

Follow-up actions taken by the Commission with regard to the suggestions of the Ombudsman in her decision closing the own-initiative inquiry concerning the timeliness of payments

Ref.: OI/11/2015/EIS

1. Background

In June 2015 the Ombudsman launched an own-initiative inquiry on the *timeliness of payments made by the Commission under direct and indirect management modes*, asking to be informed of the results of the steps taken to identify and deal with the causes of delays in making payments to contractors and to beneficiaries of grants and subsidies. The Ombudsman requested in particular to obtain information for 2014, on the number and percentage of cases where delays in payment occurred, on the extent of the delays that occurred, on the sums involved and on the cases where interest was paid on account of late payment.

In its reply of 30 September 2015 the Commission provided the requested information and identified as main causes of the increased late payment averages for 2014, the shortage of payment appropriations and the reduction of payment deadlines introduced since the beginning of 2013 with the entry into force of the new Financial Regulation.

On 5 February 2016 the Ombudsman requested supplementary information that would allow for a more useful pursuit of the inquiry, on the following topics: time-limits for payments, suspended payments, default interest and the inspection of files relating to specific samples of late payments and suspensions of payments.

In April 2016 the Ombudsman's representatives carried out inspections of files relating to late payment cases and/or suspensions in eight Commission DGs and one executive agency.

In June 2016 the Commission provided the requested information in a detailed analysis of statistical data and input provided by an extensive number of Commission services.

On 19 December 2016 the Ombudsman decided to close the inquiry with the following suggestions:

A. The Commission should further pursue its effort to:

- Accelerate the registration of invoices, which is the first step of the payment process;
- Better coordinate financial and operational checks;
- Further develop paperless submissions and paperless circuits;
- Investigate what further adaptations are possible in order to meet the needs of smaller operators;
- Ensure that the number of successive requests for clarifications sent to beneficiaries is limited to what is strictly necessary; and
- Manage staff mobility in order to minimise the negative consequences of excessive staff turnover.

B. The Commission should publish more information on its gross payment time in its Annual Activity Report.

The Ombudsman also noted her wish to be informed by the Commission of any action taken in relation to her findings by 30 June 2017.

2. Reply from the Commission

Payment time statistics for 2016

The table below provides an overview of payment time statistics for 2016 and 2015 along with a comparative analysis between the two years. Overall, figures indicate a general improvement in the management of the payment process in the Commission resulting to faster payments in general and a lower number of late payments in particular.

Table A: Analysis of payment time statistics

	2016	2015	Var. 2016 vs 2015
Net payment time (all payments under direct and indirect management mode)	21.4 days	24.2 days	-14.4%
Invoice registration time	3.7 days	4.9 days	-25.5%
Total number of payments	363 590	379 220	-4.1%
Number of late payments	43 956	67 805	-35.2%
Percentage of late payments in number	12.1%	17.9%	-32.4%
Total value of payments (in EUR)	30 227 527 174	26 667 043 774	13.4%
Value of late payments (in EUR)	2 526 517 113	2 471 888 543	2.2%
Percentage of late payments in value	8.4%	9.3%	-9.8%
Average delay for payments outside the legal time limits	39.1 days	34.5 days	13.3%
Number of requests for interest submitted by creditors on account of late payment	82	364	-77.5%
Total amount of interest paid on account of late payment (in EUR)	685 645	2 064 949	-66.8%
Interest paid on account of late payment upon request (in EUR)	155 922	1 076 028	-85.5%

Source: ABAC Datawarehouse

Registration and processing of invoices

The net payment time in 2016 has decreased by 2.8 days compared to 2015 reaching an all-time low of 21 days. This has been the combined result of efforts towards the optimization of both the invoice registration process and the actual processing of invoices and payment claims.

The average registration time in 2016 has been 3.7 days compared to 4.9 in 2015 showing a decrease by 25% (1.2 days) and bringing the average close to half the recommended registration time of 7 calendar days. Commission services with the highest average registration times in 2015 have improved their average registration time significantly.

Hence, the average time for the actual processing of invoices and payment claims has been reduced by 1.6 days compared to 2015.

The afore-mentioned improvements have been the result of efforts to centralise invoice reception and registration and the development of on-line tools for the submission of payment claims and the necessary supporting documentation of invoices. In addition, there have been further shifts from sequential analysis of reports by operational and financial agents to a parallel analysis with common deadlines and optimizations of the payment process and payment circuits allowing also for dealing with staff shortages.

The number of late payments in 2016 has decreased, compared to 2015, both in absolute and in relative terms. In absolute terms, there has been a decrease of 35.2% whereas in relative terms (thus taking into account the fact that the total number of payments made had been lower), there has been a decrease of 32.4%.

The value of late payments compared to 2015, has experienced a slight increase in absolute terms of 2.2% whereas in relative terms (thus taking into account the fact that the value of all payments made had been higher), there has been a decrease of 9.8%.

Improvements in late payment statistics have been the result of more rigorous monitoring of open invoices through the development of more sophisticated and automated reporting tools that trace invoices/payment claims approaching deadlines and send reminders and alerts to relevant actors.

Tools, procedures and mechanisms developed and put in place by different services across the Commission aimed to reduce net payment time and reduce late payments are presented in the Financial Units Network (RUF: Réseau des Unites Financières) allowing for exchange of practices. It is however important to keep in mind that the particularities and specificities of the underlying operational activities of the different Commission services are a limiting factor to an across-the-board implementation of such practices.

DG BUDGET has also developed an online corporate tool enabling, through ex-post analysis of payment statistics, the identification of peak periods and potential bottlenecks in the payment process for each Commission service.

Staff turnover

With regard to the negative impact of excessive staff turnover on payment delays the Commission notes that such occurrences are rather exceptional and can hardly be attributed to mobility as such. Excessive staff turnover is mostly attributable to reasons other than mobility like retirements, unpaid leaves on personal grounds, long-term sickness leaves and maternity leaves (extended or not).

The Commission considers that the mobility of staff can be beneficial to both the Institution and the individual, when properly managed. As staff mobility in the Commission has not reached the desired levels it is encouraged and facilitated as it remains voluntary (with the exception of sensitive posts and management posts where it is compulsory after a certain period).

Adaptations to meet the needs of smaller operators

The financial regulation, since its last revision, opened additional possibilities for the use of more simplified forms of grants (lump sums, unit costs and flat rates) instead of reimbursement of eligible costs provided that the nature of the actions and underlying expenditure would allow such an approach. The more extensive use of simplified forms of grants alleviates substantially the administrative burden on the beneficiary in preparing their payment requests (which may be disproportionate for smaller operators) as the trigger for the

payment is simply the execution of pre-specified activities by the grant beneficiary. At the same time it alleviates the services of the responsible authorising officer from the administrative burden related to extensive financial and operational verifications and enables faster processing of payment claims and a lower likelihood of suspensions.

However, despite the fact that the possibilities to use simplified forms of grants are offered, their actual use remains limited for several reasons the most important one being the need for an authorisation by a Commission decision adopted by the College (beyond a certain threshold), which is a relatively long and burdensome procedure that also slows down implementation.

The Commission has tabled a proposal for the revision of the Financial Regulation in 2016. One of the main aims of the proposed revision is to introduce provisions that encourage a more extensive use of simplified forms of grants.

Suspensions of payments

The table below provides an overview of statistics on suspensions for 2016 and 2015 along with a comparative analysis between the two years. Overall, figures indicate a general improvement in the management of suspension in the Commission resulting to a lower number of suspensions and a shorter suspension period.

Table B: Analysis of suspension time statistics

	2016	2015	Var. 2016 vs 2015
Total number of suspensions	25 256	26 511	-4.7%
Average suspension time (for all suspensions under direct and indirect management mode)	45.2 days	51.8 days	-12.7%
Gross payment time (for all payments under direct and indirect management mode)	24.9 days	28.6 days	-12.9%

Source: ABAC Datawarehouse

The number of suspensions in 2016 decreased by 4.7% compared to 2015. The decrease in the average Gross payment time has been by 3.7 days (-12.9%) compared to 2015; of which 0.9 days can be attributed to the decrease of the number of suspensions and the average suspension time. Several Commission services have developed tools and reports for better monitoring suspensions. In addition, shifts from sequential analysis of reports by operational and financial agents to a parallel analysis with common deadlines allows for better coordination regarding requests for additional information and clarifications from the beneficiaries and the application of suspensions.

Following on the Ombudsman's suggestions as from 2017, information related to the gross payment time will be published in the Annual Activity Reports for 2016. The standard reporting template prepared by DG BUDGET as guidance to Commission services for the preparation of annex 3 (table 6) to the AARs providing information on payment times and suspensions has been amended accordingly to include information on gross payment times, along with information on net payment times, thus reflecting the impact of suspensions.