Decommitment of funds

According to Article 136 of Regulation (EU) No 1303/2013 the European Commission shall automatically decommit any part of a budget commitment of a programme that has not been used by 31 December of the third year following the year of budget commitment.

This decommitment risk on programme level is consequently considered on project level. Article 3 paragraphs (7) and (8) of the subsidy contract (SC) regulate the following:

“Based on the fact that the payments by the European Commission to the certifying authority (CA) will only be made in accordance with the corresponding budget commitments, the LP must report on the expenditure as foreseen in the AF.

In case the LP requests fewer funds on behalf of the project partnership than the budget commitments indicated in the AF, the following rule shall apply: if less than 80% of the spending target (ERDF tranches to be requested per reporting period as indicated in the annex) is met, the difference is to be considered as "under risk" and might be lost if the programme experiences a decommitment of funds.”

In case of a decommitment on project level, Article 12 (3) of the partnership agreement (PA) foresees the following:

“Should the programme face a budget reduction due to the decommitment rule and should the ERDF funds allocated to the project be reduced as a consequence, the project participants herewith agree that the budget reduction shall be imputed to the project participants that have contributed to the underspending by not reporting according to the time schedule of the project as stated in the approved AF, unless a different decision is taken by the PSG (project steering group) by consensus.”
Example

The following example illustrates the consequences on project level:

Project “AlpsExample” should request € 750,000 ERDF funds until autumn 2017 (according to the annex of the subsidy contract). Due to delays in the project implementation and reporting, the project reports eligible expenditure entitling to request an ERDF amount of € 500,000 by autumn 2017. The difference between the amount actually requested and the committed budget is € 250,000 whereby a deviation of 20% (in that case € 150,000) would be accepted by the programme according to the provisions of the subsidy contract. The amount to be considered as being under risk and therefore the amount that could be decommitted on project level is € 100,000.

It depends on the performance of the other projects approved by the programme whether the project “AlpsExample” faces a decommitment of ERDF funds or not. Thus, two different scenarios might apply:

Scenario 1:
Most projects report according to the plan. Therefore the programme does not face any decommitment. Thus, the underspending of the project “AlpsExample” will not result in any financial consequences on project level and the ERDF-amount granted to the project will not be reduced.

Scenario 2:
As the implementation of many projects is delayed and consequently the ERDF-requests are far behind the plan, the programme faces a decommitment. Example: the decommitment on programme level amounts to € 1,000,000. Ten projects, including “AlpsExample”, deviate from the plan by more than the accepted 20%. Therefore the decommitment of € 1,000,000 shall be borne by these projects. The deviation of the ten projects from the 80% of the committed budget amounts to a total ERDF of € 2,000,000. The project “AlpsExample” will therefore lose ERDF funds in the amount of € 50,000 (the proportion between the € 1,000,000 decommitted and the € 2,000,000 deviation is 1:2, i.e. half of € 100,000 will be lost for the above-mentioned project).
How to avoid a decommitment on project level?

The risk of facing a decommitment during project life time can be reduced by taking the following into consideration:

- the financial plan of the project, especially the budget split along time lines shall be defined carefully (considering already in advance possible delays, e.g. in the first level control);
- the financial performance of the project partners shall be monitored closely and regularly by the LP (as stated in article 4 (2) c of the PA the LP shall ensure sound financial management of the project);
- the project partners shall stay in contact with their first level control (FLC) bodies so to ensure that the expenditure can be certified in time (as stated in article 5 (4) c of the PA the project partners shall ensure timely reporting of activities and costs).

Reference Documents

- Regulation (EU) No 1303/2103
- Subsidy contract
- Partnership agreement