

# European Communities

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EUROPEAN PARLIAMENT

## Working Documents

1975-1976

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13 October 1975

DOCUMENT 305/75

### INTERIM REPORT

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 234/75) for a regulation modifying the financial regulation of 25 April 1973 applicable to the General Budget of the European Communities

Rapporteur: Mr. Michael SHAW

PE 41.954/fin.



# EUROPEAN PARLIAMENT

## C O R R I G E N D U M

to the interim report by Mr Michael Shaw  
on behalf of the Committee on Budgets  
(Document 305/75)

The first line of paragraph 17 of the explanatory statement to read:

17. The adoption of a change, the implications of which have not been explained .....



By letter of 26 August 1975, the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation amending the financial regulation of 25 April 1973 applicable to the general budget of the European Communities.

The President of the European Parliament referred this proposal to the Committee on Budgets on 9 September 1975.

On 1 October 1975, the Committee on Budgets appointed Mr Shaw rapporteur.

It considered this proposal at its meeting of 6 and 7 October 1975 and, on the latter date, unanimously adopted the motion for a resolution and the explanatory statement.

The following were present: Mr Lange, chairman; Mr Durand, vice-chairman; Mr Shaw, rapporteur; Mr Antoniozzi (deputizing for Mr Brugger), Lord Bessborough, Lord Bruce, Mr Dalyell, Mr Delmotte (deputizing for Mr Concas), Mr Gerlach, Mr Hansen, Mr Hougardy, (deputizing for Miss Flesch), Mr Kirk, Mr Radoux, Mr Rivierez (deputizing for Mr Terrenoire), Mr Scholten and Mr Yeats.

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A

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement.

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation modifying the financial regulation of 25 April 1973 applicable to the General Budget of the European Communities.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council<sup>1</sup>,
- having been consulted by the Council in accordance with Article 209 of the EEC Treaty (doc. 234/75),
- having regard to the interim report of the Committee on Budgets (Doc. 305/75),

1. Notes that the proposal from the Commission to the Council to introduce into the general budget of the Communities the distinction between payment appropriations and commitment appropriations is not accompanied by any Explanatory Memorandum;
2. Considers that the Commission - which in 1972 transmitted a memorandum on the same subject setting out, in a comprehensive manner, the arguments for and against such a proposal - should, when presenting a proposal of this nature, have included a memorandum making the case for the change, having regard, in particular, to the views expressed by it in the above-mentioned memorandum;

<sup>1</sup>OJ No. C 199, 30.8.1975, p. 3

3. Considers that it would be appropriate to examine the question of the eventual introduction of the distinction between payment appropriations and commitment appropriations into the budget of the Communities at the time of a general revision of the financial regulation of 25 April 1973 applicable to the general budget of the European Communities;
4. Expects that proposals for such a general revision will be submitted to Parliament in the relatively near future (following the ratification by the Member States of the Treaty signed on 22 July 1975 regarding certain budgetary arrangements) with a view to effecting the adaptations rendered necessary by the new provisions;
5. Considers that it is essential that the competent organs of the three institutions should carry out an in-depth examination of the problems related to the juxtaposition of the distinction between payment appropriations and commitment appropriations on the one hand and that between compulsory expenditure and non-compulsory expenditure on the other hand, and, therefore, that the institutions should not now proceed to a too-hasty consideration of the particular matter put before them;
6. Recalls also the general reserve expressed by Parliament in the report on the general budget of the European Communities for 1972 when it recommended that the temptation to apply, in a general fashion, the distinction between commitment appropriations and payment appropriations should not be succumbed to, since the distinction could prove to be deceptive in its effects;
7. Considers that a decision on the introduction of the distinction between payment appropriations and commitment appropriations in the general budget of the Communities should be deferred for the present, in order to have it considered for incorporation, under certain conditions, in a proposal for an overall review of the financial regulation;



8. Charges the Committee on Budgets to carry out a thorough study of the question at issue and to submit to it, in the absence of a proposal from the Commission, by 30th June next at the latest, proposals which would permit of a solution to the problems which present themselves in this domain.

EXPLANATORY STATEMENT

1. In this draft regulation, the Commission of the European Communities proposes to generalise throughout the Community budget the concepts of "commitment appropriations" and "payment appropriations".
2. This distinction operates at present, in a general way, in regard to the Social Fund and also for the investment appropriations. Its implications for the entire budget merit being carefully examined on both the technical and political planes. The distinction presents both positive and negative aspects.
3. It is not proposed, at this point, to analyse the strictly budgetary aspects of the problems which would follow from the introduction of this new generalized distinction. It would appear that such a generalized introduction into the budget of the Communities of "commitment appropriations" and "payment appropriations" ought not to be approved at a point in time when Parliament and in particular the Committee on Budgets will be examining, as a whole, the revised draft of the financial regulation. This draft will take account of the modification of certain budgetary provisions of the Communities following the signing of the new treaty on 22 July 1975.
4. Once again, it appears to be necessary to stress the absolute need for a comprehensive review of the financial regulation rather than a series of disjointed changes. The present proposal should be regarded as identifying an important element in such a review and as a suggestion for change that should be seriously considered within the overall context.

Earlier attitude of the Commission

5. In 1972, the thinking of the Commission of the European Communities with regard to the generalisation of these concepts in relation to the budget was articulated in a memorandum (SEC (72) 842 final). Certain of the comments in that carefully reasoned text did not reflect favourably on what is now being proposed. When one recalls that very thorough study of three years ago, one cannot but be surprised that the present proposal should have been submitted by the Commission to the Council without any accompanying explanation whatsoever. In 1972, the Commission had very much an open mind as regards certain aspects of the idea and thought it necessary to set out, at length, the various

considerations to be borne in mind. It is regrettable, to say the least, that they have not now presented the reasons which led to their apparently total conversion to the proposal.

6. Any sweeping change in established budgetary procedures should be effected only after careful deliberation and following a thorough study of all the factors involved. Where something of such fundamental importance as the presentation and layout of the budget of the Communities is concerned, Parliament should have available to it, as a starting point, a full explanation of the detailed reasons which render the proposed change essential; because changes which are not absolutely essential should not be made to so basic a text as the financial regulation.

7. It is recognised that the 1972 memorandum referred to in paragraph 5 touched particularly on the interim period following on the entry into operation of the treaty of 1970 - that is 1970 to 1974. It is, nevertheless, significant that, at that time, the Commission did not come down firmly on one side or the other regarding the aptness of the introduction of the distinction now being proposed by them.

8. It is worth recording particularly that, in its 1972 memorandum, the Commission indicated, among other things, that instituting the distinction between "commitment appropriations" and "payment appropriations" would run the risk of posing difficult questions on the plane of implementing the budget - particularly in regard to agricultural provisions - unless a correct interpretation of the terms and of the methods of operation were carefully set out in the framework of the new financial regulation. On the political plane, the Commission also expressed the view that the distinction could give rise to problems of a delicate nature. The Commission recalled that, in the context of the annual vote on the budget amounts to be made available could be varied by invoking all sorts of reasons. The risk to be avoided, the Commission felt, was the indirect sterilising of amounts theoretically assigned to funds.

It is by taking account of these general considerations that the distinction between the two kinds of appropriations should be studied; the repercussions on the role of the European Parliament in relation to the budget which would result from the operation of the new concepts ought not to be overlooked.

9. Parliament's cautious reservations about the general application of these concepts is of several years' standing. On the occasion of the adoption, in November 1971, of the report on the general budget of the Communities for 1972, Parliament expressed with regard to this distinction a general reserve to the effect that it is necessary to adopt a budget which (i) would be as close as possible, in its estimates, to real expenditure, (ii) would respond to Community needs and (iii) would not give way to the temptation to apply, in a general fashion, the distinction between "commitment appropriations" and "payment appropriations" which often prove deceptive as to their effects.

10. What has been the attitude of the Council, in recent years, with regard to "commitment appropriations" and "payment appropriations" for those sections of the general budget where the distinction is already in operation?

As regards investment appropriations:

The research and training programme envisages a global pluriannual grant; the attitude of the Council, in a general way, has been to delay to the maximum (taking account, of course, of the critical situation of Community research and therefore for political reasons) the entering of the annual tranches of payment appropriations.

For the Social Fund: this distinction exists (Article 104 of the financial regulation) in slightly different terms. There, a distinction is made between 'appropriations for that financial year' and 'authorisation of commitments for the two following financial years'. In reality, the effect of this arrangement has been limited solely to that determined by the credits for the financial year in question. The commitment authorisation permitting the possibility of articulating the fund has been more a matter of form than of substance.

For the Regional Fund:

Article 2 of Regulation 724/75<sup>1</sup> regarding the creation of this fund provided as follows in paragraph 1 :

"For the period 1975 to 1977, financial assistance from the Fund shall be granted to the applicant Member States, subject to the conditions set out in this Regulation and within the limits of the following appropriations:

300 mua in 1975  
500 mua in 1976  
500 mua in 1977."

<sup>1</sup> OJ No. L 73, 21.3.1975, p. 1

The differences of views between Parliament and Council as regards the amount of "payment appropriations" for the three years are well known. It would be possible to imagine that, at a future date, the Council might well be tempted to delay the inscription of "payment appropriations" in other cases.

11. It could be added also that, to fully appreciate the care with which the idea of "commitment appropriations" should be examined, "commitment appropriations" do not give rise in the budget to a corresponding receipt.

12. Yet another reason for caution is constituted by the application of the concepts of compulsory and non-compulsory expenditure; juxtapose "commitment appropriations" and "payment appropriations" and a new complication becomes evident.

According to the draft regulation before us, the concept of "payment appropriations" is as follows: "Payment appropriations shall represent the upper limit of expenditure which may be incurred or authorised in the course of each financial year to cover the commitments entered into during the current or preceding years."

The Commission, when proposing a classification of appropriations for the Regional Development Fund, classified as non-compulsory expenditure "payment appropriation" in regard to the Regional Fund.

Did this proposal have any real significance, particularly in view of the definition of "payment appropriations" and the definition of non-compulsory expenditure?

13. The budget of the Communities, according to the definition in Article 199 of the Treaty, is viewed as follows:

"All items of revenue and expenditure of the Community, including those relating to the European Social Fund, should be included in the estimates to be drawn up for each financial year and shall be shown in the budget.

The revenue and expenditure shown in the budget shall be in balance."

Having regard to this definition, it could be asked whether the introduction of the concept of "commitment appropriations" and "payment appropriations" would not be of a nature which would modify the very essence of the Community budget, which is an annual estimate.

All the aspects of the problems to which the concepts now discussed could give rise should be examined thoroughly and in depth so as to determine whether this distinction might not operate to limit the existing budgetary powers of the European Parliament.

14. What would be the role of the European Parliament as regards a budget which contained only "payment appropriations?" Certain States already have such a budget which can be either approved or rejected by their Parliaments. However, those Parliaments have the legislative power which permits them to consider separately the financial consequences of the measures which go to make up the budget and to vote on the basic measures. Moreover, the operation of Estimates Committees in those countries and the right of Parliament to give separate consideration to the details of expenditure make it reasonable, in some cases, to have the budget merely as an accounting document which, by way of "payment appropriations", reflects the financial consequences of legislative acts adopted separately by Parliament.

15. On the Community plane, from the political point of view, and having regard to the present interinstitutional balance of power, one could affirm that the time has not yet come for bringing about the change outlined.

On previous occasions, Parliament protested at the substantial size of carry forwards of appropriations of a non-automatic nature from one financial year to another. This attitude has been adopted because of a conviction that the budget should not be drastically altered during the course of the year by the operation of a management arrangement. The bringing into play, on a generalised basis, of the distinction now proposed by the Commission could well - as Parliament's report on the 1972 budget hinted - have most unexpected consequences and could undermine the objectives envisaged when the annual budget was being adopted.

16. There are many other ways in which the distinction between the two kinds of appropriations could be highlighted. It could be done by way of the triennial forecast or by way of annexes to major policy decisions. If what is sought is a more accurate estimate of likely payments, then closer estimation at budget time appears to be the solution. At present, we know from the size of carry forwards, and from the extent of transfers within and between chapters, how imprecise many of the figures included in the initial budget are.

17. A rushed adoption of a change, the implications of which have not been explained and which could have serious repercussions on Parliament's role in the budgetary sphere - implications which might not become apparent in their full seriousness until practical application of the change - should be avoided.

#### Conclusions

18. The Committee on Budgets awaits Parliament being consulted (following the ratification of the Treaty of 22 July 1975 by Member States) on a global proposal for a revision of the financial regulation designed to adapt the regulation to the new budgetary provisions. Therefore, the committee postpones until that occasion its definitive position as regards the generalised introduction of the distinction between commitment appropriations and payment appropriations in the budget of the Communities.

19. Finally, the Committee considers that such a postponement is rendered all the more necessary by the need to have from the Commission a memorandum which would explain, in as full and detailed a fashion as did the memorandum of 1972, the reasons why the Commission no longer consider as weighty the reservations it appeared to have held regarding this proposal three years ago. It would also explain clearly how the new arrangement would operate and would go into the implications for the existing procedures. Comparative material on the practices in Member States would be valuable as well, because this would set the proposed arrangements in the wider European perspective.

