

## Next important step for recasting the Financial Regulation (Brussels, 30 October 2001)

**Caption:** On 30 October 2001, the Commission proposes an amendment to its proposal for an integral revision of the Financial Regulation applicable to the general budget of the European Communities.

**Source:** RAPID. The Press and Communication Service of the European Commission. [ON-LINE]. [Brussels]: European Commission, [06.11.2006]. MEMO/01/346. Available on <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/01/346&format=HTML&aged=1&language=EN&guiLanguage=en>.

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## Next important step for recasting the Financial Regulation

The European Commission today proposed an amendment of its proposal for the thorough overhaul of the European Union's "financial bible", the Financial Regulation applicable to the general budget of the European Communities, which lays down the basic rules of financial management. The initial proposal adopted in July was broadly speaking well received by the other institutions. The initial proposal was examined by the Court of Auditors, which gave its opinion on 31 March last. The European Parliament voted in substance some 184 amendments on 31 May last but delayed the vote on its formal opinion until it had secured guarantees from the Commission and the Council that these amendments would be taken on board. The document the Commission adopted today is designed to incorporate amendments suggested by the Court of Auditors and Parliament, in particular where their positions converged. It is now a working document, which will be presented as an amended proposal once Parliament has given its formal opinion.

The Commission empowered the Commissioner with responsibility for the Budget, Ms Schreyer, to convert the working document into an amended proposal for transmission to the other institutions once Parliament has given its formal opinion.

The amended proposal then requires unanimous approval for adoption by the Council, after conciliation with Parliament if this is requested. The Gothenburg European Council set 2002 as the target year for the adoption of the new Financial Regulation applicable to the general budget of the European Communities.

The amended proposal, like the initial one, is designed primarily to simplify and reorganise the Financial Regulation by setting out in a single legal instrument all the principles and basic rules concerning the establishment, the implementation and the control of the budget. The technical and detailed provisions will be consigned to the implementing rules, appearing in a Commission regulation. This contains the additional provisions required to implement the basic rules without affecting their substance. The proposal puts into the shape of a regulation the guidelines of the reform of financial management.

### Salient points of the amendment:

The new proposal takes over some of the main amendments suggested by Parliament and the Court of Auditors. The following should be noted in particular:

- the need for sectoral rules to comply with the principles of the Financial Regulation: the Commission did not see fit to take over the idea put forward by the institutions that the Financial Regulation should have pre-eminence over sectoral regulations, but it accepted their approach of ensuring that the sectoral regulations do not depart from the principles of the Financial Regulation;
- tightening of internal control within authorising departments: following Parliament's lead, the Commission believes that in return for the dropping of central ex ante controls by the financial controller, every assurance is given that internal controls by authorising officers comply with modern control standards;
- the creation of a panel to assist the authority which imposes discipline in the application of the liability of authorising officers: on this point the Commission has taken over an amendment by Parliament which corresponded to an idea already expressed in the Reform White Paper;
- incorporation of the timetable for the presentation of the accounts: the Commission proposes, as suggested by Parliament and the Court of Auditors, that all dates be brought forward by a month (presentation of the accounts by 31 March of the following year instead of 1 May as is the case at present) so that the whole procedure leading up to the presentation of the Court of Auditors report will be one month earlier (31 October instead of 30 November) thereby enabling the discharge authority to begin work earlier on the process culminating in Parliament's discharge decision (30 April of year n+2).

### The key components of the proposal

The proposal for the recasting of the Financial Regulation is in two parts: the common provisions and the special sectoral provisions. It can be analysed from two angles:

- The provisions streamlining and modernising the rules and procedures governing budget management and discharge.
- The provisions reforming the Union's financial management and budget.

First of all, the recasting streamlines and simplifies all areas covered by the present Financial Regulation. The budgetary principles (annuality: budget operations relate to a given budget year; equilibrium: revenue for a financial year should be equal to appropriations for payments of that year; specification: each appropriation must have a given purpose; unity: all Community revenue and expenditure in a single document; universality: all revenue and expenditure are entered in full in the budget without adjustment against each other; sound financial management and transparency) are reaffirmed with limited exceptions, justified by objective requirements. The principles of annuality and unity in particular are strengthened. Differentiated appropriations are made the general practice. The carryover arrangements are simplified. Negative expenditure and negative revenue are eliminated. Negative expenditure in agriculture resulting from clearance of accounts decisions is to be treated as assigned revenue in accordance with the specific agricultural regulations.

One main objective of the revision is to translate budget commitments faster into concrete projects. In order to introduce more discipline in the implementation of the budget, the deadline of 31 December of year  $n+1$  is fixed for the implementation of global commitments. In the field of external aid the deadline is extended to 31 December of year  $n+3$  to allow for the distances involved and the need for a third country to be involved.

The proposal transposes the Directives on public procurement into the Financial Regulation. As part of the fight to prevent irregularities, fraud and corruption, candidates in a tendering procedure who have been guilty of fraud or corruption can be excluded from the procedure.

On grants, the proposal incorporates into the Financial Regulation the basic principles of transparency, programming, co-financing, collective assessment and control already contained in the Commission's vademecum on grant management.

The proposal allows extension of decentralised management of external aid to all third countries. Control and management requirements are fixed, giving reasonable assurances for the sound and efficient use of Community funds. The proposal lays down accounting rules based on internationally applied principles and widens the scope of consolidation to include the Community agencies. The timetable for the presentation of the provisional accounts is brought forward by a month to give the discharge authority (Council and Parliament) extra time. The accounting provisions will be introduced gradually given the changes they involve and the computer resources they require. They should be fully applicable by 2005.

The vague concepts of advances and payment on account are dropped. Payments are made in the form of pre-financing, interim payments and payments of the final balance when the entire amount is not paid in one instalment.

A new system of financial management is set out, focused on results, performance and the empowerment of authorising officers with integration of controls in the management process and hence in the departments of the authorising officer. The current central control by the Financial Controller on commitments and payments (*ex ante* approval) and by the Accounting Officer on payments will be dropped. Minimum control standards to be applied by all managers within the institution will accompany these reforms.

A new approach is proposed on "externalisation" for the management of the Union funds. It has a double objective: firstly, to prevent the exercise of public authority tasks by private bodies; secondly, to widen the

range of the instruments of externalisation, through the creation of new entities under Community law controlled by the Commission.

A bold reform of the budget structure is proposed. It follows the Activity-Based Budgeting approach, adopted by the Commission in November 1999, and offers a budget where the full cost - management and support resources as well as financial resources - of each policy area is presented in an integrated way. The existing division between Part A administrative expenditures - and Part B expenditures for operations - of the Commission's budget (section III) disappears and appropriations for administrative expenditure are attributed to policy areas. This new structure will apply to the 2004 budget.