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on the budget review

"No policy without full accountability"

Committee on Budgetary Control

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¹ A "working document" is a preparatory document. It is not a final document in as far as it has not gone through the traditional parliamentary process: presentation, exchange of views, amendments, vote. Therefore, opinions and considerations expressed in a working document represent the rapporteur's initial and personal points of views and not a final committee position.

Introduction

1. On 12 September 2007, the Commission approved a Communication¹ aimed at launching a broad consultation process on the review of the EU budget².
2. By doing so, the Commission responded to the invitation in the Interinstitutional Agreement of May 2006 "to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, and to report in 2008/2009"³.
3. The first phase of the consultation process ended on 15 April 2008. Later in 2008 it is expected that the Commission - on the basis of the consultation process - will present proposals for reform.
4. In this Communication the Commission stresses that it will not "propose a new multi-annual financial framework for the period from 2014 - this task will be for the next Commission - nor the overall size and detailed breakdown of the EU budget." (SEC(2007) 1188 final, page 2).

Procedure

5. At the coordinators' meeting of **12 November 2007**, the coordinators agreed that the Committee should follow the consultation process on the review of the budget.
6. At the meeting of **22 January 2008** the Committee - on a proposal from the coordinators - invited the Chairman to present proposals for future activities at the coordinators meeting in February 2008.
7. At the coordinators' meeting of **26 February 2008** the Chairman suggested that external experts should be invited to make a presentation on issues which from the budgetary control committee point of view would be pertinent to consider when reforming of the budget and on that basis have a debate in Committee.
8. As the first expert to be invited the Chairman proposed Mr Gabriele Cipriani, official of the Court of Auditors and author of the very inspiring book "*Rethinking of the EU budget. Three unavoidable reforms*", published in November 2007. Other experts could be invited to future meetings.
9. The coordinators agreed to the Chairman's proposals and invited him to take the rapporteurship due to the horizontal and general character of the matter.

¹ (SEC(2007) 1188).

² See also DG BUDG's website on http://ec.europa.eu/budget/reform/index_en.htm.

³ Declaration No 3 annexed to the Interinstitutional Agreement and reproduced in Annex 1 to this working document. The Interinstitutional Agreement is available on:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:139:0001:0017:EN:PDF>.

10. The coordinators further invited the rapporteur to evaluate whether an opinion from the Committee submitted to an own initiative report from the Committee on Budget would be useful at this stage.
11. The Committee confirmed these proposals at its meeting on 25 March 2008.

The consultation paper

12. The Commission claims that its approach is "one of openness and no taboos" and that it will "prepare this review with no preconceptions" (SEC(2007) 1188 final, page 3).
13. This means, according to your rapporteur's understanding of "openness and no taboos", that the "review" is not limited to the points and issues mentioned in the consultation paper. Issues not mentioned but relevant for the future reform can - and should - also be dealt with.
14. The 2008/2009 "review" is leading up to the future "reform" of the budget¹. "Review" means "to examine, consider and judge a situation or process carefully". "Reform" means "to change a system, law, organisation etc so that it operates in a fairer or more effective way"².

The budget review and the Committee on Budgetary Control

15. For many years the budget discussion has mainly been about the size of the budget and the matter of allocation of resources. Other aspects - such as effects, results, responsibility, accountability, transparency - have had a secondary position in the debate.
16. One of the problems concerning the control of the implementation of Budget - for which this Committee is responsible - is that in the design of programmes and the procedure for adopting the budget hardly any attention is paid to issues concerning the delivery of policies and the monitoring and control thereof.
17. It is very unlikely that a mere "reallocation" of resources from one policy area to another, or the question of applying an EU tax or not will change taxpayers' perception - correct or incorrect - that *Brussels* is not very good at handling public funds;
18. European taxpayers have a right to know whether their money is being well spent, whether procedures are efficient and whether results are satisfactory.
19. These kinds of questions should be on top of the review agenda because they will play an extremely important role in reaching an agreement for the next budgetary period.
20. National finance ministers and the Commission can continue to underplay or even neglect the findings of the European Court of Auditors and Parliament's comments on

¹ The official title of the consultation paper is "Reforming the budget, changing Europe. A public consultation paper on the 2008/2009 budget review".

² Longman, Dictionary of Contemporary English.

these findings in its discharge reports but in so doing they will not be demonstrating a very European attitude and it will certainly not be helpful in achieving an agreement for the next budget period.

21. The budget review is very much about the *credibility* of the EU institutions and the way in which they handle public money. That is the reason why your rapporteur invites all decision-making bodies in the House to consider carefully how the current problems concerning the implementation of the EU-budget best can be dealt with during the budget review process.
22. It is in any case clear that questions concerning the delivery of policies and the monitoring and control thereof - effects, results, responsibility, accountability, transparency - falls entirely under the mandate of this committee which consequently must have the final say on these matters in the process leading up to the plenary decision.

Strong leadership

23. A consultation paper is a paper intended to stimulate debate and discussion in order to find ideas for new solutions. It would be unreasonable to already expect solutions in the consultation process.
24. But later proposals have to be drawn up. Your rapporteur would like to invite the Commission to show *strong leadership* and push for change as regards the quality of EU spending, the management of the budget (the balance between centralised management and shared management), the role of the Commission and the Member States, accountability, governance, control of eligibility and co-financing, clarity of objectives, simplification, audit ability, transparency, etc.
25. Some of these issues are hard to tackle because of Member States' resistance and satisfaction with status quo but improved EU policy delivery depends on sufficient radical reform in the mentioned areas. Your rapporteur would like to invite the full Committee to support the Commission's efforts for change against the powers of the many actors satisfied with the present set up.

Full, clear, efficient and effective accountability

26. By taking a very pro-active line on the budget review and reform your rapporteur hopes that the Committee can promote greater understanding of the serious problems on the control side of the budget. Full responsibility and accountability for the use of EU funds does not exist today. This is unacceptable and must change. The Commission wants the budget to be "managed to the highest standards" (page 5). Whatever standards the Commission is referring to your rapporteur takes it for granted that "full, clear, efficient and effective responsibility and accountability" is included.
27. In its recent discharge reports Parliament has drawn attention to the problems with **shared management** and the need for **improved national accountability**. Stressing that according to Article 274 of the Treaty "the Commission shall implement the budget (...) on its own responsibility" the Parliament has at the same time invited the

Member States to fulfil their part of the responsibilities in as far as about 80% of the budget is implemented by national administrations.

28. The consultation paper only briefly touches upon this problem by stating "*With the policies evolving, a fresh look needs to be taken to determine how different types of management can offer sound financial management and whether the existing balance represents the right answer.*" (page 10).
29. As regards improved national accountability Parliament has launched the idea of "national management declarations" as a tool with which to achieve this objective.
30. Also on this point the Commission's consultation paper is rather sparse. It just mentions that "*Ensuring full transparency, visibility and accountability in the management of the budget, to ensure legitimacy, and citizens' confidence in the European Union*" is "*a key issue*" (page 10).

Legitimacy and efficiency

31. Your rapporteur attaches great importance to the budget review. It should not only be a discussion on 're-distribution', but also a discussion on ways of improving efficiency and effectiveness of policy delivery in the EU and on maximising accountability of responsible politicians and managers.
32. European taxpayers expect the EU delivery system to be efficient, effective and legitimate. Therefore, the reform of the budget should include a reasoned establishment of the balance between 'legitimacy' (a sufficient degree of control) and 'efficiency' (timely delivery of results).
33. Only by establishing this balance will the Commission and the Member States have a chance to end the annual embarrassment following the publication of the Court of Auditors' Annual Report. It is not too much to ask for this as a necessary first step to raise taxpayers' confidence in EU financial management.
34. The budget reform must draw up new overall principles and rules on how a supranational instrument like the EU budget should be implemented, controlled and audited and how discharge could be granted - or not - in a more meaningful way.
35. One of these new principles could be the introduction of a "tolerable risk of error" as proposed by the Court¹ and the Commission². Your rapporteur deals with this question in more detail in working document No 2.
36. It could be recalled that the EU is above all an intergovernmental entity and that the current discharge procedure does not allow holding national ministers accountable, at the Union level, for actions or inactions in their capacities as members of the EU Council.

¹ See the European Court of Auditors' Opinion 2/2004 on "a Community internal control framework".

² See COM (2006) 9 of 17.1.2006 "Action Plan towards an Integrated Internal Control Framework".

37. In an attempt to remedy this situation, which from an accountability point of view is most dissatisfactory, your rapporteur would like to invite the Commission to consider sending a copy of any recovery letter together with any letter announcing financial sanctions to the national parliament concerned. There may also be good reasons to review the roles of national administrations and the EU as regards auditing, control and discharge.

Objectives:

1) No policy without full accountability

38. Accountability is a fundamental democratic value and an essential matter for the budget review as seen by this committee.

39. Your rapporteur's initial **key message** is that the budget reform should create a situation in which there will be **no policy without full accountability**¹.

40. This means that full acceptance of responsibility for the implementation by the body charged with the implementation should be an indispensable part of the policy design and decision just as the objectives, the amount of money and the specific legal act. The correctness and effectiveness of the "acceptance of responsibility" should further be verified by an independent assessment.

41. In order to achieve this situation your rapporteur expects the Commission to analyse the following questions:

1) What has the Commission learned from past experience about requirements to be set for regular budget implementation?

Which principles should guide the development and adoption of future expenditure programmes?

2) What has the Commission learned about "efficient and effective management" of the budget?

Can shared management be improved? If not what are the alternatives?

3) Which accountability arrangements does the multilayered Union need?

Member States set to a very high degree the course of the Union. This gives the Union a multilayered governance structure but not a similar accountability structure.

Can the current accountability arrangements be developed to match the

¹ "The Responsibility for Implementing the Community Budget" by Gabriele Cipriani. CEPS Working Document No 247/ June 2006.

multilayered governance structure?

What role could Member States' Supreme Audit Institutions play in this context?

2) Improved effectiveness and efficiency of policy delivery

42. As mentioned, accountability is an essential issue in the budget review for this committee, but 'accountability' is not an objective in itself. It is first and foremost a tool to improved delivery, an analysis which allows for changes in management and policy in order to make better use of scarce resources.
43. The legality of spending should not override 'value for money' aspects of the spending. The opposite should not be the case either. Therefore, another essential element of the budget review is to assess the effectiveness and efficiency of policy delivery.
44. Your rapporteur expects the Commission to present proposals on ways to improve the effectiveness and the efficiency of the Union's policies. This would probably imply a radical change in the current budgetary behaviour where discussions on future financial perspectives normally begin with the overall amount of resources to be put at the disposal of the EU budget instead of an examination of the proposed policies, the 'delivery' costs and the objectives to be achieved.

3. DECLARATION ON THE REVIEW OF THE FINANCIAL FRAMEWORK

1. In accordance with the conclusions of the European Council, the Commission has been invited to undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate, and to report in 2008/2009.

That review should be accompanied by an assessment of the functioning of the Interinstitutional Agreement.

The European Parliament will be associated with the review at all stages of the procedure on the basis of the following provisions:

— during the examination phase following the presentation of the review by the Commission, it will be ensured that appropriate discussions take place with the European Parliament on the basis of the normal political dialogue between the institutions and that the positions of the European Parliament are duly taken into account,

— in accordance with its conclusions of December 2005, the European Council ‘can take decisions on all the subjects covered by the review’. The European Parliament will be part of any formal follow-up steps, in accordance with the relevant procedures and in full respect of its established rights.

2. The Commission undertakes, as part of the process of consultation and reflection leading up to the establishment of the review, to draw on the in-depth exchange of views it will conduct with European Parliament when analysing the situation. The Commission also takes note of the European Parliament's intention to call for a conference involving the European Parliament and the national parliaments to review the own-resources system. It will consider the outcome of any such conference as a contribution in the framework of that consultation process. It is understood that the Commission's proposals will be put forward entirely under its own responsibility.