

Some tips on the management of the decommitment risk

Outcomes of the INTERACT Seminars on decommitment in ETC programmes

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WHICH ARE THE FACTORS LEADING TO A DECOMMITMENT RISK (NON-EXHAUSTIVE LIST)?

Before project approval

- Late approval of Operational Programmes
- Slow Programme start, often with complex implementation procedures
- Too few project applications
- Low quality project applications
- High rejection rate of project applications
- Too many small projects with a low spend

During project implementation

- Slow project start: due to slow contracting procedure or lack of maturity of the project or external factors (e.g. infrastructure work cannot be started due to bad weather conditions)
- Slow project spending
- Slow project reporting and submission of payment claims
- Political changes causing a slow down in implementation

IT IS NEVER TOO SOON TO BE PLANNING TO AVOID DECOMMITMENT.

The first N+2 and N+3 targets may be easy to meet but future spend requirement rises very quickly once the effect of the advance is lost. If possible it is better to work to decommitment targets excluding the effect of the advance.

Automatic decommitment is a challenge which increases over the lifetime of the programme. At the beginning of the programme there are many opportunities to put into action activities to minimise the decommitment risk such as increasing commitment levels, opening more application rounds, closely monitoring project spend. However these opportunities decrease through the lifetime of the programme and once a full commitment of funds is achieved the concentration needs to be exclusively on maintaining and increasing project spend.

As part of the planning process it is recommended that a risk assessment is carried out to identify the risks associated with automatic decommitment (slow programme start etc). These risks can then be regularly monitored and reviewed to ensure that immediate action can be taken to deal with the risk.

IT IS ESSENTIAL TO MAINTAIN A HIGH LEVEL OF COMMITMENT

If commitments in the first 1-2 years are too low, which is often the case, there is a high risk of future problems. It is recommended for programmes to commit as much as possible in the first 3 years of programme implementation, in order to ensure an adequate level of spending and therefore reaching the N+2/N+3 targets. Programmes with an N+3 target

should take into account that there will be a cumulation of spending targets at 31 December 2013 (2010 and 2011 tranches will have to be spent by then).

On the other hand, one must be realistic and consider implementation problems and the fact that a quick, but imperfect, implementation process at the start can lead to audit problems in the future and a high risk of ineligible expenditure being identified by the auditors. It may therefore be better to consider other methods to address low spending at the beginning of the programme.

IT IS ESSENTIAL TO ESTABLISH REALISTIC SPENDING FORECASTS

Project spend forecasts are a keystone of successful N+2/N+3 monitoring. When forecasts are poor, one must find out why and provide training to beneficiaries on realistic forecasting.

It is recommended that an allowance is made for poor forecasting. A participant stated that an error rate of 20% was used for his programme.

WHAT ARE THE SPECIFIC CHALLENGES RELATED TO N+2/3 AT THE END OF THE PROGRAMME? DO YOU HAVE TO SPEND THE WHOLE ERDF AMOUNT UNTIL 31 12 2015?

Project spend carries on for 2 years beyond the programme period. This period can be particularly problematic as there is generally a decreasing interest in the 'old' programmes and transfer of people and resources to the 'new' programmes. It is essential that sufficient staff and resources are allocated to maintain N+2/3 management. To meet the 2015 N+2/3 target the ERDF must be spent by 31 December 2015 but unlike previous years the claim to the Commission is not required by 31 December 2015. The final claim is to be submitted by 31 March 2017.

The new proposals regarding N+2/N+3 currently being considered by the European Parliament will result in even more work to manage N+2/N+3 during the final 2 years of programme implementation.

HOW TO DEAL WITH CHANGES IN THE ECONOMIC SITUATION (E.G. INFLATION EXCHANGE RATE ETC) IN THE MONITORING OF DECOMMITMENT?

Changes in the economic situation and particularly exchange rates can affect N+2/3. Changes in the economic situation can affect in particular tender prices on large contracts both positively and negatively. Any delays to large contracts can have a significant effect on project spend. Similarly exchange rate variations can add to, or reduce, the amount of ERDF available to the programme and hence the N+2/3 targets. For this reason an exchange rate management system is needed in countries which are outside the Euro zone. Unexpected worsening of the economic conditions should also be taken into account (e.g. last financial crisis) as they may negatively influence project spend.

SHOULD PROJECTS BE ALLOWED TO USE SAVINGS ON NEW ACTIVITIES?

Project spend should be regularly monitored. Where a project has not spent all the resources allocated to achieve its objectives the savings should be returned to the programme and reused rather than being spent on unapproved 'extras'. However, where there is a genuine opportunity to deliver a better or bigger result the contract could be amended to reflect the revised finances and revised outputs.

WHAT ARE THE MAIN TIPS TO PUT PRESSURE ON PROJECTS?

Some tips to put pressure on projects include:

- A clause in the project contract cancelling the approval if the project does not start/spend in the 3 months after signing the project contract/approval.
- A good working relationship between the project staff and the JTS/Payment staff. Regular contact and telephone calls.
- Accepting claims from high spending projects on a monthly basis. Non spending projects contacted repeatedly to chase up spend.
- Political pressure from Government Ministers if the need becomes urgent was used in Wales to put pressure on Local Governments to improve project spend.
- A contract clause to decommit project funds if spend does not follow agreed spend forecasts.
- A contract clause to consider closing a project if there is no activity for 6 months (Poland/Slovakia programme)
- The N+2 targets and actual spend analysed on a weekly basis.
- Payment claims submitted to the Commission up to the final deadline - 31 December.

IS IT BETTER TO WORK WITH CLOSED CALLS OR AN OPEN CALL THROUGHOUT THE PROGRAMME PERIOD IN TERMS OF DECOMMITMENT MONITORING?

The type of calls depends on individual programmes. Where there are plenty of good project applications an open call can be very successful. However this can be supplemented by closed calls for the whole, or parts of a programme, towards the end of a programme period to ensure that sufficient applications are received. In all cases it is essential that the management of the avoidance of automatic decommitment is seen as an activity involving all departments of the Managing Authority, JTS, First Level Control, Certifying Authority and even the Audit Authority.

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