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REPORT

concerning discharge in respect of the implementation of the general budget of
the European Union for the 2002 financial year
(Section I - European Parliament)

(I5-0034/2003 - C5-0088/2004 - 2003/2211(DEC))

Committee on Budgetary Control

Rapporteur: Michiel van Hulten

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PROCEDURAL PAGE

On 13 May 2003, the Commission forwarded to Parliament, in accordance with Article 275 of the EC Treaty, Article 78d of the ECSC Treaty and Article 179a of the Euratom Treaty, the revenue and expenditure account and balance sheet for the 2002 financial year and the report on the implementation of the general budget (I5-0034/2003 - 2003/2211(DEC)).

At the sitting of 3 December 2003, the President of Parliament announced that he had referred these documents to the Committee on Budgetary Control as the committee responsible and all other committees for their opinions (C5-0088/2004).

On 17 November 2003, the Court of Auditors forwarded to Parliament its annual report concerning the financial year 2002.

At the sitting of 3 December 2003, the President of Parliament announced that he had referred the report to the Committee on Budgetary Control as the committee responsible (C5-0583/2003).

On 10 March 2004 the Council forwarded to Parliament its recommendation concerning the discharge to be given in respect of the European Union general budget for the 2002 financial year.

At the sitting of 29 March 2004 the President of Parliament announced that he had referred this document to the Committee on Budgetary Control (C5-0145/2004).

Pursuant to Rule 184(3) of the Rules of Procedure, the Committee on Budgetary Control was requested to draw up a report on the annual accounts and the discharge for the 2002 financial year in respect of Parliament.

On 29 September 2003, the Committee on Budgetary Control appointed Michiel van Hulten, rapporteur.

At its meetings of 18 February and 17 March 2004, it considered the revenue and expenditure account and balance sheet for the 2002 financial year, the Court of Auditors annual report and the draft report.

At the last meeting, it adopted:

1. the proposal for a decision by 16 votes to 3, with 1 absention,
2. the motion for a resolution by 12 votes to 4, with 3 abstentions.

The following took part in the vote: Diemut R. Theato, chairman; Herbert Bösch, vice-chairman; Michiel van Hulten, rapporteur; Generoso Andria, María Antonia Avilés Perea, Jens-Peter Bonde (for Rijk van Dam), Graham H. Booth (for Jeffrey William Titford, pursuant to Rule 153(2)), Giorgio Calò (for Ole Sørensen, pursuant to Rule 153(2)), Gianfranco Dell'Alba, Christopher Heaton-Harris, María Esther Herranz García (for John Joseph McCartin), Renzo Imbeni (for Paulo Casaca), Helmut Kuhne, Ole Krarup (for Michel-Ange Scarbonchi, pursuant to Rule 153(2)), Eluned Morgan, Juan Andrés Naranjo

Escobar(for Juan José Bayona de Perogordo, pursuant to Rule 153(2)), Bart Staes, Gabriele Stauner, Jonas Sjöstedt (for Freddy Blak) and Kyösti Tapio Virrankoski (for Antonio Di Pietro).

The report was tabled on 23 March 2004.

1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**concerning discharge in respect of the implementation of the general budget of the European Union for the 2002 financial year (Section I – European Parliament)
(I5-0034/2003 - C5-0088/2004 - 2003/2211(DEC))**

The European Parliament,

- having regard to the Revenue and Expenditure Account and Balance Sheet in respect of the financial year 2002 (I5-0034/2003 – C5-0088/2004),
 - having regard to the annual report of the Court of Auditors concerning the financial year 2002 and the institutions' replies (C5-0583/2003)¹,
 - having regard to the Statement of Assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty (C5-0583/2003),
 - having regard to Article 275 of the EC Treaty, Article 78d of the ECSC Treaty and Article 179a of the Euratom Treaty,
 - having regard to Article 77 of the Financial Regulation of 21 December 1977² and Articles 145 to 147 of the Financial Regulation of 25 June 2002³ and Article 13 of the internal rules for the implementation of the European Parliament's budget⁴,
 - having regard to Article 89(7) of the Financial Regulation of 21 December 1977, pursuant to which each Community institution is required to take all appropriate steps to act on the comments appearing in the decisions giving discharge,
 - having regard to Rules 93a and 184(3) of its Rules of Procedure, and Annex V thereto, in their versions applying before 1 January 2003 and as from that date,
 - having regard to the report of the Committee on Budgetary Control (A5-0218/2004),
1. Grants its Secretary-General discharge in respect of the implementation of the budget for the 2002 financial year;
 2. Records its comments in the accompanying resolution;

¹ OJ C 286, 28.11.2003, p. 1.

² OJ L 356, 31.12.1977, p. 1.

³ OJ L 248, 16.9.2002, p. 1.

⁴ PE 265.492/BUR/FIN.

3. Authorises the giving of discharge to the Accounting Officer for the 2002 financial year in accordance with the transitional provisions¹ governing the discharge procedure in respect of the period prior to the entry into force of the new Financial Regulation;
4. Instructs its President to forward this decision and the accompanying resolution to the Council, the Commission, the Court of Justice, the Court of Auditors and the Ombudsman and to have them published in the Official Journal of the European Union (L-series).

¹ Article 267 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 357, 31.12.2002, p. 1).

2. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

accompanying the decision concerning discharge in respect of the implementation of the general budget of the European Union for the 2002 financial year (Section I – European Parliament)

(I5-0034/2003 - C5-0088/2003 - 2003/2211(DEC))

The European Parliament,

- having regard to the Revenue and Expenditure Account and Balance Sheet in respect of the financial year 2002 (I5-0034/2003 – C5-0088/2003),
 - having regard to the annual report of the Court of Auditors concerning the financial year 2002 and the institutions' replies (C5-0583/2003)¹,
 - having regard to the Statement of Assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty (C5-0583/2003),
 - having regard to Article 275 of the EC Treaty, Article 78d of the ECSC Treaty and Article 179a of the Euratom Treaty,
 - having regard to Article 77 of the Financial Regulation of 21 December 1977² and Articles 145 to 147 of the Financial Regulation of 25 June 2002³ and Article 13 of the internal rules for the implementation of the European Parliament's budget⁴,
 - having regard to Article 89(7) of the Financial Regulation of 21 December 1977, pursuant to which each Community institution is required to take all appropriate steps to act on the comments appearing in the decisions giving discharge,
 - having regard to Rules 93a and 184(3) of its Rules of Procedure, and Annex V thereto, in their versions applying before 1 January 2003 and as from that date,
 - having regard to the report of the Committee on Budgetary Control (A5-0218/2004),
- A. Whereas the Financial Regulation adopted on 25 June 2002 and the Rules of Procedure of Parliament amended on 23 October 2002 apply with effect from 1 January 2003 as regards procedural rules governing the discharge procedure;
- B. Whereas the substantive provisions of the Financial Regulation of 21 December 1977 and the Rules of Procedure of Parliament applying in 2002 continue to govern the responsibilities of financial actors in 2002;

¹ OJ C 286, 28.11.2003, p. 1.

² OJ L 356, 31.12.1977, p. 1.

³ OJ L 248, 16.9.2002, p. 1.

⁴ PE 265.492/BUR/FIN.

- C. Whereas Parliament's Rules of Procedure were amended on 23 October 2002 to stipulate that discharge shall be given to the President rather than to the Secretary-General;
- D. Whereas, however, that amendment cannot be applied retrospectively as it concerns a substantive rule governing responsibility; for the 2002 financial year discharge must therefore continue to be given to the Secretary-General;
1. Takes note of the figures with which the European Parliament's accounts for the 2002 financial year were closed, namely:

Use of appropriations	Appropriations for the 2002 financial year	(in EUR)	
		Appropriations carried over from 2001 financial year Article 7(1)(b) Financial Regulation	Article 7(1)(a) Financial Regulation ¹
Appropriations available	992,310,000 ²	136,621,422	—
Commitments entered into	977,212,022	—	—
Payments made	876,911,049	126,254,342	—
Appropriations carried over to 2003			
• Article 9(1 & 4) of Financial Regulation	100,300,973		
• Article 9(2a & 5) of Financial Regulation	3,302,900	—	—
Cancelled appropriations	11,795,078	10,367,080	—
Balance Sheet at 31 December 2002:		1,403,669,148	

Implementation of the budget

2. Congratulates the Secretary-General on the efficient use of the budgetary appropriations made available by Parliament; thanks all Parliament staff for the effective support provided to Members during the 1999-2004 term;
3. Notes that the principal changes to the appropriations in the 2002 budget as originally adopted concerned:
- the European Convention, whose financing necessitated a supplementary and amending budget (n° 1), adding a budgetary line to Section I of the budget (Parliament) (Article 372) and the transfer of € 1 million from Chapter 101;
 - preparations for enlargement, including "frontloading" operations whereby as a result of a supplementary and amending budget, the Commission was able to utilise appropriations available in 2002 in respect of expenditure initially planned for 2003 and a similar amount was added to Parliament's budget for 2003;
4. Notes that in 2002 the European Parliament received revenue of € 67.256.006 (2001: € 68.415.805);

¹ Financial Regulation of 21 December 1977.

² Including supplementary and amending budget n° 1/2002 and 6/2002.

5. Takes note of the note forwarded by the Court of Auditors on 17 November 2003 in accordance with Article 39(3) of the Financial Regulation evaluating the four withholdings of approval during 2002;
6. Points out the overall opinion expressed in the section of the Court of Auditors annual report for 2002 on administrative expenditure (paragraph 9.14) concerning the results of testing carried out at the European Parliament on a sample of transactions of the financial year 2002, that apart from specific findings set out in the annual report, no material errors were noted in the sample of transactions tested;
7. Continues to support the view that the error-identification service hitherto provided by Financial Control must now be at least matched by the detection and correction capacity of the authorising officers' own services;

Presentation and content of the accounts

8. Applauds the improved readability of the analysis of budgetary management accompanying the accounts as called for in previous annual reports by the Court of Auditors;
9. Repeats its request to the Secretary-General - contained in paragraph 16 of the 2001 discharge resolution of 8 April 2003¹ - for a report on the feasibility of publishing Parliament's accounts together with the analysis of budgetary management on Parliament's website;
10. Takes note of the Secretary-General's reply to question 37 of the 2002 discharge questionnaire (PE 338.137) that "formal management and control procedures within Parliament up to the end of 2002 (Advisory Committee on Procurement and Contracts (ACPC), Financial Control, Legal Service) and the importance attached to sound financial management both by Parliament's Administration and by its control authorities, make it unlikely that situations similar to that found at Eurostat could have occurred within Parliament";

Governance

11. Recalls the statement contained in paragraph 3 of the above-mentioned 2001 discharge resolution that "the scope of the discharge procedure should cover not only the management activities of Parliament's Secretary-General and Administration, but also the decisions taken by its governing bodies, i.e. its President, Bureau and Conference of Presidents";
12. Notes that in accordance with Rule 93a, first indent, of the Rules of Procedure, discharge will in future be given to the President of the European Parliament rather than to the Secretary-General;

¹ OJ L 148, 16.6.2003, p. 62.

13. Believes that in the context of current debates on corporate and institutional governance there is a convincing case for strengthening the degree of accountability prevailing not only at the level of authorising officers in respect of the commitment and disbursement of budget appropriations, but also at the level of the political authorities in cases where they take decisions having significant financial consequences;
14. Points out that under the Financial Regulation the authorising officer is liable to disciplinary action and payment of compensation for his acts or omissions in that capacity (Article 65 (2)); notes further that the authorising officer by delegation must in future report to the Institution in the form of an annual activity report (Article 60 (7));
15. Notes that according to the list of their responsibilities¹ certain Members of the Bureau now oversee specific sectors of the Administration's activities with the possibility of their participating in that capacity in negotiations with third parties and giving undertakings on behalf of the Institution (in accordance with a mandate determined by the Bureau) in such a way as to create legal and/or financial commitments in matters potentially having significant budgetary consequences;
16. Notes that there is at present no definition of the precise practical meaning of the political responsibility attaching to Parliament's governing bodies as regards the exercise of powers and taking of decisions with significant financial consequences; instructs its competent committee and Bureau to consider this matter and draw up concrete proposals;
17. Takes the view that in the interest of greater transparency and accountability such proposals might include:
 - an annual financial review by the President on behalf of the Bureau (by analogy with the report of a company's board of directors to its shareholders) setting out and commenting on the principal financial events and trends, as well as positive and negative developments during the financial year under review;
 - an examination of the changes which would be necessary in order to anchor political responsibility for financial matters more firmly within Parliament's internal rules on the budget or its Rules of Procedure, including possibly the requirement for Vice-Presidents with responsibility for management functions to submit an annual declaration;

Follow-up to 2001 discharge

18. Recalls that in paragraph 11 of its discharge resolution of 10 April 2002² concerning the 2000 financial year Parliament requested its Secretary-General to provide the Committee on Budgetary Control with the sector letter from the Court of Auditors and the Administration's replies;

¹ PE 315.557/BUR/DEF - see EP website: governing bodies/Bureau/composition.

² OJ L 158, 17.6.2002, p. 43.

19. Notes that this request was fully complied with in the discharge procedure concerning the 2001 financial year;
20. Considers that the absence of any corresponding provisions in the internal rules¹ on the implementation of the budget adopted by the Bureau on 4 December 2002 cannot be advanced as a justification for the Administration's failure in the context of the current discharge process to comply with a request contained in an earlier higher-ranking text (Parliament's resolution of 10 April 2002);
21. Takes the view that there can be no reasonable objection to the disclosure of sector letters to the competent committee, or its rapporteur, on a confidential basis once the Court of Auditors annual report has been published;
22. Calls upon the Secretary-General to give clear instructions for the forwarding of the sector letters, in accordance with confidentiality procedures, to the competent committee in the context of the discharge procedure for the 2003 financial year;

Implementation of the recast Financial Regulation

23. Recognises the achievement of the Administration in having successfully completed the steps necessary to put the recast Financial Regulation into practical effect in the short time between the date of its adoption (25 June 2002) and the date of its entry into force (1 January 2003);
24.
 - a) Notes that according to Article 13(8) of the Internal Rules³ implementing the recast Financial Regulation, adopted by the Bureau on 4 December 2002, the activities of the Internal Auditor do not extend to the conditions under which use is made of the appropriations against Item 3701, 'Secretarial expenses, current administrative expenditure and expenditure relating to the political and information activities of the political groups and non-attached Members';
 - b) Notes further that the revised text of the Rules governing the utilisation of appropriations entered against Item 3701 adopted by the Bureau on 30 June 2003 departs in several respects from the provisions of the Financial Regulation; considers that any derogations from the general rules contained in the Financial Regulation must be based on sound legal and practical considerations;
 - c) Welcomes the report of the Secretaries-General of the political groups of 4 February 2004 in which they propose a number of changes to the rules governing the utilisation of appropriations entered against Item 3701; believes that these changes represent an important step in the right direction;
 - d) Calls on the Bureau to bring Parliament's Internal Rules and the Rules governing the utilisation of appropriations entered against item 3701 more closely into line with the provisions of the Financial Regulation and the Implementing Rules on the basis of the

¹ PE 324.692/BUR/FIN, see DG8 website.

³ PE 324.692/BUR/FIN, see DG8 website.

proposals made by the Secretaries-General;

e) Asks the Secretaries-General of the political groups to present a further report, by 1 July 2004, setting out how the remaining divergences between the Financial Regulation and the Parliament's internal rules can be addressed, including, if necessary, a recommendation on how the Financial Regulation and/or the Implementing Rules could be amended to take account of the specific status of political groups;

f) Stresses in particular the necessity, in accordance with the indications of the Court of Justice, to apply the relevant provisions governing item 3701 to non-attached Members in a strictly analogous manner in order to avoid any discrimination in the use of these funds;

25. Notes that the Internal Auditor's work programme for 2003 included an audit of the Parliament's internal control framework, whose main objective is to re-assess the level of general compliance with the Institution's minimum standards of internal control; notes that its competent committee will be informed of the results of the audit when the Internal Auditor's annual report is issued;
26. Notes that the Internal Audit Service is conducting an audit of the procurement process, under the new Financial Regulation, the findings of which are expected during the first half of 2004; insists that the Secretary-General informs its competent committee of those findings and the follow-up action which he decides in relation thereto as soon as the procedures laid down in the Internal Rules have been completed;
27. Welcomes the Secretary-General's undertaking¹ in future to supply the Committee on Budgetary Control on request with copies of the annual activity reports drawn up by the authorising officers by delegation pursuant to Article 60(7) Financial Regulation;

Staff and administration

28. Asks the Bureau to ensure that all appointments at A1 and A2 level take place in a fully open, transparent and competitive manner with staff committee representatives being present on selection committees with observer status;
29. Recalls that in paragraph 28 of the resolution on the 2001 discharge it asked for proposals before 1 July 2003 to remedy the situation of former LA officials who had passed an internal competition and moved to an A-category post before the introduction of the 'décloisonnement' and were thereby placed at the starting grade (A7) in the A-category irrespective of their seniority in the LA category; notes that the Secretary General in his reply of 18 February 2004 recognises that these LA officials have been "prejudiced in comparison with other LA officials who benefited from 'décloisonnement' "; asks therefore the Secretary-General, in order to respect the principle of non-discrimination among officials, to bring forward concrete proposals aimed at compensating the "small number" of LA officials whose initiative and energy have paradoxically placed them in a very unfavourable position;
30. Welcomes the model adopted by a number of divisions in the Translation Directorate,

¹ Source: Secretary-General's reply to paragraph 5 of EP resolution of 8.4.2003.

by which divisions are split into specialised teams reflecting the terms of reference of parliamentary committees; notes that this system has led to an increase in productivity; calls on the Parliament's Administration to examine whether this system could be extended to all divisions in the translation service;

31. Notes that payments to visitors groups are still being made in cash; believes that, especially in view of recent improvements to the rules governing intra-EU cross-border bank transfers, the existing system of cash payments can be replaced by a system of payments by bank transfer; calls on the Bureau to introduce such a new system as soon as possible;
32. Recalls that security measures were tightened up following the terrorist attacks of 11 September 2001; notes, however, that the spate of letter bombs sent to representatives of the European institutions - which had started in December 2003 - found the European Parliament completely unprepared in January 2004; therefore calls urgently on the Secretary-General to take preventive measures to combat terrorist attacks;

Political group accounts

33. Points out that the political groups only partially answered the questionnaire submitted by its Committee on Budgetary Control in the context of the 2002 discharge process;
34. Welcomes the fact that the annual accounts of the political groups are now published on Parliament's website; regrets, however, that no action has been taken in response to the request contained in paragraph 80(d) of Parliament's resolution of 8 April 2003 calling for the groups' internal financial rules for the use of the budget line 3701 appropriations also to be published on Parliament's website;
35. Considers it necessary, in order to avoid potential conflicts of interest, for the same audit firm not to provide related services;
36. Calls on the Secretary-General to examine a proposal for the rotation of group audit firms (or at least the person within the audit firm responsible for the group's audit) every five years;
37. Recalls paragraph 85 of its resolution of 8 April 2003¹ instructing its competent committee to continue to dedicate a section of its annual discharge report to the accounts of the political groups and non-attached Members giving particular attention to any specific remarks made by the Court of Auditors in the context of the discharge for the 2002 financial year;
38. Points out that the 2002 annual report by the Court of Auditors contains a section examining the follow-up to its special report n° 13/2000 on the expenditure of the European Parliament's political groups;
39. Notes that in 2002 the appropriations entered on budget line 3701 were allocated pursuant to the Bureau's decision of 4 February 2002 as follows:

¹ OJ L 148, 16.6.2003, p. 61

Total available: € 34.988.000
Non-attached Members (33): € 1.154.604
Amount available for groups: € 33.833.396

Group	Number of Members	Total allocated 01/01/2002	Carried over from 2001*	Expenditure in 2002*	Utilisation rate %	Carried forward to 2003*
PPE	232	12.922.519	7.234.352	15.870.767	122,82	4.775.841
PSE	179	10.067.849	7.592.863	13.575.568	134,84	4.573.736
ELDR	53	3.042.382	1.292.952	3.334.600	110,44	1.079.435
VERTS	45	2.656.812	2.313.851	4.105.303	155,20	952.607
GUE/NGL	44	2.684.778	1.923.255	3.650.792	135,37	1.081.653
UEN	22	1.328.517	1.034.056	2.009.402	151,25	383.067
EDD	18	1.130.539	717.208	1.456.489	128,83	465.517
TOTAL	593	33.833.396	22.108.537	44.002.921	130,06	13.311.856

* Including groups' own resources, adjustments and recoveries during the year (source: DG 8)

40. Recalls that Article 2.1.6 of the rules¹ governing budget line 3701 allows the groups and the non attached Members to carry forward a maximum of 50% of the annual appropriations received from the European Parliament's budget; notes that no political group exceeded the limit of 50% on appropriations to be carried forward from 2002 to 2003²;
41. Notes the following remark by the Court of Auditors with regard to the political groups' accounts of 2002 (annual report, paragraph 9.29 et seq.):
- both cash-based and accrual accounting are used (or sometimes a mixture of both), depending on the political group involved, which makes comparison difficult;
 - the financial statements do not provide the detailed information on decentralised expenditure required by the accounting plan;
 - considerable progress has been made in including information on fixed assets in both the accounting records of the groups and Parliament's own inventory system;
 - as regards the external audit of the groups' accounts, the content of the audit statements varied for the seven sets of accounts certified (by five different firms);
42. Shares the view that the informative value of the groups' annual reports on the utilisation of the appropriations continues to be limited, because the rules do not require

¹ Bureau minutes 1.2.2001.

² European Parliament, DG8.

in addition to the financial statements, the provision of information on the objectives, the type and the cost of the main activities financed;

43. Instructs its Secretary-General to report on the feasibility of establishing a standard format laying down the matters to be covered in both i) the analysis of budgetary management accompanying the groups' accounts and ii) the opinions drawn up by the external auditors;
44. Instructs its competent bodies in any future review of the rules governing budget line 3701 to remedy the absence of global reporting on the use of the appropriations;
45. Agrees that unless and until the political groups acquire a separate legal personality, the amounts of appropriations carried forward by political groups should be shown on the assets side of the balance sheet of the European Parliament;
46. Notes that expenditure by national delegations represents half of the total expenditure and that compliance with specific provisions requires on-the-spot verification in addition to audits in the central premises of the political groups; suggests that the audit provisions of the relevant rules should be amended accordingly;
47. Notes that under Article 1.6.2 of the rules¹ governing budget line 3701 the political groups may at present give up to 5% of their annual subsidy to political parties; recalls that according to Article 6 of Regulation (EC) n° 2004/2003² on political party funding a European political party may not accept donations from the budgets of political groups in the European Parliament; instructs its competent bodies to take note of this provision when next revising the relevant rules;
48. Calls on the Bureau to adopt transparent rules laying down the procedures for implementing the Regulation governing the statute and the financing of political parties at European level; points out that once this step has been taken, the Budgets Committee will be in a position to put forward a proposal concerning the total amount of funding which European political parties will receive in 2004;

Non-attached Members

49. Notes that not all non-attached Members have submitted the necessary documentation to the Administration concerning the financial year 2002;
50. Points out that under Article 2.9.6 of the rules currently in force as regards non-attached Members¹, the Administration is required to draw up a statement of revenue and expenditure and a balance sheet for each Member demonstrating the regularity of the accounts and their consistency with the rules;
51. Recalls that, until these new rules were adopted, responsibility for submitting the reports and accounts required by the rules governing budget line 3701 lay with each individual

¹ Bureau minutes 1.2.2001, 30.6.2003.

² OJ L 297, 15.11.2003, p. 1.

¹ Bureau minutes 30.6.2003.

non-attached Member;

52. Regrets that the Administration has been unable to forward the reports and accounts for 2002 to the competent committee because not all non-attached Members have yet provided a satisfactory account of their use of the relevant appropriations in 2002;
53. Notes that unlike the political groups the accounts of the non-attached Members are not subjected to an external audit;
54. Considers that the use by the non-attached Members of budget line 3701 appropriations falls within the purview of Parliament's internal auditor and that Article 13(8) of Parliament's internal rules on the implementation of the budget should be interpreted accordingly;

Members' allowances

55. Regrets the failure of the Council to approve the Statute for Members;
56. Believes that the introduction of a Statute for Members accompanied by reform of the system of expenses would have been the best way of ensuring the fair and equal treatment of all Members; considers, however, that the Council's failure to approve the Statute does not discharge the Parliament of its responsibility for ensuring that EU funds are spent in an honest and transparent manner;
57. Recalls paragraph 104 of the above-mentioned 2001 European Parliament discharge resolution and the recommendations made by the Court of Auditors that there should be no difference between the travel expenses paid out by the Parliament and actual costs incurred by a Member, Parliament's Bureau being the only body competent to make the appropriate adjustments;
58. Requests the Bureau to devise a system that will be fair to Members who are paid less than the average of the current 15 delegations' parliamentary salaries;

Secretarial allowance

59. Notes that, according to the European Parliamentary Assistants Association, the Court of Auditors, the Parliament's own Financial Controller and the Vice-President responsible for the Statute for Assistants, Mr Onesta, the new rules on the payment of the secretarial allowance which entered into effect on 1 January 2001 still pose a number of problems, both in terms of ensuring compliance with the Financial Regulation and with relevant national legislation (taxation, social security etc.), and in terms of user-friendliness; welcomes, therefore, the changes to the rules governing the payment of the secretarial allowance adopted by the Bureau on 9 February 2004; calls on the Secretary-General to ensure that the new rules are strictly enforced; considers, however, that the new requirement, that in the case of service contracts, invoices or fee statements should be accompanied by statements certifying that the staff concerned are duly affiliated to a social security scheme and that tax and social security contributions are duly paid, should not be limited to contracts with a duration exceeding six months;

60. Believes that, as soon as practically feasible, all payments to parliamentary assistants should be made by Parliament's Administration, either directly or through a national paying agent; points out that under such a system the Member would continue to be responsible for decisions such as recruitment, dismissal, leave and level of remuneration, but that Parliament's Administration would be responsible for ensuring the compliance of all payments with the Financial Regulation and with applicable national legislation; notes that according to Parliament's Administration¹, the cost of such a system should not exceed € 120 per Member per month;
61. Further considers that, in order to ensure maximum transparency in the use of the secretarial allowance, all assistants paid from the secretarial allowance must be accredited with the Parliament, and that if necessary in order to achieve this, the new category of 'constituency-based accreditation' should be created to make this possible; notes that as a consequence, the names of all assistants would have to be included in the public register of assistants;
62. Calls on the Secretary-General to inform the European Court of Auditors, within a period of two weeks after this report is adopted by the European Parliament in plenary sitting, of those accredited assistants who were not paid either from the secretarial allowance or from any other source given in the declaration of financial interests in 2002; instructs the European Court of Auditors, in the cases forwarded by the Secretary-General, to verify from which funds these assistants were paid and whether there was any infringement of the Rules of Procedure of the European Parliament in force, or of national rules;
63. Asks the Secretary-General to ensure that the restrictions imposed by current EU Member States on the free movement of workers from the new Member States will not prevent Members from the new Member States from employing assistants from their home country, or the ability of those assistants to move freely within the territory of the European Union;

General expenditure allowance

64. Points out that every Member receives a monthly allowance of € 3,700 (2004 figure) to meet expenditure such as office rental, telephone costs and the purchase of office equipment in their home country; points out that this amounts to an annual sum of € 44,400 for which at present no justification is required, either in the form of receipts or of an annual statement of expenditure;

Subsistence allowance

65. Considers that the attendance registers available for signature by Members must be supervised by a Parliament official at all times;

Health insurance

66. Points out that Members are entitled to free health insurance cover under Parliament's

¹ Question 5, 2002 discharge questionnaire (PE 338.137).

rules, even when national health care schemes are available to them; considers that Parliament's health insurance cover for Members should be additional to any national scheme, whether public or private, and based on market conditions; further considers that Members who choose to take part in the Parliament's scheme should be required to pay a health insurance premium; believes that a change in the rules to this effect should be introduced with effect from the beginning of the next parliamentary term;

System of advance payments

67. Considers that the existing system of advance payments, whereby Members' expenses claims are reimbursed by Parliament's Administration before the documentary evidence underlying the claim has been verified, should be replaced by a system of individual accounts into which all amounts due to and from each Member would be consolidated, and on the basis of which a single payment to Members would be made once a month;
68. Considers further that until such a system is introduced, and in order to meet the concerns of the Court of Auditors, Members' contributions to the voluntary additional pension scheme should be deducted from payments of the daily subsistence allowance rather than the general expenditure allowance;

Parliament's places of work

69. Notes that according to the answer by Parliament's Administration's to question 84 of the discharge questionnaire (PE 338.137), the annual cost to the Parliament of maintaining three places of work (Brussels, Luxembourg and Strasbourg) is as follows:

Infrastructure costs:

-	buildings	EUR	83m
-	computers and other equipment	EUR	47m

Staff costs:

-	supernumerary staff	EUR	26m
-	mission expenses	EUR	19m

Miscellaneous operating costs:

EUR 10m

TOTAL

EUR 185m

and that this amount could go up to EUR 203 m after enlargement; considers that this represents an unacceptable waste of taxpayers' money;

70. Recognises that Strasbourg was a suitable location for the Parliament when it was a much smaller Institution, and when being a Member of the European Parliament was not yet the full-time occupation it is today for most Members, but considers that it no longer is suitable; points out that access by train and air to Strasbourg has got worse, not better over the last few years, that this problem will be exacerbated after enlargement and that the difficulty of reaching Strasbourg puts particular strain on

Members and staff with young children; notes that several health and safety problems have affected the Strasbourg building in recent years; takes the view that the same considerations should apply to Luxembourg, particularly bearing in mind the number of days spent in Brussels by officials normally based in Luxembourg (10 803.5 days¹) and the property costs linked to this location;

71. Is aware of the fact that for many Members, as well as for Germany and France, Strasbourg is an important symbol of post-war reconciliation; points out that Strasbourg's role as a symbol of reconciliation is still valued but considers, that there are other, more effective ways of honouring this symbolism, for instance by turning the European Parliament's building into the first genuine pan-European university;
72. Respects the existing Treaty provisions, but considers that these must be amended in the enlarged Union for the sake of efficiency and legitimacy; recalls paragraph 53 of the above-mentioned 2001 discharge resolution, in which it called on the Convention on the Future of Europe to amend Article 289 of the EC Treaty to ensure that the European Constitution stipulates that the European Parliament and its Members can themselves decide where the seat of Parliament should be and where it wants to carry out its work; instructs its President to convey this message to the Intergovernmental Conference currently underway;
73. Points out that the vast majority of parliamentary activity already takes place in Brussels, where the other main EU Institutions are based, and that the most logical location for a single seat therefore would be Brussels; reiterates its call to the Bureau to reconsider the decision to build two additional meeting rooms in Strasbourg;
74. Calls on Parliament's Administration to continue and intensify the dialogue with local residents in the Quartier Léopold area, adjacent to the Parliament's Brussels buildings, in view of the ongoing construction work on the new D4 and D5 buildings; considers that Parliament's Administration must ensure that living conditions do not fall below an acceptable minimum as a result of the construction work, and that every effort must be made to accommodate the wishes of local residents with respect to the future configuration of, and access to, the area immediately surrounding the Parliament's buildings;

Environment

75. Asks for the comprehensive review of Parliament's internal environmental policy by the consultancy specialising in environmental management expected² to be available at the end of 2003, to be forwarded to its Committee on Budgetary Control;
76. Points out that according to the World Health Organisation exposure to tobacco causes death, disease and disability;
77. Notes the decision of the European Ombudsman of 23 January 2004 on complaint 0260/2003 against the European Parliament, which includes a finding of

¹ question 82, 2002 discharge questionnaire (PE 338.137)

² Secretary-General's reply to paragraph 112 of EP resolution of 8.4.2003.

maladministration and concludes that "the European Parliament has failed to take adequate measures to promote compliance with its internal rules on smoking in European Parliament premises";

78. Believes that the continued failure by the European Parliament to enforce non-smoking measures poses a serious health threat to all users of Parliament's buildings and could lead to significant claims for damages;
79. Takes note of the decision taken by the Commission to ban smoking throughout its buildings (including bars and restaurants) as from 1 May 2004; calls on Parliament's Administration and on the College of Quaestors to institute a ban on smoking throughout the public spaces in Parliament's buildings in the three working places with effect from 1 May 2004; takes the view that special rooms should be designated for people wishing to smoke;
80. Notes that many official documents are still being distributed to Members on paper despite their availability online; points out that in many cases, these documents are discarded without ever having been used, resulting in a huge waste of money and paper; calls on the College of Quaestors to instruct the Administration to cease the automatic and general distribution of the following types of document to the extent that they are also available online and/or can be transmitted electronically:
 - Commission documents
 - Council documents
 - DG 2 and 3 working documents and research papers
 - Session documents
 - Notices from the Quaestors, the Bureau and other official notices;
81. Asks instead for limited but sufficient numbers of these documents to be available in paper form at the document counter;
82. Calls for a system of electronic signature to be introduced, whereby a Member's signature can be applied to documents such as amendments and parliamentary questions without having to have recourse to transmission of documents on paper.

EXPLANATORY STATEMENT

1. In June 1999 a mere 50 percent of Europe's voters exercised their right to vote in the fifth direct elections to the European Parliament. In some EU Member States, such as the UK and the Netherlands, turnout fell below 30 percent. This record-low turnout can be blamed on a number of factors, such as a growing lack of interest in politics, unfamiliarity with the EU political system, a lack of clear policy differences between European party families and the feeling that the European Parliament lacked 'real power'. But the most important factor, at least in the countries of north-western Europe, was the negative way in which the European institutions in general, and the European Parliament in particular, were perceived by voters. The European Commission was forced to resign over the Cresson affair, and the European Parliament gained notoriety over the system whereby Members would sign the attendance register in Strasbourg on Friday morning only to be seen leaving the building a short while later. The perception of the European Parliament in countries such as the UK, the Netherlands and the Scandinavian countries was one of a travelling circus, wasting taxpayers' money on maintaining several places of work, and a system of expenses more geared to self-enrichment than to reimbursing costs actually incurred by Members in the exercise of their mandate.
2. While some progress has been made over the last five years in dealing with the worst excesses, not enough has been done. The core problems which caused so many voters to stay away in 1999 still exist. This report therefore focuses on these problems and how they could be solved, in the hope that Parliament will address them in time for the 2004 European elections. The European Parliament has consistently pressed the other EU Institutions to reform the way they work. The European Commission has been castigated over the problems at Eurostat, and the Committee of the Regions has been criticised for the way some of its Members have misused their travel allowances. The Parliament must now put its own house in order. This report deals with a range of issues. Below is an overview of the areas which your rapporteur considers to be in most urgent need of reform: the system of Members' expenses, and the question of the seat of Parliament.

The Members' Statute

3. Members of the European Parliament are currently paid the same salary as national Members of Parliament in their home country. This leads to huge discrepancies between MEPs. An Italian Member, for instance, earns four times as much as his/her Spanish counterpart. After enlargement, this discrepancy will become even greater. For instance, a Hungarian MEP will receive under 800 Euro per month, while an Italian is paid more than ten times as much. In order to compensate for these differences, the Parliament's generous system of expense allowances in effect provides MEPs with additional income.
4. Since 1998, the European Parliament and the EU Council of Ministers have been locked in talks on the introduction of a uniform system of pay and allowances for all MEPs, the so-called Members' Statute. In December 1998, Parliament adopted a report by German Socialist Willi Rothley, which contained an outline for such a Statute. As an interim solution, it proposed paying MEPs the average of the salaries of MPs in the 15 Member

States. But reform of the system of travel expenses was not addressed, and as a result the Council of Ministers refused - rightly - to endorse Parliament's proposal. A Council counter-proposal was rejected by Parliament in May 1999, just prior to the June 1999 European elections. Subsequent efforts to find a solution have failed. In June 2000, a 'Group of Eminent Persons' presented a report in which they recommended setting the salary of MEPs at the average of the salary paid to MEPs from the four largest Member States. They also called for the introduction of a system of reimbursement of travel expenses based on actual costs incurred and for other reforms to Parliament's expenses regime. The Group's findings were largely ignored in the proposal that was subsequently adopted by the Legal Affairs Committee and endorsed by Parliament's Conference of Presidents.

5. The key bone of contention between Parliament and Council between 2000 and 2001 was the question of taxation. Under Parliament's proposals, all MEPs would pay Community rather than national income tax. Parliament argued that this was necessary to ensure the equal treatment of all Members (even though in the United States, often taken as a basis for comparison when setting salary levels, Members of Congress pay both federal income tax and state income tax, and so end up with different net incomes), but several Member States (in particular the United Kingdom and the Nordic countries) insisted that MEPs should pay national income tax. A compromise on this issue was brokered by the Swedish and Belgian Council Presidencies, who agreed with Parliament's rapporteur that Community tax would be the standard, but that Member States who wished to do so could impose a top-up national tax.
6. In June 2003 Parliament adopted a controversial new proposal for a Statute, setting MEPs' salaries at 50 percent of that of a Judge at the European Court of Justice, introducing new clauses on parliamentary privileges and immunities and setting the retirement age for MEPs at 60. Crucially, the proposal did not include the 'Belgian compromise' on taxation. The Council made clear its opposition to several aspects of the new text, although it welcomed a proposal for reform of the expenses system, adopted by Parliament's Bureau at the end of May, which was due to enter into effect at the same time as the Statute.
7. In November 2003, as talks between the Council and the Parliament appeared to be deadlocked, Rothley announced that he had reached a compromise with the Italian Council Presidency. Parliament would make three crucial concessions, and in return the Council would adopt the Statute. The concessions consisted of the reintroduction of the tax compromise, the setting of the retirement age at 63 instead of 60, and the elimination of the provisions on Members' immunity, which would have required a change to the EU Treaty. Despite the misgivings of many - in particular at the high salary level of € 8600 - the compromise proposal was accepted by a large majority of MEPs when put to the vote in December 2003.
8. Unfortunately, that was not the view taken by the Council, where Germany took everyone by surprise by announcing its determination to vote against the proposal. A campaign by the mass newspaper Bild had apparently forced its hand, but some German MEPs also lobbied the government to vote against. Despite the strenuous efforts of the Irish Council Presidency, Germany refused to change its position and together with France, Sweden and Austria, which each had their own reasons for voting against, it

blocked the proposal.

Reforming the system of expenses

9. The adoption of a Members' Statute before the European elections is not a realistic prospect. Attention must therefore shift to reform of the system of expenses. Although it would have been preferable for the adoption of the Statute and reform of the expenses system to go hand in hand, the absence of a Statute does not discharge Parliament of its responsibility to ensure that taxpayers' money is spent in a honest and transparent manner.
10. Under the present system, Members receive the following allowances (2004 figures):

Travel allowance for travel between a Member's constituency and Parliament's places of work

In the case of a Member travelling by plane, the allowance is equal to the IATA "YY economy class unrestricted fare", plus an allowance for travel between the Member's home and the airport of € 0,33 per km, with a minimum of € 40 per return journey; plus a distance allowance starting at € 112 per return journey where the distance between the Member's home and Parliament's place of work is 501 km or more, rising to € 558 per return journey for a distance of over 2400 km. A boarding pass must be submitted as proof of travel, but not the ticket itself, and the amount reimbursed by Parliament is independent of the actual cost of travel.

11. In the case of a Member travelling by other means (car, train), the allowance is € 0,67 per km for the first 500 km of each leg of the journey, and € 0,28 for each additional kilometre. Members travelling by train must submit a train ticket as proof of travel, and Members travelling by car must submit a 'personal travel declaration'. According to the form, the declaration may be checked by Parliament's services, but in practice it never is.

Daily subsistence allowance

12. This is a flat-rate allowance of € 262 per day, intended to cover costs such as hotel, meals, taxi fares etc when a Member is present in one of Parliament's places of work. In order to receive the allowance, Members must sign either a register available in official meetings such as the plenary or committee meetings, or the central attendance register available in Brussels from Monday to Friday and in Strasbourg on Monday evenings and Fridays. The central attendance register was unsupervised until 1 March 2004, which led to complaints that the system was open to abuse. The same still goes for the attendance lists circulated to national delegations within political groups for signature by Members when they attend national delegation meetings.

General expenditure allowance

13. This is a flat-rate allowance of € 3,700 per month, intended to cover costs such as office rental, computer purchase and telephone costs in Members' constituencies. Members are at present not required to submit any evidence that the allowance has been spent in

accordance with the relevant rules. Furthermore, for Members who are members of the Parliament's voluntary additional pension fund, the Member's contribution to the Pension Fund (approximately € 900 per month) is deducted at source from the general expenditure allowance. This practice has been criticised in the past by the Court of Auditors. Parliament asks Members to ensure that the pension contribution deducted at source is replenished from their own income, but there is no mechanism to ensure that this actually happens.

Annual travel allowance

14. Members can claim up to € 3,652 each year for work-related travel outside their home country. This allowance is based on reimbursement of actual costs incurred.

Secretarial allowance

15. A monthly allowance of € 12,576 intended to cover the cost of employing one or more parliamentary assistants. The system of payments from the allowance has been criticised by the Court of Auditors and others for a lack of transparency and insufficient controls. In 2002, the Court of Auditors found errors amounting to € 175,000 in a sample of just two MEPs' payments from the secretarial allowance. According to the European Parliamentary Assistants Association (EPAA), many assistants are not covered by social security system and do not benefit from any form of insurance covering accidents during the course of their work, either in Brussels or during work-related trips. A number of assistant do not receive travel expenses for the Strasbourg sessions and many assistants reside illegally in Belgium. Over the last few years improvements to the rules have been made, the most important one being the obligation for MEPs to provide the Parliament with copies of their assistants' employment contracts as well as proof of their affiliation to social security. However, the rules still contain loopholes, in particular in relation to the use of so-called "service providers", where insufficient guarantees exist that the allowance is being used in accordance with applicable national legislation. A decision taken by the Bureau of Parliament on 8 February 2004 closes most of these loopholes.
16. The EPAA has called for the introduction of an Assistants' Statute which would give all assistants the same legal status as well as minimum terms and conditions of employment. A proposal to give assistants working in Belgium the right to choose between the social security system of their country of origin and the Belgian system has not (yet) been taken up by the Council. The same goes for a proposal to make assistants a category of 'contract staff' under the new Staff Regulations due to enter into effect on 1 May 2004, which Council rejected.

Taxi reimbursement scheme

17. In 2003, the College of Quaestors proposed, and the Bureau decided, to introduce a trial system of reimbursement of taxi expenses. Under this system, Members are entitled to the reimbursement of two taxi journeys per week, up to a maximum of € 25 per journey. The Bureau has decided to extend the trial period until the end of September 2004. Given that Parliament has an official car service available to Members, and given that Members receive a daily allowance of € 262 to cover costs such as taxi fares, there was

absolutely no need for this new allowance, the effect of which is only to increase the net income of those who make use of it.

18. Your rapporteur believes that as a general principle, expenses should be reimbursed on the basis of actual costs incurred, and that supporting evidence confirming the correct use of the allowances must be supplied. Once such a system is introduced, only one other important issue remains to be resolved: the question of the seat of Parliament.

A single seat for the European Parliament

19. Every month, the European Parliament in Brussels packs its bags and travels to Strasbourg for a four-day plenary session. According to the EU Treaty the Parliament has three places of work: Strasbourg, Brussels and Luxembourg. This arrangement was included in the Amsterdam Treaty against Parliament's will, and is opposed by a large majority of MEPs and others. There are several reasons why the working place arrangement must be changed.
20. First, it is a waste of money, and damaging to the institution's credibility. According to the European Parliament's Secretary-General's report on the cost of maintaining three places of work, the additional cost to the taxpayer will be over € 200 million per annum following enlargement. Citizens rightly ask themselves why taxpayers' money is spent on unnecessary travel costs and a building in Strasbourg that stands empty for over 300 days a year.
21. Second, the three working places arrangement causes a great deal of inefficiency of the work of the European Parliament. The constant travelling makes it difficult for MEPs to do their job properly. Strasbourg is difficult to reach, and most staff and facilities stay behind in Brussels. The European Parliament is now a full-time Parliament like every other Parliament, and an arrangement which may have worked in the early years of the Union's existence, when the Parliament was a part-time assembly, is no longer workable.
22. Finally, it seems right that like most other Parliaments, the European Parliament should be able to decide its own working arrangements. In April 2000, the Parliament voted to incorporate the following paragraph in its resolution on the Intergovernmental Conference: "In the case of the European Parliament, it shall decide by an absolute majority of its members on the location of its seat and of all its meetings."
23. Since 1999, some progress has been made. Until the end of 2000, the Parliament's monthly session in Strasbourg lasted from Monday to Friday. Experience had shown, however, that on Friday mornings there was little on the agenda, very few Members turned up, and those who did turn up often left the building almost immediately after signing. A hidden TV camera filmed this happening, with disastrous consequences for the standing of the European Parliament in several Member States. In 2000, however, Members voted by a small majority to abolish the Friday meeting in Strasbourg, resulting in a savings of 1 million Euro per annum. The decision enabled MEPs to spend the 'Strasbourg Fridays' on more useful political activities at home and in the view of many constituted the first step on the road to complete abolition of Strasbourg as the seat of the Parliament.

24. Your rapporteur believes that a move from Strasbourg to Brussels is necessary in order to restore public confidence in the European Parliament as a serious institution, and considers that Parliament's President should convey this message to the Intergovernmental Conference.