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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Shortage of payment credits in EU budget – Impact on ESF implementation - Information from the Commission

Delegations find attached a note by the Commission on the above subject, with a view to the EPSCO Council on 16 October 2014 (Any other business item).

Shortage of payment credits in EU budget – Impact on ESF implementation

With this note the Commission aims at drawing the attention of the EPSCO Council to the situation of the EU budget and to its impact on the implementation of the European Social Fund (ESF).
As the letter from President Barroso to the Italian Presidency of the EU Council on the EU budget payment shortages (STATEMENT/14/293 of 2 October 2014) stated:

"Unless there is a top level political decision to return to what was agreed in the MFF, the budget negotiations this year will result in levels of funding that are below those agreed in December 2013. The consequences of such an outcome would mean that the EU would not be able to honour its past commitments within the agreed deadlines."

During 2014 the financial situation of the ESF has worsened considerably: the ESF has a budget to pay of €9.8 billion while we are facing claims of €16.39 billion: so the ESF will have a roll-over to 2015 in the amount of €6.59 billion. If this amount is indeed rolled over to 2015 it will absorb more than 89% of the ESF budget planned for 2015 to reimburse payment claims from the 2007-13 period."

This "snowball effect" means that there will be a very small room for new payments in 2015.
The impact of this situation will be that the Commission will not be able to reimburse the 2015's payment claims of the Member States within the 60-day regulatory deadline. Without budgetary reinforcements Member States may therefore need to wait for reimbursement for a very significant time.

These delays affect the implementation of Operational Programmes since delays from the Commission in reimbursing interim payments from the Member States often mean delays in national pre-financing of further operations. Consequently key reforms, identified in the EU's country-specific recommendations are delayed in their implementation or at risk of not being implemented when they depend on financial support provided by the ESF. This is often the case in a number of liquidity-constrained Member States.

The Commission also would like to warn about the effects of this situation on the ESF beneficiaries. Beneficiaries may suffer directly the consequences of late payments by the Commission with immediate constraints on their cash flow. The hardest effect can be expected in the case of the smallest and most "vulnerable" beneficiaries (SMEs, NGOs, small local organisations etc.), which do not have the financial capacity to "pre-finance’ expenditure for a long time.