

## EUROPEAN PARLIAMENT

# Working Documents

1983 - 1984

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5 April 1983

DOCUMENT 1-97/83

REPORT

drawn up on behalf of the Committee on Budgetary Control

on the discharge to be granted to the Commission of the European Communities in respect of the financial statements of the ECSC for the 1981 financial year

and

on the report of the Court of Auditors on the accounts of the European Coal and Steel Community as at 31 December 1981

and

on the report of the Court of Auditors on ECSC housing loans

Rapporteur: Mr V. GABERT



By letter of 12 October 1982, the Commission of the European Communities forwarded to the European Parliament the report of the Court of Auditors on the financial statements of the ECSC for 1981.

On 7 March 1983 the President of the European Parliament referred this report to the Committee on Budgetary Control.

On 18 March the Committee on Budgetary Control confirmed the appointment of Mr Gabert as rapporteur.

The draft report was considered at the meeting of 23.3.1983. At that meeting the motion for a resolution and the proposal for a decision were both adopted unanimously with one abstention.

This report was tabled on 24 March 1983.

The following took part in the vote: Mr Aigner, chairman; Mrs Boserup, second vice-chairman; Mr Price, third vice-chairman; Mr Gabert, rapporteur; Mrs Herklotz (deputizing for Mr Lalumière); Mr Kellett-Bowman, Mr Key, Mr Langes, Mr Marck, Mr B. Nielsen (deputizing for Mr Mart), Mr Patterson, Mr Saby, Mr van Minnen (deputizing for Mr Orlandi), Mrs van Hemeldonck and Mr Wettig.



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The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution together with a proposal for a decision:

I.

PROPOSAL FOR A DECISION

on the discharge to be granted to the Commission of the European Communities in respect of the financial statements of the ECSC for the 1981 financial year

The European Parliament,

1. Grants the Commission of the European Community for Coal and Steel a discharge for the 1981 financial year on the basis of the following figures taken from the balance sheet as at 31 December 1981 in the light of the statement by the Court of Auditors recognizing the compliance by the Commission with proper accounting practice and the principles of sound financial management:

A. BALANCE SHEET

<u>Assets</u>	<u>1981</u>
- Cash in hand and balances with central banks	4,169,589
- Claims on credit institutions	597,757,311
- Debt securities held in portfolio	288,063,142
- Loans outstanding	6,011,262,106
- Recoverable issuing costs and redemption premiums	62,233,630
- Bank deposits for coupons and bonds due but not yet presented for payment	45,020,909
- Land and buildings	345,626
- Other assets	54,610,710
- Accruals and deferred income	198,976,051
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	<u>7,262,439,074</u>

Liabilities

- Coupons and bonds due but not yet presented for payment	45,015,376
- Long-term and medium-term debts	5,815,974,032
- Other liabilities	15,242,985
- Accruals and deferred income	254,398,040
- Commitments for ECSC operating budget	638,501,511
- Reserves	492,850,240
- Unallocated balance	456,890
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	<u>7,262,439,074</u>
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B. REVENUE AND EXPENDITURE ACCOUNT

<u>Expenditure</u>	<u>1981</u>
Interest payable	530,613,518
Commissions payable	4,738,377
Administrative expenditure (fixed amount)	5,000,000
Value adjustments in respect of securities	1,214,330
Capital losses on securities	256,452
Amortization of issuing costs and redemption premiums	15,764,106
Other expenditure	1,236,291
Research expenditure	40,539,845
Redeployment expenditure	64,870,914
Expenditure on coking coal and metallurgical coke	6,134,678
Expenditure on interest subsidies (Article 54)	10,257,451
Expenditure on interest subsidies (Article 56)	12,867,705
Surplus of revenue over expenditure	190,199,113
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	<u>883,692,780</u>

<u>Revenue</u>	
Interest receivable	677,420,627
Gains on repurchased bonds	11,117,285
Issuing premiums	4,411,610
Other revenue	11,119
Levies and fines	128,567,927
Contributions from Member States	52,879,000
Exchange gains	9,285,212
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	883,692,780
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together with the following motion for a resolution:

II.

MOTION FOR A RESOLUTION

- on the report of the Court of Auditors on the accounts of the European Coal and Steel Community as at 31 December 1981
- on the report of the Court of Auditors on ECSC housing loans

The European Parliament,

- A. having regard to the balance sheet and revenue and expenditure accounts of the ECSC as at 31 December 1981<sup>1</sup>,
- B. having regard to the report by the Court of Auditors on this balance sheet and revenue and expenditure account,
- C. having regard to the report by the Court of Auditors on ECSC housing loans,
- D. having regard to the Commission's 1981 ECSC financial report<sup>2</sup> and its notes on the items in the balance sheet and revenue and expenditure account<sup>3</sup>,
- E. having regard to the report of the Committee on Budgetary Control (Doc. 1-97/83),
  - 1. Notes that for the 1981 financial year it has finally proved possible to conduct the discharge procedures for the EEC, the EAEC and the ECSC at the same time;
  - 2. Welcomes the marked improvements which the report of the Court of Auditors observes have taken place in the presentation of the ECSC annual accounts both as regards deadlines and form;

<sup>1</sup> OJ C 270, 14.10.1982

<sup>2</sup> COM(82) 160 final

<sup>3</sup> COM(82) 588 final



### Contributions of Member States

3. Notes with regret that some Member States, as in the case of the 1980 discharges, are once again in default with their 1981 special contributions;

### The legality and correctness of revenue and expenditure:

4. Stresses that scrutiny by the Commission of the individual items in the balance sheet and revenue and expenditure account should be even more rigorous, in particular to achieve total agreement between the various accounts;
5. Calls on the Commission to inform the Court of Auditors of the criteria for establishing the level of contingency reserves for payments outstanding;
6. Insists that the Commission should make every effort necessary to introduce the new EDP system into accounting with all haste and to inform the Court of Auditors in good time of any difficulties or delays;
7. Notes that in its replies to the report of the Court of Auditors for 1981 the Commission undertakes to accede to a number of requests by the Court of Auditors relating to greater transparency in the accounts;

### Financial management

8. Believes that the ninth programme for subsidized housing in the ECSC sector could represent an important contribution to restructuring in the coal and steel sectors and that greater concentration of resources would make it possible to exert much greater influence in encouraging workers to move to locations near viable ECSC undertakings;
9. Points out that, in order to achieve the aims of this programme, the Commission ought to conduct more detailed studies of housing requirements, building costs and state subsidies in the various Member States and regions and take full account of the findings of such a study in the allocation of resources;

10. Insists that the criteria for selecting projects for financing, as set out in the 'Guidelines for the implementation of the ninth programme'<sup>1</sup>, must be taken into account in each individual case and that all approvals granted must be fully justified in these terms in each case;
11. Considers greater harmonization of the terms of loans between the various Member States desirable;
12. Agrees with the Court of Auditors that a method of accounting based on loan decisions and loan contracts would be a more satisfactory monitoring instrument and expects the Commission to follow this recommendation;
13. Regrets that in 1981 decisions taken resulted in the use of only half the resources available and therefore agrees with the Court of Auditors that the Commission should seek to simplify procedures;
14. Calls on the Commission when granting building loans to officials to take greater account of the social dimension;
15. Takes the view that, as a matter of principle, checks should be made on those receiving loans at least on a sample basis;
16. Calls on the Commission to ensure that the 40% ceiling for the use of ECSC pension funds for housing loans to officials is not exceeded;

<sup>1</sup> OJ C 299, 30.11.1979

EXPLANATORY STATEMENT1. Timetable for the discharge procedure

A definite timetable for completion of the ECSC discharge procedure, in line with the agreements reached between the institutions concerned, is at long last a feasible proposition, at least as far as the 1981 financial year is concerned, which suggests that it will be possible to achieve simultaneity between the ECSC discharge procedure and the EEC and EAEC discharge procedure. That practical effect has been given to the principle of simultaneity - a principle affirmed by Parliament in its resolutions on the 1978/1979 financial year<sup>1</sup> and the 1980 financial year<sup>2</sup> - is attributable to a continuous process of communication and collaboration between the Court of Auditors and the Commission. This enabled the Commission to clear the serious backlog of accounting work which had built up in previous financial years and hence to approve the annual accounts for the 1981 financial year on 27 May 1982 (for 1980, approval was given only on 23 June 1981). On 10 June it presented its financial report<sup>3</sup> and this was followed, on 24 September, by a 'description of items in the balance sheets' (an information supplement to the ECSC financial report for the 1981 financial year)<sup>4</sup>.

In consequence, the Court of Auditors was in a position to adopt, on 30 June 1982, its own report on the ECSC financial situation in 1981 which, pursuant to paragraph 5 of Article 78f of the ECSC Treaty, was forwarded to Parliament by the Commission, together with its replies, on 14 October 1982.

The annex to the Court of Auditors' 1981 report, on housing loans, was adopted, following an 'audita altera parte' procedure with the Commission, on 25 November 1982 and was immediately forwarded to Parliament.

<sup>1</sup> 15.12.1981

<sup>2</sup> Resolution of 16.11.1982

<sup>3</sup> COM(82) 160 final

<sup>4</sup> COM(82) 588 final

## 2. Observations concerning the accounts

The significant improvement noted by the Court of Auditors in the Commission's accounting concerns not just the timetable, but also questions of presentation<sup>1</sup>. In particular, COM(82) 588 final contains an extremely useful 'analytical description of items in the final balance sheets'; as such, it is an exercise which should be repeated and improved in subsequent financial years.

On the debit side, the Court of Auditors draws attention to a number of accounting 'anomalies' which, while not influencing its judgement as to the accuracy of the financial situation described, nonetheless call for the introduction of various new measures. In particular:

- (a) the Commission should notify the Court of Auditors of the criteria applied for determining the amount of the reserve fund needed to cover the risk of non-receipt of payments due. The reply given by the Commission<sup>2</sup> (application of normal banking criteria) is far too vague and, for the purposes of the 1982 discharge, a more precise and detailed reply will be expected.
- (b) The Commission must be more meticulous in checking each item in the balance sheets to ensure that the individual accounts are consistent. The new computerized systems applied must also be designed in such a way as to permit the necessary checks to be carried out, and the systems themselves must be made fully operational as quickly as possible. As promised by the Commission, the Court of Auditors must be kept informed of the progress made with these systems.

## 3. Member States' contributions

On 8 December 1981, the Council adopted a decision granting the ECSC 50m ECU in supplementary revenue for the 1981 financial year. On 24 September 1982, as much as 32,055,596 ECU had still to be collected. The present situation (14 March 1983) is somewhat better, but there are still two Member States which have not paid their contributions.

<sup>1</sup> Court of Auditors, Report on the ECSC for 1981, page 1

<sup>2</sup> Replies by the Commission, page 1

Such delays were criticized by Parliament in connection with the 1980 discharge<sup>1</sup>, but the offending States must again be censured, especially since the delays have resulted in non-payment of interest.

#### 4. Verification of sound financial management: housing loans

The Court of Auditors undertook to prepare each year an annex to the ECSC annual report, in which it would examine one particular aspect of ECSC activity, particularly with a view to checking that the ECSC's financial management had been effected in a regular manner.

The annex to the 1981 report considers the housing loans granted by the Commission pursuant to Article 54 of the ECSC Treaty for the construction, purchase and modernization of houses to be occupied by workers in the coal and steel industries.

Since 1981 saw the launching of the 9th ECSC low-cost housing programme, the Court of Auditors' observations are mainly confined to the decisions taken with regard to that programme and its implementation.

The main point raised by the Court concerns the extent to which the Commission conformed to its own implementing guidelines<sup>2</sup>. These specified that, as a criterion for the selection of projects in the steel sector, it was necessary 'to give precedence to projects which encourage workers to accept transfers, or to projects concerned with the need to retain or to recruit the necessary skilled workforce. The units of production involved must be competitive'.

The Court's analysis reveals that in the financing of the individual projects this criterion was not applied with sufficient rigour or purpose. For instance, actual housing requirements were not determined on the basis of sufficiently accurate surveys. Moreover, the decision on the amount of the financial resources to be allocated was in every case a political decision, unrelated to the estimated needs, and the subsequent apportionment by sector, country and site used 'a system of quotas elaborated on the basis of a set of parameters which do not necessarily reflect actual housing requirements'<sup>3</sup>.

<sup>1</sup>Resolution of 16.11.1982

<sup>2</sup>Guidelines for the implementation of the ninth programme 'ECSC low-cost housing' applicable for the period 1979/1983, published in OJ No. C 299 of 30.11.1979, pages 2 and 3

<sup>3</sup>Report of the Court of Auditors on housing loans, page 15

In these circumstances, it is necessary to insist that the Commission should be more consistent in the application of its criteria, so that the low-cost housing policy becomes - as the Commission itself proposes - an additional instrument in the restructuring of the sectors concerned. To that end, it is essential to concentrate the financial resources available, so that the transfer of manpower can be given a really effective boost. The present financial incentive (which may be estimated at about 3% of the wages of the beneficiary) is too meagre to have any appreciable influence on the workers involved.

The Court makes various other observations which, in the opinion of your rapporteur, are worth noting. For instance, it calls for better harmonization of the loan conditions applicable to the Member States and for a reform of the accounting procedures to allow improved monitoring of the loans granted.

On the latter point, the Commission has undertaken to take appropriate action<sup>1</sup>.

#### 5. Loans to officials

The loans granted by the Commission to Community officials involved, in 1981, an outlay of 2.5m ECU. It will be noted that the Commission sought to help the less prosperous groups of officials by granting them a higher percentage of the loans available, at a reduced rate of interest of 4%. In practice, because of the ceiling placed on the amount of the loan, it cannot usually fulfil the social function envisaged by the Commission. Consequently, if a coherent low-cost housing loans policy is to be achieved, the present system has to be changed.

In conclusion, we should endorse two requests made by the Court of Auditors. The first concerns the introduction of satisfactory control measures, not least to ensure that the loans granted are properly used, while the second concerns the need to use up, in subsequent financial years, the 0.5m ECU surplus recorded (on 31.12.1981) in the ECSC's pension fund resources earmarked for the granting of loans to officials (only 40% of the fund can be used for such loans).

<sup>1</sup> Replies by the Commission, page 3