted for. Controls on how the money is spent are carried out through internal audits by the Commission's internal audit service (IAS) complemented by external independent audits and opinions by the European Court of Auditors. The Commission's Audit Progress Committee oversees the independence and quality of internal audit work, and monitors the proper implementation of the improvements recommended in both internal and external audits.

The key messages from the internal auditor concern.

- **Financial management.** The internal auditor's overall opinion. The Internal Auditor considered that, in 2021, the Commission had put in place governance, risk management and internal control procedures that, taken as a whole, were adequate to give reasonable assurance of the achievement of its financial objectives. The overall opinion is qualified with regard to the reservations that the authorising officers by delegation made in their declarations of assurance issued in their respective annual activity reports.

- **Performance management.** The IAS also carried out performance audits in 2021 as part of its strategic audit plan. These audits resulted in recommendations, all accepted by the auditees, concerning (i) the preparedness for the implementation of the 2021–2027 Multi-annual Financial Framework, (ii) supervision strategies for the implementation of programmes by third parties, (iii) internal control systems in selected Directorates-General as regards: Legality and regularity, compliance, (iv) EU law implementation and (v) information technology security. For all recommendations, the auditees drafted action plans, which were submitted to, and assessed as satisfactory by, the IAS.

- **Follow-up of previous internal audit work.** The IAS confirmed that 94 % of the recommendations issued during 2017–2021 were adequately and effectively implemented by the auditees. This result indicates that the Commission services are diligent in implementing the recommendations and mitigating the risks identified by the IAS.

Political control and discharge procedure

The main political priorities highlighted in the 2020 discharge related to *inter alia*, the **digitalisation of management, the control and audit of EU funds**, cooperation with national implementing bodies under shared management, the **reporting and control system for the Recovery and Resilience Facility and the use of the new regulation on a general regime of conditionality for the protection of the EU budget from breaches of the rule of law**.

The Commission shares the main objectives expressed by the Parliament and the Council, in terms of both protecting the EU budget and putting performance at the heart of budget implementation.

In its report on the follow-up to the 2020 discharge, the Commission reports on how it is addressing the discharge authority's political priorities. Where relevant, it also explains the challenges the Commission will face in tackling some of these concerns, while counting on the support of the co-legislator, and bearing in mind the need to strike the right balance between a low level of errors, fast payments, the added value of EU spending and reasonable costs and the burden of administration and control for public authorities and beneficiaries.

Further developments: outlook for 2022 and beyond

The ongoing invasion of Ukraine by Russia has put, and is likely to further put, intense pressure on the EU budget, especially taking into account the constraints of the 2021–2027 multiannual financial framework, as much of the flexibility in the budget has already been used. Tough political choices will likely be required. If large redeployments prove necessary, some of the initial objectives of the budget may need to be sacrificed, at least to some extent. This will also warrant urgent reflection on how to ensure that the EU budget is equipped to respond to the many demands and expectations placed on it in these exceptionally turbulent times.

The Commission has proposed a targeted revision of the financial regulation. This proposal focuses on alignment with the new long-term budget, certain improvements on crisis management following lessons learned during the COVID-19 crisis and enhanced protection of the EU's financial interests.

Regarding the general regime of conditionality for the protection of the EU budget, the Commission adopted guidelines on the application of the regulation in March 2022 and sent a first notification to Hungary in April 2022. The Commission constantly monitors the situation across Member States and will use the conditionality regime if the conditions of its regulation are fulfilled.

The EU budget in a nutshell

Why an EU budget?

The EU budget is key for implementing EU policies and priorities. It leverages national budgets and other policy instruments at EU level to address the many challenges and opportunities faced by the EU. It intervenes only when it is more effective to spend money at EU level than at a local, regional or national level. It complements national budgets and implements commonly agreed priorities. It focuses on areas in which pooling resources can deliver results that could not be achieved as effectively or efficiently by Member States acting alone – thereby generating or maximizing European added value.

The EU budget also plays a major role in responding to crises. With increased flexibility through instruments such as NextGenerationEU, it equips the EU with the tools to collectively address unforeseen developments such as the COVID-19 pandemic, disturbances on the energy market, or geopolitical challenges.

The EU budget is called upon to finance more actions and step up in a growing number of areas, across the whole range of EU wide policies. In this way, the EU budget also provides the EU with a higher degree of strategic autonomy.

What is the EU budget?

Like every budget, the one at EU level provides for financial planning on an annual basis (according to the calendar year), but within an EU-specific long-term framework (the multiannual financial framework), and is comprised of two sides: revenue and expenditure. The legal basis for the EU budget is enshrined in the Treaty on the Functioning of the European Union, which stipulates that the EU shall provide itself with the means necessary to attain its objectives and carry through its policies.

It is executed hand in hand with the Member States and with other partners and organisations. Its programmes are multiannual by nature, providing a stable and predictable framework, that is ideally suited to supporting strategic investments over the medium to longer term. It entails a variety of instruments that are tailored to the aim of the particular item and final beneficiaries' needs.

Ensuring that the budget is properly and effectively spent requires strong accountability and control mechanisms.

How does it work?

LONG-TERM BUDGET

The multiannual financial framework (MFF) provides a long-term spending plan of at least 5 years, the paradigm for the last MFFs being 7 years. This time frame allows for a balance between predictability and the recurrent need to adjust spending to the changing priorities set at the highest EU level.

The MFF sets the maximum annual amounts (ceilings) that the EU may commit and spend on each policy area (organised into a few broad categories called headings – currently numbered at seven). These headings bring together EU financial programmes of varying size and scope. The categories of expenditure, limited in number, correspond to the EU's major sectors of activity. The year 2021 was the first of the current 2021–2027 MFF, which was agreed in July 2020 at the European Council Summit and adopted in late 2020. The current MFF brings a number of changes, as compared to the previous one, in terms of the structure and rules, but the main novelty is in combining the regular general budget with extraordinary, temporary and one-off NextGenerationEU instrument, which aims to tackle the socio-economic consequences of COVID-19 across the whole EU. These two pillars set the highest spending plan in EU history.

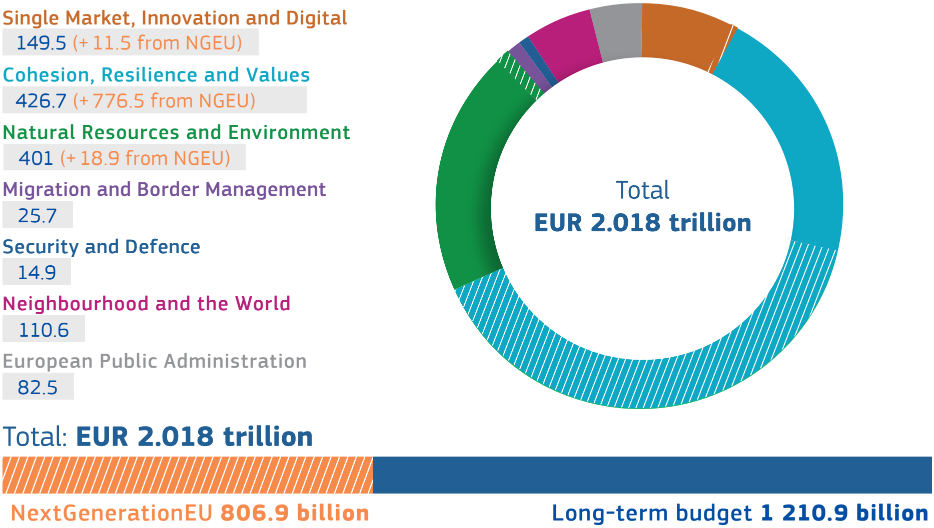


Chart: The EU long-term budget 2021-2027 and NextGenerationEU.

Several programmes under these headings receive additional allocations under Article 5 of Regulation (EU, Euratom) 2020/2093 (the 'MFF regulation' (MFFR)) (Horizon Europe, InvestEU, EU4Health, Erasmus+, Creative Europe, Justice, Citizens, Equaility, Rights and Values programmes and the Integrated Border Management Fund), from the reuse of decommitments under Article 15 of Regulation (EU, Euratom) 2018/1046 (the 'financial regulation' (FR)) (Horizon Europe) and from reflows from the European Development Fund (the Neighbourhood, Development and International Cooperation Instrument- Global Europe). The precise additional allocations will be established annually.

All amounts are in billion EUR, in current prices, as of November 2020. *Source:* European Commission.

NextGenerationEU

NextGenerationEU is a temporary emergency instrument for crisis response, recovery and resilience measures with a total budget of EUR 806.9 billion distributed in the form of grants and loans. NextGenerationEU aims both at recovering from the COVID-19 crisis and at making the economies fit for the future. Its key programme, the Recovery and Resilience Facility, is a unique and innovative tool to finance investments and reforms, to drive the climate and digital twin transitions and create jobs and an infrastructure for the future. In line with the performance focus of the new long-term budget, financing provided under the facility depends on the successful implementation of the investments and reforms contained in the plans.

The priority of NextGenerationEU is to deliver prompt and targeted financial assistance to Member States, and for that reason the spending period is shorter than for the MFF. The financing side also differs: it is financed using the borrowing capacity of the EU and repayment will take place until 2058 to avoid placing immediate pressure on national finances.

NextGenerationEU annual commitment appropriations are demand-driven and may vary from one year to another. In 2021, commitments amounted to EUR 421 070 million, corresponding mainly to the Recovery and Resilience Facility.

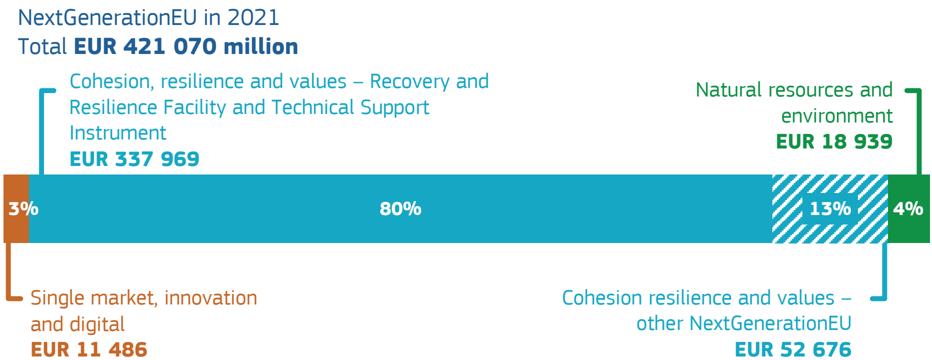


Chart: 2021 NextGenerationEU commitment appropriations by budget heading. All amounts in million EUR.
Source: European Commission.

ANNUAL BUDGET

Each annual budget is adopted within the limits of the long-term budget (MFF). It determines EU annual expenditure and revenue for all EU policy areas in a given year. In 2021 the total amount allocated to the EU budget was EUR 166 833 million in commitment appropriations (not including NGEU).

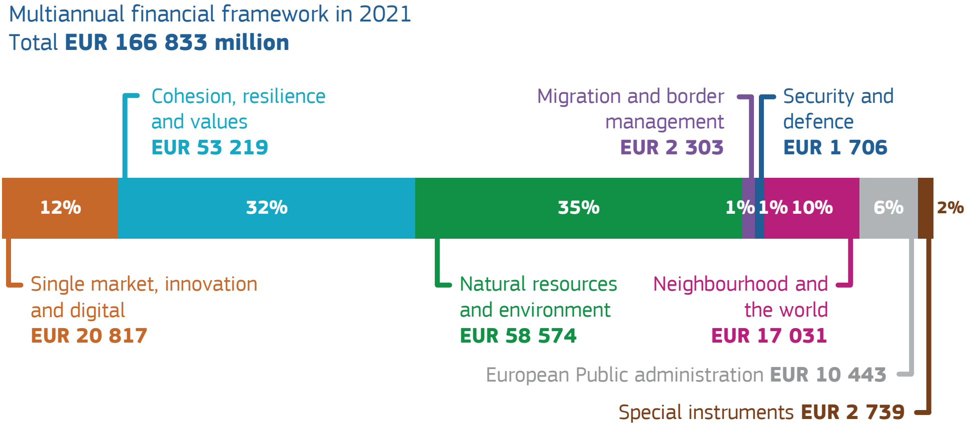


Chart: 2021 EU budget commitment appropriation per budget heading. All amounts in million EUR.
Source: European Commission.

How big is the EU budget?

Over the years the EU budget has remained a small part of total public expenditure in the EU, amounting to roughly 1 % of the EU's gross national income (GNI).

For the 2021–2027 period, the long-term budget is supplemented by the short-term NextGenerationEU instrument. Taken together, the long-term budget and NextGenerationEU comprise the largest expenditure package financed through the EU budget, intended to foster investments and reforms, support recovery and ensure a lasting structural transformation of our economies with green and digital objectives at its heart – totalling a nominal amount of EUR 2 trillion, which represents approximately 1.7 % of the EU's GNI.

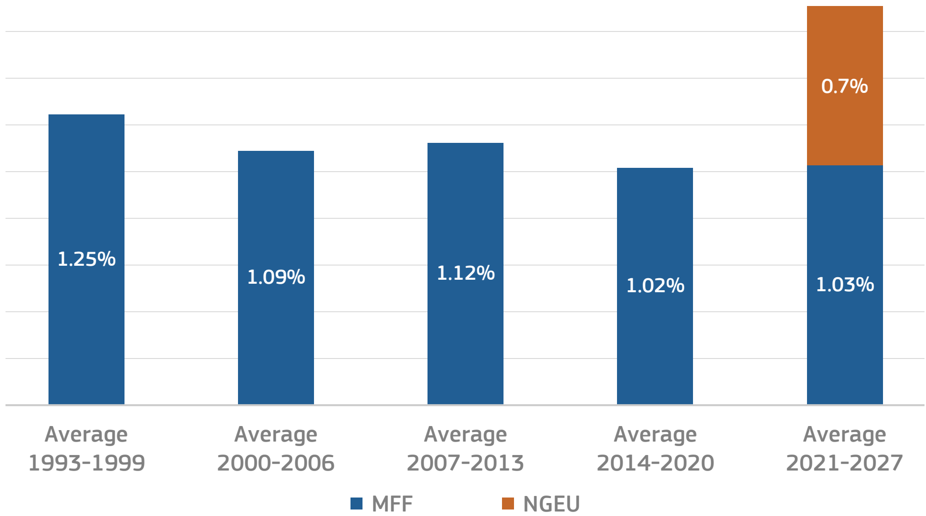


Chart: The size of the EU budget as a percentage of gross national income (GNI).

2014–2020: based on the approved ceilings of the multiannual financial framework for EU 28.
2021–2027: based on the approved ceilings of the multiannual financial framework (including the integration of the European Development Fund) and the maximum support under NextGenerationEU (including both repayable and non-repayable support) compared to the 2021–2027 GNI for the EU27 (Spring 2021 economic forecast).

Source: European Commission.

How is the EU budget financed?

The 2021–2027 EU budget is currently financed from the following sources.

- **Customs duties** have been an EU own resource since the 1970s. They arise from the EU's commercial and trade policies and are levied on imports of products from non-EU countries.

- Contributions based on **value added tax (VAT)** are collected by Member States. A percentage levied on Member States' VAT bases goes to the EU budget.

- The **GNI-based own** resource is calculated proportionally to Member States' GNI and represents about 70 % of the revenue.

- An **own resource based on non-recycled plastic packaging** waste was been introduced on 1 January 2021.

- **Other sources of revenue**, such as revenue from competition and other fines, along with taxes on the salaries of EU officials, contributions from non-EU countries to certain programmes, and a surplus from the previous year.

In December 2021 the Commission presented proposals for new own resources, which comprise the following:

- **The emissions trading system own resource**. The proposed new own resource would direct 25 % of the revenue from emissions trading in the EU to the EU budget.

- **The carbon border adjustment mechanism own resource**. The Commission proposed that 75 % of what EU Member States collect under the carbon border adjustment mechanism, which applies to imports of cement, aluminium, fertilisers, electricity, iron and steel from non-EU countries, should go to the EU budget.

- **An own resource based on the reallocated profits of very large multinational companies**. Under Pillar 1 of the Organisation for Economic Co-operation and Development / G20 inclusive framework agreement, Member States would contribute 15 % of the share of reallocated residual profits of very large multinationals to the EU budget.

These proposals are currently being reviewed by the EU legislator. The Commission has committed to presenting additional proposals for own resources by the end of 2023.

Where does the money go and who benefits from it?

The EU budget plays an important role in shaping the future of Europe and supporting many EU policy initiatives that make a real difference to people's lives.

These policy initiatives include:

- boosting investment and supporting coordinated reforms;
- securing delivery and safeguarding high standards on the food market;
- contributing to tackling climate change;
- facilitating digital transformation;
- enhancing EU competitiveness through support for research, development and innovation;
- supporting cooperation and the exchange of knowledge;

- assisting non-EU countries, including through development and humanitarian aid;
- delivering swift and adequate responses, providing the necessary means of support in crisis situations.

Despite its relatively small size, the **EU budget shows tangible results** in a broad range of domains.

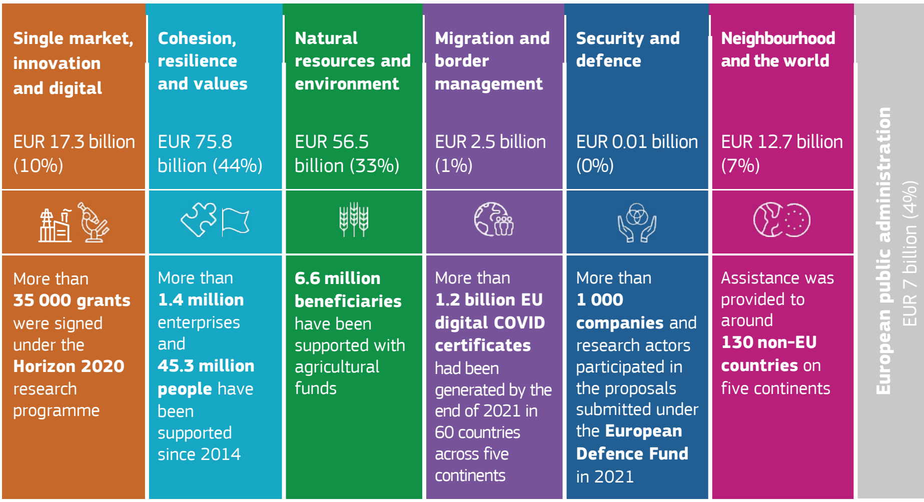


Chart: Relevant expenditure of the EU budget implemented by the Commission in 2021, per policy area, in % and in billion EUR.
Source: European Commission.

The **EU budget has an impact on the daily life of every citizen** by delivering public goods. It boosts regions and cities, develops small and medium-sized enterprises, supports researchers, protects consumers and gives broader perspectives to students, to name a few results.

For example, it:

- offers the means to act and to react quickly to unforeseen and unprecedented crises such as the COVID-19 crisis or the effects of the unjustified invasion on the Ukraine by Russia;
- supports start-ups and small and medium-sized enterprises, in particular in the field of research, development and innovation, in order to maintain the international competitiveness of European enterprises;

- promotes digital transformation (high-performance computing, artificial intelligence, cybersecurity and digital skills);

- expresses the solidarity of the Member States in tackling extreme situations – including natural disasters, mass migration or external shocks resulting from sudden economic downturns;

- fosters economic and social convergence and social inclusion;

- supports stability and security on the agri-food market;

- offers a number of tools to support the fight against climate change and promotes the green transition – both through tailored instruments and programmes, and through horizontal rules like climate mainstreaming or the 'do no significant harm' rule;

- allows young people and researchers to benefit from Erasmus exchanges;

- invests in large-scale infrastructure projects such as EU space programmes, transport and energy infrastructures;

- significantly steps up defence investment and capabilities to enhance Europe's strategic autonomy in protecting and defending its citizens;

- supports the development of a fully integrated European border management system, protecting the EU against trafficking, smuggling and fraud.

Who decides on it?

LONG-TERM BUDGET

The European Commission proposes the long-term budget and the system of own resources. The Council unanimously adopts the long-term budget in the form of a Council regulation after receiving the consent of the European Parliament, as expressed by an absolute majority. For the system of own resources, the European Parliament is consulted and, after adoption in the Council by unanimity, ratification of own resources decision by all Member States is required.

ANNUAL BUDGET

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

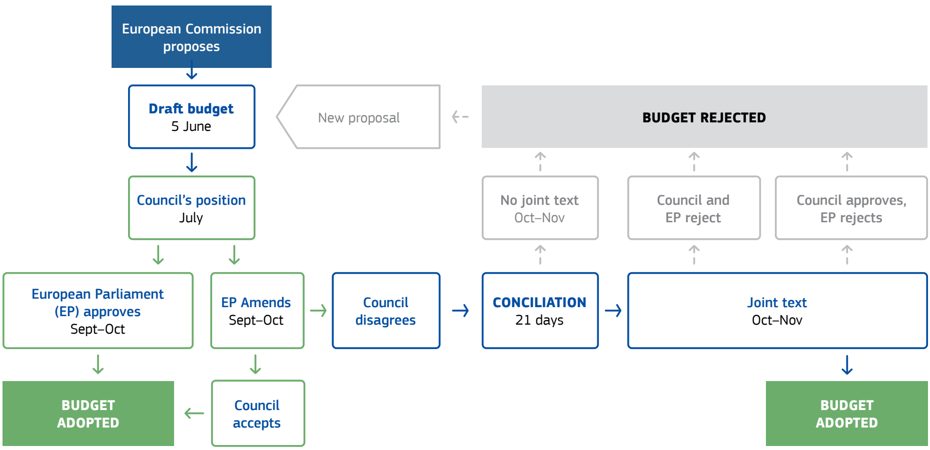


Chart: Approval process for the annual budget.
Source: European Commission.

When the European Parliament and the Council do not agree on a common text, following their respective readings of the Commission proposal, they engage in a negotiation process known as the conciliation procedure, which lasts up to 21 days. If they do not reach an agreement within this period, the Commission needs to make a new proposal.

Who manages it?

The EU budget can be managed: directly by the Commission, jointly with the Member States, or indirectly by international organisations or decentralised agencies, among other entities.

A large majority of the EU budget is managed together with Member States in shared management while the majority of the NextGenerationEU is implemented in direct management.

In order to ensure that the EU budget is well spent, different levels of control are applied at all stages of implementation.

Chart: EU budget implementation, contracted amounts per management mode in 2021
Source: European Commission.

How is the Commission’s implementation of the EU budget controlled externally?

THE EUROPEAN COURT OF AUDITORS, THE COMMISSION’S EXTERNAL AUDITOR

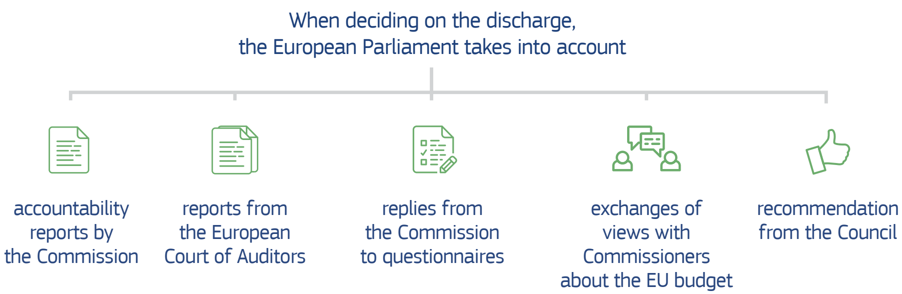
The **European Court of Auditors, as the external independent auditor**, examines the implementation of the EU budget. It publishes annual reports on how the budget has been spent and a number of special reports on thematic issues, mostly dealing with the performance of EU spending. More particularly, every year the Court of Auditors examines:

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

Since 2020 the Court of Auditors publishes a separate part of its annual report dedicated to the performance of the EU budget.

THE EUROPEAN PARLIAMENT AND THE DISCHARGE PROCEDURE

In the context of the annual discharge procedure, various stakeholders scrutinise the implementation of the EU budget, using among other the European Court of Auditors’ reports. The Parliament decides whether or not to grant the discharge taking into account a recommendation from the Council. By granting discharge and thereby approving how the Commission, in cooperation with the Member States, has implemented the EU budget in a given year, the Parliament formally closes the budget year in question.



The **discharge procedure** offers an opportunity for the EU institutions to reflect on past developments and to identify both good practices and weaknesses to be addressed, with the aim of further improving financial management and achieving even better results with the EU budget in the future. This procedure ensures that the management of EU taxpayers' money is under democratic control, and that the Commission is always held accountable.

LEARNING FROM THE PAST TO IMPROVE THE FUTURE

Every year the Commission reports on how it followed up on requests made by the European Parliament and the Council in the previous year's discharge. These requests cover wide-ranging topics relating to the management and performance of the EU budget.

What are the key documents reporting on budgetary performance?

The **annual management and performance report** covers the results achieved with the EU budget across all budget headings and policy areas. The report draws on information from the annual activity reports produced by all Commission departments, the programme statements, and other sources such as evaluation reports, studies and implementation reports.

Annex 4 to the annual management and performance report, 'Programme performance overview', includes short and reader-friendly performance summaries for each programme, while a more comprehensive analysis of the performance for each 2014–2020 programme is provided in the 'Programme statements', Working Document 1 of the draft budget.

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