



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**LETTER OF AMENDMENT No 2
TO THE PRELIMINARY DRAFT BUDGET 2003**

SECTION III - COMMISSION

Having regard to:

- Article 272 of the Treaty establishing the European Community,
- Article 177 of the Treaty establishing the European Atomic Energy Community,
- Article 14 of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities¹ as last amended by Regulation No 762/2001² of 9 April 2001,

the European Commission hereby presents letter of amendment No 2 to the 2003 preliminary draft budget for the reasons set out in the explanatory memorandum.

¹ OJ L 356, 31.12.1977, p. 1.

² OJ L 111, 20.4.2001, p. 1.

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EXPLANATORY MEMORANDUM

1. GENERAL INTRODUCTION

This second letter of amendment to the 2003 preliminary draft budget makes changes of three types in Section III, Commission, of the Community budget.

First, it proposes establishing the budgetary structure to accommodate three Commission administrative offices: a Paymaster Office, an Infrastructure and Logistics Office in Brussels and an Infrastructure and Logistics Office in Luxembourg.

To take account of Article 172 of the new Financial Regulation³, the letter of amendment adds three annexes to the present part A of the budget, each with their own establishment plan and a detailed description of their own revenue and expenditure.

This proposal is neutral in budget terms, and it does not change the overall number of posts available to the Commission and the three Offices.

It is also proposed that two new lines be inserted, with token entries, which could if necessary accommodate appropriations for the new European Union Solidarity Fund⁴. A proposal is being made at the same time for the establishment of this new financial instrument to provide relief in the event of major natural, technological and environmental disasters that have serious repercussions for living conditions, the natural world or the economy in one or more regions or one or more states.

Finally the budgetary authority's attention is drawn to the need to reflect at the end of the 2003 procedure the changes flowing from the Council's adoption of the new Financial Regulation on 25 June 2002⁵. This will apply from 1 January 2003 and will involve an across-the-board change to accommodate assigned revenue, which replaces the re-use process. In addition, all existing references to the various articles of the Financial Regulation must be adapted to the next text. This letter of amendment covers a first series of such changes, but further adjustments may be necessary after more detailed scrutiny.

2. ESTABLISHMENT OF OFFICES

On 26 July 2000 the Commission adopted a communication on matching its activities with its human resources⁶, about establishing a proper balance between the tasks undertaken by the Commission and resources available to it.

³ COM(2001) 691 adopted by the Council on 25 June 2002.

⁴ COM(2002) xxx of 18 September 2002.

⁵ COM(2001) 691 adopted by the Council on 25 June 2002.

⁶ SEC(2000) 2000.

Following this communication the Commission called on a number of Directorates-General, one of them being the Personnel and Administration Directorate-General, to conduct studies on the subject of externalisation (namely delegation by the Commission of some of its administrative and implementing tasks to specialised public- or private-sector entities).

DG Personnel and Administration undertook cost/benefit and organisational studies. At the same time general consideration was given to externalisation arrangements.

On the basis of this work, on 28 May 2002 the Commission approved documents COM (2002) 264 final and SEC (2002) 618, which set out a broad outline of the structure of offices and provide for three to be set up to take over certain routine administrative management activities currently performed by the Personnel and Administration Directorate-General.

The new Financial Regulation approved on 25 June 2002 also caters for the establishment of the new offices.

In this context the term "Office" means administrative structures designed to provide support for the activities of other Commission departments and/or of other Community institutions.

2.1. General principles

During the reform process the Commission has made it clear that the Personnel and Administration Directorate-General should focus on its core activities which are personnel policy, safety and health, and information and communication technology. The other activities linked to day-to-day management should, in this context, be taken over by autonomous structures separate from Personnel and Administration Directorate-General's activities.

DG Personnel and Administration will retain responsibility for formulating the policies to be conducted by the offices and will handle coordination. Clear and logical rules should therefore be laid down for segregation of tasks between decision-making (Personnel and Administration Directorate-General) and execution (office).

Execution will be entrusted to the Offices, which will therefore provide administrative support to all Commission departments and staff and this may subsequently be extended to the other institutions.

2.2. Nature of Offices

The communication *"A new type of office for managing support and administrative tasks at the European Commission"*⁷ referred to above explains in detail how the establishment of Commission offices should make it possible to improve the quality of services while making savings and preparing the

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COM(2002) 264.

ground for the establishment, in due course, of interinstitutional structures in the areas in question.

The proposed offices are of a new type, in accordance with the new Financial Regulation.

Title V of the new Financial Regulation provides for the entry in the budget of "European offices" (defined in Article 172(1)) as follows:

- Appropriations are entered in a specific budget line within the section of the budget relating to the Commission and are set out in detail in an annex to that section.
- The annex contains a statement of revenue and expenditure, subdivided in the same way as the sections of the budget.
- The establishment plan is annexed to the Commission's establishment plan.
- The director of the office takes decisions on transfers between individual lines in the annex in accordance with the standard rules.

Each office will be set up by Commission decision, to be regarded as an organisational act by the Commission. Creation of an office will provide a sound basis on which interinstitutional structures could be built in future.

2.3. Potential savings

Over the years the offices will achieve savings through:

- the impact of increased efficiency, for instance through decentralisation of operational responsibilities and easier adaptation to customers' needs;
- use of new contract agents in accordance with the Commission proposal on employment of external staff⁸. According to the final line being taken in this matter, new contract agents:
 - would be recruited under public-law contracts,
 - would have a different status from auxiliary staff,
 - would be employed only in specific structures, including offices,
 - would perform non-core tasks,
 - would always work under the guidance of officials.

Once the above proposal is adopted, and after a transitional period of five to seven years, net medium-term savings of more than 10% could be achieved in the running costs of the Commission Offices.

⁸

SEC(2002) 458.

- economies of scale from an improved interinstitutional approach.

2.4. Key features of the Offices

The structure of the new Offices is based on some general fundamental criteria.

- The Offices will be under the political authority of the Commission and any institutions joining in the process.
- Each Office will be supervised by its own Board, which will draw up the Office's work programme and the mission statement of the director and maintain political links with the College. The Board will also supervise implementation of the annual work programme and conduct the evaluation on the basis of the annual report.
- Each Board will be chaired by the Director-General of the Personnel and Administration Directorate-General and will be made up of the Directors-General of the Directorates-General responsible for the policy concerned and for the resources required, in particular the Secretary-General and the Director-General of the Budget Directorate-General, representatives of associated institutions and "user" Directorates-General and staff representatives.

The Office Director will be an A2 official, but could also be an A1 depending on the size of the Office. The job will also involve chairing the various internal bodies and working groups tasked with the coordination of the stakeholders in a given policy, such as the buildings policy group.

Personnel and Administration Directorate-General will be the interface between the Board and the Offices.

2.5. Presentation of the three new administrative offices

The Commission will be taking a formal decision in November 2002 on setting up the Offices and on their organisation. However, as these Offices need to be operational by 1 January 2003, this letter of amendment must be presented before then.

In accordance with the decisions taken in May 2002⁹, the letter of amendment establishes the budgetary structure for three new Offices, two in Brussels and one in Luxembourg. These Offices will have their own administrative budget, in accordance with the new Financial Regulation, and their tasks, in budgetary terms, will be to implement the bulk of Titles A-1, A-2 and A-4 of the present Part A of the Commission budget. Details of the delegation of implementing powers will be contained in the Internal Rules for 2003. By virtue of subdelegations, the authorising officers designated in the Internal Rules will be able to implement other budget lines, such as the BA lines.

⁹

SEC(2002) 618.

2.5.1. Paymaster Office

This Office will be responsible for determining, calculating and paying out individual entitlements, while legislative responsibilities, changes to the Staff Regulations and major decisions of principle and those involving exercise of judgment would remain with the Personnel and Administration Directorate-General. The area of activity will cover remuneration, mission expenses, reimbursement of experts, sickness and accident insurance and pensions. Initially the Office's tasks will include implementing most of the appropriations in Title A-1, Chapter B6-11 and Article B-601 and the specialised salary lines of OPOCE, OLAF, the European Personnel Selection Office and the new administrative Offices. It will also take on the existing task of calculating individual entitlements that Personnel and Administration Directorate-General performs for the agencies.

The activities in question are the result of implementation of a single set of Staff Regulations, calling for consistency in decisions and joint development of policy; for this reason there will be a single office, with one Board and one Director, but divided into three centres, one in Brussels, one in Luxembourg and one in Ispra.

Some of these activities are already managed on an interinstitutional basis. For instance, the Personnel and Administration Directorate-General is currently responsible for paying all pensions and it manages the sickness insurance scheme on an interinstitutional basis.

The Office will have a staff of 347 in 2003, 307 officials and 40 other staff. 18 staff from the Joint Research Centre will be seconded to the Paymaster Office during the start-up phase.

2.5.2. Infrastructure and Logistics Offices

The nature of the area analysed and the results of the studies carried out suggest that Brussels and Luxembourg should be treated separately, to take due account of the specific features of each of the two seats of the institutions.

2.5.2.1. The Infrastructure and Logistics Office in Brussels

The Office in Brussels will be mainly in charge of all activities connected with buildings policy and the management of office space, the housing of departments, maintenance and technical projects, security guards, procurement, supplies and inventories and logistics and internal services.

The Office will also handle all activities relating to welfare infrastructure, such as crèches and nurseries, kitchens and restaurants and sports activities, including the Overijse centre.

This Office will implement the bulk of Titles A-2 and A-4 for departments located in Brussels, including infrastructure and logistics for the European Personnel Selection Office and OLAF and the new Offices.

The Infrastructure and Logistics Office in Brussels will have a staff of 783 in 2003, 595 officials and 188 other staff.

2.5.2.2. The Infrastructure and Logistics Office in Luxembourg

The Luxembourg Office will handle for Luxembourg the same tasks as the Infrastructure and Logistics Office in Brussels.

This Office will implement the bulk of Titles A-2 and A-4 for departments located in Luxembourg, including infrastructure and logistics for OPOCE provided that the management board of the latter gives its approval following the necessary consultations and after providing the necessary human and financial resources. The establishment plan of the two offices will then be adapted in the next budget year.

The Office will have a staff of 361 in 2003, 226 officials and 135 other staff.

2.6. Budget implications

2.6.1. *Budget neutrality*

The potential savings through use of new contract agents will be achievable once the amended Staff Regulations enter into force, i.e. from 2004 if this is the outcome of the negotiations. The idea is that some posts currently occupied by officials (and performing straightforward implementation tasks which are not core activities) will be gradually replaced by contract agents as the posts fall vacant. The posts replaced will be returned to the budgetary authority. On this point, each Office will show in its annual report the number of posts of officials occupied and the number of contract agents at the start and end of the year.

Economies of scale resulting from an interinstitutional approach will be achieved in the medium term, depending on the willingness of the other institutions to join in. There will be no immediate savings in 2003.

On the other hand, the Commission gives an undertaking that the creation of the three Offices will not entail any additional costs. The operation will therefore be neutral in budget terms in relation to the 2003 PDB.

2.6.2. *Three new lines in Chapter 4 of Part A*

In accordance with the new Financial Regulation the Commission proposes that a new Chapter 45 be inserted in Part A with the following lines which will cover the running costs of the Offices:

- A-451 Paymaster Office with an allocation in 2003 of €30 646 000,
- A-452 Infrastructure and Logistics Office Brussels with an allocation in 2003 of €59 546 000,
- A-453 Infrastructure and Logistics Office Luxembourg with an allocation in 2003 of €22 789 500.

The allocations for these three lines and the annexes could, if appropriate, be adapted in the light of the budgetary authority's final decision on the 2003 budget.

2.7. Establishment plans

The following table shows the changes to staffing:

Categories and grades	Commission		Paymaster Office	Infrastructure and Logistics Office Brussels	Infrastructure and Logistics Office Luxembourg		Total	
	Permanent posts	Temporary posts	Permanent posts	Permanent posts	Permanent posts	Temporary posts	Permanent posts	Temporary posts
A1	28	0	0	0	0	0	28	0
A2	194	22	1	1	1	0	197	22
A3	598	32	4	6	3	0	611	32
A4	1.366	72	4	7	4	0	1.381	72
A5	1.384	89	1	10	2	0	1.397	89
A6	1.041	20	3	2	2	0	1.048	20
A7	1.364	0	1	7	0	0	1.372	0
A8	125	0	0	0	0	0	125	0
Total A	6.100	235	14	33	12	0	6.159	235
LA3	54	0	0	0	0	0	54	0
LA4	527	1	0	0	0	0	527	1
LA5	487	1	0	0	0	0	487	1
LA6	352	2	0	0	0	0	352	2
LA7	429	2	0	0	0	0	429	2
LA8	36	0	0	0	0	0	36	0
Total LA	1.885	6	0	0	0	0	1.885	6
B1	745	26	21	19	8	0	793	26
B2	646	22	24	15	7	0	692	22
B3	807	41	13	17	3	2	840	43
B4	527	21	14	11	3	0	555	21
B5	530	0	3	9	1	0	543	0
Total B	3.255	110	75	71	22	2	3.423	112
C1	1.161	24	76	67	29	0	1.333	24
C2	1.109	42	54	65	32	0	1.260	42
C3	1.196	20	47	73	32	0	1.348	20
C4	648	9	23	57	17	0	745	9
C5	569	13	6	13	6	0	594	13
Total C	4.683	108	206	275	116	0	5.280	108
D1	239	0	8	156	54	0	457	0
D2	86	0	4	55	19	0	164	0
D3	12	0	0	5	1	0	18	0
D4	0	0	0	0	0	0	0	0
Total D	337	0	12	216	74	0	639	0
GR. TOT.	16.260	459	307	595	224	2	17.386	461

The total number of staff for the Commission and the three offices is the same as in the PDB.

2.8. Three new annexes

Three new annexes to Part A (V for the Paymaster Office, VI for the Infrastructure and Logistics Office in Brussels and VII for the Infrastructure and Logistics Office in Luxembourg) need to be added. These annexes will give details of the administrative budgets of each of the Offices to be set up. The structure of these budgets will be simpler than Part A as a first step towards the future ABB system.

2.9. Summary of the budget proposal

The table below gives the breakdown between the three Offices of the appropriations currently allocated to the Commission: the appropriations taken from Titles 4 and 7 of the Commission are divided between Titles 1 and 2 in the annexes for the three Offices.

Title	PDB 2003	PDB 2003 LETTER OF AMENDMENT No 2			Commission without new Offices	Commission with new Offices
	Commission	Paymaster Office	I & L Bru	I & L Lux		
	(1)	(2)	(3)	(4)		
Title 1	2 173 271 000	22 695 000	39 801 000	15 295 000	2 095 480 000	2 095 480 000
<i>Title 1 excl. pensions</i>	<i>1.437.485.000</i>	<i>22 695 000</i>	<i>39 801 000</i>	<i>15 295 000</i>	<i>1.359.694.000</i>	<i>1.359.694.000</i>
Title 2	416 266 000	6 687 000	11 786 000	5 088 000	392 705 000	392 705 000
Title 4	100 354 000		6 250 000	1 641 000	92 463 000	205.444.500
Title 7	245 032 000	1 264 000	1 709 000	765 500	241 293 500	241 293 500
Part A total	3.563.814.000	30 646 000	59 546 000	22 789 500	3.450.832.500	3.563.814.000
<i>Part A total excl. pensions</i>	<i>2.828.028.000</i>	<i>30 646 000</i>	<i>59 546 000</i>	<i>22 789 500</i>	<i>2.715.046.500</i>	<i>2.828.028.000</i>

3. THE EUROPEAN UNION SOLIDARITY FUND

In the wake of the disastrous floods which struck a number of countries this August, the Commission proposed on 11 September 2002 establishing, by interinstitutional agreement,¹⁰ a new flexibility instrument to endow the EU Solidarity Fund which will provide relief in the event of natural, technological and environmental disasters. This fund may operate in the EU Member States and in countries negotiating for

¹⁰ SEC(2002) 960

accession. It will operate in accordance with the arrangements laid down in the Council regulation on the Solidarity Fund, proposed by the Commission on 18 September 2002¹¹ which will constitute the legal basis for the expenditure.

In accordance with these proposals this letter of amendment will insert two budget lines, one under heading 3, internal policies, and one under heading 7, pre-accession strategy, which will, if necessary, accommodate the fund's operations. It is proposed that the lines be entitled "B2-4, European Union Solidarity Fund - Member States" and "B7-09, European Union Solidarity Fund - countries negotiating for accession". The lines would carry token entries and would be endowed by means of an amending budget should the fund need to be mobilised.

4. EFFECTS OF THE NEW FINANCIAL REGULATION ON THE COMMUNITY BUDGET

The new Financial Regulation¹² was adopted by the Council on 25 June 2002. It will apply from 1 January 2003, and appropriate changes will therefore need to be made to the PDB, which was adopted before the final decision on the new Financial Regulation. This new legal basis affects the Community budget in at least two ways:

4.1. Extension of the concept of assigned revenue

In a bid to rationalise the exceptions to the principle of universality, the new Financial Regulation no longer allows the process of re-use provided for by Article 27(2) of the 1977 Financial Regulation. This system enabled authorising officers to re-use, before the end of the year following that in which the revenue was collected, the appropriations corresponding to revenue which was very closely linked with the budget line from which the expenditure had been made.¹³

On the other hand the new Financial Regulation has broadened the list of revenue which is assigned to a given item of expenditure, the assigned revenue mechanism being considered more transparent than that of re-use, which in some cases does not even need to be mentioned in the budget remarks.¹⁴

Article 18 of the new Financial Regulation provides, in addition to the cases of assigned revenue taken from Article 4 of the 1977 Financial Regulation¹⁵, for

¹¹ COM(2002) 514 final

¹² COM(2001) 691 adopted by the Council on 25 June 2002.

¹³ There are seven cases of re-use (Article 27(2) of the 1977 Financial Regulation):

- revenue arising from the refund of amounts paid in error;
- proceeds from supply of goods and services to other institutions;
- insurance payments received;
- revenue from payments connected with lettings;
- revenue from the sale of publications and films;
- revenue from the supply of goods and services against payment;
- proceeds from the sale of vehicles, equipment and installations.

¹⁴ Article 27(5) of the 1977 Financial Regulation: revenue arising from the refund of amounts paid in error does not have to be mentioned in the remarks to the budget line concerned for the authorising officer to be able to re-use the appropriations corresponding to this revenue.

¹⁵ Article 18(1)(a) to (d) of the Financial Regulation of 25 June 2002 to apply from 1 January 2003.

assigned revenue broadly corresponding to the re-use possibilities in Article 27(2) of the 1977 Financial Regulation¹⁶.

4.1.1. Impact on revenue

The assigned revenue mechanism entails, in accordance with Article 18(3) of the new Financial Regulation, the inclusion of a structure to accommodate categories of assigned revenue with an indication, wherever possible, of the amount involved.

This structure will require, in the statement of revenue, a line to accommodate each category of assigned revenue for the year in question.

For the budget lines which previously in Titles 5 and 6 were governed by the re-use mechanism, the remarks concerned will have to be amended to show that in future they are subject to Article 18 of the new Financial Regulation. Lines which were already subject to the assignment mechanism will now have to carry a reference to Article 18 in the remarks.

4.1.2. Impact on expenditure

In the statement of expenditure all lines could conceivably be concerned by appropriations flowing from assigned revenue under the new Financial Regulation, as the main case of re-use now subject to the assignment mechanism concerns amounts paid in error. A general remark should therefore be entered at the beginning of the general statement of expenditure reading:

"Any revenue provided for in Article 18(1)(e) to (j) of the Financial Regulation, entered in Titles 5 and 6 of the statement of revenue, may lead to additional appropriations being entered on the lines which bore the initial expenditure giving rise to the corresponding revenue".

4.2. Other effects of the new Financial Regulation on revenue

Article 42 of the new Financial Regulation states that the budget may not contain negative revenue. The estimates of traditional own resources will therefore have to be entered in the budget in net terms with effect from 2003.

New lines will also have to be inserted to adapt the present budget structure to the new requirements of the new Financial Regulation. There will have to be new lines to accommodate interest yielded by prefinancing, interest on deposits and fines provided for by the regulation to speed up and clarify implementation of the excessive deficit procedure and other contributions and refunds (assigned and non-assigned).

In view of all the technical studies that will need to be conducted to adapt the general statement of revenue to the new Financial Regulation, it is therefore proposed that the budgetary authority accept the principle in this letter of amendment but that the

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Article 18(1)(e) to (j). Only the proceeds of the sale of vehicles, equipment and installations are not included. Revenue from supplies of goods, services and work against payment (Article 27(2)(h) of the 1977 Financial Regulation) has been merged with the very similar case of revenue from third parties for work carried out at their request, which was already covered as assigned revenue by Article 4 of the 1977 Financial Regulation.

necessary changes be made before publication of the 2003 budget in the Official Journal; the institutions and the budgetary authority will work together on the technical aspects of this process.

4.3. References to the Financial Regulation in the budget remarks

A great many budget remarks in the statement of expenditure contain references to articles of the Financial Regulation. They will, of course, need to be adjusted one by one to the structure of the new Financial Regulation. This is a purely technical but no less time-consuming task, and it is therefore proposed that the budgetary authority accept the principle in this letter of amendment that the corrections involving references to articles in the new Financial Regulation be made in the remarks only when the 2003 budget is published in the Official Journal; the institutions and the budgetary authority will work together on the technical aspects of this process.

4.4. The sections of the Community budget for the other institutions

It is for the budgetary authority, in agreement with the other institutions, to incorporate in their own sections the changes corresponding to those listed above for Section III, Commission, of the Community budget. This work can also be done during the budgetary procedure and completed at technical level when the 2003 budget is published in the Official Journal.