European Commission

Consolidated Annual Accounts of the European Union

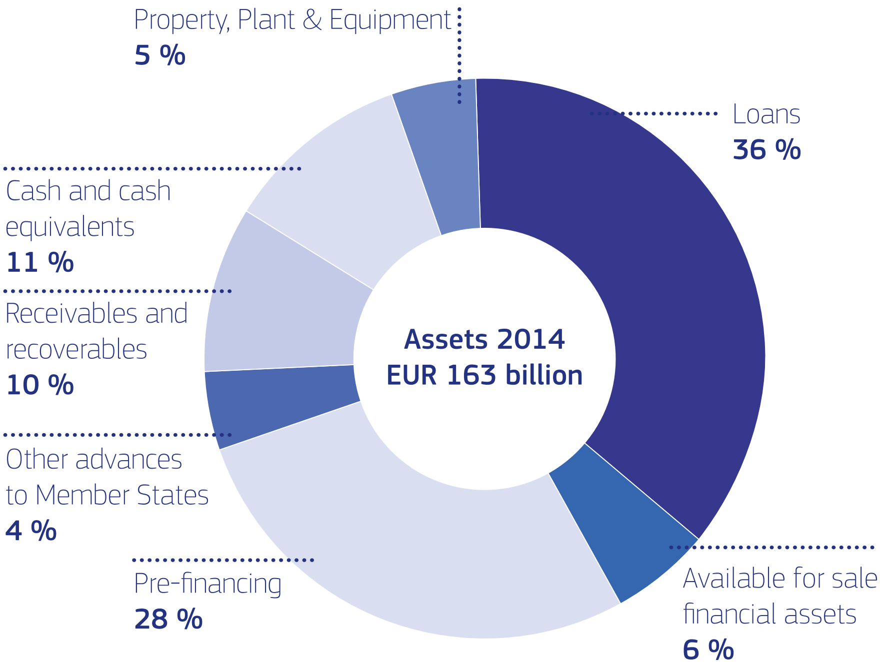
Financial year 2014

Key information

Budget

Key points

The European Union (EU) annual accounts provide both the financial statements of the EU (based on International Public Sector Accounting Standards) and the results of the implementation of the EU budget during the year (cash basis).

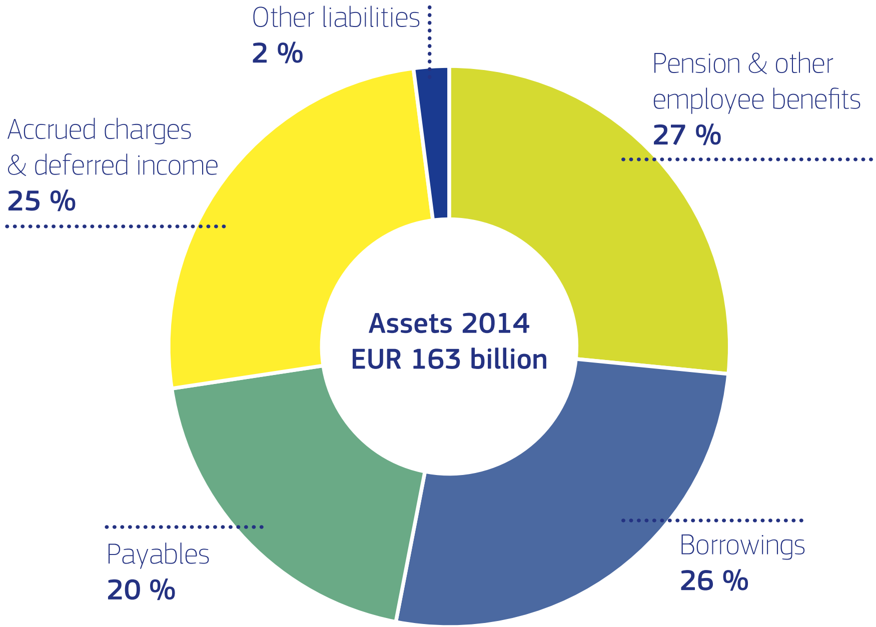


ASSETS

The financial year 2014 was the first year of the multiannual financial framework (MFF) 2014-2020. The value of the **assets held by the** EU increased by EUR 8 billion to **EUR 163 billion in 2014**. The main reason for this was an increased level of cash held at year end of EUR 17.5 billion (2013: EUR 9.5 billion) due to own resources contributions related to VAT and GNI balances paid by Member States in December 2014, as well as the amending budgets reducing the Member States' contributions, which were adopted in December 2014 and returned to Member States in early 2015. There was a move of amounts from long-term to short-term pre-financing due to the closure of the programming period 2007-2013.

LIABILITIES

EUR 221 billion total liabilities of the EU: EUR 84 billion of short-term liabilities represent payables and accruals in the area of agriculture and rural development (EUR 58 billion) and cohesion policy (EUR 26 billion). These are payment obligations towards beneficiaries that either arrived too late or could not be paid by the EU as payment appropriations at year-end set by the budget authority were not sufficient to cover commitment appropriations entered into. The EU is one of very few public sector entities to recognise its liabilities regarding employee benefits (primarily pension rights acquired by Commissioners, MEPs and staff) and this accounts for EUR 58.6 billion of long-term liabilities, with no corresponding pension fund assets since the schemes are unfunded and instead the pension payments are guaranteed by the Member States. The large increase of this liability as compared to 2013 is due to a sizable decrease in the discount rate applied, resulting in an actuarial loss for the year (net EUR 9.2 billion).

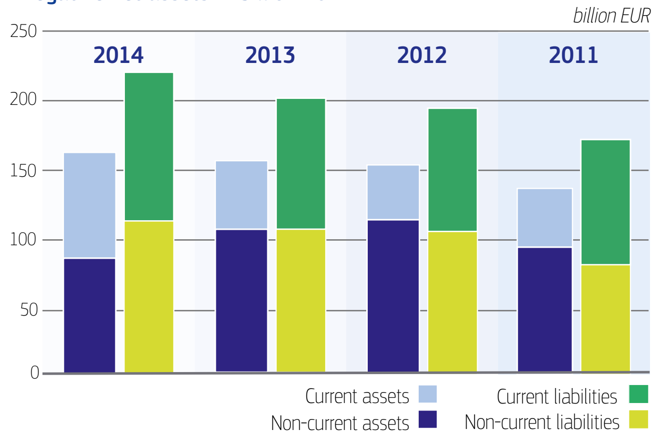


NET ASSETS

EUR 58 billion negative net assets:

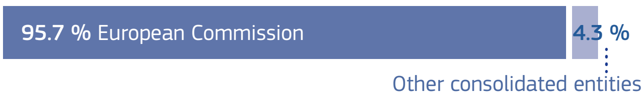
The excess of liabilities over assets does not mean that the EU institutions are bankrupt, it rather means that it will be funded by future annual budgets. Many expenses are recognised under accrual accounting rules in 2014 although they may be actually paid in 2015 and funded by using the budget of 2015. The inclusion in the accounts of these liabilities coupled with the fact that the corresponding amounts are financed by future budgets, results in liabilities greatly exceeding assets at year-end. The most significant amounts to be highlighted concern the European Agriculture Guarantee Fund (EAGF) activities (paid in 2015) and employee benefits.

Negative net assets in billion EUR



CONSOLIDATION

Consolidated financial statements: assets by entity in %

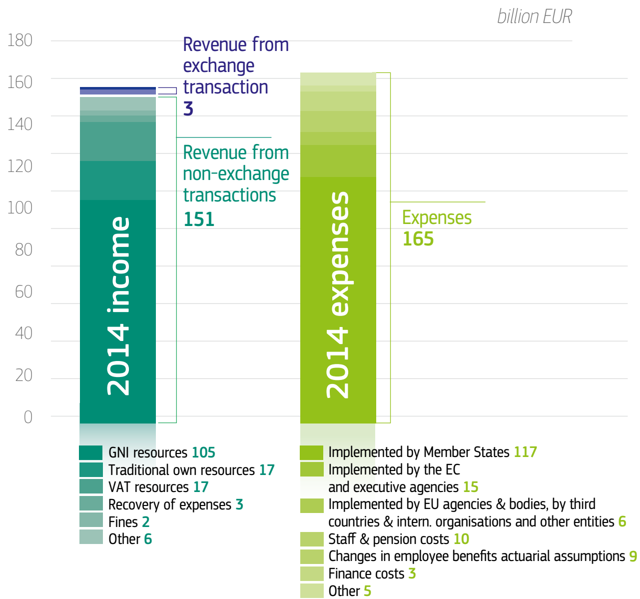


- The consolidated annual accounts of the EU comprise more than 50 institutions, agencies and other bodies, with the European Commission having the main operational activities.

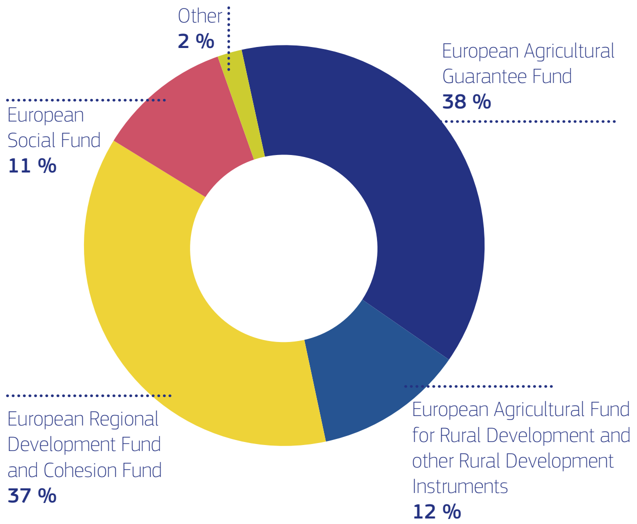
ECONOMIC RESULT

EUR – 11 billion accruals-based economic result:

2014 income and expenses in billion EUR



Expenses implemented by Member States (shared management) in %

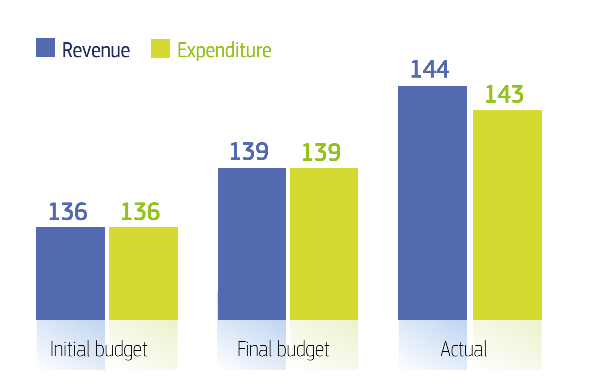


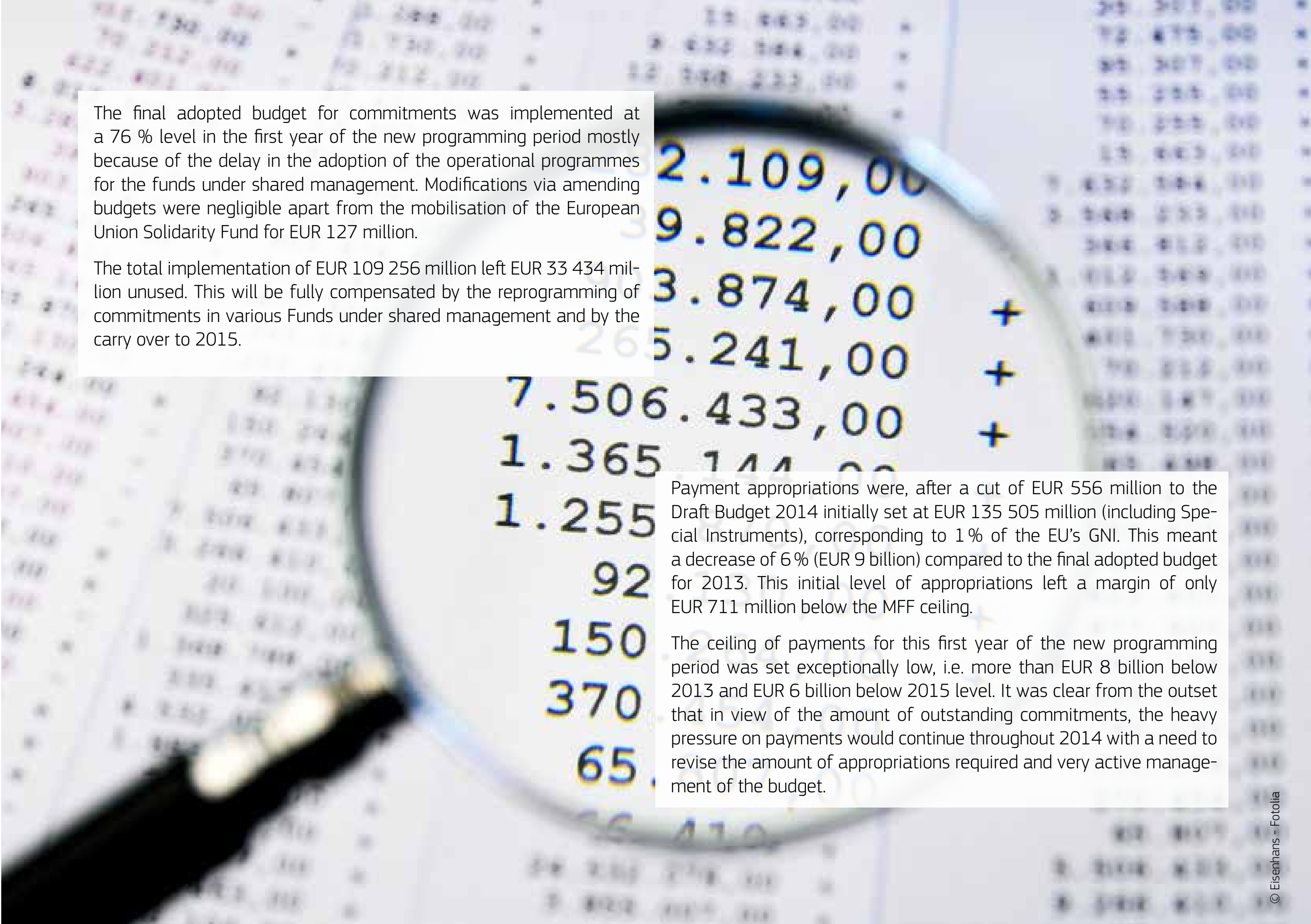
The largest operating expenditure of the EU is in the area of shared management (expenses implemented by Member States).

Budget result

The initial adopted budget for all institutions, excluding Special Instruments, set commitment appropriations at EUR 142 184 million. This represented a decrease of 6 % compared to the final 2013 budget and left a margin of EUR 445 million below the ceiling of the MFF.

Comparison of budget and actual amounts in billion EUR





The final adopted budget for commitments was implemented at a 76 % level in the first year of the new programming period mostly because of the delay in the adoption of the operational programmes for the funds under shared management. Modifications via amending budgets were negligible apart from the mobilisation of the European Union Solidarity Fund for EUR 127 million.

The total implementation of EUR 109 256 million left EUR 33 434 million unused. This will be fully compensated by the reprogramming of commitments in various Funds under shared management and by the carry over to 2015.

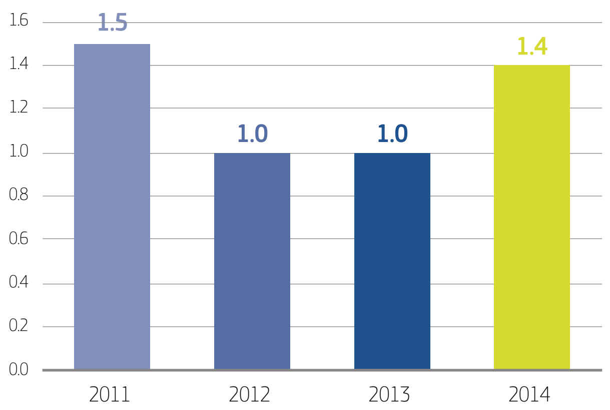
Payment appropriations were, after a cut of EUR 556 million to the Draft Budget 2014 initially set at EUR 135 505 million (including Special Instruments), corresponding to 1 % of the EU's GNI. This meant a decrease of 6 % (EUR 9 billion) compared to the final adopted budget for 2013. This initial level of appropriations left a margin of only EUR 711 million below the MFF ceiling.

The ceiling of payments for this first year of the new programming period was set exceptionally low, i.e. more than EUR 8 billion below 2013 and EUR 6 billion below 2015 level. It was clear from the outset that in view of the amount of outstanding commitments, the heavy pressure on payments would continue throughout 2014 with a need to revise the amount of appropriations required and very active management of the budget.

Budget implementation

Budget implementation
The 2014 budget result of EUR 1.4 billion for the EU is returned to the Member States during 2015 through reduction of their contributions due for that year. The surplus comes primarily from the revenue side (EUR 1.2 billion), from over-execution of custom duties (EUR 0.5 billion) and additional, non-budgeted, fines (EUR 0.6 billion); the minor surplus on the expenditure side (EUR 142 million) comes mainly from the other institutions as the Commission implementation rate is practically 100 %; the remaining EUR 110 million of surplus comes from exchange rate gains.

Budget result in billion EUR



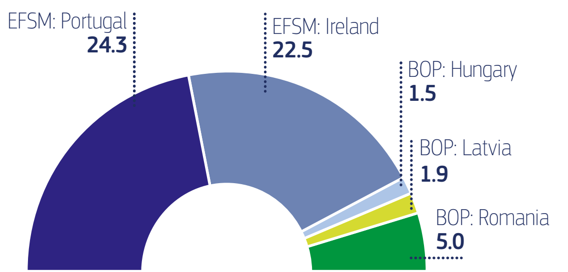
From budget surplus to accounting deficit

The budgetary surplus amounted to EUR 1.4 billion at 31 December 2014, compared with an accruals-based result (deficit) of EUR – 11.3 billion. Budgetary accounting records expenses when they are paid and revenues when they are received. Accrual accounting links expenses and revenue to the financial year in which they arise, irrespective of the date of payment or receipt. Consequently, the main differences are due to the fact that under accrual accounting, the EU needs to recognise future payment obligations entered into as expenses that are not yet shown in the budgetary accounts. The 2014 budget did not have sufficient level of payment appropriations to reimburse all the cost claims received from Member States. So the main factors were increased future payment obligations shown under payables and future payment obligations for pension rights acquired by Commissioners, MEPs and staff.

Financial support activities

The EU operates financial support activities to preserve financial stability in Europe and to grant financial assistance to Member States in financial difficulties. In this context the EU borrows money on the capital markets or with financial institutions which is lent under the same conditions (back-to-back) to the Member States concerned. The two main programmes operated by the European Commission, acting on behalf of the EU, are the Balance of Payments (BOP) assistance and the European Financial Stabilisation Mechanism (EFSM). Loans outstanding at 31 December 2014, by Member State, in billions of euros were as follows:

Loans granted and disbursed under EFSM and BOP in billion EUR:



The EFSM should no longer engage in new financing programmes or enter into new loan facility agreements — other than the bridge facility for Greece in 2015 — as the European Stability Mechanism (ESM), the permanent stability mechanism of the EU outside the EU budget, has assumed the tasks of the EFSM. No new loans have been disbursed under BOP in 2014 and the assistance programmes under BOP have expired end of March 2013 for all three Member States.

Table in billion EUR

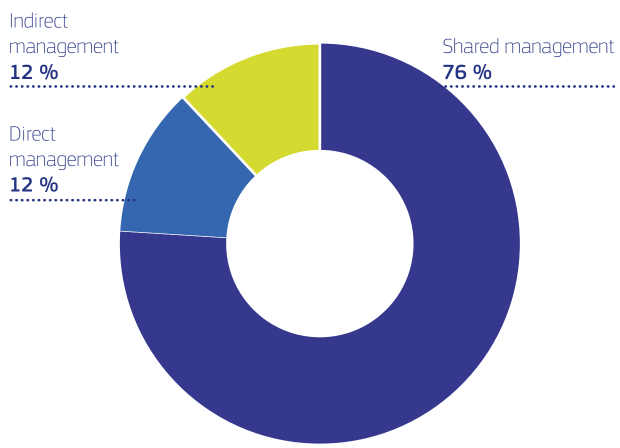
	EFSM			BOP			
Loans	**Portugal**	**Ireland**	**Total**	**Hungary** (*)	**Latvia** (**)	**Romania**	**Total**
Granted	26	22.5	48.5	6.5	3.1	8.4	18
Disbursed	24.3	22.5	46.8	5.5	2.9	5	13.4
Still available	1.7	0	1.7	0	0	0	0

(*) EUR 4 billion already repaid.
(**) EUR 1 billion already repaid.

Advance payments (Pre-financing)

Pre-financing is an essential instrument for the implementation of the EU budget. Pre-financing is a payment intended to provide the beneficiary with a cash advance so that the beneficiary is able to implement a specific programme. In subsequent periods the beneficiary has to report eligible expenditures incurred to the EU, if he does not declare eligible expenditure, he has the obligation to return the funds to the EU. The total pre-financing shown on the balance sheet amounts to EUR 45.2 billion (excl. other advances to Member States). 76 % of EU's pre-financing is implemented via the shared management mode which means that the implementation of the budget is delegated to Member States.

European Commission pre-financing by management mode

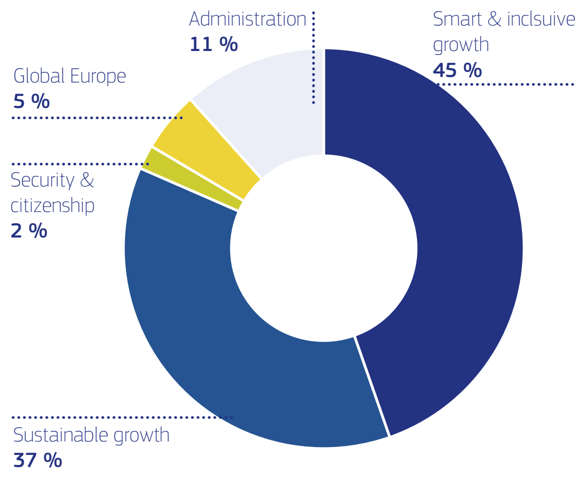


MFF 2014 - 2020

In 2014 the new multiannual financial Framework (MFF) 2014-2020 entered into force. The MFF sets the main expenditure ceilings for a period of 7 years and structures the EU budget in the following headings:

- Heading 1 — Smart and inclusive growth
- Heading 2 — Sustainable growth: natural resources
- Heading 3 — Security and citizenship
- Heading 4 — Global Europe
- Heading 5 — Administration
- Heading 6 — Compensations

EU expenses by MFF heading in %



Protection of the EU budget — Focus on shared management

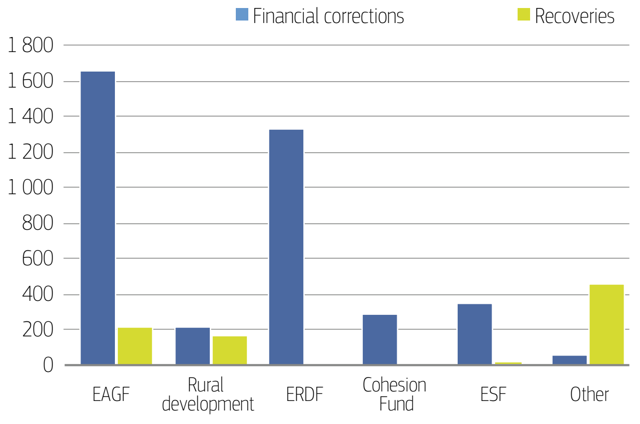
An important consideration in implementing the EU budget is the need to ensure the proper prevention or detection and subsequent correction of errors, irregularities and fraud. Under the shared management mode (i.e. agricultural and cohesion policy expenditure), Member States are primarily responsible throughout the expenditure life cycle for ensuring that expenditure paid out from the EU budget is legal and regular. Preventive mechanisms also exist at the level of the European Commission in its role of supervising body.

Where errors or irregularities are detected and/or required control measures are not taken by Member States, the European Commission may decide to impose a financial correction. The figures presented in the consolidated annual accounts of the EU (note 6) demonstrate that the result of the multiannual preventive and corrective activities undertaken by the European Commission is that the EU budget is adequately protected from expenditure incurred in breach of applicable law.

Financial corrections and recoveries confirmed in a given year are primarily dependent on the level of irregularities identified. Given the multiannual character of the control framework and the complexity of the corrective mechanisms and procedures, the implementation of financial corrections and recoveries confirmed can only happen over time. In 2014, a total of EUR 4.7 billion of financial corrections and recoveries were confirmed/decided, while a total of EUR 3.3 billion were implemented.

Under shared management in the area of agriculture, Member States are obliged to identify errors and irregularities and to recover amounts unduly paid in accordance with national rules and procedures. In the area of cohesion policy, Member States (and not the European Commission) are primarily responsible for recovering from beneficiaries, amounts unduly paid.

Financial corrections and recoveries confirmed/decided in 2014 in million EUR



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Luxembourg: Publications Office of the European Union, 2015
Cover illustration: © European Union
Print ISBN 978-92-79-48354-7 doi:10.2761/576087 KV-AK-15-001-EN-C
PDF ISBN 978-92-79-48355-4 doi:10.2761/77348 KV-AK-15-001-EN-N

Printed in Belgium

Publications Office