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*Committee on Budgets*

## ***2005 BUDGETARY PROCEDURE***

17 August 2004

## **WORKING DOCUMENT**

on a review of the 2005 Activity Statements

Committee on Budgets

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## **1. Activity Based Budgeting - its origins, principles and implications**

The incongruity between the process leading to the identification of (new) policy priorities and the decisions on the allocation of financial and staffing resources is generally recognised as one of the causes of the mismanagement which dogged the Santer Administration. The subsequent reform of the Commission, carried out by President Prodi and Vice-president Kinnock, aimed at achieving greater efficiency, accountability and transparency in the allocation of staff and financial means. The objective was:

- to identify clearly the cost of policies, i.e. the resources required for the achievement of a given policy objective,
- to ensure that resources were allocated and managed in keeping with political priorities, and
- to assess the extent to which policy objectives were achieved.

The new management approach (known as Activity Based Management - ABM) required, as a first step, a survey of all the undertakings carried out by the Commission and their reorganisation into 'activities', i.e. actions corresponding to a policy objective and falling under the responsibility of a Commission department/unit. The Commission thus identified 221 different activities which were organised into 30 policy areas.

The next step was to ensure that these activities were properly resourced, both in staffing and financial terms. Before the reform the Commission's budget was divided into two parts. Part A included all administrative expenditure (regardless of the policy area concerned) whilst Part B listed all operational expenditure (i.e. money used to finance policies). This made it difficult to identify at a glance the overall resources allocated to a given policy area. The Commission thus suggested regrouping expenditure by type of activity. The new approach, called Activity Based Budgeting (ABB), made it easier to assess the overall cost of policies and allocate financial and staffing resources required for carrying out certain activities.

As a complement to this new approach, which was applied for the first time last year, the Commission reviewed the information it provided to Parliament and Council in the course of the budgetary procedure and devised a new type of document, called Activity Statements. These documents are intended to provide information on the type of activity financed, the rationale for EU intervention, past performance, current and future targets, results of evaluation activities and follow-up given to them. For the Commission *"these Activity Statements contain the main justification element of the Preliminary Draft Budget for 2005, focusing on performance information at the Activity level, in contrast with the previous practice based on input-related information at the budget article or item level (i.e. budget line). This shift in the budgeting approach is central to the application of Activity Based Management in the Commission"*<sup>1</sup>.

The last two sentences are crucial to understand what is actually at stake. The Commission wishes to change the nature of the budgetary debate. Council and Parliament should concentrate on defining, jointly with the Commission, the overall political priorities, assessing the impact these new priorities have on current activities and the objectives pursued by them,

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<sup>1</sup> Preliminary Draft General Budget of the European Commission for the Financial Year 2005-Working Document Part 1 - Activity Statements, page 3.

and granting (or reallocating) resources accordingly. The financial endowment of individual actions (i.e. budget items) should follow naturally from this process.

This policy-orientated approach is welcome. It helps the budgetary authority allocate resources in keeping with jointly identified political priorities. Parliament's political priorities, however, cannot always be defined at activity level. For example, whilst agreeing that "Common Immigration and Asylum Policies" (Activity 18 03) are a priority, Parliament might still want to decide which of the instruments under this activity should take precedence and modify their funding accordingly. It might also decide to launch new initiatives within this area to pursue objectives which, it feels, are not duly taken into account by the Commission. In short, it is unavoidable and indeed appropriate that Parliament should continue to focus on individual actions (i.e. individual budget items) in the course of the budgetary debate. In order to do this, Parliament requires information of a more specific nature. By continuing to publish, in a separate document, the financial statements, i.e. detailed data on individual budget lines, the Commission recognises this need.

## **2. The purpose of the Activity Statements**

In its Working Document titled "Expenditure Analysis by Policy Area" the Commission recalls that *"Activity Statements ... constitute the main instrument for linking performance information for all Commission's Activities and resources needed ... Objectives, indicators, outputs and outcomes are provided in these documents, thus connecting the Annual Activity Reports for 2003, Annual Management Plans for 2004 and the political orientations given in the Annual Policy Strategy for 2005 with the resources required in the PDB and with evaluation information"*<sup>1</sup>.

The Commission is aware of the fact that the overall quality of the statements drawn up in view of the adoption of the 2004 Budget was not satisfactory. It thus undertook *"a substantial effort in improving the Activity Statements attached to the 2005 PDB, in order to render them more useful in the budgetary procedure. In this context, a selective approach has been agreed with the Budgetary Authority that begins with thirty-three important activities ... this year ... In turn, the Council and the European Parliament are welcome to provide feedback on the quality of the selected Activity Statements and on their usefulness for the budget procedure."*<sup>2</sup>.

## **3. The Activity Statements and the 2005 budgetary debate**

In response to the initiative launched by the Commission, the Budgetary Committee of the Council agreed to carry out a detailed assessment of the quality of a selected number of activity statements. The outcome of this work should become available early in September.

It would seem appropriate to carry out a similar exercise in the Parliament. Thus the Commission would have feedback from both arms of the budgetary authority and take the needs of both Council and Parliament into account when submitting the next version of the Activity Statements.

The purpose of the present working document is precisely to provide an initial evaluation, from the point of view of the General Rapporteur, of the Activity Statements. For practical

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<sup>1</sup> SEC(2004)456, page 4

<sup>2</sup> Loc. cit.

reasons, the assessment focused on a limited number of activity areas, notably:

- 02 02 - Encouraging Entrepreneurship
- 06 03 - Trans-European Networks
- 07 03 - Environmental Programmes and Projects
- 08 06 - Sustainable Development, Global Change and Ecosystems
- 15 02 - Education
- 17 02 - Consumer Policy
- 18 03 - Common Immigration and Asylum Policies
- 19 04 - European Initiative for Democracy and Human Rights

#### **4. Evaluation method**

As pointed out, the Activity Statements are intended to justify the resources requested by the Commission in its 2005 Preliminary Draft Budget. The ultimate criterion by which these documents should be assessed is their relevance for the budgetary debate.

What kind of information is required by the budgetary authority? First of all there should be a concise but thorough description of the activity concerned and of the rationale behind the EU intervention. Secondly, the use and impact of the resources allocated for the previous year should be described in clear and concrete terms. Thirdly, the performance targets set for the current year need to be defined in a concise but precise fashion. Fourthly and crucially, one needs to highlight the changes intervened since the adoption of the last budget and their consequences for the actions, the objectives and the resources planned for the forthcoming year.

The structure of the Activity Statements reflects these concerns. It foresees 5 sections: one provides budgetary information for the budget items falling under the activity in question, the second describes the nature of EU intervention and its justification, the third lists the "specific objectives, indicators, outputs and outcomes of the activity", the fourth justifies the level of appropriations requested for the forthcoming year and the last one focuses on the evaluation studies carried out in a given area and the follow-up given to their conclusions.

The question arises whether the type of information provided under the above headings is relevant from a budgetary point of view. If the AS are to provide the link between policy objectives and the financial resources and staff allocated to a given area, they should collate all data relating to the activity in question which have a direct or indirect **budgetary impact**. They should also lay down **measurable** targets against which performance and outcomes can be assessed.

This information is not just for the Committee on Budgets. Committees responsible for sectoral policies can use it as a benchmark against which they can assess whether the Commission has achieved the objectives laid down in its (legislative) work programme.

#### **5. Detailed assessment of the Activity Statements**

##### *Part 3 (description and justification of EU intervention)*

This section should recall the relevant Treaty articles and secondary legislation justifying EU intervention. A synthetic and systematic reference to all relevant legal acts (together with duration and financial endowment in the case of multiannual actions) and the different

actions/initiatives/bodies financed on that basis would be extremely useful. A specific reference to pilot projects and preparatory actions, to which Parliament attaches great importance, would also be appropriate.

The reality is somewhat different. The description of the activity and its objectives is often extremely general and even self-evident. The text is unnecessarily long whilst lacking the practical information (legal bases, legal acts, duration, financial endowment, main beneficiaries etc.) which is of interest for the budgetary procedure.

Furthermore, it rarely establishes a link between the justification of EU intervention and the outcome of evaluation activities (covered by Part 6). Clearly, EU intervention makes sense only if it achieves efficiently and effectively the objectives it pursues.

*Part 4 (specific objectives, indicators, outputs and outcomes of the activity)*

This section is perhaps the most difficult one to fill in. The subtle, indeed perhaps too subtle, distinction between outputs and outcomes further complicates the exercise and increases the risk of terminological confusion. What is crucial for Parliament is that there is a **straightforward correspondence** between **objectives/targets** which the unit intends (or intended) to pursue, the **indicators** chosen to measure the degree of achievement of such objectives and the actual **results** achieved.

The overall impression is that there remains some confusion with regard to the nature of the objectives, indicators and outputs which should be listed in the Activity Statements. This section often resembles a work programme. The information provided is of undoubted political interest but has little if no direct bearing on the budgetary procedure.

The degree of detail reached by certain DGs with regard to their outputs, is rarely matched by a clear indication of what were the original targets. Without this information it is impossible to judge whether the objectives have been achieved fully, in part or not at all. Consequently it is difficult to say whether the resources allocated were adequate or not and whether they were used efficiently or not. **Targets and their indicators** must therefore be **measurable** and their **implications in terms of staffing and financial resources** spelled out. They must also be relevant for the achievement of the general policy objectives pursued; the two, however, should not be confused with one another - too often one finds general policy objectives put forward as specific targets for the year in question.

It is interesting to note that the financial statements often provide quantified targets. Your rapporteur is not totally convinced of the need to have two separate documents (i.e. Activity Statements and Financial Statements) dealing with related matters and would urge the Commission to **examine further ways of better integrating or at least systematically cross-referencing the two**.

Greater continuity should be established between the objectives, indicators and outputs chosen for the three years of reference. Very often the structure used differs considerably from one year to another. It thus becomes problematic to assess the performance of a given unit over the years.

Rather than repeating medium/long-term targets which do not vary from one year to another, attention should be paid to new developments and their consequences for the objectives

pursued during the reference year.

Finally, DGs often fail to lay down **implementation targets** with regard the management of multiannual programmes. How can Parliament ascertain whether the means foreseen by the Commission are appropriate if it does not know what is the implementation profile of the programme? True, such information can be obtained elsewhere, but should not the Activity Statements be a compendium of all information which is relevant for the budgetary procedure?

*Part 5 (justification of proposed variation in appropriations in year 2005)*

This part is of critical importance for the budgetary authority. It should contain detailed information about changes in priorities, new legal obligations (or expiry of existing one) and other factors which justify (changes in) the level of resources requested for 2005.

Unfortunately the 2005 Activity Statements are rather disappointing in this respect. There is no systematic comparison between the 2004 and 2005 targets nor are the changes between the two reference years always translated in budgetary terms (i.e. increase/decrease of appropriations). Major cuts or increases go without explanation and the reader is forced to consult other documents (e.g. implementation reports, financial statements) to understand the rationale behind the proposal. This situation is clearly unsatisfactory. If the Activity Statements are to become "*the main justification element of the Preliminary Draft Budget*"<sup>1</sup>, the quality of this section must improve considerably.

*Part 6 - Evaluation and follow-up*

The description of the evaluations carried out should always be matched by a specific reference to the follow-up measures adopted or envisaged. In theory, the outcome of the evaluation exercises conducted by the relevant DG should be integrated into the annual objectives, i.e. used to reorientate, where appropriate, or reinforce certain actions under the activity in question. The Activity Statements should reflect this.

Greater attention should be paid to the evaluation of pilot projects and preparatory actions since it is only on the basis of such information that Parliament can decide on the future of these initiatives.

*Administrative support*

The overall allocation of staff in line with political priorities is an issue which Parliament is bound to consider in the course of the budgetary procedure. This information is not adequately provided in the Activity Statement. An interesting example is title 07 (Environment). The Commission emphasises that from 2005 it will shift the focus of its activities from law-making to monitoring implementation of environmental legislation. However, all we know from the Activity Statements is the number of staff allocated to a given activity in 2003. A comparison between 2003/2004/2005<sup>21</sup> is available only for the whole DG and not for a specific activity. It is therefore impossible to know whether, within DG Environment, staff will be reallocated to new priorities, nor do we know which units will be consequently downsized. This type of information should be integrated in future Activity

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<sup>1</sup> See footnote 1 on page 2.

<sup>2</sup> Preliminary Draft General Budget of the European Commission for the Financial Year 2005-Working Document Part 1 - Activity Statements, page 3.

Statements.

## **6. Conclusions**

The quality of Activity Statements has considerably improved since last year. However, further efforts need to be made to focus more on information with direct budgetary relevance.

The Activity Statements should not duplicate information (mission statements, overall policy objectives etc.) available elsewhere. They should be concise and structured in a clear and readable way.

They should provide

- systematic reference to all relevant legal acts and the different actions/initiatives/bodies financed on that basis, including pilot projects and preparatory actions,
- evidential support for the justification of EU intervention (e.g. the outcome of evaluation studies),
- measurable targets,
- indication of the resulting staffing and financial requirements,
- corresponding indicators and outputs (including implementation outputs for multiannual programmes).

Provided the above conditions are fulfilled, the Activity Statements provide a useful working tool for all committees of the European Parliament. These can use the information available in the Statements as a benchmark against which they assess whether the Commission has achieved the objectives laid down in its (legislative) work programme and make proposals for the allocation of resources in the following financial year.

In this context, the Activity Statements could become a useful tool for the organisation of Monitoring Groups, i.e. informal working parties gathering MEPs from the Committee on Budgets and other committees concerned and representatives of DG BUDG and the relevant Directorate(s) General of the Commission whose purpose is to monitor the implementation of specific activities and discuss the budgetary impact of recent policy developments in a given area.

Ways should be found better to integrate data provided in the Activity Statements and those available in the Financial Statements.

The section dealing with the n+1 year (i.e. the year to which the budgetary procedure relates) should be further developed. It should justify in detail (changes in) the level of appropriations proposed for the year in question.

Finally, the statements should indicate the number of staff allocated to a given activity over the three years of reference and justify it.