



EUROPEAN PARLIAMENT

2009 - 2014

Plenary sitting

A7-0068/2014

30.1.2014

REPORT

on the evaluation of the Union's finances based on the results achieved: a new tool for the European Commission's improved discharge procedure (2013/2172(INI))

Committee on Budgetary Control

Rapporteur: Michael Theurer

CONTENTS

	Page
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
EXPLANATORY STATEMENT	7
RESULT OF FINAL VOTE IN COMMITTEE.....	14

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the evaluation of the Union's finances based on the results achieved: a new tool for the European Commission's improved discharge procedure (2013/2172(INI))

The European Parliament,

- having regard to Articles 318 and 319 of the Treaty on the Functioning of the European Union (TFEU),
 - having regard to the evaluation reports adopted by the Commission in 2012 and 2013 (COM(2012)0040, COM(2012)0675 and COM(2013)0461),
 - having regard to Rule 48 of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control (A7-0068/2014),
- A. whereas evaluation is a tool aimed at identifying and understanding the results and impact of a process and identifying alternatives to help in decision-making which would lead to further improvement of that process;
- B. whereas auditing is not to be confused with evaluation, evaluation being up to the management authorities while auditing is the responsibility of auditing bodies;
- C. whereas evaluation of results and performance auditing rely on the objectives laid down at the earliest stage at the programming level;
- D. whereas in his June 2011 presentation of the Commission's draft for the new multiannual financial framework, President Barroso called for budgetary decisions to be made 'not through traditional headings driven by bureaucracy but in terms of facts and goals [...] to make the most out of every euro spent';
- E. whereas, despite the Commission's commitment to performance, activity-based budgeting is still the fundamental principle in drafting the Union's budget;
- F. whereas on 3 July 2013 Parliament asked the Commission to set up a working group comprising representatives of the Commission, Parliament, the Council and the Court of Auditors to examine measures aimed at implementing a performance-based budget and developing a scheduled action plan to this end;
1. Points out that, thanks to its focus on the Union's finances on the basis of the results achieved, the evaluation report introduced under Article 318 TFEU complements the compliance approach developed by the Court of Auditors in Chapters 1 to 9 of its annual report and gives Parliament the opportunity to exercise more effectively its power of political scrutiny over the actions of the European public authorities;
 2. Recalls that the discharge is a political procedure which focuses on the implementation of the European Union budget by the Commission under its own responsibility and in

cooperation with the Member States;

3. Recalls that on 17 April 2013 Parliament urged the Commission to modify the structure of the Article 318 evaluation report, ‘distinguishing the internal policies from the external ones and focussing, within the section relating to internal policies, on the Europe 2020 strategy [...] plac[ing] the emphasis on the progress made in the achievement of the flagship initiatives’¹;
4. Recalls also that the interinstitutional agreement accompanying the Multiannual Financial Framework (MFF) 2014-2020 specifies that ‘the Commission will distinguish the internal policies, focused on the Europe 2020 strategy, from the external ones and will use more performance information, including performance audit results, to evaluate the EU’s finances based on the results achieved’;
5. Points out that activity-based budgeting is still the fundamental principle when drafting the budget of the Union; is worried by the fact that the Court of Auditors, in its 2012 annual report, concludes that for many areas of the EU budget the legislative framework is complex and that there is insufficient focus on performance, and regrets that the proposals on agriculture and cohesion for the 2014–2020 programming period remain fundamentally input-based (expenditure oriented) and, therefore, still focused on compliance with the rules rather than on performance;
6. Welcomes the fact that in its last report on the evaluation of the Union’s finances based on the results achieved (COM(2013)0461) the Commission took on board several recommendations made by Parliament in its decisions to grant discharge;
7. Deplores, nevertheless, the fact that instead of focusing on the achievement of the Union’s main objectives, and the effectiveness of its policies, the Commission provided a range of evaluation summaries covering EU programmes in all policy areas of expenditure under the current MFF, according to the current budget headings;
8. Points out that the Court of Auditors has assessed the second and third evaluation reports and has come to the conclusion that, while there have been improvements, the reports do not yet provide evidence of what the EU’s policies have achieved that is sufficient, relevant and reliable enough to be used in the discharge procedure;
9. Urges the Commission to use specific information on the achievements of the Member States in its evaluation on the financial achievements of the Union;
10. Insists that the evaluation report on financial performance should not produce another set of partial evaluations, whether they be carried out at mid-term or at the end of the programming period;
11. Points out that the budgetary authority needs, annually, a clear view of the real extent to which the Union’s main objectives have been achieved, to be provided by, in a first step,

¹ See Parliament’s decision on ‘discharge in respect of the implementation of the general budget of the European Union for the financial year 2011, Section III – Commission and executive agencies’, Texts adopted, P7_TA(2013)0122.

an evaluation of the main financial programmes and, in a second step, a cross-cutting evaluation, by programme statements of operational expenditures¹, assessing to what extent the programmes have contributed to achieving the objectives of the Europe 2020 strategy;

12. Considers that the Commission evaluation should serve as a source of information and inspiration for the Court of Auditors; asks the Court to audit the Commission's evaluation process annually, to report on it to Parliament in its annual report and to take it into account when defining its performance audit programme;
13. Calls on the Court to report to Parliament on the progress made by the Commission in designing and operating its risk management, governance and internal control processes with a view to achieving the Union's objectives in a transparent and accountable manner, and to formulate recommendations if any shortcomings are encountered;
14. Welcomes the action plan for the development of the Article 318 evaluation report, as set out in the staff working document accompanying the Commission's last evaluation report (SWD(2013)0229), and, in particular, appreciates the fact that the Article 318 evaluation report incorporates performance information from the management plans, the annual activity reports and the synthesis report, as requested by Parliament in 2013;
15. Welcomes, also, the fact that the Commission intends to structure and base its evaluation report on the new performance framework for the next MFF;
16. Points out that such a performance framework should encompass the following three main elements: achievement of the programme objectives (results), sound programme management by the Commission and the Member States, and how programme results and sound management contribute to the Union's main objectives;
17. Emphasises that this performance evaluation can only be carried out in areas where the EU exercises real political responsibility and where it can actually exert significant influence;
18. Insists on the need to aggregate the data yielded by the evaluation process at global level and, as regards internal policies, in relation to Europe 2020 objectives;
19. Calls on the Commission to submit to it and to the Council the evaluation report on the Union's finances based on the results achieved, as provided for in the second paragraph of Article 318 TFEU, before 30 June of the year following the financial year which is the subject of the evaluation;

*

* *

20. Instructs its President to forward this resolution to the Commission, the Council and the Court of Auditors of the European Union, and to arrange for its publication in the Official

¹ See 'Draft General Budget of the European Commission for the financial year 2014: Working Document Part I – Programme Statements of operational expenditures', COM(2013)0450, June 2013.

Journal of the European Union (L series).

EXPLANATORY STATEMENT

Introduction

The Treaty on the Functioning of the European Union (TFEU) has added a new instrument to the toolbox of budgetary discharge: the evaluation of the finances of the Union based on the results achieved. Pursuant to Article 318 of the Treaty the Commission shall prepare an annual report in this respect.

Since it focuses on financial performance this evaluation report complements the compliance approach developed by the European Court of Auditors in the chapters 1 to 9 of its annual report. It offers to the European Parliament the opportunity to assess policy achievements and the legality of financial transactions. This shift will also facilitate the transition from activity based budgeting to performance based budgeting.

1. The two pillars of the EC discharge: compliance and performance

The main purpose of the discharge procedure is to check whether European Union funds have been managed correctly, and to ascertain, each year, that all the Union's revenue and expenditure, the resulting balance and the assets and liabilities of the Union are shown in the balance sheet¹.

Pursuant Article 287 of the Treaty the Court of Auditors shall examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound. In doing so, it shall report in particular on any cases of irregularity.

- The audit of revenue shall be carried out on the basis both of the amounts established as due and the amounts actually paid to the Union.
- The audit of expenditure shall be carried out on the basis both of commitments undertaken and payments made.

The Parliament's decision to grant, to postpone or to refuse the discharge is primarily, although not exclusively, based on the audit of the European Court of Auditors which examines the reliability of the accounts and the legality and regularity of the underlying transactions;

But when granting the discharge the Parliament has not only to evaluate the regularity but also the performance of the financial management in the European Union.

The Parliament also examines the annual report drafted by the Commission on the Union's finances on the basis of the results achieved (the performance of the Union), and the special reports adopted by the Court of Auditors which focuses on the sound management in different sectors or policies. As those reports concern the implementation of the principles of economy,

¹ The budget discharge is governed by Articles 319, 318, 317 and 287§ 1 of the TFEU supplemented by the Regulation on the Financial Rules applicable to the General Budget (Regulation 966/2012 of The European Parliament and the Council of 25 October 2012).

efficiency and effectiveness, they systematically trigger a debate on whether the actors in European policies have the means and instruments at their disposal to meet the objectives defined by the political bodies of the Union.

2. The difference between audit and evaluation

Audit and evaluation are both concepts used for assessing products and performance and are equally important to an organisation. However, they are significantly different from one another.

Evaluation is a learning tool since it is always carried out in the middle or at the end of the process. It is all about identifying and understanding the results and impacts of a process, and about identifying alternatives to help in decision-making which would lead to further improvement of the process. Being a management tool it is up to the Commission to make the best use of it.

Audit may be defined as an independent assurance activity designed with an objective to add value and improve the functioning and operations of a particular organisation. It is performed in order to improve the control and governance processes in an organisation and also to check the efficiency of risk management.

Evaluation of the financial performance of the Union is not to be confused with performance auditing; evaluation is up to the Commission while external auditing is the responsibility of the Court. Evaluation of the results and performance auditing rely on the objectives as set at the earliest instance at the planning level.

Accountability is essential to both exercises. The evaluation questions whether results are obtained or not and what are the reasons behind the success or failure of the considered process.

Audit focuses on the success of the operations, programme and management framework and its appropriateness and provides assurance for management practices in the organisations respecting the principle of efficiency, effectiveness and economy.

3. Activity based budgeting versus performance based budgeting

By definition activity based budgeting is a method of budgeting based on activities and using cost driver data in the budget-setting and variance feedback processes. In this context activities are essential as they drive costs. If we can control the causes (drivers) of costs, then costs should be better managed and understood.

The Kinnock reforms of the early 2000s introduced activity-based budgeting and activity-based management, activity reports signed by Authorising Officers by Delegation and the reform of internal audit as well as accrual accounting. The main idea behind these reforms was to develop a clear hierarchy from political objectives, to resources dedicated for the activities to achieve them, and down to performance indicators to control the achievement. But the reality on the ground is very different.

First of all, even though the Commission rearranged the budget along activities in 2003/2004,

this classification mainly followed the organisational structure of the administration and maintained a great number of budget lines. Furthermore, objectives for the activities are still not really part of the budgetary debate but are presented in separate activity statements (see also the Programme Statements of operational expenditure for 2014). Finally the new structure of the budget was not fully aligned to the Multi annual Financial Framework (MFF). Each heading of the MFF contains various activities and many single activities are spread across several MFF headings. Consequently, negotiations in the EP and the Council, revolve around margins under the MFF headings and did not ‘penetrate very deeply into the world of ABB objectives, performance indicators and measured results (EP, 2007:3).’

In December 2010, several heads of state from within the European Union sent a letter to Mr Barroso stating that *‘[t]he challenge for the European Union in the coming years will not be to spend more, but to spend better.’*

In his presentation of the Commission’s draft for the new MFF in June 2011, Mr Barroso reacted to this demand by asking to make budgetary decisions *‘not through traditional headings driven by bureaucracy and constituency but in terms of facts and goals [...] to make the most out of every Euro spent.’*

Since then the Commission renewed its commitment to performance and to result based budgeting. The new MFF principles focus on delivering key policy priorities, added value, on impacts and results. Pursuant Art 30§ 3 of the new Financial Regulation specific, measurable, achievable, relevant and timed objectives shall be set for all sectors of activity covered by the budget. The new legal bases of the proposals for the new policies were accompanied by objectives and indicators.

4. Performance based budgeting

Despite those achievements and commitments to performance activity based budgeting is still the fundamental principle when drafting the budget of the Union.

Nevertheless recent developments took place in the field of budgetary control that speed up this new trend towards performance.

For the first time in 2013 the Parliament guided the Commission on how it has to design its evaluation report on the financial performance of the Union as foreseen by article 318 of the TFEU. The Parliament linked the financial performance with the political objectives of the Union.

On 3 July 2013 Parliament asked the Commission to set up a working group composed of representatives of the Commission, the Parliament, the Council and the Court of Auditors to examine measures to implement a performance-based budget and develop a scheduled action plan in this regard.

A relatively strict definition is that performance-based budgeting allocates resources based on the achievement of specific, measurable outcomes (Fielding Smith 1999). It indicates that a goal or a set of goals should be achieved at a given level of spending. It identifies the relationships between money and results, as well as explaining how those relationships are created. This definition offers a rational, mechanistic link between performance measures and

resource allocations, with the ability to state the level of outputs that can be achieved with an additional amount of resources.

Evaluation has a key role to play in performance budgeting in particular when performance budgeting is accompanied by incentives or by alternative budget principles which oblige the budgetary authority to annually re-examine the accuracy of the measured outputs.

5. The article 318 TFEU evaluation report: early experiences and guidance given by the EP and in the IIA MFF

The first evaluation report relating to the financial year 2010 (COM(2012)0040) was considered by the Court of Auditors and the Parliament as a first experience. Nevertheless they regretted the excessively limited scope of it. The second one: the 2011 evaluation report (COM(2012)0675) used 118 evaluations completed in 2011 as the main source of performance related information and summarised evaluation results on the financial programmes for each budget heading issues.

Guidance given by the European Parliament

In its resolution adopted on 17 April 2013 on the EC discharge the Parliament recognised certain progress but regretted, nevertheless, that this report provided only summaries of various evaluations relating to different programmes and covering divergent timeframes, without any comprehensive assessment of the results achieved in 2011 by the Commission when pursuing its policies.

The Parliament asked the Commission to develop a new culture of performance, defining in their management plan a number of targets and indicators meeting the requirements of the Court of Auditors in terms of relevance, comparability and reliability; in their annual activity reports, the services should measure their performance in summarising the results achieved when contributing to the main policies pursued by the Commission; this ‘departmental’ performance should be complemented by a global evaluation of the performance of the Commission in the evaluation report provided for by Article 318 TFEU.

In conclusion the Parliament urged the Commission to modify the structure of the abovementioned evaluation report, distinguishing the internal policies from the external ones and focussing, within the section relating to internal policies, on the Europe 2020 strategy as being the main policy objective of the Union; the Commission should place the emphasis on the progress made in the achievement of the flagship initiatives¹.

Inter institutional agreement accompanying the Multi annual Financial Framework 2014-2020

¹ **The main objectives of the Union: the EU 2020 Strategy:**

The Europe 2020 strategy, launched by President Barroso in 2010, is the main project of the Commission, aimed at delivering growth that is smart, sustainable and inclusive; this strategy is focused on five ambitious goals, measured by quantified targets in the areas of employment, innovation, education, poverty and climate/energy.

The Union growth and jobs strategy is not based on activities led by each individual DG but encompasses seven cross-cutting flagships initiatives which are implemented each time by several directorates-general resulting into challenges concerning coordination and cooperation within the Commission.

The IIA MFF specifies that “with regard to the evaluation report foreseen by Article 318 which the Commission will distinguish the internal policies, focused on the Europe 2020 Strategy, from the external ones and will use more performance information including performance audit results to evaluate the EU’s finances based on the results achieved”;

6. The structure of the article 318 report: budget headlines versus flagship initiatives 2012

- 6.1. In its last report on the evaluation of the Union’s finances based on the results achieved (COM(2013)0461) the Commission took on board several recommendations made by the Parliament in its resolutions accompanying the decision to grant the discharge.

In particular the report is now published significantly earlier in the year than the 2010 and 2011 reports to align better with the adoption of the Synthesis Report and to ensure that it is available to the Discharge authority in view of the discharge procedure for the reported year.

The report also distinguishes between the external programmes and the other ones as requested by the Parliament and makes the link between the programmes and the EU 2020 strategy objectives.

- 6.2. But instead of focussing on the achievement of the main objectives of the Union the last report of the Commission covered EU programmes from all EU policy areas of expenditure of the current MFF following the current budget headings. Furthermore the Commission announces already that it will describe the framework for performance reporting to the end of the next MFF that results from the co-legislative work on the legal instruments for the next generation of programmes.

No doubt that these evaluations by sector would be very useful but it has to be pointed out that one of the reasons for rarely using facts and results in the budgetary debate is precisely a lack of analytical capacity and political will to learn from the past rather than discussing the future. Each year, the Commission produces tenth of thousands of pages of activity statements, management plans, activity reports without consistent and conclusive summaries.

The report on financial performance should not produce another set of partial evaluations made, be it at midterm or in the end of the programming period.

The budgetary authority needs a clear view of the real achievements of the main objectives of the Union and those are by nature cross cutting the budget headings.

From this point of view the Commission should take the objectives seriously that it has itself defined for smart, sustainable and inclusive growth. Furthermore it has to be noted that in its document (COM(2013)0450) relating to the Programme Statements of operational expenditure evaluation for 2014 the Commission itself estimates that Euro 80 018,4 Million, 57,6% of the total Draft budget, is linked to the Europe 2020 Strategy. These resources are split by flagship initiatives as

follows¹

So instead of gathering partial evaluations of the different programmes by Budget headings the Commission should choose a different approach and focus primarily on the achievement of the EU 2020 objectives and in particular on the flagship initiatives. As they aim to achieve global objectives in combining different programmes, covered by different budget lines in different budget headings they are politically more meaningful.

- 6.3. On top of that it has to be noted that the Commission has from now on a real legal base in the Treaty to perform this performance evaluation; it has also at its disposal enough tools to fulfil its legal duty, in particular those coming from its internal governance architecture; i.e. the management plans, annual activity reports, synthesis to achieve the evaluation.

The possible lack of a consistent evaluation framework in the different legal instruments for the next generation of programmes could not be an excuse to differ the achievement of a global financial performance evaluation. There is a need for more cooperation between COM evaluation and the ECA performance auditing - the two institutions should prepare their annual plans of evaluation and audit in a much more integrated way.

- 6.4. The evaluation performed by the Commission will be a source of information and inspiration for the Court of Auditors. It provides the Court with an objective and independent assessment of the Commission's activities to determine whether results were achieved and to explain which lessons can be learned and applied in other contexts.

The Court will be in a position to globally audit the evaluation process of the Commission but also to adopt in this context its performance audit programme. The Court will provide the Parliament with an objective and independent assessment of whether Commission's risk management, governance and internal control processes as designed and operated by the Commission provide assurance of accomplishing Union objectives.

Conclusion

The article 318 TFUE evaluation report contributes to the analytic capacity of the budgetary authority to draw adequate lessons from the past. Focussing on the main objectives of the Union as defined by the Commission itself, it should provide a global and politically meaningful evaluation of the Union's policies. The Commission should explain in a simple, concise and global manner how the EU's expenditures contribute to the achievement of the global objectives of the Europe 2020 Strategy and the targets of its flagships initiatives. In these conditions the evaluation report will be seen as the missing link between performance

¹ Flagship 1 Innovation Union: EUR 11 839, 3 million; Flagship 2: Youth on the Move: EUR 4 044, 3 million; Flagship 3: A digital Agenda for Europe: EUR 3 385 6 million; Flagship 4 Resource efficient Europe EUR 30 002, 5 million; Flagship 5: An industrial policy for the globalisation era: EUR 14 956, 0 million. Flagship 6: an Agenda for new skills and Jobs: EUR 10 110, 3 million; Flagship 7- European Platform for poverty: EUR 5680, 5 million.

evaluation and performance audit. It will also contribute to reinforce the performance culture in the financial management of the Union and prepare the passage to a real performance based budget.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	21.1.2014
Result of final vote	+: 20 -: 0 0: 0
Members present for the final vote	Marta Andreasen, Jean-Pierre Audy, Inés Ayala Sender, Zigmantas Balčytis, Zuzana Brzobohatá, Tamás Deutsch, Martin Ehrenhauser, Jens Geier, Gerben-Jan Gerbrandy, Ingeborg Gräßle, Jan Mulder, Eva Ortiz Vilella, Monika Panayotova, Bart Staes, Georgios Stavrakakis, Søren Bo Søndergaard, Michael Theurer
Substitute(s) present for the final vote	Chris Davies, Derk Jan Eppink, Vojtěch Mynář, Markus Pieper
Substitute(s) under Rule 187(2) present for the final vote	Janusz Władysław Zemke