

THE EUROPEAN CONVENTION

THE SECRETARIAT

Brussels, 25 March 2003

CONV 635/03

CONTRIB 283

COVER NOTE

from	Secretariat
to	The Convention
Subject :	Contribution submitted by Lord Tomlinson, alternate member of the Convention : "Eu Budget : building in enhanced scrutiny of sound financial management"

The Secretary-General of the Convention has received the attached contribution from Lord Tomlinson, alternate member of the Convention.

**EU BUDGET: BUILDING IN ENHANCED SCRUTINY OF SOUND FINANCIAL
MANAGEMENT**

The Budget Reflection Group is considering a possible simplification/ rationalization of the EU budgetary process involving a rebalancing of the respective powers of the European Parliament and Council in the annual budgetary process underpinned by strengthened budget discipline and stability through a Treaty based financial perspective.

2. The Financial Regulation which came into force in January 2003 paves the way for improvements in value for money through provisions tying Activity Based Budgeting (ABB) into the EU Budget process. For the first time it provides expressly for the budgetary institutions to build ex ante as well as ex post evaluation into the budgetary process, based on SMART performance indicators. The relevant new provisions are attached.

3. Reform of the budgetary procedure provides a means of facilitating these improvements by giving the budgetary authority greater opportunity in the course of the budget procedure for examining the match between resources and objectives, coupled with a greater emphasis in the European Parliament's ex-post scrutiny role on whether the Commission's implementation of the budget has satisfied the principles of sound financial management – economy, efficiency and effectiveness – as well as the principles of accuracy and propriety.

4. Enhanced scrutiny of sound financial management could play a key part in addressing the “democratic deficit” to which current budgetary procedures contribute. This is primarily a “delivery deficit” – the citizen is all too well aware of what is being spent through the EU Budget, but very much less aware of what is being achieved as a result of that spending. By enhancing the budgetary authority's role in ensuring that budget allocations are determined on the best available value for money basis, supplementing its current role for holding the Commission (and – through the Commission – the Member States) to account for implementing the budget, the legitimacy of the budget in the eyes of the citizen could be substantially enhanced. It is right that the Council and Member States, as principal paymasters of the budget, should take primary responsibility for the legitimacy of budget revenues, and thereby overall expenditure, through a nationally

oriented system of budget revenues. Equally, it is right that the European Parliament, already primarily responsible for giving discharge to the Commission on its annual implementation of the budget, should take primary responsibility for the legitimacy of the allocation of budget expenditures, through taking the leading role in the *ex ante* as well as *ex post* scrutiny functions set out in this paper.

An enhanced and more focused *ex-ante* role

5. Despite the introduction of the ABB-related provisions in the Financial Regulation, there is little hope of them being implemented fully if they are simply bolted onto the current already full budgetary timetable. A simplification of the budget timetable which reduces the number of readings by each arm of the budgetary authority could allow for a fuller “ABB” examination of the Commission’s PDB focusing in particular on the match between resources and measurable objectives and performance targets and indicators, informed by evaluation evidence related to previous years, and allowing the budgetary authority to press where necessary for better justified bids before the budget is adopted.

6. Although not altogether clear from the Financial Regulation, the need to ensure a clear relationship between the EU’s legislative and budgetary function makes it essential that the objectives and targets for programme spending which are brought into the budget process are determined by the Commission in conjunction with the relevant parts of the legislative authority, rather than that the budgetary authority should somehow take on this role.

7. However, as part of its examination of the PDB, the budgetary authority should focus on the relationship between inputs and outputs, as well as on the level on inputs themselves, in calling on the Commission to justify its budget proposals. If the budgetary authority remained unconvinced by the Commission’s explanations, it could choose to adjust the proposed inputs, although it would be open to the Commission instead to propose a change in outputs, if that was feasible within its implementing responsibilities or it could receive the necessary approval of the legislative authority .

8. Under current budgetary procedures, this stage would be a joint action of both arms of the budgetary authority. I propose that in future this responsibility be given primarily to

the European Parliament. The Council would of course not ignore the match of proposed allocations to objectives in reaching its common position on the Draft Budget, but this would take account of the results of the “ABB” examination already conducted by the EP.

An enhanced *ex-post* function

9. The Commission is required to implement the budget in accordance with the provisions of the Financial Regulation and, specifically, having regard to the principles of sound financial management. The budgetary authority has a responsibility to scrutinise the Commission’s implementation of the budget, taking into account both the ECA’s statement of assurance on the reliability of the accounts and legality and regularity of the underlying transactions and any relevant special ECA reports which might cover issues of sound financial management. The whole of this scrutiny process informs the EP’s decision on whether to grant discharge to the Commission for its implementation of the budget.

10. The new Financial Regulation provisions require the achievement of SMART objectives to be monitored by performance indicators for each activity and for information to be provided by the spending authorities to the budgetary authority. The Commission Directors-General will in future provide annual declarations of how far objectives have been met, and – provided these are supported by detailed assessment of achievements in published activity reports – these will provide a firmer basis than previously for the budgetary authority to carry out its scrutiny of sound financial management, both directly, and in providing the European Court of Auditors with a firmer evidence base for its special reports. The EP would have leading role in this, based on its primary responsibility for giving discharge to the Commission.

11. The findings of all ex-post evaluation must then feed back into preparation by the Commission of the following year’s PDB and the ex-ante decision making process by the budget authority to help improve the allocation of its limited resources.

Summary

12. A graphic illustration of the proposed enhanced value for money function in the budget process is attached.

Annex: Extracts from the revised Financial Regulation

Recital 11

The principle of sound financial management should be defined by reference to the principles of economy, efficiency and effectiveness, and compliance with those principles checked by means of performance indicators established per activity and measurable in such a way that results can be assessed. The institutions should carry out ex-ante and ex-post evaluation, in accordance with the guidelines determined by the Commission.

PRINCIPLE OF SOUND FINANCIAL MANAGEMENT

Article 27

Budget appropriations shall be used in accordance with the principle of sound financial management, viz. in accordance with the principles of economy, efficiency and effectiveness.

The principle of economy requires that the resources used by the institution for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

The principle of efficiency is concerned with the best relationship between resources employed and results achieved.

The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.

Specific, measurable, achievable, relevant and timed objectives shall be set for all sectors of activity covered by the budget. Achievement of those objectives shall be monitored by performance indicators for each activity and information shall be provided by the spending authorities to the budgetary authority. Such information, as referred to in Article 33(2)(d), shall be provided annually and at the latest in the documents accompanying the preliminary draft budget.

In order to improve decision-making, institutions shall undertake both ex ante and ex post evaluations in line with guidance provided by the Commission. Such evaluations shall be applied to all programmes and activities which entail significant spending and evaluation results disseminated to spending, legislative and budgetary authorities.

Article 33

1. The Commission shall place a preliminary draft budget before the Council by 1 September each year at the latest. It shall at the same time transmit the preliminary draft budget to the European Parliament.

The preliminary draft budget shall contain a summary general statement of the expenditure and revenue of the Communities and consolidate the estimates referred to in Article 31.

2. The Commission shall attach to the preliminary draft budget:

.....

(d) information on the achievement of all previously set objectives for the various activities as well as new objectives measured by indicators. Evaluation results shall be consulted and referred to as evidence of the likely merits of a proposed budget amendment.

Possible enhanced scrutiny of sound financial management in the EU budgetary process

