

## Decommitment, N+2/N+3 rule in ETC Programmes Seminar 6 July 2010, Torino

### Case Study on the automatic decommitment N+2/N+3 rule in ETC Programmes

This case study has been prepared to apply the principles of automatic decommitment to a practical situation and to underline the warning signs and decommitment risks due to the application of the N+2/N+3 rule.

This case is not a replication of an existing programme and all activities, names and costs have been developed exclusively for the seminar.

#### 1. What to do in this case study?

The focus is on a Cross Border Territorial Cooperation Programme for the 2007-2013 programme period between Hispania and Franconia. The Managing Authority, working with the Certifying Authority, is preparing financial reports regarding the commitment and spend of ERDF from the launch of the programme in 2007. Your assistance is required to firstly calculate the relevant N+2/N+3 targets for the programme and secondly, using the information supplied, identify any warning signs and decommitment risks for the programme so that they can be included in the Managing Authority report.

#### 2. Description of the Hispania/Franconia Cross Border Programme

The Hispania/Franconia Cross Border Programme aims to improve cross-border cooperation between Hispania and Franconia by financing infrastructure improvements and encouraging entrepreneurship and joint management of natural resources.

The Programme has three priorities:

Priority Axis 1 - Infrastructure improvements for joint use.

Priority Axis 2 - Promotion of entrepreneurship and joint development of the management of natural resources

Priority Axis 3 - Technical assistance

The Financial Tables for the Programme are set out below. The total eligible expenditure is 125 million euro of which 100 million is ERDF.

Year	ERDF allocation	National co-financing
2007	9	2.25
2008	9	2.25
2009	10	2.5
2010	12	3
2011	20	5
2012	20	5
2013	20	5
Total	100	25



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Priority axis	ERDF	National public	National Private	Total
PA1 - infrastructure	60	15	0	75
PA2 - entrepreneurship and natural resources management	36	6	0	42
PA3 - technical assistance	4	4	0	8
Total	100	25	0	125

### Task 1

The first task is to determine the spend (automatic decommitment) targets for the programme:

- a) As if the programme is subject to the N+2 rule, the first decommitment target being 31.12.2009
- b) As if the programme is subject to the N+3 rule, the first decommitment target being 31.12.2010

Tables are provided at **Annex 1** which you must complete to give details of the N+2/N+3 targets for the programme.

### Task 2

The second task is to update the spend targets as required by the new 2010 Regulation: i.e.

- a) As if the programme is subject to the N+2 rule, as amended, with the 2007 allocation spread among the next decommitment targets, the first decommitment target being 31.12.2010
- b) As if the programme is subject to the N+3 rule, as amended, with the 2007 allocation spread among the next decommitment targets, the first decommitment target being 31.12.2011.

Tables are provided at **Annex 2** which you must complete to give details of the amended N+2/N+3 targets for the programme.

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### 3. Assessing the warning signs and decommitment risks

#### i. Background information

The Hispania/Franconia Cross Border Programme was approved by the EC in December 2007. The programme was launched immediately but complications in setting up the management systems and the first level control meant that the first round applications were slow to be appraised and contracted. The appraisal and contracting process is currently under review. There are also issues to be resolved concerning the delays in the management verifications (first level control) and the certification processes.

#### ii. Applications

Three application rounds have been opened and closed as follows. All the applications received in the third round have now been appraised and a decision taken to approve, approve conditionally or reject. There is no reserve list of projects.

Round	Number of applications received	Number of applications approved/contracted	Total eligible cost of contracted projects	ERDF committed
1 (closed June 08)	36	18		
2 (closed Jan 09)	42	22		
3 (closed Dec 09)	45	23		
Totals	123	63	30,000,000	24,000,000

A fourth round has been delayed due to the review of the appraisal and contracting process. It is planned to open in July 2010.

#### iii. Payment claims

Lead Partners for contracted projects are required to submit payment claims and progress reports every 3 months at the end of February, May, August and November of any year. Claims received at the end of November are included in the declared payment claim to the Commission in the following year. The time taken to process payment claims, between submission of the claim by the project Lead Partner and certification and inclusion in a payment claim to the Commission, is a maximum of 6 months. This timescale includes the time taken to certify the eligible expenditure in the national system for first level control, which takes on average 2 months.



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### iv. Current Financial data

The tables in Annex 3 give financial details, at priority level, for the approved/contracted projects - total eligible project budget and the total ERDF grant awarded. They also provide details of the payment claims to date and forecasts of ERDF spend for future years. This is an estimate provided by the Lead Partners of how much ERDF they expect to claim by certain dates in the future. This is used as a basis for N+2/3 planning and to ensure that there are sufficient claims to meet N+2/3.

#### **Table A - financial forecasting**

At the approval/contracting stage all projects are required to submit a spend forecast for the life time of the project. The spend forecast, prepared by the project Lead Partners, represents an estimate of the ERDF the Lead Partner is expecting to include in the payment claim to the Managing Authority on the relevant date. The spend forecast is reviewed each time a payment claim is submitted and adjusted by the project Lead Partner where required by the JTS/MA.

Table A shows, at a priority level, the total eligible cost for all projects approved/contracted prior to 31 May 2010 together with the ERDF committed to those projects. It shows the Lead Partners' forecasts of what they expected to spend by 31 May 2010 together with the totals of the payment claims received by the Managing Authority on 31 May 2010. The difference shows their errors in the forecasting. The last four columns of the table show the Lead Partner project spend forecasts for 31 August 2010, 2011, 2012 and 2013 on the basis that the 31 August payment claims can all be processed and included in a claim to the Commission by the end of the year.

#### **Table B - certified expenditure and end of year forecast**

Table B gives details, at a priority level, of the actual accumulated ERDF received from the Commission or included in a payment claim to the Commission as at 31 May 2010. The table includes a best case scenario and worse case scenario for ERDF spend to 31 December 2010 based on the payment claims received on 31 May 2010 and Lead partners spend forecasts for 31 August 2010.

### v. Task 3

Using the data provided in Tables A and B and the information given in the Programme description, identify any warning signs and decommitment risks for the years 2010, 2011, 2012 and 2013.

In carrying out your analysis examine the performance of the programme. Seek answers to the following questions:



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- Have there been sufficient applications?
- Have there been sufficient approvals/commitments of funds? (Check the available budget)
- Are the projects spending quickly enough? If not how can the spending be speeded up?
- Are the payment forecasts prepared by the beneficiaries accurate? If not how can they be improved?
- Can the payment forecasts be used accurately to plan N+2/3 management?
- Will there be an automatic decommitment in 2010? What about the years 2011, 2012 and 2013?
- How would **you** ensure that the N+2/3 targets are achieved?

**Make a list** of any warning signs or decommitment risks that you have identified.





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Annex 2 - N+2/N+3 Tables 2A and 2B

(a) as if the programme is subject to the N+2 rule with the 2007 allocation spread among next decommitment targets, the first decommitment target being 31.12.2010.

Table 2A - Recalculation of N+2 targets

Financial Plan - unchanged

	2007	2008	2009	2010	2011	2012	2013			Total
OP	9	9	10	12	20	20	20			100
N+2 Targets	2007	2008	2009	2010	2011	2012	2013	2014	2015 (2017)	
Redistribution of 2007 allocation			0	1.5	(1.5x2) 3	(1.5x3) 4.5	(1.5x4) 6	(1.5x5) 7.5	(1.5x6) 9	
2008										
2009										
2010										
2011										
2012										
2013										
Accumulated			0							



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Annex 2 - N+2/N+3 Tables 3A and 3B

(b) as if the programme is subject to the N+3 rule with the 2007 allocation spread among next decommitment targets, the first decommitment target being 31.12.2011.

Table 3A - Recalculation of N+3 targets

Financial Plan - unchanged

	2007	2008	2009	2010	2011	2012	2013			Total
OP	9	9	10	12	20	20	20			100
N+2 Targets	2007	2008	2009	2010	2011	2012	2013	2014	2015 (2017)	
Redistribution of 2007 allocation				0						
2008										
2009										
2010										
2011										
2012										
2013										
Accumulated				0						

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Table 3B - Calculation of spend targets

Advances:	2007	2%	2008	3%	2009	4%		
<b>Hispania/Franconia Programme</b>	<i>(1) Calendar year</i>	<i>(2) EU funds available (N)</i>	<i>(2) EU funds available (N) accumulated</i>	<i>(3) Spending year (N+3/N+2)</i>	<i>(3) Spending year (N+3/N+2) accumulated</i>	<i>(4) Insert advance to be deducted</i>	<i>(5) Add back advances</i>	<i>(6) Total that must be spent by 31 Dec accumulated</i>
	2007	9	9					
	2008	9	18					
	2009	10	28					
	2010	12	40					
	2011	20	60					
	2012	20	80					
	2013	20	100					
	2014							
	2015 (2017)							
<b>Total</b>								

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### Annex 3

Table A - Table of accumulated ERDF Lead Partner Payment claims (31 May 2010) and forecasts submitted by project Lead Partners for 2010, 2011, 2012 and 2013

NB - all figures are accumulated

Priority	Total Eligible Cost of approved contracted projects	Total ERDF committed to projects	Accumulated ERDF forecast to 31 May 2010	Accumulated ERDF Payment claim submitted by LP at 31 May 2010	Difference	Accumulated ERDF forecast to 31 August 2010	Accumulated ERDF forecast to 31 August 2011	Accumulated ERDF forecast to 31 August 2012	Accumulated ERDF forecast to 31 August 2013
1	18,000,000	15,000,000	3,250,000	2,320,000	-930,000	5,000,000	10,000,000	14,000,000	15,000,000
2	8,000,000	7,000,000	2,500,000	2,000,000	-500,000	2,800,000	3,800,000	6,500,000	7,000,000
3	4,000,000	2,000,000	1,000,000	800,000	-200,000	1,200,000	2,000,000	2,000,000	2,000,000
Totals €	30,000,000	24,000,000	6,750,000	5,120,000	-1,630,000	9,000,000	15,800,000	22,500,000	24,000,000

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Table B -Table of actual ERDF spend at 31 May 2010 and forecast spend to 31 December 2010

NB All figures are accumulated

Priority	Total Eligible Cost of approved contracted projects	Total ERDF committed to projects	Total ERDF received/included in payment claims to the Commission	Accumulated ERDF Payment claim submitted by LP at 31 May 2009	Accumulated ERDF forecast to 31 August 2010	MA best case Forecast spend to 31 December 2010	MA worse case Forecast spend to 31 December 2010
1	18,000,000	15,000,000	1,600,000	2,320,000	5,000,000	5,000,000	3,600,000
2	8,000,000	7,000,000	1,500,000	2,000,000	2,800,000	2,800,000	2,240,000
3	4,000,000	2,000,000	500,000	800,000	1,200,000	1,200,000	960,000
<b>totals</b>	<b>30,000,000</b>	<b>24,000,000</b>	<b>3,600,000</b>	<b>5,120,000</b>	<b>9,000,000</b>	<b>9,000,000</b>	<b>6,800,000</b>