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REPORT

on the draft general budget of the European Union for the financial year 2007
as modified by the Council (all sections)
(15637/2006 – C6-0442/2006 – 2006/2018(BUD) – 2006/2018B(BUD))

and Letters of amendment Nos 1/2007 (SEC (2006)0762), 2/2007 (13886/2006
– C6-0341/2006) and 3/2007 (15636/2006 – C6-0443/2006) to the draft
general budget of the European Union for the financial year 2007

Section I	– European Parliament
Section II	– Council
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Section VIII (A)	– European Ombudsman
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Part 1 : Motion for a resolution

Committee on Budgets

Rapporteurs: James Elles (Section III – Commission)
Louis Grech (Other sections)

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Part 2 - A6-0451/2006

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the draft general budget of the European Union for the financial year 2007, as modified by the Council (all sections) (15637/2006 – C6-0442/2006 – 2006/2018(BUD) – 2006/2018B(BUD)) and Letters of amendment Nos 1/2007 (SEC(2006)0762), 2/2007 (13886/2006 – C6-0341/2006) and 3/2007 (15636/2006 - C6-0443/2006) to the draft general budget of the European Union for the financial year 2007

The European Parliament,

- having regard to Article 272 of the EC Treaty and Article 177 of the Euratom Treaty,
- having regard to Council Decision 2000/597/EC, Euratom of 29 September 2000 on the system of the European Communities' own resources¹,
- having regard to Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities²,
- having regard to the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management³,
- having regard to the Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure⁴,
- having regard to the draft general budget of the European Union for the financial year 2007, which the Council established on 14 July 2006 (C6-0299/2006),
- having regard to its resolution of 26 October 2006 on the draft general budget of the European Union for the financial year 2007, Section III – Commission (C6-0299/2006) and Letter of amendment No 1/2007 (SEC(2006)0762) to the draft general budget of the European Union for the financial year 2007⁵,
- having regard to its resolution of 26 October 2006 on the draft general budget of the European Union for the financial year 2007, Section I – European Parliament, Section II – Council, Section IV – Court of Justice, Section V – Court of Auditors, Section VI – European Economic and Social Committee, Section VII – Committee of the Regions, Section VIII (A) – European Ombudsman, Section VIII (B) – European Data Protection Supervisor (C6-0300/2006)⁶,
- having regard to Letter of amendment No 2/2007 (13886/2006 - C6-0341/2006) to the draft general budget of the European Union for the financial year 2007,
- having regard to Letter of amendment No 3/2007 (15636/2006 - C6-0443/2006) to the

¹ OJ L 253, 7.10.2000, p. 42.

² OJ L 248, 16.9.2002, p. 1.

³ OJ C 139, 14.6.2006, p.1.

⁴ OJ C 172, 18.6.1999, p. 1. Agreement as last amended by Decision 2005/708/EC of the European Parliament and of the Council (OJ L 269, 14.10.2005, p. 24).

⁵ *Texts Adopted*, P6_TA(2006)0451.

⁶ *Texts Adopted*, P6_TA(2006)0452.

draft general budget of the European Union for the financial year 2007,

- having regard to its amendments and proposed modifications of 26 October 2006 to the draft general budget¹,
 - having regard to the Council's modifications to the amendments and proposed modifications adopted by Parliament to the draft general budget (15637/2006 – C6-0442/2006);
 - having regard to the results of the conciliation of 21 November 2006 and the subsequent meeting of 28 November 2006,
 - having regard to the statement by the Council on the outcome of its deliberations on the amendments and proposed modifications adopted by Parliament to the draft general budget,
 - having regard to Rule 69 and Annex IV of its Rules of Procedure,
 - having regard to the report of the Committee on Budgets (A6-0451/2006),
- A. whereas it has followed a consistent strategy throughout its work on the 2007 budget,
- B. whereas this strategy was based on the three pillars set out in its resolution of 18 May 2006 on the 2007 budget: the Commission's Annual Policy Strategy report (APS)², namely: setting policy priorities; delivering value for money; preparing for the 2008/2009 review,
- C. whereas within this strategic framework its Committee on Budgets was able to develop, in co-operation with its other specialised committees, an enhanced set of procedures for examining the quality of EU spending, ensuring value for money and focussing EU spending on Parliament's priorities,
- D. whereas this approach highlighted the major challenges and opportunities for the European Union in relation to the ongoing process of globalisation, and raised fundamental questions about the nature of the EU's strategic partnerships with partner countries and regions around the world,
- E. whereas this clear, consistent, strategic vision delivered results for Parliament in its negotiations with the Council on Parliament's key priorities, including with regard to the Financial Regulation,
- F. whereas the results obtained on Parliament's priorities, on delivering value for money, on preparing for the review of the multi-annual financial framework (MFF) and on the Financial Regulation will bring real benefits to Europe's citizens in terms of more efficient and more effective spending and will contribute to Parliament's continuing efforts to achieve a positive statement of assurance (DAS) for EU spending,

¹ *Texts adopted*, Annex.

² *Texts adopted*, P6_TA(2006)0221.

General considerations: achieving priorities, delivering value for money, preparing for the 2008/2009 review

Achieving priorities

1. Recalls that the strategy and political priorities for Parliament's approach to the 2007 budget were set out in its abovementioned APS resolution of 18 May 2006, in particular paragraphs 5 and 6; considers that the APS resolution was therefore an essential means for setting out its strategy at an early stage in the annual budget procedure;
2. Welcomes the results which it has achieved on its broad priorities and on the key issues in negotiations with the Council in the triologue and conciliation procedure in advance of Parliament's second reading on the budget;
3. On the overall level of payments, rejects the approach taken by Council of arbitrary, across-the-board cuts in payment levels; considers that payments should be directed to those priority programmes on which efficient and effective spending can be ensured; agrees in the context of an overall deal with Council on a final level of payments of EUR 115 500 million, which equates to 0,99% of EU GNI;
4. Recalls its declaration on payments reminding that Points 12 and 13 of the IIA of 17 May 2006 set absolute amounts, representing annual ceilings on expenditure under the general budgets, in the context of the MFF; therefore, the respect of the annual ceilings fixed by the MFF 2007-2013 constitutes automatic acceptance of the rates of increase for non-compulsory expenditure in the annual budgets; reminds the Council that in case these articles are not respected, Parliament will consider this as a violation of the IIA;
5. Notes in this context that Parliament's specialised committees were modest in their demands for increased payment appropriations in the establishment of Parliament's first reading on the 2007 budget given that the main new legal bases have been agreed during the course of 2006 with a view to new EU spending programmes beginning in 2007;
6. On the overall level of commitment appropriations, notes that Parliament has taken a prudent approach in line with that of the specialised committees and has not requested the use of the flexibility instrument; sets commitment appropriations at or close to the ceilings in Annex I of the IIA of 17 May 2006 for the majority of the headings of the 2007 budget;
7. On the Common Foreign and Security Policy (CFSP), decides to restore commitment appropriations for 2007 to the level foreseen in the Preliminary Draft Budget (PDB) of EUR 159 200 000, but expects Council to implement both the spirit and the letter of the IIA of 17 May 2006 as regards CFSP spending and as confirmed in the exchange of letters between Chairmen Brok and Lewandowski and Finnish Minister Wideroos;

Delivering value for money

8. Notes the joint statement agreed with the Commission on proper budget implementation and emphasises that the overall objective of this exercise is to deliver better value for money to European citizens and to respond to the challenges which the EU faces through the best possible allocation of funds (see attached declaration);
9. Recalls its decision to place 30% of appropriations, totalling over EUR 500 million, in

reserve on nearly 40 budget lines on which Parliament has had significant concerns about the quality and level of budget implementation on the basis of a thorough examination of the available information sources; welcomes the constructive response of the Commission to the requirements set out by Parliament for the release of these reserves in its budgetary amendments; further to the response from the Commission annexed to its traditional early-November letter of executability, decides to maintain over EUR 29 million in reserve on 4 budget lines; resolves to continue to monitor closely the quality and level of implementation of spending on these lines during the course of 2007 in line with a declaration on better value for money;

10. Further welcomes the meeting of 15 November 2006 with the Commissioner for Financial Programming and Budget and the Commission Secretary-General as a strong demonstration of the Commission's commitment to the value for money approach;
11. Welcomes the recent development in one Member State to consolidate all the separate accounts where EU money is spent under shared management with a view to the subsequent auditing of these figures; considers that a review of the Court of Auditors' methodology for assessing compliance with EU financial rules through a peer review process with other comparable institutions will contribute to improvements in the Court's approach to auditing EU accounts; notes with amazement that no such peer review process has yet been completed; requests this to be done by 31 July 2007;
12. On the three new agencies (Chemicals Agency, Gender Institute and Agency on Fundamental Rights), notes the joint declarations agreed between the Parliament, Council and Commission regarding the financing and the financial programming for these agencies in the context of the IIA of 17 May 2006; regarding the existing agencies, decides to restore appropriations in the PDB but place in reserve increases above a reference amount pending a positive evaluation of the performance of the agencies against their final work programmes; notes that these evaluations should be completed in the context of a meeting with the Heads of the agencies in Spring 2007;

Preparing for the 2008/2009 review

13. Reiterates its concern that the European Union should develop a more pro-active strategy to engage with the opportunities and challenges of the ongoing process of globalisation; considers that a re-evaluation of the EU's approach to partnerships with third countries and regions is necessary in this context and that use of the term "strategic" should be reserved for the EU's most important partnerships, such as the trans-atlantic partnership with the United States of America;
14. Confirms that the political analysis as prepared by the "Temporary Committee on Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013" and the relevant resolution adopted by Parliament on 8 June 2005¹ remain the basis for the review and any possible changes of the IIA; considers that the evaluation of the effectiveness and the implementation of the new generation of multiannual programmes and instruments have to be included;

¹ OJ C 124 E, 25.5.2006, p. 373.

15. Notes that the preparatory actions adopted by Parliament as regards business and scientific exchanges with China and India are intended to signal the importance attached by Parliament to developing stronger cooperation with these rapidly developing countries;
16. Considers that a greater degree of transparency should be achieved by the Commission as regards the advantages and disadvantages of working with NGOs in delivering EU development assistance; in this light recommends that a cost-benefit analysis be carried out on the functioning of NGOs; intends to examine further the scope for a greater use of micro-credits in future EU development assistance;
17. Considers that the Commission should re-examine the nature of the EU's strategic partnerships in a report to be presented by 30 April 2007, defining in particular the meaning of the word strategic, and that this is but one example of the wider need for the European Union clearly to establish its overall policy priorities in a manner that can be effectively communicated to the citizens of Europe; notes that clear policy priorities are a pre-requisite for the allocation of budgetary resources to these priorities; highlights that in its work on the 2007 budget Parliament established its policy priorities early in the procedure and so developed an effective strategy for the 2007 budget;
18. Believes therefore that Parliament should build upon the priority-setting approach taken in the 2007 budgetary procedure, inter alia through a series of hearings on specific policy topics, to define its medium-term policy priorities; considers that, in line with paragraphs 38 to 40 of the APS resolution of 18 May 2006, this should contribute to the development by Parliament of a strategy for the 2008/2009 review;

Horizontal issues and key elements per MFF heading

Horizontal issues

19. On pilot projects and preparatory actions, notes the increased ceilings for new projects set out in the IIA of 17 May 2006 and highlights that these projects allow Parliament to indicate priority areas for developing European policies; decides therefore to propose a number of new projects broadly in line with the priorities set out in paragraph 6 of the APS resolution of 18 May 2006;
20. Notes the adoption of the Commission's Letter of amendment No 3/2007 and the elements of the Commission's Letter of amendment No 2/2007 including the provisions relating to classification concerning Hercule II and the European Globalisation Fund; rejects other elements of Letter of amendment 2/2007 and decides to introduce appropriate amounts and budget nomenclature in line with its external priorities;
21. Welcomes the agreement reached to make available an amount of EUR 500 million for the European Globalisation Fund budgeted for the year 2007; stresses that the procedure adopted for budgeting the Fund remains in conformity with the provisions of Point 28 of the IIA of 17 May 2006 and reaffirms its view that in accordance with the Agreement the order of the sources used for financing the European Globalisation Fund in a year N is the one resulting from the chronological sequence of availability of the information on margins and cancelled commitments, i.e. firstly, cancelled commitment appropriations from year N-2, secondly, margin left available in year N-1, thirdly, cancelled

commitment appropriations from year N-1; welcomes the Commission's view on this issue as expressed in the letter of the Commissioner for Financial Programming and Budget to the President of the European Parliament of 17 November 2006,

Main elements per IIA heading

Heading 1a - Competitiveness for growth and employment

22. Confirms its conviction expressed in its APS resolution of 18 May 2006 that knowledge, skills, research and development, innovation, information society technologies, and a sustainable transport and energy policy form the basis of a healthy modern economy and are essential for job creation; has therefore decided to reject the Council's approach of reductions in a number of crucial budget lines aiming at improving the competitiveness of the EU's economy; has decided to increase payment appropriations, albeit at a reduced level relative to its first reading, for priority programmes linked to the Lisbon agenda such as the Competitiveness and Innovation Programme (CIP) and the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013);
23. Is convinced that raising the EU's competitiveness is an essential element of the EU's response to the challenges of globalisation; therefore considers increases in appropriations in heading 1a to be a clear signal of the future direction that EU spending should take; recalls the need for adequate public funding to create the pump-priming effect expected of European Investment Bank cofinancing; awaits with impatience the proposals by the Commission and Council on this subject; stresses that an increase in the long-term subscribed capital would be desirable for the European Investment Fund, both to accompany the introduction of the new mandates (including the CIP) in 2007 and to finance the new technology transfer project operations, as wished by Parliament, the Council or the Commission;
24. Stresses the technological and economic significance of the Galileo programme; reminds the Commission that, taken over the period as a whole, this programme is underfinanced in the new MFF and calls on the Commission to seek promptly a workable and lasting solution in order to ensure the success of this programme;

Heading 1b - Cohesion for growth and employment

25. Notes that the appropriations for the Structural and Cohesion funds are considerably lower for the 2007-2013 MFF than had been anticipated, largely as a result of the conclusions of the December 2005 European Council; considers therefore that the appropriations in the PDB should be restored; underlines the importance of establishing and approving as quickly as possible national programmes now that the new IIA has been agreed; stresses the importance of cohesion as one of the policy priorities of the EU;

Heading 2 - Preservation and management of natural resources

26. Notes that 2007 will be the first year of full implementation of the most recent reform of the Common Agricultural Policy (CAP); rejects the cuts in compulsory expenditure adopted by the Council in its second reading; rejects the re-classification of several budget lines in the agricultural field from non-compulsory to compulsory expenditure as proposed by the Commission in its Letter of amendment No 2/2007;

27. Deplores the fact that in spite of the major needs for restructuring, modernisation and diversification of Europe's rural economy, the resources allocated to rural development are set to fall in real terms; considers that a voluntary transfer of funds from direct agricultural support (CAP "first pillar") to rural development is not the appropriate means for remedying this situation; expresses in this connection strong reservations about the current Commission proposal concerning voluntary modulation of up to 20% of direct agricultural support to rural development; calls on the Commission to conduct an impact assessment in accordance with the Interinstitutional Agreement of 16 December 2003 between the European Parliament, the Council and the Commission on better law-making¹; reiterates that Parliament still reserves its position concerning voluntary modulation and considers it would be useful to assess it together with the issue of co-financing in the context of the 2008/2009 review as expressed in Declaration No 9 of the IIA of 17 May 2006 concerning voluntary modulation;

28. Is disappointed that in spite of the major needs for appropriations for development of a dead vaccine for the Blue Tongue virus (BTV), Council refused to approve this initiative by Parliament in its second reading; welcomes however the Commission's suggestion, expressed in the letter of executability, to incorporate the development of a new vaccine for blue tongue in the Research budget under the IPA projects; emphasises that preference should be given to the development of a multivalent vaccine, which is effective against the different types of the virus;

29. Endorses and welcomes the joint declaration on Life+ agreed by Parliament, Council and Commission as regards the provision of interim financing in the event of a legislative gap arising between the beginning of 2007 and the final adoption of the legal act;

Heading 3a - Freedom, security and justice

30. Points out that the area of freedom, security and justice, and in particular the promotion of fundamental rights, the definition of a common asylum and migration policy and the fight against terrorism and organised crime, is one of the Union's key priorities;

31. Considers that integrated management of the Union's external borders is one of the objectives currently requiring urgent support; accordingly restores the PDB level of commitment appropriations for the FRONTEX agency, whilst placing some funds in reserve in line with the overall approach on agencies;

Heading 3b - Citizenship

32. Recalls the importance of the principle of subsidiarity in the field of culture, education, training and youth, and believes that respect for pluralism of opinion is the first condition for an effective communication policy in order to bring the EU closer to citizens; considers that better use can be made of new communications media to bring together European policymakers from all political opinion to share ideas; welcomes, in this context, the gratifying development of reporting by Euronews; calls on the Commission to support the broadcasting of Euronews in Arabic, so that both Arabic-speaking members of the community in the EU and people in Arabic-speaking Mediterranean countries can be more effectively reached and informed about Europe's commitment; urges the

¹ OJ C 321, 31.12.2003, p. 1.

Commission to clarify the budget implications of, and the actions to be taken under, the Plan D for Democracy Debate and Dialogue; asks the Commission to publish on the Internet the detail of allocation of subsidies (amounts and beneficiaries) for all actions;

33. Highlights the importance it attaches to effective EU communications strategies and specifically to ensuring that on-line mechanisms can be used to the fullest possible extent to facilitate the development of information and ideas linkages between European opinion-formers and stakeholders; notes in this connection the pilot project adopted on pilot information networks (PINs) to improve communication between policymakers, not least between European and national Parliamentarians, considers that this initiative should build upon existing European web portals in a manner that adds value to existing specific actions in this area;
34. Calls on the Commission to carry out a survey on the condition and the estimated cost of restoration of the churches in the northern part of Cyprus which have been desecrated, converted into mosques or damaged since the Turkish army took control of the area in 1974, in line with written declaration 21/2006 on the protection and preservation of the religious heritage in the northern part of Cyprus (adopted on 6 July 2006)¹;
35. Calls into question the quality of the information policy pursued by the Commission; requests the Commission to formally confirm its willingness to represent all institutions and their respective powers adequately;

Heading 4 - The EU as a global player

36. Believes that the EU should ensure that it has the wherewithal to act as a global player in keeping with its values; proposes the restoration of PDB figures on a number of lines and increases beyond the PDB in payments and in commitments in some areas with a view to boosting EU activities through Community programmes in the fields of foreign policy, development and humanitarian aid, and business and scientific exchanges with key emerging countries;
37. Highlights the importance of transparency in the use of the funds allocated to Iraq via the two trust funds and recalls the need to monitor closely Iraq's absorption capacity; therefore asks the Commission to provide regular information about the projects financed by the EU and the level of absorption of the funds earmarked for that country;
38. Notes that the new legal framework for the EU's external actions also implies a new budget structure; welcomes in general the simplification of instruments and the new budget nomenclature proposed with it; welcomes also the presentation of a separate instrument on Human Rights and Democracy, which requires a modification of the nomenclature of the PDB; cannot accept, however, that a number of the proposed changes reduce transparency for either sectors and/or regions and countries; has decided the necessary modifications in this respect; calls on the Commission to provide also a breakdown per activity and pre-accession country and, in the interests of transparency, a corresponding nomenclature in all corresponding budget lines; moreover, calls on the

¹ Texts Adopted on 5.9.2006, P6_TA(2006)0335.

Commission to provide a regular monitoring report to the budgetary authority on the progress of both the two new Member States and the pre-accession countries;

39. Restores appropriations for the CFSP to the level proposed in the Commission's PDB and Council's DB; underlines that it requests the Council to comply with the letter and the spirit of the IIA of 17 May 2006 as regards the CFSP in line with the exchange of letters between Chairmen Brok and Lewandowski and Minister Wideroos;
40. Notes that Parliament's second reading on the 2007 budget leaves no margin remaining under heading 4 and that increased commitments through amending budgets during the course of 2007 would therefore imply recourse to the flexibility instrument; expects to be kept fully informed on a pro-active a priori basis by the Council of the financial needs for the forthcoming Kosovo mission;

Heading 5 - Administration

41. On staffing in the EU institutions, notes that the cuts in staffing levels initially proposed by the Council will not be implemented in the 2007 budget; endorses the joint declaration with the Council on recruitment in relation with the 2004 and 2007 enlargements; welcomes the commitment from the Commission to carry out a substantive screening exercise providing a mid-term evaluation of its staff needs and a detailed report on the Commission's staffing of support and coordination functions covering all places of work by 30 April 2007;
42. Decides to release the amounts placed in reserve in its first reading for Commission staff resources on the basis of a letter from the President of the Commission accepting that all four requests of Parliament to release the reserve will be fully met; looks forward to a strategic discussion of staffing in the EU institutions during 2007 in the context of the screening exercise requested by Parliament;

Other sections of the 2007 budget

43. Notes that the budgetary increase given to "other sections" in the 2007 Budget, excluding enlargement costs, was only 1,7% over the 2006 budget; this increase constitutes only a marginal increase and reflects the increase in the inflation rate and the cost for the specific priorities of the institutions and is, in fact, significantly less than that requested in the PDB; decides to retain its original position taken in first reading by restoring EUR 10 630 000 of the EUR 28 280 000 reductions made by Council;
44. Reiterates its belief in the implementation of budgetary rigour in all on-going activities ensuring a more effective budgeting and reflecting the current real needs and priorities of the institutions; acknowledges also however that the institutions need to have the necessary tools to function and operate at a reasonably effective level thereby ensuring that the various objectives of the institutions can really be met; regrets therefore the Council's decision not to agree with Parliament's budget for the "other sections" as approved in first reading;
45. Requests that the institutions submit by 1 September of each year more informative

reports on their activities and their performance; these activity based reports are required to give more and clearer information on how successfully funds are being utilised and to justify the consumption of the budgetary amounts; this would enable the budgetary authority to monitor how and where the increase in funds is rendering the institutions more efficient;

46. Reiterates the importance of interinstitutional cooperation which, undoubtedly, can bring about benefits to the institutions involved; in this respect, considers that the joint administrative service of the European Economic and Social Committee and the Committee of the Regions is an effective and dynamic way of avoiding duplication, reducing costs and developing team spirit without reducing the quality and efficiency of the service provided; invites the two Committees to examine - by not later than July 2007 - this co-operation in the light of the co-sharing principle and with a view to taking the necessary measures to ensure that the needs of both institutions are met and that a more equitable governance of the joint service is guaranteed; recommends that an exercise relating to the evaluation of the functions and activities of the European Economic and Social Committee and the Committee of the Regions should be carried out by not later than the end of June 2007;

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47. Instructs its President to declare that the budget has been finally adopted and arrange for its publication in the Official Journal of the European Union;
48. Instructs its President to forward this resolution and the declarations annexed thereto to the Council, the Commission, the Court of Justice, the Court of Auditors, the European Economic and Social Committee, the Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor, and the other institutions and bodies concerned.

**Joint declaration on the three new agencies foreseen in the 2007 budget
in application of Point 47 of the Interinstitutional Agreement (IIA) of 17 May 2006**

The preliminary draft budget for the year 2007 foresees the financing of the following three new agencies:

- the European Chemicals Agency
- the European Gender Institute
- the European Agency on Fundamental Rights.

The European Parliament, the Council and the Commission undertake to build on this first experience with these three new agencies to further develop the procedure foreseen in Point 47 of the IIA when drawing up proposals for the creation of new agencies.

Joint declaration on the financing of the European Chemicals Agency

In May 2006, the Commission presented the first financial programming for the period 2007-2013, in accordance with Point 46 of the Interinstitutional Agreement (IIA) of 17 May 2006 on budgetary discipline and sound financial management.

On the basis of the information transmitted by the Commission on 7 November 2006, the European Parliament and the Council note that the financing of the European Chemicals Agency can be secured within the agreed expenditure ceiling of heading 1a for the period 2007-2013.

Moreover, the European Parliament and the Council note that the amendments to the legal base of the European Chemicals Agency entail a total additional expenditure of EUR 113 600 000, in the years 2008 and 2009 under heading 1a of the multi-annual financial framework 2007-2013, compared to the financial programming presented in May 2006 by the Commission and without taking into account possible redeployments within heading 1a.

Should the Commission, be it on request of the Agency or due to any other unforeseen circumstance, intend to deviate from the amounts originally deemed necessary for the financing of the Agency in the period concerned, it shall notify the budgetary authority of this intention and its effect on the remaining margin of the relevant heading of the multi-annual financial framework and indicate the re-programming.

Joint declaration on the financing of the European Gender Institute

In May 2006, the Commission presented the first financial programming for the period 2007-2013, in accordance with Point 46 of the Interinstitutional Agreement (IIA) of 17 May 2006 on budgetary discipline and sound financial management.

On the basis of the information transmitted by the Commission on 7 November 2006, the European Parliament and the Council note that the financing of the European Gender Institute can be secured within the agreed expenditure ceiling of heading 1a for the period 2007-2013.

Should the Commission, be it on request of the Institute or due to any other unforeseen circumstance, intend to deviate from the amounts originally deemed necessary for the financing of the Institute in the period concerned, it shall notify the budgetary authority of this intention and its effect on the remaining margin of the relevant heading of the multi-annual financial framework and indicate the re-programming.

Joint declaration on the financing of the European Agency on Fundamental Rights

In May 2006, the Commission presented the first financial programming for the period 2007-2013, in accordance with Point 46 of the Interinstitutional Agreement (IIA) of 17 May 2006 on budgetary discipline and sound financial management.

On the basis of the information transmitted by the Commission on 7 November 2006, the European Parliament and the Council note that the financing of the European Agency on Fundamental Rights can be secured within the agreed expenditure ceiling of heading 3a for the period 2007-2013.

Should the Commission, be it on request of the Agency or due to any other unforeseen circumstance, intend to deviate from the amounts originally deemed necessary for the financing of the Agency in the period concerned, it shall notify the budgetary authority of this intention and its effect on the remaining margin of the relevant heading of the multi-annual financial framework and indicate the re-programming.

Joint declaration on recruitment in relation with the 2004 and 2007 enlargement

The European Parliament and the Council note with great concern the delays in the selection and recruitment process relating to the 2004 enlargement, the low occupancy of posts at Middle Management level, the high ratio of permanent posts occupied by temporary agents and the lack of a sufficient number of appropriate competitions.

The European Parliament and the Council insist that all efforts should be made by the institutions and specifically by the European Personnel Selection Office (EPSO) to ensure that the necessary action is taken to rectify the situation and to speed up the whole process of filling the posts granted by the budgetary authority. The criteria should be as stipulated in Article 27 of the Staff Regulations and to arrive at the broadest possible geographical proportional basis as soon as possible.

The European Parliament and the Council intend to monitor closely the ongoing recruitment process. To this effect, they request each institution and EPSO to provide twice a year an information to the Budgetary Authority on the state of affairs regarding recruitments in relation with the 2004 and 2007 enlargement.

The European Parliament and the Council invite the Secretaries-General of the institutions to present a report on the progress made in the field as follows:

concerning the filling of the posts granted in the 2004-2006 budgets by the end of January 2007;

concerning the filling of the posts granted in 2007 by 15 June 2007 and by 31 October 2007.

Joint declaration on Life+

The European Parliament, the Council and the Commission recall the budgetary principle that the implementation of significant operational expenditure requires the prior adoption of a basic act.

At the same time, the three institutions acknowledge that, at the start of budget year 2007 some new basic acts, intended to provide the follow-up to preceding basic acts which expire at the end of 2006, may still be under consideration by the legislative authority. Nonetheless, certain actions do require fresh budgetary commitments to avoid damaging disruption in implementation and preservation of the *acquis*. Such a risk exists for certain actions for which there is already broad political agreement among the three institutions.

A particular concern has been expressed, notably by Parliament in its resolution on the first reading of the draft budget 2007, in relation to the Life+ programme, which will ensure the follow-up to its predecessor Life III and other related actions. Should a legislative gap arise between the beginning of the year 2007 and the final adoption of the legal act, the three institutions agree that an amount of up to EUR 15 million (out of an overall Life+ budget of EUR 240 million proposed in the 2007 preliminary draft budget) may be committed in the interim period for activities preparing the relay by Life+ under the best conditions, i.e. with a view to preserving the *acquis* built-up through ongoing actions in the field of the environment. Such activities whose continuation is essential for preserving continuity of the *acquis* relate notably to information systems ensuring the monitoring of EU environmental legislation, the registries underpinning the Emission Trading Scheme, scientific and external expertise preparing Commission proposals in cases where the Commission is bound by target dates, information and awareness actions.

Joint statement of the European Parliament and the Commission to ensure proper budget implementation

In the framework of the budgetary procedure the European Parliament and the Commission emphasise the need for improved value for money in the EU budget and are of the opinion that this concept must be applied on a permanent basis. The aim of this approach is to evaluate and assess the quantitative and qualitative aspects of each EU programme.

In this context, the evaluation of EU programmes should become a major element of concern for the institutions involved in the annual budgetary procedure.

The European Parliament and the Commission recall that Activity-Based Management (ABM) is to offer an integrated view of the performance and cost of the various policy areas including both operational and administrative resources.

The two Institutions agree to take the necessary steps with regard to improving the monitoring of budget implementation through a process using all available information as from January 2007 to which all committees of the European Parliament will be associated. The European Parliament undertakes to make better use of transfers and amending budgets as instruments to scrutinise budget implementation during the year in respect of Parliament's priorities and its inter-institutional prerogatives.

The results of this ongoing process will be the subject of exchange of views in each triologue foreseen in Annex II of the Interinstitutional Agreement of 17 May 2006.

This exercise aims to ensure that policies financed by the EU budget deliver better value for money to European citizens and respond to the challenges which the European Union faces through the best possible allocation of EU funds.

Declaration of the European Parliament on budgetary discipline for payments

The European Parliament recalls that Points 12 and 13 of the IIA of 17 May 2006 set absolute amounts, representing, annual ceilings on expenditure under the general budgets, in the context of the multi-annual financial framework.

Therefore, the respect of the annual ceilings fixed by the multi-annual financial framework 2007-2013 constitutes an automatic acceptance of the rates of increase for non-compulsory expenditure in the annual budgets.

If Points 12 and 13 of the IIA are not respected, the European Parliament will consider this as a violation of the IIA.

The European Parliament undertakes to implement the provisions of Points 12 and 13 of the IIA as a measure of budgetary discipline for the entire duration of the multi-annual financial framework.

EXPLANATORY STATEMENT

WORKING DOCUMENT No 16

on the main elements of Parliament's first reading

"The shifts of fortune test the reliability of friends"
Cicero

A consistent, prudent and forward-looking budget

1. At its part session of 26 October, the European Parliament voted in first reading on the 2007 draft budget adopted by the Council on 14 July. The Plenary has only marginally modified the outcome of the vote on the 1 260 amendments examined by the Committee on Budgets at its meetings of 3-5 and 10 October.

Part I. Budget 2007 - Overview

Overall figures - commitments, payments and margins

2. The Parliament voted for a first reading of € 127 335 m in commitments and € 122 016 m in payments for the EU with 27 members. This represents an increase of €1.58 billion over DB and € 0.56 billion over PDB. For commitments, the figures remain well below the ceilings per heading for the 2007 - 2013 multi-annual financial framework (MFF) set out in annex I of the 2006 IIA. Significant margins are left under each heading of the MFF (see below).
3. The overall level of payments was considered too low to meet the political challenges that the EU is facing. The Parliament therefore proposed an increase of payments to 1.04% of EU GNI. The corresponding horizontal payments increases were made on budget lines linked to EP priority programmes as per paragraph 6 of the APS resolution. The total payments level of 1.04% of EU GNI remains within the 1.06% EU GNI payments ceiling of the IIA. The first reading has an increase of € 6 324 m of non-compulsory expenditure for payment on the Council's draft budget.
4. The rapporteur considers that such an approach is prudent, consistent and forward-looking, because while respecting the ceilings fixed by the new MFF - this is the first year since 2000 that no request for flexibility is made. The 2007 Budget nevertheless sets out clear priority programmes through an increase of payments. Those programmes are, for the most part, new ones (with new legal bases starting in 2007), based on the priorities identified in paragraph 6 of the APS resolution.
5. Those priorities do not contradict EP's priorities put forward during the negotiations but allow a focus on annual priorities within the multiannual framework and to pave the way for the 2008-2009 review. Moreover, by increasing payments, Parliament has indicated its will, at least as a negotiating position, to frontload the implementation of its priorities and opened the possibility to use the means provided by the new IIA such as the legislative flexibility at a later stage of the financial period, if necessary.

	PDB	DB	EP 1st reading
1. SUSTAINABLE GROWTH	122.337.985	136.112.985	80.841.985
Competitiveness for growth and employment	121.896.489	135.671.489	80.626.489
Cohesion for growth and employment	441.496	441.496	215.496
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES	1.133.423.964	1.879.853.964	744.923.964
Of which: Market related expenditure and direct payments	1.068.993.000	1.798.993.000	
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE	98.606.000	124.660.000	38.573.200
Freedom, security and justice	65.661.000	75.305.000	17.786.200
Citizenship	32.945.000	49.355.000	20.787.000
4. THE EUROPEAN UNION AS A GLOBAL PARTNER	110.000.000	219.661.000	43.667.000
5. ADMINISTRATION	160.754.027	285.190.071	158.635.970
6. COMPENSATION	353.848	353.848	353.848
TOTAL APPROPRIATIONS FOR COMMITMENTS	1.625.475.824	2.645.831.868	1.066.995.967
TOTAL APPROPRIATIONS FOR PAYMENTS	7.495.944.590	9.253.180.634	1.850.048.034
Appropriations for payments as % of GNI	1,00%	0,98%	1,04%

Value for money

6. Following the decision of the Committee on Budgets, the Parliament amended approximately 40 budget lines, aiming to improve the value for money of EU spending towards EU citizens. In line with Article 43.1.b of the Financial Regulation¹, the committee placed over € 500 million in reserve based on an analysis of the special reports of the Court of Auditors, the Synthesis Reports on the Commission's management of funds, the Budget Forecast Alerts prepared by the Commission, and cost-benefit analyses carried out at the request of the Committee on Budgets on some specific policy areas.
7. The rapporteur considers that this is a forward-looking and prudent position because in the first year of a new financial framework with reduced ceilings compared to the initial proposals, value for money is a response to scarcity. The Parliament is willing to create a mechanism to improve the monitoring of the EU budget in future.
8. Such an approach is apparently also shared by the Commission, which has already published two Budget Forecast Alerts, and by the Council, which reduced 70 budget lines on the basis of Activity Statements with negative indications. Moreover, only 30% of the commitments and payments have been placed in reserve with very specific conditions that the Commission is invited to meet before the second reading.
9. The reserves will be lifted once the Commission has demonstrated the financial

¹ 43.1 Appropriations shall be entered in the "provisions" title:

b. "where there are serious grounds for doubting the adequacy of the appropriations or the possibility of implementing, under conditions consonant with sound financial management, the appropriations entered on the lines concerned".

effectiveness of the programmes concerned. A meeting with the rapporteurs of the specialised committees, in the presence of Commissioner Grybauskaite, is planned for 15 November, to discuss the weaknesses identified by the EP and to evaluate the Commission's answers to the conditions set down in the amendments.

Pilot projects and preparatory actions

10. A number of proposals for pilot projects and preparatory actions were adopted, taking into account the increased annual ceilings agreed in the 2006 IIA (€ 40 million for PP and 100 million for PA, of which 50 m for new ones). The projects proposed were broadly in line with the policy priorities set out in the APS resolution.
11. The rapporteur considers that the decisions taken have been forward-looking since they propose innovative ideas not covered by the new legal bases (such as cooperation between European institutes of technology, information network and business and scientific exchanges with China and India in view to strengthen EU's capacity to face globalisation) and prudent because they fully respect the double new ceilings imposed by the MFF for PP-APS and for the various headings themselves.

Agencies

12. For existing agencies, the general approach was to restore appropriations of the PDB and to place increases above a reference amount in reserve, pending a positive evaluation of the performance of the agency against its final work programme. As regards the new agencies (Chemicals Agency, Gender Institute, Fundamental Rights Agency), the appropriations entered in the draft budget were deleted given that no legal base yet exists for these agencies.
13. According to Article 47 of the MFF, "a timely agreement must be found between the two arms of the budgetary authority on the financing of new agencies". The rapporteur considers that the deletion of appropriations is prudent in absence of a legal base (under the codecision procedure for two agencies) and is also consistent with the provisions of the IIA.

Administrative expenditure

14. 10% of appropriations (CA and PA) for administrative management directly linked to programme spending was transferred directly to the related spending lines on a horizontal basis. By limiting increases for administrative spending on specific programmes, this decision is consistent with a value for money approach and with the will to accelerate operationality of the new programmes.
15. The approach is prudent and forward-looking. 10% of commitments and payments in reserve for a limited number of lines and should contribute to frontloading the new programmes.

Commission staff

16. The Committee on Budgets decided to restore the PDB (organigramme), to allow the proper functioning of the Commission and particularly the launching of the new generation of programmes. It entered 50 mio in reserve with four conditions to be fulfilled by the Commission, notably:
- an evaluation of Commission staff needs at mid-term (before April 2007) and proposals to redeploy staff according to the priorities of the new IIA
 - a commitment to lay down a calendar and procedure matching the legislative work programme and the budgetary priorities
 - the presentation of a joint programme on simplification of the EU's regulatory environment
 - the presentation of a follow-up report on the implementation of EU legislation in the Member States.
17. The rapporteur considers that 50 mio. in reserve is a prudent approach since the amount represents only 3.3% of the overall PDB requirements. The committee has left a margin of 158.6 mio. under the ceiling of heading 5, which should be also considered as a sign of prudence by the Council.

The EU as a global partner

18. The rapporteur considers that by leaving a margin of € 43.7 mio under the ceiling of heading 4 and not recommending the mobilisation of the flexibility instrument for the first time since the year 2000, the Parliament has taken a prudent approach, while the decisions taken for the funding of the various instruments, highlight the EP's priorities in the area of external actions. Furthermore, the Parliament has transferred € 14 mio. for EU Special Representatives to the Commission delegations to ensure adequate control over the appointments of the EUSR as well as the methods for assessing their performance.
19. As for the overall amount for CPSP is concerned, the EP has taken a position which is consistent with the constraints and the expectations of Article 42 of the IIA.

Part II. Specific policy areas

Heading 1a: COMPETITIVENESS FOR GROWTH AND EMPLOYMENT

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
7.889.525.685	7.429.368.579	8.796.103.511	6.943.524.511	8.782.328.511	6.767.676.511	8.837.373.511	9.541.467.311

20. Heading 1a was one of the main priorities during the EP's first reading. As expressed in the APS resolution this heading is crucial for achieving the Lisbon goals. Payments were increased for the Competitive and Innovation Programme (CIP) and the 7th Framework Programme for Research. This should contribute to a quick and efficient implementation from the very start of these multi-annual programmes.
21. There were a number of "value for money" amendments under this heading. This related partly to the fact that shared contract costs under the Framework Programme for Research cannot always be completely and accurately verified by the Commission.

30% of the appropriations for the different parts of certain specific research programmes (such as Ideas, Cooperation, Capacities and Euratom) were placed in reserve. The Commission was asked to come up with proposals on how to avoid the above-mentioned problem in relation to the upcoming 7th Framework Programme for Research. A pilot project on co-operation between European Institutes of Technology was also proposed. This might represent an alternative approach to that of the European Institute of Technology. The European Parliament also acknowledged the need for a proper functioning of the internal gas market.

22. Payment appropriations for the Lifelong Learning programme were increased significantly over the PDB level. The appropriations for the European Centre for the Development of Vocational Training have been brought back to the PDB level, with part of them put into reserve until clarification of the need for increased credits as compared to 2006.
23. As concerns the expenditure in the field of employment policy, increased payment appropriations were proposed for the European Social Fund. An increase over the PDB level was also proposed for European Employment Services EURES (2 million EUR). Payment appropriations for the social programme "Progress" have been increased in line with the priorities laid down in the APS. Appropriations for information and training measures for workers' organisations have been increased above PDB.

Heading 1b: COHESION FOR GROWTH AND EMPLOYMENT

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
39.617.755.634	31.732.440.496	45.486.558.504	37.790.265.808	45.486.558.504	37.365.265.808	45.486.784.504	39.898.996.407

24. In the field of cohesion and regional policy the EP has mainly restored the appropriations foreseen in the PDB as suggested by the Regional Affairs Committee. The main reason for this was that the appropriations for the structural and cohesion funds are considerably lower for the 2007-2013 MFF than had been anticipated in advance of the December 2005 European Council. The EP also decided to increase payment appropriations for budget lines linked to the ERDF in line with its political priorities. This should contribute to a speedy implementation of the new multi-annual programmes that will start in 2007.

Heading 2: PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
56.550.657.356	55.439.470.941	57.217.576.036	55.683.381.736	56.471.146.036	54.895.811.736	57.606.076.036	56.154.937.736

25. On planned agricultural spending, most of the amendments concerned compulsory expenditure, on which the Council has the final say in the second reading. For all lines on which the Council proposed a cut, the PDB was restored, in line with amendments adopted by the EP's agricultural committee. Concerning distribution of fruits and

vegetables, help to less favoured people, advertising measures and animal welfare, the EP voted for amounts beyond the PDB.

26. In line with its concerns about the Commission proposal on voluntary modulation, which the EP is likely to reject at the November plenary, 20 per cent of planned commitment appropriations on line 05 04 05 01 were placed in reserve. The key concerns of the Parliament are whether the relevant distinctions between compulsory and non-compulsory expenditure are being respected and the extent to which the proposed approach on voluntary modulation might affect the calculation of the maximum rate of increase. The response of the Commission and Council is sought on both points.
27. On environment policy, the amendments voted in general restore the PDB. There are two exceptions. For LIFE +, payments were increased far beyond PDB level (€ 181 million) in line with the amendments on priority programmes and with a view to improving implementation rates. For the Environment Agency the PDB was restored but amounts beyond a reference amount were placed into the reserve in line with the general approach on agencies set out above.
28. Finally, a new pilot project on forest protection and conservation was established (line 07 03 11). The amount of EUR 3 million in commitments would be dedicated to monitoring of the effects of atmospheric pollution on forests, monitoring and preventing forest fires and the collection of information and data on forest ecosystems.

Heading 3a: FREEDOM, SECURITY AND JUSTICE

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
549.395.000	533.358.000	571.339.000	426.989.000	561.695.000	400.145.000	619.213.800	477.063.800

29. The amendments in general follow the approach taken by the LIBE committee. The reserves concern mainly the Schengen Information System (SIS II) and the Visa Information System (VIS). There are also some implementation problems identified regarding the European Refugee Fund, where a value for money amendment has been proposed linked to the Budgetary Forecast alert. As regards the new agency on Fundamental Rights, Parliament proposes to delete the appropriations in light of the fact that no legal base yet exists and Article 47 of the new IIA should apply to find an agreement with the Council on the financing of the new agencies.
30. The PDB was restored for all the main programmes where the Council had made its cuts. For the Frontex Agency the appropriations were substantially increased beyond PDB (+ 12.8 mio in CA and PA to a total of 34 mio) with these increases going in the reserve. Increases on the PDB were adopted for the External Borders Fund and for "integration of third -country nationals" (+7.6 mio in CA and 10 mio in PA to a total of 170 mio for CA and 87.5 mio for PA). Pilot and preparatory schemes were proposed for "Solidarity in action" (migration management) for € 15 m, and for setting up of an anti-terror database, for which € 5 m in commitments was proposed. The creation of a new European Agency for Migration and Asylum was rejected.

Heading 3b: CITIZENSHIP

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
612.137.589	625.011.453	603.055.000	679.632.652	586.645.000	648.042.652	615.213.000	708.163.152

31. A significant increase, particularly in terms of payments, was voted for the priorities within the "Education and Culture" policy area, namely for the programmes Citizens for Europe and Youth in Action, as well as for Multimedia Actions, Special Annual Events and the European Year of Intercultural Dialogue. Operational expenditure has been increased by means of reducing the administrative expenditure for the rapid response and preparedness instrument for major emergencies, as well as for the appropriations for the visits to the Commission. Within heading 3b "Citizenship" the Parliament adopted proposals for three pilot projects on "Pilot Information Networks", which aims at increasing the networking of information between opinion formers in the EU, and on European political foundations and the "EuroGlobe".
32. Moreover the Plan D for Democracy, Dialogue and Debate has been strengthened by restoring the PDB and the inclusion of different new initiatives to better involve local media and to support the activities proposed by the political foundations and the European Fund for Journalism. An amount of 1.5 mio was included for the financing of the 50th anniversary of the Treaty of Rome as part of the contribution for the financing of the 2007 "Europalia".

Heading 4: THE EU AS A GLOBAL PARTNER

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
8.171.771.538	8.410.291.458	6.468.000.000	7.447.469.578	6.358.339.000	7.261.521.578	6.534.333.000	7.834.413.378

33. Contrary to the last few years, Parliament voted a 1st reading below the ceiling established by the multi-annual financial framework (MFF). This was done against the backdrop of the very recent adoption in May 2006 of the new IIA, which sets the ceilings for the 2007 - 2013 MFF, and some indications from the Commission that major new financing needs (possibly Kosovo and Lebanon) were likely only to become an issue as regards the 2008 budget.
34. The approach taken by the committee to increasing payments and commitments in heading 4 was driven by the priorities set out in the APS resolution as well as by amendments proposed in the relevant specialised committees and by political groups. As such, it was intended to maintain a geographical and thematic balance between priorities. On spending on partner countries in Asia, Afghanistan was split out and given a separate line. Commitment appropriations for Afghanistan were set at €100 m. The offsetting reduction for the Asia line was only €70 m. As such, the committee proposed a net increase over the PDB figure of € 30 m.
35. In addition to some changes to the budget nomenclature, aimed primarily at increasing the transparency of the allocation of funds following the provisions to involve EP as set out in paragraph 42 of the IIA, Parliament proposed to reduce expenditure on the common foreign and security policy (CFSP) by € 86,6 million. This was achieved by a 50% horizontal cut and the transfer of the amount foreseen for the EU Special

Representatives (14 mio) to the Commission delegations. Although the IIA requires a minimum level of CFSP expenditure in 2007 of the level agreed for 2006 of € 102,4 m, this approach opens up a negotiation with the Council as regards the direction of funds in heading 4.

36. A number of pilot and preparatory projects were proposed including two for business and scientific exchanges with China and India.
37. In view of clarifying the administrative costs of the EU's external programmes and requesting clear explanations and justifications from the Commission, a 30% reserve was approved on a number of lines for administrative expenditure in this area.

Heading 5: ADMINISTRATION

Budget 2006		Preliminary Draft Budget 2007		Draft Budget Council 1st reading		EP 1st Reading	
Commitments	Payments	Commitments	Payments	Commitments	Payments	Commitments	Payments
6.603.523.817	6.603.523.817	6.954.245.973	6.954.145.973	6.829.809.929	6.829.709.929	6.956.364.030	6.956.264.030

38. The two key issues on administrative resources as regards the Commission's budget are the establishment plan and the European personnel selection office (EPSO).
39. In its first reading, Parliament decided not to endorse the strategy initiated by the Council on July 14 2006 to delete half of the posts due to become vacant in the course of 2008. Parliament thus voted to restore the establishment plan of the Commission as per the Preliminary Draft Budget. This corresponds specifically to the restoration of the establishment plan of OLAF, OIB and OIL. It was however decided to place €50 m in reserve. The conditions for release relate to: a commitment by the Commission to carry out a screening exercise on its real staff needs; an improved procedure for submission of the annual legislative and work programme; an agreement between the Commission and Parliament of a joint programme on the simplification of the Union's regulatory environment; a report on the Commission's follow-up to the implementation of EU law in Member States.
40. Parliament also decided in order to improve the efficiency of EPSO to enter 50% of the Draft Budget's appropriation in reserve. To release this appropriation EPSO has to address a report to the budgetary authority on changes to its working methods.
41. On studies, one single amendment was adopted which regrouped ideas that had been proposed across the various headings of the budget in a number of amendments with a total amount of 15 mio in CA and in PA.
42. On the other institutions, contrary to the Council, which made across the board cuts in the budgets of all of the institutions, Parliament chose to take into consideration the real needs of each institution and to limit the increase of their budgets accordingly. This rule has been applied to all institutions, including the Parliament's budget, but with the exception of the Council's budget due to the gentleman's agreement. As a consequence of this approach, the increase of the budget for the "other sections" has been limited to as 1.19% compared to the Draft Budget of the Council.

43. The Plenary has endorsed all amendments proposed by the BUDG committee with the exception of the Parliament's budget where two amendments were rejected. Therefore the budget for the institutions has been set up as summarised in the table below:

	PDB 2007 (1)	DB 2007 (2)	EP 1st reading (3)	EP first reading vs PDB - (1) - (3)
Parliament	1.377.700.000		1.397.460.174	
Council	613.057.000	593.528.212	593.528.212	-19.528.788
Court of Justice	282.694.000	267.585.990	272.219.390	-10.474.610
CoA	122.451.000	117.500.271	121.080.000	-1.371.000
E.S.C	115.961.121	111.165.227	114.719.124	-3.266.779
CoR	69.416.197	66.520.009	67.099.232	-2.316.965
Ombudsman	8.252.800	8.003.447	8.252.800	-100.000
EDPS	5.080.699	4.796.880	4.955.726	-124.973
TOTAL	603.855.817	575.571.824	586.201.490	

WORKING DOCUMENT No 17

on taking forward the value for money approach: Future budgetary procedures

*"Never discourage anyone who continually makes progress, no matter how slow",
Plato (427-347 BC)*

1. BACKGROUND

Multi-annual financial framework and annual budgets:

Almost two years after the proposals presented by the Commission on 14 July 2004 to the 1999-2006 Financial perspective, the Inter-Institutional Agreement on Budgetary discipline and sound financial management and the Financial Framework 2007-2013 have been agreed on 17 May 2006.

After eight months of deliberations within a temporary committee specifically set up to conduct an in depth analysis of the needs in order to identify the political priorities for the seven coming years, and after four months of intensive negotiations on the basis of respective positions, an agreement was found between the institutions on 4 April 2006. This agreement was the only realistic compromise Parliament could achieve. "The unresolved deficits were to be addressed in the context of the 2008-2009 review and, when possible, in the course of the annual budgetary procedures¹".

In his working document No 1, the rapporteur for the 2007 budget had underlined the need to compensate the weaknesses and scarcities of the new MFF by a more effective use of the spending. The rapporteur is of the opinion that a better use of the appropriations made available within the ceilings set up by the MFF should be added to serve the Parliament's priorities and to meet the expectations of the citizens.

The multi-annual financial framework is not a multi-annual budget. Therefore, clear priorities were identified in the context of the report on the Annual Policy Strategy for 2007, adopted with a huge majority. These priorities (listed in paragraph 6 of the report) were obviously consistent with the global priorities set up by the Parliament in the negotiations of the MFF but allowed for the prioritization of policies in an annual context.

The APS report laid down three main elements linked together: policy setting, value for money and beginning preparing the review. These elements were also part of the EP's strategy in the negotiations of the MFF: adequate means for policy requirements appropriate instruments and reforms to improve implementation. Following the EP first reading on the 2007 Draft Budget:

- Priorities have been identified through an increase of payment appropriations for a number of programmes, indicating the EP's will to accelerate their implementation.
- Weaknesses have been identified for a number of other programmes and appropriations entered in reserve pending clarification by the Commission to

¹ A6-0150/2006 - Böge report on the Inter-institutional agreement and budgetary discipline and sound financial management.

- ensure an effective implementation and value for money of EU funding.
- These two elements should be taken on board for the preparation of the 2008-2009 review.

2. THE EXPERIENCE OF BUDGET 2007

One of the hallmarks of the 2007 budget is the concept of value for money. In shaping this concept, a variety of innovative elements have been added to the standard budget procedure with a view to improving the effectiveness of EU spending and ensuring better value for money for the citizens.

- This approach has been developed on a number of sources of information available, to detect budget lines which are difficult to implement from either a quantitative or qualitative point of view.
- The **Budget Forecast Alert** documents. The Commission has launched a new "Budget Forecast Alert System" with an attempt to develop a proactive procedure to follow-up of the monthly forecasts and to identify and address the reasons for delays in the implementation of the budget. The first document was issued mid-July and the second mid-October.
- The **Synthesis Report** for the year 2005 submitted by the Commission as required by the Financial Regulation;
- The **Court of Auditors' special reports**, which, according to the Treaty, contribute to the work of the budgetary control committee for the preparation of the discharge procedure, as well as the recommendations of the 2004 discharge.

Other elements were initiated during the 2007 budgetary procedure, notably the organisation of policy hearings and the commissioning of cost benefit analyses.

- **Policy hearings:** If the Parliament is to play an effective role across all EU spending, there needs to be a reinforced working link between the specialised committees, the Committee on Budgets and the Committee on Budgetary Control. Such a link fosters understanding of policy topics and the development of shared goals and strategies. A means to help evolve a common Parliamentary strategy is to conduct policy hearings on topics of interest. This was done in May and June 2006 on external and internal policy issues respectively. The hearings brought together members from the various EP committees, Commission and Council representatives and external experts. Such hearings form a useful element of policy formulation for the EP at an early stage of future annual budget procedures and should be more extensively used (see working document 18).
- **Cost benefit analysis:** One of the key innovations of the work on the 2007 budget was the production of a number of cost-benefit studies on specific policy areas. The topics chosen were in large measure linked to the policy hearings. The majority of the studies were conducted by outside experts using funds available to the committee on budgets and so contributed to the scrutiny that the Parliament is able to apply to EU spending.

On the basis of the quantitative and qualitative state of the Budget implementation, the European Parliament has entered 30% of commitment and payment appropriations in reserve on 40 lines for an amount of approximately € 500 mio. until the Commission provides clarification for the weaknesses which have been identified. In the framework of a special joint hearing (Committee on Budgets and Committee on Budgetary Control) foreseen on 15th November, before the EP's second reading, the Commission will present their justifications. The budgetary rapporteurs of the specialised committees have also been invited to attend.

- Following this hearing, the Committee on Budgets will evaluate the level of guarantee of sound financial management and specific use of appropriations provided by the Commission and will make proposals for the EP's second reading with the view to release the reserves.

3. PROPOSALS TO TAKE FORWARD THE VALUE FOR MONEY APPROACH IN FUTURE BUDGETARY PROVISIONS

Following the interest shown by the Institutions concerned, the rapporteur considers that a process should be set up on a regular basis. The different phases should be in line with the annual budgetary and discharge procedures, taking into account the experience of the 2007 budgetary procedure. A possible annual procedure is attached in Annex I.

In the context of the 2007 budgetary procedure, the rapporteur suggests that there should be an interinstitutional declaration based on the July draft declaration (see Annex II).

4. OUTLINE FOR AN INTERNAL PROCESS WITHIN THE EP

With this in mind, the contents of paragraph 59 should be noted. It reads as follows¹:

[The European Parliament]

59. *Notes the improvement in monitoring of the implementation of the EU budget in its budgetary vote; asks the relevant committees to examine the setting-up of the structure and a procedure to carry out the implementation assessment exercise for 2007 with the specialised committees; in this way it will also help to prepare for the budget review in 2008-2009; asks the Secretary-General to facilitate the logistics (rooms and interpretation) to organise regular monitoring meetings according to the priorities that will be defined by the committees concerned;*

To implement such an annual procedure, there will need to be close cooperation between the Committee on Budgets and the Committee on Budgetary Control.

It will be of paramount importance that these committees with specific responsibilities in this field should remain within the framework set out in the Annex VI of the Rules of Procedure which set out clear competences for each committee.

Set out below are some initial thoughts by the general rapporteur with regard to:

a) the aim

¹ Resolution on the Draft general budget for 2007 (sections I, II, IV, V, VI, VII and VIII), P6_TA-PROV(2006)0452

- b) the composition
- c) the documents

envisaged for such a process. This reflection is subject to Cocobu's agreement and assessments of the Working document entitled *Strengthening the functions of the Committee on Budgetary Control: Possible key questions for the workshop on 21 November 2006* (PE 380.725).

a) What is the aim?

- Establish a mechanism to evaluate on an annual basis the effectiveness of specific programmes
- Improvement of management of budget lines and possibly leading to elimination of weak programmes by involving all those concerned in the decision-making process

b) What could be the composition of the monitoring?

- The two Chairs, or a delegated Vice Chair
- The General Rapporteur for Budget year N and N+1
- The rapporteurs for discharge for year N-1 and N-2
- A representative (or two) per political group
- The members of specialised committees

c) Which sources of documents can be used?

- *Quantitative aspects*
 - Weekly tables on implementation and RAL
 - Implementation profiles and Budget Forecast Alerts
- *Qualitative aspects*
 - Budgetary and discharge resolutions
 - Court of Auditors reports
 - Activity Statements
 - Synthesis reports
 - Annual Activity Reports
 - Cost benefit Analysis (external /internal studies)

4. TOWARDS THE REVIEW

The introduction of such an annual procedure will no doubt help in the prioritization of future actions as well as give confidence to European citizens that they are getting value for money.

POSSIBLE ANNUAL PROCEDURE

Phase I Setting the framework

March	APS resolution
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April	Discharge resolution for year n-2
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Phase II Analysis and evaluation

Sources of information include:

March	Annual Activity Reports year n-1
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May	Activity statements year n+1 Analysis of Financial Management year n-1
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June	Synthesis Report year n-1
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July	Budget forecast alert year n Joint BUDG-CONT hearings with specialised committees on possible weak programmes and joint working document
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May-July	Cost-benefit analyses
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Phase III Initial decision (July - October)

July	Council 1st reading
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September	Presentation of budget amendments based on analyses and evaluation in phase II
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October	EP first reading decision on budget amendments (and possible reserves)
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Phase IV Assessment and final decision

November	Joint BUDG-CONT hearing with specialised committees in presence of Commission and assessment on the use of reserves
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December	Adoption of budget year n+1
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**Draft Joint declaration of the European Parliament,
the Council and the Commission
on value for money
in the context of the annual budget procedure**

The three institutions agree on the need to improve real value for money. In this context the evaluation of EU programmes should become a central part of the annual budgetary procedure.

The aim of this evaluation is to assess the quantitative and the qualitative aspects of each programme. In so doing, the points below should be noted:

- The quantitative aspect of this evaluation will be based upon the Budgetary Forecast Alert submitted twice yearly by the Commission to the Budgetary Authority.
- The qualitative aspects will be assessed by the activity statements provided by the Commission, as well as cost benefit analyses on specific EU programmes coordinated between the institutions.

The three institutions agree that they will take specific decisions on further steps in this regard by end November 2006.

Brussels, 11 July 2006.

WORKING DOCUMENT No 18

on policy priorities and towards the 2008/2009 review

"The empires of the future are the empires of the mind"
Sir Winston Churchill (1874 - 1965)

Introduction

1. The European Parliament has followed a consistent approach in its work on the 2007 budget. The three pillars of the approach were: (i) setting policy priorities; (ii) ensuring value for money and; (iii) preparing for the 2008/ 2009 review of the 2007 - 2013 multi-annual financial framework (MFF). Parliament's first reading of the 2007 budget was adopted in plenary on 26 October.

2. The rapporteur has produced two working documents following Parliament's first reading of the budget. The rapporteur's working document 16 sets out the main elements of the first reading, with a clear emphasis on the priority policies of Parliament. His working document 17 focuses on achieving value for money in the EU budget and the innovative elements that have been introduced into Parliament's work on the 2007 budget in this regard. This third working document following Parliament's first reading, number 18, looks at how the Parliament can take forward its approach to the 2007 budget and use it to prepare for the forthcoming review of the MFF.

3. The structure of the working document is the following. Firstly, it briefly summarises Parliament's priorities. Secondly, it looks at the scope for re-allocating funds within the existing financial constraints of the 2007 - 2013 MFF. Thirdly, it looks at tools and mechanisms for building consensus around a strategic approach to the forthcoming negotiations on the review of the MFF.

A - What are Parliament's priorities?

4. Parliament's priorities were set out clearly in paragraph 6 of the 18 May 2006 resolution on the Commission's Annual Policy strategy. These priorities build upon the policies that Parliament emphasised in the negotiations leading to the agreement of the May 2006 IIA. They are the following:

External Relations - the EU's role in a globalised world

- Partnership/Cooperation agreements;
- European Neighbourhood Policy and Pre-accession instruments;
- Development Policy, Democratisation and Human Rights, Millennium Development Goals;
- Common Foreign and Security Policy (CFSP);

The Security, Freedom and Solidarity dimension (both external and internal)

- External, e.g. energy security, prevention, preparation for and management of the consequences of terrorist threats;
- Internal, e.g. immigration policies aimed at integration of third-country nationals, solidarity in border management, security and protection of freedoms;
- Cohesion;

Internal Policies

- Lisbon Objectives (Growth, Employment, Expertise, Transport, Research and Innovation);
- Environment and Rural Development;
- Citizens (including Culture and Youth) and communication;
- Adequacy of objectives and resources in terms of European public administration, including the agencies;

5. The major themes are as follows. First, as underlined in the APS resolution, is the insufficient response of the EU to the challenges of globalisation that it faces. This was highlighted by the focus on external policies of the hearing conducted by the Committee on Budgets on 30 May 2006. The second theme concerns policies intended to improve the competitiveness of the EU economy through research and innovation. The third is security policy in both the internal and external sense. Migration, a key issue for many EU member states, is linked to this. The fourth theme concerns citizens, cohesion and communication policy.

6. These priorities were operationalised in the Parliament's first reading through a horizontal approach to increasing payment appropriations that focused on programmes linked to these priorities.

7. For the first time since 2000, the Parliament took a prudent approach and did not request the use of the flexibility instrument (see below for further details). This is linked to the rather conservative amendments to the 2007 draft budget proposed by the specialised committees of the European Parliament. This conservative approach in turn is, to a significant degree, driven by the fact that the financial envelopes for the spending programmes for 2007 - 2013 have, for the most part, only been agreed during 2006. The specialised committees of the Parliament may therefore be waiting to make a first assessment of spending under these programmes that will begin in 2007 before proposing major changes to levels of spending. In this connection, the rapporteur notes that the adoption of a new Financial Regulation is essential to allowing spending on specific programmes to begin in a timely manner.

B - How can funds be re-allocated towards EP priorities?

**** Budgetary instruments***

8. Annex I of the 17 May 2006 IIA sets annual ceilings for commitment appropriations for each of the headings into which EU spending is divided. These annual commitments ceilings are derived from overall figures for the full 2007 - 2013 financial programming period.

Annex I also sets annual ceilings for payments across the whole budget, without sub-divisions per MFF heading.

9. Spending on specific programmes is typically decided within multi-annual envelopes that are negotiated by the Commission, Council and Parliament. The multi-annual envelopes provide some flexibility for appropriations in any given budget year within the programming period depending on spending capabilities and needs in that area. The envelopes must fit within the overall ceilings agreed in the IIA.

10. The Parliament has emphasised that the ceilings of the 2007 - 2013 MFF, which essentially derive from the outcome of the December 2005 European Council, are insufficient to allow the EU to meet the challenges that it is facing. Paragraph 2 of Parliament's decision on the conclusion of an interinstitutional agreement on budgetary discipline and sound financial management (P6_TA-PROV(2006)0210):

"Recalls that it rejected the European Council's conclusions of December 2005 ... considering that they do not provide the EU with the quantitative and qualitative means to face future challenges..."

11. The key point that the rapporteur has emphasised consistently in his work on the 2007 budget is that value for money and effective spending can only be achieved within these limited ceilings by focusing spending on priorities. This may mean reducing spending on areas that are not priorities or on which spending is shown to be ineffective.

12. Nonetheless, the annual budget procedure of course gives Parliament the final say on all non-compulsory expenditure in the budget within the overall limits of the IIA. Within this significant flexibility to focus spending on its priorities, there are two specific tools foreseen in the IIA.

13. First, article 27 of the IIA refers to the **Flexibility Instrument**.

"The Flexibility Instrument with an annual ceiling of EUR 200 million (current prices) is intended to allow the financing, for a given financial year and up to the amount indicated, of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more other headings".

14. Agreement is required from both arms of the budgetary authority at a conciliation in order for the flexibility instrument to be used. The flexibility instrument is therefore *inter alia* a tool that may highlight areas of the budget for which (it is considered that) the monies available may be inadequate.

15. The second tool available is that of so-called **legislative flexibility**. According to paragraph 37 of the IIA:

"The budgetary authority and the Commission, when it draws up the preliminary draft budget, undertake not to depart by more than 5% from that amount for the entire duration of the programme concerned, unless, new, objective, long-term circumstances arise for which explicit and precise reasons are given, with account being taken of the results obtained from implementing the programme, in particular on the basis of assessments".

16. This text is somewhat different from that of the previous IIA. Legislative flexibility as such has not been used in preparing the 2007 budget. There is, however, clearly scope for

Parliament to use this tool to focus spending on its priorities. Potentially this might be done by increasing spending on priority programmes and decreasing it on non-priority programmes or in areas in which spending is deemed to be inefficient and/ or ineffective.

*** *The value for money approach***

17. Working document 17 focuses on the value for money approach taken by Parliament in preparing the 2007 budget. It is important to note also in this working document that Parliament placed over € 500 m in reserve (this equates to "*entering appropriations in the provisions title*" in the language of article 43 of the Financial Regulation) in its first reading on budget lines on which it had concerns about the value for money of planned spending. Use was therefore made by Parliament this year of a further tool for re-allocating funds.

18. Finally, article 43.2 of the Financial Regulation states that:

"In the event of serious implementation difficulties, the Commission may propose, in the course of a financial year, that appropriations be transferred to the 'provisions' title..."

19. This provides a further mechanism through which failing programmes may be highlighted and ultimately lead to the reduction of appropriations if serious implementation difficulties occur.

*** *Mid-term evaluation***

20. A further important point to take into account concerns work with Parliament's specialised committees. The legislative acts implementing the multi-annual spending programmes each contain clauses foreseeing mid-term evaluations of spending under these programmes. These evaluations should be conducted by the Commission. Active monitoring by and involvement in this evaluation exercise by the specialised committees should allow this work to contribute to Parliament establishing its own priorities for the review of the MFF and ensuring that these priorities are taken fully into account.

C- Elements for building a Parliamentary strategy towards the review

21. This working document has so far set out Parliament's budgetary priorities and the tools available to it to for re-allocating spending in light of the constraints on EU. In the rapporteur's view, by making use of the instruments available to it, Parliament can begin to put together a strategic approach to the forthcoming 2008/ 2009 review of the MFF.

22. A key element of such an approach is effective co-ordination between the specialised committees and the budgets committee and/ or dedicated temporary committees that are directly involved in the negotiations on behalf of Parliament. The series of meetings of budget rapporteurs across the specialised committees that have been held in preparing the 2007 budget are an example of the kind of approach that can help to ensure a common approach of Parliament. In addition to the instruments set out above, your rapporteur would like to emphasise the potential contribution of policy hearings to the establishment of a Parliamentary strategy. The committee on budgets held two such hearings in May and June 2006, on external and internal aspects, respectively. As noted above, working document 17 sets out some of the rapporteur's ideas in more detail as regards mechanisms to improve value for money in the EU budget.

23. The topics for such putative hearings would need to be agreed in the light of developments, but the rapporteur considers that the priorities set out in paragraph 6 of the APS resolution provide a good point of departure. In line with the approach taken by the budgets committee in its preliminary work on the 2007 budget, he further considers that external challenges should, to a greater extent than hitherto, drive internal priorities. The review should offer to the EU the chance to reform and face up to the real opportunities and challenges of globalisation.

24. Not all of the issues relevant for the forthcoming review can be handled by COBU alone. The involvement of Parliament's specialised committees would be of significant value in future work on these issues.

25. The list below sets out a number of topics that the rapporteur considers to be important topics for hearings that would help to prepare Parliament's position for the review of the MFF:

- Strategic partnerships with partner countries/ regions
- External aid and outsourcing to external/ international bodies
- Development financing and use of micro-credits
- Migration and security policy
- Energy security/ bio-fuels
- Research and innovation
- Skills, training, education
- Trans-European Networks
- Information and communication policy

PROCEDURE

Title	Draft general budget of the European Union for the financial year 2007 as modified by the Council (all sections)		
References	15637/2006 – C6-0442/2065 – 2006/2018(BUD) - 2006/2018B(BUD)		
Legal basis	Articles 272 EC and 177 Euratom		
Basis in Rules of Procedure	Rule 69 and Annex IV		
Committee responsible Date of referral	BUDG		
Rapporteur(s) Date appointed	James Elles (Section III) 11.1.2006	Louis Grech (Other Sections) 11.1.2006	
Previous rapporteur(s)			
Date of Parliament's first reading	26.10.2006		
Date of Council's deliberations Date of result forwarded	30.11.2006 0.0.0000		
Letters of amendment	1/2007	2/2007	3/2007
Conciliation meetings	21.11.2006		
Discussed in committee	5.12.2006		
Date adopted	6.12.2006		
Result of final vote	for: unanimity	32	
	against:	0	
	abstentions:	0	
Members present for the final vote	Laima Liucija Andrikienė, Richard James Ashworth, Simon Busuttil, Gérard Deprez, Valdis Dombrovskis, Brigitte Douay, James Elles, Salvador Garriga Polledo, Ingeborg Gräßle, Louis Grech, Catherine Guy-Quint, Ville Itälä, Anne E. Jensen, Alain Lamassoure, Janusz Lewandowski, Vladimír Maňka, Jan Mulder, Gérard Onesta, Giovanni Pittella, Anders Samuelsen, László Surján, Helga Trüpel, Kyösti Virrankoski, Ralf Walter		
Substitutes present for the final vote	Alfred Gomolka, Constanze Angela Krehl, Albert Jan Maat, Mairead McGuinness, Peter Šťastný		
Substitutes under Rule 178(2) present for the final vote	Panayiotis Demetriou		
Substitutes under Rule 183(3) present for the final vote	Rosa Miguélez Ramos, Joseph Muscat		
Date tabled	7.12.2006		
Comments (available in one language only)			