

Europe has a new Financial Regulation (Brussels, 25 June 2002)

Caption: On 25 June 2002, the Council adopts the new Financial Regulation applicable to the general budget of the European Communities. This entirely recast Regulation enters into force on 1 January 2003.

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Europe has a new Financial Regulation

The Council has adopted the new "financial bible" for the general budget of the European Communities. Budget Commissioner Michael Schreyer has hailed an historic negotiating coup by the Spanish Presidency. The Council of the European Union has approved the new version of the Financial Regulation for the budget of the European Communities. Commissioner Schreyer said in Brussels, "At the beginning of next year Europe will now have a completely new and modern Financial Regulation based on the principles of clarity, efficiency and transparency." All rules and procedures for the implementation and discharge of the budget have been rationalised and modernised, and financial management will now be geared to results and performance, with clearly assigned responsibilities and closer involvement of the Community's financial managers in the whole budgetary process.

Neil Kinnock, Vice-President for Administrative Reform, added, "The approval by Parliament and Council of the modernised Financial Regulation is a major milestone in the overall reform of the European Commission's administration started in 1999. This change in the law was essential to our efforts to ensure more efficient and effective management and control of EU taxpayers' money and we will be implementing the improvements quickly and thoroughly.

The Financial Regulation is the financial bible for drawing up and implementing the budget of the European Communities, setting out the basic provisions underlying all EU financial management. The new version of the Regulation, which dates from 1977, was one of the most important and wide-ranging items of legislation of the Prodi Commission. The huge task of reforming, simplifying and reorganising the Financial Regulation has been accomplished in a mere two and a half years. A single legal instrument now sets out all the principles and ground rules governing the establishment and implementation of the budget and financial control.

"This outstanding achievement is the fruit of excellent cooperation between the Council, Parliament, the Court of Auditors and the Commission," said Michael Schreyer. In particular the Commissioner paid tribute to the "historic" negotiating achievements of the Spanish Presidency, since the new Financial Regulation required unanimity in the Council. "Never before has unanimity on the Financial Regulation been obtained in such a short time. The outcome, which incorporates many of the amendments proposed by Parliament, is a testament to masterly negotiating skills," said Schreyer. Now that it has been adopted by the Council, the Financial Regulation applicable to the general budget of the European Communities can come into force on 1 January 2003.

What will change in the new Financial Regulation?

• **Simplicity and legibility**

The new Financial Regulation is the ultimate authority on all aspects of budget establishment and implementation. It is divided into clear sections. This, combined with the fact that it contains a table of contents and numerous subheadings, will make it much easier to use than its predecessor - one of the fundamental conditions for its correct application.

• **Clear budgetary principles**

The Financial Regulation is based on the following budgetary principles:

- Unity
- Universality
- Specification
- Annuality
- Unit of account
- Budget accuracy
- Equilibrium
- Sound financial management and transparency

- **New budget presentation**

The budget will in future be presented in an activity-based budgeting format. In other words it will be divided up by policy area and further subdivided into activities. This will provide a clearer picture of the cost of each policy.

- **More information**

The budgetary authority will be provided with more information at all stages, from establishment, during implementation and in the accounting.

- **More flexibility for modern financial management**

All European institutions will in future be able, during the financial year, to adjust their establishment plan to new requirements up to a maximum of 10% of their resources. The possibilities for making transfers from one budget line to another are simplified.

- **Rationalisation of management methods**

The Financial Regulation spells out which methods of management are allowed for implementation of the budget (centralised management, shared or decentralised management, joint management with international organisations). It lays down principles for executive agencies.

- **Modernisation of financial management**

The Financial Regulation lays down provisions for the use of appropriations and control and audit systems so that financial management is geared to results and performance. Performance indicators must be established for individual areas of activity when the budget is established.

The duties of the individual financial actors authorising officers and accounting officer and of the internal auditor are laid down and their responsibilities are clearly stipulated. Authorising officers are required to produce a report each year on matters of financial management.

"Sunset clauses" apply to appropriations. Commitment appropriations for external aid must be used for individual contracts or agreements within three years of authorisation.

- **Fewer exceptions to the rules**

From 2007 onwards, negative expenditure will be abolished. It will be entered in the budget as assigned revenue unless the Council decides otherwise.

- **Extended modern accounting rules**

The accounting system will in future be not only cash accounting but integrated accrual accounting. The Commission's accounting officer has the right of initiative concerning the charts of accounts of the other institutions.

- **Transparency and prevention of fraud in procurement**

For the first time the Financial Regulation contains provisions on public procurement procedures. The Commission must inform all tenderers of the tender selected. Anyone guilty of providing false information or attempting to cheat in procurement procedures may in future be excluded. Details will be fed into a database, which will be accessible to the other European institutions.