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Research for REGI Committee -Lessons learnt from the Closure of the 2007-13 Programming Period

STUDY

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Abstract

This study analyses the closure process for programmes funded under the European Regional Development Fund and the Cohesion Fund in 2007-13. It details the regulatory provisions, guidance and support provided for closure in 2007-13 and assesses the closure experiences of programme authorities before drawing lessons and developing conclusions and recommendations for EU-level institutions and programme authorities.

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LIST OF ABBREVIATIONS

AA(s)	Audit authority(/ies)
AIR	Annual Implementation Report
CA(s)	Certifying authority(/ies)
CF	Cohesion Fund
COCOF	Coordination Committee of the Funds
CP	Cohesion policy
DG REGIO	Directorate-General for Regional and Urban Policy
EC	European Commission
ECA	European Court of Auditors
ERDF	European Regional Development Fund
EP	European Parliament
ESF	European Social Fund
FEI(s)	Financial Engineering Instrument(s)
FIR	Final Implementation Report
IB(s)	Intermediate Body(/ies)
MA(s)	Managing Authority(/ies)
MP(s)	Major project(s)
MS(s)	Member State(s)
NSRF(s)	National Strategic Reference Framework
OP(s)	Operational Programme(s)
PA(s)	Partnership Agreement(s)
SF	Structural Funds
TFBI	Task Force for Better Implementation

EXECUTIVE SUMMARY

The importance of closure

This study provides a comprehensive and systematic analysis of the closure process for programmes funded under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) in 2007-13. Programme closure is often seen as a purely technical process. It involves shutting down the operation of a programme, finalising the reporting and recording of results, and ensuring sound financial management. This includes the preparation of a series of documents for each Operational Programme (OP) that together form the 'closure package': an application for payment of the final balance, a Final Implementation Report and a closure declaration. This required contributions by three main programme management bodies in the Member States (MSs): Managing Authorities (MAs), Certifying Authorities (CAs) and Audit Authorities (AAs).

Closure also plays an integral role in the successful implementation of programmes. Key strategic decisions are taken by programme authorities at this stage in the allocation of remaining funds; in securing and raising awareness of achievements and legacies; and, in ensuring a smooth transition to the next programming period. These decisions are taken in the context of considerable pressures: to absorb the maximum funding available; to respond to financial controls and audits that often take place around programme closure; to deal with issues arising from the implementation of specific projects; and, to ensure adequate administrative resources at a time of overlap between programming periods.

Closure in 2000-06: a review of experience

A review of the experiences of **programme closure at the end of the 2000-06 showed that programme authorities faced challenges related to efficient spending of EU funds against closure deadlines**. Challenges were also encountered in the closure of **specific types of project**, including major projects (MPs). There were also **difficulties in allocating sufficient human and organisational resources to closure tasks**. Programme authorities developed a **range of responses to these issues**: the establishment of closure coordination mechanisms; the dissemination of guidance and advice to implementation bodies and beneficiaries; strengthening the focus on financial monitoring, audit and control; and, implementing different initiatives to address absorption pressures. These issues and responses provide the basis for the framework applied to the analysis of closure in 2007-13.

Closure 2007-13: the regulatory framework

Responding to experiences from closure in 2000-06, regulatory provisions were introduce (Regulation 1083/2006, Articles 88-91), as well as guidance and support for 2007-13. These set the regulatory framework and timetable, and included specific guidance (based on Commission Decision C(2015) 2771 final) **to ensure timely and regular spending**. It included: allowing an OP to overspend 10% in a particular Priority Axis without formally amending it; the option for MAs to develop a project pipeline that is bigger in volume than the financial scope of the programme to create a financial 'buffer' or reserve list of projects; and the option of 'phasing' projects across two programming periods. **Of particular importance are audit aspects** to ensure that any irregularities are not delaying financial absorption. For 2007-13, the 'single audit' approach put in place a multi-level control system integrated on the basis of clearly defined responsibilities for EU level and MS auditors, established standards for the work required, and reporting systems and feedback mechanisms. **Provisions and guidelines to deal with specific types of operation** included the extension of eligible spending and additional reporting requirements for FEIs, as well as potential phasing for MPs.

The EC's closure guidelines also made provision for the treatment of non-completed projects. **Provisions directly related to governance and administration** included the strengthened role of AAs as dedicated bodies in charge of OP auditing. The EC adopted a proactive approach to the closure of the 2007-13 programming period, with an increased focus on training and capacity-building for programme authorities. A dedicated Closure Unit was established in the Directorate-General for Regional and Urban Policy to coordinate closure procedures and provide support to MS.

Closure 2007-13: Member State experiences

Programme authorities have taken measures to balance the demands of effective absorption and efficient closure but, generally, a focus on the former has put pressure on the latter. The impact of absorption pressures during the closure process on the strategic quality of interventions was limited. **The implementation of certain types of intervention has had implications for the closure process**. This applies particularly to FEIs, MPs and non-functioning projects. In spite of EU provisions and MS actions attempting to address these issues, challenges remain, largely related to uncertainties in regulations and guidance and in some cases limitations in capacity and experience.

The quality of the closure process has been determined by the administrative capacity and governance approaches of programme authorities. Efficient programme closure has relied on the coordinated input of actors and structures at EU, national and programme levels at a time when administrative resources are constrained or in flux as a result of the launch of OPs for the next programming period.

MS approaches to address these tensions included the establishment of **guidance and coordination mechanisms between programme and national level, and coordination arrangements at programme level** (e.g. through working groups). Programme authorities have developed **systems to identify and target at an early stage projects at risk of non-completion**. They also looked to **ensure sufficient capacity for closure** through: recruitment, outsourcing, appointing closure managers etc. Programme authorities are increasingly aware of the communication advantages of closure documents and the opportunities to disseminate programme achievements through the closure package.

Conclusions

The formal **closure of ERDF and CF programmes in 2007-13 was carried out efficiently**. However, beyond this formal process, **closure should be perceived as an integral part of programme implementation and this role is conditioned by financial absorption pressures, the type of operations included in programmes and administrative capacities.** Financial absorption pressures are prominent as closure approaches. These relate to specific types of intervention with complex associated regulations and where MS capacity or experience is limited (e.g. FEIs and MPs). EC initiatives and MS arrangements have addressed these pressures. Across MSs, the quality of the closure process has depended on administrative capacity and governance approaches.

EC closure guidance was valued by MSs in 2007-13. However, programme authorities noted that it has to be provided at an early stage, be clear and consistent.

Looking forward, some key recommendations for 2014-20 can be made:

- Linking closure more closely to the reporting of programme achievements and outputs would strengthen efforts to communicate achievements 'on the ground'.
- The EC's efforts to build capacity for closure should continue, especially for AAs.
- MS guidance, support and structures should be established, building on or working alongside EU-level support for closure.
- For MAs, closure should be regarded as an issue for the lifetime of a programme, not just for the final years.
- Closure should remain a priority for programme authorities and project sponsors, and to ensure commitment from all those involved in closure.
- Close formal and informal coordination between programme authorities involved in closure is recommended.
- Given that administrative tasks associated with closure are substantial, MS and programme authorities must ensure that sufficient capacities are made available (training, recruitment, outsourcing etc.).
- The UK case is exceptional. Closure arrangements will depend on the Withdrawal Agreement to be negotiated after triggering Article 50 in March 2017. The two-year withdrawal process indicates that the programming period will be shortened in the UK, creating significant challenges. First, regulatory procedures around N+3 and closure mean that the UK would still be subject to EU regulations for at least three years after withdrawal. Second, the process will be complicated by audit requirements that continue beyond closure and therefore after Brexit. Third, these issues will be played out in a context of organisational flux and reduced capacity as UK programme authorities break up and shed staff.

1. INTRODUCTION

1.1 Background of the study

This study provides a comprehensive and systematic analysis of the closure process for programmes funded under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) in 2007-13. The deadline for the submission of closure documentation by Member States (MS) to the European Commission (EC) fell at the end of March 2017. Thus, it is timely to assess the process in order to identify key lessons and insights and examples of good practice, particularly with a view to the progress of the 2014-20 closure arrangements. Programme closure is often seen as a purely technical process: the fulfilment of legal, regulatory and bureaucratic requirements at the end of a programming period. The formal obligations associated with closure are important (see Figure 1):

- Foremost is the need to ensure that programmes are **fully committed (i.e. that all programme funds are committed by the managing authority (MA) to projects, defined in Funding Agreements) and spent (i.e. that expenditure incurred by projects is fully paid)**, while recognising the tension between being able to spend for as long as possible and having enough time to organise closure.

- **Settling of the final balance**, which clears all preceding expenditure to operations or the recovery of sums paid in excess by the EC, is the aspect of closure emphasised in the Financial Regulation.

- Ensuring **legality and regularity of expenditure**, as the EC is required to accept only expenditure implemented in compliance with the EU and national rules.

- The **process of terminating a programme**, consisting of the submission to the EC of a 'closure package' of documents from the MA, AA and CA.

Figure 1: The challenges of programme closure
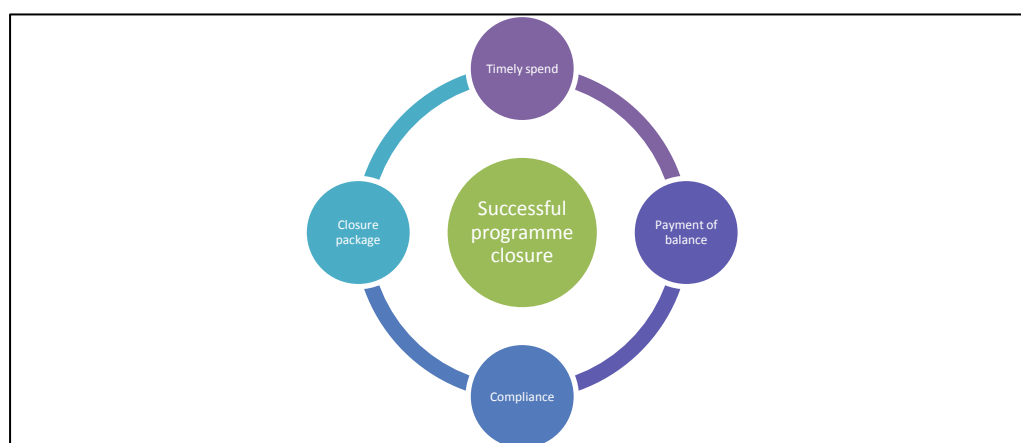
Source: EPRC.

However, there is a danger that closure is perceived as a formal appendage to the management and implementation process, or even as an after-thought. It is crucial to look beyond the formal components of closure to appreciate the integral role it plays in the successful implementation of ERDF and CF programmes. Key strategic decisions are taken by programme authorities at this stage in the life of an OP: in the allocation of remaining funds; in securing and raising awareness of programme achievements and legacies; and, in ensuring a smooth transition to the next programming period. Moreover, these key decisions are taken in the context of

considerable pressures: to absorb the maximum funding available, to respond to financial controls and audits that often take place around programme closure, to deal with issues arising from the implementation of specific projects; and, to ensure that adequate administrative resources are available at a time of overlap between programming periods. It is important that lessons learned from the closure process are fed into planning for future programmes, alongside the results of monitoring and evaluation processes (see Figure 2). For all of these reasons, closure represents a key stage in the lifecycle of OPs.

Figure 2: The dual role of closure in the programme lifecycle
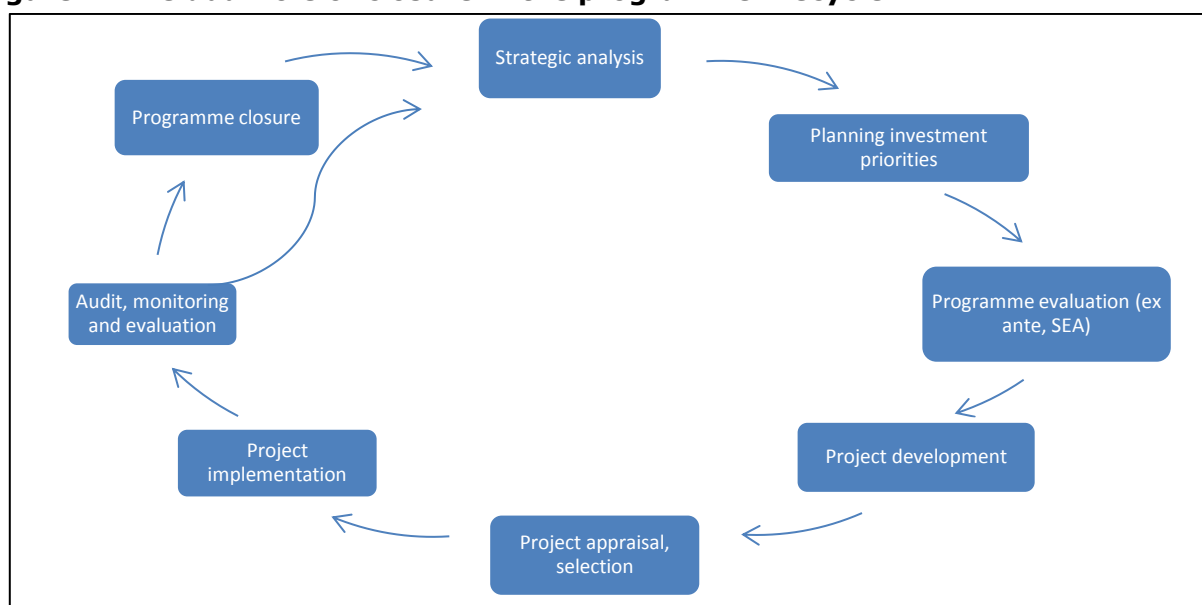
Source: EPRC.

1.2 Objectives

The overall objective of the study is to provide a comprehensive and systematic analysis of the closure process for programmes funded under ERDF and CF in 2007-13. The study assesses the experiences of programme authorities in complying with the formal requirements for OP closure and, beyond this, the relationship between the closure process and the effective implementation of programmes. A crucial outcome of the study is the identification of key lessons, insights and examples of good practice, particularly with a view to the progress of the 2014-20 closure arrangements.

Within this, the research includes two specific aims:

- To undertake a dynamic, longitudinal analysis, comparing closure processes in 2007-13 with 2000-06, identifying what has worked and drawing lessons for 2014-20.
- To provide multi-dimension/level conclusions for cohesion policy (CP) as a whole, but also for (a) different types of programmes/projects; and (b) different levels in the system (EC, MS, programme authorities).

The methodological approach is focused on key variables that can have an impact on the closure process. Based on a review of the literature, particularly related to experiences from the closure process 2000-06 it is possible to identify variables that can affect the closure process, not just understood as formal programme closure obligations but in terms of closure's crucial role in the implementation of programmes. These are:

- **Absorption pressures**. Fundamentally, closure requires efficient absorption of the EU funds available under an OP. Ideally, programmes aim to be reaching 100% or more of

funds fully committed to operations. In reality, synchronising the achievement of absorption targets and the implementation of closure processes is not straightforward.

- **Types of intervention**. Different types of operation have different implications for absorption and closure. For instance, major projects (MPs) absorb substantial funding and can be 'phased' over two programming periods but are particularly administration-intensive because of the special requirements associated with them, including closure requirements. 2007-13 saw increased allocations for Financial Engineering Instruments (FEIs) in OPs and there are specific technical requirements and challenges related to these at the closure stage.

- **Administrative capacity**. Managing the closure of 2007-13 programmes is a challenging task, involving responding to the pressure to spend efficiently and effectively with demonstrable impacts, while negotiating the transition period between programme cycles, moving towards closure of one set of programmes, and at the same time developing and implementing CP programmes in place for the 2014-20 period.

Key research questions are:

- How have programme authorities approached the key tasks involved in programme closure? What bottlenecks or facilitators have they encountered?
- To what extent has the closure process been conditioned by issues related to absorption pressures, type of intervention or administrative capacity?
- What relationship is there between these closure-related pressures and effective programme implementation?
- Looking forward, what are the most important insights and lessons to be carried over into the implementation and closure of OPs in 2014-20?

1.3 Methodology

Before outlining the methodology used for this study, it is important to note that an important caveat of this research is its timing. It coincided with the last weeks of closure preparations in the MSs and therefore no information was yet available on the actual outcomes after the submission of the closure documents.[1] The research included four key tasks: review of the evolution of closure processes in CP across programming periods; development of the analytical framework; case study research; and conclusions and recommendations. These involved a combination of desk-based research and interviews at EU and MS levels, detailed below.

1) **Review of the closure procedures in 2000-06 and 2007-13**. Focussing on ERDF and CF, this includes legislative documents (regulations, implementing and delegated acts), official guidance documents, relevant EU and MS evaluations, reports (such as the European Court of Auditors (ECA) report on closure preparations[2]), academic articles and studies on the closure process. An important role is played by information gathered in the context of long-standing EPRC comparative research conducted under the auspices of the IQ-Net network (Improving the Quality of Structural Funds Management[3]).

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[1] Initial indications in early April were that virtually all closure packages were successfully submitted by the deadline. However, by the time of writing it was too early to access information on the quality or any issues arising from the EC's assessment of these packages.

[2] European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*, Special report N°36/2016.

[3] http://www.eprc.strath.ac.uk/iqnet

2) **Interviews with EC bodies**. Interviews with over 20 staff members of DG REGIO have been carried out, including the Closure Unit, two geographical units and others. For a full list of interviewees see Annex 2.

3) **Research at MS level**. The analysis of closure procedures in individual OPs and the experiences made by programme authorities provide a central component of the research. This allows comparative insights into closure processes and their relationship with the key variables. Moreover, case study interviews are vital to identify practical experience of closing OPs 'on the ground'. Thus, as well as documentary research, research included 20 interviews with key organisations and actors involved in the closure process, mostly MAs and AAs. The selected cases are individual OPs in eight MSs representing an as representative as possible sample of programmes across the EU28. The main criteria for the selection reflected the three main research questions and the three sets of variables included in the analytical framework (funding absorption, types of operation, governance and administration). Additional selection criteria included geographical representativeness, different governance models (e.g. national and regional OPs) and different sources of funding (i.e. ERDF or Cohesion Fund). Table 1 provides an overview of the selected cases and the semi-structured questionnaire used for interviews with MAs and AAs is included in Annex 1.

Table 1: Selected OPs for the analysis of MS experiences

MS	Absorption Progress	Types of interventions		Governance & administration				Selected OP
		MPs	FEIs	Fund(s)	CP Objective	OP type	Capacity (EQI)*	
DE	Steady	No	Yes	ERDF	RCE	Regional	Strong	Bavaria
FI	Steady	No	Yes	ERDF	RCE	Regional	Strong	West Finland
FR	Steady	No	Yes	ERDF	RCE	Regional	Strong	Centre
IT	Slow	Yes	Yes	ERDF	RCE	Regional	Weak	Lombardy
GR	Slow	Yes	No	CF & ERDF	Convergence	Thematic	Weak	Reinforcement of Accessibility
RO	Slow	Yes	No	CF & ERDF	Convergence	Thematic	Weak	Transport
PL	Steady	Yes	Yes	ERDF	Convergence	Regional	Weak	Pomorskie
UK	Steady	Yes	Yes	ERDF	Convergence	Regional	Strong	West Wales and the Valleys

Notes: *European Quality of Government Index (EQI) https://nicholascharron.files.wordpress.com/2013/09/publishing-the-eqi-data.xlsx. See also Figure 16.
Source: Charron N, Dijkstra L and Lapuente V (2015) 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions', Social Indicators Research, vol 122 (2): 315-346, https://link.springer.com/article/10.1007/s11205-014-0702-y

1.4 Structure of the study

The study is structured in four further sections:

- **Section 2** sets out the study's research context. This includes evidence from analyses of the closure of programmes in the 2000-06 period, reviewing EU-wide trends, identifying closure challenges and noting the responses of programme authorities to these. This leads into a description of the analytical framework adopted for this study which 'unpacks' the key variables used to explore the closure experiences of programme authorities.
- **Section 3** turns to closure experiences in the 2007-13 period. It sets out the regulatory provisions, guidance and support put in place by the EC for closure in 2007-13, highlighting how these addressed issues related to the key variables identified in the research.
- **Section 4** assesses the closure experiences of programme authorities in the context of these provisions. It explores the efficiency of the programme closure process, its relationship with the effective implementation of OPs as a whole and the role of absorption pressures, closure issues stemming from the implementation of specific intervention types, and issues related to governance and administration in this.
- **Section 5** draws together the key lessons learned from the study, developing a set of main conclusions and recommendations for EU-level institutions and programme authorities.

2. RESEARCH CONTEXT

> **KEY FINDINGS**
>
> **A review of the experiences of programme closure at the end of the 2000-06 period provides important context for the research**. Programme authorities faced **challenges related to efficient spending of EU funds against closure deadlines**. Challenges were also encountered in the **closure of specific types of project**, including major projects. There were also **difficulties in allocating sufficient human and organisational resources to closure tasks**. Programme authorities developed a **range of responses to these issues**: the establishment of closure coordination mechanisms; the dissemination of guidance and advice to implementation bodies and beneficiaries; strengthening the focus on financial monitoring, audit and control at closure; and, implementing different initiatives to address absorption pressures. These issues and responses, summarised under three headings (absorption, types of intervention, administrative capacity), provide the basis for the framework applied to the analysis of closure in 2007-13.

2.1 Lessons from closure, 2000-06 programming period

Before applying this analytical framework to programme closure in 2007-13**, a review of the experiences of programme closure at the end of the 2000-06 period provide an important starting point.** A broad overview of EU-wide trends in the time and status allocated by programme authorities to the closure process shows significant variation. Analysis of the 2000-06 closure process in different MS contexts highlights the most prominent challenges from the perspective of programme authorities and produces insights into the measures taken to address them. These issues from 2000-06 informed EC closure guidance for 2007-13.

2.1.1 EU-wide trends

Reviewing the approaches of programme authorities to closure in 2000-06, there was significant variation across MS. This variation included:

- **Differences in the emphasis placed on closure** as part of the implementation process. While some programme authorities had started planning for closure by mid-2005, others did not see this as a major task until much later in 2007.[4]

- **Variation in the time taken between the submission of closure documents to the EC to complete closure**. For example, EU-wide around 20% of ERDF OPs took 6 months to a year to complete closure, 30% took 1-2 years, 20% took 2-3 years and 15% took 3-4 years. For 14% of ERDF OPs closure took more than four years.[5]

In recognising the varied time that elapsed between submission of closure documents and final closure, it is important to note that for the 2000-06 period no annual summary of controls and audit results was prepared by programme authorities (as is the case in 2007-13). At closure, programme authorities had to provide assurance, based on a sample check, as to the legality and regularity of all expenditure during the period. The EC's analysis and verifications led in many cases to requests for clarification or additional work at MS level, which often extended

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[4] Davies S and Gross T (2007) *The end of the formal programming period 2000-2006*, IQ-Net Review Paper 19(1), European Policies Research Centre, Glasgow.
[5] European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*, Special report N°36/2016.

the closure process. An overview of the time it took the EC DGs to close 2000-06 cohesion and rural development programmes is provided in Figure 3.

Figure 3: Time taken to close 2000-06 programmes
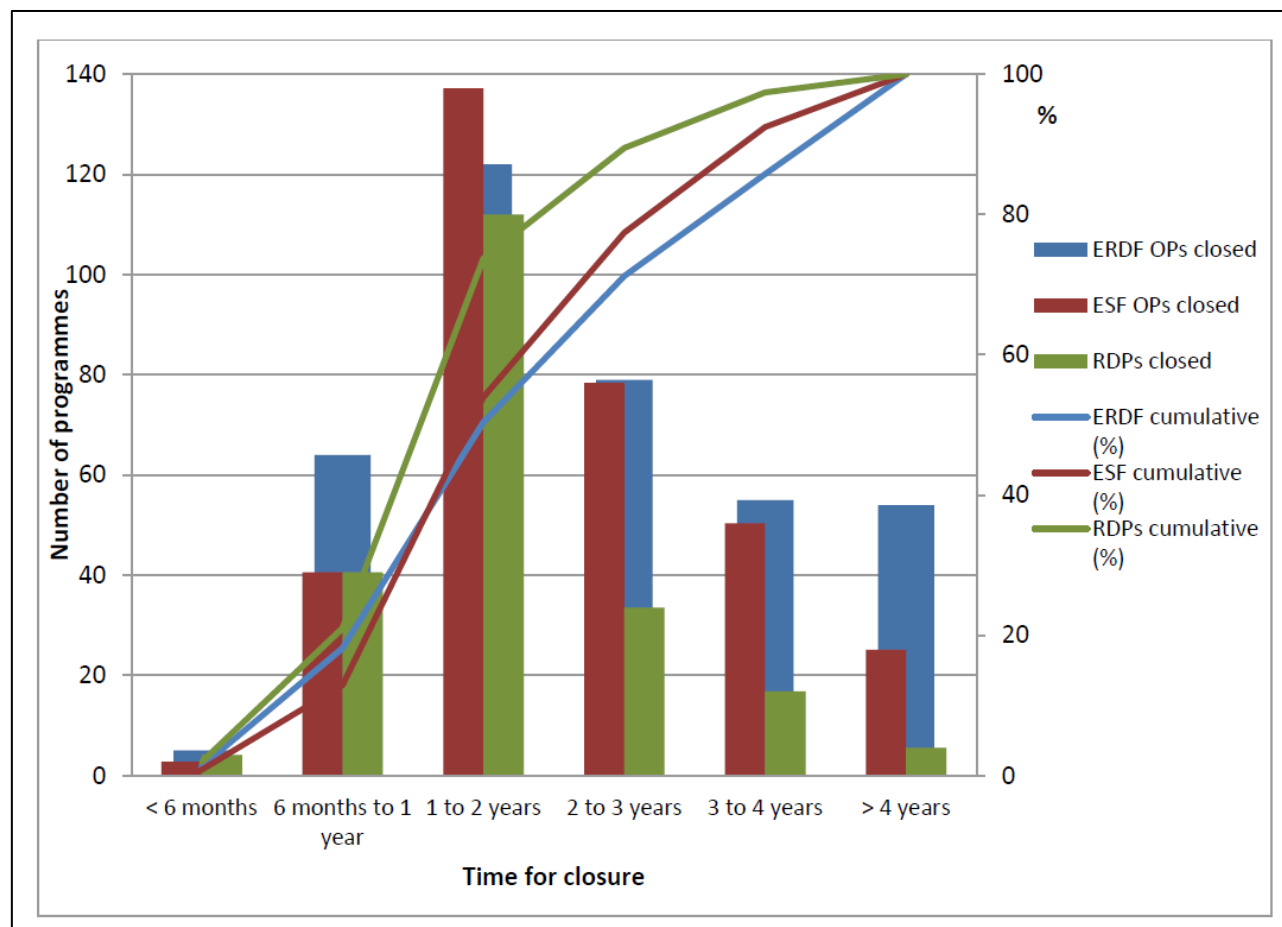
Source: European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*, Special report N°36/2016, http://www.eca.europa.eu/Lists/ECADocuments/SR16_36/SR_CLOSURE_2007_2013_EN.pdf

Unresolved closure issues go back to the period 1994-99 and before, as DG REGIO is still dealing with irregularities from the 1989-93 programming period. For the 2000-06 programming period, 18 out of a total of 379 ERDF OPs had still not been closed at the end of 2015, according to DG REGIO's annual activity report for 2015,[6] and in early 2017, some of these are still open as remaining irregularities are addressed. Also, 57 CF projects funded in that period had not yet been closed in January 2017 (see Table 2). In its management plan for 2016,[7] DG REGIO aimed to close any unresolved irregularities in open 2000-06 ERDF OPs within one year of their submission and to close all CF projects from 2000-06 by the end of 2016, excluding any judicial proceedings.

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[6] DG Regional and Urban Policy (2016a) *2015 Annual Activity Report*, 27 April 2016, pp. 78-80.
[7] DG Regional and Urban Policy (2016c) *Management Plan 2016*, 1 April 2016, p. 15.

Table 2: **2000-06 CF projects still open in January 2017**

MS	Number of open projects
Romania	21
Greece	12
Poland	10
Bulgaria	6
Lithuania	4
Portugal	2
Estonia	1
Spain	1
Total	**57**

Source: European Commission.

2.1.2 Specific closure challenges

Within these broad trends, programme authorities highlighted some **specific closure challenges**. Programme authorities had differing views of the main challenges relating to programme closure but some basic issues could be identified:[8]

In many programmes, the main challenges were seen to relate to **efficient spending**. Programme authorities balanced the aim of ensuring optimal absorption of the available funds with the need to meet closure deadlines and allow sufficient time for the closure process to take place. In this context, it should be noted that in 2008 the EC extended the final date of eligibility for the 2000-06 OPs to ensure the maximum use of all CP resources from the 2000-06 period. Challenges were also encountered in the closure of specific **types of project**. In many programmes, the main concern was that too many uncompleted projects would remain at the time of closure and there was a focus on ensuring the timely closure of individual projects. Certain types of projects were seen as potentially most problematical. Notably, there was concern that MPs risk not being completed on time (e.g. Germany, Greece). Difficulties emerged because of unforeseen delays or weaknesses in estimating the time needed for administering large and complex projects. Moreover, if a MP could not be completed, it was often difficult to find appropriate alternatives for relatively large amounts of funds.

There was also uncertainty over **human and organisational resources**. Previous research has assessed the administrative costs involved in CP implementation, including the calculation of staff workloads.[9] This shows that the beginning and end of each period are particularly work-intensive due to the overlapping of activities related to the new and the old programmes. The transition between programming periods can be associated with staff turnover or organisational restructuring.[10] In a number of programmes, authorities faced uncertainty in terms of identifying and allocating the human resources or organisational roles for closure. In some cases, this was due to organisational flux as authorities prepared for the 2007-13 period. Staff turnover and the reorganisation of management and implementation structures at national and regional levels raised challenges in terms of loss of experience and capacity, the collection of necessary documents and data etc. (e.g. Sweden, United Kingdom). These concerns were heightened by the broader shift of focus to the new programmes. Staff had many tasks relating to the preparation of the new programmes and thus less time for closure activities. Programme

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[8]   Davies S and Gross T (2007) *The end of the formal programming period 2000-2006*, IQ-Net Review Paper 19(1), European Policies Research Centre, Glasgow.

[9]   SWECO (2010) *Regional governance in the context of globalisation - reviewing governance mechanisms & administrative costs. Administrative workload and costs for Member State public authorities of the implementation of ERDF and Cohesion Fund*, report for DG Regional Policy.

[10] Gross T and Davies S (2007) *Programmes in Transition - Between Closure and Start. Review of Programme Developments: Winter-Summer 2007*, IQ-Net Review Paper 20(1).

closure was sometimes viewed as an activity undertaken by a small number of specialists, even though there was a need for a much wider range of individuals to cooperate in providing information and ensuring that all procedures relating to the closure of projects and programmes were completed on time.

Programme authorities' experiences with closure in 2000-06 show that this is a very complicated and long-term process that often causes significant delays and risks. Assessments of the process in the 2000-06 period from the EC[11] and the ECA[12] highlighted several issues (see Box 1).

Box 1: **The closure process 2000-06: issues identified**

- Closure documents were prepared at the last moment
- Insufficient number or late execution of checks
- Incomplete documents and long 'ping-pong' between EC and the MS to obtain additional information
- Disagreements with the EC over the extent and application of financial corrections
- Overbooking to maximise receipts and to avoid net loss
- Retrospective financing: The switching of projects initially proposed for implementation with EU co-funding with replacement projects. These are projects which have already been funded and sometimes already completed with national funds
- Not enough staff allocated to closure
- Weaknesses in public procurement
- Delayed irregularity procedures and management
- Delays in project implementation
- Deficiencies of submitted winding-up documents
- Error rates calculated wrongly by MSs
- Quality and availability of data
- Overlapping programming periods – new framework set up before the old one could have been assessed
- Programming periods relatively long (10 years) – programmes and regulations need to be adopted several times, changes affect institutions, organisational changes and turnover of staff
- Financial crisis and extension of eligibility period
- 5% sample of eligible expenditure for checks under Art. 10 of Reg. 438/2001[13]
- Conclusions of on-going audits delaying the closure process
- The lack of flexibility to address closure challenges at measure-level in OPs
- Unfinished operations
- Separate closure procedure for CF projects

Source: EPRC and von Busch A (2014) *Closure 2007-2013: Changes and Lessons learned from 2000-2006, Modifications to the closure guidelines*, seminar, Lisbon 13 May 2014.

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[11] von Busch A (2014) *Closure 2007-2013: Changes and Lessons learned from 2000-2006, Modifications to the closure guidelines*, seminar, Lisbon 13 May 2014.

[12] Dencső B (2012) 'The lessons of the financial closure of the 2000-2006 period', *Seminar on the experience gained during the winding up of the programming period 2000-2006*, Budapest, 20-21 September 2012. https://www.asz.hu/en/seminar-on-the-experience-gained-2014-09-10.

[13] Commission Regulation (EC) No 438/2001 of 2 March 2001 laying down detailed rules for the implementation of Council Regulation (EC) No 1260/1999 as regards the management and control systems for assistance granted under the Structural Funds, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32001R0438&from=EN

2.1.3 Approaches to addressing these challenges

Programme authorities took varying steps in relation to addressing these challenges, introducing a range of formal structures, resources and procedures to facilitate closure:[14]

- **Formal coordination mechanisms**. A number of programme authorities set up working groups with the specific task of coordinating the closure of the programmes, sometimes at national level (e.g. the United Kingdom programme Closure Group), for each EU Fund (e.g. Finland) and sometimes also at regional or programme level (e.g. Closure Steering Groups in Lombardy, Scotland, Sweden and Wales).

- **Domestic seminars, guidelines and advice**. Many national authorities organised seminars or workshops to inform programme managers, intermediary bodies and project-holders about the challenges and requirements of programme closure. Some national and regional authorities also drafted guidelines in addition to the EU guidelines (e.g. Austria, Finland). In Germany, one MA had published its own guidelines for partners before it had received the EC guidelines.

- **Focusing on financial monitoring, audit and control**. Across MAs, work was undertaken to check the accuracy, consistency and reliability of data already entered into electronic monitoring in preparation for closure audits. Financial control and audit authorities were informed about the obligations associated with programme closure, and certification authorities were also notified about the closure steps to be undertaken.

- **The timely closure of projects**. Responding to the absorption pressures and the risk that projects would not perform as anticipated, a number of MAs developed lists of reserve projects, 'overbooking' funds under certain OP priorities or measures. Programme authorities also looked to shift funds within the programme in order to ensure that resources were fully absorbed by the deadline for spending (e.g. Finland). Other steps to ensure financial absorption included: efforts to persuade the EC to change its approach to the treatment of domestic private and public co-financing (e.g. Austria); the identification and targeting of problematic projects for particular attention and support; and setting deadlines for project-holders to report on project completion and many targeted potentially problematic projects.

2.2 Analytical Framework

Three key variables emerge from the assessment of the closure process: **financial absorption**, **types of intervention** and **governance and administration issues**. In order to inform the analysis of closure in 2007-13, the following section takes each of these three variables, develops a hypothesis of how they can influence closure processes (see Figure 4).

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[14] Davies S and Gross T (2007) *The end of the formal programming period 2000-2006*, IQ-Net Review Paper 19(1), European Policies Research Centre, Glasgow.

Figure 4: Determining factors of closure
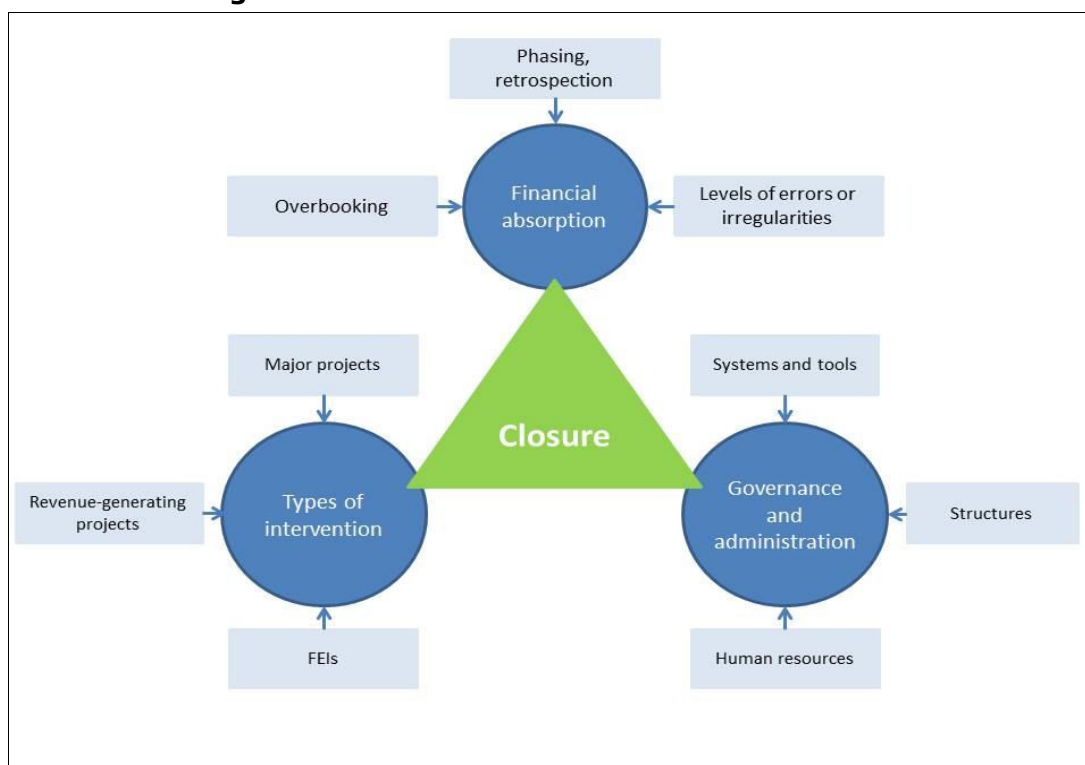
2.2.1 Financial absorption

The first variable impacting on the closure process is financial absorption. A basic hypothesis is that the quality of the closure process is **determined by pressures on OPs to absorb EU funds**. Fundamentally, closure requires efficient absorption of the EU funds available under an OP. Ideally, by the end of 2013, programmes aim to be reaching 100% or more of funds fully committed to operations. In reality, coordinating the achievement of absorption targets and the implementation of closure processes is challenging. For instance, at the end of programming periods MSs can look to correct the impact of irregular spending several years after the event. In order to effect corrections without risking a reduction in the funding envelope, MSs have to find a sufficient number of eligible projects in the final years of the programming period.[15] There is an argument that programme authorities will put less emphasis on the full implementation of closure tasks (reporting and recording of results, ensuring sound financial management, preparation of closure documents) in order to ensure 100% absorption of the available funds. A range of factors can intervene to delay or skew financial absorption, influencing the closure process.

- Closure can be particularly challenging for MSs with large programmes,[16] programmes with complex implementation arrangements[17] or where errors or irregularities have delayed implementation.
- Moreover, programme authorities' approaches to dealing with absorption pressures, such as the phasing of projects into the next programming period, the use of retrospective projects that have already been supported, often by domestic funds (see Section 4.1.3) all have implications for the implementation of closure.

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[15] Gross T and Davies S (2007) *Programmes in Transition - Between Closure and Start. Review of Programme Developments: Winter-Summer 2007*, IQ-Net Review Paper 20(1).

[16] European Parliament (2013) *The (low) absorption of EU Structural Funds*, Library Briefing, Library of the European Parliament 01/10/2013.

[17] Gross T and Davies S (2007) *Op. cit.*

- 'Overbooking' projects to create a surplus of projects approved under specific programme priorities (see Section 3.2.1) is a common means for programme authorities to build flexibility into resource allocation arrangements in the event of absorption pressures during implementation. However, at closure there is a risk that pressure increases on programme authorities to identify alternative sources of funding for any approved projects for which there are no more EU funds available.

2.2.2 Type of operation

The second variable that can have an impact on the closure process concerns specific **operations included in OPs**. Some types of intervention are inevitably more challenging to implement and to close. This can be due to their size or complexity. Some types of operation have a special status that is accompanied by specific procedures and guidance that complicate implementation and closure, particularly where programme authorities have limited experience. Specific examples include:

- **Financial Engineering Instruments (FEIs)**. FEIs represent around 5% of the ERDF resources in the programming period 2007-13. The innovative revolving funds are relatively new and their management and control poses challenges for programme authorities whose OPs have incorporated these types of intervention, in terms of the calculation of eligible expenditure, management costs and fees at closure, the implementation of investment activities beyond the closure deadline for eligible expenditure, dealing with legacy issues (residual funds) etc. At the transition of the programming periods, the FEI implementation organisations need to make sure that the running instruments work effectively, to ensure their proper financial management and be aware of audit procedures.

- **Revenue-generating projects**. Investments in infrastructure can be subject to charges borne directly by users or any operation involving the sale or rent of land or buildings or the provision of services against payment. This could include projects based on public-private partnerships. Here the closure challenge lies in making a final calculation of revenue generated, given potential lack of data or unforeseeable demand after closure. Some MSs might face difficulties with revenue-generating projects at the point of programme closure, when deficiencies in appraisal may become apparent in the absence of guidance on how to calculate the revenue.[18]

- **Major projects**. Requiring EC approval following Articles 39-41 of the General Regulation, MPs involve a significant block of funding and often entail challenging public procurement procedures that can cause delays during implementation. Given the scale of programme resources involved and the risk of non-completion, the closure of such projects can be critical to the successful implementation and closure of some OPs.

2.2.3 Administrative capacity and governance

The final variable concerns the quality of the **closure process is determined by the administrative capacity and governance approaches of programme authorities**. Research and policy evaluation over the past decade has concluded that the variable performance of CP is partly associated with deficiencies in administrative capacity and, specifically, problems faced by institutions in the MSs in managing and implementing the Funds

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[18] Kah S (2011) *A snapshot of the present and a glimpse of the future of Cohesion policy: Review of Programme Implementation, Summer-Autumn 2011*, IQ-Net Thematic Paper 29(1), European Policies Research Centre, University of Strathclyde, Glasgow.

in line with the regulatory requirements.[19] This includes the programme closure process. For MAs and IBs in particular, there is a substantial list of actions to be taken as part of the programme closure process and it is worth noting that different programmes take different approaches, depending on existing administrative arrangements and capacities, the size and scope of programmes etc. Research has identified three main components considered fundamental in creating the conditions for the effective and efficient management of CP,[20] and these can be applied to programme closure tasks:[21]

- **Structures:** a clear assignment of responsibilities and tasks to institutions, specifically at the level of departments with programme responsibilities.
- **Human resources**: the ability to detail tasks and responsibilities at the level of job description; estimate the number and qualifications of staff and fulfil the recruitment needs; timely availability of experienced, skilled and motivated staff.[22]
- **Systems and tools**: the availability of instruments (methods, guidelines, manuals, etc.) that can enhance the effectiveness of the functioning of the system.

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[19] Bachtler J, Mendez C and Oraže H (2013) 'From conditionality to Europeanization in Central and Eastern Europe: Regional policy performance and administrative capacity', European Planning Studies.
[20] Notably under the EIB's EIBURS initiative, see http://www.eprc-eiburs.eu/.
[21] Research carried out in the context of the IQ-Net network of SF programme authorities, see http://www.eprc.strath.ac.uk/iqnet/, Michie R and Granqvist K (2013) *Managing the 2007-13 programmes towards full absorption and closure. Review of programme implementation, Winter 2012-Spring 2013*, IQ-Net Review Paper 32(1), European Policies Research Centre, University of Strathclyde, Glasgow.
[22] European Parliament (2013) *Op cit*.

3. CLOSURE IN 2007-13: REGULATIONS AND GUIDANCE

KEY FINDINGS

Responding to experiences from programme closure in 2000-06, regulatory provisions were introduced as well as guidance and support for 2007-13. Besides setting the overall regulatory framework and timetable, the EC introduced specific provisions that directly addressed issues related to the key variables identified in the research. Provisions to ensure timely and regular spending included: 10% flexibility in spending between Priority Axes, and the potential to 'overbook' and 'phase' projects. Provisions and guidelines to deal with specific types of operation covered: major projects, FEIs, non-functioning projects and revenue-generating projects. Provisions and other initiatives related to governance and administrative capacity concerned the strengthened role of Audit Authorities and a range of measures to encourage a proactive approach to closure at EU level.

3.1 Regulatory framework and timetable

Closure requirements were set out in General Regulation 1083/2006[23] and in its amendment, regulation 1297/2013.[24] In addition to these, the EC adopted closure guidelines on 20 March 2013 after a 14-month period of drafting and consultation.[25] These guidelines responded to the experiences and issues raised by EU and MS authorities from the closure process in 2000-06 and have been replaced by an amended version on 30 April 2015.[26]

Overall, there are 322 ERDF and CF OPs to close. The key dates in the closure process are **31 December 2015** (Article 56(1) General Regulation), which is the final date for the eligibility of expenditure by beneficiaries and **31 March 2017**, which is the final date for the submission of closure documents (see Table 3 and Figure 5 below). At the end of January 2017, only one of 322 ERDF and CF had been closed (Gibraltar) and less than 50 MAs had started to enter closure data into the EC's SFC2007 system.[27] Yet, DG REGIO expressed its intentions to apply the deadlines strictly, except in cases of procedural force majeure. Any documents submitted after the deadline will be disregarded and the last document provided during programme implementation will be used instead, i.e. the last versions of the Annual Implementation Report (AIR) and Annual Control Report and the last interim payment claim. The outstanding balance

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[23] Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R1083&from=en

[24] Regulation (EU) No 1297/2013 of the European Parliament and of the Council of 11 December 2013 amending Council Regulation (EC) No 1083/2006 as regards certain provisions relating to financial management for certain Member States experiencing or threatened with serious difficulties with respect to their financial stability, to the decommitment rules for certain Member States, and to the rules on payments of the final balance, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0253:0255:EN:PDF

[25] European Commission (2013) *Commission Decision of 20.3.2013 on the approval of guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund and the Cohesion Fund (2007-2013)*, C(2013) 1573 final, http://ec.europa.eu/regional_policy/sources/docoffic/official/guidelines/closure_2007_2013/guidelines_closure_20072013_en.pdf

[26] European Commission (2015a) *ANNEX to the Commission Decision amending Decision C(2013) 1573 on the approval of the guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund and the Cohesion Fund (2007-2013)*, C(2015) 2771 final, ANNEX 1, http://ec.europa.eu/transparency/regdoc/rep/3/2015/EN/3-2015-2771-EN-F1-1-ANNEX-1.PDF

[27] SFC2007 is the EC's system for electronic exchange of data concerning shared Fund management between MSs and the EC for 2007-13. Amongst others, it covers ERDF, ESF, CF and the rural and fisheries funds. See: http://ec.europa.eu/sfc/en/2007

on the programme would be decommitted. OPs are closed by the **payment of the final balance** (Article 89 General Regulation) and supporting documents must be available for at least three years following the date of closure (Article 90 General Regulation).

Table 3: Timetable for closure 2007-13

Date	Action
31 December 2015	Deadline for final eligibility for expenditure. Article 56(1) General Regulation
30 June 2016	Deadline **recommended** for the submission of the last interim payment to EC
31 December 2016	Deadline **recommended** for the CA to submit to the AA application for payment of final balance and final statement of expenditure
31 March 2017	Final date for the submission of closure documents State aid - final date for the body granting the aid to pay the public contribution to the State aid beneficiaries
31 March 2018	Global objective for the EC to close as many OPs as possible
31 March 2019	Deadline for the final reporting on non-functional projects
3 years after closure of programme	All supporting documents regarding expenditure and audits on the programme concerned are kept available for the EC and the ECA Article 90 General Regulation
No time limit	Report on pending recoveries and operations suspended due to legal or administrative proceedings

Source: Regulations and European Commission (2015a) *Op. cit.*

The EC revisions of the guidelines in 2015 aligned them with regulatory changes made by the Council and EP at the end of 2013 and simplified some closure procedures. The closure process involves shutting down the operation of a programme, finalising the proper reporting and recording of results, and ensuring the sound financial management necessary when dealing with public funds. This includes the preparation of a series of documents for each OP that together form the '**closure package**': an application for payment of the final balance, a FIR and a closure declaration. The preparation of the package required contributions by **three main programme management bodies in the MSs: MAs, CAs and AAs**. In this process, each body had distinct responsibilities and a range of complementary tasks (see Table 4 below). It should be noted that, in principle, programme Monitoring Committees have a role to play in the closure process and the progress of closure procedures are on MC meeting agendas in the final years of programmes. However, MC tasks in this respect are largely formal, notably: the approval of FIRs by written procedures before their submission.

Figure 5: EC closure arrangements 2007-13
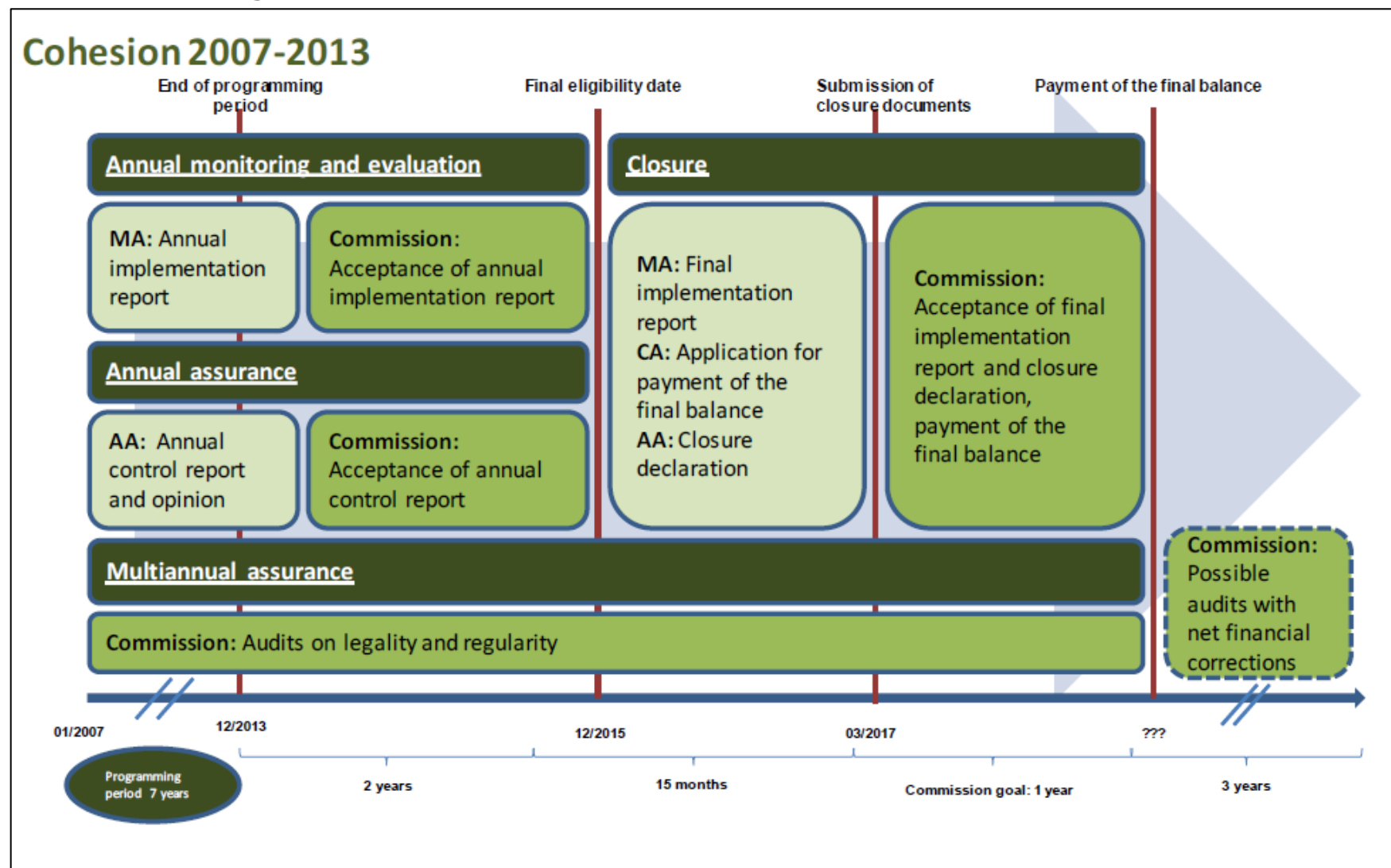
Source: European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*.

Table 4: The closure process: administrative responsibilities

Body	Managing Authority	Certifying Authority	Audit Authority
Closure package element	Final Implementation Report (FIR)	Application for payment of the final balance and a certified statement of expenditure	Closure declaration, supported by a final control report
Legal basis	Art. 67 General Regulation and Annex XVIII to the Implementing Regulation[28]	Art. 89 General Regulation and Annex X to the Implementing Regulation	Art. 61 General Regulation and Annex VIII to the Implementing Regulation
Individual steps	Check the final expenditure claims from beneficiaries Complete management verifications Ensure reconciliation between final statement of expenditure and accounting records and audit trail down to the final recipient Verify amount of public contribution paid or due to be paid Verify that errors/irregularities stemming from all available verifications and audits (management checks, system audits/on operations audits, other national bodies, EU bodies audits) were corrected Verify correspondence of the financial information included in the final statement of expenditure and in the final implementation report, including list of operations suspended Prepare FIR, following the same structure as AIRs, presenting aggregated data and information for the whole implementing period	Ensure that it receives all necessary information from MA and on all audit results Satisfy itself that all errors/irregularities were corrected, that recovered amounts are repaid and all audit findings and recommendations implemented Draw up the application for final balance and the final statement of expenditure Draw up the final statement on withdrawals and recovered/pending recoveries/irrecoverable amounts Draw up annex to the statement of expenditure on FEIs and State aid	Complete audit work on system audits and audits on operations on the expenditure declared in 2015 and 2016 Verify that MA, IBs, CA work for closure is complete and reliable in particular on management verifications, errors/irregularities, information on the follow up given to audit results Draw up the final control report and closure declaration on the validity of the payment declaration and legality and regularity of the underlying transactions

Source: EPRC and Soumela M (2014) *General principles and the Guidelines on the closure of operational programmes 2007-2013*, seminar, Lisbon 13 May 2014.

At the end of January 2017, i.e. two months before the deadline, **reminder letters** were sent out to all MAs. Submission of the closure package had to be done via the EC's SFC2007 platform by end of March 2017. The EC provided **extensive guidance** on how to do this and how to

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[28] Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R1287&from=EN

complete its constituent documents.[29] After submission, the EC has **five months (i.e. until August 2017) from the date of the receipt** of the FIR to respond to the MS (Art. 67(5) General Regulation). If it fails to respond within the time limit, the report is considered to be accepted. In its response, the EC either confirms its admissibility or provides comments in case it is not satisfied with its content and asks for it to be revised. The FIR will only be accepted if all the comments from the EC have been addressed.

Important differences introduced for 2007-13 included:

- **No extension of periods for eligible expenditure or closure deadlines**. The extension of the period of eligible spending and the deadline for submission of winding-up reports in 2000-06 (in order to maximise the scope for absorption in the context of the financial crisis) had complicated the closure process. For 2007-13, the final date of eligibility and deadline for submission of closure documents were fixed in the General Regulation: no extensions were possible (although there were exceptions to the final dates of eligibility for spending in specific types of operation such as MPs and FEIs).

- **The integration of CF and ERDF closure procedures**. In 2000-06 there were individual closure procedures for CF projects. In 2007-13, the CF has been mainstreamed and the closure of CF projects is addressed as part of programme closure.

3.2 Specific provisions

3.2.1 Provisions to ensure timely and regular spending

- **10% flexibility between Priority Axes**: This allows a programme to overspend 10% in a particular Priority Axis without formally amending the OP, provided it is compensated by an equivalent reduction in another Priority Axis of the same OP. However, this has to be carried out before the end of the eligibility period, i.e. before 31 December 2015. The 10% flexibility option had already been in place in 2000-06, but had originally been excluded for 2007-13. After MS concerns, the option had been reintroduced in the amended version of the General Regulation 1297/2013 of 11 December 2013.

- **Overbooking**: The EC services have on several occasions encouraged MAs to consider overbooking (i.e. the development of a project pipeline that is bigger in volume than the financial scope of the programme) to promote the full absorption of funds and to create a financial 'buffer' or reserve list of projects in case there are subsequent cuts. However, this creates the risk that any approved projects for which there are no more funds available must be financed domestically.

- **Phasing of projects**: MPs and projects with a total cost of more than EUR 5 million can be split across two programming periods. If the projects have two clearly identifiable phases from a physical and financial point of view, they can be phased from the 2007-13 period into the 2014-20 period. MS have to quantify the total amounts of phased projects in their FIR, but do have to provide a list of such projects only upon request.

Of particular importance are **audit** aspects to ensure that any irregularities are not delaying financial absorption.

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[29] For detailed guidance and FAQs on how to submit closure documents via SFC2007 see:
https://ec.europa.eu/sfc/en/2007/support-materials

- **An annual audit process for programmes**. Annual audit results must be reported to the EC as part of the annual discharge of the budget (i.e. the final approval of the implementation of the budget for a specific year, following the audit and the finalisation of the annual accounts). In 2000-06, MS had to carry out regular audits but they only had to report to the EC at closure through the 'winding up' declarations. This approach delayed the closure process as there was limited time to deal with serious issues at the end of the programming period. Having annual audit reporting reduces the scope for surprises: irregularities should be declared and dealt with on an annual basis. In the past, assurance was provided by the closure process. Now there is annual assurance and closure is the final opportunity to settle things. The EC now has good knowledge of the situation in each OP, with an annual indicator of error rates.

- **An error rate based on a statistical sampling of operations every year**. In 2000-06, this assessment of error rates was done on a risk basis (i.e. with audits targeting those projects assessed to be most at risk of error). However, this did not give an accurate, representative picture of overall risk in a programme. There have been increasing suspensions and interruptions in the 2007-13 period because of this stronger annual audit assessments of OPs: around 50% of OPs have been subject to these actions. However, this means that problems are being dealt with on an ongoing basis rather than accumulating at closure.

- **Calculating the residual risk rate at closure**. The residual risk rate is an estimate of the part of the cumulative expenditure declared, for each programme during the entire programming period, which is not legal and regular. The residual risk rate takes account of all financial corrections implemented since the start of the period and the total expenditure declared at closure. Additional work should be envisaged by AA at closure on the need to confirm representativeness of error rates reported and cleaning up of information on expenditure declared in the Annual Control Reports.

- **The single audit procedure**. Where so-called Article 73 status (General Regulation) has been granted to an OP, the EC will be able to draw assurance that the final payment is legal and regular from the work of the AA rather than carrying out its own detailed checks. However, the ECA has noted the risk that the closure process may not effectively ensure that expenditure finally charges to the EU budget is legal and regular.[30] Based on assessments of the closure of the 2000-06 period, the ECA has pointed out that a key element of the success of closure is the reliability of the closure documents (including a final error rate for the programme) and the EC's checks of those documents.[31]

3.2.2 Provisions and guidelines to deal with specific types of operation

There are specific provisions for **certain types of operations**.

- **Major projects**. The identification and submission of new MPs was cited by the Task Force for Better Implementation (TFBI) as a means of improving absorption and facilitating closure. The guidelines included provisions for a project to be implemented in two phases over two programming periods in order to complete the project without compromising its overall scope and avoiding incomplete (non-eligible) projects with the first phase ready to be used for its purpose/function by the deadline of the submission of closure documents. One of the findings of the TFBI was that a common cause for implementation delays and

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[30] European Court of Auditors (2013) *Taking stock of 'single audit' and the Commission's reliance on the work of national audit authorities in cohesion*, Special Report No 16.

[31] European Court of Auditors (2012) *Annual Report of the European Court of Auditors for the 2011 financial year, Chapter 5 (Cohesion)* Section A 'Assessment of closure for the 2000-2006 programming period.

threats to the closure process was insufficient preparation for complex infrastructure projects: In the case of large infrastructure projects, the closure procedures are more complex, involving additional checks on the project before the final payment can be made.[32]

- **FEIs**. The closure guidelines introduced a number of additional reporting requirements for FEIs for the FIR (information on withdrawals of programme resources from FEI; amount of capitalised interest rate subsidies and guarantee fee subsidies; interest generated by payments from the programme and attributable to the SF; information on legacy, including value of legacy resources attributable to ERDF/ESF resources and the date of winding up and accrual of legacy). The additional information to be provided requires changes to be made to the SFC2007 reporting module.[33] FEIs can continue to invest in the real economy throughout 2016, i.e. beyond the final date of eligibility of 31 December 2015. For the MA to have enough time to prepare a complete final report and for the audit authority to have sufficient time to carry out its work for the closure declaration, the EC recommends that remaining investments in final recipients should take place well in advance of the deadline of 31 March 2017.

- **Non-functioning projects**. The closure guidelines also made provision for the treatment of 'non-functioning' projects, defined as either a non-completed project or a project completed but not in use. MSs could on a case-by-case basis include expenditure paid for non-functioning projects in the final statement of expenditure. The total cost of each of these projects had to be at least EUR 5 million; and the EU contribution to these non-functioning projects could not be more than 10% of the total allocation for the OP.

- The guidelines included provisions for other types of operation with specific challenges, notably **revenue-generating projects**. The guidelines covered the estimation of revenue in advance Article 55 and deductions required at closure.

3.2.3 Provisions and other initiatives related to governance and administrative capacity

The regulatory provisions directly related to governance and administration were limited. However, the **strengthened role of AAs** had significant implications for closure, as a dedicated body in charge of OP auditing activities has been institutionalised (Article 62 General Regulation).[34] AAs received a status similar to those of MAs but are independent from them. They moved closer to OP implementation process than before. In this context, the **introduction of annual control reports** has significantly simplified procedures. MSs should no longer declare irregularities at closure, but these should be declared and dealt with on an annual basis. Since there has to be assurance about the regularity of all spending before programmes can close, there remains the risk that **last minute certification of expenditure** will create more closure work and delay the process. In fact, DG REGIO expected last minute certification to happen and that auditors would be looking at the spending in some programmes after the end of March 2017.

A provision aimed at facilitating closure procedures is the **option of partial closure.** OPs can be partially closed at periods to be determined by the MS, relating to operations completed

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[32] European Commission (2016b) *Task Force promotes better use of EU funding*, DG REGIO Newsroom item 31 March 2016, http://ec.europa.eu/regional_policy/en/newsroom/news/2016/03/31-03-2016-task-force-promotes-better-use-of-eu-funding

[33] European Commission (2016c) *Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, Programming period 2007-2013. Situation as at 31 December 2015*. DG Regional and Urban Policy, September 2016.

[34] Davies S, Gross F and Polverari L (2008) *The Financial Management, Control and Audit of EU Cohesion Policy: Contrasting Views on Challenges, Idiosyncrasies and the Way Ahead*, IQ-Net Thematic Paper 23(2), European Policies Research Centre, Glasgow.

during the period up to 31 December of the previous year. This can cover specific operations in a programme and can be performed once or several times during the programming period for the same programme, providing the necessary procedures and documentation are fulfilled (Article 88 General Regulation).

In the context of ensuring an efficient closure process, it is important to note that he EC adopted a **proactive approach to the closure** of the 2007-13 programming period, with an increased focus on training and capacity-building. Hence, DG REGIO is confident that closure will be dealt with more efficiently compared to the past. It set out objectives for closure procedures in its management plan for 2016, including targets for payments to MSs and for the timely adoption of modifications of MPs.[35] It also set itself the **internal target of 31 March 2018**, i.e. to have the closure documents accepted within one year of their receipt.[36]

The key elements put in place by the EC to ensure efficient closure procedures are:

- A **dedicated Closure Unit** (Unit F.1) in DG REGIO, which is also one of five so-called Competence Centres in the DG.[37] The Closure Unit coordinates the closure procedures and provides overall support for MS authorities on closure issues. This allowed the concentration of closure capacities, including experienced staff involved in closure of past programming periods. The decision to do so was based on lessons learned from 2000-06, when closure tasks were spread across different units.
- A so-called **closure matrix** across the DG that is based around the Competence Centre concept and combines staff tasks in geographical units with time spent – usually 10% – in the dedicated Closure Unit.
- **A three-part internal manual for closure procedures** has been prepared by the Closure Unit for DG REGIO staff, looking at the three elements of the closure package. It is mainly targeted at desk officers in the geographical units who will be responsible for closure for their countries.
- There are **internal training courses** for DG REGIO staff organised between January and June 2017. These consist of three modules, looking at the three parts of the closure package.
- A **series of 20 closure seminars** covering 28 MSs in the run-up to closure in 2013, resulting in a questions and answers document available online.[38]

Also, the **TFBI initiative** set up in 2014 delivered a range of capacity-building exercises for eight MSs targeted (Bulgaria, Croatia, Czech Republic, Hungary, Italy, Romania, Slovakia, Slovenia), including seminars, workshops and technical meetings with national authorities. The TFBI developed action plans for each of these MSs, including adjustments in a number of programme and project timetables. Some projects were phased over two programming periods, which means they can now be implemented fully during 2014-20.

In addition to this, DG REGIO's Competence Centre Administrative Capacity Building has been encouraging the exchange of experiences via its **TAIEX-REGIO PEER 2 PEER initiative** (see Box 2).

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[35] DG Regional and Urban Policy (2016c) *Management Plan 2016*, 1 April 2016, p. 15.
[36] European Commission (2013) *Q&A on the 2007-2013 programmes closure*, http://ec.europa.eu/regional_policy/sources/docoffic/official/guidelines/closure_2007_2013/qa_closure20072013_en.pdf
[37] The other four are 03 'Inclusive Growth, Urban and Territorial Development', D.1 'Macro-Regions, Transnational, Interregional Cooperation, IPA, Enlargement', E.1 'Administrative Capacity Building and European Solidarity Fund' and G.1 'Smart and Sustainable Growth'.
[38] European Commission (2013) *Q&A on the 2007-2013 programmes closure*, http://ec.europa.eu/regional_policy/sources/docoffic/official/guidelines/closure_2007_2013/qa_closure20072013_en.pdf

Box 2: DG REGIO's TAIEX-REGIO PEER 2 PEER initiative

The TAIEX-REGIO PEER 2 PEER is a DG REGIO initiative that can contribute to closure capacity. The initiative involves

    a) expert missions where MS experts can be sent to institutions in other MSs that have requested peer advice and exchange of experience on a specific topic;

    b) study visits where participants from a requesting institution can be sent on a working visit to other MS institutions to learn from peers and exchange good practices; and

    c) single or multi-country workshops organised in a requesting institution.

So far, there have been 74 events (end of January 2017), of which two have been on closure:

- 8-9 February 2016, Zagreb (Croatia): Expert mission with 35 participants and experts from the Ministry of Regional Development in Romania and from the Ministry of Finance in Latvia.[39]
- 10-11 October 2016, Vilnius (Lithuania): Study visit involving four participants from the OP Prague (Czech Republic) visiting the Ministry of Finance in Lithuania.[40]

A new initiative from Competence Centre Administrative Capacity Building plans to build in the peer-to-peer approach with 'Communities of Practitioners'.

Source: EC interviews, January 2017. For more information on TAIEX-REGIO PEER 2 PEER see:
http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/taiex-regio-peer-2-peer/

Communication between MSs or programme authorities and DG REGIO is channelled through the **desk officers** responsible for the specific programme. These then direct all requests they cannot deal with directly to other units, e.g. the Closure Unit for closure issues. For the last 6-12 months before the closure deadline these desk officers have been active in supporting MS authorities to get ready for closure.

In terms of audit, DG REGIO has organised **regular technical meetings with AAs in MSs** to share experiences gained on different aspects of assurance building. This process is designed to strengthen the accountability of MSs in the audit process over the programming period (e.g. through the description and assessment of management and control systems at the outset of the period, various levels of controls at national and programme levels during implementation and a final control report in the closure package). For instance, topics covered in meetings in 2010 and 2011 include evaluation of the compliance assessment exercise, specific issues in relation to systems audits and audits of operations, audit approach to FEIs and additional guidance on treatment of errors and reporting in annual control reports and audit opinions. This process has included country-specific meetings with AAs (e.g. in Italy, Spain and the Czech Republic) to address selected issues.

In addition, annual '**Homologues Group meetings**' of national and EC audit representatives have become a useful tool to strengthen co-ordination, exchange best audit practices and jointly reflect on future needs. Recent topics include audit methods on public procurement, FEIs, fraud prevention and State aid. Of particular relevance was the Homologues Group meeting in Riga in September 2015, where 157 participants discussed issues linked mainly to the closure of the 2007-13 programming period. This included clarifications to AAs on the methodology to calculate the residual risk rate at closure.

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[39] http://ec.europa.eu/enlargement/taiex/dyn/taiex-events/library/detail_en.jsp?EventID=60709
[40] http://ec.europa.eu/enlargement/taiex/dyn/taiex-events/library/detail_en.jsp?EventID=62762

A survey of MS authorities conducted by the ECA indicated a rough split between those that saw benefits and those who saw disadvantages in the EC's provisions as compared to 2000-06 (see Figure 6).[41] Almost all the authorities participating in the survey considered that the EC provided the guidelines sufficiently ahead of time to prepare for closure and most found the EC's training and support to be useful. Nonetheless, there were still some uncertainties, related to; whether the verification of the achievement of OP targets should be included in closure declarations; calculation of residual error rate and consequences if it is above the materiality threshold (2%); and, the treatment of FEIs, non-functioning projects and revenue-generating projects.

Figure 6: MS approval of EC support for closure 2007-13, compared to 2000-06

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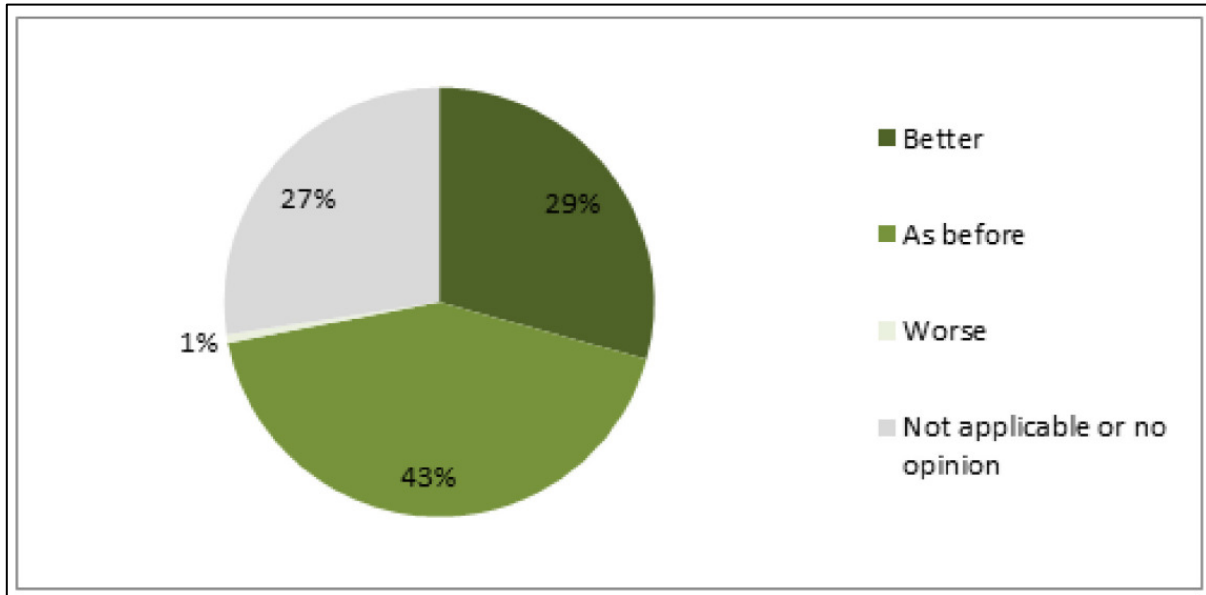
[41] European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*, Special report N°36/2016, p. 49.

4. MEMBER STATE EXPERIENCES

KEY FINDINGS

The research indicates that financial absorption pressures have an impact on the efficiency of the closure process. Programme authorities have taken measures to balance the demands of effective absorption and efficient closure but, generally, a focus on the former has put pressure on the latter. In some cases, it is arguable that these tensions have had an impact on the strategic quality of OPs.

The implementation of certain types of intervention has had implications for the quality of the closure process. This applies particularly to FEIs and MPs, although there are also issues relating to non-functioning projects. EU provisions and MS actions have attempted to address the problems associated with dealing with these interventions at closure but challenges remain, largely related to uncertainties in regulations and guidance and in some cases limitations in capacity and experience.

Across MSs, the quality of the closure process has been determined by the administrative capacity and governance approaches of programme authorities. Efficient programme closure has relied on the coordinated input of actors and structures at EU, national and programme levels at a time when administrative resources are constrained or in flux as a result of the launch of OPs for the next programming period. MSs have developed different approaches to address these tensions.

From 2013, different components of closure preparation could be identified among MSs, most commonly domestic closure guidelines or internal closure deadlines. These preparations evolved at different rates: a 'snapshot' of closure preparations at the end of 2013 in a selection of MSs illustrates this variation (see Figure 7).

Figure 7: Closure preparations in IQ-Net programmes at the end of 2013[42]
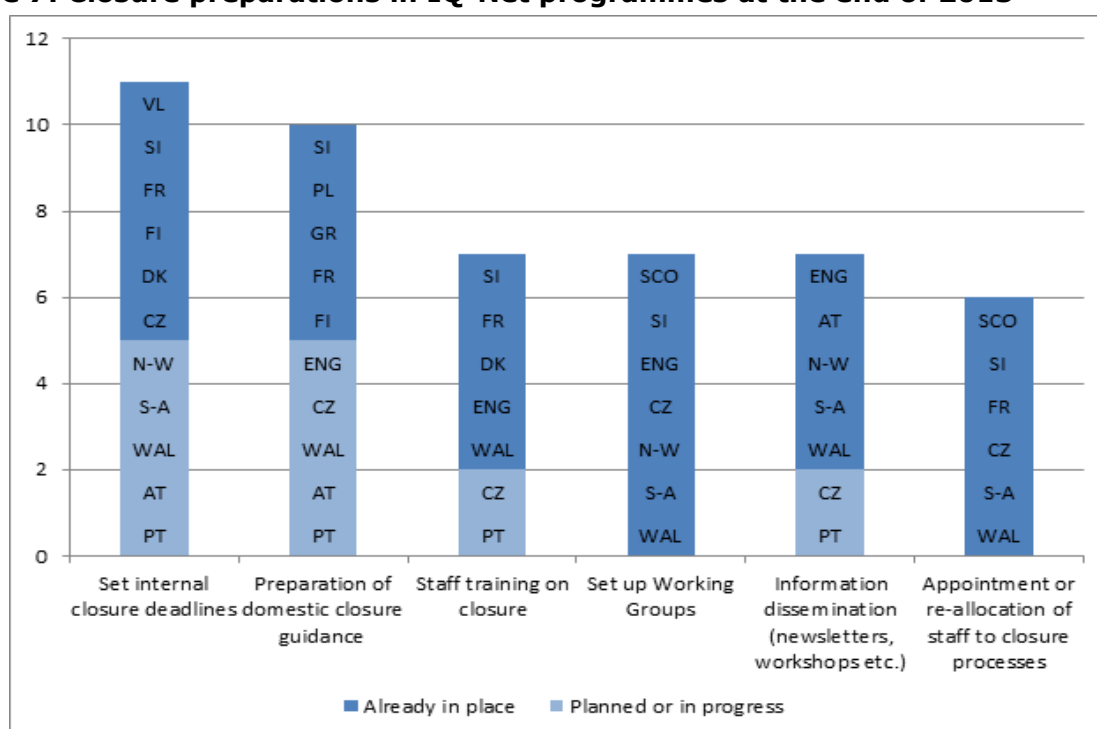
Source: Vironen H, Michie R and Granqvist K (2013) *Focusing on preparing the new programmes – state of play with 2014-20 and 2007-13 programmes*, IQ-Net Review Paper 33(1), European Policies Research Centre, Glasgow, p. 25.

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[42] ENG = England (UK), N-W = North Rhine-Westphalia (DE), S-A = Saxony-Anhalt (DE), SCO = Scotland (UK), VL = Flanders (BE), WAL = Wales (UK).

The evolution of these responses to closure, and their efficiency, were conditioned by different factors: financial absorption pressures (Section 4.1), types of operation (Section 4.2) and governance and administration (Section 4.3).

4.1 Closure and financial absorption pressures

4.1.1 Variation in financial absorption

There is **considerable variation in absorption patterns across MSs**. After a slow start to the 2007-13 period, most programmes caught up in terms of financial absorption.[43] Nevertheless, as a result of these variables, the spending profile of programmes in different MSs varies considerably. Absorption data by year (ERDF, 2013 to 2016), from the EC's database allows the **identification of four different types of MSs**, according to the pace and timing of spending (excluding Croatia).

Group 1 ('**early absorbers**') including around half the MSs (Belgium, Cyprus, Estonia, Finland, Germany, Greece, Ireland Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia and Sweden) had absorbed the bulk of their funding relatively early in the period (see Figure 8).

Figure 8: ERDF absorption 2007-13 – Group 1 'early absorbers'

Source: EC, ESI Funds Open Data Platform, see https://cohesiondata.ec.europa.eu/
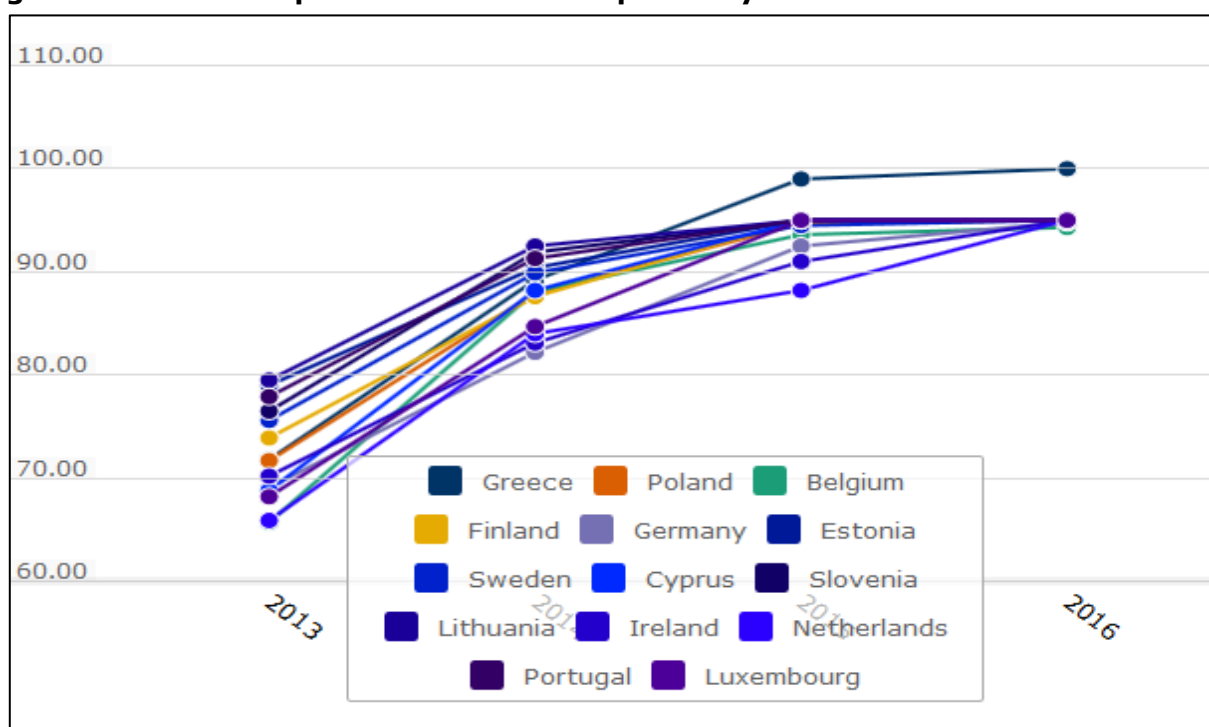
These 14 countries had **already high absorption in 2013** (65-79%) and achieved a very high absorption by 2016 (94-95%, Greece 100%). The absorption curve has been flattening out from 2014.

Some MSs (Group 2 of '**medium absorbers**') saw a steep increase in absorption in 2013-15, but from a reasonable base of financial performance (see Figure 9).

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[43] European Commission (2016a) *Ex post evaluation of the ERDF and Cohesion Fund 2007-13*, Commission Staff Working Document, SWD(2016) 318 final, 19 September 2016, http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_synthesis_report_en.pdf

Figure 9: ERDF absorption 2007-13 – Group 2 'medium absorbers'
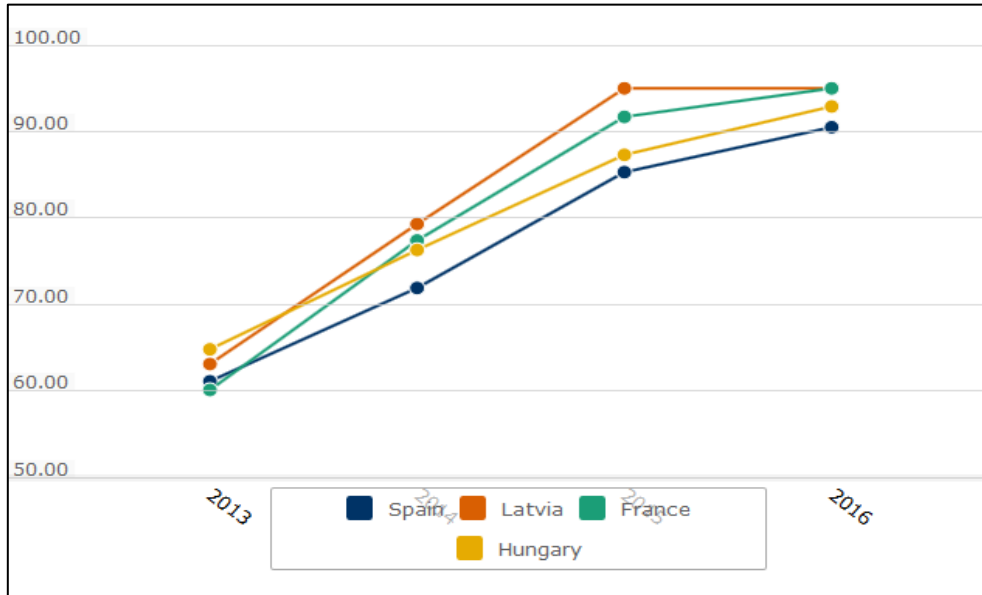
These four countries (France, Hungary, Latvia and Spain) had reasonable absorption levels in 2013 (60-65%), followed by a steep increase of absorption 2013-15, before flattening out to high or very high absorption in 2016 (91-95%).

A third category of MSs started at a **much lower level of absorption in 2013** (48-55%). But Group 3 produced an accelerated absorption performance in 2013 and 2014 so to 'catch up' with other MSs (see Figure 10). With the exception of Malta (88%), these countries managed to achieve very high absorption (95%) in 2016.

Figure 10: ERDF absorption 2007-13 – Group 3 'late absorbers'
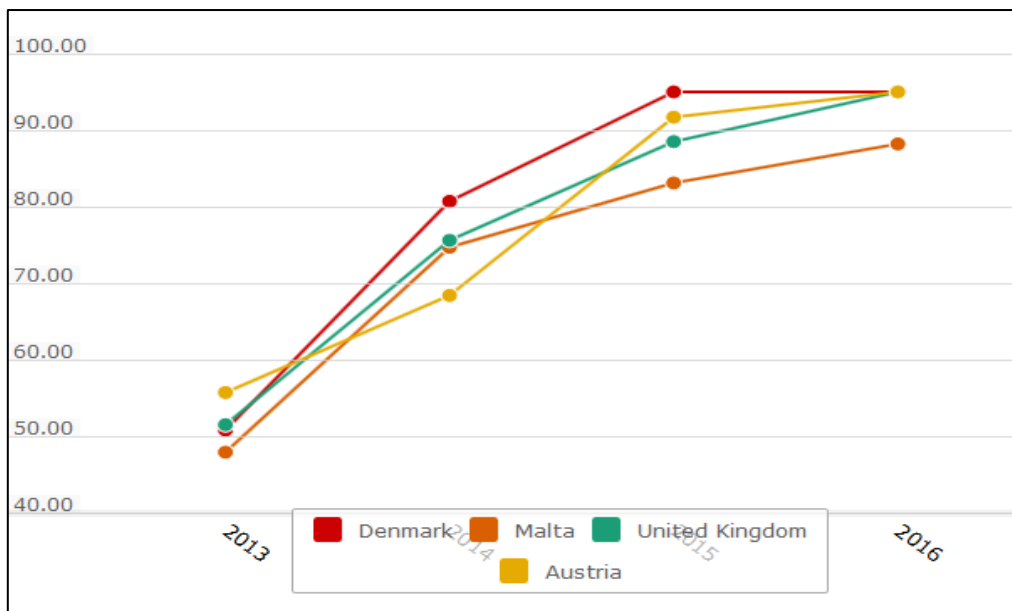
A final category of MSs ('very late absorbers') includes five MSs (Bulgaria, Czech Republic, Italy, Romania, Slovakia). Group 4 started from low (57% in Slovakia) or **very low levels** (37% in Romania) in 2013, but achieved good absorption by 2016 (89-95%) mainly due to **accelerated performance in 2014 and 2015** (see Figure 11). The progress was steady in some MSs (e.g. Bulgaria, Czech Republic), but uneven in others.

Figure 11: ERDF absorption 2007-13 – Group 4 'very late absorbers'

Source: EC, ESI Funds Open Data Platform, see https://cohesiondata.ec.europa.eu/
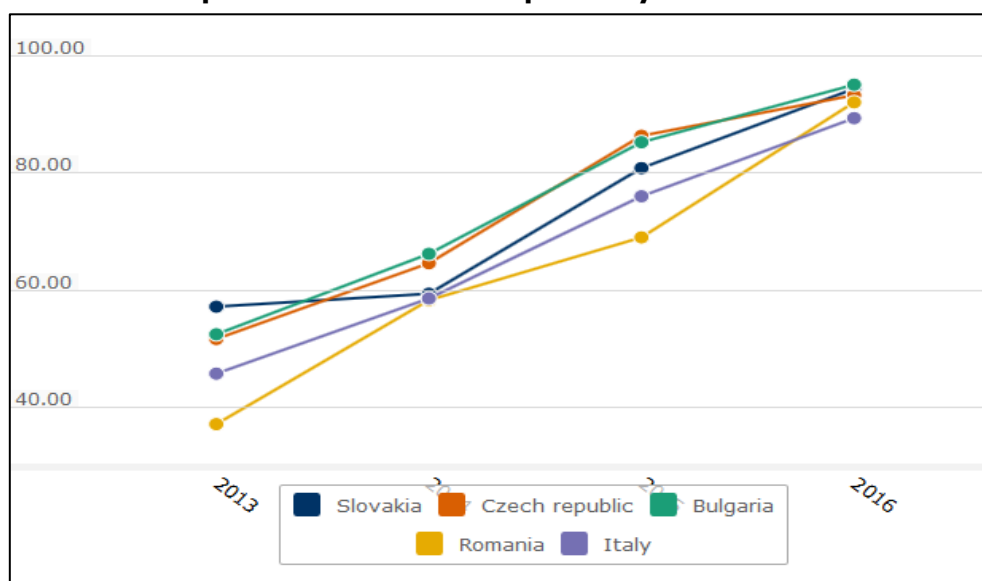
Programme suspensions or decommitments inevitably put pressure on closure processes. For the 2007-13 period, pressure on financial performance was increased by the late agreement on the EU's Multi-Annual Financial Framework for the same period, and consequent delays in the negotiations of the NSRFs (National Strategic Reference Frameworks) and the OPs. Moreover, the late start of the programmes then coincided with the economic and financial crisis. The EC has responded to funding pressures in specific countries by introducing amendments that have an impact on closure processes, e.g. through the TFBI initiative (see Section 3.2.3).

The EC also **extended the decommitment rule** to 'N+3' in Romania and Slovakia, covering 2011 and 2012 commitments, to facilitate absorption and in Greece it approved the early release of the last 5% of remaining EU payments, (normally retained until after the closure of the programmes) to increase the funding available in 2015 and 2016.

In all case study OPs, the N+2/3 rule was found to be of benefit as a motivation for regular spending and for closure, working to limit absorption concerns towards the end of the period. The extension of the decommitment rule in some MSs was largely seen as positive in reducing the financial losses caused by the delays occurred in implementing the projects. Nevertheless, spending was intense in the two years leading up to the deadline for eligible expenditure at the end of 2015. There were various reasons for this: payment suspensions; delays caused by public procurement issues; difficulties with larger investments where there can be various legal issues that delay implementation; or, the time it takes to implement more complex operations, such as urban regeneration measures or research and innovation. Nevertheless, absorption challenges were particularly great in some cases. In Romania and Greece, there has been significant pressure on programme authorities to accelerate spending and reach higher absorption rates for specific OPs.

4.1.2 Responses to absorption pressures at closure

Programme authorities have reacted to these absorption pressures as closure approached and various responses can be identified:

- A common approach was for MSs to **set initial spending deadlines that were earlier than the EC's cut-off date** at the end of 2015. For instance, internal closure deadlines were set in Denmark, Finland, France, Slovenia and Belgium (Flanders), with the intention

of spending all EU funding prior to the EC deadline. Denmark aimed to close all projects by end of 2014; Flanders (Belgium) and France by the end of June and July 2015 respectively. The aim was to give sufficient time to deal with implementation issues and to complete the closure process. However, **these internal deadlines were challenging to meet and dates were usually pushed back to allow maximum time for absorption**. For instance, the internal deadline for spending set by the Finnish authorities was eventually moved from the end of May 2015 to the end of August.

These internal deadlines were often accompanied by **guidance from national authorities** to programme bodies to facilitate full absorption at the end of the programming period. In Finland, for instance, this included advice to IBs: that special attention should be paid to the quality of project implementation plans in order to facilitate a smooth processing of the payment claims and avoid delays caused by requests for clarification; that IBs could consider lump sum payments to facilitate absorption; that IBs should consider preliminary studies or the dissemination of good practice to strengthen the implementation plans project applications; and to consider if the funds could be used in projects implemented by the IBs themselves.

- In some cases, **programme authorities altered OP co-financing rates**. In Pomorskie (Poland), the MA changed the co-financing rate for the OP in 2015 from 75% to 85% in order to improve absorption of ERDF – this did not change funding in real terms but only the money available 'on paper'. In 2015, the ERDF co-funding rate was raised from 40% to 45% in the Western Finland OP in order to reach full absorption.

- **Overbooking and use of the provision for 10% flexibility in the allocation of funds to different OP priorities was considered in all cases to be a valuable measure** to ensure that the funds available were absorbed by the spending deadline. As part of their standard approach to programming, many programme authorities approved more projects than there was funding available, thereby creating a reserve list of projects. The 10% flexibility rule facilitated the use of overbooking by simplifying the procedures for shifting funds between OP priorities. This flexibility allowed programmes to respond to changing circumstances (e.g. the impact of the global financial crisis, differential intervention rates on levels of demand from beneficiaries, changes in available funding due to exchange rate fluctuations, problems with non-functioning projects etc.).

- **Special arrangements made for Greece**. In Greece, the impact of the financial crisis severely limited the availability of domestic co-financing. Difficulties in payments faced in 2015 delayed projects up to six months, leaving very little time for closure. Towards the end of 2015, the Regulation (EU) 2015/1839 amended the Regulation (EU) No 1303/2013 as regards specific measures for Greece.[44] The ceiling for the cumulative total amount of pre-financing and interim payments made, amounted to 100% of the contribution from the Funds to the 2007-13 Convergence and Regional Competitiveness and Employment objectives in Greece. Moreover, interim payments and payments of the final balance were to be calculated by applying a maximum co-financing rate of 100% to the eligible expenditure indicated for Greece in 2007-13. Greece is obliged to establish a mechanism to ensure that the additional amounts for the 2007-13 period made available under the Regulation are used for payments to beneficiaries and operations for its OPs. Greece also had to report on progress with financial performance by the end of 2016 and in the final implementation report. Additional pre-financing was also provided for 2014-20.

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[44] Regulation (EU) 2015/1839 of the European Parliament and of the Council of 14 October 2015 amending Regulation (EU) No 1303/2013 as regards specific measures for Greece, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1839&from=EN

These responses to absorption pressures in the context of closure had little or no impact on the strategic quality of OPs because they covered funding that has been approved by programme authorities. Nevertheless, **there are risks associated with these approaches**:

- **Where overbooking covers a significant level of funding, there is a risk that non-EU funds may be insufficient to cover all overbooked projects**. This is not a significant issue for many MS. In most cases, it is anticipated that there will be enough funding remaining from the 2007-13 period to carry over until the new programmes are launched, including funds being returned by projects, allowing funding to be re-committed. Where continuity is expected in 2014-20 for some of the projects receiving funding, these could continue at the projects' own risk, by spending their money first and EU funds later, as expenditure is eligible from 1 January 2014. However, there may also be a shortage of domestic funding in some MSs to self-fund such transition arrangements. For instance, in Greece, excessive overbooking has been a serious concern in some OPs, especially given the limited alternative funding available, and this has complicated closure processes.

- **Extending the spending deadline puts pressure on certifying and audit tasks as part of the closure process**. Allowing OP spending up to the EC deadline of the end of 2015 inevitably limits the time available for CAs and AAs to check the spending, especially as they work on their parts of closure packages.

4.1.3 Phasing of operations and retrospection of projects

In some case study OPs, two other responses to absorption pressures could be identified:

- **The phasing of operations**. In Greece and Romania, MAs have observed slippages in the implementation timetable of some projects, especially MPs, and the risk that they may not be completed by closure deadlines. In response, they have sought EC approval to split the project in phases, a first phase being implemented within the current programming period and the next phase – completing the project in its entirety – being implemented over the programming period 2014-20. Based on data from the Ministry of European Funds in Romania, in March 2016, around 16 MPs (amounting to EUR 3.9 billion and eligible for EUR 3.2 billion from ERDF and CF) and 14 non-MPs (amounting to EUR 171 million and eligible for EUR 137 million from ERDF and CF) were submitted for phasing approval by the OP Transport to the EC.[45] In Greece, a significant number of MPs were not completed and phasing has been required.

- **Retrospection**. Referring to the award by the MA of an EU grant to an operation which has already incurred significant expenditure or indeed is already complete before the grant is formally awarded. Such projects have normally received funding from national funds. While a potential solution for absorption pressures, the use of retrospective projects creates the risk of not respecting eligibility requirements. This can relate to the selection criteria, publicity rules, timely management verifications and public procurement rules. Issues arising from this mismatch can complicate the closure process.[46] In Romania, due to the slow rhythm of implementation of the OP Transport, in March 2016, several major retrospective projects (six road infrastructure and one rail

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[45] Romania submitted projects for phasing amounting to a total of EUR 8.7 billion. According to a member of the Romanian Unit in DG REGIO, almost half of all phased projects from the EU28 come from Romania. Therefore, phasing is a major stake for the country, with strong implications for the closure of several OPs (Transport, Environment, Economic Competitiveness).
[46] European Commission (2011) *Analysis Of Errors In Cohesion Policy For The Years 2006- 2009: Actions Taken By The Commission And The Way Forward*, Commission Staff Working Paper Brussels, 5.10.2011, SEC(2011) 1179 final.

infrastructure project) were sent to the EC for approval. These amounted to EUR 569 million.[47]

In several respects, **these last two approaches are more problematic**.

- First, they are **bureaucratically difficult to implement and this can have an impact on efficient programme closure**. In Romania, phasing involved several complex internal procedures, reviews of projects and submission for approval to the EC (at the end of March 2016). Given its complexity, phasing was a 'learning by doing' process for both the EC and the Romanian authorities. A specific problem was that projects could not be phased in line with the COCOF (Coordination Committee of the Funds) Guidelines because of Romanian public procurement legislation, as the phasing imposed substantial modifications to the contracts already under implementation. In other words, there was a potential mismatch between the legal norms developed at the EU/national levels and the specific practical and thematic problems faced by those involved in the closure of the programme. Similarly, in Greece there was a great difficulty in organising the phasing of projects. EC guidelines set very strict procedures and discussion between Greek authorities and the EC on how a project could be separated in two phases lasted for a year. Similar implementation challenges were evident for the use of retrospection. In Romania, the MA of the OP Transport and the national AA were involved in assessing if potential projects were eligible for funding under EC rules. Several problems were identified in the initial screening of retrospective projects: lack of correlation between construction authorisations and environmental permits and public procurement deficiencies.[48]

- Second, there are questions about the **impact of these approaches on the strategic performance of OPs**. The contribution of retrospective projects to the strategic objectives of OPs can be questioned as they were not developed in response to OP-specific priorities, funding calls and selection criteria. On the one hand, the phasing of operations can strengthen strategic impact, given the possibility of continuing the implementation of strategic projects beyond closure without placing a burden on the national budget. On the other hand, a potentially negative aspect is that the space for the development of new strategic operations in the 2014-20 period is inevitably constrained.

4.1.4 Simplification and absorption/closure tensions

Finally, it should be noted that **elements of the EC's 'simplification agenda' have not eased the pressures on closure stemming from absorption demands**.

- For instance, **the impact of the EC's 'single audit' principle has been limited**. The EC can give 'single audit' status to specific OPs, confirming that it is satisfied with internal control arrangements and will rely on assurance for AA reports. For such OPs, the EC will not carry out its own 'on the spot' checks. In theory, this simplifies the burden of multiple audits, which are a particular issue at the end of programming periods. The 'single audit' concept is potentially relevant for closure. Where 'single audit' (Article 73[49]) status has been granted to an OP, the EC will be able to draw assurance that the final payment is legal and regular from the work of the AA rather than carrying out its own

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[47] Government of Romania (2016) Response to Parliamentary interpellation 770 on the 'State of EU funds absorption', 4 April 2016.

[48] Government of Romania (2016) Response to Parliamentary interpellation 770 on the 'State of EU funds absorption', 4 April 2016.

[49] Article 73 status means that Commission is satisfied that the national compliance assessment and the AA's audit strategy provide sufficient assurance that the management and control systems of the Operational Programme function effectively.

detailed checks. However, this has not been the case in practice. In 2013, the ECA noted the need for sufficiently robust monitoring of AAs' work for closure. The EC can withdraw or suspend 'single audit' status and it can still impose financial corrections on the basis of AA controls. The incentive for OPs to obtain single audit status has been limited: by the end of 2014, only 76 of the 250 OPs had obtained this status (including 57 ERDF/CF OPs).[50] Moreover, audit work has become more demanding, notably through the requirement that AAs submit opinions based on a statistically representative (and thus larger) sample of checks.[51] Similarly, the **option of partial closure of OPs has had little or no uptake**, at least in part explained by the reluctance of programme authorities to limit the scope and reach of a programme only part of the way through implementation.

4.2 Closure and types of operation

Although raising absorption is a crucial policy objective, a key question remains whether EU funds are used for the most appropriate operations and whether they are successful in meeting the objectives for which they have been designed. This raises the issue of whether the closure process and the push to quickly absorb EU funding can have an influence on shaping the types of operations that are supported, and ultimately, the achievements of programmes. For instance, at the end of programming periods MSs can look to correct the impact of irregular spending several years after the event. In order to effect corrections without risking a reduction in the funding envelope, MSs have to find a sufficient number of eligible projects in the final years of the programming period. There is a danger that they will bypass selection criteria and ignore objective project assessments in order to ensure 100% absorption of the available funds.[52] Different types of operation have different implications for absorption and closure. The following sections focus on three types of operation highlighted in the review of MS experiences: MPs, FEIs and non-functioning projects.

4.2.1 Major projects

Very large projects (including MPs) absorb substantial funding and can be 'phased' over two programming periods but they are particularly administration-intensive because of the special requirements associated with them, including closure requirements. In 2007-13, **there was significant variation across MSs in terms of the number being implemented** and their stage of physical implementation as of 2013. The EC's ex-post evaluation of ERDF and CF (Work Package Zero) for the 2007-13 programmes[53] produced a list of 733 approved MPs implemented by 95 OPs in 21 MSs (see Figure 12). Poland is implementing by far the largest number of MPs in the period (208), followed by Romania (90), Spain (57) and Italy (51).

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[50] European Court of Auditors (2013) *Taking stock of 'single audit' and the Commission's reliance on the work of national audit authorities in cohesion*, Special Report No 16.

[51] Karakatsanis G and Weber M (2016) 'The European Court of Auditors and Cohesion policy' in: Piattoni S and Polverari L (eds) *Handbook on Cohesion Policy in the EU*, Edward Elgar Press, pp. 170-185.

[52] Oroszki J (2014) 'Closure of the 2007-2013 Cohesion and Rural Development Areas', *EStIF* vol. 4, 2014.

[53] European Commission (2015b) *Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and Cohesion Fund (CF) – Work Package Zero: Data collection and quality assessment*, Final Report.

Figure 12: Number of MPs approved 2007-13, by MS
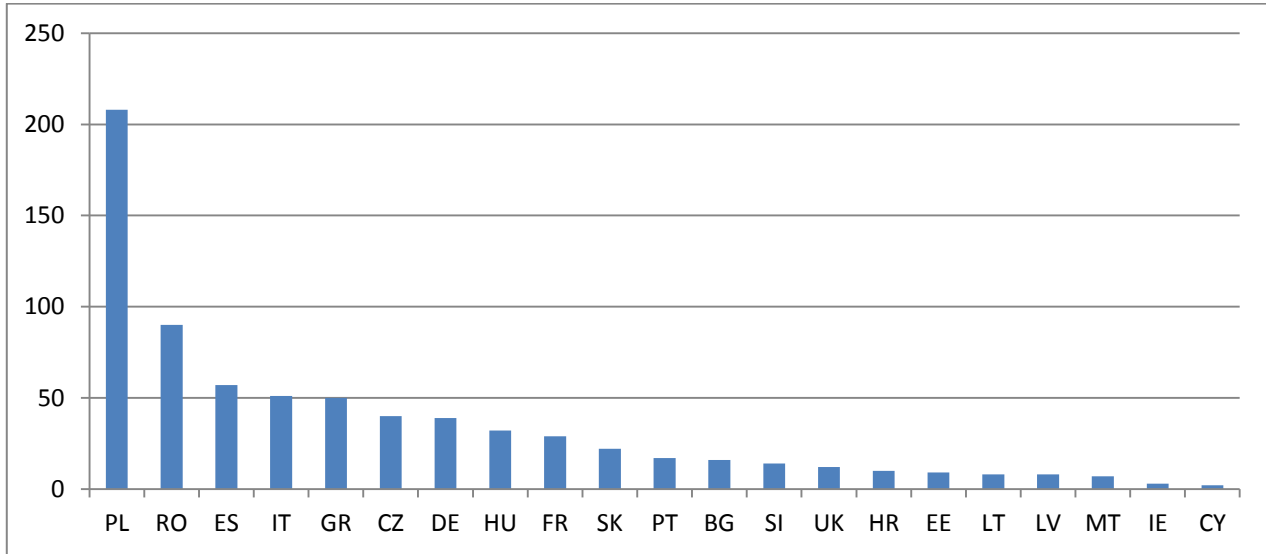
The ex-post evaluation identified a total of 50 approved MPs, where physical work had not yet started by 2013 (see Figure 112 and Figure 13). This corresponds to around 7% of the total of approved MPs, with most located in the EU15. In Italy, even roughly 38% of MPs had not yet physically started (corresponding to 19 projects). Romania and Greece have seven and six MPs each that have not started yet, which accounts respectively for 7% and 12% of the total approved.

Figure 13: Number of approved MPs not started 2013
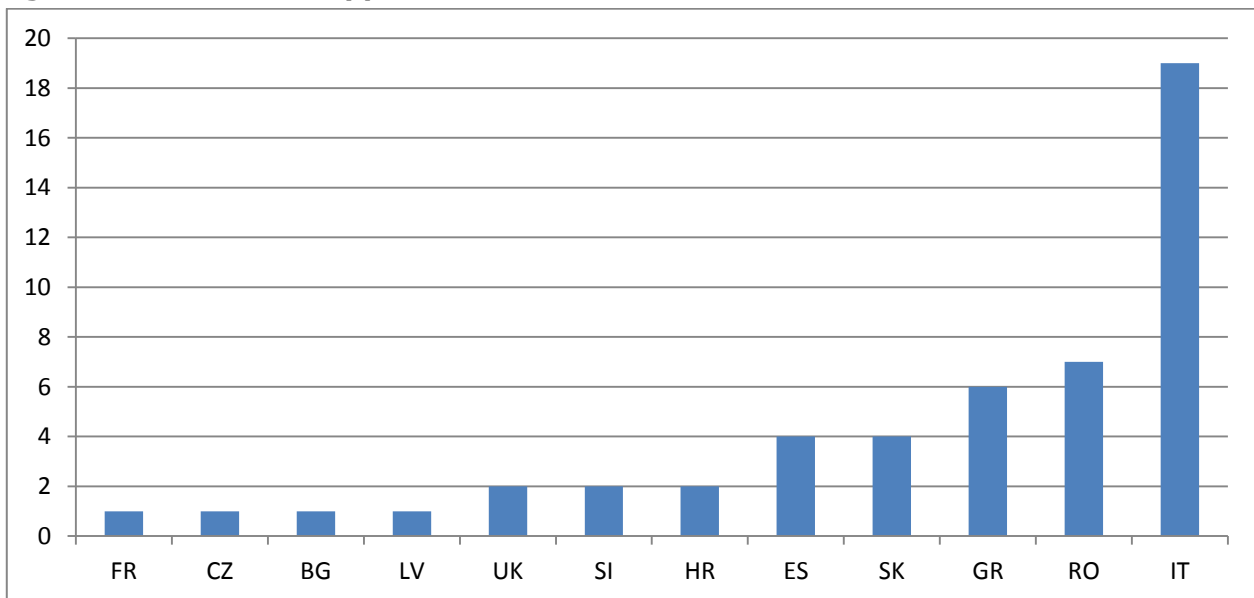
Figure 14: EU funding associated with approved MPs not started 2013
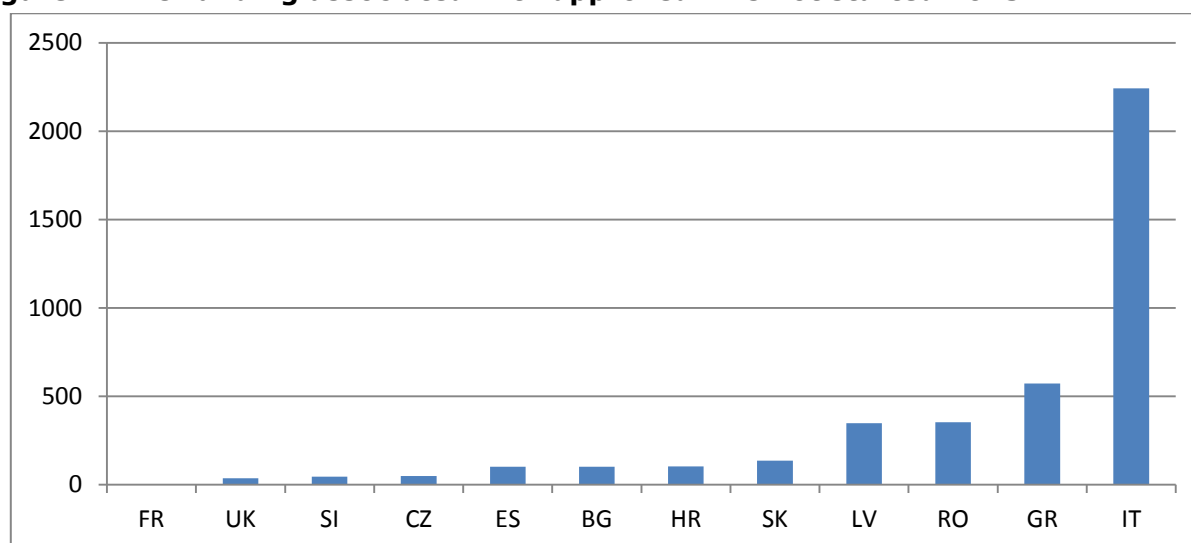
The implementation of MPs in OPs created specific challenges for closure in 2007-13 reflected in DG REGIO's guidance (see Section 3.2.2). Beyond this, DG REGIO continued to provide assistance to programme authorities implementing MPs to ensure a smooth closure process, focussing on ensuring timely adoption of the last requests for MPs' modifications, and helping MAs reach their implementation targets. Nevertheless, programme authorities have faced a number of difficulties in dealing with MPs as part of the closure process, including:

- **Dealing with withdrawn projects**. Given the scale of funding involved, decisions to withdraw MPs have significant implications for absorption, particularly as closure expenditure deadlines approach. In Romania, some major road infrastructure projects have faced technical problems and implementation delays. As a result, in 2015 around 10 main infrastructure projects were terminated, and their funding (approx. EUR 300 million) was transferred, through a governmental decision, to the regional OP. This was also a measure to avoid financial decommitments for the programme, which were estimated in 2015 at around EUR 1.2 billion.[54]

- **Dealing with delayed MPs.** MPs were often subject to implementation delays due to the challenging legal and technical aspects of large investments. In Greece, for instance, some MPs faced problems with financing and implementation in the context of the financial crisis had to be suspended in 2011 and restarted in 2013. Although in the case of these projects it was anticipated that they would be completed by March 2017, MAs had to address the risk that these types of projects would not be finalised before the final period of eligible spending at the end of 2015. Moreover, the regulatory framework for the 2007-13 period contained no deadline for the submission of MP applications and, in practice, no final deadline for the EC to adopt the related decisions. As of 15 November 2016, 19 MP applications from seven MSs were still pending approval by DG REGIO. The associated total eligible cost of these projects was EUR 1 billion and the EU contribution was EUR 854 million. A pending MP decision complicated the closure of an OP, as the MAs and AAs do not know how to deal with the expenditure in question when preparing the closure documents. Pending decisions also create legal uncertainty for the MS. In particular, with the closure deadline approaching, if the EC rejects a MP there is an increased risk that the MS will not be able to replace it with other eligible expenditure,

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[54] Ministerul Fondurilor Europene (2015) *Raportul Annual de Implementare 2014. Programul Operaţional Sectorial "Transport" 2007-2013*, Iunie 2015, București, p. 14.

which may lead to difficulties in fully using up the EU funds by the time of closure.[55] As noted in Section 3.2.1, phasing of MPs is an option for programme authorities but this is accompanied by another set of challenges.

- Finally, it is worth noting that in principle, **some MPs approved before the end of 2012 were at risk of non-compliance with State aid rules** and concerns were raised by the European Court of Auditors that issues could emerge in the course of programme closure.[56] Of the 918 MPs approved by the EC for the 2007-13 programming period, decisions on 440 were adopted before the end of 2012. The Directorate-General for Competition did not systematically verify whether investments in public infrastructure concerned by these projects might involve State aid. Moreover, prior to 2012 and the clarifications provided by the European Court of Justice in a judgment on a State aid case (the Leipzig-Halle judgment),[57] MSs rarely notified the EC about investments in infrastructure. In order to mitigate this risk for the future, the EC strengthened its internal preventive measures and it introduced an alternative approval procedure, including an Independent Quality Review for the 2014-20 programming period. Nevertheless, legal certainty can only be provided for MSs with regard to State aid compliance for major projects on the basis of a MS notification followed by a EC State aid decision.

4.2.2 Financial engineering instruments

The role of non-grant-based instruments has increased significantly over successive CP programming periods. Allocation to FEIs (or financial instruments for the 2014-20 programming period) has been going up continuously from an estimated investment EUR 0.6 billion in 1994-99 to c. 1.3 billion in 2000-06 and to over EUR 17 billion in 2007-13. However, the amounts committed to FEIs varied widely between MSs (see Figure 15).

While the highest levels of OP commitments to FEIs in absolute terms can be found in Italy, Greece, Germany and the United Kingdom, their relative importance is highest in Belgium and Denmark (over 11%), followed by Italy, the United Kingdom and Lithuania.

However, **widespread use of FEIs in domestic policy is not necessarily reflected in the scale of OP commitments** to FEIs. One reason could be that the programme is too small to justify the complex process of setting up specific instruments and repayable support is left to domestic policy (as, for instance, in Flanders). Another reason can be that Structural Funds are investing in particular types of projects (e.g. innovation support) that are perceived to be less suitable for the use of FEIs, even though repayable support is an established part of domestic economic development policy (as, for instance, in Austria).[58]

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[55] European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*, Special report N°36/2016.

[56] European Court of Auditors (2016) *More efforts needed to raise awareness of and enforce compliance with State aid rules in cohesion policy*, Special Report No 24, p. 62.

[57] Judgment of the Court (Eighth Chamber) of 19 December 2012. Mitteldeutsche Flughafen AG and Flughafen Leipzig-Halle GmbH v European Commission. Appeal - State aids - Concept of 'undertaking' - Economic activity -Airport infrastructure construction – Runway. Case C-288/11 P, http://curia.europa.eu/juris/liste.jsf?num=C-288/11&language=EN

[58] Wishlade F and Michie R (2014) *Financial instruments in 2014-20: learning from 2007-13 and adapting to the new environment*, paper presented 'Challenges for the New Cohesion Policy 2014-20: an Academic and Policy Debate', Riga, 4-6 February 2014.

Figure 15: Absolute and relative commitments to FEIs in 2007-13
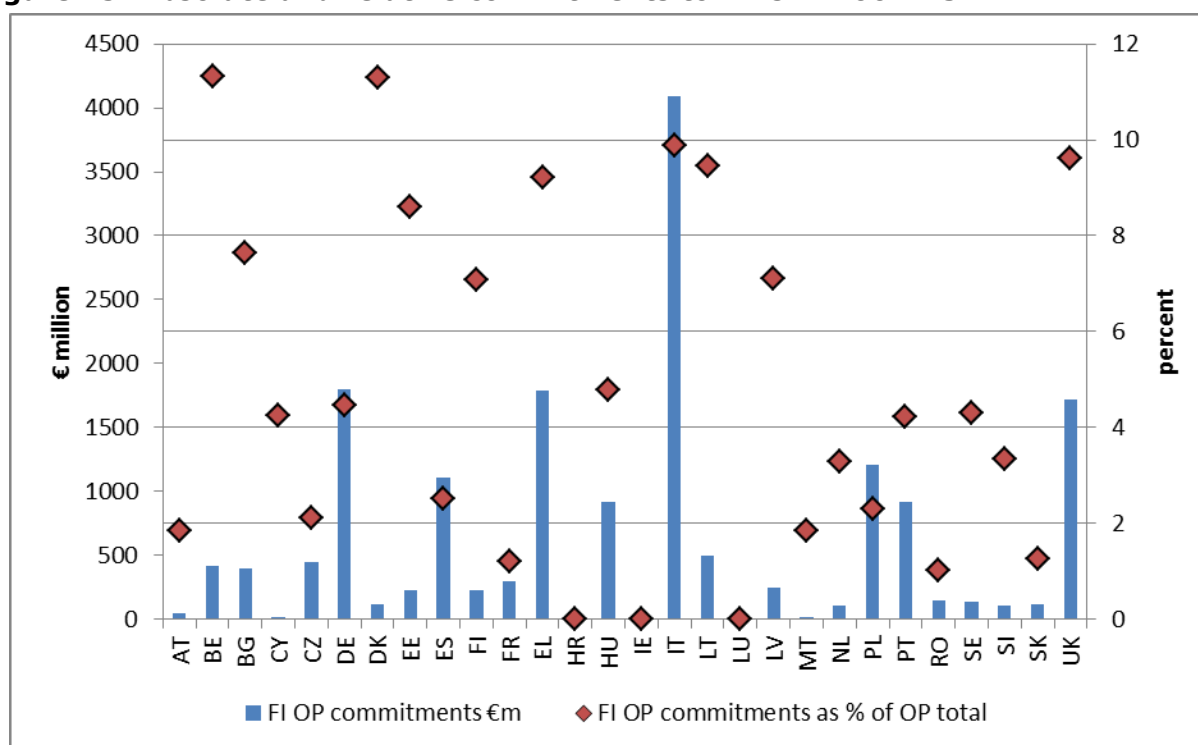
Source: Wishlade F and Michie R (2014) *Financial instruments in 2014-20: learning from 2007-13 and adapting to the new environment*, paper presented 'Challenges for the New Cohesion Policy 2014-20: an Academic and Policy Debate', Riga, 4-6 February 2014.

Increased allocations for FEIs have been cited as a solution to absorption pressures and closure issues by the EC in 2007-13. For instance, it urged the MA of the Integrated OP in the Czech Republic to look into the possibility to use some of its remaining allocation for FEI activities.[59] However, there are specific technical requirements and challenges related to these at the closure stage (see Section 3.2.2). As they give the possibility of using the same funds several times through various revolving cycles, closure applies to FEIs in a specific way. In 2016, the EC noted that as closure approached, there was an increased risk that amounts committed to FEIs would not be fully absorbed at the end of the programming period and that continued efforts will be needed to improve implementation in order to avoid losses at the end of the period.[60]

Programme authorities have experienced several challenges in incorporating FEI-specific requirements in the OP closure process. These include:

- **Impact of extension of deadlines on FEI spending on closure.** Programme authorities have taken advantage of the later deadline for spending under FEIs (financial support can be provided to final recipients until 31 March 2017). However, this has had an impact on the closure procedure as programme authorities struggled to factor in sufficient time to allow the CA and AA to complete their work on time.[61]
- **This tension has been exacerbated by the complexity of FEI closure tasks, especially where knowledge, experience and administrative capacity is low.** Programme authorities have found that the closure of FEIs requires more administrative effort than for more straightforward operations, especially where the experience of

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[59] European Commission (2016b) *Task Force promotes better use of EU funding*, DG REGIO Newsroom item 31 March 2016, http://ec.europa.eu/regional_policy/en/newsroom/news/2016/03/31-03-2016-task-force-promotes-better-use-of-eu-funding

[60] DG Regional and Urban Policy (2016) *2015 Annual Activity Report*, 27 April 2016, p. 31.

[61] Vironen H and Lehuraux T (2016) *First signs of growth: progress with the 2014-20 programmes*, IQ-Net Review Paper 38(1), European Policies Research Centre, Glasgow, p. 28.

implementing and closing FEIs is limited. In this context, EC guidance has not always been helpful. The EC has produced a range of documents and guidelines for FEIs but there has still been some uncertainty, for instance concerning cut-off dates for reporting reflows from initial investment as part of the closure process. Some programme authorities found that EC guidance on how to fill in closure templates for FEIs was communicated too late (in February 2017).

- **There have been specific pressures in the audit of FEIs at closure**. The auditing of FEIs has proven to be complex, requiring specific competences, particularly in the final phase of programmes where assessments of the performance of the instruments is carried out. On the one hand, AAs were not required to audit FEI expenditure during the programming period. Taking into account the complexity of the process and the limited time available given the extended spending deadline, the ECA noted the risk that this expenditure would not be checked adequately for eligibility at the time of closure.[62] It should be noted that in the 'Questions and Answers' document on closure[63] for the MSs, the EC acknowledged this time pressure and recommended that the CA sends the last interim payment claim (including the expenditure that will be certified at closure) to the AA by 30 June 2016 to enable it to perform the necessary audit work. On the other hand, some programme authorities have found the focus on audit of FEIs excessive. The requirements concerning the reporting of FEIs as part of closure have grown over time and are considered by some as too demanding. In Poland, a fundamental issue has been a lengthy EC audit of FEIs which was succeeded by a thematic audit by the Polish AA. Checks have been continuous, meaning that the focus has been on procedural correctness rather than strategic implementation.

4.2.3 Non-functioning projects

For most programme authorities covered in the research, **dealing with non-functioning projects was not seen as an important issue for the closure process**. In most cases, non-functioning projects would have been closed down during the programming period. However, in Greece, a number of projects (about 10-12 projects) will be declared as non-functioning. The main reason is that those are projects from 2000-06 that cannot be phased. For the OP Transport in Romania only one project (Baia Mare airport) has been included in an official non-functioning project list.[64] However, it is possible that more projects will be added. In these cases, the benefits of including the expenditure paid for non-functioning projects in a final statement have to be balanced with the obligations of funding the remainder of the projects from national resources, monitoring these projects closely and reporting to the EC on a six-monthly basis and accepting the risk that **EU funds may have to be reimbursed if projects are not complete by the March 2019 deadline**.

4.3 Closure and governance & administration

4.3.1 Variation in administrative capacity

Closure can bring capacity challenges for MSs, particularly where the quality of governance is low. Figure 16 shows a map of the variance of the European Quality of Government Index (EQI) at NUTS 2 level.

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[62] European Court of Auditors (2017a) *An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes*, Special report N°36/2016.

[63] European Commission (2013) *Q&A on the 2007-2013 programmes closure*.

[64] Ministerul Dezvoltării Regionale, Administrației Publice şi Fondurilor Europene (2017) *Aprobarea listelor proiectelor nefuncţionale conform prevederilor Hotărârii Guvernului nr.678/2015 privind închiderea programelor operaţionale finanţate în perioada 2007-2013 prin Fondul European de Dezvoltare Regională, Fondul Social European, Fondul de Coeziune și Fondul European pentru Pescuit*, 27 February 2017.

Figure 16: European Quality of Government Index (EQI) 2013
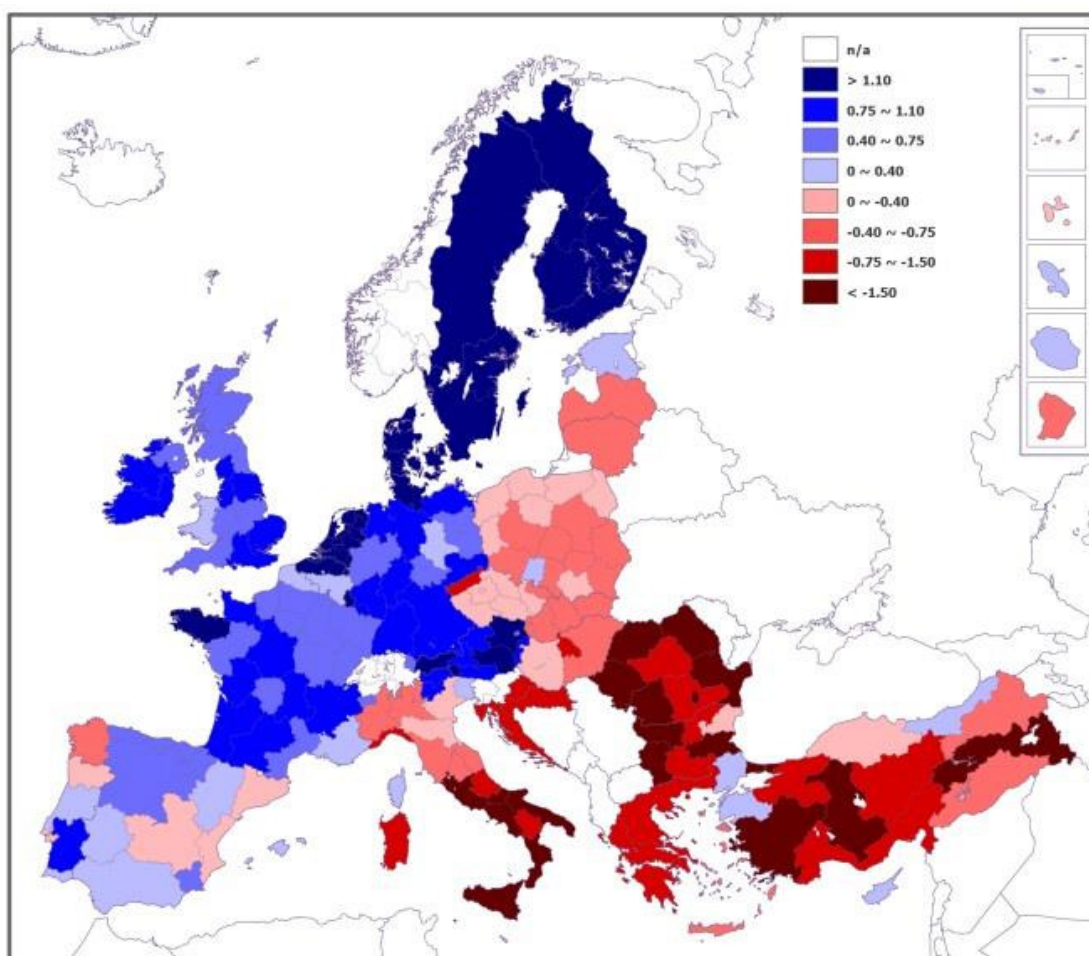
Source: Charron N, Dijkstra L and Lapuente V (2015) 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions', *Social Indicators Research*, vol 122 (2): 315-346, see also https://nicholascharron.wordpress.com/european-quality-of-government-index-eqi/

Variation in the quality of governance can express itself in three different areas: the creation of suitable closure-related **structures**; the ability to provide adequate **human resources**; and the use of **systems and tools** assisting with the closure process.

Structures: a clear assignment of responsibilities and tasks to institutions, specifically at the level of departments with programme responsibilities. This can involve:

- setting up dedicated units for closure (e.g. Czech Republic, Wales, England). In Wales, a project closure group involves key stakeholders to strengthen ownership and track the way risks are being managed. In England, a Closure Technical Working Group operates at working level while a Closure Operational Policy Assurance Group takes strategic decisions on closure at the senior level.

Human resources: the ability to detail tasks and responsibilities at the level of job description; estimate the number and qualifications of staff and fulfil the recruitment needs; timely availability of experienced, skilled and motivated staff.[65]

- Providing specific training, workshops (England, Finland, Germany, Portugal, Slovenia, Wales).
- Some authorities are appointing a closure manager to ensure a coherent approach within the various teams (Denmark, Scotland).
- Others are allocating staff to the process (Czech Republic).

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[65] European Parliament (2013) *Op cit*.

Systems and tools: the availability of instruments (methods, guidelines, manuals, etc.) that can enhance the effectiveness of the functioning of the system. For closure, this can include tasks relating to:

- Drawing up an initial risk register, both programme and project related. For instance, this can include the creation of a risk rating system or risk profiles for the approval of projects in the final years of the programming period.
- Creating Action Plans and setting timetables, with deadlines for claims from project sponsors generally being set in so that MAs have time to deal with the remaining issues at programme level.

4.3.2 The governance of closure processes

Effective programme closure depends on the timely input of EU, national and programme levels. The challenges of managing the programme closure process include the development of timetables and coordination arrangements across different levels and approaches vary, depending on existing administrative arrangements, the size and scope of programmes etc. MSs and programme authorities developed various mechanisms and structures to strengthen coordination in 2007-13 (see Box 3 for an example from Finland).

Box 3: Closure timetable in Finland

The Finnish closure timetable was communicated to all involved bodies in a series of closure letters. The last communication finalising the timing was sent on 25 June 2015.	
31 August 2015	End of financial support to projects which do not fall under the categories below.
31 October 2015	End of financial support to projects managed via the Finnish Structural Funds system EURA 2007.
31 December 2015	End of financial support to business aid and technical assistance projects.
31 December 2015	End of the eligibility period • Eligibility check of payments done • All payments to the projects made • Any possible additional payments due to adjustment requests made Payment applications processed and paid (including corrections)
28 February 2016	All projects above can be closed if • all payments have been made; • all implementation reports and a final report have been submitted and marked as 'finalised'; and • on-the-spot inspections have been completed or are in progress.
25 March 2016	The recoveries of payments made before 31 December 2015 shall be paid back to the intermediate bodies. The recoveries of payments made after 1 January 2016 shall be paid back at the first instance.
30 April 2016	All projects shall be closed in the data management systems.
31 October 2016	Decisions on the latest findings of project and system inspections.
31 March 2017	Closure documents need to be sent to the EC.
31 December 2021	Project documentation including documentation on accounting shall be stored until this date.

Source: Interview with Finnish programme managers, March 2017.

(i)   Coordination between programme and national level

In most cases, **national government bodies responsible for coordinating CP management and implementation were involved, feeding into the development of EC closure guidance**, developing domestic guidance and coordinating the closure process across OPs.

- In Germany, the first steps on closure taken at federal level, i.e. the Federal Ministry for the Economy and Innovation (which is responsible for coordinating Germany-wide issues on CP, especially the ERDF) asked the MAs of all programmes to provide them with any questions they have on OP closure, so that these can be discussed with the EC. National government bodies were also involved alongside the EC in the organisation of a series of workshops across MSs on issues relating to OP closure.

- The United Kingdom Closure Group, which drew up a Closure Pack in a broadly common United Kingdom format. Within this, a Wales-specific closure pack was produced, tailored for each Fund and programme. There was a phased approach to testing and implementing the guidance, starting with the Urban Community Initiative as a pilot.

In France, closure guidance was developed by the Home Affairs Ministry (National Coordinating Authority for the 2007-13 period) in November 2013 (see Box 4).

Box 4: National closure guidance in France

National guidance refers to a non-binding ministerial guideline asking the MAs (directly under the authority of the Ministry for that period) to:

- Designate one person in charge of closure tasks within the Europe Unit (e.g. Haute-Normandie hired a person on a 6-month contract to manage the closure process)
- Create a working group that ensures regular monitoring and programming of closure tasks
- Establish a rewinding calendar for closure tasks
- Follow specific advice regarding monitoring of certain projects (large projects, FIs, revenue-generating operations, 'sleeping' operations) and other procedural good practices (e.g. regular reminders to beneficiaries)
- Circulate 'Operation Control Report' as they are issued during the second semester of 2015 (as opposed to transfers all at once)
- Closure indicator: Rate of paid and archived operations (e.g. specific monitoring instruments created in Picardie)
- Scoreboards monitored by the National Coordinating authority:
  - Monitoring of 'sleeping' operations
  - Monitoring of payment of public co-funding
  - Monitoring of operations without 'Operation Control Report' and/or certificate for payment
  - Monitoring of under-implemented operations
  - General progress (not implemented, not paid)

Source: Interview with French programme managers, March 2017.

(ii)   Coordination between MA, AA and CA

At programme level, MAs often initiated **coordination arrangements** that drew together other key bodies involved in closure: AAs, CAs and IBs.

- A first step in this process often involved **MAs interpreting the EC closure guidelines and, if necessary, preparing additional written advice for the OP implementing bodies**. Some MAs collected closure questions internally and from CA and AA, and have sent these to national authorities.

- To facilitate information dissemination, **working groups were set up in several MSs, either at national or programme level, or existing working groups were used to discuss closure issues** at regular meetings (e.g. United Kingdom, Germany, France, Romania). These working groups brought together the partners involved in closure, mainly AA, CA, MA and IBs. In Romania, a formal Inter-Institutional Working Group led by the Ministry of European Funds supervised the closure of national OPs. This working group was composed of heads of MAs, IBs, CA and AA. In Wales, the MA re-established its own Closure Group (in 2008), alongside a United Kingdom Working Group, to keep closure on the programme management agenda. By mid-2016, the MA, CA and AA in Wales were meeting monthly. This increased to fortnightly from January 2017 and from March 2017 moved to a short meeting every other day. However, it should be noted that the establishment of these groups did not automatically guarantee smooth coordination: there were still challenges in developing a common approach to different aspects of the closure process, where MA and CA interpretations of EC guidance varied.

- **Close proximity of MA and AA representatives facilitated informal coordination**. In Pomorskie (Poland) and Bavaria, representatives of the AA share the same building as the MA. Being physically located in the same building when the closure documentation is prepared and uploaded helped to get issues resolved quickly.

4.3.3 Administrative capacities and programme closure

(i)   Capacity issues

A fundamental area of concern for closure related to capacity issues, covering both who is there to carry out the tasks, and how much accurate information there is to make sure the tasks are completed properly. The problem is acute both where **programme authorities are managing the closure of the 2007-13 OP and the launch of the 2014-20 OP simultaneously**. For instance, the first full AIR for 2014-20 has to be produced at the same time as the FIR for 2007-13. The issue can be seen as a 'vicious circle' where limited capacity causes delays in closure, which impact on launch of the next OP, which again creates delayed closure etc. The 'overlap' issue also works in both directions in different contexts: in some cases it means that **administrative focus turns to launch of the new OP**. It is inevitable that the attention of programme authorities, beneficiaries and other stakeholders turns to the opportunities and demands coming from the new period, leaving little capacity to execute closure processes correctly and efficiently. In other contexts, particularly where closure is difficult or delayed, **focus on closure impedes the launch of new OPs**. Potentially, administrative resources can be stretched simultaneously across four programming periods: closing some residual 2000-06 OPs, closure of 2007-13 OPs, launch and implementation of 2014-20 OPs and input into post-2020 thinking and debates. **There has also been a strain on administrative capacity for AAs** as in some cases late spending and delayed approval of new OPs meant that closure tasks coincided with systems audits for 2014-20 programmes.

These pressures are exacerbated in specific programme contexts:

- **Where MSs have not been involved in closing a programming period yet** (e.g. Romania) or where it is the **first time for a MA** to carry out a complicated technical set of tasks (e.g. Pomorskie).

- **Where higher levels of staff turnover among MAs mean that institutional memory has been lost.** Having long-term staff who remember the 2000-06 period is found to be invaluable in terms of knowledge and experience of the technicalities involved in closure but also in ensuring OP documentation is complete and consistent.

- **Where staff time is limited by requirements to contribute to audits, evaluations etc.** External audits (e.g. by the EC) created a significant additional burden for some MAs as they prepared for closure, particularly when this coincided with domestic audits (e.g. Pomorskie).

- **Where management tasks are transferred between organisations. This can cause disruption to the allocation of closure responsibilities and the availability of other resources that are crucial for closure, particularly record storage**. In Scotland, programme management was reorganised part-way through the 2007-13 programming period with closure of the programme secretariats and centralisation of their function within the Scottish Government. This necessitated a reorganisation of record keeping arrangements. In Greece, a transition arrangement was required to facilitate closure of the Accessibility OP as the MA shifted to the Ministry of Development from the Ministry of Transport for the 2014-20 period.

- **Where domestic reforms lead to organisational change and staff transfers.** For instance, in the United Kingdom (England), a process of centralisation or in France, a process of decentralisation. This can mean the abolition of some structures, the creation of others and substantial turnaround of staff.

(ii) *Responses by programme authorities*
MSs have taken different steps in response to these pressures:

- **Recruitment**. In some German *Länder*, additional staff were recruited in advance of 2015 because the MA and IB expected the workload to increase. However, the workload is significantly higher even than had been anticipated. Moreover, it is challenging to recruit temporary staff who have the necessary experience and expertise for closure. In Wales, the AA hired agency workers as well as giving some existing staff exclusive closure duties: one new agency person who spent 95% of their time on closure work plus two permanent team members. In France, some MAs introduced new fixed-ended contracts to deal with closure issues, compensating for staff transferred to the MAs for the launch of 2014-20 OPs.

- **Outsourcing**. To alleviate the workload, some partners have chosen to externalise some closure tasks, such as certification (e.g. some MAs in France).

- **Switching the focus of work over time**. For specified periods, some programme authorities have switched the focus between closure of 2007-13 OPs and launch of 2014-20 OPs. In Greece, in 2015 for instance emphasis was given and resources were committed to the launch of the 2014-20 OP. In autumn 2016, the focus shifted to closure.

- **Review of record keeping where there has been organisational change or staff turnover**. In some cases, such as Scotland and Wales there has been discussion of the possibility of reorganising records within government, to safeguard project sponsors records when projects were wound up.

- **Appointing closure managers or 'champions**. In order to guarantee some focus on closure while staff are also engaged on the launch and implementation of the new OP. In some cases, programme authorities identified networks of closure managers or 'champions' to become the main point of communication on closure, to be responsible for disseminating information within MAs, CAs and AAs and to be the expert on the closure process within each unit. This approach was introduced to ensure that consistent messages were being delivered (e.g. Wales).

4.3.4 Administration of specific closure tasks

(i)   Optimal absorption

- **Targeting projects at risk of non-completion.** In North Rhine-Westphalia, the MA established a working group responsible for identifying projects at risk of not being completed and for finding ways of accelerating payments, including ensuring that payment claims are submitted. In Wales, there has been a structured approach to identifying projects at different stages of completion (see Box 5).

Box 5: Closure of projects at risk of non-completion in Wales

The Welsh European Funding Office (WEFO) organised a 'closure week', held in July 2015. This involved identifying a set of projects which were on the verge of closing, with all involved staff working in a dedicated way only on closure of those projects for that week. This concentrated approach was found to be helpful. Leading on from the closure week, three 'closure meetings' were held in July, August and September 2015. These identified approximately 60 very overdue projects and invited all relevant internal staff to a special session. A whole day was blocked out for each session with a ten minute slot allocated for each project. Relevant staff discussed problems related to closure (e.g. open issues, issues causing delay, actions to be taken). The aim was to come up with an Action Plan for each project with a realistic timescale and to identify any issues which needed to be addressed, such as lack of resources, difficulties obtaining information from project sponsors and decisions required by the MA's senior management team. This is assessed by WEFO to have worked very well and it strengthened internal communication on closure.

Source: Interview with Welsh programme managers, March 2017.

(ii)   Settling accounts, ensuring regularity, legality

- **Taking a proactive approach.** To avoid an excessive closure task at the end of the period, programme authorities in Western Finland and Flanders (Belgium) have taken a proactive approach to closure and tried to close projects throughout the programming period ('stagger' closure). In Scotland and Wales, programme authorities embarked on a campaign of quality assurance when closing individual projects, hoping that timely and tidy closure at project level will translate to similar at programme level. In Wales, the MA had a closure checklist which they could use when projects finish claiming, so checks were done on an ongoing basis.

- **Ensuring audit capacity.** It is important to reiterate the demands on AA capacities during closure. The EC has stated that most AAs have the capacity to provide reliable audit results. However, it also emphasises the need to ensure sufficient capacity, particularly during closure.[66] As already noted (see Section 3.2.3), the EC pursues capacity-building activities for AAs: the organisation of fora for exchanges on audit issues, targeted training on request etc. National arrangements are also in place to help build audit capacity. In Italy, the national IGRUE (national coordination of all AAs) disseminated guidance documents, circulated documents from the EC, participated (alongside regions) in the Homologues group and disseminated that documentation also. Nevertheless, the need for ongoing capacity-building across MSs is evident. For instance, a recent report by ECA noted a significant level of non-compliance with State aid rules in 2007-13 programmes. Almost 20% of CP projects with State aid relevance were affected by State aid errors. At the same time, audit authorities in the MSs detected infringements at a far lower rate than either the EC or the EU auditors. MSs found errors in just 3.6% of relevant projects, while the EU auditors detected more than five times as many using a similar methodology.

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[66] DG Regional and Urban Policy (2016a) *2015 Annual Activity Report*, 27 April 2016, pp. 101-102.

(iii)   Writing and submitting the closure package documents

Administrative arrangements also had to be made for writing and submitting the FIR. All three closure documents were to be submitted to the EC via SFC2007 by the deadline. This required coordination between MA, CA and AA. In MSs with complex programme architectures, close coordination at national and OP level for submission was important. In several MSs national authorities collected FIRs and submitted them jointly to the OP. In Germany, the *Länder* MAs wrote their own FIRs, but all were jointly submitted to the EC from the federal level. Within this, Nordrhein-Westfalen submitted a draft closure report to the EC in 2016. A similar approach took place in Austria. In the United Kingdom, the Department for Communities and Local Government (DCLG) was MA for all ERDF OPs in England and locally based teams responsible for delivering the programmes submitted their contributions to the FIR. At the same time, MAs in Scotland, Wales and Northern Ireland prepared FIRs. In some MAs in France, the production of the FIR was outsourced.

(iv)   Emphasis on communication

The **closure process can be seen as one of the key opportunities to disseminate the results through the final report submitted at closure**.[67] There is evidence that programme authorities are increasingly aware of the communication advantages of closure documents, although there are caveats linked to administrative resources.

For instance, **Bavaria has produced a 'closure brochure' on the achievements of programme** (see Box 6). In Wales, a **Welsh Government minister announced for the first time that 100% of the money earmarked in the programme will be drawn down**. This opportunity for positive communication is attributed to aspects of the closure provisions, notably the 10% flexibility mechanism.

Nevertheless, in several cases, the **closure process has limited actions related to communication and visibility, due to the focus on procedural correctness in the closure process or lack of dedicated resources** (e.g. Finland).

Box 6: Communicating programme closure in Bavaria

> The Bavarian ERDF MA decided to use programme closure as an opportunity to communicate the achievements of the 2007-13 OP. Using the contents of the FIR, it produced a brochure targeted at the general public. The brochure takes stock of investments under each of the programme's five Priority Axes and illustrates these with one or two concrete project examples.
>
> However, it does not specifically mention the actual closure of the 2007-13 programming period, as it was thought to be difficult to communicate to the wider public how a programme that ran until 2013 would only be finished in 2017. The brochure is available for download and is used for public events. It has been sent to all members of the Bavarian Parliament and to Bavarian members in the EU Parliament.

Source: Interview with MA of the Bavaria OP and
https://www.stmwi.bayern.de/fileadmin/user_upload/stmwi/Publikationen/2017/2017-04-12_EFRE_RWB_Abschlussinfo.pdf

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[67]   Rodríguez Sáez V (2013) 'Closure 2000-2006: state-of-play and lessons learnt', *INTERACT Newsletter*, Autumn 2013.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The overall assessment of the research is that the formal **closure of ERDF and CF programmes in 2007-13 was carried out in an efficient manner**. The research for this study was carried out as closure packages were being compiled and submitted to the EC, so while it is able to provide a positive assessment of the formal process of submission it cannot assess EC reviews of the closure documents themselves. The desk research and fieldwork interviews in MSs demonstrate broad satisfaction with the guidelines provided by the EC and the additional support supplied. Generally, MSs were satisfied with their own arrangements for the formal process of assembling and submitting closure packages.

The research argues that beyond this formal process, closure should be perceived as an integral part of programme implementation: influencing the allocation of remaining resources; in securing and raising awareness of programme achievements and legacies; and, in supporting an efficient transition to the next programming period. It identifies three issues that can condition closure, both in terms of the formal process and in relation to this broader strategic role in programme implementation: financial absorption; types of intervention; and administrative capacity/governance.

The aim to absorb the maximum available funding before the spending deadline put pressure on the closure process. For some MSs, programme closure in 2007-13 was more challenging than in 2000-06 due to the impact of the economic crisis: lack of liquidity has led to slower project implementation and this in turn put pressure on closure as programme authorities struggled to absorb funds by the deadline for eligible spending. However, this pressure has been eased by the regulations (notably the 10% flexibility rule) and closure management strategies among MSs (including the use of 'overbooking'). The special measures to facilitate absorption (e.g. Greece) were valued in terms of efficient closure.

The implementation of FEIs and major projects has had implications for the quality of the closure process. Programme authorities have experienced several challenges in incorporating FEI-specific requirements in the OP closure process: the impact of extended deadlines on FEI spending; the complexity of FEI closure tasks, especially where knowledge, experience and administrative capacity was limited; and specific pressures in the audit of FEIs at closure. In the opinion of some MS, the EC guidance on these issues was not provided early enough. Programme authorities have faced difficulties in dealing with delayed or withdrawn major projects as part of the closure process. These interventions are associated with significant levels of funding and implementation often involving complex legal and technical issues. Phasing has been pursued by MS as a means to alleviate pressures at closure and strengthen strategic impact by continuing the implementation of strategic projects beyond closure. On the other hand, phasing involves several complex administrative procedures that complicate the closure process. For most programme authorities covered in the research, dealing with non-functioning projects was not seen as an important issue for the closure process.

Across MSs, the quality of the closure process has depended on the administrative capacity and governance approaches of programme authorities. Generally, programme authorities were managing the closure of the 2007-13 programmes and the launch of the 2014-20 programmes simultaneously. In some cases, this overlap meant that administrative focus turned to launch of the new OP. In other contexts, focus on closure impeded the launch of new OPs. Potentially, administrative resources can be stretched simultaneously across four programming periods: closing some residual 2000-06 OPs, closure of 2007-13 OPs, launch and implementation of 2014-20 OPs and input into post-2020 thinking and debates. The crisis also

had an impact on the administrative capacity of programme authorities as public administration budgets were cut and staff numbers fell. Closure demands strong coordination, not just across programming periods but between EU, national and programme levels and between MA, IB, CA and AA at programme level.

More specific challenges are related to ensuring: optimal absorption of funds at closure; regularity, legality in closure documentation; and, effective arrangements for compiling and disseminating closure packages. A key challenge was ensuring sufficient capacity for AAs. The use of annual closure reports were generally viewed as positive in simplifying the closure process, providing assurance to the EC and easing the burden on MAs and AAs at the end of programming periods. Nevertheless, AA work is particularly intense at closure. A range of measures have addressed these challenges at MS level: advance planning for closure early in the programming period; proactive approaches to the identification and closure of potentially difficult projects; outsourcing or recruitment of additional staff for closure tasks; and establishing dedicated posts or structures as closure 'champions' to ensure the issue is prominent across programme fora.

5.2 Recommendations for closure in 2014-20

5.2.1 For EU-level institutions

EC closure guidance was valued by MSs in 2007-13. The EC's Q&A approach to developing closure guidance for programme authorities was deemed particularly helpful. **However, programme authorities noted that to be effective it has to be provided at an early stage in the programming period to allow programme authorities to put arrangements in place**. Moreover, there is need for clarity and consistency in guidance on specific issues where regulations are complex. There were some issues of coordination and interpretation of rules between the EU and MS representatives and between MA and AA on closure. Key issues to consider include guidance on the treatment of FEIs and State aid issues (particularly those involving major projects) during closure.

There is considerable variation in the timetables set for closure, among MS, OPs and between programme authorities. Given this, EC guidance should lay out closure steps with more clarity. This should incorporate differentiated timetables for different programme authorities, recognising the fact that the intensity of the closure work for MA and AA varies at different stages of the closure process. Moreover, it should differentiate for specific types of intervention, for instance the research emphasised the importance of setting a deadline for EC approval of major projects to avoid issues with unapproved projects late in the programming period that account for substantial amounts of funding.

The EC's efforts to build capacity for closure should continue, especially for AAs. For instance, pressures on the capacity of AAs at closure should be eased by the requirement for programmes in 2014-20 to close the accounts and submit the assurance package by a set annual deadline. This provides an incentive for MSs to address issues immediately faster in order to be able to include related expenditure in the accounts. This should facilitate closure in 2014-20. Nevertheless, the role of AAs in OP implementation, including closure increased significantly in 2007-13 and is likely to do so again in 2014-20 and this warrants dedicated capacity-building initiatives from the EU level.

Beyond financial performance, closure processes should be more closely tied to the actual achievements of programmes. Reporting on the achievement of targets is a required part of the closure package. However, the amount of the final payment is not directly linked to the actual achievement of outputs and results. Although programme authorities were clear on

the potential financial consequences of errors or irregularities in closure documentation, the relationship between the reporting of achievements and the EC's approval of closure submissions was less clear. Linking closure more closely to the reporting of programme achievements and outputs would fit with emerging ideas to move CP towards more direct performance budgeting based on financing more closely tied progress in implementation or the achievement of objectives of programmes in Article 67(1)(e) of the Common Provisions Regulation. Moreover, a stronger emphasis on programme outputs in the closure process would strengthen efforts to communicate CP achievements and raise awareness of its impacts 'on the ground'.

5.2.2 For Member States and programme authorities[68]

MS guidance, support and structures should be established, building on or working alongside EU-level support for closure. The establishment of working groups (e.g. the Closure Group in Wales) helps to keep closure on the programme management agenda. MS input is important in providing tailored support for closure in specific national and programme contexts. This can involve setting internal closure deadlines that take into account specific programme architectures or the distribution of administrative responsibilities and capacities. It can also relate to the establishment of closure-related groups and/or the production of a closure 'pack' for OPs that coordinate programme authorities and facilitate the dissemination of guidance and knowledge exchange.

For the MA, it is recommended that closure is seen as an issue for the lifetime of a programme, not just for the final years. Work to facilitate closure should begin at the start of the programming period, for instance by obtaining copies of project sponsor's document retention policy and ensuring that EU rules on document retention are understood and being implemented properly by project sponsors.

There is a need to ensure that closure remains a priority for programme authorities and project sponsors so that sufficient time is committed to the process. Closure must be seen as part of ongoing project management in the MA. For instance through: the early establishment of a programme closure Group and/or 'champion' to keep closure on the programme management agenda; developing a project plan to establish targets for numbers of projects the MA aims to close per month and for identifying 'problem' projects at an early stage. These issues can be discussed at regular project management meetings. It is useful to keep closure as a 'stand-alone' agenda item at meetings (for example, closure can be an agenda item for the MA's risk management group, with its own risk register in relation to closure).

Close coordination between programme authorities involved in closure is recommended. Close formal or informal interaction between MA, AA and CA is beneficial for closure. This can be achieved through joint participation in formal closure meetings or through informal interaction through regular contacts.

MSs and programme authorities must ensure that sufficient capacities are available for closure. Given that administrative tasks associated with closure are substantial, and the fact that much of the work is concentrated in the key period of transition between programming periods when organisational flux and staff turnover often occurs, it is important that programme authorities allocate sufficient resources to effective closure. This requires careful management

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[68] While the United Kingdom is still in the EU, the English Department for Communities and Local Government will continue to manage the 2014-20 England ERDF OP in compliance with the ESIF regulations. The arrangements and timing for closing the programme will be subject to a Withdrawal Agreement, which will be negotiated with the EC in the future. Different options can be envisaged: programmes run full course with domestic support and close at end of 2014-20; or, programmes close at Brexit, in which case special provisions would be needed.

of human resources in MAs and AAs: training of staff and the development of relevant systems and tools to facilitate closure (databases to track the progress of projects, guidelines, manuals, systems, procedures, forms etc.); or the engagement of external staff (e.g. experienced consultants) for fixed terms to facilitate closure.

The United Kingdom is an exceptional case. Arrangements for closure will depend on the Withdrawal Agreement to be negotiated following the triggering of Article 50 in March 2017. The two-year withdrawal process provided for in the Treaties indicates that the programming period will be shortened in the UK and this will create significant challenges, depending on the timing and content of Article 50 withdrawal negotiations. Three related issues can be identified.[69] First, the negotiation of an end date for programme eligibility and the extent to which the established regulatory procedures around N+3 and programme closure will be applied is vital. Whilst programme allocations could be ended at the time of Brexit, rules regarding eligible expenditure mean that spending in UK regions could continue to be reimbursed by the EC for three years after the final eligibility date. Programme closure packages would be submitted two years after the final eligibility date in agreement with the EC. Second, programme closure in the context of Brexit is additionally complicated by audit requirements that continue beyond the end of the programming period and hence beyond the UK's EU membership. Issues concerning verification, on the spot checks, document retention, revenue generation and FEI resources and possible recoveries of EU funds in cases of irregularity will run beyond the closure of programmes. This raises questions of who will be responsible for financial management and control of EU funds after Brexit?[70] Third, it is important to note that these issues will be played out in a context of institutional and organisational flux and reduced administrative capacity as UK programme authorities break up and shed staff.

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ANNEX 1: QUESTIONNAIRE FOR MEMBER STATE PROGRAMME AUTHORITIES

LIST OF QUESTIONS FOR THE MA

Closure procedures

1. What is the **current 'state of play'** of closure for your programme? At what stage are the individual elements of the closure package?

2. Are there any **domestic guidance documents** for closure? If so, can we receive a copy?

3. What formal or informal **arrangements are in place within the authority** to deal with closure processes (e.g. specific structures, human resource arrangements, systems or tools)?

4. What formal or informal arrangements exist to ensure **coordinated procedures between the main authorities** involved in closure, such as MAs, CA and AA, but also the Monitoring Committee? For instance, dedicated working groups, regular (in)formal meetings, regulate mailings etc.?

5. Is there a **domestic timetable** for closure? If so, can we receive a copy?

6. What is your **overall impression** of the closure process so far in 2007-13? How does it compare to 2000-06 [if you have been involved in the closure of past programmes]?

7. A number of changes in substance, form and procedures were introduced for 2007-13. From your perspective, which are the **most important changes** [if you have been involved in the closure of past programmes]?

Financial absorption

8. How are **absorption pressures** linked to the closure process having an impact on the strategic quality of the operations selected (e.g. through the use of 'overbooking', retrospection, reallocation of resources to OP priorities to improve spending)?

9. What role is the **automatic decommitment** rule (N+2 and N+3 rule) playing in the closure process?

10. What is the impact of specific **Commission initiatives to strengthen absorption**,
    a) the 'phasing' of operations,
    b) the option of 10% flexibility between Priority Axes,
    c) the simplification agenda (e.g. partial closure, the single audit procedure) and
    d) the extension of the decommitment rule (N+2/3) for some countries?

11. What **lessons** were learned concerning absorption pressures and closure processes from the 2000-06 period [if you have been involved in the closure of past programmes]?

Type of operation

12. To what extent is the **choice of operations** towards the end of programming periods driven by closure requirements and, if so, is this undermining the strategic impact of programmes?

13. To what extent are closure challenges related to **specific types of interventions**? For instance:
    a) Major projects
    b) Financial engineering instruments
    c) Revenue-generating projects
    d) Non-functioning projects

14. What **lessons** were learned concerning types of operation and closure processes from the 2000-06 period [if you have been involved in the closure of past programmes]?

Governance and administrative capacities

15. At the closure stage, are there tensions between the **emphasis on audit and financial accountability on the one hand and administering the programme** on the other? (e.g. if there are repeated audits, could these have an impact on the availability of resources for implementing the programme itself)?

16. Can you describe any issues with the **coordination** of closure processes? For instance:
    a) At domestic level (between MA, CA, AA)?
    b) Between the domestic level and the EU level (e.g. via Closure Unit, Desk Officers etc.)?
    c) At EU level (e.g. between Commission services, ECA)?

17. Do **changes in the programme architecture and management tasks** in your country pose problems for closure (e.g. 2007-13 MAs no longer involved in 2014-20)?

18. To what extent are programme authorities (MA, CA, AA) overburdened due to **overlapping programming periods**?

19. To what extent does your specific **type of programme** (e.g. in terms of budget size, sectoral or territorial orientation) or delivery approach (e.g. centralised, regionalised) create particular administrative demands on closure?

20. What impact are Commission initiatives to **boost governance and administrative capacities** having on your closure processes? For instance:
    a) Commission-led training, seminars, TAIEX PEER 2 PEER
    b) the TFBI initiative [if applicable]
    c) any other tools, procedures, systems?

21. To what extent can the governance of closure processes include actions related to the **communication and visibility of Cohesion policy achievements** (e.g. by using the content of the Final Implementation Report)?

22. What **lessons** were learned concerning governance approaches, administrative capacities and closure processes from the 2000-06 period [if you have been involved in the closure of past programmes]?

Conclusions

23. To summarise, what are the **main challenges** of programme closure 2007-13?

ADDITIONAL QUESTIONS FOR THE AA

1. To what extent does audit put a **strain on administrative capacity at programme level** during the closure process (e.g. internal and external closure audits)?

2. What has been the impact of the **rolling audit approach** introduced in 2007-13 with annual the submission of annual control reports simplified the closure process?

3. Please describe any **coordination issues in closure audits** (e.g. between MS Audit Authorities, Commission, ECA)? For instance in terms of different means of reporting and collecting the results of different internal and external audits, identification and treatment of irregularities etc.?

4. To what extent does the **audit of specific types of operation** have implications for closure (e.g. FEIs, major projects etc.)?

5. Did you carry out an audit of your country's **closure procedures** or of the MA's closure arrangements? If so, what were the results?

6. Have you been involved in the **Homologues Group**, e.g. at the meeting in Riga in 2015? If so, what were your experiences of participating in the Group?

ANNEX 2: LIST OF INTERVIEWED EU AND MEMBER STATE AUTHORITIES

Interviews have been carried out between January and April 2017, both in person and by telephone.

EU level

DG REGIO Unit A.3 Budget and Financial Management
DG REGIO Unit C.1 Coordination, Relations with the Court of Auditors and OLAF
DG REGIO Unit E.1 Administrative Capacity Building and European Solidarity Fund
DG REGIO Unit F.1 Closure and Major Projects
DG REGIO Unit F.2 Austria, Germany and the Netherlands
DG REGIO Unit F.3 Poland

Member State-level

MS	OP	Fund(s)	Organisation and role
Germany	Bavaria	ERDF	Bavarian State Ministry for Economic Affairs and Media, Energy and Technology (MA) Bavarian State Ministry for Economic Affairs and Media, Energy and Technology (AA)
Finland	West Finland	ERDF	Finnish Ministry of Economic Affairs and Employment (MA) Finnish Ministry of Finance (AA) Regional Council of Central Finland
France	Centre	ERDF	State's Regional Office (Préfecture) in Centre-Val de Loire (MA) Public Finance General Directorate (Economy and Finance Ministry) within the State's Regional Office (AA)
Italy	Lombardy	ERDF	Audit Authority of the Lombardy ERDF and ESF OPs 2007-13
Greece	Reinforcement of Accessibility	CF & ERDF	National Coordination Authority, Special Service for Coordination of the Implementation of OPs Financial Audit Committee (EDEL), Directorate of Planning and Evaluation of Audits
Romania	Transport	CF & ERDF	Romanian Ministry for Regional Development, Public Administration and European Funds – Directorate General for Large Infrastructure Programmes (MA) Romanian Court of Accounts (AA)
Poland	Pomorskie	ERDF	Marshal Office of the Pomorskie Region (MA)
United Kingdom	West Wales and the Valleys	ERDF	Welsh European Funding Office, Programme Performance and Finance (MA) Welsh Government, Office of the First Minister and Cabinet Office (AA)

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