

EUROPEAN PARLIAMENT

Working Documents

1981 - 1982

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ANNEX

to the report drawn up by Mr U. IRMER on  
behalf of the Committee on Budgetary Control  
on the 1979 discharge

ANNEXES I - XIII (working documents)

OPINIONS OF THE

Committee on Development and Cooperation

Committee on Regional Policy and Regional Planning

Committee on Social Affairs and Employment

Committee on Energy and Research



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1979 DISCHARGE

Working Document

- Revenue -

Draftsman: Mr V. GABERT



## I. DEVELOPMENTS IN THE 1979 FINANCIAL YEAR

1. The 1979 financial year was unusual in that adoption of the budget was delayed by Parliament's rejection of the draft. In 1979 budgetary revenue of the Communities consisted of customs duties and agricultural levies, resources accruing from value added tax, financial contributions from Member States and miscellaneous revenues such as deductions from staff remuneration, fines, etc. The year was notable for the introduction, after some years' delay, of receipts from value added tax (VAT) as an additional own resource. The object of these receipts is to replace financial contributions based on gross national product (GNP). However, in this respect 1979 must be regarded as a transitional year because the Federal Republic of Germany, Ireland and Luxembourg had not introduced the requisite common VAT measures and they continued to pay GNP contributions. This mixed system will not apply in 1980, when all Member States will assign VAT resources.

2. The following table compares the budgetary revenue of the Communities for 1978 and 1979:

Table - Total revenue 1978 and 1979

(m EUA)

	1978 Out-turn	1979	
		Final budget	Out-turn
Customs duties	4,390.9	5,045.5	5,189.1
Agricultural levies	1,872.7	1,706.0	1,678.6
Sugar levies	410.6	459.8	464.9
Value added tax resources	-	4,739.6	4,737.7
Financial contributions (GNP)	5,329.7	2,299.7	2,302.1
Miscellaneous revenue (including ECSC and Euratom contributions)	177.8	154.8	188.7
Balance from previous year	-	41.6	41.6
Total	12,181.7	14,447.0	14,602.7

Total revenue (14,602.7 m EUA) was very close to the final estimate included in the amending and supplementary budget. Noteworthy was the increase of 9.3% in customs duties, explained principally by a substantial unforeseen rise in imports subject to common customs tariff duties.

Agricultural levies fell by 1.6% due to a falling trend in imports of the main cereals and rising world prices.

An increase of about 9.6% in the VAT resources and financial contributions was necessary to balance the additional expenditure authorized in the amending and supplementary budgets. This involved an increase in the Community VAT rate from 0.7196% in the original budget to a final figure of 0.7889%.

3. The discussion of the revenue side of the 1979 budget lends further weight to the Parliament's view that the Community has an independent claim to its share of VAT and that the governments are committed, once the budget has been established, to make available to the Community the monies estimated in the budget.

The Community's own resources should no longer be shown as national resources in the various national budgets as Community law (in this case the Decision of 21 April 1970) sanctions the principle of direct collection by the Community and this is reaffirmed annually in the budget of the Community.

4. Rather than asking the Court of Justice for a ruling on the legality of the budget adopted on 14 December 1978, three Member States (France, the United Kingdom and Denmark) took the law into their own hands and tried for three months to escape their obligation to pay over own resources.

In February 1979 these Member States started to pay over to the Commission the provisional twelfths applicable whenever the budget is not adopted by the beginning of the financial year.

However, on 12 February the Commission had formally required them to put their payments in order and then took steps in preparation for infringement proceedings before the Court of Justice pursuant to Article 169 of the EEC Treaty. Negotiations were meanwhile being conducted between the Council and Parliament

The dispute was finally resolved only when the three Member States settled their payments retroactively. At the beginning of April they contributed much more than the own resources they were required to pay and the situation was finally normalized on 25 April when supplementary budget No. 1/79 was adopted.

Despite its financial controller's objections the Commission found that the Member States in question did not have to pay the interest due on the belated payments in accordance with the regulation in force as they had rectified the situation before supplementary budget No. 1/79 was adopted.

Parliament agreed with this approach at the time, as it was prepared to put an end to the budget dispute provided the Member States in arrears settled the sums due and thus acknowledged de facto the existence of the budget adopted by Parliament.

This arrangement was a compromise. The approach adopted by Parliament in no way prejudiced any decision that might be taken regarding future interest claims.

Thus Parliament's point of view was confirmed that, for revenue as well as expenditure, the budget constitutes a directly enforceable legislative act. Adoption of the budget obliges the Commission to implement it and to use all the legal instruments at its disposal to do so.

5. In 1978 the Court had pointed out that the amounts due from the Member States were payable in full, subject to an abatement, during 1978 and 1979, for Denmark, Ireland and the United Kingdom pursuant to Article 131 of the Act of Accession. Regarding the Article 131 operations the Court again felt it necessary to restate its views, in particular on the absence of published decisions by the Council or the Commission detailing the rules agreed upon for the application of that Article. Again the Court was unable to report that all revenue had been paid to the Community in a legal manner.

The financial clearing operations carried out outside the budget to give effect to Article 131 are set out in the following table:

Table - Article 131: Clearing outside the budget

(1,000 EUA)

	Commission's interpretation of Article 131 repayments due to Member States	Settlement		
		Amount borne by each Member State	Amount paid by Member States	Amount received by Member States
Belgium	-	40,693	40,693	-
Denmark <sup>1</sup>	-	-	-	-
FR of Germany	-	165,061	165,061	-
France	-	163,001	163,001	-
Ireland	6,400	4,193	-	2,207
Italy	-	91,868	91,868	-
Luxembourg	-	554	554	-
Netherlands	-	53,913	53,913	-
United Kingdom	625,501	112,618	-	512,883
<b>TOTAL</b>	<b>631,901</b>	<b>631,901</b>	<b>515,090</b>	<b>515,090</b>

<sup>1</sup> Unlike Ireland and the United Kingdom, Denmark's share of the budget, before the application of Article 131, was below the ceiling calculated on either of the interpretations considered.

## II. VALUE ADDED TAX AND FINANCIAL CONTRIBUTIONS

6. Article 4 of the Council Decision of 21 April 1970 provides that the VAT resources to be paid by each Member State to the Community should be calculated by applying a rate not exceeding 1% to an assessment basis determined in a uniform manner throughout the Community. The provisions seeking a harmonized base are contained in Council Directive 77/388/EEC. This did not succeed in establishing a fully uniform basis of assessment. Some differences remain as between the Member States and it will be necessary, for some time to come, to adjust the national bases to bring them into line with the theoretical uniform assessment basis.

7. One of two methods may be adopted for calculating the assessment basis. The first is based directly on the VAT returns of taxpayers, and the second involves the application of data derived from national accounts statistics to the actual revenue collected.

The result of applying one or other of these bases cannot be known until after the end of the relevant year. During the budgetary year itself one-twelfth of the amount attributable to VAT in the budget estimate must be credited to the Communities on the first working day of each month. The various rates of exchange and units used in these calculations gives rise to discrepancies which have to be corrected. The Court of Auditors recommends that this anomalous situation could be avoided by using the actual exchange rates obtaining on the day on which the contribution is due. The Commission has now complied with this recommendation.

The Court is not convinced that the administrative difficulties advanced by some Member States are insurmountable, and requests the Commission to re-examine the matter afresh.

8. Because the VAT resources in the 1979 accounts were based on estimates only, no on-the-spot audits were carried out by the Court on such resources in 1979. However, it undertook a programme of information visits to Member States involved in order to brief itself on the systems in operation and prepare for a full audit in 1980 of the final figures in respect of 1979.

9. The rule that revenue and expenditure in the budget should be in balance can strictly apply only at the estimate stage. The difference between estimates and the actual revenue or expenditure constitutes a surplus or a deficit that is carried forward to the following financial year. Under Article 15 of the Regulation No. 2891/77 this balance is defined as consisting of the difference between:

- all the revenue collected in respect of that financial year,  
and

- the amount of payments made against appropriations for that financial year

- (a) increased by the payment appropriations for that financial year that are not implemented and carried forward to the next financial year

- (b) decreased by the payment appropriations for the preceding financial year that have not been implemented and cancelled.

Revenue collected in 1979 thus exceeded requirements by 455.9 m EUA. The discharge decision should however take account of the fact that there is some doubt as to how 203.5 m EUA in the EAGGF Guarantee Section and 2.6 m EUA in Parliament's budget are to be allocated.

### Control of the collection of revenue

10. The Court of Auditors has carried out a number of very useful checks to assess how well the system of collecting and controlling own resources functions.

The following points are worth mentioning:

### Control of Community VAT

11. Various documents, some of them emanating from the national administrations, mention a very high rate of tax evasion in the collection of VAT in some Member States. This problem concerns mainly the national administrations, which are also primarily responsible for controlling the collection of VAT. Nevertheless, part of the VAT resources constitute Community revenue and it is up to the Commission even if only to assure the Member States, the Community institutions and Community taxpayers that the tax is collected uniformly and fairly, to carry out the necessary controls to ensure that all the resources due to the Community are paid within the prescribed time limits.

However, despite its efficiency, the Commission does not have enough staff to carry out the task assigned to it under Article 12 of Regulation No. 2892/77.

Parliament must urge the Commission to enter sufficient appropriations to fulfil these tasks in the next draft budget. It must also point out that the Commission must try to organize the auditing of own resources as efficiently as possible.

Moreover, since the checks on the final amounts provided for in Article 10 of that regulation can only be carried out when it is impossible to include them in the annual statement of account, any corrections have to be allocated to the financial year in which they are made.

Parliament expects the Commission to apply the method of macro-economic control (Doc. R/2809/1/77) and fulfil its commitment to carry out checks during the following year.

However, even this possibility will exist only in theory until the Commission has the means of checking the accuracy of the summary accounts submitted by the Member States.

## Audit of customs duties, agricultural and sugar levies

12. The Court of Auditors carried out a series of on-the-spot audits in the Member States in connection with the 1979 accounts. Its enquiries were concentrated on customs duties, agricultural levies and sugar levies. It found that, with a few exceptions, the national arrangements were generally satisfactory in the difficult circumstances. There were errors of calculation but they were not systematic. The Commission should strive to achieve the maximum simplification of the present complex structures consistent with the essential economic and financial aims of agricultural policy.

In connection with the accounting procedures for agricultural levies and monetary compensatory amounts it is strongly recommended that the relevant Community regulations be amended.

In the Netherlands and the Federal Republic of Germany accounting deficiencies were found which both Member States have now taken steps to rectify.

13. The Court of Auditors deals at length with the agricultural intervention agencies of the Member States which have a role to play in the administration of the own resources deriving from trade in agricultural produce. Their structure and functions vary significantly from one Member State to another. In some cases they are public corporations set up under public law, in others, though operating under public law, they have the status of semi-private commercial undertakings.

In the absence of Community provisions regarding collection and enforcement, it falls to the Member States to endow these agencies with the legal powers necessary to protect Community financial interests. The report of the Court of Auditors cites the case of the intervention agency responsible for sugar in France which does not possess statutory powers of enforcement. In Belgium weaknesses were also found in the enforcement procedures of the intervention agency responsible for the assessment and collection of agricultural levies. The Commission requested the responsible Ministry to carry out a detailed audit of the period from 1971 to 1975 as a consequence of which additional sums equivalent to about 4 m EUA were made available to the Community. An extensive audit of subsequent periods is at present being carried out by the Belgian authorities. The Court of Auditors welcomed the improved system introduced by the agency in 1978 and proposed further improvements.

A more fundamental examination should be undertaken by the Commission and the Member States of the structures and functions of the various bodies involved with a view to establishing standardized procedures and administrative norms which could be followed by all the Member States.

14. The Court of Auditors mentions the problem of unilateral exemption from customs duties and, in particular, those granted by some Member States in respect of imports of certain items of military equipment. This matter was raised in the report for 1977 and has not yet been settled. It was found that in Italy, for example, the concession applied to a very wide range of goods, including transport and communications equipment. The Court considers that such exemptions should be limited to strategic materials.

#### German internal trade

15. Protocols to the Treaty of Rome provide for special treatment to be afforded to goods imported into the Community in certain circumstances. Examples are the protocol on the treatment of goods imported into France from Morocco and Tunisia and the protocol on German internal trade. In the former case the protocol clearly states that goods imported into France are not in free circulation in the Community if they are re-exported from France to another Member State. But such a stipulation is not present in the protocol on German internal trade, and, as a consequence, goods originating in the German Democratic Republic which arrive in the Federal Republic of Germany are legally in free circulation in the Community. This produces the potentially anomalous situation that goods from the GDR imported directly into a Member State other than the Federal Republic of Germany are liable to customs duties and/or agricultural levies, whereas the same goods imported first into the Federal Republic of Germany and then into another Member State would not be so liable. The Court feels that the protocol on German internal trade thus represents a potential threat to the Community's own resources. However, mechanisms exist to discourage the re-export of goods originating in the GDR from the Federal Republic of Germany to other Member States, and these mechanisms have been the subject of investigations by the Court.

The Court was satisfied that German internal trade is closely controlled by the Federal authorities and that most of the goods purchased in the GDR actually remain in the Federal Republic. Current regulations require an import or export licence for goods imported from or exported to the GDR. Many types of goods are also subject to quota limits, expressed in either value or quantity terms. In the industrial sector some 30% of goods are subject to quotas while in agriculture almost all (92%) are controlled in this way. Internal German trade is regulated by border checks and surveillance of firms by the tax and customs authorities. In the case of agriculture control is also exercised by the Federal Institution for the organization of agricultural markets.

In 1978 the value of goods imported from the GDR totalled DM 3,800 million, of which some DM 40 million worth, or just over 1% was re-exported to other Member States.

The Court of Auditors considers that control of origin is one aspect of the German internal trade arrangements to which the Federal authorities could usefully pay more attention.

It also points out that the protocol to the Treaty of Rome permits Member States to take measures to prevent any difficulties arising from German internal trade. The Court's investigations show that only France systematically avails itself of the right to take protective measures. The Court also notes that the barriers erected to prevent the outflow of goods subject to the German internal trade arrangements are reasonably effective, representing as it does just over 1% of the goods entering the Federal Republic of Germany from the German Democratic Republic. But there is nevertheless cause for concern insofar as this figure represents a potential loss of own resources. Member States would have to have recourse to the protective measures envisaged by the protocol in order to minimize the consequences for their economies and for the Community budget.

16. The declarations and findings of the Court of Auditors as regards the effect on the collection of Community revenue of the special intra-German trade situation are serious from two points of view. Firstly, important derogations from the system of own resources, although admittedly authorized in a protocol to the EEC Treaty, are organized on a purely national basis. Secondly, these derogations have, according to the Court of Auditors, given rise to serious cases of fraud.

This problem does not however come within the scope of the discharge decision. Consideration should be given not only to its political implications but also to its effects on the structure of trade within the Community and with state-trading countries. A separate report should therefore be devoted to the problem.

#### Community transit

17. The Court of Auditors draws attention in its report to some of the dangers to the reliability of the collection of own resources when attempts are made in too unilateral a fashion to make technical improvements to the free circulation of goods within the Community. The Committee on Budgetary Control had already drawn attention to the dangers involved when the signature of only one official was required on a form to justify the payment or reimbursement of very large sums. The Court of Auditors cites the example of replacing 'T1' by 'T2'. Reference must again be made to this danger in the 1979 discharge.

#### IV. Remarks on the organization and principles of Community financial autonomy

18. Consideration of the implementation of the revenue section of the budget, in particular in 1979, prompts various misgivings as regards the ability of the present system of collection and control to ensure the financial autonomy of the Community.

19. The fact that the Member States differ in their awareness of the Community nature of own resources is reflected in the different ways in which these resources are treated in the national budget documents. They appear either in a document annexed to the national budget or in the budget itself as 'resources to be transferred', as a negative item or even as revenue proper.

Parliament should state whether in its opinion these different procedures are compatible with the principle of financial autonomy on the basis of a thorough study by the Commission.

20. The Court of Auditors draws attention to the diversity of the national bodies in the agricultural sector responsible for collecting Community resources, their different powers and their very strained relations with the Commission. This situation promotes neither the integration of the system of own resources nor uniformity in their collection. Efforts must be made to achieve harmonization in this area.

21. In some sectors, particularly compensatory amounts, revenue is not entered by the national bodies in the Community accounts until after expenditure has been deducted. The Community is therefore not informed of the actual amounts of revenue or expenditure. It would be advisable for these transactions to be entered in full in a centralized Community account and for the rules to be amended to this end.

WORKING DOCUMENT

on the implementation of the general budget  
of the European Communities - 1979 financial year -  
and the preparation of the discharge in respect  
of expenditure under Title 3 other than on energy  
and research

Draftsman:                    Mr NOTENBOOM

1. In the context of the discharge procedure, your draftsman has considered in particular, expenditure under Title 3 other than on energy and research. This concerns the following policies with the appropriations set out below:

		Orig. approp.	Final <sup>1</sup> approp.	Expenditure		Carried forward from 1978 <sup>2</sup>	Expenditure	
				'000 EUA	%		'000' EUA	%
Chapter 30								
Expenditure in	CA	6,950	11,834	10,569	89			
the social	PA	4,765	4,765	3,626	76	1,381	1,381	100
sector	non-differ-	6,170	6,820	4,274	63	952	813	85
	entiated							
Chapter 31								
Expenditure	non-differ-							
in the agri-	entiated	7,209	11,094	2,415	22	4,549	4,200	92
cultural								
sector								
Chapter 34	non-differ-							
Safeguards	entiated	1,500	1,500	626	42	454	319	70
Chapter 35								
Man and the	non-differ-							
environment	entiated	7,792	7,792	3,522	45	2,987	2,861	96
Chapter 36								
Scientific	CA	1,700	8,660	5,962	69			
and technical	PA	3,825	4,825	1,508	31	2,061	2,061	100
information	non-differ-							
and informa-	entiated	1,530	1,680	1,056	63	791	684	86
tion management								
Chapter 37	CA	pm	38,045	1,070	3			
Industry and	PA	700	9,200	46	0.5	4,263	1,263	30
transport	non-differ-							
	entiated	1,441	2,191	877	40	16,211	15,193	94
Chapter 39								
Specific <sup>3</sup>	non-differ-							
projects	entiated	8,955	8,955	2,880	32	5,347	4,012	75

<sup>1</sup> Including transfers of appropriations and, as regards commitment appropriations, appropriations carried forward from 1978.

<sup>2</sup> Indicated only for non-differentiated appropriations and for payment appropriations. Commitment appropriations carried forward are included in the 'final appropriation' column.

<sup>3</sup> Comprising: preparation of new research programmes (391), educational measures (392), cultural measures (393), measures to improve knowledge of the Japanese market (395), European Foundation (396)

2. Apart from a few statistics with regard to Chapter 30, the report of the Court of Auditors contains no comments on these items of expenditure. Last year the Court of Auditors stated that owing to lack of staff it was unable to devote attention to this sector. Your draftsman wonders whether there are not in fact shortcomings in the distribution of responsibilities in the Court of Auditors and urges that the Court should organize its activities in such a way that certain items of expenditure do not substantially escape all control.

#### ANALYSIS OF FINANCIAL MANAGEMENT

3. Generally speaking, it can be said that the Commission acquits itself of this task in a fitting manner in respect of these items of expenditure which, in terms of financial appropriations, are less important, at least as far as commitment appropriations are concerned, and insofar as it believes that there is a sufficient legal basis. The rate of utilization for payments, even in respect of expenditure for which there is a legal basis, is variable, which raises questions about the accuracy of the budget estimates.

#### AGRICULTURAL SECTOR

4. The rate of utilization in respect of item 3101 (the campaign against African swinefever) and item 3102 (action in the event of outbreaks of epizootic disease) was 0% and 8% respectively, i.e. far below expectations, partly because the incidence of these diseases was much lower than expected. The same reasons were given last year. Consideration might be given to the desirability, for such items, of providing merely a minimum appropriation and having recourse, in cases of epidemics, to credit transfers from items in respect of which developments have been more favourable.

5. In addition, your draftsman feels that considerable improvements could be made to the estimates of the necessary budget appropriations:

- the long time lag between commitment and payment (Art. 313: farm accountancy data network (0% paid); Item 3141: research programmes (55% paid) and delays in research activities;
- Member States submitted no requests in respect of Item 3111: veterinary inspection of the application of Community rules and regulations (0% paid out);
- Item 3112: veterinary inspection in non-Member countries: only 55% was spent (as against 27% in 1978);
- Art. 315: training of EAGGF inspectors: only 33% spent (18% in 1978).

The above examples of agricultural measures, which are all most useful in themselves but for which budget estimates have year after year proven too high, show that the Commission must either reduce the appropriations requested or undertake new action in the relevant fields.

6. Your draftsman is particularly concerned at the only moderate success of action to improve inspection in the veterinary and agricultural sectors (Articles 315 and 311).

#### SOCIAL SECTOR

7. The situation in the social sector is not much better. With the exception of Article 307 (the European Trade Union Institute) and Article 308 (assistance to accident victims in the coal and steel industries), in which 100% was spent, the rate of utilization exceeded 70% for only two other articles: Article 301 (vocational training and guidance) (73%) and Article 306 (pilot research projects to combat poverty) (58%).

For the other five articles the rate of utilization ranged from 3 to 54%.

#### ENVIRONMENT

8. In connection with expenditure on the environment, your draftsman again discovered a low rate of payment which the Commission said was normal because a large number of studies had been approved late in the financial year. Your draftsman does not find this quite so normal. Either measures must be taken so that studies are approved earlier in the year or appropriations should be adjusted to actual payment requirements.

#### INFORMATION

9. Expenditure again falls substantially short of estimates in the field of scientific and technical information and information management, especially in respect of Item 3620: three-year plans. The excuse put forward in the 'Analysis of the Financial Management'<sup>1</sup> that the second action plan was not approved until October 1978 is not a satisfactory explanation as under-utilization is threatening to become chronic. Item 3621 concerns activities supplementary to the three-year plan. Under this item it was decided in 1975 to purchase a computer. In the 1981 budget the Commission has again failed to comply with Parliament's request that all expenditure on computer equipment should be included in the relevant chapter (Chapter 21)<sup>2</sup>. As might have been expected, the utilization of appropriations was better for this item (99% for commitments and 73% for payments).

<sup>1</sup> COM(80) 216

<sup>2</sup> In 1979: Art. 224

## INDUSTRY AND TRANSPORT

10. In Chapter 37 - industry and transport - there is the problem of the legal basis. Thus at the end of 1979 (20.12.1979) there was for item 3750 the ad hoc priority scheme for aid for industrial restructuring and conversion in the man-made fibres sector. The Commission's report to the Council (COM(80) 244 final) of 23 July 1980 shows that the scheme is not without its merits but that the crisis in a number of industries, among them man-made fibres, is persisting and makes the Council's negligence all the more deplorable.
11. Having said this, your draftsman would point out that the budget and the accounts are not a very suitable instrument for measuring the success of Community industrial policy, largely involves harmonization between the Member States and the integration of their economies. In that area priority should be given to using the existing financial instruments such as the Social and Regional Funds. Specific measures, approved in Chapter 37 of the budget, have hitherto been restricted to industries in difficulty owing to over-production, technological backwardness, economic crisis, etc.
12. In the field of data processing, your draftsman ascertained, through personal contact with the Commission's DG III, that it is possible, to a great extent, to prevent the Community's current programme duplicating national programmes and therefore that public resources will not be used twice for similar projects, at least as far as the Community is concerned. It is to be regretted that Member States which are more advanced in certain fields are not always willing to cooperate on a Community programme in those fields. Your draftsman also noted that the results of programmes relating to compatibility standards between computer equipment are beginning to be applied to each country's own equipment.
13. It was not possible to secure guarantees of the same order in respect of the first and second programmes (items 3700 and 3701). These are, however, measures in the process of completion. There was hardly any expenditure in 1979 on the new programme (item 3702) owing to the late approval of the programme by the Council (11.9.79) and the time necessary to secure the transfer of appropriations from Chapter 100. In 1980 the late adoption of the budget is also believed to have had a delaying effect.
14. Article 371 - the aerospace sector - seems to be regarded by the Commission as an action to be written off. The success of the airbus venture perhaps has something to do with it. Owing to the absence of an additional legal basis it was not possible to carry out research activities in the textile sector (Art. 372) in 1979. In this connection it should be pointed out that the Commission made some slight adjustments to the relevant operations for 1981 and thereby made it unnecessary to invoke Article 235 of the EEC Treaty or, therefore, an additional Council regulation. However, the

Commission no longer seems convinced of the usefulness of these operations, in particular in the light of the general budgetary situation in the Community and in the Member States. The same problem arises for 1980 for the ceramics sector. In the discharge procedure for 1980 and 1981 it will be necessary to investigate whether this is compatible with the will of the budgetary authority.

#### LEGAL BASIS

15. Parliament and the Commission have already repeatedly discussed their difference of opinion on this matter without either side showing a readiness to adjust its views.

The problem of the legislative power of the budget poses an increasing threat to the successful completion of the annual budgetary procedure and the discharge procedure. As these procedures receive more public attention Parliament may lose some of its credibility if it should become apparent that amounts entered in the budget after a major dispute with the Council can quite simply be blocked by the latter by a refusal to adopt the implementing procedures.

16. Any solution to this problem should take account of the distribution of powers between the institutions laid down in the Treaties. The legislative powers of the Council need to be respected. However, account must also be taken of the creation of a Budgetary Authority with powers enabling it to set limits to and direct the legislative powers of the Council. Finally, there must be no erosion of the Commission's role as the driving force behind European integration, as the initiator of Community law and as the institution responsible for implementing the budget. In the present circumstances it might be more appropriate to talk of restoring this role to the Commission.

17. As shown in the attached table Chapter 37 lends itself very well to the establishment of certain principles in this matter. Firstly, it contains expenditure on transport, to which a chapter is devoted in the EEC Treaty, and secondly it also comprises a series of measures for which Article 235 of the EEC Treaty is the basis.

18. Parliament and the Commission have already agreed that the budget is a necessary, but not always a sufficient legal basis for expenditure. Your draftsman will therefore not go any further into the assertion that the budget is the fundamental, preliminary basis for the incurring of expenditure in the Community, nor into the exceptions to this rule endorsed by the Council.

19. Your draftsman considers that the question whether a budget item may be implemented or not must be looked at from two points of view.

First and foremost, there is the question of whether the Community is at all competent to incur the relevant expenditure. The answer is usually to be found in an article of the Treaties. If this is not the case or if the Treaty provision is too vague, an additional decision by the institutions is necessary specifying the competence of the Community. In Chapter 37 this takes the form of the adoption by the Council, after consulting Parliament, of an action programme, a basic decision or even an outline regulation. It may also take other forms.

20. If the Community is competent a second point has to be considered, namely the use of such competence during a given time span, in this case the financial year. If this matter is settled in a Council regulation there is no problem. A formal regulation is applicable as long as it is not withdrawn or declared void, irrespective of whether or not it is considered that the Council should concern itself with matters such as implementing procedures.

Where there is no regulation or where the appropriations exceed the scope of the existing regulation, the only valid criterion would seem to be the will of the legislator, in this case the Budgetary Authority, in the adoption of the budget.

21. How can the will of the Budgetary Authority be determined? In your draftsman's view this will emerge clearly if the appropriations adopted correspond to existing Commission proposals for, for instance, research programmes or specific aid measures. If the appropriations differ substantially therefrom, the disparity will in most cases be explained and the will of the Budgetary Authority will again be sufficiently clear.

22. If the Council is in these circumstances still of the opinion that the Commission's proposals, on which it has already had a say during the budgetary procedure, must be processed again in the form of a regulation, a directive or other legal act, it should naturally do so in good time to allow the Commission to implement the budget. If not, the Commission is obliged under Article 205 of the EEC Treaty to implement the budget under its own responsibility.

23. It is then of course up to the discharge authority to assess whether the Commission has exercised its power correctly. During a transitional stage provision might be made for the Commission to submit its decision to implement the budget to the Budgetary Authority, for example by means of a procedure analogous to that used for transfers of appropriations.

24. After due consideration, your draftsman has not put these views forward in the form of conclusions in order to show that they constitute a sample solution in the context of a specific chapter of the budget. Your draftsman believes that this matter merits a detailed study by a working party consisting of members of the Committee on Budgetary Control and the Committee on Budgets, which should continue the work begun by your draftsman, applying it to all items in the budget.

25. The table attached to this working document shows what the results might be of applying this reasoning to Chapter 37 in 1979.

## 26. CONCLUSIONS

The Committee on Budgetary Control:

- urges the Commission, in the context of the appropriations under Title 3, other than energy and research, to bring appropriations and expenditure more into line with each other by
  - differentiating appropriations where necessary,
  - intensifying actions and speeding up procedures,
  - adjusting budget estimates to the real rate of utilization;
- recommends in particular greater effort by the Commission with regard to the training of EAGGF inspectors (Art. 315) and the inspection of the application of veterinary rules and regulations (Item 3111);
- proposes that a joint working party should be set up by the Committee on Budgetary Control and the Committee on Budgets to draw up criteria, with the cooperation of the Commission, for determining whether an additional legal basis is necessary for the implementation of a budget line and to draw up a list of budget lines for which this is the case.

Budget line	Heading	Type of approp.	Initial approp.	Final <sub>1</sub> approp.	Expenditure		Carried forward from <sub>2</sub> 1978	Expenditure	
					'000 EUA	%		'000 EUA	%
370	Expenditure in the data processing sector								
3700	First programme	non-diff.	132	132	130	99			
3701	Second programme	CA PA	pm 700	1,045 700	1,042 44.6	99 6	1,263	1,263	100
3702	Community operations for the development of data processing	CA PA	pm pm	2,000 2,000	27.5 1.4	1.4 0.1	-		
371	Operations in the aerospace sector								
3710	Technological research	CA PA	pm pm	15,000 pm	0 -	0 -	1,000	0	0
3711	Aid	non-diff.	pm	pm	-	-	-		
372	Sectoral research operations								
372	Textile industry	non-diff.	-	-					
3721	Footwear sector	non-diff.	9	9	9	100	35	35	100
374	Technical rules on the safety of car occupants								
3740	Safety of persons carried	non-diff.	pm	751	228	300	544	544	100
3741	Harmonization of industrial laws	non-diff.	500	498.6	141	28	-		

<sup>1</sup> Including credit transfers and, as regards commitment appropriations, carry-forwards from 1978.

<sup>2</sup> Specified only for non-differentiated appropriations and payment appropriations. Commitment appropriations carried forward are included in the 'final appropriation' column.

	Legal basis	
3700	-	
3701	Art. 235 EEC Council decision 27.9.77	On the conclusion of programme action may continue on at least certain aspects, even if the Council has not formally adopted the subsequent programme
3702	Art. 235 EEC Council decision and regulation 11.9.79	Owing to the absence of a general decision in this field implementation was not possible before 11.9.79
3710	Action programme for the European aeronautical sector 3.10.75 Proposal for research projects 2.9.77	As both arms of the budgetary authority were informed of the scope of the action it was possible to make a start
3711	Action programme for the European aeronautical sector	No specific Commission proposal has yet been submitted
3720	Proposal for second research programme 4.5.79	As no programme had been submitted when the budget was drawn up implementation is not possible
3721	Council decision 14.2.77	The programme has now been terminated and no new programme has been submitted
3740	Council resolution 28.5.69 Council directive 6.2.70	Legal basis unproblematic
3741	General programme 28.5.69 Various directives	Legal basis unproblematic

Budget line	Heading	Type of approp.	Initial approp.	Final approp. <sup>1</sup>	Expenditure		Carried forward from <sub>2</sub> 1978	Expenditure	
					'000 EUA	%		'000 EUA	%
375	Community industrial reorganization and redevelopment operations								
3750	Crisis-hit industrial sectors	CA PA	pm pm	20,000 7,500	0 0	0 0	2,000	0	0
3751	Measures in the oil-refining sector	non-diff.	pm	pm	-	-	15,000 <sup>3</sup>	13,983	93
376	Studies relating to industrial policy	non-diff.	500	500	201	40	-		
378	Financial operations in transport infrastructure								
3780	Studies preliminary to financial measures	non-diff.	pm	9	-	0	-		
3781	Financial support for projects	non-diff.	pm	pm	-	-	631 <sup>4</sup>	631	±100
379	Monitoring of freight markets	non-diff.	300	291	168	56	-		
	Total Chapter 37	non-diff. CA PA	1,441 pm 700	2,191 38,045 9,200	877 1,070 46	40 3 0.5	16,211 4,263	15,193 1,263	94 30

<sup>3</sup> Item 3751 in 1978 investment premiums.

<sup>4</sup> In Article 373 in 1978.

	Legal basis	
3750	Proposal for Council regulation and decision of 16.11.78 and 11.1.79 Regulation of 20.12.79 on ad hoc action for man-made fibres sector	Owing to lack of outline regulation Community competence not adequately established
3751	No proposals	
376	Council decisions 19-20.12.77 Report on structural aspects of growth COM(78) 255 final	Sufficient for studies
3780	Art. 75 EEC Comm. Communication to Council 30.6.76	Sufficient to begin implementation
3781	Proposal for regulation 2.9.76 (+ proposed amend. 12.3.80)	Legal basis unproblematic
379	Art. 75 EEC Comm. Communications to Council of 1973 and 1976 Council declaration 12.6.78 and 6.12.79	

WORKING DOCUMENT

on the implementation of Chapter 32  
of the 1979 general budget of the  
European Communities (Expenditure on  
energy policy)

Draftsman: Mr COLLA

1. Utilization of appropriations from 1974 - 1979

1.1. During the period 1974 - 1979, payment appropriations for energy policy amounting to 57.7 m EUA were cancelled. This represents no less than 27% of the total unused payment appropriations for this period (210.8 m EUA) and the amount is larger than, for example, the appropriations provided for in the 1979 budget. (50.5 m EUA).

By item this means that in the period 1974 - 1979, 41.7 m EUA were lost for hydrocarbons development projects and that this was also the case for: 13.5 m EUA for hydrocarbons prospecting projects, 1.5 m EUA for energy saving projects and 1.0 m EUA for the development of new sources of energy.

1.2. From 1974 - 1979 the payment appropriations made available were seldom actually utilized during the budget year for which they were intended.

1.3. The low rate of utilization is particularly apparent in relation to utilization against Item 3200, for which most appropriations were provided and which is the longest running. During 1974 - 1979 41.7 m EUA in payment appropriations were cancelled, i.e. 26% of the total sum available of 160 m EUA.

2. Utilization of appropriations provided for under the 1979 budget

2.1. For commitment appropriations there is a slight improvement by comparison with 1978. Total commitments were 68.3 m EUA or 55.5% of the total appropriations available (123 m EUA). The percentage in 1978 was 31.7%. Utilization was highest for Items 3200 (77%); 321 (86%) and 3241 (70%).

2.2. For payment appropriations the situation has improved very slightly by comparison with 1978. The rate of utilization was 29%, compared with 24.6% in 1978. However, utilization of the new payment appropriations entered under the 1979 budget was only 3%. In view of its relative importance, it is striking that the rate of utilization for Item 3200 was 30% for 1979 as against 34% for 1978, and it should also be mentioned that, as was also the case in 1978, no new payment appropriations have been called upon.

2.3. With regard to implementation of the energy budget for 1979 it should also be noted that there was in the end no call on the budget for coal policy during that year. The token entries included in the 1979 budget for Items 3230, 3231 and 3232 were not converted into concrete figures. In addition, at the end of the year 10 m EUA of commitment appropriations from 1978 for Item 3230 had to be cancelled.

### 3. Inadequate implementation of the budget

3.1. The inadequate implementation of the Community budget both for 1979 and throughout the period 1974 - 1979 can largely be blamed on the attitude of the Council, which had either not adopted any regulations or had adopted regulations after considerable delays or, because of the nature of the regulations it adopted, made delays in implementation of the budget virtually inevitable. In this way the Council erodes the Commission's powers and detracts from Parliament's role as joint budgetary authority.

3.2. Your rapporteur considers, however, that the Commission is also partly responsible as it does not respond adequately to this situation and has too little regard for the budget as an adequate basis for implementation.

3.3. The rapporteur also considers that the disparity between budget and accounts can partly be explained of course by the time-consuming nature of the procedure but also by the insufficient care taken in drawing up forecasts (inter alia, the expected percentage for cancellations which was not included in the calculations for 1979 and the period that normally elapses between commitments and payments of balances). For 1979, as for previous years, there was relative 'overestimation'. According to information obtained by the rapporteur from the Commission, the situation should improve in respect of future budget years. The rapporteur would, however, urge that a study be undertaken of the link between the complex and lengthy nature of the procedures and the cancellations that occur.

3.4. Your rapporteur stresses that he considers that the budget must be implemented correctly from a technical point of view and that under-utilization must be avoided; however, he would stress above all that the budget is a means of realizing policies, and that it is therefore particularly regrettable that, for energy policy, which is so vital to the Community, through the appropriations provided for in the budget and subsequent implementation, one can hardly speak of a Community policy that has any real impact.

#### 4. Role of the Court of Auditors

The Commission's observations could create the impression that the Commission felt the Court of Auditors had exceeded its authority in its comments on the methods and procedures used to establish the level of budget appropriations.

Your rapporteur considers that such comments form a definite part of the Court of Auditors' tasks; this does not mean that the Court of Auditors is entering the domain of the budgetary authority, but that such an approach affords the budgetary authority useful support and particularly helps Parliament in its powers of control.

#### 5. Repayment of financial support

- 5.1. For four budget items in the energy sector, the appropriate Council regulations lay down that the aid given by the Community to the contractors, mainly commercial undertakings, must be repaid when the projects are exploited commercially. Only the hydrocarbons technological development action programme (Item 3200) has been running long enough for such repayments to occur.
- 5.2. In connection with the 1978 discharge procedure, your rapporteur proposed that the Court of Auditors should examine this system of repayments. He is therefore grateful that in its annual report on the 1979 budget year the Court of Auditors has gone into this subject in some detail.
- 5.3. For Item 3200 33 contracts were entered into during the period 1975 - 1976 for a total amount of 39.3 m EUA. In 10 cases repayment of support has been requested, the sum involved being 13.3 m EUA. However the number of completed contracts will increase sharply in future, since by 31 December 1979 139 contracts had been concluded for a sum of about 150 m EUA.
- 5.4. On the basis of the Court of Auditors' investigation your rapporteur considers that the procedure followed up to now has proved satisfactory.
- 5.5. In view of the quantitative and qualitative expansion of the kind of support that is repayable on commercial exploitation, your rapporteur considers that changes in the procedure are called for, on the basis of the proposals formulated by the Court of Auditors and which have been echoed in substance by the Commission. These involve the introduction of project evaluations prepared when the contractor's final report is approved and the

balance of the support is paid out (including an evaluation of the technical success or failure and the likelihood of commercial exploitation of the results); and in the introduction of a clause in the standard contract which obliges the contractor, within a specified time, to submit an independent auditor's certificate describing, inter alia, the progress made with commercial exploitation.

## 6. Diversity of regulations in the energy sector

6.1. In connection with the 1978 discharge procedure your rapporteur has already drawn attention to the diversity of procedures as laid down in Council regulations for the energy sector.

(For Article 321 the Commission is completely independent in its choice of projects; for Item 3200 the regulation specifies that the Council must give final approval for each project; the regulations on items 3240 and 3241 specify that the Commission takes the decision after consulting advisory committees, though, at the request of 1 Member State, the Council must give its opinion.)

6.2. There has been no change in this situation. Your rapporteur still considers that: this situation is unsatisfactory; the procedures laid down for Items 3200, 3240 and 3241 conflict with Article 205 of the EEC Treaty because the Commission's authority is thereby eroded and, as a result, Parliament's powers of control are impaired; the procedures in force may repeatedly be the cause of inadequate implementation of the budget.

6.3. Your rapporteur therefore considers that in the near future the Commission must take the initiative and draw up proposals for amendments to the regulations with a view to achieving uniform procedures such that on the basis of a general regulation adopted by the Council, in all cases, the Commission, after consulting an advisory committee with a purely advisory role, takes an independent decision on the various projects and on implementation of the regulation.

## 7. Conclusion

- For energy policy implementation of the 1979 budget was inadequate. This is due both to the Council's attitude and to the Commission's attitude.

- The Commission should: correct the estimate procedures used; submit a proposal aimed at simplifying the procedure and amending the regulations so that, on the basis of a general regulation adopted by the Council, the Commission with the assistance of purely advisory committees, can take independent decisions on the various projects, as the present situation undermines both the Commission's and Parliament's powers; be readier to accept the budget as an adequate basis for implementation.
- The system of repayment of aid granted for the commercial exploitation of projects has been satisfactory up to now but needs to be amplified having regard to both qualitative and quantitative expansion.
- To support the control powers of the budgetary authority the Court of Auditors must continue to comment on the methods and procedures to be used with a view to sound financial management; this may also involve a retrospective judgement.
- Owing to the inadequate implementation of the budget with regard to energy, and indeed the small budgetary resources available for energy in terms of quantity and quality the Community makes hardly any impact, through the budget, on what is an extremely important and vital sector for the Community.

WORKING DOCUMENT

on the implementation of Chapter 33  
of the general budget of the  
European Communities for 1979

Expenditure on research and investment

Draftsman: Mr COLLA

## 1. Joint Research Centre (JRC)

In addition to the observations made below, the draftsman would refer, in particular as regards Ispra, to the working document by Mr Kellet-Bowman drawn up in connection with the 1979 discharge procedure, following an on-the-spot inspection visit by a parliamentary delegation.

### 1.1 Utilization of appropriations

- As regards payment appropriations, the amount provided for in the 1979 budget as adopted was 113,67 m EUA. In addition, transfers totalled 7 m EUA (2.7 m EUA for the Essor reactor, 2.9 m EUA for work for third parties, and 1.3 m EUA for physical protection measures at JRC establishments).

The utilization rate was 74.9%, compared with 68% in 1978, which at that time was regarded as completely inadequate. This means that, although there has been some improvement, fully a quarter of the available appropriations have not been used. Moreover, 40.5 m EUA were carried over from 1978. Here the utilization rate is about 73%, entailing cancellations to a value of rather more than 10 m EUA.

- As regards commitment appropriations, the utilization rate is approximately 87%, compared with about 82% in 1978. Here too, then, there is a slight improvement, but this still represents about 3 m EUA in cancellations compared with 3.6 m EUA in 1978.

### 1.2 Inventories and stock accounts

The draftsman notes that the Commission has taken account of the comments made by the Court of Auditors and Parliament on inventories and stock accounts in connection with the 1978 discharge procedure.

The draftsman understands that the JRC is at present carrying out the relevant controls. He therefore considers that Parliament's Committee on Budgetary Control should, on the basis of reports by the Commission and the Court of Auditors, investigate further the question whether the instructions given are bringing about the desired results in reality, or whether supplementary measures should be considered.

- The draftsman wishes to recall the objectives to be achieved:

the total cost price to be recovered in full from third parties (this prompts your draftsman to wonder about the rules drawn up by the JRC on 4 June 1980, point 3.5 of which leaves open the possibility of requiring a price lower than the cost price);

controls to apply to all receipts and expenditure;

precise recording of all operations;

individual monitoring of the financial settlement of all agreements;

comparison of estimates with actual progress made.

### 1.3 Services to third parties

- The draftsman repeats the opinion he expressed in connection with the 1978 discharge procedure, namely that work for third parties can only be carried out to the extent that a reserve capacity is available in addition to the requirements of the multiannual programme.
- As regards the comments made in 1978, the draftsman notes that the Commission issued a set of instructions on 4 June 1980. He proposes that the Court of Auditors, having noted these instructions, should draw up a report for the Committee on Budgetary Control comparing the results of the measures taken by the Commission with the objectives set.

### 1.4. Building activities of the JRC

Since the JRC institutions are spread out among Geel, Ispra, Karlsruhe and Petten in 279 different buildings, covering a total area of about 280ha with a value of about 150 m EUA, the Court of Auditors has rightly given considerable attention to the JRC's building activities.

#### 1.4.1 Building maintenance

On the basis of the observations made by the Court of Auditors, the draftsman considers that the Commission should submit a report to the Budgetary Authority to determine whether the very considerable amounts set aside for the maintenance of buildings and installations bear a reasonable relationship to their value.

#### 1.4.2 Value of buildings and insurance

On the basis of the observations of the Court of Auditors, the draftsman considers that the JRC in Ispra should immediately undertake a valuation of its buildings and installations. At the same time public invitations to tender should immediately be opened in all the Member States with a view to concluding a new insurance contract. The draftsman cannot accept the failure to determine, on the basis of open tenders, whether insurance could be obtained on more favourable terms, especially since this option has been open since 1977.

#### 1.4.3 Use of buildings

The draftsman agrees with the Court of Auditors that third parties (i.e., a bank and a travel agency) that use JRC buildings in Ispra should pay a reasonable rent and be charged for heating, water and cleaning.

#### 1.4.4 Construction of buildings

- In obvious contrast with existing practice, the draftsman considers that all construction projects must be plainly included in appropriate (multiannual) programmes, the general budget and the relevant financing plans in the regular manner. It is unacceptable that buildings should have been constructed without regard for this rule and without explicit approval from the Budgetary Authority. The draftsman also considers that the situation with regard to the use of transfers of appropriations and internal transfers must be regularized.
- It is clear that in the matter of tenders for all construction or redevelopment work, the JRC has made use of the restricted invitations procedure. This means that the JRC has turned an exceptional provision into a general rule. The draftsman considers that this practice must cease and that in principle invitations to tender must be published in all Community countries as stipulated in the Financial Regulation.

The draftsman also considers that agreements must be concluded on conditions identical to those notified to the Advisory Committee following the invitations to tender. It is not acceptable that a casual decision

should have been taken, as has in fact happened, to add a 10% increase to cover so-called 'possible adjustments'. Here the draftsman wishes to suggest that the rapporteur on the revision of the Financial Regulation should give attention to this problem.

1.4.5 Building permits and delivery of buildings

The draftsman proposes that the Commission should draw up written proposals as soon as possible on the problem of responsibility in the matter of permits and delivery of buildings.

1.5 Having regard to the Commission's replies to the draftsman's questionnaire on the JRC (PE 67.526):

- The draftsman wishes to express his concern at what he considers can often be an inhibiting influence exerted by the advisory and management committees on such projects as the processing of tritium and photovoltaic conversion of solar energy.
- The draftsman considers that the Commission has supplied incomplete data on the use of the Essor reactor during recent years.
- The draftsman feels that the existing financial and scientific evaluation systems should be converted into an effective policy instrument for ongoing adjustment and planning.

1.6 The draftsman notes that the protracted discussion of the JRC establishment plan is still continuing. He proposes that Parliament's Committee on Budgets should consider this matter in detail in a separate report based on Commission proposals.

## 2. INDIRECT ACTION

### 2.1 Utilization of appropriations

- As regards commitment appropriations, the utilization rate was 64.5% of the total available appropriations (including transfers from 1978).  
This represents an improvement over 1978, when a utilization rate of 35% was recorded, but it does not change the fact that the rate is still too low.
- As regards payment appropriations, the utilization rate was 60.5% of total available appropriations, compared with 45% in 1978. The same comment as on commitment appropriations also applies here: an improvement over 1978, but, seen overall, the utilization rate is still too low.
- The Commission considers that the inadequate utilization rate is attributable, inter alia, to the fact that the Council is too slow in reaching decisions, and to the effect of the consultative programme management committees. This observation prompts the draftsman once again to emphasize strongly the fact that, pursuant to Article 205 of the Treaty, consultative committees are to exercise purely advisory responsibilities; furthermore all consultative committees must be of the 'Social Fund' type.

### 2.2 Re-grouping of indirect actions

- In connection with the 1978 discharge procedure, the draftsman urged that indirect actions be grouped around specific themes. The draftsman notes that this has been done as regards the theme of 'the environment', while a similar operation is now under way for a framework programme on raw materials. Action taken along these lines should be continued and generalized.

### 2.3 Research evaluation

The draftsman notes the various actions already undertaken by the Commission with a view to evaluating Community research. He considers, however, that a greater effort must be made to adopt a global approach to research evaluation on a systematic basis, although the Commission does not envisage any such action before 1982. Here the draftsman wonders whether it is true that the Commission has failed to follow up a proposal on this matter from the Court of Auditors!

#### 2.4 Productivity of the administrative activities

On the basis of the observations made by the Court of Auditors, Parliament urged, during the discharge procedure, that a study be carried out of the rational organization of the departments and that internal control be intensified.

A study of this problem which the Commission had assigned to a private firm has now been completed.

The draftsman notes the observations made by the Court of Auditors and considers them to be justified. In

the Commission's view, however, this study can be expected to lead to definite improvements. The draftsman proposes that the Court of Auditors should make an evaluation of the results and that the Commission should report to the Committee on Budgets.

#### 2.5 Participation rate and advances as regards research contracts

The draftsman notes with satisfaction that the Commission has drawn up rules on this matter and urges that the draft rules on the fixing of the percentage rate should be implemented immediately. In addition, he asks the Court of Auditors to draw up an evaluation report.

#### 2.6 Strengthening of controls

- Certificates of conformity: The draftsman endorses the observations by the Court of Auditors to the effect that, as regards contracts entered into with public institutions, the certificate of conformity should be submitted by the national audit bodies, and that other contracts should be dealt with by independent accountants or by means of on-the-spot controls.
- On-the-spot controls: The draftsman regards the fact that in 1979 only three on-the-spot controls were carried out (compared with 36 in 1978) as totally inadequate. He also considers that when controls are carried out use must be made of the questionnaire, and that inspection reports must be drawn up and filed.  
The draftsman also has reservations about the Commission's plan to subcontract control activities to third parties.

## 2.7 Financial implementation of the research contracts

- Of a total of 1,350 contracts appearing in the accounts, no operations were carried out in 488 cases. The Commission attributes this either to delays in the carrying out of contracts or to the contractors' lack of administrative infrastructure.
- The Court of Auditors has identified a relatively large number of serious shortcomings that are unacceptable, and which the draftsman finds most alarming; appropriate measures must be taken immediately. These include: 71 cases of advance payments having been made without any statement of expenditure from the contractor; failure to pay the balance owing on contracts that have expired; payment of higher amounts than those specified in the contract (9 cases); failure to effect advance payments in good time; delays in signing contracts; failure by the contractors to send in half-yearly statements of expenditure in good time.
- The draftsman agrees with the Commission that suspension of payment is justified in cases of default by the contractors, but he has reservations about the 33 cases in which payment was suspended without the administrative files giving any special reasons for this action.
- The draftsman shares the view of the Court of Auditors that it is unacceptable for the accounts to show commitments that are no longer justified, since this can give a distorted picture of the accounts and lead to the artificial freezing of appropriations.

## 2.8 Accounting methods

- The differences noted in accounting operations as between direct and indirect actions should be done away with, since the Financial Regulation calls for an integrated approach. The present situation complicates the problem of making comparisons between direct and indirect actions and achieving transparency.
- The draftsman points out that, in the interests of clarity and control ability, any changes made to the accounting methods should be effected with great care.

2.9 The draftsman calls attention to the fact that in his opinion a thorough analysis must be made of the different research advisory bodies. He has grave doubts about the need for what seems to him an excessive number of overlapping consultative institutions.

### 3. CONCLUSIONS

#### 3.1 As regards the JRC

- Although the utilization rate of both payment and commitment appropriations has shown a slight improvement over 1978, the rate at which these appropriations are being used is still too low.
- The fact that the Commission has drawn up measures relating to inventories, stock accounts and services to third parties is to be welcomed. Nevertheless, a survey should be conducted of the measures taken, having regard to the objectives set, on the basis of a report by the Court of Auditors.
- Serious shortcomings in the management of the JRC have to be recorded, in particular as regards policy on buildings. A thorough reorganization of JRC management is essential.
- All necessary measures must be taken to remove any inhibiting influence exerted by advisory or management committees, and to make the scientific evaluation system into an effective policy instrument for ongoing adjustment and planning.

#### 3.2 As regards indirect actions

- Although an improvement over 1978 can be recorded, the utilization rate of available appropriations is still too low.
- Efforts in the matter of regrouping indirect actions and research evaluation must be stepped up.
- Efforts to improve productivity of the administrative activities are also urgently needed, and an assessment should be made of the measures taken in the meantime on participation rates and advances.
- Controls in the matter of certificates of conformity and on-the-spot inspections must be strengthened.
- Unacceptable shortcomings in the financial implementation of research contracts have been recorded. Adequate solutions must be found as a matter of urgency.

- The differences noted in accounting methods between direct and indirect actions must be eliminated.

Working Document  
on the  
preparation of the discharge  
- the social sector -

Draftsman: Mr WETTIG

## I. INTRODUCTION

Consideration of the proper implementation of the Social Fund has for many years centred on the problem of utilization of appropriations. The Commission and the Member States have taken a long time to arrive at appropriate procedures for the optimal distribution of the appropriations available in the Community budget.

As an advocate of improved utilization of appropriations, Parliament has always been in favour of optimizing the objectives of the programmes of the Social Fund or combining the Social Fund with other Community policy instruments and ascertaining the results of the activity of the Social Fund.

Last but not least, high standards must be expected as regards the correct and effective implementation or distribution of appropriations; in other words the problems of control need to be analyzed closely.

It is the purpose of this working document to consider this set of problems. The draftsman proposes therefore also to give consideration to the Commission's Eighth Report on the European Social Fund for the 1979 financial year as a basis for assessing the financial activities of the Social Fund.

The report of the Court of Auditors covers not only the chapters concerning the Social Fund as such (Chapters 50-53), but also expenditure in the social sector (Chapter 30), expenditure on the protection of man and his environment (Chapter 35) and expenditure on aid to disaster victims in the Community (Chapter 59).

## II. FINANCIAL BASES AND DATA

In the last three years under review the commitment appropriations entered in the budget for the Social Fund averaged about 630 m EUA. Payment appropriations leapt about 200% between 1977 and 1978, exceeding 500 m EUA. The exact figures are shown in the table below.

### Social Fund appropriations (m EUA)

	Commitment appropriations	Payment appropriations
1977	617.10	172.44
1978	569.50	538.80
1979	695.50	502.50

There is however a wide disparity between the appropriations set aside or approved for the relevant financial year and the appropriations that were actually available. In the 1979 financial year these appropriations, including appropriations carried forward from the previous financial year, adjusted calculations based on EUA variations and cancellations from 1978

allowing re-use totalled 823.70 m EUA in commitment appropriations and 829.5 m EUA in payment appropriations. Appropriations for other expenditure in the social sector, for the protection of man and his environment and for disaster aid totalled the comparatively very modest figure of 20 m EUA.

The total amount of commitment appropriations ultimately available was 44% in excess of the previous year. Nevertheless, far from all the applications for aid in 1979 could be satisfied. The total volume of aid requested was about 1,317 m EUA, some 60% in excess of available budget appropriations. Although this percentage was an improvement on the figure for the previous year (93%), a careful selection of the areas and projects to be supported was necessary, as laid down in the guidelines for the administration of the European Social Fund for the years 1972-1981, and the familiar weighted reduction procedure had to be applied.

### Results

The breakdown of total authorized appropriations by Member State and sector is shown in the attached table.

The Commission estimates the number of persons benefiting from support from the programmes approved in 1979 at 1.36 million, i.e. one third more than in the previous year. The share of Fund aid for measures in the five areas having absolute priority - Greenland, French Overseas Departments, Ireland, Northern Ireland and the Mezzogiorno - remained, at 37.8%, about the same as the previous year (0.2% increase).

In addition to assistance in traditional areas such as occupational training and measures for the re-employment of various population groups and groups of undertakings, the Social Fund for the first time also made available 72 m EUA for a new Council regulation on aid for the employment of young people and 5 m EUA for back-up measures for industrial restructuring. These are two new types of expenditure for which explicit provision was not made during the debate on the preliminary draft budget<sup>1</sup>.

### Utilization of appropriations in 1979

With effect from 1 January 1979 the Commission improved the procedure for approving applications made by Member States and adopted three series of approval decisions as a result of which most applications were approved in the autumn, whereas in previous years they had not been approved until late December. This had resulted in considerable carry-forwards of appropriations to the following financial year.

<sup>1</sup> See Council Regulation No. 3039/79, OJ No. L 361, 23.12.1978, p. 3

## Commission approval decisions in 1979

Decision of	Amount (in m EUA)	Communicated on
15 June	154.07	9 July
19 October	631.64	28 November
20 December	11.29	24 January

By spreading decisions in this way over the whole year it was possible to achieve a substantial improvement in the utilization of appropriations. Tables 5 and 7 of the Court of Auditors' report give detailed figures for the results in respect of commitment and payment appropriations. The Commission's activity report on the European Social Fund in the 1979 financial year also contains a wealth of data and tables. The most important of these figures are repeated below:

- of total commitment appropriations available about 774.5 m EUA or 94%, were committed. About 49 m were carried forward to the 1980 financial year;
- payments made in 1979 totalled approx. 596 m EUA, over double the figure for the previous year (284 m EUA). The rate of utilization of payment appropriations was about 72%, as compared with only 49% in 1978;
- utilization varies considerably from sector to sector as far as payment appropriations are concerned: in agriculture and the textile industry, for example, 51% of available appropriations were paid out, while for measures for women the figure was as low as 15.4%; the rate of utilization was also low (5.5%) for the 25 million EUA appropriation specially transferred to Chapter 53 for youth employment. Total payment appropriations remaining unused at the end of 1979 were approx. 234 m EUA;
- about 20% of payments (157 m EUA) were made in 1979 for operations commencing in the course of the year. In 1978 the corresponding figure was only 5%.

### Comments on the implementation of the budget

According to the Court of Auditors' assessment the implementation of the 1979 budget was characterized 'by the introduction of a system for cancelling commitments recognized as unusable, and secondly, an effort to speed up payments'<sup>1</sup>. On the whole it considers the initial phase with regard to the system of advances as now completed in view of the successes with regard to payments actually made (595 m EUA). Table 4 in the report again shows this system of advances, payments on account, accelerated payments on account and additional payments with its practical results.

<sup>1</sup> See paragraph 6.2 of the Annual Report, p. 92

In this connection the Commission already pointed out last year that it was making direct efforts in the Member States to inform the beneficiaries of the possibilities and procedures relevant to application for and payment and reception of aid. These efforts now seem to have been crowned by the beginnings of success. This was, however, for a large part due to the improvement in the Commission's internal management and the three-stage decision procedure resulting therefrom.

The extent to which the various national administrative systems in the Member States hamper the smooth carrying-out of Social Fund activities also had to be determined by the Court of Auditors in its audits in the Member States: it considers it essential before carrying out its audits 'to study both the national and the Community procedures and management systems in respect of the European Social Fund, and to analyse the relationship between the two'<sup>1</sup>.

It is to be hoped that the Commission will keep up its efforts, in particular as regards the possibilities of the new system of payments<sup>2</sup> adopted on the basis of the new Council regulation of 20 December 1977, which provides for payments on account in certain circumstances.

Nevertheless, the volume of payments on account applied for remains relatively small (see Table 4 in the Court of Auditors' report), which prompts the Court of Auditors to repeat its observation of the previous year that 1979 is also a year of transition.

In this connection it refers to certain dangers for auditing which this new regulation involves. This and other problems of financial control will be dealt with below.

### III. ASPECTS OF CONTROL

The hope was expressed in the discharge report for the 1977 financial year that the Court of Auditors would in future be in a position to carry out specific checks of the selection, management and supervision of projects and submit its comments on the structure and implementation of such checks.

In this year's audit report the Court of Auditors has for the first time dealt in detail with the problems of control. It reports that it has implemented a first programme of on-the-spot audits in order to familiarize itself with the national administrative systems and procedures in respect of all measures financed by the European Social Fund in the individual Member States. It would be interesting to have details of this programme.

<sup>1</sup> Paragraph 6.15. of the Annual Report, p. 98

<sup>2</sup> OJ No. L 337, 27.12.1977

One of the main aims of such a programme must be an assessment of the effectiveness of Community policies. The Court of Auditors asserts, as a preliminary conclusion, the demand that the Commission should formulate clear principles and rules for application within the national procedures and systems of management where projects are co-financed by the Community.

The Court of Auditors states that it carried out on-the-spot audits in all Member States in order to acquaint itself with the national procedures and systems of management. As stated above, however, it is unfortunately not yet able to submit any practical findings.

The on-the-spot audits carried out by the European Social Fund and the Financial Controller are, for the most part, considered unsatisfactory: the audits of the European Social Fund were carried out in only three Member States (Ireland, Italy and the United Kingdom) and those of the Financial Controller in only four Member States. Moreover, no coordinated approach was used, and the Social Fund's audits in Italy were of a purely factual nature.

#### IV. POSSIBLE IMPROVEMENTS

The Commission should be called upon to maintain its pressure on the Member States with a view to better and faster utilization of Fund appropriations. Now that the decision-making procedure has been substantially improved, the period between consultation of the Fund Committee and the announcement of its decisions must now be considerably reduced.

The accumulation of appropriations from previous years constitutes a particular problem. A detailed breakdown of such appropriations is given in Table 6 of the Court of Auditors' report. According to the Commission the amount of appropriations outstanding which might have been applied for in 1979 exceeds 300 m EUA. This shows that the possibilities of advance payment are far from being fully exploited by the Member States.

Commitments outstanding at the end of 1979 totalled 1,341 m EUA. In order to facilitate the payment of arrears, the Commission has published a new decision on the management of the European Social Fund<sup>1</sup> and extended the deadline for applications for payments in respect of measures which should normally have been completed by 31 December 1977 to 31 December 1979. The utilization or settlement of amounts from years prior to 1979 also constitutes, according to the Court of Auditors, a quantitatively extremely important problem. The Commission should communicate the relevant results as at present, otherwise the Committee on Budgetary Control or Parliament itself would have to demand appropriate measures for the solution of this problem.

<sup>1</sup> OJ No. L 238, 30.8.1978, p. 20

The work of the Court of Auditors on the analysis of the national management systems and their relationship to the Community should be completed as quickly as possible so that an effective auditing system can be set up. At the same time the Commission must coordinate its audits and make them subject to uniform objectives. The Commission and the Court of Auditors should cooperate closely in the preparation of new on-the-spot auditing methods and submit their findings to Parliament as soon as possible.

#### V. OTHER ACTIVITIES IN THE SOCIAL SECTOR

Final appropriations for expenditure in the social sector totalled 6.8 m EUA non-differentiated appropriations; differentiated appropriations totalled 11.8 m EUA (for commitment) and 6.1 m EUA (for payment).

While only about 63% of total commitments in respect of non-differentiated appropriations were paid out, payments in respect of differentiated appropriations totalled over 80%.

In the field of environmental protection (Chapter 35) the rate of payments, as already repeatedly observed in the budget discussions in the Committee on Budgets, was relatively low (46%).

As regards aid to disaster victims in the Community, the draftsman already dealt in detail with the problems involved last year. The Court of Auditors had then carried out comprehensive audits.

Of the 5 m EUA available in the budget, a total of 2.8 m EUA was paid out to various disaster-hit areas on the basis of Commission decisions.

In its resolution in the discharge report for the 1978 financial year Parliament called for measures to ensure that the disaster aid made available should reach the population concerned directly and as quickly as possible. It also called for an account to be given of the utilization of the aid by the Member States including the necessary Community checks.

The Court of Auditors notes that the Commission has taken very few measures to ensure maximum results from Community aid.

An on-the-spot audit of the aid granted for the widely publicized oil disaster caused by the Amoco Cadiz oil tanker off the coast of Brittany again showed up all the weaknesses of disaster aid:

- the appropriations were paid out only after a considerable delay,
- owing to the delay in the submission of a report by the relevant Member State, it was not possible to achieve the aim of providing aid of an emergency nature and this had a serious effect on the impact of the aid on the victims and on public opinion.

The Court again underlines how important it is for reception facilities to be available to enable the aid to be channelled rapidly to its intended recipients.

The Committee on Budgetary Control should draw the appropriate conclusions from these shortcomings and call upon the Commission to make Community aid dependent in future on the prior fulfilment of certain requirements or to create the conditions therefor.

#### CONCLUSIONS

Your draftsman proposes that the following paragraphs should be included in the resolution contained in the discharge report.

After considering Chapter 6 of the Annual Report of the Court of Auditors for the financial year 1979 on the financial activity of the Community in the social sector and after making a detailed analysis of the Commission's Eighth Report on the Activities of the European Social Fund for the financial year 1979 and on the supplement to the Commission's report on national reports on the activity of the European Social Fund in the Community countries.

The European Parliament,

#### as regards the Social Fund

- welcomes the substantial improvement in the utilization of appropriations following the improvement of the procedure for approving applications made by Member States,
- points out, however, that the possibilities of advance payment by the Member States have been far from exhausted and that it is absolutely essential for commitments outstanding from the years prior to 1979 to be paid out as soon as possible,
- calls on the Commission to continue with undiminished rigour its checks on the utilization of appropriations by the Member States under the advance payment system,
- requests the Court of Auditors to complete its analysis of the national management systems and their relationships with the Community as soon as possible so that an effective auditing system can be set up,
- calls on the Commission and the Court of Auditors to work in close cooperation in drawing up new auditing methods and to submit their findings to Parliament as quickly as possible,

- calls on the Member States to observe the deadline set by the Commission for the submission of reports on the results of measures under the European Social Fund, so that the Commission can submit them to Parliament at the same time as its activity report,
- stresses the need for continuity in assistance, which for some Member States is essential for the submission of applications for grants,
- recommends the Commission to speed up yet further the approval procedure since appropriations can be implemented most efficiently when notification of the approval is received at an early date, if possible before the relevant operations commence,

as regards Community aid to disaster victims

- stresses the importance of aid to disaster victims in the Community as a means of furthering the Community spirit and establishing it firmly in the consciousness of the peoples of Europe,
- draws attention to the importance of Community disaster aid for the population concerned and stresses the need for such aid to reach them directly and as fast as possible,
- notes with regret that despite the urgent appeal to the Commission and the Member States contained in the resolution in the discharge report, there was again a considerable delay in the payment of appropriations in 1979,
- calls on the Commission to make Community aid dependent in future on the prior fulfilment of certain requirements, in particular better reception facilities.

APPROPRIATIONS APPROVED IN 1979  
Breakdown by Member State and sector

in m EUA

BUDGET HEADING	BELGIUM		DENMARK		GERMANY		FRANCE		IRELAND		ITALY		LUXEMBOURG		NETHERLANDS		UK		TOTAL	
	m EUA	%	m EUA	%	m EUA	%	m EUA	%	m EUA	%	m EUA	%	m EUA	%	m EUA	%	m EUA	%	m EUA	%
5000 AGRICULTURE	-	-	-	-	0.81	6.8	8.66	72.3	0.80	6.8	1.69	14.1	-	-	-	-	-	-	11.96	100
5001 TEXTILE INDUSTRY	0.97	6.9	-	-	2.38	16.9	1.08	7.6	-	-	3.56	25.2	-	-	2.61	18.5	3.51	24.9	14.11	100
5010 YOUNG PEOPLE	3.64	1.6	2.84	1.2	13.18	5.7	35.44	15.3	18.64	8.1	53.89	23.3	0.51	0.2	6.31	2.8	96.54	41.8	230.99	100
5020 HANDICAPPED PERSONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5030 MIGRANT WORKERS	1.07	3.4	0.38	1.2	5.69	17.8	10.82	33.9	0.04	0.1	12.19	38.2	-	-	0.78	2.4	0.97	3.0	31.94	100
5050 WOMEN	0.01	0.1	0.39	2.1	12.10	65.5	2.35	12.7	0.23	1.2	2.29	12.4	-	-	0.45	2.4	0.66	3.6	18.48	100
50	5.69	1.9	3.61	1.2	34.16	11.1	58.35	19.0	19.71	6.4	73.62	23.9	0.51	0.2	10.15	3.3	101.68	33.0	307.48	100
5100 REGIONS	4.12	1.3	6.65	2.1	11.78	3.7	40.76	12.6	26.46	8.2	150.21	46.6	-	-	5.89	1.8	76.43	23.7	322.30	100
5101 GROUPS OF UNDERTAKINGS	-	-	0.66	60.6	-	-	-	-	-	-	0.43	39.4	-	-	-	-	-	-	1.09	100
5102 TECHNICAL PROGRESS	1.52	15.2	-	-	0.68	6.8	2.24	22.4	-	-	4.10	40.9	-	-	1.47	14.7	-	-	10.01	100
5110 HANDICAPPED PERSONS	4.11	6.8	2.86	4.8	5.46	9.1	8.23	13.7	9.03	5.1	11.97	20.0	0.49	0.8	1.44	2.4	16.34	27.3	59.93	100
5120 INDUSTRIAL CONVERSION	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
51	9.75	2.5	10.17	2.6	17.92	4.6	51.23	13.0	35.49	9.0	166.71	42.4	0.49	0.1	8.80	2.2	92.77	23.6	393.33	100
5200 PILOT SCHEMES	0.50	16.2	0.14	4.6	0.37	12.0	0.41	13.3	0.17	5.5	0.77	25.0	-	-	0.27	8.8	0.45	14.6	3.08	100
5300 EMPLOYMENT AID	-	-	0.78	1.1	0.43	0.6	24.83	35.2	2.76	3.9	40.13	56.9	-	-	0.10	0.1	1.53	2.2	70.56	100
50-53 TOTAL	15.94	2.1	14.70	1.9	52.88	6.8	134.82	17.4	58.13	7.5	281.23	36.3	1.00	0.1	19.32	2.5	196.43	25.4	774.45	100

Table 5 — Utilization of commitment appropriations

(EUA)

Article	Heading	Initial appropriations	Transfers of appropriations	Appropriations remaining at 31. 12. 1978	Adjustments due to EUA variation (previous financial years)	Cancellations allowing re-use (1978)	Total appropriations available	Total appropriations committed	Appropriations committed as % of appropriations available	Appropriations remaining at 31. 12. 1979 (1)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (3) + (4) + (5) + (6) + (7)	(9)	(10) = (9)/(8)	(11) = (8) - (9)
500	Agriculture and textiles	35 000 000	- 9 000 000	569 042.02	- 757 361.57	- 5 805 245.61	33 131 649.20	26 074 751.78	78.70	7 056 897.42
501	Young people	230 000 000	—	130 041.84	2 644 255.63	12 084 014.09	244 858 311.56	230 991 611.88	94.34	13 866 699.68
502	Handicapped persons	—	—	—	151 714.99	—	151 714.99	—	0	151 714.99
503	Migrant workers	23 000 000	+ 9 000 000	- 3 265.28	- 78 422.23	18 631.94	31 943 474.99	31 938 360.50	99.98	5 114.49
505	Women	18 000 000	—	311 434.77	152 730.36	82 405.33	18 546 570.46	18 484 139.02	99.66	62 431.44
	Chapter 50 — Total	306 000 000	—	1 013 783.91	3 627 640.32	17 990 296.97	328 631 721.20	307 488 863.18	93.57	21 142 858.02
510	Regions	326 000 000	+ 1 390 000	- 38 388.09	7 098 783.31	19 647 554.13	354 174 725.53	333 394 980.24	94.13	20 779 745.29
511	Handicapped persons	61 000 000	- 1 390 000	462 408.49	16 719.60	727 352.21	60 816 480.30	59 929 148.68	98.54	887 331.62
512	Industrial conversion	—	5 000 000	—	—	—	5 000 000.00	—	0	5 000 000.00
	Chapter 51 — Total	387 000 000	5 000 000	507 796.58	7 115 502.91	20 374 906.34	419 991 205.83	393 324 128.92	93.65	26 667 076.91
Ch. 53	Employment — young people	—	72 000 000	—	—	—	72 000 000	70 562 225.31	98.00	1 437 774.69
	Ch. 50 + 51 + 53 — Total	693 000 000	77 000 000	1 514 580.49	10 743 143.23	38 365 203.31	820 622 927.03	771 375 217.41	94.00	49 247 709.62
Ch. 52	Pilot schemes and preparatory studies	2 500 000	—	634 293.37	142.02	—	3 134 435.39	3 079 543.12	98.25	54 892.22
	Total	695 500 000	77 000 000	2 148 873.86	10 743 285.25	38 365 203.31	823 757 362.42	774 454 760.58	94.01	49 302 601.84
		84.43	9.35	0.76	1.30	4.66	100.00	94.01	—	5.99

(1) These appropriations were carried over to the financial year 1980. The appropriations remaining under Chapter 53 will be transferred to Item 5011 to cover aids for the employment of young people. The appropriations remaining under Article 5021 lapse.

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PE 71.959/Fin./Ann.V

ANNEX V

Table 7 — Utilization of payment appropriations

(EUA)

Article	Heading	Initial appropriations	Transfers	Final appropriations	Appropriations carried over	Total available	Payments	Payments as a percentage of total available	Remaining appropriations
(1)	(2)	(3)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)	(8)	(9) = (8) / (7)	(10) = (7) - (8)
500	Agriculture and textiles	38 000 000	—	38 000 000	40 259 710.43	78 259 710.43	40 170 878.84	51.33	38 088 831.59
501	Young people	150 000 000	- 15 000 000	135 000 000	49 104 111.58	184 104 111.58	150 045 513.58	81.50	34 058 598.00
502	Handicapped persons	1 600 000	—	1 600 000	1 108 861.91	2 708 861.91	2 534 936.44	93.58	173 925.47
503	Migrant workers	15 400 000	+ 15 000 000	30 400 000	14 341 301.47	44 741 301.47	33 479 711.71	74.83	11 261 589.76
505	Women	10 000 000	—	10 000 000	2 500 000.00	12 500 000.00	1 921 953.06	15.38	10 578 046.94
	<b>Chapter 50 — Total</b>	<b>215 000 000</b>		<b>215 000 000</b>	<b>107 313 985.39</b>	<b>322 313 985.39</b>	<b>228 152 993.63</b>	<b>70.79</b>	<b>94 160 991.76</b>
510	Regions	245 000 000	—	245 000 000	175 633 931.35	420 633 931.35	321 787 229.61	76.50	98 846 701.74
511	Handicapped persons	40 000 000	—	40 000 000	15 650 465.89	55 650 465.89	43 303 261.36	77.81	12 347 204.53
512	Industrial conversion	—	2 500 000	2 500 000	—	2 500 000.00	—	0	2 500 000.00
	<b>Chapter 51 — Total</b>	<b>285 000 000</b>	<b>2 500 000</b>	<b>287 500 000</b>	<b>191 284 397.24</b>	<b>478 784 397.24</b>	<b>365 090 490.97</b>	<b>76.25</b>	<b>113 693 906.27</b>
Chap. 53	Young people	—	25 000 000	25 000 000	—	25 000 000.00	1 361 680.24	5.45	23 638 319.76
	<b>Chapters 50 + 51 + 53 — Total</b>	<b>500 000 000</b>	<b>27 500 000</b>	<b>527 500 000</b>	<b>298 598 382.63</b>	<b>826 098 382.63</b>	<b>594 605 164.84</b>	<b>71.98</b>	<b>231 493 217.79</b>
Chap. 52	Pilot schemes and preparatory studies	2 500 000	—	2 500 000	929 460.35	3 429 460.35	1 097 661.92	32.01	2 331 798.43
	<b>Chapters 50 + 51 + 52 + 53 — Total</b>	<b>502 500 000</b>	<b>27 500 000</b>	<b>530 000 000</b>	<b>299 527 842.98</b>	<b>829 527 842.98</b>	<b>595 702 826.76</b>	<b>71.81</b>	<b>233 825 016.22</b>

(1) Appropriations are carried over where they do not exceed the amount of the final appropriations; the surplus lapses.

3. PROGRESS WITH REGARD TO COMMITMENTS MADE

Budget nomenclature	COMMITMENTS			PAYMENTS MADE IN 1979			COMMITMENTS REMAINING TO BE SETTLED UP AT 31 DECEMBER 1979		
	Outstanding at 1.1.1979*	Entered into in 1979**	Total	Out of commitments in Col. 1	Out of commitments in Col. 2	Total	Out of commitments in Col. 1	Out of commitments in Col. 2	Total
	1	2	3	4	5	6	7	8	9
500 - Agriculture and textile sectors	129.21	26.07	155.28	32.93	7.24	40.17	88.28	18.83	107.11
501 - Young people	307.29	230.99	538.28	93.60	56.44	150.04	198.43	174.54	372.97
502 - Handicapped persons	9.40	-	9.40	2.54	-	2.54	6.64	-	6.64
503 - Migrants	76.99	31.94	108.93	29.62	3.86	33.48	47.36	28.08	75.44
505 - Women	7.69	18.48	26.17	0.57	1.35	1.92	6.88	17.13	24.02
50	530.59	307.49	838.06	159.26	68.89	228.16	347.59	238.58	586.18
510 - Regions, economic sectors or groups of companies	616.66	333.39	952.05	250.70	71.08	321.78	334.35	262.31	596.67
511 - Handicapped persons	70.72	59.93	130.65	27.90	15.40	43.30	41.63	44.53	86.15
51	689.38	393.32	1,082.70	278.60	86.48	365.08	375.98	306.84	682.82
52 - Pilot schemes and preparatory studies	1.18	3.08	4.26	0.34	0.76	1.10	0.83	2.32	3.15
53 - Employment of young people	-	70.56	70.56	-	1.36	1.36	-	69.20	69.20
TOTAL 50-52-53	1,221.15	774.45	1,995.58	438.20	157.50	595.70	724.40	616.95	1,341.35

\* Updated EUA rates.

\*\* See Column 4 of Table No 1 'Utilization of the appropriations for commitment'.

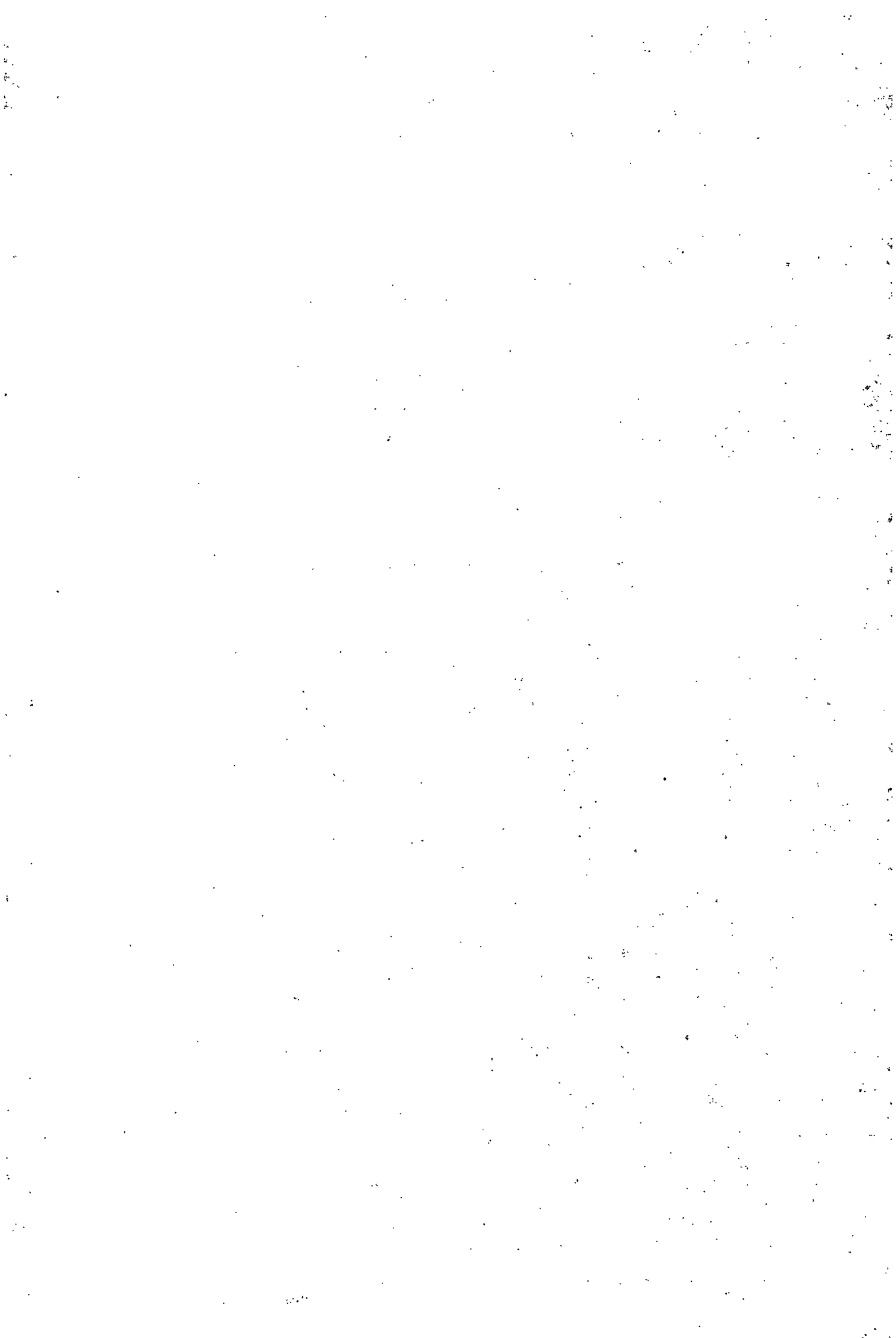


Working Document

on the implementation of Chapters 55 and  
56 of the general budget of the European  
Communities for 1979:

European Regional Development Fund

Draftsman: Mr GOUTHIER



1. Your draftsman was instructed by the Committee on Budgetary Control to consider the effects of expenditure in connection with the Regional Fund (Chapters 55 and 56 of the budget).

Developments in the ERDF in 1979 have already been discussed in PE 69.651/fin. which contains the opinion of the Committee on Regional Policy and Regional Planning on the Fifth Annual Report of the Fund.

2. This year's investigation by the Court of Auditors<sup>1</sup> raises a number of interesting points relating to management of the Fund which have come to light as a result of on-the-spot audits. The draftsman appreciates the exertions of the Court of the Auditors, which has taken part in four audits organized by the Commission as well as carrying out 12 audits of its own.

3. Italy's annual payments are continuing to decline. Although the quota for this country is 39.39%, it only received 30.81% in 1978 and a mere 28% in 1979. The Court of Auditors points out that some projects have run into delay for reasons which could not be precisely identified. The Commission points out that the rate at which it makes payments depends on the rate at which applications are submitted, and states that the Italian authorities are investigating the causes of the delay. Your rapporteur believes that the Commission and the Court of Auditors should follow this inquiry with the greatest attention and that account could be taken of its findings both in the drafting of the budget and in the handling of applications.

4. Another general point concerns the fact that in the ERDF, as no doubt in other sectors, appropriations brought forward from the previous year are also used to meet commitments from the current year. In the case of the ERDF this practice cannot come in for much criticism from the political point of view, particularly with regard to the substantial amounts carried over in 1978 and 1979. In general, and in the light of the difficulties with the application of the system of provisional twelfths in 1980, it would seem desirable for Parliament to adopt a general position on this matter.

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<sup>1</sup> Annual Report for 1979, OJ No C 342, 31.12.1980, p.112 et seq.

## SELECTION CRITERIA

5. Even in the ERDF there are signs of the economic crisis: subsidized industrial estates are occupied less than expected, the number of jobs created falls short of expectations, etc. The Court of Auditors cites a number of cases, however, in which the economic difficulties would seem not to be the only explanation. Even where expectations are fulfilled, it is not by any means guaranteed that the new jobs are not created at the expense of another industry in the same region.

6. The Court of Auditors considers that the procedure for selecting projects can and must be refined. The Commission confines itself to stating that procedures are in strict accordance with the basic regulation. Your draftsman endorses the Court of Auditors' view that even where applications formally comply with the provisions of the regulation, the Commission must ascertain whether the proposed investment is actually justified.

7. For this reason there is an urgent need for a Community-level appraisal system, to assess the effect of existing regional aid programmes on the development of the regions concerned. Although the Commission does not dispute this, it has shown little enthusiasm for setting up a system of this kind.

8. It is also clear that the improvement in statistical machinery requested by the Court, and the computer system requested by the Commission departments for the financial management of the ERDF, are by no means unnecessary luxuries.

## PAYMENT OF AID

9. The Court of Auditors has disclosed a number of anomalies in the payment of aid: final accounts remain outstanding for long periods, sums withheld at national level by way of security are not declared in applications, there is ambiguity over the property rights to installations which have been financed, and so on.

10. The Committee on Budgetary Control has already drawn attention to the fact that the internal rules for the closing of a file two years after implementation of the project have little impact on projects on which there has been overpayment.

## COOPERATION BETWEEN COURT OF AUDITORS AND COMMISSION

11. Your draftsman is rather surprized that in its answer to points 7.27 and 7.29 of the Court's report the Commission states that it has not been fully informed of the results of audit visits by the Court of Auditors. Your draftsman is surprized not only at the reason for the comment but also at the fact that the Commission should choose its official, published replies to the Courts observations for matters of this kind.

## NON-QUOTA SECTION

12. In 1979 it was again impossible to implement Chapter 56 of the budget and in late 1980 it was again necessary to salvage the appropriations by transfer to Chapter 55. The urgent need for the Commission to make an extra effort on behalf of what is the most Community-oriented part of the Fund cannot be sufficiently emphasized.

## ANNUAL REPORT FOR 1979

13. Referring to the above-mentioned Fifth Annual Report for 1979 of the Fund, the Committee on Budgetary Control:

- regrets that payment appropriations brought forward from previous years could only be absorbed to a limited extent in 1979;
- notes, however, that there was an appreciable improvement in the situation in 1980;
- welcomes the introduction of simplified and accelerated procedures;
- calls for greater priority to be given to Regional Fund expenditure in the Commission's audit activities;
- calls for a full report on the irregularities identified by audit activities in recent years and on the measures taken in consequence, and
- insists that the obstacles to audits in some Member States be removed.

#### 14. CONCLUSIONS

##### The Committee on Budgetary Control:

- recalls its findings in respect of the Fifth Annual Report on the Regional Fund (PE 69.651), particularly concerning the disbursement of payment appropriations, which in 1979 was still too low, and calls for the removal of obstacles sometimes placed in the way of inspection visits by the Commission to the beneficiaries of Community aid;
- notes with concern that one Member State is increasingly in arrears with the payment of Community Funds; asks to be informed of the results of the investigation into this question at Community and national level;
- insists on the continuing refinement of criteria for the selection of projects and considers it indispensable for controlling and managing the Fund that a Community appraisal system should be devised to make it possible to assess the impact of programmes and projects for regional development;
- expects the Commission to continue to adapt and improve the Fund's internal procedures to ensure, inter alia, that the anomalies identified by the Court of Auditors in the allocation of aid may be eliminated;
- believes that the Council should remove - as regards the 'non-quota' section of the Fund, which is still not operational - the obstacles which prevent the Commission from carrying out the responsibility for implementing the budget assigned to it by the Treaty;
- takes the view that, as far as the Regional Fund is concerned, there are no grounds for refusing to grant a discharge for 1979.

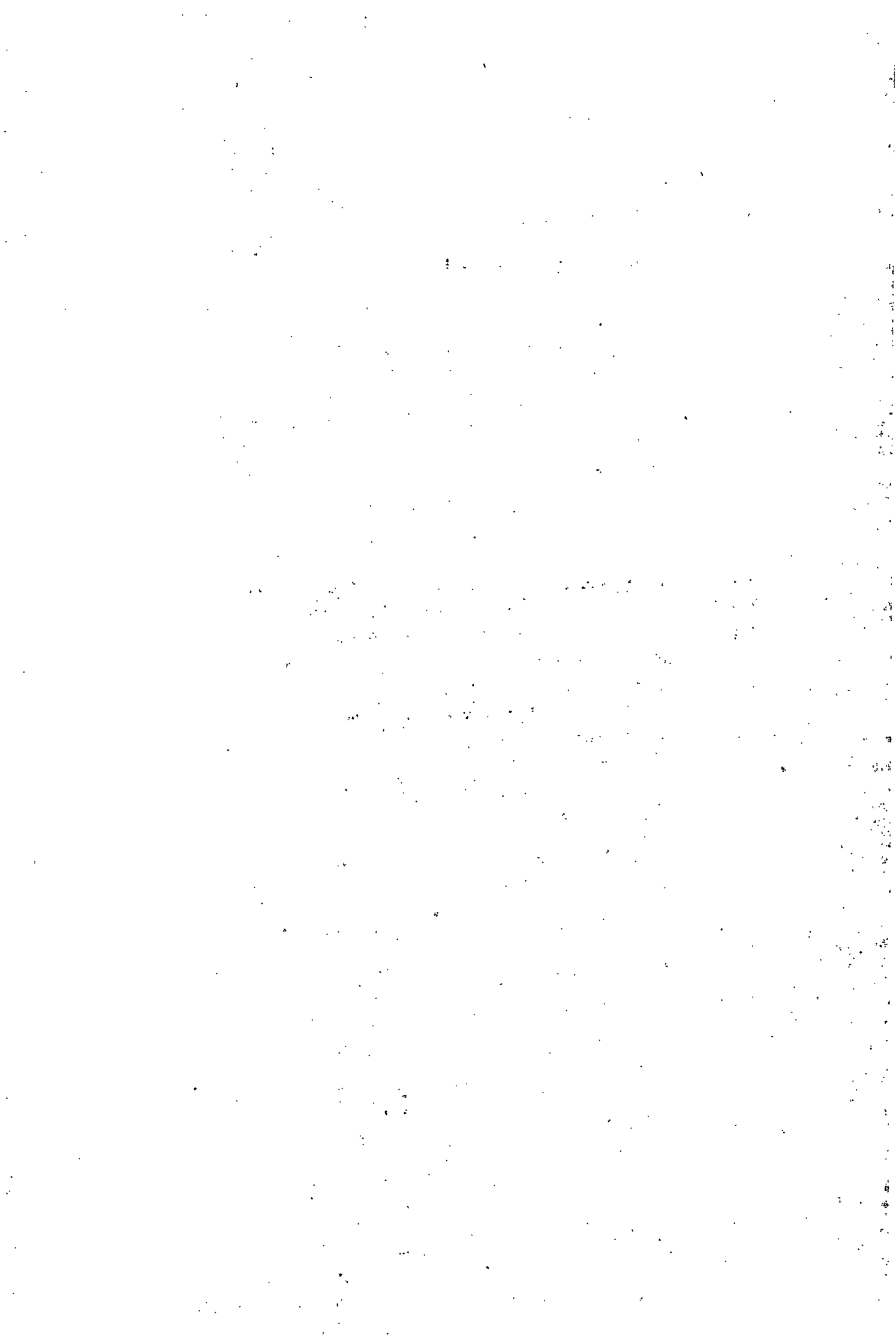
Working Document

on

the EAGGF, Guarantee Section, in  
the Annual Report of the Court of  
Auditors for the financial year 1979

Draftsman: Mr P. DANKERT

The rapporteur felt that it was more logical to deal with the Section of the 1979 discharge concerning the EAGGF, Guarantee Section, and the Ninth Financial Report on the EAGGF, Guarantee Section, for 1979 in a single document. This document will be distributed under the number PE 71.212 as the explanatory statement to the resolution on the Ninth Financial Report on the EAGGF, Guarantee Section.



WORKING DOCUMENT

- on the discharge to be given to the Commission of the European Communities for the 1979 financial year
- on the Ninth Financial Report on the EAGGF - Guidance Section - 1979

Draftsman:                    Mr FILIPPI



## INTRODUCTORY NOTE

1. A year ago the Committee on Budgetary Control gave its views both on the Eighth Financial Report on the EAGGF Guidance Section for 1978 and on the discharge for the same financial year and the same sector.

The work of the Committee on Budgetary Control on these two points led to a report presented in the House (Doc. 1-137/80) and a working document (PE 63.059/fin.).

The main complaints about the financial report of the Commission were:

- the inability of the guidance policy of the EAGGF to reduce structural imbalances between the various regions of the Community;
- the lack of sufficient coordination of Community intervention measures for structural policies;
- the level of use of budgetary appropriations for guidance measures which was so low as to compromise the very aims of the Guidance Section;
- the lack of rationalization of aid procedures;
- the lack of adequate controls both by the Commission and, as regards external control, by the Court of Auditors.

In the working document on the discharge there were complaints about the laconic nature of the annual report by the Court of Auditors on the 1978 financial year and the total lack of inspection visits by the Court of Auditors.

2. The situation this year is as follows.<sup>1</sup>

It should be pointed out that unlike last year the Ninth Report on the Guidance Section presents significant shortcomings in its presentation whereas the part of the annual report by the Court of Auditors is sufficiently complete.

The Ninth Financial Report sets out the facts about the Guidance Section in a text of an excessively administrative nature which is of value only to those who are well acquainted with such matters but not to all readers. This is a pity because it is very important that this report should be simple, clear and complete in its explanations.

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<sup>1</sup> Both the Ninth Financial Report (COM(80) 639 final) and the section of the report by the Court of Auditors for 1979 are dealt with in this working document. This text will then become an integral part of the report on the discharge.

The Commission's text merely sets out a series of phenomena without specifying their scope or their cause. Consequently it is a very sketchy document which betrays the very purpose of the annual report of the Commission which is to set out the facts about the year concerned not in a purely descriptive manner but in a critical and constructive way.

A clear example of this is the very brief text (two lines long) on 'irregularities' in the Guidance Section. The annexes to the report are no clearer or fuller. Fortunately the Annual Report of the Court of Auditors makes up for these shortcomings. This is however, no excuse for the Commission evading its responsibilities.

3. The management of the Guidance Section should be assessed in the light of the requirements which the European Parliament stressed when adopting the 1979 budget and in its comments on the discharge for 1978.

In presenting the 1979 budget the European Parliament indicated that one of the priority sectors for Community action was the policy on agricultural structures and it supported an extension of this structural policy both to reduce the imbalance between farm price policy and the policy on agricultural structures and more particularly to solve at least in part the problem of structural surpluses by improving the structures themselves (see paragraph 24 of the resolution adopted by Parliament at the November 1978 part-session).

In the resolution on the comments relating to the discharge for 1978 Parliament made the following points:

'Whilst appreciating the difficulties, deplores the inexactitude of estimation of agricultural expenditure;  
Underlines the problems confronting the auditing authorities in the combat against fraud and irregularities and instructs the Committee on Budgetary Control to organize a meeting to which should be invited representatives from the national audit bodies, national administrations and the Court of Auditors to study these difficulties and to suggest remedies.'<sup>1</sup>

These remarks, while not referring specifically to the guidance policy, are of special relevance to that sector.

4. Your rapporteur therefore welcomes the document of the Court of Auditors on the financial aspects of the guidance section for 1979.

<sup>1</sup> Paragraphs 45 and 51 of the resolution adopted on 23 May 1980 (OJ No. C 147, 16.6.1980)

The characteristic feature of 1979, as in the past, was the lower rate of use of budgetary appropriations. 1979, as the Court of Auditors points out, was the last year in which the annual endowment was fixed by regulation. From 1980 onwards the endowment is for a five year period and the amount allocated to each financial year is decided during the budgetary procedure.

This is one of the reasons which led Parliament to ask that these appropriations henceforth be considered as non-compulsory and this is certainly one of the reasons why the Budgetary Control Committee should pay closer attention to assessing the size and use of annual appropriations.

5. There are three essential points which illustrate the situation clearly. Out of the reserve of 531 million EUA set up between 1969 and 1977, 133 million EUA were cancelled at the end of 1979.

Commitments in 1979 totaled 506 m EUA, or 71.1% of available appropriations. This is certainly an improvement on 1978 since the figures for that year were more modest, 279.2 m EUA commitments used or 52.3% of those available. This improvement, however limited, illustrates that progress has been made in accelerating the procedures and in the speed with which the budget is implemented.

Taken sector by sector, this progress, as well as the level of use of appropriations, gives rise to some perplexity and raises a number of new questions.

6. For individual projects 230.5 m EUA were available and were fully used up. For general socio-structural measures, 208.3 m EUA were available of which 141 m EUA were used up and 67.2 m EUA carried forward; for regional measures 66.8 m EUA were available, less than the amount entered in the annual budget (77.9 m EUA) because in the amending budget some of these appropriations were transferred elsewhere, and only 15.9 m EUA were committed with 50.9 m EUA being carried forward.

7. Closer examination of the use of appropriations for these measures:

- demonstrates that often budgetary forecasts are totally wrong;
- raises questions about the ability of the Commission to get individual structural measures operating without undue delay;
- belies the traditional argument that delays are due solely to lack of action by the Member States;
- highlights the fact that in addition to administrative or technical obstacles the Commission, in spite of the commitments made when it put forward the preliminary draft budget, seems to lack any real political will to implement structural measures in the regional field.

8. The following examples confirm these conclusions.

(a) While it is reasonable to provide 12.1 m EUA not initially included in the budget for measures for the French overseas departments, as a result of natural catastrophes (hurricanes), it is illogical, irrational and unjustifiable to have set aside under Item 8400 for the application of the regulation on irrigation in the Mezzogiorno 26.7 m EUA in the initial budget, subsequently reduced by 9 m EUA with a supplementary budget, and then, without having spent any of the appropriations concerned, to carry forward the remaining 17.7 m EUA to the following financial year.

(b) The same is true for the 25 m EUA entered in Item 8410 for improvement of infrastructures, all of which were carried over to the following financial year, and for the 21.7 m EUA under Item 8420 for the implementation of the directives on the conversion of the wine-growing areas in Languedoc-Roussillon which were reduced by 13.6 m EUA in a supplementary budget with the remaining 8.1 m EUA being carried forward.

The Commission blames the Member States not only for their slowness in applying new Community provisions, but also for the inflated nature of their annual budgetary estimates.

These arguments might even be true if only because they are repeated so often since the Commission, to a greater or lesser extent, uses them every year in its assessment of the year's reports.

Granted however that they are true, we are entitled to ask how it is that the Commission, with all its long experience in this field, allows itself at the beginning of each year to be misled into excessive budgetary estimates or into setting out programmes for the implementation of new provisions which it well knows cannot be achieved particularly during the first months of application of new proposals for Community measures.

These questions are particularly serious since the Commission is well aware of the attention with which the European Parliament assesses, judges or amends initial appropriations for agricultural structural policy.

9. As regards measures connected with market organization the comments made above apply to some extent here too.

(a) Under item 8200 on the application of the regulation on producers' associations, 3.7 mEUA were entered in the budget, and later cancelled in the supplementary budget. It is legitimate to ask, in view of the cancellation of 100% of the initial estimated expenditure, whether, independently of the amount of the sum cancelled, there is not a flagrant violation of budgetary rules and whether the Commission should be allowed to behave in such a manner without obtaining Parliament's approval.

(b) On item 8201 relating to the regulation on associations of hop producers, the initial appropriation of 0.4 mEUA was increased in a supplementary budget by 1.2 mEUA. In this case, too, the Commission's behaviour, apart from the amounts involved, leads us to ask whether it is admissible for the Commission to multiply its estimates fourfold without this constituting an abuse of power or a misuse of procedure. The Commission's behaviour is all the more reprehensible in that the regulation on which this expenditure on hops is based is not even a new one, but dates from 1971.

The Court of Auditors in this case insists that the Commission's measures be inserted in properly organized multiannual plans and that in cases of excessive underuse of appropriations a token entry would be more appropriate in the circumstances.

10. The Commission in general maintains that it has now perfected its methods of forecasting expenditure and that since March 1980 it has even increased refunds for certain structural measures by 75% to 100%.

These improvements allow it to look to the future with more confidence. The Committee on Budgetary Control must welcome these too, albeit with some reservations since measures of this kind are too often taken after years of problems which should have led to more rapid action to deal with delays and to find improvements both in the existing legislation and in the administrative measures implemented by the Commission in carrying out its responsibility for applying the Community's financial policies.

11. The above comments could apply basically to all the items of structural expenditure under title 8 connected with the organizations of the market.

It is difficult, for example, to accept without reserve the Commission's arguments or to ignore the criticisms of the Court of Auditors in connection with expenditure under item 8350 on conversion in wine-growing areas for which 31.5 mEUA were initially set aside, later reduced by 22.1 mEUA in a supplementary budget, subsequently increased by transfer during the financial year and finally commitments made for a total of 9.7 mEUA.

Consideration of individual headings makes it clear that for both commitments and payments operations have been marked by inconsistencies, delays and inadequacies which seem to be the result of the lack of an overall view of the problems of budgetary management as well as of structural factors, which can always be blamed for shortcomings, such as failures by Member States, delays in implementation or the inadequacy - apparent only in the light of experience - of Community legislation itself.

12. These criticisms are valid not only for commitment appropriations but also for payment appropriations. In 1979, 403.4 mEUA in payment appropriations were used, that is to say a higher figure in absolute terms than that for 1978 (323.6 mEUA). However, it is absurd, in view of the pressing need for structural reforms, that this sum corresponds to only 30.1% of the endowment for the financial year, and only 64% of the payment appropriations carried forward from 1978.

13. The Court of Auditors criticizes this situation severely since it points out in particular that the introduction of the system of differentiated appropriations - commitment appropriations and payment appropriations - introduced in the 1977 budget to enable the budgetary

estimates to reflect real requirements more faithfully, has had hardly any effect as regards appropriations in the Guidance Section of the EAGGF.

This is all the more deplorable, as the Court of Auditors points out, in that 'in respect of many measures of the Guidance Section the commitment operations in the Community accounts are effected at the same time as the payment operations (measures related to market organizations, general social and structural measures)' (paragraph 5.11 of the annual report for 1979).

14. The Commission's reply is that it is difficult to forecast requirements with regard to payment appropriations. We feel that this is too simplistic an excuse. Criticisms of the Commission should be aimed at encouraging it to search constantly for failings, inconsistencies and contradictions, both legislative and administrative.

Community measures, where they are not dependent on national financing systems, should be constantly reformed and speeded up to ensure that the system operates in a satisfactory manner.

15. One way of making the Fund more dynamic in its operation is, as the Court points out, more frequent use of advance payments. However this approach has an essential precondition and an essential corollary: an increase in the number of on-the-spot audits and audits on the basis of records by the Fund's departments. The Court points out that 'there has been no sign of this to date, despite the considerable increase in expenditure'. (paragraph 5.14 of the annual report for 1979).

16. There is only one point on which the position in 1979 showed an improvement over the previous year: the management departments, probably in reaction to criticism by Parliament, carried out 17 inspection visits of which 7 on individual projects and 10 on common measures. The Court participated in 4 of these inspections and carried out another 15 of its own of which 12 related to common measures and 3 to individual projects.

The comments of the Court following these audits concern:

- the selection of projects for subsidy (the Court in many cases questions the economic value of certain subsidies);
- the implementation of individual projects (the Court notes that frequently there is too great a gap between initial estimates of expenditure and the final cost, as well as excessive delays in the

procedure for approving projects, particularly for measures in Friuli following the earthquake there);

- improvement of the citrus fruits sector (the Court expresses serious reservations about the numerous Community and Italian revisions of the plan for improving citrus fruit growing and notes that years later the measures cover only a small percentage of citrus growing areas for which conversion was proposed. The Court goes on to stress the problem of the inadequacy of appropriations compared with the rate of currency devaluation, a problem which is primarily the result of delays in implementation and can only be partly solved by supplementary aid decided at Community level. Faced with this state of affairs the Court wonders whether in fact the aims of certain financial programmes are being fulfilled at all. These comments are pertinent since one of the duties of the Court is to assess the 'productivity' of expenditure;
  
- aid to producers' organisations (in this sector, too, the Court expresses some reservations particularly as regards requests for reimbursement by two of the Member States);

- the Court lastly, as regards the premiums for the non-marketing of milk and milk products and conversion of dairy herds to meat production points out above all that :

- the texts of regulations are often imprecise and consequently some measures are not being applied even three years after the entry into force of the regulation;
- the proofs that an animal has been slaughtered or exported are often inadequate,
- national control measures for the provisions in question are often inadequate.

17. The Commission gives a more detailed reply to this series of comments than that given on the under-use of budgetary appropriations and its explanations are probably more well-founded. However, the overall judgement following the reading of the comments of the Court of Auditors and the replies of the Commission cannot be an enthusiastic one. We should not ignore the difficulties involved in managing such complex affairs, which are still basically rooted in national measures. However, the Commission should take note of the fact that the way the financial measures linked to Community provisions are implemented can determine the success or failure of Community policies.

The improvement over the last two years in the use of appropriations under the Social Fund and the Regional Fund have almost magically dissipated a number of factors blamed so far by the Community authorities for unsound and certainly very slow management of operations.

More important than specific measures or detailed provisions to be applied to the Guidance Section of the EAGGF is the need for the Commission to adopt a new approach and, as for the Social Fund and Regional Fund, to show real determination to implement Community provisions.

In its comments the Court of Auditors lends more weight to the established view of the European Parliament which can be summarized as follows :

- in order to have a clear view of the problems and of shortcomings in operations it is first necessary to have an unambiguous political determination to achieve the Community's aims.

18. CONCLUSIONS

A. As regards the ninth financial report on the EAGGF guidance section, the Committee on Budgetary Control:

- points to the excessively technical nature of the report which detracts from the clarity and simplicity of the text, which in addition is purely factual, not critical or constructive;
- consequently calls upon the Commission to make substantial changes in the nature of its report so that Parliament can better assess both the facts and the problems arising in these operations and the Commission's desire to remedy the shortcomings which may have become apparent.

B. As regards the report by the Court of Auditors on the use of appropriations for the Guidance Section in 1979 the committee :

- must once more note that in spite of improvements in the use of appropriations, a significant proportion of available funds remained unused;
- attributes this situation not only to the shortcomings which the Commission blames on the Member States, but especially as regards the implementation of legislation which is not new, to a failure by the Commission to adapt its approach in the light of experience and within an overall approach - which the Commission has adopted in the last two years for the Social Fund and the Regional Fund;
- stresses that if the Commission, which is responsible for implementation of the budget, lacks this determination to deal with what may appear to be insoluble shortcomings or contradictions, there will be an even greater imbalance between market intervention and intervention in the structural field which with the passing of the years and the delays which have occurred can no longer be put off;
- considers that it is now vitally necessary for the Commission to remove all the obstacles to the optimum use - both quantitative and qualitative - of the very modest appropriations of the Guidance Section;
- believes that this is all the more important in that the Commission seems to lack in its overall approach the coordination which Parliament has often called for between measures to implement the guidance policy and the other provisions on structural policies;
- as regards the use of appropriations entered in the budget it finds the various movements of these funds improper since it notes that often the sums in the original budgetary estimates are either doubled, or, as a result of the cumulative effect of all these transfers, cancelled at the end of the financial year;

- notes therefore that the initial estimates of expenditure under individual headings of the EAGGF Guidance Section are far too vague thus aggravating the lack of planning of expenditure which unfortunately seems to have characterized the Commission's proposals for some years now;
- finds, on the other hand, much more satisfactory in comparison with previous years the audits carried out both by the Commission and by the Court of Auditors and calls upon the external and internal auditors to intensify these audits making sample inspections of financing projects which have wider scope and significance to provide, through these audits, a more accurate picture of the general measures taken by the Commission to implement existing legislation.

19. THE DISCUSSION AND CONCLUSIONS REACHED AT THE MEETING OF THE  
COMMITTEE ON BUDGETARY CONTROL ON 23 AND 24 FEBRUARY 1981

The Committee on Budgetary Control endorsed the points made in the working document, which are supplemented by the following comments and by the committee's recommendations concerning the discharge for the previous financial year, 1978.

(a) Meeting between the Committee on Budgetary Control, the national audit  
bodies and the Court of Auditors of the Communities

In the comments adopted in conjunction with the discharge decision for 1978, Parliament did not make any specific comments relating to the management of the Guidance Section. In general terms and with regard to the management of the EAGGF as a whole and to possible fraudulent and irregular practices, Parliament instructed the Committee on Budgetary Control to organize a meeting to which would be invited representatives of the national audit bodies, the national administrations and the Court of Auditors to study these difficulties and to suggest remedies.

The need for a meeting with the national audit bodies and the Court of Auditors was reaffirmed when these working documents were being considered. The Committee on Budgetary Control must therefore arrange a meeting with the abovementioned bodies as soon as possible in order to reconsider the problems involved in combatting fraudulent and irregular practices.

(b) Comments on the EAGGF, Guidance Section, adopted by Parliament in  
conjunction with the discharge for 1978, and measures taken by the  
Commission

Although it did not submit any specific comments to Parliament concerning the management of the EAGGF, Guidance Section, in connection with the 1978 discharge decision, the Committee on Budgetary Control did include a number of observations on the subject in the report on the Eighth Financial Report on the EAGGF for the financial year 1978, which was submitted at the same time as the report on the 1978 discharge.

The main points made last year concerning inspection activities are contained in footnote 1, although they no longer apply as the situation relating to inspections has improved this year. This reference is included in these conclusions following the discussion of 23 and 24 February 1981.

The Commission's answers to the comments made by Parliament in the resolution which was adopted at the same time as the 1978 discharge decision make only one point concerning the management of the EAGGF, Guidance Section. This is reproduced in footnote 2 and concerns the forwarding of supporting documents by the Member States.

This aspect is included in the conclusions to the working document for the sake of completeness. It is not covered in detail as the Commission's answers to Parliament's comments on the 1978 discharge were dealt with in a resolution drawn up by Mr Battersby on behalf of the Committee on Budgetary Control and adopted by Parliament on 13 January 1981<sup>3</sup>.

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<sup>1</sup> In the resolution adopted on 23 May 1980 (OJ No. C 147, 16.6.1980) on the Eighth Financial Report on the EAGGF for the financial year 1978, the paragraphs relating to inspection activities read as follows:

- recognizes that the most important checks should be carried out by the national authorities, but regrets the insufficient number of inspections carried out by the Commission and points out that this is likely to give rise to serious doubts about the proper use of Community funds in sectors which provide ample opportunities for fraud; calls, therefore, for an increase in the number of Commission staff assigned to this kind of work;
- Stresses that, given the total lack of external checks by the Court of Auditors, there is no possibility of remedying the shortcomings indicated by the Commission;
- Insists strongly that both the Commission and the Court of Auditors must make suitable provisions in this respect and hereby makes its opinion on the management of the fund for next year subject to a satisfactory solution to this problem.

<sup>2</sup> In the document in question the Commission commented as follows:

Transmission of supporting documents by Member States

The Commission has a variety of tools at its disposal to encourage Member States to comply with the deadlines for the dispatch of supporting documents, which range from reminders through letters of formal notification to infringement proceedings, depending on the case and in particular on the extent to which delays on the part of a Member State disrupt the smooth running of the Fund. It reports annually on the outcome of its action in the EAGGF financial report. It would most certainly inform Parliament if failure to comply with the deadlines was seriously disrupting its work.

<sup>3</sup> See resolution adopted by Parliament on 13 January 1981 (OJ No. C 28, 9.2.1981) on the measures taken by the Community institutions in response to the comments appearing in the decision granting a discharge in respect of the 1978 financial year, in accordance with the Financial Regulation

(c) The responsibilities of the Committee on Budgetary Control

At the end of the discussion of 22 February 1978 the draftsman stressed that the principal task of Parliament and the Committee on Budgetary Control was not so much to verify that the accounts relating to the operations financed by the Community budget were in order, as to assess whether the implementing decisions taken by the Commission reflected the political programme adopted by Parliament in relation to Community policies.

The comments made by the Committee on Budgetary Control thus have a different purpose from those of the Court of Auditors. They require the Commission to review the procedures and, as a result, to introduce each year specific measures to improve the management and, if necessary, to propose modifications to legislation if the latter should prove inadequate, incomplete, unclear or contradictory.

ANNEX IX

Discharge for 1979

WORKING DOCUMENT

on

DEVELOPMENT AID

Draftsman: Mr IRMER

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1. There are few sectors in which the value, desirability and effectiveness of pursuing a policy at Community level are as evident as in the case of development aid. Yet progress towards this end is still extremely slow, even if there has been some slight growth in the volume of Community aid.

The annual review of the management of the various development aid measures as part of the discharge procedure affords Parliament the opportunity to assess achievements and compare them with the official objectives set out, in particular, in the budget. The rigorous methods used in this review - analysis of the results of budgetary management as shown in the accounts and in the report of the Court of Auditors - necessarily involves the adoption of political positions, to which reference may be made when policies in the relevant fields are being formulated. The Committee on Budgetary Control therefore attaches the greatest importance to working in close collaboration with the Committee on Development and Cooperation.

#### I - FOOD AID

2. The comments made last year on the budgetary management of food aid centred on the lack of transparency of both the presentation of the appropriations and the entering of expenditure in the accounts. The main effect of this shortcoming was to conceal substantial delays in the implementation of the annual programmes. The fact that these delays occur every year shows that the Commission is unable to implement appropriations which have been fixed at an artificially high level at the outset.

3. These comments are also substantially applicable to the financial year 1979, despite the assurances given last year during discussions with the Committee on Budgetary Control. As in the previous financial year, the Commission increased the appropriations allocated to existing programmes by transferring between articles appropriations earmarked for programmes for the current financial year, thus in effect carrying over appropriations from one financial year to another.

This enables the Commission to avoid a situation where appropriations have to be cancelled and re-entered in subsequent budgets and it gives a distorted picture of their implementation.

4. The introduction of differentiated appropriations in this sector, which has on occasion been proposed, would deal with one difficulty - the budgetary presentation of the appropriations - but would not in any way resolve the fundamental problem, namely the slow rate of implementation of the aid. On the contrary, their introduction would exacerbate still further the tendency to set appropriations at an artificially high level by holding out the

temptation, somewhat demagogic in origin, to enter in the budget, for a specific period, amounts and quantities which would in fact be implemented over a much longer period. This would simply legalize existing abuses.

5. Moreover, it is doubtful whether the accounting system used in the budget is of use to the Commission, since when the latter requires up-to-date and realistic information it has recourse to other sources (point 9.12 Commission). The purpose and nature of the accounting data should thus be questioned.

In any event, the random nature of the appropriations entered in the budget must be borne in mind. The programmes are adopted subsequently on the basis of the quantities indicated in the remarks in the budget. The budgetary estimates are thus drawn up on the basis of an unknown factor, that is, the unit price of the product to be supplied, an increase or reduction in which necessarily has an effect on the quantities actually provided.

6. These problems of budgetary management reveal other more fundamental difficulties concerning the Commission's ability to implement the appropriations and quantities laid down in the overall objectives, the ways in which it can ensure that the aid is delivered at the most suitable time and place, and the connection between food aid and other Community policies. The Committee on Budgetary Control accepts the proposal from the Committee on Development and Cooperation that the question of the effectiveness and the value of financing should be dealt with in a special report to be drawn up after consideration of the ad hoc report by the Court of Auditors.

## II - AID TO NON-ASSOCIATED DEVELOPING COUNTRIES

7. The budgetary management of this sector is also marked by a lack of transparency in respect of the entries and the accounting methods and by a very serious under-utilization of the appropriations:

	1978	1979
Final commitment appropriations	70	177
Commitments	29.7	117
Payment appropriations	40.8	55.6
Payments	3	0
Carry-overs ...	40.9	37.7
<u>Payments</u> using appropriations carried over	4.6	18.7
<u>Cancelled</u> appropriations	36.3	18.9

8. The use of differentiated appropriations leads to considerable confusion.

Commitment appropriations for the financial year 1979 amounted to 110 m EUA. However, since unused appropriations from previous years had to be re-entered in the budget, the amount appearing under 'appropriations for the financial year' totalled 133 m EUA. The appropriations available also included appropriations from the previous financial year which remained unused and were carried over, and thus in fact amounted to 177 m EUA. The implementation of commitments is actually of little importance to the recipients of the aid; it merely indicates to the Commission's departments that one step of the procedure has been completed.

9. With regard to payment appropriations, the Commission frequently takes advantage of its right to carry over automatically appropriations for the financial year which remain unused and it proceeds as though the allocation were decided on a biannual rather than a yearly basis. To provide a more realistic picture, the allocation for each year should in fact be divided into two.

However, even under these circumstances, at the end of the two-year period half the appropriations carried over have had to be cancelled.

10. The implementation of the annual programmes, the total volume of which is shown in the budget in the form of commitment appropriations for the financial year, is spread out over a much longer period than that envisaged in the budget. This means in effect that the appropriations are reduced. The Commission uses the system of differentiated appropriations to extend the period of implementation in this way. Such flexibility and the use made of it should be called into question.

11. However, these are merely problems of form. The fundamental difficulty relates to the reasons for the delays and the under-utilization of appropriations.

The Commission's reply to point 9.17 of the Court of Auditors' report prompts the following comments:

. The level of disbursement of payment appropriations is not normal. A rate of implementation of between 0 and 7.5% in the first year and less than 50% in the second year is not merely unsatisfactory; it is catastrophic. It is quite a different matter to assert that the rate of implementation of the programmes is, because of their nature, normal, but in that case it must be concluded that the estimates of the appropriations required were deliberately exaggerated.

- . There is a contradiction between the Commission's statement that the disbursement of payment appropriations is normal and its claim to be 'extremely short of staff'.
- . The ad hoc procedure introduced by the Commission to enable the Council, in the absence of a regulation, to approve the projects to be financed is not conducive to speed, though it cannot be regarded as the principal cause of the delays in implementing payments and commitments.

12. It implies above all a refusal by the Commission to fulfil its responsibility for the implementation of appropriations by enabling the Council to exercise direct influence over the financing decisions and hence over commitments.

It is to be hoped that the Commission will use the new regulation recently adopted by the Council as an opportunity to re-assume its responsibility for implementation in this field. The rapporteur does, however, have some reservations about this text (OJ L 48 of 21 February 1981 - Council Regulation (EEC) No. 442/81).

- . Although the Commission's responsibility for management is confirmed, it is subject to procedures which effectively place it under the Council's supervision. In particular, the regulation sets up a committee which will operate in a way that could well result in financing decisions being made subject to the de facto or even de jure approval of the Council or of one of its bodies.

The rapporteur proposes that:

- (1) all opinions delivered by this committee should, on adoption, be forwarded to the Court of Auditors and to Parliament;
- (2) Parliament should, at its request, be allowed to send an observer to meetings of the committee.

- . The way in which the committee is to operate, that is, the rules on majorities and decision-making, will be decided by the Council without consulting Parliament. Since these provisions relate to the procedures for implementing appropriations, consultation of Parliament is compulsory. In any event, the Commission's proposal will have to be put before Parliament.

13. Like the Committee on Development and Cooperation, the Committee on Budgetary Control feels that Parliament would be greatly helped in its task of assessing the effectiveness of the policy financed by the budget if it could refer to an annual study containing an evaluation of the projects.

This type of study could be undertaken by the Court of Auditors on the basis of on-the-spot visits and equally well by the Commission in the context of the annual report provided for in Article 15 of Regulation 442/81.

### III - OTHER BODIES

14. The rapporteur would suggest to the Committee on Budgetary Control that a separate report be drawn up on the EAC and the CID.

### IV - NGOs

15. The rapporteur endorses the substantially positive assessment made by Parliament of the management and effectiveness of these measures. It recommends that account be taken of the comments made under point 9.31 of the Court of Auditors' report.

### V - EDF

16. Somewhat paradoxically, the EDF sector, for which Parliament has no powers in respect of the level at which appropriations are fixed, is subject to particularly extensive budgetary control. This could perhaps be seen as an attempt by Parliament to compensate for its lack of decision-making powers by carrying out an intensified retrospective control. However, this would be to ignore the fact that Parliament still insists on the budgetization of the EDF and intends to be involved in the drafting of the rules for the implementation of these appropriations. In addition, Parliament has formally requested that it should be consulted on the financial regulation of the fifth EDF. Parliament feels that, if it is to take political responsibility for guaranteeing the proper implementation of EDF appropriations, it must have some say in the fixing of the level of those appropriations.

17. Parliament's first responsibility is to grant the discharge in respect of the annual accounts of the fourth EDF and to submit a recommendation to the Council concerning the first three EDFs.

In order to fulfil this responsibility, it is essential that the discharge authority should be provided with documents enabling it to gain an overall picture and make a detailed assessment of the utilization of the appropriations.

The principal documents available to Parliament for this purpose are the balance sheets and accounts of the EDF for the 1979 financial year (COM(80) 694 final) and the Commission report to the ACP-EEC Council of Ministers on the administration of financial and technical cooperation in 1979, under the Lomé Convention (COM(80) 239 final).

18. Although the second of these two documents contains information which is extremely useful for an assessment of the management for the year, the figures, which are intended for the ACP-EEC Council, are not official and therefore cannot be used as the basis for a discharge. Conversely, this information is not contained in the first document.

Under point 8.1 of Part II of its report, the Court of Auditors states:

'the content and presentation of the balance sheet and revenue and expenditure account of the four EDFs do not comply with the provisions of the financial regulations applying to them. In fact they do not adequately show either the balance sheet of the EDF at 31 December 1979 or the revenue and expenditure relating to the year 1979.'

19. The rapporteur therefore recommends that the decisions and recommendations on the discharge in respect of the EDFs should be accompanied by this reservation and by a formal request to the Commission to submit adequate balance sheets and revenue and expenditure accounts as from next year.

It should be pointed out in this connection that the Commission has undertaken to provide Parliament with all documents such as may be of assistance for the fulfilment of its control responsibilities.

With regard to the budgetary situation of the first three EDFs, payments in 1979 were as follows:

First EDF	:	0.44 m EUA
Second EDF	:	4.12 m EUA
Third EDF	:	37.4 m EUA

Further financing decisions were taken under the second EDF (0.6 m EUA) and the third EDF (0.9 m EUA).

The appropriations remaining unused on 31 December 1979 totalled 0.97 m EUA for the first EDF, 8.04 m EUA for the second EDF and 111.04 m EUA for the third EDF.

19. The fact that this situation has arisen, even though the first three EDFs expired in 1964, 1970 and 1975 respectively, reveals the inconsistencies of extra-budgetary management.

With regard to the fourth EDF, which was introduced on 1 April 1976, commitments entered into during the year amounted to 687.9 m EUA, bringing the total volume of commitments to 2,513.9 m EUA out of a total allocation of 3,464.4 m EUA.

This amount is broken down into 588.8 m EUA in aid administered by the Commission and 86.4 m EUA in aid administered by the EIB.

The rate of payments has increased substantially, making it necessary for the Member States to increase their contributions and to pay them earlier.

20. Parliament can assess the effectiveness of the financing on the basis of two sets of information:

(a) the Court of Auditors' comments on the difficulties and design faults encountered in the implementation of certain projects:

- . overestimation of the human, financial or administrative resources of the recipient countries,
- . poor quality of the preparatory studies,
- . failure to adapt projects to local conditions,
- . effects of the policy on prices paid to producers,
- . unsatisfactory results due to marginal savings,
- . decisive role of expatriate technical assistance personnel and inadequacy of local management,
- . failure by the Commission to act in cases of claims by ACP States on European firms.

The Court of Auditors adds that 'in general, projects financed by the EDF are satisfactory and appreciated by the local authorities and population. The responsibility and competence of the local Commission delegations are also recognized ...'

(b) the evaluation by the Commission of the completed projects. In its provisional conclusions the Commission summarizes the impact of Community aid as follows:

'The effects of projects normally correspond closely to the economic development requirements of the beneficiary countries and have made a substantial contribution to such development, particularly by improving economic and social infrastructure, extending water supply networks and diversifying production.

On the whole projects can be said to be satisfactorily geared to requirements and obtaining immediate results, but their success is somewhat more qualified as regards adjustment to local capacities and conditions of utilization.

Generally speaking aid has strengthened the position of the Community's partners, in particular by boosting their financial and technical resources and improving economic and social conditions. However, in certain cases, it has generated cumbersome and expensive administrative machinery which subsequently has to be taken over by the State concerned, resulting in recurrent expenses beyond its means. Further, Community aid has done little to increase the productivity of the recipient countries' inhabitants or firms.'

It then lists the factors on which the success of the projects depends.

21. A fuller assessment of the effectiveness of this financing would have to take account of macro-economic data relating to the development of the economic and social structures of the countries receiving the aid, the evolution of trade between the ACP States and the EEC and the effect of the aid on the various economic sectors of the EEC Member States.

22. To conclude, the rapporteur would like to stress the importance of the controls carried out both by the Commission and its representatives and by the Court of Auditors. It is essential for the success of the Community policy that these controls be effective. To enable Parliament to assess their effectiveness more accurately, it would be useful for the Court of Auditors to identify the countries and projects on which controls are carried out.



ANNEX X

Working Document

on

the discharge for 1979

Borrowing and lending operations

Draftsman : Mr COUSTE

