

# European Communities

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EUROPEAN PARLIAMENT

## Working Documents

1976 - 1977

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10 May 1976

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### Report

drawn up on behalf of the Committee on Budgets

on the ~~/~~inter-institutional dialogue on certain budgetary questions

Rapporteur: Mr M. COINTAT

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By decision of 27 April 1976, the Bureau of the European Parliament authorized the Committee on Budgets to submit to Parliament a motion for a resolution on certain budgetary questions arising from the inter-institutional dialogue agreed to when the 1976 draft budget was adopted.

The ad hoc working party of the Committee on Budgets, chaired by Mr Cointat, adopted its report for the committee at its meeting of Monday 5 April 1976; the Committee on Budgets appointed Mr Cointat rapporteur and adopted this report at its meeting of 5 April 1976.

On 28 April 1976 the Committee on Budgets unanimously adopted a motion for a resolution to accompany the report, which now forms the explanatory statement.

Present: Mr Lange, chairman; Mr Cointat, rapporteur; Mr Artzinger, Lord Bruce of Donington, Mr Brugger, Mr Clerfayt, Mr Dalyell, Mr Fabbrini, Mr Fletcher, Mr Lautenschlager, Mr Notenboom, Mr Patijn, Mr Radoux, Mr Schmidt and Mr Shaw.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on

the inter-institutional dialogue on certain budgetary questions

The European Parliament

- having regard to the inter-institutional agreement reached when the 1976 budget was adopted and with a view to joint consideration of certain budgetary questions;
  - having regard to the report of the Committee on Budgets (Doc. 97/76);
1. Approves the conclusions reached by the ad hoc working party of the Committee on Budgets as set forth in the explanatory statement in this report. They may be resumed as follows:
    - the budget must set out all Community revenue and expenditure (including loans and credits relating to financial cooperation with the developing countries);
    - the budget must set out all foreseeable expenditure for the financial year under consideration (thus making supplementary budgets an exceptional occurrence);
    - the budget should continue to be produced yearly while allowing for the financing of multi-annual projects (notably by means of commitment appropriations);
    - the budget should be presented as clearly as possible (by means of clear budget entries and nomenclature);
  2. Instructs the Committee on Budgets and its working party to pursue the inter-institutional dialogue in accordance with these conclusions;
  3. Firmly hopes that this dialogue will enable the institutions concerned to reach agreement on the main questions before the opening of the budgetary procedure for the 1977 budget;
  4. Instructs its president to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

## EXPLANATORY STATEMENT

(Report of the ad hoc working party)

I. GENERAL COMMENTS

During both the work on the review of the budgetary provisions of the Treaties and the procedure for the adoption of the 1976 budget, Parliament and the Council agreed on the need to pursue and intensify their dialogue on a number of questions raised by the essential changes in the nature and role of the Communities' budget.

When Parliament's supplementary report on the 1976 budget was adopted, Parliament and the Council agreed to begin this dialogue in the first quarter of 1976. This consultation should make it possible to consider all the main problems posed by the changing character of the Communities' budget:

- Parliament's budgetary powers: further development of these powers within the framework of the current revision of the Treaties and with a view to the future election of Parliament by direct universal suffrage;
- budgetary resources: full implementation of the own resources system through the introduction of Community VAT from 1 January 1977;
- budgetary procedure: decision on a pragmatic procedure for adopting the budget similar to that followed for the 1976 budget - changes in the budgetary timetable in line with the new requirements which became apparent in 1975;
- budgetary technique: improvement of certain technical aspects of the budget including:
  1. budgetization of loans;
  2. budgetization of financial cooperation appropriations and the EDF;
  3. commitment appropriations;
  4. supplementary budgets;
  5. budgetary nomenclature;
  6. budgetary transparency.

At its meeting of 18 November 1975 the Committee on Budgets agreed, on a proposal from its chairman, to set up an 'ad hoc working party on certain budgetary matters'.

As the working party's main task was to consider the various technical aspects of the budget referred to above, it was composed of members of the Committee on Budgets, who had acted as rapporteurs on the Community budgets or who had specialized in the matters under consideration.

Mr COINTAT (rapporteur on the 1976 budget) was appointed chairman of the working party, which also included:

Mr LANGE (chairman of the Committee on Budgets);

Mr AIGNER (rapporteur on the 1975 budget), to report on supplementary budgets;

Miss FLESCH (joint rapporteur on the 1976 budget), to report on the budgetization of financial cooperation appropriations and the EDF;

Mr GERLACH (rapporteur on Parliament's estimates for 1975), to report on budgetary transparency;

Mr LAGORCE (rapporteur on EURATOM loans), to report on the budgetization of loans;

Mr SHAW (who took over from Mr POUNDER as rapporteur on the 1974 budget and acted as rapporteur on commitment appropriations), to report on commitment appropriations.

It was agreed that the working party would meet during the first three months of 1976 and submit its conclusions to the Committee on Budgets in time for the dialogue with the Council due to begin during the first fortnight of April.

In accordance with its terms of reference, the working party held seven meetings and adopted working documents on each of the six subjects listed above.

On 5 April 1976 the working party adopted the whole of the present report and, on the same day, its chairman formally submitted it to the Committee on Budgets.

The working documents are included in the report in the form in which they were finally adopted by the working party. Their main conclusions are first briefly summarized by the working party's chairman.

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## II. SUMMARY OF CONCLUSIONS

In considering the conclusions of the various working documents, it is important to bear in mind the objectives which the working party set itself.

In view of the radically changing character of the Community structure, the nature and function of the budget must be regularly adapted to new political and financial realities.

This must be done by the budgetary authority itself, with the assistance of the Commission. It is right and indeed essential that the two institutions constituting the budgetary authority should be able to exchange information on a virtually permanent basis and confer together on questions of current importance to the Community. Ideally, the dialogue on matters of principle should be planned so as not to coincide with the main events in the budgetary calendar, i.e. when the day-to-day reality of the debate on the draft budget inevitably takes precedence over other considerations. In this way, a good many difficulties and misunderstandings would be avoided during the budgetary procedure itself.

In this connection, the working party's task was to undertake a thorough examination of certain questions which, though apparently of a technical nature, are in fact of fundamental importance for the development of the Community budget. These questions were not chosen at random; they had of necessity to be examined by the working party because of their current importance and their implications for the nature of the budget.

In the course of its study, the working party constantly bore in mind the three aims which Parliament has consistently sought to achieve, namely:

- to adapt changes in the budgetary technique to the necessary strengthening of its powers in this area;
- to secure compliance with the fundamental principles of budgetary law which are generally recognized in the Member States and which confirm the ultimate right of Parliament to authorize and control expenditure;
- to ensure that the budget, which must be a working tool as closely adapted as possible to Community needs, is regularly reviewed.

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The conclusions finally reached by the working party may seem disconcertingly simple, but are the more convincing for being so. Essentially, the various working documents conclude that:

- the budget must record all Community revenue and expenditure (including loan operations and appropriations earmarked for financial cooperation with the developing countries);
- the budget must record all foreseeable expenditure for the financial year under consideration (the need for supplementary budgets would then only arise in very exceptional circumstances);



- the principle of the annuality of the budget must be maintained, but at the same time permit the financing of multi-annual projects (particularly through the device of commitment appropriations);
- the budget must be as clear as possible (through the transparency of its entries and the use of intelligible nomenclature).

As is shown more fully in the ensuing paragraphs, the practical expression of Parliament's budgetary powers is conditional upon observance of these principles.

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### Brief summary of conclusions

#### 1. Budgetization of loans

- (a) all the Community's borrowing and lending operations must be recorded in the budget;
- (b) the principle of such operations and their financial ceiling must be approved each year by the budgetary authority;
- (c) as with non-compulsory expenditure, it must be Parliament which ultimately decides whether such approval should be given.

#### 2. Budgetization of financial cooperation appropriations and the EDF

- (a) all agreements negotiated with the developing countries and having financial implications must be referred to Parliament before their conclusions;
- (b) all appropriations earmarked for the financing of cooperation agreements with the developing countries must be included in the budget;
- (c) Parliament must be more closely involved in the management and control of EDF operations;
- (d) EDF operations must be budgetized by the time the present Lomé Convention expires at the latest.

#### 3. Commitment appropriations

- (a) the principle of the annuality of the Community budget must be respected, but the budget must also permit the financing of multi-annual projects through the wider use of commitment appropriations;

- (b) there must be a single unified provision for commitment appropriations, whose use must be based on more detailed multi-annual estimates; commitment appropriations must be subject to an annual authorization based on, but not rigidly determined by, the multi-annual estimates;
- (c) extension of the use of commitment appropriations must be accompanied by a marked reduction in the use of non-automatic carry forwards.

#### 4. Supplementary budgets

- (a) the initial budget must make a genuine attempt at forecasting expenditure, so that supplementary budgets need only be introduced in the financial year to finance expenditure requirements which are both unforeseeable and unavoidable;
- (b) foreseeable expenditure must include even those items on which no formal legislative decision has yet been taken;
- (c) full use must be made of any procedure - in particular the provisional appropriations procedure - which would make it possible to avoid using supplementary budgets;
- (d) in most cases, rectifying budgets could be used instead of supplementary budgets.

#### 5. Budgetary nomenclature

- (a) the budgetary nomenclature must be regularly revised so as to make the procedure for authorizing expenditure as clear as possible;
- (b) changes to the nomenclature must be made by the budgetary authority and may be jointly agreed upon by the Council and Parliament before the opening of the budgetary procedure itself; failing such agreement, the ultimate decision rests with Parliament, as in the case of non-compulsory expenditure;
- (c) Parliament proposes that, before the opening of the 1977 budgetary procedure, various improvements should be made to both the 'vertical' and the 'horizontal' presentation of the nomenclature.

#### 6. Budgetary transparency

- (a) The decentralization of certain Commission agencies must be strictly limited to cases where this is necessitated by administrative circumstances and should not be allowed to restrict the scope of the budgetary authority's control;

- (b) the decentralization of such agencies must not, in principle, affect the position of their staff, who must be covered by the general provisions applicable to Community personnel, i.e. they must be included on the general establishment plan and be subject to the Staff Regulations;
- (c) such agencies must be in a position to provide the budgetary authority with meaningful information in regard to their costs and cost effectiveness; their external activities (e.g. contracts concluded with third parties) must remain under the control of the budgetary authority;
- (d) the various financial provisions governing these agencies will have to be unified, possibly by means of a general financial regulation common to them all.

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#### Means of giving effect to these conclusions

Depending on their nature, these conclusions may be given effect, either through the simple informal assent of the budgetary authority, or through amendments to texts currently in force, and to the Financial Regulation in particular, or through a decision taken unilaterally by Parliament:

- (a) budgetization of loans and of financial cooperation with the developing countries: the assent of the budgetary authority will alone suffice to establish the principle of the budgetization of this expenditure. Under the 1977 budgetary procedure, Parliament could adopt amendments requiring the budgetization of cooperation appropriations, but the procedure proposed for the budgetization of loans will probably have to be laid down in the Financial Regulation;
- (b) budgetization of the EDF: a number of texts currently in force will have to be revised if the EDF is to be budgetized while the present Convention is in operation; the future EDF may be budgetized on the basis of a formal inter-institutional agreement;

- (c) commitment appropriations: the relevant Commission proposal, which envisages amendments to the Financial Regulation's provisions on these appropriations, will have to be modified in order to accommodate the working party's proposals;
- (d) supplementary budgets: an agreement of principle by the Council and Parliament may suffice;
- (e) nomenclature: an agreement here may be reached before the opening of the 1977 budgetary procedure; failing such agreement, however, the changes sought by the working party could be made through the adoption of amendments to the 1977 draft budget;
- (f) budgetary transparency: a joint agreement between the budgetary authority and the Commission on the principle of having decentralized departments and on their use would seem to be necessary; the introduction of an outline financial regulation for these departments might also be considered.

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Once the budgetary authority has been briefed by the Commission, it is essential that it should reach agreement on these important questions as a matter of urgency - even if it is obliged to act in advance of the revision of the Financial Regulation. Such an agreement would do much to facilitate the debate on the 1977 draft budget and its approval and would keep alive the spirit of pragmatic cooperation which prevailed throughout the 1976 budgetary procedure.

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III

BUDGETIZATION OF COMMUNITY LOANS

Draftsman: Mr LAGORCE

## INTRODUCTION

### The different Community loan mechanisms

1. Like national states and certain international organizations, the European Communities have the right to borrow and to lend capital. This right is not derived from a general capacity to borrow but on various texts which confer upon certain Community bodies various possibilities of borrowing and lending. The legal situation is thus one of diversity and it is matched by practices which, from the point of view of strict financial and budgetary orthodoxy, are somewhat confused. It will be enough to recall briefly the four types of loan, varying widely in kind, which already exist within the Community;

- EIB loans: the European Investment Bank is empowered by the Treaty of Rome to obtain funds from the capital market for the purpose of 'contributing to the development of the common market in the interests of the Community';
- ECSC loans: the High Authority is empowered by the Treaty of Paris to contract loans 'to procure the funds it requires to carry out its tasks';
- 'petro-dollar' loans<sup>1</sup>: instituted by a regulation of 17 February 1975,<sup>2</sup> these are intended to enable the Community to borrow funds for the exclusive purpose of re-lending to Member States experiencing balance of payment difficulties caused by the increased price of petroleum products;
- Euratom loans: the Euratom Treaty expressly authorises this Community to borrow capital for the purpose of financing research or investment in the nuclear sector. This proposal for a regulation, which is in the process of adoption by the Council, introduces a borrowing procedure to help finance nuclear power stations.

### The need to coordinate this machinery

2. These four kinds of loan exist side by side and up to now Community authorities do not appear to have studied in depth how they might be coordinated.

These loans involve large sums of money, estimated at 4,927 m u.a.<sup>3</sup> This figure should be compared with that of the total Community budget, namely 6,268 m u.a.<sup>4</sup> for the 1975 financial year.

<sup>1</sup> Officially referred to as 'Community borrowings': the term 'petro-dollar loans' is used here to avoid confusion with the general concept of Community loans.

<sup>2</sup> OJ No. L 46, 20.2.75, p. 1

<sup>3</sup> This amount is broken down as follows:

- ECSC loans	:	597 m u.a.
- EIB loans	:	830 m u.a.
- Euratom loans	:	500 m u.a. (nominal)
- Petro-dollar loans	:	3,000 m u.a. (nominal)

<sup>4</sup> Including three supplementary budgets

3. Moreover, the Commission is presently considering the creation of new machinery for raising loans to finance export credits (in the context of a 'European export bank') as well as credits for regional development and for the development of certain Community industrial sectors (such as the aviation sector).

4. Borrowing on the capital market undoubtedly provides a method of financing which is both necessary and desirable for certain Community policies: necessary, because the limitations of specifically budgetary resources are becoming increasingly obvious especially as a result of the difficult economic situation in the Community today; desirable, because loans provide a flexible and modern technique, particularly suited to financing the type of industrial investments in which the Community intends to play an increasing part.

5. But more expansive borrowing on the capital market requires that the limits of this policy should be drawn as clearly and as precisely as possible. In other words the legal, technical and political framework of Community borrowing must be more strictly defined.

#### The role of the European Parliament

6. It is only natural that Parliament should be especially concerned with the political context of this activity. Borrowings are as much a part of Community resources as budget appropriations proper; the loans which are the contra-items to these borrowings constitute a form of Community expenditure which, like the appropriations entered in the budget, permit the development of common policies. It is Parliament's responsibility to control, in the broad sense of the term, the overall ceiling of Community expenditure and to make sure that its borrowing position is secure. Moreover, the powers which Parliament presently enjoys do not allow it to play a genuine part in the development of common policies except by way of authorization of expenditure, that is to say through its authority in budgetary matters.

#### The budgetization of loans

7. For this reason, Parliament has recently insisted that Community borrowing should, as far as possible, be reflected in the budgetary framework, pointing out at the same time that budgetization was also desirable for technical reasons. The clearest expression of this desire is to be

found in its resolution of 19 June 1975<sup>1</sup>

'3. Considers that, in line with the relevant legal rules, an entry should be made in the annual budget to cover Community borrowings and lendings, which should be subject to the budgetary procedure applicable to all Community revenue and expenditure and that the Commission must therefore be empowered by the budgetary authorities to borrow funds and to approve loans of sums to be accurately defined and set out in the budgetary documents;'

8. In present circumstances, the budgetization of the borrowing and lending by the EIB is clearly neither possible nor even desirable; however, the precise determination of their field of operation and their coordination with other forms of borrowing are matters which have now acquired a certain urgency.

9. Furthermore, particularly in view of the wider autonomy granted to the Commission by the Treaty of Paris, the legal provisions now in force do not allow the budgetization of ECSC loans. Nonetheless Parliament has gradually succeeded in being associated with the preparation, management and control of the ordinary ECSC budget and this should in time include ECSC borrowing activity. Moreover, as in the case of the EIB, Parliament should ensure proper coordination between ECSC and other Community borrowings.

10. For the moment, therefore, the question of budgetization chiefly concerns Euratom and petro-dollar borrowings - although it should be remembered that it will also concern the new forms of borrowing mentioned earlier, and now under consideration, once they are introduced.

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<sup>1</sup> Opinion on the proposal for a Council Decision empowering the Commission to issue Euratom loans with a view to a Community contribution towards the financing of nuclear power stations. OJ C 157, 14.7.1975 p. 35.



## EURATOM AND PETRO-DOLLAR LOANS

### Difficulties in putting the machinery into operation

11. It should be remembered that the difficulties so far experienced in putting the two mechanisms concerned into operation have been mainly due to the Council's obvious reluctance.

The regulation on raising Euratom loans for financing the construction of nuclear power stations has still not been issued, even though the formal proposal by the Commission dates from 18 December 1974: the question of budgetization and that of EIB participation in the procedure appear to be the cause of this delay.

Furthermore, there is some uncertainty over the 'petro-dollar loans': Member States with balance-of-payment difficulties did not exactly rush to apply for these loans while the Council beat long about the bush before authorizing the Commission to sound out the financial markets to obtain the necessary petro-dollars.

### Budgetization within the framework of the 1976 budget

12. These difficulties notwithstanding, both borrowing mechanisms, as well as those still under consideration, should soon become operational; it is therefore essential for Parliament to begin discussing the principle and the form of their budgetization. The resolution of 15 June 1975, already referred to, clearly states the principle of this budgetization. It was applied by Parliament itself during the vote on the 1976 draft budget; despite Council opposition and going beyond the position adopted by the Commission, Parliament decided that Euratom and petro-dollar borrowings should be included in the budget under both revenue and expenditure - and introduced, by way of amendment, the corresponding budgetary lines<sup>1</sup>, inserting token entries in the appropriate columns.

13. Both the wording of the resolution of 16 June 1975 and that of the amendments<sup>2</sup> showed that Parliament did not consider the token entry as the best way to meet the requirements of budgetization.

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<sup>1</sup>Euratom loans  
- Revenue, Art. 944  
- Expenditure, Art. 329

<sup>1</sup>Petrodollar loans  
- Revenue, Art. 945  
- Expenditure, Art. 480

<sup>2</sup>PE 42.881 and PE 42.887

The token entry simply means, firstly, that the Commission has been authorized in principle to borrow and to lend in accordance with each financial mechanism and, secondly, that creditors are given the assurance that the Community budget will in all circumstances guarantee repayment of the loans.

14. This system does not seem satisfactory in that the budget gives no figure for intended borrowing and lending operations. Parliament therefore takes no decision on this figure and has no means of advance control over the size of the transactions involved and hence over the development of the common policies which they make possible. The only power left to it is that of the veto; if Parliament totally disapproves a particular loan it can prevent the Commission from raising it by replacing the token entry by a dash (-), under both receipts and expenditure.

It cannot be objected that the regulations instituting these loans have themselves set limits to their scope: Parliament cannot accept that the amount of borrowings - no more than that of ordinary expenditure - should be predetermined by basic regulations on which it can only deliver an opinion, even if this opinion can, in certain circumstances, take the form of a consultation procedure; the annual amount of borrowings and lendings should be governed by a budgetary decision in which Parliament should be associated under the procedure laid down in Article 203 of the EEC Treaty.

#### THE PURPOSE OF BUDGETIZATION

15. In Parliament's opinion, the form in which loans are budgetized should allow two complementary goals to be realized:

- the involvement of the budgetary authority in the determination of the financial ceiling for loan operations,
- the grouping, in the annual budgetary document, of the principal figures involved.

#### Setting the financial ceiling

16. In practice neither the Commission nor the budgetary authority is able to determine with accuracy, before the beginning of the financial year in question, the capital sums which can be borrowed on the European and international markets - no more than it can calculate the exact amount of the loans which will be requested by the bodies and enterprises concerned.

Nonetheless the budgetary authority can specify, by means of the budget, the maximum amount which the Commission will be authorized to borrow and lend during the financial year in question under each of the existing loan mechanisms. The budgetary authority would then determine, on the basis of foresee-

able possibilities and requirements in the sectors under consideration, the maximum amount of capital which could be borrowed and later lent by the Commission.

17. The way the two budgetary authorities will share the power to authorize loans remains to be determined. During the revision of the Treaties, the Commission envisaged that the decisions to raise loans should be taken by the Council, with the assent of Parliament, during the budgetary procedure. Although Parliament approved this provision it was not passed by the Council. Thus even after revision, Article 203 does not allow some form of co-decision, unless Parliament and the Council arrive at a sort of gentleman's agreement on the matter.

On the other hand, from a legal point of view, Parliament could, under Article 203, unilaterally set a ceiling on borrowing and lendings: Parliament's budgetary powers are limited only where the volume of expenditure is concerned and in this case there is no genuine expenditure involved.

18. The setting of a financial ceiling raises a further problem: the inclusion in the body of the budget of sums intended for borrowing and lending, whereas the budget in principle only shows appropriations intended to cover actual expenditure. In national budgets, this difficulty is usually overcome by entering these operations in a separate, though integral part of the budgetary document: they are usually entered 'below the line', that is to say after the ordinary budget. It is this sort of presentation that is proposed below.

#### Grouping loans

19. In order to coordinate and rationalize the various loan mechanisms, it would seem advisable to include once a year in the budget all operations relating to the management of Community borrowing.

This would provide the budgetary authority - when it comes to decide the annual ceiling on borrowing and lending - with a convenient and overall view of Community borrowing, enabling it to gauge the probable impact of its budgetary decision on the situation.

TECHNICAL ASPECTS OF BUDGETIZATION

20. In view of the objectives and constraints described above the best solution would be to enter borrowings and lendings in the budget in two different places:

- in the body of the budget
- in an annex to the budget entitled 'EEC capital budget.'

In the budget

21. Borrowing and lending activities would be shown in the Commission's budget in their proper place, i.e.:

- for revenue: in Chapter 94 of the revenue section which groups all the proceeds from borrowings and from the reimbursement of loans; each loan mechanism would be identifiable and entered separately.
- for expenditure: loans raised would be shown in the chapters relating to the common policy which it is intended to finance: for example Euratom loans would be shown in Chapter 32, 'Expenditure in the industrial and energy sectors' - regional loans in Chapter 55, 'Regional fund,' etc...

22. Loans would be listed as three separate entries under both revenue and expenditure:

<u>Revenue</u>	<u>Expenditure</u>
1. Proceeds from loans raised	1. Loans granted by the EEC
2. Reimbursement of loans granted by the EEC	2. Reimbursement of loans raised by the EEC
3. Reimbursement of financial and banking costs	3. Financial and banking costs

In both cases a token entry should be made under 1 in order, as explained above, not to encumber the budget with purely capital operations such as the raising and granting of loans by the Community.

On the other hand, entries 2 and 3 should show the real annual repayments on loans raised and granted as well as the corresponding financial and banking costs.

23. These three entries should be accompanied by observations giving the necessary legal and technical information.

For example, the observation opposite entry 1 should state the legal basis - in practice the regulation - for raising or granting the loan. It should also indicate that the token entry is an authorization from the budgetary authority to borrow and to lend.

Opposite entry 2 'expenditure' it might be specified that this item constitutes a guarantee to the creditor that the Community will pay off the loans.

24. To sum up, only the following would appear in the body of the budget:

- the authorization in principle to borrow and to lend (line 1 accompanied by a token entry),
- the exact volume of repayments envisaged during the current year, corresponding to previous borrowing and lending authorizations.

Entry in the annex to the budget (Capital budget)

25. This entry has a dual purpose which cannot be achieved in the budget itself, viz:

- to show the ceiling figure on annual borrowing and lending authorizations. As already mentioned, this ceiling should not be set by basic regulations on the financial mechanisms but by annual decision of the budgetary authority. This system would provide greater flexibility by allowing an annual review of the ceiling and give the budgetary authority full power to make the decision, as should be the case;
- to ensure that the budgetary documents reflect the annual development of the management of Community borrowing.

26. There would thus be a genuine 'capital budget of the Communities' made up of 2 distinct parts:

- 'capital operations' laying down the maximum amount for borrowings and lendings during the financial year under consideration for each of the existing financial mechanisms. This part would be divided into two sub-sections: revenue (for borrowings) and expenditure (for loans). The deliberations and the decision of the budgetary authority would be confined to this part;
- the 'debt management' part, showing under both revenue and expenditure, the financial situation as regards the repayment of loans granted and raised - the situation regarding financial costs - the total annual balance of capital transactions - and finally the Community's net borrowing position. This part would only appear in the budget for

information since it would do no more than show the financial situation of the Community in the form of a balance sheet of assets and liabilities.

27. Summary

There would be a two-step budgetary procedure for capital operations

- consideration of the general budget for the purpose of providing the Commission with general authorization to borrow and lend and to authorize the annual repayments on previous borrowings and loans;
- consideration of the 'capital budget' annex with a view to setting the maximum annual ceiling on borrowing and lending operations - taking account of information on debt management furnished by this annex.

CONCLUSIONS

28. These conclusions are the recommendations which the working party has drawn up for the Committee on Budgets in anticipation of the Parliament - Council dialogue due to take place in the first quarter of 1976:

- (a) The Commission should be called upon to submit to Parliament the promised report on the balance sheet and the outlook for its loan policy<sup>1</sup>. This report should explain what the Commission aims to do to coordinate the various borrowing procedures already in existence or under consideration;
- (b) the purpose of budgetizing Community loans is to bring them, in the form referred to in this document, within the normal process for authorizing Community revenue and expenditure;

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<sup>1</sup> See Commission declarations

- Mr Cheysson (sitting of E.P. of 19.6.1975) : '...in the autumn of this year the Commission will present a report on all the Communities' lending and borrowing transactions, and when I speak of the Communities I include all their sources of finance'

- Mr Cheysson (sitting of E.P. of 19.12.1975) : '...I felt that it was right that the E.P. should confirm its interest in this report. This confers greater importance on the presentation of this report and on the undertaking which I now give on behalf of the Commission, and which I hope I can give on behalf of the EIB, to report on the coming months...'

- (c) budgetization does not divest the Commission of any of its responsibilities for managing loans;
- (d) budgetization should allow the budgetary authority to set a maximum annual ceiling on capital transactions, based on complete information on the borrowing position of the Community;
- (e) the budgetary authority should set the annual ceiling by a procedure comparable to that for authorizing non-compulsory expenditure which leaves Parliament the last word;
- (f) the introduction of a Community 'capital budget' should make Community loan policy fully and clearly comprehensible;
- (g) the system described above should be introduced with the draft budget for the 1977 financial year;
- (h) ECSC financial transactions should also be budgetized, in a manner to be set out in detail later.

IV

BUDGETIZATION OF FINANCIAL COOPERATION

APPROPRIATIONS AND THE EDF

Draftsman: Miss FLESCH



## I. The case for the budgetization of financial cooperation with third countries

1. The budgetization of the EDF and financial cooperation with third countries in general is intrinsically a political choice. Should development aid policy continue to be the 'sole preserve' of the Member States, or should it, while supplementing national measures, represent an independent policy fully integrated in Community policy as a whole?

The Committee on Budgets believes that this question is relevant to the budget, but nevertheless it is obvious that financial cooperation must not be used as a pretext for calling the global nature of the budget into question.

2. This question also has non-political aspects.

Under the present EDF administration procedure resources come from payments made by the Member States on the basis of a scale of contributions, which means that the Fund falls outside the budget and therefore outside the competence of the European Parliament. This has raised problems in connection with principles that are basically established.

3. From the legal point of view, development aid policy must be brought within the Community's sphere of competence if it is to become a true Community policy.

Initially development aid indisputably fell within the Community's terms of reference. In fact, it is mentioned specifically in Article 3(k) of the Treaty. The Association was originally limited to the overseas countries and territories.

4. Now that many of the overseas countries and territories have gained their independence and the Association has been enlarged to include other developing countries, the legal framework of the Association has also been extended. It is no longer based solely on the provisions of the Treaty itself, but also on conventions between the Community and the Associated States.

Thus, the Association has remained within the Community's sphere of competence: its aim is still the principle defined by Article 3(k) of the Treaty and it is the Community's responsibility by virtue of the powers conferred in particular by Article 238 of the Treaty.

5. The principle that the Community should have its own resources covering all expenditure was clearly and definitively set out in the Treaty of 22 April 1970.

Admittedly, as a result of circumstances, the Council's Decision of 21 April 1970 did not expressly provide for the financing of the EDF from the Community's own resources. However it is not mentioned as an exception, like the supplementary programmes of Euratom, and must therefore be considered to be subject in principle to the system of own resources.

6. The structure of the Association also calls for the integration of development aid policy in Community policy. The Association is entered into by the Community, i.e. the Member States and the Council on the one hand and the ACP countries on the other, the latter acting as a group during the negotiations. It is based on cooperation, and the powers and responsibilities are shared between the Community and the countries benefiting from Community aid.

Budgetization of the EDF and other forms of financial cooperation would give a more faithful reflection than the present system of the part played by the Community as such in the formation and management of the Association.

Clearly, however, if this budgetization is not to hamper the development of other Community policies it must ultimately be accompanied by an increase in the Community's financial autonomy, which is, after all, somewhat restricted at present.

7. In fact, quite apart from other disadvantages, the discussions at the end of the negotiations on the scale of contributions of the Member States paradoxically call into question the Community nature of these negotiations.

The abolition of the discussions, which are neither historically nor economically justified, would considerably simplify a delicate stage in the negotiations, namely the decision on the amount of the appropriations for financial and technical cooperation. The use of own resources for the financing of this cooperation would mean that an activity of a Community nature could be carried out on the basis of Community financing.

Moreover, the system of financing by means of contributions from the Member States is not consistent with the principles for the administration of the association as laid down by the convention. These specify that the responsibility for implementation is to be borne by the Commission and do not provide for the participation of the Member States save in the context of Community institutions.

Finally, budgetization of the EDF could ensure continuity between two conventions and would eliminate the difficult problems of transitional periods, which are always prejudicial to the Associated States.

8. From the financial point of view, a rapid assessment of the situation as regard the Convention of Lomé shows that budgetization of the EDF would not raise any major problems.

The 2,165 m u.a. set aside for subsidies and distributed over a period of five years could be met by the budget without the 1% VAT limit being exceeded.

Moreover, the Community budget would be increasingly called on to finance capital expenditure and subsidies, transfers and loans granted by the EDF could easily be integrated in the policy for the budgetization of Community loans.

9. From the point of view of budgetary technique and principles, the advantages of budgetization of the EDF are clear.

(a) True budgetary transparency can only be achieved if the budget represents a single unit, i.e. if all revenue, appropriations and expenditure are included in the same document. The extra-budgetary administration of the EDF undoubtedly represents a serious violation of this principle.

(b) Budgetization of the EDF could make it possible to group almost all development aid expenditure under a single sub-heading in the budget. This is a pre-requisite for the implementation of a coherent policy in this field.

Nevertheless, two matters must at present remain outside the scope of the budgetization of the EDF:

- Activities financed by the EIB
- The financing of the cooperation agreements between the Community and the Maghreb and Mediterranean countries, the details of which have not yet been worked out. Budgetization should, however, be possible.

(c) Paradoxically, the system of financing the EDF by national contributions also splits the budgetary authority. Only the Council is involved in the decision on the authorization of expenditure,<sup>1</sup> whereas the budgetary authority as a whole - Council and Parliament - is responsible for control in respect of the discharge. This paradox must be eliminated.

(d) Finally, budgetization of the EDF would redress the balance in the budget and would mean that the EAGGF appropriations would account for a more reasonable proportion of the budget.

10. In view of the above, your draftsman is firmly in favour of the solution logically following from the progress in the Community's development.

This solution makes it possible to integrate development aid policy in Community policy as a whole and to lay the foundations for a generous Community external policy.

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<sup>1</sup> In the EDF Committee, whose rules of procedure it adopts.

## II. The problems raised by the budgetization of appropriations for financial cooperation

Even when the political choice has been made, the budgetization of financial cooperation which must be a priority objective for Parliament will nevertheless raise certain problems.

11. In the first place budgetization has not yet been achieved because of the Council's reservations.

(a) Since the Council's Decision of 21 April 1970, replacing financial contributions from the Member States by own resources, the EDF has been an exception to the principles laid down by this decision even though it was not expressly mentioned as such; Parliament has consistently called for its budgetization.<sup>1</sup>

(b) Following the position adopted by Parliament, the Commission of the European Communities submitted a communication to the Council<sup>2</sup> showing that budgetization of the EDF was both feasible and desirable.

(c) With a view to the negotiations on the Convention of Lomé, the Commission submitted a memorandum to the Council recommending the budgetization of the EDF.<sup>3</sup> In its resolution of 10 December 1974<sup>4</sup>, Parliament supported this point of view.

(d) The Commission included in the preliminary draft budget for 1975 an Article 900 on cooperation with the ACP countries.

(e) The Council refused to incorporate the new article and reserved the right to draw up a supplementary budget if, at the end of the negotiations, it decided in favour of the budgetization of the EDF. In its report on the draft budget for 1975<sup>5</sup>, and in its resolution on the negotiations on the Convention of Lomé<sup>6</sup>, Parliament once again called for the budgetization of the EDF and expressed displeasure at the Council's dilatory attitude.

(f) Despite this, the internal agreement of 11 July 1975<sup>7</sup> set up the 4th EDF on the basis of contributions from the Member States.

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<sup>1</sup> Committee on Relations with the African States and Malagasy - meeting of 21.6.1971. See also resolutions on the discharge in respect of the EDF

<sup>2</sup> SEC(73) 2149 final.

<sup>3</sup> Bulletin of the European Communities - Supplement 1/73.

<sup>4</sup> Doc. 388/74.

<sup>5</sup> Doc. 350/74.

<sup>6</sup> Resolution of 10.12.1974. Rapporteur: Miss Flesch, on behalf of the Committee on Development and Cooperation and Opinion by Mr Aigner on behalf of the Committee on Budgets.

<sup>7</sup> Doc. 212/75, second part.

(g) In its resolution of 16 October 1975 on the Convention of Lomé<sup>1</sup>, Parliament deplored this situation. However, it welcomed the 'Member States' agreement in principle to budgetization within the framework of the renewal of the Convention'<sup>2</sup>.

(h) It seems, therefore, that the Council's reservations have to some extent been dispelled. In principle it is in favour of the budgetization of the EDF, but thinks it preferable to wait for the renewal of the Convention before embodying this principle in the texts.

It would therefore be desirable to obtain a more formal undertaking from the Council.

12. The implied aim of the budgetization of the EDF is to give the budgetary authority the power to determine the amount of annual instalments.

13. To ensure that the overall amount of the appropriations is not called into question by Parliament which, unlike the Council, cannot participate directly in the negotiations and is therefore not formally bound by their outcome, it would be desirable for Parliament to be able to express its point of view during the negotiations, perhaps in the context of a cooperation procedure, and also for it to give its opinion on the outcome of these negotiations. Traditionally, this general constitutional principle takes the form of ratification by Parliament of international acts having budgetary implications. Thus, when the budget is adopted, the debate on annual instalments could more easily be kept within the framework of the appropriations as a whole.

14. The problem of how the EDF should be incorporated in the budget is complex and several solutions are possible. Your draftsman has based his proposal on the following considerations:

(a) Although, in the event of budgetization, EDF revenue will be drawn entirely from the Community's own resources, expenditure will be effected in the framework of the Association which, by virtue of its duration, its composition and its international character, is separate from the Community.

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<sup>1</sup> Doc. 283/75.

<sup>2</sup> At the meeting during which it decided on the financing of the 4th EDF by contributions from the Member States, the Council announced its intention of budgetizing the 5th EDF.

(b) On the other hand, development aid expenditure, which mainly takes the form of expenditure on investment, is also to a large extent capital expenditure.

(c) For these reasons it would be desirable for EDF appropriations to be given a special place in the Commission Section of the budget. It is therefore suggested that the draftsman responsible for matters of nomenclature should take account of the sharing of responsibilities between the Community and the ACP countries as regards the definition of the policy and the broad lines of financial and technical cooperation<sup>1</sup>: he should also take account of the large proportion of the EDF's expenditure accounted for by the capital expenditure (30% not counting EIB interventions).

15. The problem of supervision of the management of the EDF should not be treated separately from that of the EDF's place in the budget. The distribution of responsibility for overseeing how expenditure is effected should reflect the sharing of decision powers on the expenditure itself. Those responsibilities are shared between the Community and the ACP countries.

To extend the distribution of responsibilities, the Association's Consultative Assembly might be required to deliver an opinion on the discharge given by the Budgetary Authority on the management of the Fund.

16. Furthermore, it is obvious that budgetization of financial cooperation with third countries would automatically entail reinforcing the retrospective control over this expenditure and bringing it into line with the control over other parts of the budget.

This would mean abolishing the present unsatisfactory system of internal control on a Community basis and introducing normal external control by the proposed Court of Auditors and the budgetary authority.

17. The only major difference between the problems involved in the budgetization of other forms of financial cooperation with third countries and the EDF's position lies in the scale of this cooperation and the number of countries associated. However, the agreements establishing such cooperation will be concluded or renewed in a relatively short time and in any case before the Convention of Lomé expires.

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<sup>1</sup> See Articles 41(2) and 43 of the Convention of Lomé.

18. The conclusions or renewal of these association or cooperation agreements with Malta, the Maghreb countries and other Arab countries (Jordan, Syria, Egypt, etc.) and with Portugal, could provide an indication of the position of the Commission and Council on this matter.

As there is some danger that Parliament will be presented with a fait accompli, it would perhaps be advisable for Parliament to notify the Commission and the Council of its views immediately and in particular, to ask the Commission to define its position clearly.

### III. Stages of budgetization of financial cooperation with third countries

19. Your draftsman considers that the budgetization of financial cooperation with third countries, associated or otherwise, is a priority objective that must be put into effect immediately. However, it must be admitted that in the present circumstances, since the Lomé Convention will enter into force on 1 April 1976 and a number of steps have already been taken towards its implementation, budgetization will present certain difficulties. Nevertheless, it is perfectly feasible to include the association agreements with the Mediterranean countries and the cooperation agreement with Portugal in the budget as soon as they are concluded or renewed.

Parliament will have to be consulted on all such agreements having financial implications.

In the case of the Convention of Lomé, your draftsman considers gradual budgetization, to be completed before the expiry of the present convention, to be both desirable and practicable.

20. The internal agreements of 11 July 1975 confer upon the budgetary authority (and, after the entry into force of the Treaty amending the budgetary provisions of the Treaties establishing the European Communities, on Parliament alone) the power of giving discharge in respect of the financial management of the EDF.<sup>1</sup>

21. This provision should be seen as a measure preparatory to the exercise by Parliament of its budgetary powers over the EDF.

This is so because power to grant discharge in respect of expenditure effected logically implies the power to authorize this expenditure, and these two aspects of the same budgetary power can only be separated provisionally and for reasons of expediency.

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<sup>1</sup> Article 31 of the internal agreement.

22. In view of this, the Financial Regulation for the 4th EDF to be adopted by the Council when the Convention enters into force should enable Parliament to obtain all the information on the management of the EDF and to deliver its opinion on all aspects of that management.

It is essential, therefore, that Parliament should play a part in the drafting of the Financial Regulation for the 4th EDF<sup>1</sup>.

23. Thus, under the terms of this Financial Regulation, Parliament should be entitled to receive:

- (1) The information now supplied to the Member States or to the Council of Ministers on the use of the funds (Article 29 of the internal agreement) and on the management of Community aid (Article 41(2) of the Convention);
- (2) The estimates of the commitments and payments (Article 7 of the internal agreement);
- (3) Information on the objectives pursued by the ACP countries (Article 16 of the internal agreement);

and possibly deliver an opinion on those documents relating to the administration and control of the EDF.

24. After a transitional period, and before the date on which the present Convention expires, mechanisms should be introduced to enable the budgetary authority to exercise its powers in this area to the full.

IV. To sum up, discussions with the Council and the Commission should be aimed at establishing a joint position for the three Institutions on:

- the principle and timing of the implementation of the budgetization of the financial cooperation;
- the form of Parliament's approval of the progress and outcome of negotiations on the conclusion or renewal of agreements;
- the method of incorporating appropriations for financial cooperation in the budget (revenue and expenditure).
- the need to confer upon Parliament, in the administration of financial cooperation with third countries, the power to grant a discharge similar to the power it has in regard to the management of the various sections of the Community budget;
- Parliament's right of co-decision in respect of the EDF Financial Regulation;

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<sup>1</sup> It should be recalled that Article 30 of the internal agreement of 11.7.1975 makes no provision for Parliament's participation in the drafting procedure. Such participation must therefore be obtained by means of a gentlemen's agreement between the three Institutions.



- initially, the notification for debating purposes of documents concerning the management of the EDF;
- subsequently, but before the expiry of the present Convention, the establishment of the budgetary powers to be conferred upon the Council and Parliament as the budgetary authority.

INCOME AND EXPENDITURE OF THE 4th EDF

(Internal agreement of 11 July 1975 on the financing and administration of Community aid).

Article 1

1. (omitted)

2. The Fund shall consist of 3,150 million units of account to be financed by the Member States as follows:

Belgium	196.875 million units of account
Denmark	75.600 million units of account
Germany	817.425 million units of account
France	817.425 million units of account
Ireland	18.900 million units of account
Italy	378.000 million units of account
Luxembourg	6.300 million units of account
Netherlands	250.425 million units of account
United Kingdom	589.050 million units of account

3. The amount stated in paragraph 2 shall be allocated as follows:

(a) 3,000 million units of account for the ACP States, comprising:

2,100 million units of account in the form of grants  
430 million units of account in the form of special loans  
95 million units of account in the form of risk capital  
375 million units of account in the form of transfers pursuant  
to Title II of the Convention;

(b) 130 million units of account for the Countries and Territories  
and the French Overseas Departments, comprising:

65 million units of account in the form of grants;  
40 million units of account in the form of special loans;  
5 million units of account in the form of risk capital;  
20 million units of account as a reserve;

(c) 20 million units of account in the form of transfers for the Countries and Territories, pursuant to those provisions of the Decision which concern the system for stabilizing export earnings.

4. (omitted)

5. (omitted)

#### Article 2

To the amount laid down in Article 1(2) shall be added up to 400 million units of account in the form of loans granted by the Bank from its own resources under the conditions laid down by it in accordance with its Statute.

These loans shall be allocated as follows:

- (a) up to the amount of 390 million units of account, for financing operations to be carried out in the ACP States;
- (b) up to the amount of 10 million units of account, for financing operations to be carried out in the Countries and Territories and the French Overseas Departments.

Articles 3 and following: (omitted).

V

COMMITMENT APPROPRIATIONS

Draftsman : Mr Michael SHAW

## Introduction

1. To set in perspective the consideration of the issue of the extension of the use of the commitment appropriations, the existing provisions in the Financial Regulation<sup>1</sup> that pertain to the idea of commitment appropriations are cited at Annex I to this document.

Furthermore, the great volume of carry forwards between financial years may be attributable in large part to the unwieldy nature of the existing commitment appropriations/payment appropriations position; Annex II shows particulars of carry forwards into each of the past two financial years.

## Disadvantages of some aspects of the present position

2. The wide spread of provisions relating to commitment appropriations takes from the clarity and transparency of budgetary procedures. The differences between the arrangements for commitments in the four areas - Social Fund, Regional Fund, EAGGF and research and investment - make comprehension of the Financial Regulation overall less easy and renders the work of Parliament in exercising political choices more difficult. Parliament has stressed, on many occasions, the need to avoid unnecessary complexities in Community texts.

3. There arises out of the present arrangements regarding appropriations a situation which can be summarized as follows. Appropriations are entered in the budget for specific actions which cannot be completed and paid - or even committed - in the course of the budgetary year. Where a commitment is validly entered into but not paid, automatic carry forward is allowed. However, where no commitment has been entered into, the possibility of non-automatic carry forward exists<sup>2</sup>. The amounts involved in these carry forwards are considerable: Parliament's role in regard to them is minimal and the final decision is made late in the financial year<sup>3</sup>. The clarity of the budget as an instrument of financial policy is reduced, because the budget as adopted contains elements which do not have to be met during the financial year; as well, expenditure possibilities brought forward from earlier years by way of the non-automatic carry forwards arrangement, which can be added at a late stage, are many times the amount which Parliament can add to the budget; moreover, effecting democratic Parliamentary control is most limited, in this area.

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<sup>1</sup> OJ No. L 116, 1.5.1973.

<sup>2</sup> Article 6 of the Financial Regulation.

<sup>3</sup> As late as Autumn, in 1974.

Existing arrangements have not worked smoothly

4. While there exists in the Financial Regulation the possibility of operating commitment authorizations in certain fields, this facility has not led to the smooth functioning of multi-annual programmes in the social or research and investment areas. Moreover, the specific entries in the Financial Regulation relating to commitment appropriations appear to have acted as a brake on the extension of the arrangement to other articles in the budget.

5. The apparent tardiness of the Council to reach decisions in the past has also compromised the possibility of the full role of the commitment appropriations, as an instrument of budgetary policy, being operated. For instance, within the research and investment programme, the attitude of the Council has been, in a general way, to delay to the maximum (taking account, of course, of the critical situation of Community research and, therefore, for political reasons) the entering of the annual tranches of payment appropriations. It could be held, too, in regard to the Social Fund, that the commitment authorization procedure, permitting the possibility of articulating the Fund, has been more a matter of form than of substance.

6. This is not a criticism of the commitment appropriation concept; rather, it is a statement of the fact that, over past years, the budget was not prepared in a genuinely longer-term perspective. Time and again, the annual budget has been criticised because of its seeming ad hoc nature and because decisions which should have been taken at the outset were left over for inclusion in a later supplementary budget. More attention should have been paid to the likely level of future year activity, so as to make the budget a comprehensive statement of Community financial activity.

Reservations about extension of the commitment appropriations concept

7. In the past, reservations have been expressed about the generalization of the commitment appropriations concept. This could be attributed, in part at least, (i) to a desire not to have funds blocked by being assigned theoretically<sup>1</sup>, (ii) to the fact that commitment appropriations operate in the budgets of only certain Member States<sup>2</sup>, (iii) to the delicate problems of a political nature that could arise when fixing figures for a particular financial year and (iv) to the implementation problems which could arise unless items were correctly interpreted and the methods of operation were carefully set out<sup>3</sup>.

<sup>1</sup> The entering of commitment appropriations should not lead to an interminable delay in the completion of projects.

<sup>2</sup> This technique is used notably in Germany and France; in the U.K., for instance, the principle of annuality is strictly adhered to.

<sup>3</sup> The commitment appropriations concept, if liberally used without strict adherence to prompt implementation, could take from annuality and transparency and might operate to separate widely the budget decision from the expenditure action.

### Treaty aspects

8. A possible doubt about the appropriateness of the institutionalization of the commitments appropriations concept might arise from the provision of the EEC Treaty at Article 199 which states that

'All items of revenue and expenditure of the Community, including those relating to the European Social Fund, shall be included in estimates to be drawn up for each financial year and shall be shown in the budget.

The revenue and expenditure shown in the budget shall be in balance.'

It could be feared that the unlimited recourse to the concept of commitment appropriations would be of a nature that would modify the very essence of the Community budget as an annual estimate: in other words, that it might take from the principle of annuality. However, a powerful counter-argument is provided by the following comments on the use of the triennial forecast, the multi-year budget aspect and the practice followed generally in Member States. Moreover, putting the annual budget in the longer-term context adds to clarity, gives added meaning to the budget for the year ahead and is in accord with the broad approach adopted by most National Parliaments - which is to adopt the budget having regard to the longer-term implications of on-going policies.

### Triennial forecasts

9. The Commission attached to the preliminary draft budget 1976 a set of financial forecasts for the year 1976 - 1978. This exercise responded to the Council's decision of 21 April 1970 which asked that the annual budget be set within the framework of multi-annual forecasts. These forecasts, when further elaborated, will present the budgetary authority with considerably strengthened data for forming an overall view of the medium-term implications of the budget under consideration. It is to be expected that, in the coming years, these forecasts will help to set budgetary policies in a fuller perspective. Institutionalized commitment appropriations could serve as a hinge between the annual budget and the longer-term budget<sup>1</sup>.

### Multi-year aspect

10. Improved coherence could be given to the consideration of the full implications of budgetary decisions by viewing the financial impact of policies either about to be initiated or already under way in the context of a programme of several years. To enable all those concerned - budgetary authority, Commission, Member States and beneficiaries - to plan ahead in an orderly fashion, outlines of the probable level of commitments spreading over a few years would appear to be desirable. The principle already applies in certain areas of the budget of the Communities; and, moreover, national authorities, international

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<sup>1</sup> As well, a multi-annual approach would give an image of greater continuity to the general budget of the Communities while facilitating planning in the sectors most affected throughout the Communities.

organizations and private concerns, when settling their expenditure for the year ahead, look at the longer-term aspect as well.<sup>1</sup>

#### Impact on carry forwards

11. As can be seen from Annex II, carry forwards in the past two financial years were equivalent to about 38 per cent and 29 per cent of the annual budget as adopted.<sup>2</sup> On two occasions last year, Parliament adopted resolutions dealing with carry forwards. In these resolutions, attention was drawn to the danger which this procedure could pose for Parliament's role in the budgetary sphere; it was pointed out that the possibility of ready access to the carry forward facility may contribute to less attention being paid to the need to implement Community schemes promptly and suggested that the Community's system of expenditure control should be reappraised. In the resolution adopted on 20 June 1975 (Doc. 143/75), Parliament indicated 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 Parliament before the completion of the procedure for adopting the budget for the following year. This aspect is most relevant to the present effort to find a suitable solution to the commitment/payment problem. Parliament is particularly conscious of the need to have a system which would reduce, as far as possible, the incidence of carry forwards of a non-automatic nature.

#### Revision of the Financial Regulation provisions

12. It is considered that a single article in the Financial Regulation should contain the procedure relating to commitment appropriations. This should be to the effect that the budgetary authority may, where proposals relating to projects extending over several years are concerned, decide to show both commitment and payment appropriations in the budget, acting on the advice of the Commission.

13. Sub-paragraphs of the new article would set out any particular arrangements relating to the EAGGF guidance and the research and investment appropriations. Transitional arrangements would require to be worked out in regard to the four present systems.

14. Following is an outline of the budgetary presentation format that would appear to be most useful.

On left-hand page: commitment for year; payment appropriations for year with comparative figures for preceding year.

On right-hand page: (i) estimates of the commitments for the coming three to five years and (ii) estimates of the likely level of payments for the coming years.

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<sup>1</sup> In this way, a fuller view can be had of the financing involved - as well as calling for an effort to quantify the economic and social impact of the measures.

<sup>2</sup> 7.6% and 10.4% respectively being non-automatic carry forwards.



Say, in budget of 1977, for a project likely to extend over four years:

	Commitment	Payment appro- priations	<u>Commitment appro- priations</u>	<u>Payment appro- priations</u>	
1977	40	20			
			1978	60	50
			1979	40	30
			1980	10	20
			1981	-	30
			(all amounts in m u.a.)		

15. This presentation in the budget document as adopted, together with an amplified explanation in the financial statement, would add to clarity and would be in harmony with the wishes of Parliament as expressed in Amendments Nos. 53, 68 and 59 to the 1976 draft budget. However, figures for the years 1978 to 1981 would be indicative in nature and in no way binding. The figures would be open for decision in the course of the settling of the budget, each year, at which time up-to-date information on the sphere of activity in question, as well as on developments in the current year, would be taken into account.

16. It is, of course, highly probable that the actual pattern of commitments and payments would not follow that envisaged in the first year of the programme. To illustrate, the total shown in the example at paragraph 14 could be taken.

	<u>Commitments</u>	<u>Payments</u>	<u>Cumulative balance of commitments available<sup>1</sup></u>	<u>Cumulative amount of payments</u>
1977	30 (40)	25 (20)	150 (150)	25 (20)
1978	70 (60)	45 (50)	120 (110)	70 (70)
1979	0 (40)	40 (30)	50 (50)	110 (100)
1980	50 (10)	30 (20)	50 (10)	140 (120)
1981	(-) (-)	10 (30)	(-) (-)	150 (150)

in m u.a.; figures in brackets show the first  
year indicative estimates

<sup>1</sup> at outset of financial year

17. Many other variations are possible. The essential element, however, is that the amount of the commitments and payments appropriations would be fixed, during the course of the adoption of the budget, in accordance with normal financial criteria and in the light of the most up-to-date information.

This would clearly make for greater transparency; it would result in the budget being a far more accurate reflection of estimated developments. Moreover, it would add to the democratic control of Parliament over the budget by removing the massive emergence of non-automatic carry forwards over which Parliamentary control is negligible.

In order that non-automatic carry forwards should be minimized, it is desirable that a rectifying letter be submitted by the Commission before 1 November, in the light of up-to-date information from Member States. This would permit of late stage adjustments to certain lines in the budget. Parliament would thus be informed in adequate time and recourse to non-automatic carry forwards would be reduced.

#### Basis of estimation of figures

18. Important elements in the determining of the entries - commitment and payment - in the budget are the accuracy of the basis of calculation and the technique used to analyse activities and to determine the appropriate sum to be included in the budget. Clearly, certain areas of the budget do not lend themselves to precise estimation; however, some activities likely to be suitable for coverage in the commitment appropriation procedure could be assessed and quantified reasonably closely. The system of analysis should be flexible and should contribute positively to the rational allocation of resources, as well as permitting of speedy forward review of future prospects. The fate of the PPBS technique is, therefore, somewhat perturbing - because the team engaged in its consideration has been disbanded by the Commission.<sup>1</sup>

19. A multi-annual type of operation, such as that envisaged, would require the operation of a carefully articulated accounting system involving rapid review of outturn and "forward looks". In this way, budget entries could be calculated with greater accuracy.

#### Summary

20. The budget as a policy instrument is enhanced when set in a medium-term or longer-term context.

Parliamentary control of major policies can be improved within such a broader framework.

To relate budgetary policy to the longer-term or to the medium-term, the extended use of multi-annual budget techniques as apply in certain Member States is highly desirable.

The preparation of multi-annual projects, even in selected areas only and not across the budgetary board, involves the determining of commitments so that Parliament, the Executive, and the public can usefully plan ahead, over a span of years, in the knowledge that a certain expenditure programme will be broadly followed.

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<sup>1</sup> See the reply of the Commission to Miss FLESCHE's questionnaire PE 37.883 on the Report of the Audit Board on the accounts for the financial year 1972.

It would appear, in all the circumstances, that the commitment arrangements within the Financial Regulation, and which relate to four areas, lack the flexibility which would appear to be desirable.

The European Parliament has constantly urged that procedures should be transparent - that they should be as readily understood by the public as by technical and accounting experts; these desiderata should apply as far as possible to commitment appropriations.

- Wider recourse to commitment arrangements<sup>1</sup> would create a need for
- effective techniques for the computing of future year activities so that commitment entries in the budget should be as close as possible to actual requirements;
  - close review of the actual outturn with a watch on the quarterly returns so that the pattern of utilization - which would be indicative of the accuracy of estimates - would be deduced as early as possible;
  - a clear presentation of the commitment appropriation details in the financial statement;
  - closer link-up with the multi-year forecasts.

This change would best be effected by a re-drafting of the Financial Regulation in regard to commitment appropriations so that a single unified provision would apply to this concept; phasing in arrangements would be required for the existing provisions and for specific adjustments to be made at a late stage in the budgetary procedure to take account of changes which the Commission might wish to make to the commitment entries as a result of analysis of details of commitment and payment patterns during the closing months of the financial year in train.

#### Annuality aspect

21. In the report<sup>2</sup> on the draft general budget for 1976 (Doc. 306/75), Mr COINTAT made the following remarks on the annuality aspect:

'The principle of an annual budget means that expenditure is authorized for only a limited period of one year. Obviously, in some cases, the principle has to be adjusted to meet the requirements of the modern management of public finances (financing of plans or programmes spread over several years). But it must not be forgotten that the purpose of the annual budget principle is to enable the budge-

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<sup>1</sup> The Commission's Explanatory Memorandum on the distinction between commitment appropriations and payment appropriations is reproduced at Annex III, for ready reference.

<sup>2</sup> Doc. 361/75, p. 17.

tary authority to control public revenue and expenditure at regular and short intervals; the budgetary authority cannot agree to relinquish control of one category of expenditure for several years on the pretext that it is financing a multi-annual project. The European Parliament must therefore give careful consideration to any amendment that might call into question the principle of an annual budget.'

As is indicated in the foregoing paragraphs, especially in paragraph 8 above, the wider use of commitment appropriations would not in any way take from the essence of the Community budget as an annual estimate. Indeed, setting the annual budget in the longer-term context insofar as certain projects were concerned would add to clarity and would ensure that the budget for the year ahead was adopted in the light of fuller information on the overall implications of the measures envisaged.

Finally, it must be clearly recognized that, in regard to commitment appropriations, the role of Parliament must be at least as comprehensive as it is at present in regard to non-compulsory expenditure. The wider use of this technique will not take from the annuality of the budget; neither must it in any way erode the budgetary power of Parliament.

#### Conclusions

22. Annuality would be safeguarded and, indeed, enhanced by recourse to wider use of commitment appropriations. The technique would apply to projects extending over several years and not, of course, to all items in the budget.

Annual revision would be a key element in the operation of the system and this, in turn, would require sound expenditure review and analysis techniques.

The institutionalization of commitment appropriations should be linked, ideally, to the minimizing of recourse to non-automatic carry forwards.

Provisions in the Financial Regulation relating to commitment appropriations should be consolidated in a single article and made uniform.

Summary particulars of commitment appropriations should be grouped, for ready reference.

The extension of the use of commitment credits should follow from a clear 'common declaration' by the three Institutions regarding the exact nature, scope and objectives of the change. Furthermore, there should be an undertaking to revise Article 6 of the Financial Regulation to provide that, for non-automatic carry forwards to be authorized, the prior common accord of the Council and Parliament would be required. As well, the position regarding EAGGF appropriations - carry forwards of which at present are automatic for a period of up to five years<sup>1</sup> - should be brought into line with the proposed procedure for non-automatic carry forwards generally.

<sup>1</sup> See Article 6(5) of the Financial Regulation.

ANNEX I

Provisions relating to commitment appropriations  
in the Financial Regulation

Provisions applicable to research and  
investment appropriations<sup>1</sup>

Article 95

3. Commitment appropriations within each envelope shall be designed to cover all the legal obligations which the Commission may contract.

They shall represent the upper limit of expenditure to which the Commission may commit itself during the financial year in question for the attainment of the objectives to which this expenditure relates.

Commission appropriations shall remain valid until they are cancelled under the budgetary procedure.

Provisions applicable to the  
European Social Fund<sup>1</sup>

Article 104

1. In accordance with the Council Decision of 1 February 1971 and without prejudice to Article 10 (2) of that Decision, the budget for a given financial year shall include under the title 'European Social Fund':

- (a) appropriations for that financial year;
- (b) authorization of commitments for the two following financial years.

2. Subject to Article 6, appropriations for a given financial year shall cover payments which fall to be made during that year in respect either of commitments entered into during that same financial year or to commitments entered into during preceding financial years in pursuance of such authorizations as are referred to in paragraph 1 (b).

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<sup>1</sup> OJ No. L 116, 1.5.1973, pps. 22, 25.

3. Authorizations of commitments shall fix for the two following financial years the amounts up to which commitments may be entered into during the financial year concerned, under Articles 4 and 5 of the Council Decision of 1 February 1971. They shall be grouped according to budget year and broken down according to the budgetary nomenclature.

Provisions applicable to the EAGGF -  
Guidance Section<sup>1</sup>

Article 114

1. Appropriations provided for in Article 6 (5) of Regulation (EEC) No. 729/70 shall be entered as such in the budget for the financial years in question and shall be included in the appropriations to be covered in accordance with the financial measures applicable to that financial year.

2. Appropriations to be re-entered from preceding financial years shall be entered as such in the budget for the financial year in which it is provided that they shall be committed. They shall be covered by revenue in accordance with the financial provisions applicable to the financial year for which they are committed subject to the special provisions of Article 3 (5) of the Decision of 21 April 1970, which article governs the appropriations for the Guidance Section of the European Agricultural Guidance and Guarantee Fund, of which the first entry relates to a budget before that of the 1972 financial year.

3. Appropriations to be re-entered from preceding financial years, the commitment of which has not been provided for in the financial year in question, shall be included in a special entry in the budget comments. They shall not require to be covered by the revenue of that financial year. However, they shall constitute commitment authorization in so far as they are the subject of commitment decisions pursuant to the measures taken within the framework of the common agricultural policy. In that case, the relevant amendments in respect of revenue shall be carried out through the budgetary procedure.

<sup>1</sup> OJ No. L 116, 1.5.1973, p.26.

Provisions applicable to the European  
Regional Development Fund<sup>1</sup>

Article 115b

1. The budget of the European Communities for a financial year shall show under the Title for the Fund for the financial year concerned:

- (a) commitment appropriations; and
- (b) payment appropriations.

2. Commitment appropriations shall represent the upper limit of expenditure to which the Commission may commit itself for the implementation of the corresponding operations.

Commitment appropriations which are not used by the end of the financial year for which they are shown in the budget shall remain available during the following two financial years.

3. Commitment appropriations shall represent the upper limit of expenditure which may be authorized or paid during each financial year to cover commitments entered into during the same financial year or preceding years.

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<sup>1</sup> OJ No. L 73, 21.3.1975, p.46.

ANNEX II

Amounts involved in non-automatic carry forwards  
in 1974 and 1975

(1) Non-automatic carry forwards 1973 to 1974 <sup>(a)</sup>	388.3 m u.a.
(2) Non-automatic carry forwards 1974 to 1975 <sup>(b)</sup>	601.3 m u.a.
(3) Budget 1974 as adopted <sup>(c)</sup>	5,079.5 m u.a.
(4) Budget 1975 as adopted <sup>(d)</sup>	5,825.3 m u.a.
(5) 1973 to 1974 non-automatic carry forwards as percentage of the 1974 budget = $\frac{(1)}{(3)}$	7.6%
(6) 1974 to 1975 non-automatic carry forwards as percentage of the 1975 budget = $\frac{(2)}{(4)}$	10.4%
(7) 1973 to 1974 automatic carry forwards:	1,562.2 m u.a.
(8) 1974 to 1975 automatic carry forwards:	<u>1,081.2 m u.a.</u>
(9) (7) as percentage of (3):	30.7%
(10) (8) as percentage of (4):	18.5%

(a) Doc. 110/75

(b) Doc. 100/75

(c) OJ Vol. 17, No. L 115, 29.4.1974, p. 45

(d) OJ Vol. 18, No. L 54, 28.2.1975, p. 49



ANNEX III

EXPLANATORY MEMORANDUM<sup>1</sup>  
RELATING TO THE  
PROPOSAL FOR A COUNCIL REGULATION  
AMENDING THE FINANCIAL REGULATION OF 25 APRIL 1973  
APPLICABLE TO THE GENERAL BUDGET OF THE EUROPEAN COMMUNITIES  
(COM(75) 425 final, TRANSMITTED TO THE EUROPEAN PARLIAMENT  
AND THE COUNCIL ON 11 AUGUST 1975)  
(OJ No. 199, 30 AUGUST 1975, PAGES 3 AND 4)

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(Distinction between "appropriations for commitment"  
and "appropriations for payment")

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<sup>1</sup> Working Document of the Departments of the Commission

EXPLANATORY MEMORANDUM  
RELATING TO THE  
PROPOSAL FOR A COUNCIL REGULATION  
AMENDING THE FINANCIAL REGULATION OF 25 APRIL 1973  
APPLICABLE TO THE GENERAL BUDGET OF THE EUROPEAN COMMUNITIES  
(COM(75) 425 final, TRANSMITTED TO THE EUROPEAN PARLIAMENT  
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(Distinction between "appropriations for commitment"  
and "appropriations for payment")

In the memorandum on the distinction between appropriations for payment and appropriations for commitment which might be applied in the general budget of the Communities<sup>1</sup>, the Commission had made a detailed study of the problems involved in the application of such a distinction within the framework of the general budget. The Commission had concluded that such a distinction would have both advantages and disadvantages.

Since then, the entry into force of the Financial Regulation of 25 April 1973, its application for more than two years and the development of common policies have enabled a better assessment to be made of the system currently applied and new problems to be discovered.

Following its reexamination, the Commission decided that a distinction between appropriations for commitment and appropriations for payment could also be made in other fields, as has meanwhile occurred in the case of the European Regional Development Fund. The memorandum mentioned above reveals that it is pointless to apply this distinction to expenditure incurred during the financial year for which the appropriations are allocated. However, in the case of expenditure on projects which must necessarily be spread over several years, the application of such a distinction means that there is no need to freeze the appropriations which are required for commitment to the projects concerned, but demonstrably can be spent only during later financial years.

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<sup>1</sup> SEC(72) 842 final, 1.3.1972

Carry-overs of appropriations from one financial year to the next, which have received sharp criticism from the Budgetary Authority both during Council meetings and during debates in the Parliament, will become exceptional cases. Budgetary transparency, which all the Institutions are seeking to improve, will thus be increased. At the same time the management of the budget will be simplified.

Neither the operating expenses nor the expenditure from the Guarantee Section of the EAGGF would seem to require the application of a distinction between appropriations for commitment and appropriations for payment, as such expenditure is effected during the financial year for which the appropriations are granted.

However, certain fields (e.g. industry and energy) involve projects requiring a longer-term commitment. The proposed distinction would clearly be useful for the appropriations for financing such projects. Furthermore, experience has shown that in the case of expenditure from the Social Fund, the distinction between authorizations for commitment and appropriations for payment is not sufficient to solve the problems posed by the often very long time lags between the commitment of the appropriation and the actual payment. A complete separation of appropriations for commitment and appropriations for payment in this field could provide an effective remedy which would be particularly advantageous in that it would prevent excessive carry-overs.

In order to take these points into account, the Commission proposes to adopt a simple solution which will enable the Budgetary Authority to define, case by case, each field in which it might prove beneficial to distinguish between appropriations for commitment and appropriations for payment.

The definitions of appropriations for commitment and appropriations for payment must be as clear as possible. The Commission proposes the following definitions:

- Appropriations for commitment

Appropriations entered in the budget in order to enable the Commission to contract the necessary legal obligations to cover the total cost of specific projects to be implemented over several financial years. They constitute the upper limit of expenditure which the Commission is authorized to enter into commitments in order to effect the operations involved in the projects concerned.

- Appropriations for payment

Appropriations entered in the budget to allow of the authorization and payment - before the end of the financial year - of the expenditure corresponding to the state of completion of the commitments entered into during the current or preceding financial years.

In theory, the distinction between appropriations for commitment and appropriations for payment could be applied to all multiannual projects. However, the Budgetary Authority must take a separate decision on each project within the framework of the budgetary procedure. The advantage of this method is that it is as balanced as possible at institutional level: the Commission proposes that a distinction be made between appropriations for commitment and appropriations for payment; the Budgetary Authority (Council and Parliament) takes a decision, after discussing the matter, when the annual budget is adopted. Every year the requisite changes can thus be made without the need for a special procedure. This institutional aspect is of prime importance since, as these are budgetary problems, it would be abnormal for the decision to be taken by one single institution without being included in the budgetary decision-making procedure.

It goes without saying that those fields in which it has already been decided that a distinction must be made between appropriations for commitment and appropriations for payment (appropriations for research and investment, appropriations for the European Regional Development Fund) are not affected by the text proposed by the Commission.

In the Commission's opinion, the amendment of the Financial Regulation, which is the object of the text annexed hereto, thus satisfies the requirements of doubt as to the validity of the structures which have been established and used for a long time. It ensures the gradual achievement of greater budgetary transparency on a pragmatic and flexible basis and with due regard for the budgetary powers of the Institutions.

VI

SUPPLEMENTARY BUDGETS

Draftsman : Mr Heinrich AIGNER

## INTRODUCTION

1. The principle of annual budgets<sup>1</sup> is intended to allow the budgetary authority to take political decisions in the light of an overall consideration of all budgetary appropriations.

The application of this principle, under which appropriations are granted annually and may not be altered during the financial year, gives rise to problems on account of its inflexibility and its necessarily arbitrary nature.

2. These difficulties are especially likely to arise because of events occurring during the year which have financial implications, requiring a quick budgetary decision the need for which was not apparent at the time of the annual decision on the budget. In such cases it is normal practice for the budgetary authority to make an exception and alter the content of the annual decision through the instrument of a supplementary or rectifying budget. It is also clear that only that authority may be given this right. From the purely theoretical point of view, the procedure of supplementary and rectifying budgets may be understood as a mechanism that provides the necessary flexibility in connection with the annual decision on the budget while preserving the rights and powers of the budgetary authority.

3. At the same time, the practical application of this procedure during the past few years has shown that appropriations have been used for quite different purposes, which has detracted from the value of the principle of annual budgets and prevented the budgetary decision from being a political decision.

### Use of supplementary budgets by the institutions

4. In accordance with the principle of annual budgets and financial regularity, supplementary budgets must be limited to extraordinary and unavoidable cases. They must not restrict the power of the budgetary authority to fix the content of the budget.<sup>2</sup>

#### A. Are supplementary budgets the exception?

5. The most recent opinions on this subject are to be found in the answers to the questions put by the rapporteur on the 1976 budget.<sup>3</sup>

<sup>1</sup> The expenditure shown in the budget is approved for one financial year except where otherwise provided in the financial Regulation provided for in Article 209 of the EEC Treaty.

<sup>2</sup> It should also be pointed out in this connection that the provisions of the Financial Regulation on supplementary and rectifying budgets (Article 1(4)) are extremely vague and should be clarified.

<sup>3</sup> Doc. 361/75, rapporteur : Mr COINTAT.

The Council considers that supplementary budgets need not be used only in exceptional cases. It considers the use of supplementary budgets as a 'general principle'<sup>1</sup> which is well-founded and was used 'on several occasions in previous years'.<sup>2</sup>

6. The Council considers that supplementary budgets form part of the normal procedure, particularly with regard to the EAGGF: since agricultural expenditure varies, it considers supplementary budgets as the normal way of making the necessary adjustments.

The Commission, which used this procedure in the field mentioned for the first time last year<sup>3</sup>, does not consider that supplementary budgets are part of the normal procedure.

B. Are supplementary budgets unavoidable?

7. Since supplementary budgets are of an exceptional nature, they may be used only where they are truly unavoidable. The budgetary decisions contained in them may be applied neither under the normal procedures nor within the framework of the annual budget, nor as a normal method of amending the annual decision on the budget to take cost trends into account (provisional appropriations, frozen appropriations, transfers of appropriations, etc.).

This last point is accepted by all the institutions. Preliminary draft supplementary budget No 3/75<sup>4</sup>, which was submitted by the Commission to increase the staff in its Directorate-General for Development and Cooperation, was rejected by the Council and Parliament. The reason given was that the measures proposed, which were considered unavoidable, could have been carried out in other ways; the appropriations available for the financial year in progress could have been used in a more rational manner or appropriations from the next financial year could have been used in advance.

8. Opinions differ, however, as to the fixing of the conditions under which expenditure should be entered in the annual budget, in other words, the conditions under which appropriations may be regarded as 'foreseeable'.

Until recently, the Council's position on both points was very strict.

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<sup>1</sup> Answer to Question 12 (Doc. 361/75)

<sup>2</sup> Answer to Question 3 (Doc. 361/75)

<sup>3</sup> See letter from Mr CHEYSSON accompanying the letter of amendment to the 1976 budget.

<sup>4</sup> COM(75) 320 final

- (a) In the Council's view, measures involving expenditure must previously have been the subject of a formal legislative decision. The Council considered that the budgetary decision should in no way prejudice the decisions on new Community measures if these measures remained to be considered by the legislative authority and if no legal basis to warrant their entry in the budget yet existed.<sup>1</sup>
- (b) The Council also contended, with regard to action which had already been decided upon, that the amount of expenditure should be accurately foreseeable. The necessary adjustments during the year should be undertaken by means of a supplementary budget.<sup>2</sup>

9. The Commission<sup>3</sup> and Parliament<sup>4</sup> had hitherto considered that where modifications of expenditure were unforeseeable in detail but were recognizable in terms of the overall financial implications, a contingency reserve should be entered in the annual budget in order to avoid supplementary budgets.

10. After the decision had been taken on the 1976 budget, the Commission's position on this became less clear and positively ambiguous:

In preliminary draft supplementary budget No 4/75<sup>5</sup>, the Commission proposed to provide for a contingency reserve in the annual budget in order to avoid supplementary budgets in the field of agricultural policy; it emphasized in doing so that the budgetary implications of the agricultural price policy were completely foreseeable.

On the other hand, at about the same time the Commission submitted the annual budget for 1976<sup>6</sup> and made no provision for a reserve, claiming that it was impossible at that stage to foresee the budgetary implications of the agricultural price decisions. It justified this position by referring to the Council's statement of 23 May 1974, which again recommended the use of supplementary budgets for increases brought about by adjustments to agricultural prices.

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<sup>1</sup> Answer by the Council to Question 4.

<sup>2</sup> See the statement contained in the minutes of the Council's meeting of 23 September 1974.

<sup>3</sup> See for example the 1975 preliminary draft budget.

<sup>4</sup> See in particular the resolution on the 1976 draft budget (Doc. 361/75), paragraph 13(b) and paragraph 16 of the explanatory statement - COINTAT report.

<sup>5</sup> Preliminary draft supplementary and amending budget No 4/75 - COM(75) 476, page 2 of general introduction.

<sup>6</sup> Letter of amendment to the preliminary draft general budget - letter by Mr CHEYSSON, page 2.



11. In individual cases, however, the Council seems once more to have departed recently from its restrictive viewpoint, since during the second reading of the draft budget for 1976 it suggested that certain appropriations should be included in the budget as a kind of reserve, although no decisions had yet been taken on the use of those appropriations.<sup>1</sup>

C. Implications of supplementary budgets for the power of the budgetary authority to decide the political content of the budget

12. (a) In practice, supplementary budgets are initiated by a request<sup>2</sup> from the Commission to the budgetary authority that the annual budget in question be amended. This procedure does not in itself encroach upon the powers of the budgetary authority.

The circumstances under which this request is normally handled, however, cause much of the actual substance of the powers of the budgetary authority to be lost.

(b) Supplementary budgets give a false overall impression of the appropriations entered. An overall view, however, is essential for a political decision.

Generally, supplementary budgets as such call the annual decision on the budget into question. This can be tolerated only if the supplementary budget can be justified by unforeseeable and unavoidable reasons and if the significance of the annual decision remains substantially intact.

(c) On the other hand, it must be recognized that many supplementary budgets adopted during the past few years were foreseeable when the preliminary draft of the annual budget was drawn up. For example, before the 1975 budget was adopted it was already apparent that supplementary budgets would be necessary for the Regional Fund and for urgent measures in development aid policy and agricultural policy, for which the necessary appropriations had been entered in the preliminary draft.<sup>3</sup>

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<sup>1</sup> See in particular Amendment No. 84.

<sup>2</sup> Contrary to the provisions of Article 1(4) of the Financial Regulation, which limits the right of initiative of the Commission in this case and stipulates that preliminary draft supplementary budgets must be submitted on a proposal from the Assembly, Council or Court of Justice.

<sup>3</sup> See preliminary draft supplementary and amending budget No. 4/75 (COM(75) 476, general introduction, page 3)

(d) Finally, the systematic use of supplementary budgets seriously disturbs the continuity of the multi-annual Community policies which as a result follow an undesirably erratic course.

13. Under these circumstances, the annual decision on the budget must be considered incomplete. With this procedure the annual decision on the budget is limited to expenditure which has already been decided elsewhere. The budget thus loses significance and becomes a mere summary of accounts. The result is that the decision on the budget essentially covers only a part of the foreseeable expenditure and the volume of the budget is artificially reduced. For example, the 1973 budget, which amounted to 4,245 m u.a., was increased by over 20% in four supplementary budgets and reached a total of 5,134 m u.a. The supplementary budgets thus conceal important increases in expenditure.

14. This procedure was harmful enough when the budget was still adopted by the Council. Today, however, such a procedure is no longer acceptable, since the Council would in effect be able to reduce the transparency of the budget adopted by Parliament, which is responsible to the citizens of the Community.

15. It is a feature of supplementary budgets that they involve a fresh decision on expenditure that has already been fixed. It is clear that the procedure outlined above tends to impart to legislative decisions a more important place than the decision on the budget. This temptation is understandable, if one considers that legislative decisions are firmly in the hands of the Council, whereas its influence over the budgetary decision appears to be dwindling.

The draftsman considers it appropriate for the legislative and budgetary functions to be coordinated. That does not mean, however, that the latter should be subordinated to the former.

16. The present practice with regard to supplementary budgets, however, reflects the helplessness of the Council and its inability to take planned decisions except under the pressure of urgent events.

## Conclusions

The general considerations outlined above permit us to draw a number of conclusions. These should form the subject of consultation with the Council, which must be asked to give appropriate undertakings.

- (a) First of all, a clear distinction should be made between supplementary budgets and rectifying budgets.

Supplementary budgets relate to unavoidable and unforeseeable expenditure arising from external events beyond our control occurring during the year in progress. A natural catastrophe is a typical example of a situation in which a supplementary budget might be necessary.

Rectifying budgets concern not the overall amount of expenditure but its allocation, and involve transfers of appropriations without introducing new measures.

This distinction allows a much more restrictive attitude towards supplementary budgets.

Furthermore, the rectifying budget as defined above is a method by which Parliament may exercise its budgetary power of co-decision in those fields where its role is at present purely advisory.

- (b) In practice, when a new Commission proposal has financial implications for the current financial year, it must be accompanied by a decision modifying the budget, i.e. either a rectifying budget or a supplementary budget, as appropriate.
- (c) Supplementary budgets must be avoided as far as possible. The original budget must therefore be comprehensive and include everything that is foreseeable. In the specific case of expenditure arising from the fixing of agricultural prices, it is possible to lay down guidelines in the annual budget.

The annual budget should not be divided into instalments; it should be the instrument of a genuine budgetary and financial policy, one which is comprehensive and autonomous.

- There must be an orthodox budgetary procedure appropriate to the principle of own resources: expenditure should be linked to a 'revenue' section fixed for the current year.

- Finally, the following procedures would allow these principles to be implemented:

- . entry in the annual budget of appropriations frozen under Chapter 98 'non-allocated provisional appropriations';
- . entry in the annual budget of appropriations frozen under individual budget headings;
- . more systematic use of the entry of commitment appropriations;
- . entry under individual chapter headings of provisional appropriations for unforeseeable events;
- . use of borrowing authorizations;
- . better use of cash resources and advances.

VII

BUDGETARY NOMENCLATURE

Draftsman: Mr COINTAT

REVIEW OF THE BUDGETARY NOMENCLATURE

1. In the course of the procedure leading to the adoption of the draft budget for 1976, Parliament discovered various inadequacies in the nomenclature used for the Community budget. While the procedure was still under way, it succeeded in having some amendments to the nomenclature adopted but felt, like the Council, that a further review was necessary and that the matter should be considered jointly with the budgetary authority during the first quarter of 1976<sup>1</sup>.

2. The working party's instructions to the draftsman were therefore to propose practical improvements to the nomenclature in order to facilitate and clarify the procedure for authorizing expenditure. This document will, like other working documents adopted by the working party, be submitted to the Committee on Budgets and will then serve as a basis for a dialogue between the Parliament and the Council.

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3. Before considering the nature of these improvements, it should be determined which authority is responsible for implementing them and under what procedure. The texts in force provide for two different procedures depending on whether the nomenclature is supplemented or amended:

- the nomenclature may be supplemented within the framework of the budgetary procedure as provided for in Article 15(4) of the Financial Regulation:

'4. The budgetary nomenclature annexed to this Regulation shall be mandatory in respect of apportionment of revenue and expenditure under separate titles, chapters and articles. Where necessary, it may be supplemented within the framework of the budgetary procedure'<sup>2</sup>

- it may be amended by legislative means in accordance with Article 209 of the Treaty:

'The Council shall, acting unanimously on a proposal from the Commission:

(a) make financial regulations specifying in particular the procedure to be adopted for establishing and implementing the budget and for presenting and auditing accounts (...)'.

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<sup>1</sup> Paragraph 2 of the Resolution of the EP,  
OJ No. C7, 12.1.1976, rapporteur: Mr COINTAT

<sup>2</sup> OJ No. L 116, 1.5.1973, p. 7

4. If the nomenclature is supplemented, it is therefore the budgetary authority that decides; in practice this should mean that the decision lies with Parliament, which has the last word on all amendments to the budget except for amendments to compulsory expenditure.

If the Financial Regulation, and thus the nomenclature, is amended, it is the Council alone that decides. It must, however, be added that the budget treaty now being ratified provides for consultation of Parliament and, moreover, that the conciliation procedure is now to be applied in the event of the Financial Regulation being amended.

5. The legal boundary between 'supplement' and 'amendment' is a very narrow one. It may be felt, however, that there is a certain logic in giving preference to the role of the budgetary authority for any alteration of nomenclature that determines the very form of the budget. Experience suggests, moreover, that it is the budgetary authority that is more competent in matters of nomenclature: during the adoption of the 1976 draft budget, the European Parliament succeeded in having various supplements and amendments to the nomenclature adopted on the final reading despite opposition from the Council<sup>1</sup>. Since the Council did not question Parliament's competence and right to the last word on the matter, this may be regarded as a sort of precedent.<sup>2</sup>

6. The legal ambiguity of this situation should in fact lead the three institutions concerned to seek an informal agreement prior to any 'improvement' of the nomenclature; it would then be of little importance whether the improvement was made by legislative or budgetary means. It is only for the lack of such an agreement that the procedure for amendment would assume its full importance and that Parliament would have to find arguments for using the budgetary method. It is nevertheless still the case that any amendment to the nomenclature during the budget vote could prove to be as complex and difficult as was the case with the 1976 budget.

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7. The Financial Regulation should be revised both vertically and horizontally:

- with the vertical layout of the budget columns, figures can be entered for several financial years. There are three columns in the budget documents (preliminary draft/draft/adopted budget) for appropriations for the financial year under consideration (n), appropriations for the current financial year (n-1), and expenditure

<sup>1</sup> See amendments to Title V, Chapters 50 to 54, Social Fund

<sup>2</sup> When the Financial Regulation is next revised Parliament should insist that budgetary nomenclature should be decided by the budgetary authority alone as part of the procedure whereby the budget is adopted.

for the preceding financial year (n-2). The Committee on Budgets has already expressed its intention to supplement this presentation;

- horizontally, the budget is subdivided into titles, chapters, articles and items. Here, various improvements may be envisaged, mainly for the purpose of grouping together some items that are too diversified, breaking down articles that cover too much expenditure<sup>1</sup>, and clarifying certain situations.

A. VERTICAL CHANGES IN THE NOMENCLATURE

8. The purpose of such changes would be to facilitate and supplement the reading of the columns for the various financial years under consideration.

Several amendments may be envisaged here in order to supplement the information given in the vertical columns.

The following could for instance be proposed:

1. in the preliminary draft and draft budgets: add a column showing the estimates of expenditure for the current financial year (n-1);
2. in the draft budget: add a column showing the amount of appropriations proposed by the Commission in the preliminary draft.

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<sup>1</sup>In this connection, it might be proposed, for instance, that budgetary items amounting to less than 100,000 u.a. should not be created and that those amounting to more than 50 m u.a. should be subdivided.



B. HORIZONTAL CHANGES IN THE NOMENCLATURE

9. Many more improvements are possible here. The main ones concern :

- research and investment appropriations
- the Regional Fund
- the EAGGF, Guarantee Section
- Title 9.

Other minor amendments may also be considered; and these are summarized further down.

(a) Research and investment appropriations (Article 330) :

(approx. 135m u.a. for 1976)

10. These appropriations are currently grouped together under a single budget article and are then given in detail in an annex (Volume V) which is particularly difficult to understand. For this reason, the power of amendment of the budgetary authority - and of the European Parliament in particular - is in practice limited since total appropriations cannot be easily amended (Article 330) if the various components are not clearly listed. To remedy this situation it would suffice to repeat in the Commission budget (Volume IV) the main items of expenditure (in this case the 9 titles) of the annex (Volume V). Article 330 would then be subdivided into 9 items showing the appropriations proposed for each of the 9 titles of the annex; it would then be easier for the budgetary authority to assess and amend the appropriations;

(b) Regional Fund appropriations (Article 550) :

11. These appropriations amount to 300m u.a. for payment grouped together under a single article, which makes it practically impossible to exercise the right of amendment in a balanced way; the right of amendment can be used only in a general and approximate fashion. Now, it appears that the Fund is intended to finance three specific forms of regional investment:

- investment in industrial, craft and service activities;
- investment in infrastructures for these activities;
- investment in infrastructures for hill-farming and less-favoured areas.

It is thus possible to envisage the creation under Article 550 of 3 separate items on each of which the budgetary authority would deliver a separate opinion.

(c) EAGGF, Guarantee Section (Titles 6 and 7)

12. In this section of the budget 10 items alone represent more than 40% of total appropriations, without any more details being given for them than for other budget items. Here there can be no question of creating new items since they are already sufficiently differentiated; instead an explanation should be given of the appropriations proposed. The method of calculating EAGGF, Guarantee Section, appropriations could, for instance, be explained in the remarks column of titles 6 and 7: amount of aid per unit multiplied by the estimated volume of production. This supplementary information would make it easier to assess whether requests for appropriations are justified. It could also quite well be included in the explanatory statement in the preliminary draft budget, but it seems preferable to include it opposite the budget entry so that the appropriations and their justification can be read simultaneously.

(d) Aid to developing countries (Title 9)

13. In the present nomenclature Title 9 groups together appropriations for aid to developing countries and 'other expenditure' - in other words, provisional appropriations (not allocated or not specifically provided for). It is advisable to separate these two categories of appropriations and to devote a specific title to aid expenditure alone, 'other expenditure' being shown under a different title.

Moreover, it is becoming urgent to set out the aid appropriations more coherently. At present they are subdivided into three chapters:

- Food aid (Chapter 92)
- Special cooperation measures (Chapter 93)
- Exceptional measures to assist developing countries (Chapter 94)

14. As a result of developments in the Community's development aid policy, this nomenclature already appears to be out-of-date and a new lay-out could be proposed along the following lines:

- Chapter 90: Financial and technical cooperation with associated countries
- Chapter 91: Financial and technical cooperation with countries that have concluded cooperation agreements with the Community
- Chapter 92: Financial and technical cooperation with other developing countries
- Chapter 93: Special measures for financial and technical cooperation
- Chapter 94: Special measures to assist developing countries
- Chapter 95: Food aid

15. It should be noted that this is merely an example, given the changing nature of this sector of Community activity and the continuing uncertainty about the budgetization of certain appropriations intended as aid to developing countries. Moreover, this model would have to be radically changed if the principle of budgetization of the EDF were adopted one day.

(e) Provisional appropriations (Chapters 98 and 99)

16. As we have seen above, it would be advisable to separate these appropriations from those intended as aid for developing countries and to group them under a separate new title (Title 10). The nature of both categories of appropriation would also have to be clarified:

- provisional appropriations not allocated (Chapter 98)
- expenditure not specifically provided for (Chapter 99)

17. As far as Chapter 98 is concerned, it is paradoxical to talk of appropriations not allocated when these appropriations are in fact allocated since they can be transferred only to specific items when the budget is adopted; the term 'not allocated' should therefore be dispensed with.

As regards the appropriations for 'expenditure not specifically provided for' (Chapter 99) their raison d'être and the use to which they are in fact put remains somewhat of a mystery.

(f) Other possible amendments

18. Careful reading of the budget nomenclature (especially Volume IV, Commission) reveals numerous inaccuracies, not to say anomalies, of which the most important are as follows:

Article 224: operating cost of the computer centre: the three items of expenditure do not meet with the wishes of the European Parliament, which at the end of its study of the computer centre had requested the inclusion of two supplementary items, so that there could be clear differentiation between expenditure on the hire of computers and expenditure on external services;

Article 251: expenditure for formal meetings and meetings in general: all the committees set up within the EEC are listed on two pages of remarks; it would be preferable to show under four budget items only the four groups of committees and to enter the proposed appropriations for each;

Article 350: radiation protection: this is a typical example of unnecessary multiplication of items since an appropriation of 220,000 u.a. alone is spread over six items when it could be covered by one.

Chapter 43: European schools: a large appropriation (16m u.a. in 1976) is devoted to subsidies for the six European schools. A more practical and detailed presentation of these appropriations would enable the budgetary authority better to assess their usefulness and justification.

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#### CONCLUSIONS

19. The improvements suggested above are of a fairly general nature and are subject to a joint agreement on the part of the budgetary authority, regardless of the procedure for the adoption of the 1977 draft budget.

They may also be helpful to the budgetary authority when it considers the preliminary draft budget for 1977 and possibly decides that it is necessary to adapt the nomenclature for that financial year.

At that stage, it will also be more convenient to raise certain additional questions - relating, for example, to blocked appropriations and token entries, as well as to the nature and role of the remarks.

VIII

BUDGETARY TRANSPARENCY

Draftsman: Mr GERLACH

## INTRODUCTION

1. By the standard definition of budgetary transparency the budget should be so clear and understandable as to reveal plainly the purpose of expenditure, why it is estimated at a certain level and how the appropriations are used. A budget that is clear and easy to read is essential for the budgetary authority to be able to exercise its powers fully, which it does through co-decision in the process of drawing up the budget and through control of budgetary expenditure.

2. The transparency of the budget is impaired, however, when a large number of decentralized Community activities are financed from block appropriations, giving rise to mini-budgets which are more or less autonomous<sup>1</sup>.

3. In carrying out his mandate, the draftsman visited six institutions presenting problems of this type - the Statistical Office, the Office for Official Publications, the Computer Centre, the Euratom Supply Agency, the European Cooperation Association (ECA) and the Business Cooperation Centre<sup>2</sup> - and discussed certain matters with those in charge, in particular budgetary expenditure and accounting<sup>3</sup>. The draftsman considers that this basic information is indispensable. In their absence, general recommendations on the transparency of the budget of the Communities would have to remain theoretical and without solid foundation.

4. From the plethora of complex individual cases the following basic problems can be deduced:

- I. Organizational and legal forms of decentralization of certain Community activities
- II. Its effects on the budgetary policy of the Communities, in particular on budgetary transparency
- III. Management of Community Funds and budgetary transparency

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<sup>1</sup> See, for example, Articles 301, 307, 359, 420, 421, 422, 423, 440.

<sup>2</sup> For the financial provisions applying to the European Centre for the Development of Vocational Training and to the European Foundation for the Improvement of Living and Working Conditions see the draftsman's report on this subject (PE 42.862).

<sup>3</sup> Before making these fact-finding visits, the draftsman sent out questionnaires which were answered in writing. These questions and answers go into some detail and are available on request to members of the working party.

- IV. The annual budget and multi-annual action programmes
- V. Internal accounting and charging for services supplied to outside organizations
- VI. Comparisons between costs and performance in the non-profit-making public sector
- VII. Standardization of the multiplicity of financial regulations in order to achieve greater transparency
- VIII. Budgetary transparency and control by the European Parliament.

While not claiming to be comprehensive, the following remarks - relating essentially to practical problems - are designed to stimulate discussion on these points.

I. Organizational and legal forms of decentralization of certain Community activities

5. As a result of the setting of specific tasks, performance of such tasks on an inter-institutional basis or political exigencies, certain areas of Community action are not organized in normal administrative units with income and revenue included in the usual way in the budget of the institution concerned, but in separate decentralized units which have very different legal forms. (The question whether a specific organizational structure of this type is always rendered imperative by material circumstances must remain open.)

6. The Statistical office<sup>1</sup> and the Business Cooperation Centre<sup>2</sup>, for example, are administrative units which, are fully integral parts of the Commission's organization. The Statistical Office is peculiar in that it concludes with Member States or experts very far-reaching agreements that have financial implications. The Statistical Office also has a separate section in Brussels.

7. The Office<sup>1</sup> for Official Publications has an interinstitutional form of organization, and therefore also has a certain amount of budgetary autonomy, a fact that scarcely contributes to the transparency of the Community budget. Nevertheless, the area of activity concerned requires a flexible policy in regard to staff which is not possible under Community regulations.

<sup>1</sup> 'Office' does not however necessarily imply individual legal personality.

<sup>2</sup> Attached for administrative purposes to Directorate-General III (Industrial and Technological Affairs) of the Commission.

8. The Office for Official Publications is a good example of an undertaking governed by public law in which officials are engaged in activities outside the province of a civil service. For this reason it has often been asked whether the Office should not be transformed into an enterprise governed by private law. It is obvious that these decentralized forms of organization give rise to a number of problems with regard to the transparency of the budget.

9. The fundamental question which must therefore be asked is in what cases do practical and functional considerations make it essential for Community activities to be decentralized. Only in these cases should a devolved form of organization be accepted.

A principle can be established whereby those Community bodies which carry out purely advisory work do not require a decentralized structure or individual legal personality or any special status.

Mention should be made at this point of the Euratom Supply Agency. Although, pursuant to Article 52 (2b) of the EAEC Treaty, the Agency possesses 'an exclusive right to conclude contracts relating to the supply of ores, source materials and special fissile materials coming from inside the Community or from outside', it has never - with the exception of one unimportant occasion - exercised this right. The draftsman is therefore inclined to question the agency's organizational structure. The purely advisory work of the agency does not, surely, warrant a separate legal personality and financial autonomy<sup>1</sup>.

10. In contrast with the Euratom Supply Agency, the decentralized organizational structure of the European Cooperation Association (ECA) can be accepted on the basis of the functional criteria postulated above. The Association is registered in Belgium as a non-profit making organization and therefore finds itself in a very anomalous position; under Belgian law the staff are private employees paying Belgian taxes and social security contributions. They are divided into the staff at the headquarters and staff in the developing countries who are mainly employed as experts or delegated auditors of the Development Fund. In addition, 23 members of staff are paid from the resources of the ECA although they are employed under private law at the Commission (DG VIII).

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<sup>1</sup> Article 54 (1) of the EAEC Treaty, which establishes this legal position, would therefore seem to be in need of revision.



The Association's organizational structure can also be seen in another light since it has the difficult task of administering a widely dispersed staff with speed and efficiency.

II. Effects of decentralization on the budgetary policy of the Communities, in particular on budgetary transparency

11. The existence of such divergent types of organization is naturally detrimental to clear presentation of the budget.

For example, although the Computer Centre's activities are inter-institutional, its revenue and expenditure, like those of the Statistical Office, are incorporated in the budget of the Commission, and its expenditure is not in all cases distinguished from other Commission expenditure. It may therefore be doubted whether the principle of individual appropriations - as required for the purposes of budgetary transparency - has been respected. (Both agencies have the power to conclude agreements with financial implications).

12. To take a further example, the Office for Official Publications, according to a memorandum from the Directorate-General for Budgets<sup>1</sup>, no longer wishes to have its revenue and expenditure incorporated in the various chapters of the Commission's budget, but would like a single overall title and an appropriate informative appendix. It justifies this on account of the greater budgetary clarity which would supposedly result from it (!). It remains to be seen, however, whether the budgetary authority can agree to this limitation of powers.

13. The Community institutions mentioned so far have - as stated above - one point in common: they have multiple contractual relations with external bodies (Member States, printers, experts). This not inconsiderable use of funds is only included in the budget in aggregate. Where this money goes and and whether it is spent prudently remains largely unknown to the budgetary authority. The inevitable consequences of this situation are that, for example, printing cartels are set up, information on contracts is refused on account of the commercial nature of the activity, sliding-price clauses are introduced in anticipation and price increases during the term of the contract become the rule<sup>2</sup>. Similarly, computers and whole staffs are contracted out.

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<sup>1</sup> Memorandum of 15.12.1975 to the Secretary-General of the Commission.

<sup>2</sup> See the Audit Board's report on the accounts for the financial year 1974, paragraph 49. pp. 54 et seq.

The Committee on Budgets must consider whether it can accept these anomalies, particularly in view of the supervisory functions it is required to assume.

14. The Euratom Supply Agency and the Cooperation Association receive global subsidies which, in the case of the Supply Agency, take the place of the charge provided for in the agreement and which is not in fact levied.

As stated above, this type of procedure is unsatisfactory since the budgetary authority is given no information on how money is subsequently spent. Inevitably, unexplained movements of staff take place which are necessary to make good deficiencies in the staff complement and adequate supervision becomes impossible.

### III. Management of the Community Funds and budgetary transparency

15. This section is not intended to explain the management of Community Funds and it could not do so. However, the draftsman has, by way of example, looked at the budgetary aspect of the Social Fund and the EAGGF and discovered two large problem areas which will have to receive greater attention in future if we are to arrive at a more satisfactory budgetary transparency. These are 'information for the decision-maker' and 'responsibility of the Commission'.

16. The information which the budgetary authority has on the management of Funds is particularly sketchy and makes a clear assessment impossible. The electronic data processing system has still not been put into service and it is surprising to discover that the Computer Centre has for some time left some programming jobs for the Guidance Section untouched although it is well known that the Centre is still working below full capacity.

A systems analysis for the application of data processing techniques in the administration of agricultural markets has been carried out. A harmonization directive will shortly be submitted for the Social Fund in order to approximate national legislation, and this will facilitate the introduction of data processing.

Clear accounting, i.e. profit and loss figures, lists of errors and indicators to show up irregularities and the supply of information needed when drawing up the new budget could be substantially improved by the use of data processing.

17. According to the annuality principle, only that revenue which is likely to be spent during the financial year can be entered in the budget. A poor example of this is the 'Mansholt Reserve' (once simply the structural instrument in the 'Mansholt Plan'. It is included in the budget as a token entry, but every year amounts are used from this reserve for purposes which no longer have anything to do with the 'Mansholt Reserve' as such. A nonsense has been made of this fundamental concept.

18. The particularly important areas corresponding to the budgetary principles of unity and clarity, i.e. the inclusion of all Funds in the budget, have already been examined in other working documents and need not be repeated here. It must, however, be noted that Parliament will continue to have limited powers of co-decision as long as the management of the Community's finances tolerates a jumbled up conglomerate of unconnected Funds outside the budget which are financed in different ways and which make a transparent and comprehensive appraisal impossible.

IV. The annual budget and multi-annual action programmes

19. This general problem can be well illustrated with reference to the planning of the activities of the Statistical Office (e.g. investigations linked to programmes) or the Office for Official Publications (e.g. publications appearing over a number of years).

20. Representatives of the Statistical Office have explained to the draftsman that the statistical programmes are not set up until late in the financial year, not only because of inherent factors but also because of technical shortcomings in coordination. Consequently even the external contracts with the statistical authorities and offices of the Member States or with experts who work for the Office may be concluded very late in the day. Another effect is the delay in the utilization of budgetary appropriations and in the outflow of funds. Also, in many cases, payments are made in two stages, i.e. a payment in advance and a final payment on completion of the work. The result of this timelag is that, almost without exception, total payments do not correspond to cost estimates.

21. The results with regard to the implementation of the budget are as follows:

- unusually high proportion of transfers<sup>1</sup>
- recourse to non-allocated provisional appropriations (Chapter 98)
- the tendency to use commitment authorizations

22. Factors inherent in the planning of activities must not be allowed to destroy budgetary transparency and undermine other principles, such as that the budget should be annual and itemized. These are of the greatest importance if the European Parliament is to assert its budgetary powers fully. The budget must be adapted and dovetailed to the pattern of multi-annual activity planning. It must nevertheless be ensured that programmes lasting several years do not prejudice the annual decision on the budget.

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<sup>1</sup> Audit Board's report on the accounts for the financial year 1974, paragraph 36.

V. Internal accounting and charging for services supplied to outside organizations

23. The area under investigation ought to be extended to include the administration of cash resources and accounts - and should thus not be confined to the budget document as such - in order to achieve greater transparency here as well.

24. Internal accounts ought to set out how the total expenditure of the Community is distributed between the individual institutions. Since the Community budget is broken down by institution, failure to take account of exchanges of goods or services would result in a management system out of step with the budget.

25. On the other hand, if administration is to be as simple and efficient as possible, unnecessary work in connection with internal settlements should be avoided. For example, the Office for Official Publications charges the institutions for the services it supplies to them. However, it transfers back 50% of the proceeds from the sales of its publications<sup>1</sup>.

26. In future, a close watch will also have to be kept on charging for services supplied to outside bodies if the necessary clarity is to be achieved. For example, the Computer Centre intends to supply data to the University of Paris against payment. The policy of the Business Cooperation Centre is not to charge for its services. The Euratom Supply Agency ought to receive payment for its services but is instead given a subsidy from the budget.

VI. Comparisons between costs and performance in the non-profit-making public sector

27. The usefulness of services in the non-profit-making public sector (Computer Centre, Office for Official Publications, Statistical Office) cannot be measured in terms of figures. Furthermore, the costs are so to speak 'always covered.' However, it is possible to undertake a cost analysis comparing performance with expenditure.

In all those areas of Community activity which are not concerned with government or administration but where business criteria have to be applied, cost structures ought to be created. The Office for Official Publications has made a start on this with its analytical accounting system. This still has to be considerably improved, however, before it becomes an efficient

<sup>1</sup> Audit Board's report on the accounts for the financial year 1974, paragraph 36

instrument of cost comparison<sup>1</sup>. Unless certain activities are costed and cost-effectiveness analyses are carried out in this area of budget implementation, the budget loses all meaning, because the appropriations do not show what is actually achieved through the use of the funds. This undoubtedly limits the budgetary authority's ability to exercise its control function.

#### VII. Standardization of the multiplicity of financial regulations in order to achieve greater transparency

28. Until now the implementation of the budget has not satisfied the minimum requirements of budgetary transparency even in terms of legal system. A separate financial regulation is created for almost every new decentralized institution<sup>2</sup>. The budgetary authority is thus confronted with an impenetrable legal tangle of the most disparate financial regulations.

29. It therefore seems necessary to establish uniform legal rules for the whole financing machinery. We can no longer go along with the Council in creating new systems for revenue and expenditure for each new activity of the Community. A systematic legal structure is required followed by harmonization of the unnecessary divergencies in the types of financial regulation.

#### VIII. Budget transparency and control by the European Parliament

30. From the draftsman's remarks on the present situation, it is possible to reach a conclusion on the future control activity of the European Parliament: the budgetary authority must find a middle path between involving itself in the administrative details of budget implementation on the one hand, and allowing lack of transparency to impair the exercise of its control function on the other. The transparency of the budget decreases the more decentralized the activities of the Communities become. This must not lead to a budgetary policy that is impossible to follow or understand, nor may it make budgetary control more difficult than it is.

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<sup>1</sup>This would also provide a basis for calculating production costs in cases where the Community has to fix (Official Journal) or intends to fix (information booklets) prices for its services or products.

<sup>2</sup>E.g. European Vocational Training Centre, Foundation for the Improvement of Living and Working Conditions.

31. In order to prepare for future control activity, it is vital to create a transparent budget showing all important financial data in a single informative document and to construct a transparent system for the implementation of the budget both in legal and organizational terms. The latter aspect must on no account be neglected.

32. In this connection it must be stressed that the Commission should not be allowed to escape the responsibility it bears, pursuant to Article 205, first paragraph, of the Treaty, with regard to the utilization of Fund appropriations. It should not allow its authority in this area to be undermined by the activities of the management committees. This is of decisive importance for the budgetary authority's control activities, which become less effective when decisions are left to the states to sort out among themselves.

### CONCLUSIONS

33. In order to achieve greater transparency in the budget of the Communities and in the implementation of the budget, the following measures need urgently to be taken.

34. Functional pruning of all decentralized bodies and administrative units of the Community. Partial financial autonomy and separate legal personality should only be granted in cases where these are dictated by the activities in question and operational factors. Purely advisory activity does not require a devolved form of organization and administrative structure (e.g. Euratom Supply Agency).

35. In cases where decentralized administration is functionally necessary, the following are required for the purposes of greater budgetary clarity:

- the staff must be included in a separate establishment plan which must form an integrated part of the overall budget of the Communities. Here an unnecessary multiplicity of types of conditions of employment (according to national law, etc.) must be avoided. Officials, temporary staff and local staff ought to be sufficient to meet the employment requirements (cf. situation in the ECA)
- contractual relations with outside bodies must be subject to effective scrutiny by the budgetary authority. This applies particularly to the Office for Official Publications, the Statistical Office and the Computer Centre.

36. The Community's multi-annual action programmes must be coordinated with the annual budget without damaging the continuity of these programmes or limiting the budgetary powers of the European Parliament.
37. Internal accounting between the various institutions and organs of the Community must be restricted to a minimum. The desire for budgetary clarity must not lead to unnecessary administrative costs.
38. Comparisons between costs and performance ought in the future to make it possible for the budgetary authority to exercise greater control over efficiency.
39. For greater clarity in the area of implementation of the budget the individual financial regulations that exist for the decentralized offices must be standardized. This could perhaps take the form of an outline financial regulation.
40. More information ought to be made available to the decision-maker in the area of the management of Community Funds by the introduction of electronic data processing. Only with data processing will Parliament be in a position to exercise efficient control over the complex activities of the Funds.

