Report

drawn up on behalf of the Committee on Budgets

on the second list of requests to carry forward appropriations from the financial year 1974 to the financial year 1975 (appropriations not carried forward automatically)
(Doc. 100/75)

Rapporteur: Mr M. Shaw
By letter of 7 May 1975, the President of the Council of the European Communities requested the European Parliament, pursuant to Article 6(2) of the Financial Regulations, to deliver an opinion on the proposal from the Commission of the European Communities to the Council on the non-automatic carrying forward of appropriations from the financial year 1974 to the financial year 1975.

On 15 May 1975, the President of the European Parliament referred this proposal to the Committee on Budgets as the committee responsible.

On 22 May 1975, the Committee on Budgets appointed Mr Shaw rapporteur.

It considered this proposal at its meeting of 9 June 1975.

At the same meeting, the committee unanimously adopted the motion for a resolution and the explanatory statement.

The following were present: Mr Lange, Chairman; Mr Aigner and Mr Durand, vice-chairmen; Mr Shaw, rapporteur; Mr Artzinger, Mr Cointat, Mr de Keersmaeker (deputizing for Mr Galli), Mr Fabbrini, Mr Früh, Mr Lautenschlager, Lord Lothian, Mr Maigaard, Mr Notenboom, Mr Pêtre, Mr Schmidt, Mr Schuijt (deputizing for Mr Brugger), Mr Yeats.
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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution and explanatory statement

MOTION FOR A RESOLUTION

on the second list of requests to carry forward appropriations from the financial year 1974 to the financial year 1975 (appropriations not carried forward automatically).

The European Parliament,

- having regard to the list submitted by the Commission of the European Communities to the Council (COM(75) 206 and COM(75) 206/2);
- having been consulted by the Council, pursuant to Article 6(2) of the financial regulation of the Communities (Doc. 100/75);
- having regard to the report of the Committee on Budgets (Doc. 143/75);

1. Recalls its opinion, given in its resolution on the initial list of requests relating to the non-automatic carrying forward of appropriations, that these requests must be of an exceptional character;

2. Approves

(a) the carrying forward of appropriations totalling 72,730,290.13 u.a. ('other appropriations') relating to the Council’s and the Commission’s sections of the budget;

(b) appropriations totalling 53,000,000 u.a. for intervention in respect of beef and veal, which it believes are based on exceptional reasons;

3. Approves, however, with the greatest reluctance, the carrying forward request for aid for durum wheat and olive oil production totalling respectively 57,500,000 u.a. and 190,000,000 u.a.; it believes that these carry-forwards are not based on exceptional reasons, and moreover

i. are of an order of magnitude which could seriously distort the 1975 budget

ii. appear to reflect a significant degree of procrastination in the administration of major provisions in the 1974 budget;

1OJ No. C 128, 9.6.1975, p. 6
4. Notes that, as a result, the carry-forwards of non-automatic appropriations from the initial list of requests submitted by the Commission (on which it gave its opinion in its resolution of 12 May 1975) together with those of the second list, give a total amount of 601,183,546.79 u.a.

5. Reiterates its concern regarding the possible danger which the abuse of the carry forward procedure could pose for Parliament's role in the budgetary sphere;

6. Believes that the possibility of ready access to the carry forward facility may contribute to less attention being given to the need to implement Community schemes promptly;

7. Considers that the apparently rather tardy discovery of the need to carry forward large sums from 1974 to 1975 calls for a reappraisal of the Community's system of expenditure control;

8. Asks the Commission to review Community procedures generally with a view (i) to establishing the extent to which complicated systems of operation or over-centralization of operations may have been contributing to the emergence of carry-forwards, and (ii) to discovering the reforms needed to improve the position;

9. Considers that the possibility of developing a system of forward monitoring of expenditure should be examined with a view to ensuring that the likelihood of substantial shifts, in the making of payments, as between financial years, be detected as early as possible, and be communicated to the European Parliament before the completion of the procedure for adopting the budget for the following year;

10. Expresses concern because the European Parliament has not been supplied, before 1 April, with a list of the items to be carried forward automatically from the financial year 1974 to the financial year 1975.

11. Notes with satisfaction that, this year, the 1 May deadline stipulated in the financial regulation in respect of non-automatic carry-forwards was observed by the Commission.
EXPLANATORY MEMORANDUM

Background to the Commission's request

1. Under Article 6 of the financial regulation of 25 April 1973 applicable to the general budget of the European Communities, the Commission is required under paragraph 2 of this Article to submit to the Council the requests to carry forward such appropriations before 1 May. Unless the Council, acting by a qualified majority, after consulting Parliament takes a contrary decision within a month, the carrying forward of the appropriations in question is deemed to be accepted.

However, appropriations relating to remuneration and allowances of members of the institutions and of personnel may not be carried forward.

The arrangement applies to the appropriations of each of the Institutions - Parliament, Council, Court of Justice and the Commission - but the amounts involved are likely to be of budgetary significance only in the case of the Commission.

2. The appropriations referred to in the previous paragraph are usually described as "non-automatic carry-forwards", because appropriations for payments still outstanding by reason of commitments properly entered into between 1 January and 31 December, with the exception of commitments entered into after 15 December and which relate to supply of goods and services may be carried forward automatically to the next financial year only.

Comments on the arrangement

3. While the carry-forward arrangement does not operate in those Member States which adhere strictly to the principle of annuality in their non-capital

(1) OJ Vol 16, No L.116 1/5/1973

PE 40.842/Fin.
budgets, it does apply in a majority of Member States. It appears to be particularly appropriate to the budget of the Communities - provided it is not used to an excessive degree - because it conveys a degree of flexibility; your rapporteur considers that it is significant that two of the Member States which do not operate the carry-forward arrangement adopt their budget after the commencement of the financial year and are, therefore, in a better position to avoid carry forwards by including, in the budget itself, provision for items which though envisaged in the preceding year's budget were not spent for one reason or another.

Need to avoid excessively large carry-forwards

4. When the Committee on Budgets considered, on 29 April 1975, the initial list of requests to carry forward appropriations from the financial year 1974 to the financial year 1975 it was firmly of the opinion that such decisions should be of an exceptional character because they tend to be prejudicial to budgetary transparency and because they also indicate a too-great degree of imprecision in formulating budgetary estimates.

5. Large carry-forwards distort the budgetary pattern and can result in an expenditure pattern emerging which is entirely different from that which Parliament envisaged when adopting the budget for a particular year. The following example sets out, in a simplified form, an illustration of the position. Let us assume that for the year x, Parliament adopted a budget which showed an overall increase of 10 per cent. Later, 10 per cent of the appropriations for the year x-1 were carried forward to the year x. Outlay in the year x could, therefore, exceed the outlay for the year x-1 by some 33 per cent as against the 10 per cent envisaged at the time Parliament adopted the budget. (The situation would be rendered more complicated, of course, by carry forwards from the year x-2 to x-1 and from year x to x+1). This change would reflect, primarily, only an alteration in the timing of payments as between the two years. The total of payments for the two years combined need not be affected. Nevertheless, the wishes of Parliament as revealed in the budgets adopted for each of the two years would not have been given effect within the intended financial years, beneficiaries would have had to wait longer than necessary for their payments and, in these inflationary times, the real value of the payments carried forward would have depreciated.

Control would have been rendered more difficult, too, by a widening of the time-span elapsing between the act which generated the claim for the payments and the making of the payments.
Macroeconomic aspect

6. Your rapporteur would also like to refer to the macro-economic aspect of the carry forwards arrangement. The budget of the Communities is equivalent to only some 2 per cent of the total of the budgets for all Member States; nevertheless, it is larger than the budgets of two of the smaller Member States and it is of crucial importance for certain areas of Community activity. Relatively small changes in public expenditure can be significant, however, and the Community budget should be implemented in the prompt manner that any instrument for economic management merits; its execution should not be out of phase with the overall policy adopted for the year in question.

To say the very least, the existence of large carry forwards can neutralise the expressed intentions of Parliament.

7. In this general context, reference could be made to the Council’s decision 1 of 18 February 1974 – which Mr Aigner referred to in his report on the draft 1975 budget 2 – on the achievement of a high degree of convergence of the Member States’ economic policies; efforts to converge Member States’ budgetary policies lose force if the budget of the Communities is seen to be implemented in a manner which diverges sharply from the position shown in the initial budget.

Summary of the 1974 to 1975 carry forwards requests

8. The Commission, by letter dated 19 March 1975 3 transmitted an initial list of requests to carry forward appropriations from the financial year 1974 to the financial year 1975 (appropriations not carried forward automatically). The total involved was slightly under 228 m u a. The Committee on Budgets gave a favourable opinion 4, recognising that in certain instances the carry forwards related to needs indicated by Parliament, in the exercise of its budgetary powers, when examining the annual budget, and the resolution was adopted by Parliament on 12 May 1975.

The Commission has now put forward a second list of requests which totals some 373.2 m u a giving a grand total of about 601.2 m u a. for the two lists combined.

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1 O J. No. L63/16 of 5/3/1974  
2 Doc. 350/74  
3 Doc. 40/75  
4 Doc. 80/75
Comments on the items covered by the second list

9. No requests to carry forward appropriations which would require approval have been submitted by either the Parliament or the Court of Justice. The Council’s requests total less than 109,000 u.a., do not involve any major policy decision and their impact on the budgetary totals is minimal. They can, therefore, be approved.

10. The amount sought to be carried forward in respect of the Commission’s part of the budget (373.2 m u.a.) is a different matter, however. Added to the items for the Commission’s part of the budget shown on the initial list (amounting to almost 228 m u.a.) the total which emerges (601.2 m u.a.) cannot be regarded as having the “exceptional character” recognised by this Committee as being a prerequisite of their approval by Parliament. First of all, this large total of over 601 m u a is equal to more than 10 per cent of this year’s initial budget; thus, it goes far beyond what might be regarded as a reasonable degree of flexibility as between financial years. Secondly, it completely distorts the 1975 budget as adopted by us last December. Thirdly, it represents a major breakdown in the implementation of the 1974 budget. Finally, it brings to light, once more, the extent of delays – due to administrative inefficiency in Member States or to heavy over-elaborate Community methods – in carrying out schemes in the agricultural sector.

Carry forwards requests reluctantly approved

11. The annex to this report sets out the items in the second list to which the provisions of Article 6(1)(b) of the financial regulation apply. Many of the items are unobjectionable, being exceptional in character, of minor budgetary significance and satisfactorily explained. However, two items would seem to be of a nature and magnitude that preclude their being readily approved for carry forward by this Committee. These are:

(i) Item 6012 Aid for durum wheat ........... 57.5 m u a
(ii) Item 6310 Intervention in respect of olive oil ........... 190.0 m u.a.

Total 247.5 m u.a.
12. The explanations offered for these rather large requests are extremely skimpy; it is merely stated in the Commission's document that "administrative difficulties have stood in the way of the payment".

The Commission has not attempted to clarify whether these delays are attributable to the inefficiency of the national administrations or to the complicated nature of the Community procedures that require to be followed.

Conclusions

13. The total of 601 million sought to be carried forward from the financial year 1974 to the financial year 1975 is so large as to tend to make for a distortion of the budget for 1975 as adopted last December. The amount involved is equal to four times the provision for the regional fund or to about 10 per cent of the initial 1975 budget. As indicated in paragraph 12 above, the explanations offered for two of the major items on the second list are inadequate; for this reason, and because of the nature and size of the sums involved, the carry forwards in question can be endorsed, only with reluctance.

14. The carry forwards requested in regard to the Council's part of the budget are acceptable, their impact on the budget total being minimal. Because of the implications for the budget of the Communities which excessively large carry forwards - attributable to too ready recourse to a facility which may even favour the tardy implementation of Community schemes - can have, it is considered that further examination must be given to the article in the financial regulation so that flexibility may be preserved without leaving the way open for large distortions in Community expenditure.

15. The seemingly rather tardy discovery of the need for large carry-forwards underlines, once again, the need for improved Community forward monitoring of expenditure. As well, it is noted that what should have been the routine transmission of the second list of requests was again
delayed; the text being apparently despatched by the Commission on 30 April to the Council but did not reach the secretariat of the Committee on Budgets until 13 May; such transmission delays should be avoided in the future.

It is desirable that the Commission should supply a report on the working of the automatic and non-automatic carry forwards arrangements so that this Committee may be in a position to form an opinion on the extent to which these arrangements have caused the budget as executed to differ from the budget as adopted.

The Community system of forward monitoring of expenditure should be re-examined with a view to determining the extent to which the possibility of large carry forwards emerging could be detected in advance and could be communicated to the European Parliament before the budget for the following year is adopted.

Finally, it is regrettable that the list of items to be carried forward automatically from the financial year 1974 to the financial year 1975 was not available to the European Parliament by the stipulated date - 1 April - and has not yet been supplied. This list would provide additional information which would be particularly useful to this Committee when forming an opinion on the non-automatic carry forwards. The Commission are, therefore, urged to ensure that, next year, all the lists are supplied in good time.
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Commission's requests for carry forwards in the second list (in u.a.)
Considered to be of an exceptional nature
Approved with reluctance

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