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EPP Group **Position Paper**

on **Performance-based Budgeting**

epp group in the european parliament

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Better EU spending: focusing on results

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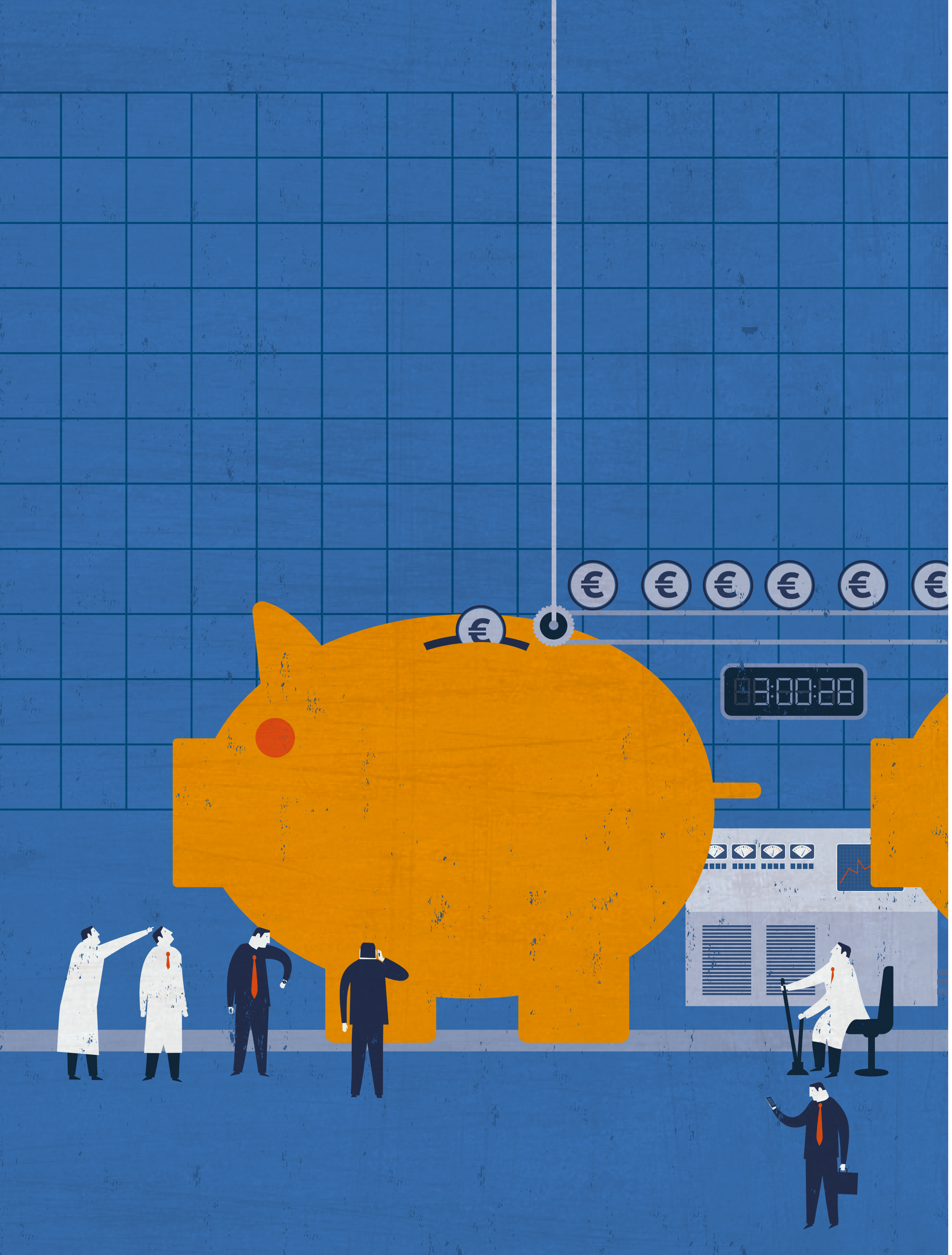

General **introduction**

The EU budget is an investment budget. About 90% of EU resources are spent on policies and programmes that benefit citizens in the Member States. In the current climate of limited budgetary resources, **the Union has to do more and better with less**. Programmes and projects need to achieve political priorities and objectives (effectiveness), so that each euro spent has the highest added-value for the pursued objective (efficiency) and results are delivered at the lowest possible cost (economy). This concept of "better spending" is to become reality with performance-based budgeting.

Performance-based Budgeting (PBB) aims to improve the sound financial management of EU expenditure by **linking financing with results** in a way that is transparent: budgeting is based on the achievement of predefined, measurable priorities and targets, with a given level of spending.

1. Why do we need performance-based budgeting (PBB)?

Administrative burdens, delayed implementation, bad management and in certain cases even corruption prevent the EU budget from unleashing its potential in restoring growth and jobs in the EU. Moreover, late payment problems have affected the EU budget since 2011.

The EPP Group is calling for a shift in focus from rules and procedures to results and performance **along the entire budgetary cycle**. This includes political programming, the allocation of budgetary resources, the implementation of the budget and the discharge procedure. A performance-oriented budget addresses political priorities, requiring more efficient programming and spending. This includes, besides the MFF flexibility provisions, the transfer of unspent money from the surplus, including fines, to the following year.

2. Legal basis

The need to focus the Union's finances on results and performance is already mentioned in the Treaty[1], the Budget IIA[2] and European Parliament (EP) resolutions[3]. The EU Financial Regulation asks that **specific and measurable objectives**, that are achievable and timed, are set for all sectors of activity covered by the EU budget.

In practice, PBB should be guided by the following principles:

1) Focus on activities where EU intervention has the **highest potential impact/leverage**;
2) **Identification of negative priorities** for which EU spending will be cut back or stopped.

In the current programming period, **efforts have already been made to strike a better balance between benefits and costs**. Examples are the inclusion of new mechanisms, such as ex-ante conditionality, ex-post evaluation, performance reserve and a stronger link with economic governance. The European Structural and Investment (ESI) Funds have targets and indicators and the Common Agricultural Policy (CAP), environmental conditionality. However, **clearer priorities** have to be set for spending, together with the identification of negative priorities. Moreover, the EU's resource system, based on national GNI contributions that make up almost 80% of EU revenue, involve budget negotiations on net-receipts rather than on spending impact. Therefore, we call for an EU budget based on genuine own resources as foreseen by the Treaty.

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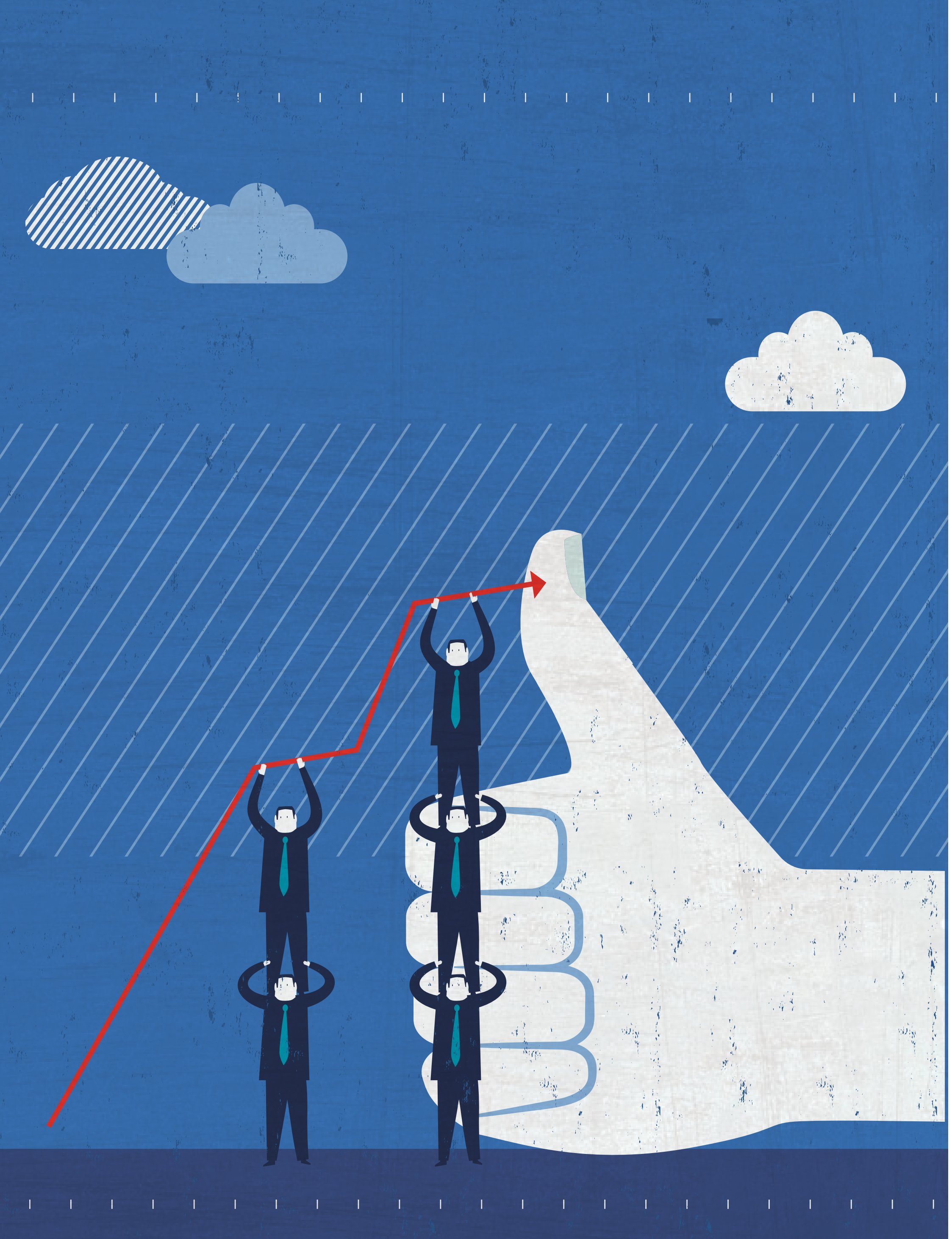
1. Art. 318 TFEU calls for an annual Commission "evaluation report on the Union's finances based on the results achieved, in particular in relation to the indications given by the European Parliament and the Council [...]".
2. Interinstitutional Agreement of 2/12/2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and sound financial management (2013/C 373/01)
3. e.g. Parliament's resolution of 26 February 2014 on the evaluation of the Union's finances based on the results achieved: a new tool for the European Commission's improved discharge procedure (P7_TA(2014)0134)



3. Implementation: enhanced compatibility of Commission and Member State rules

For any given EU-funded project, the responsible administrator needs to apply a multitude of, sometimes contradictory, rules pertaining to Union, national or regional legislation. The systematic re-drafting of multi-annual programmes at the end of the seven-year cycle requires administrative effort and training costs, without necessarily generating added-value or improvement. The result is a set of complex rules and costly procedures leading to a situation where many potential beneficiaries, often small entities such as start-ups or SMEs, refrain from applying for EU funding.

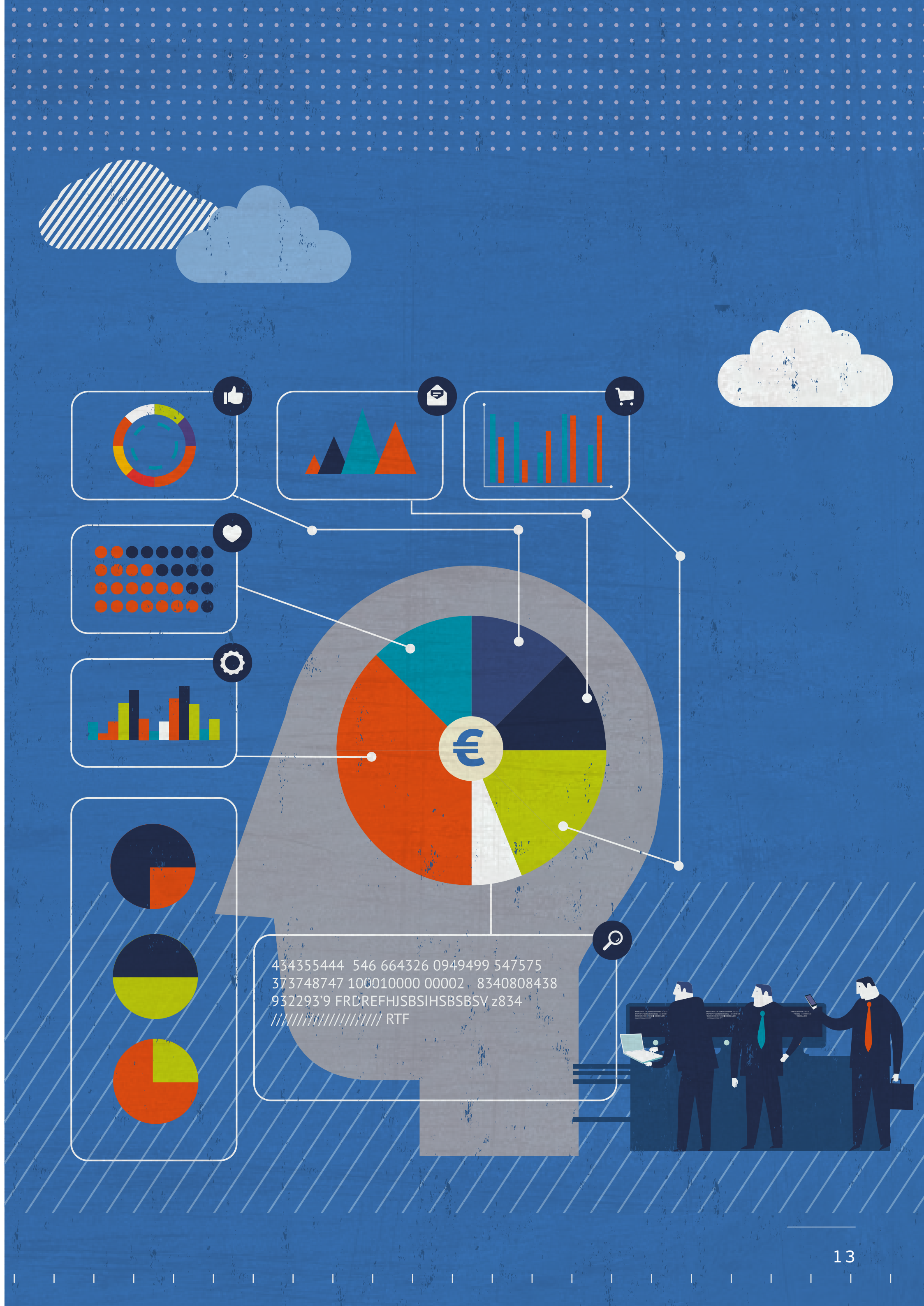
The spending programmes and their standards and procedures should be **compatible and predictable**. We oppose constantly changing interpretative (“living”) documents issued by the Commission. The rules should not be changed between programming periods, unless they prove to be of no use.

We note the example of the Common Provisions Regulation (CPR) and we demand new efforts to arrive at **a single book of rules** for all funds to improve the complementarity and synergy of EU spending further. We call upon the Commission to draw up proposals on how to make rules more consistent and the application of the overall Financial Regulation simpler, without compromising control and transparency. Operational programmes should be drafted in a harmonised manner, setting out **common rules while leaving sufficient flexibility for revision**. Similar action is required with regard to public procurement: the Commission should propose a common procedure for tenders and rules for contesting the attribution of public procurement contracts. The creation of **help desks** for beneficiaries at European and national level should be considered.

We underline that performance outcomes are more important than sheer fund absorption. **Value for money** should be the guiding principle at all levels when implementing the EU budget. EU funding should only be granted if it contributes to reaching a policy objective and if the same result cannot be achieved without it.

To start with, we should improve performance using the current regulations, standards and procedures. For the ESI Funds we consider it important to analyse the outcome of negotiations on Partnership Agreements and programmes. In the medium-term we call on the Commission to carry out an **evaluation of the performance** of programmes under the current MFF. The Commission should also **assess the impact of Delegated and Implementing Acts** on the administrative burden and the implementation of policies. Based on these assessments the European Parliament and the Council should identify policies and regulations that need to be improved in the next programming period.

We need to maximize the impact of EU external funding. European **external financing instruments** are an important tool for addressing growing global challenges and promoting European interests and values on the global stage. We believe that **greater synergy** between the different instruments must be achieved. We ask the Commission to thoroughly assess EU funding for third countries and to draw up a proposal for a common strategic framework, setting out common rules applicable to all external instruments.



4. How do we evaluate?

Better measurement of past performance will enable legislators to make better spending decisions for the future. Although past efforts to enhance performance measurement go in the right direction, several shortcomings remain, including unreliable indicators, objectives that are too wide and ambitious given the currently available appropriations and the collection of inconsistent or even meaningless data. Quantitative output and (residual) error rates are predominant and the **qualitative aspects and actual impact** widely neglected. The multiannual nature of EU programmes should not weaken the annual evaluation of programmes. The Commission should clearly distinguish in its evaluations between successful and unsuccessful programmes.

We are asking for **new ways of evaluating** the implementation of the budget: they should be founded on the performance of programmes and certain projects, based on a limited set of **clear indicators** that measure the contribution of EU spending to the attainment of predefined targets and milestones. To ensure a high level of comparability between programmes, projects and budget lines, indicators must be harmonised as far as possible, both at EU and Member State level. Assessments must combine quantitative and qualitative elements. For example, the assessment of an economic growth programme should not only measure the number of jobs created but also the share of high-quality, long-term jobs.

To meet the needs and interests of policy-makers, the content of **reporting must be improved**. The presentation of reports should be timely so the budget authority can take findings into account when preparing the next budget. The focus should be on actual outcomes (not just error rates) in relation to the predefined targets.

5. How do we control?

Multiple checks at various control levels are inefficient and lift costs. The audit chain must be reinforced by the proper implementation of the **single audit scheme**. All controls should be risk-based: targeting where the risks are highest. **Higher risk, more controls - lower risk, less controls**. The results must be made available to the Commission and the European Parliament. National and regional Courts of Auditors should be more involved in the control of EU projects and national funds. This requires the independence of external auditors and statistics offices. More efficient collaboration is needed, inter alia through **audit plans and international audit standards**. We believe that the introduction of European accounting standards (EPSAS) would further improve the consistency and comparability of data submitted by the Member States, allowing also for a more accurate assessment of macroeconomic conditionality. The reporting of wrong figures or findings by the Member States must be sanctioned.

Corruption is a threat to administrative integrity and the financial interests of the EU. Next to effective implementation of anti-corruption legislation and the further accountability of the Member States, we demand a firm commitment to preventive policies. Common guidelines, rules and tender files that are transparent and easy to use for the beneficiaries and managing authorities are needed. Controls should be electronic and should not compromise the soundness of a project. Competent, experienced staff is needed in the areas of implementation and control. The EU should apply for membership of the Council of Europe Group of States against Corruption (GRECO).

Transparency is at the core of EU financing. We call on the Commission and Member States to develop **a single electronic platform** that ensures full access for all stakeholders to information about EU-funded projects across Europe. Improving administration is equally important. We are committed to starting on an **EU administrative procedural law** to achieve better-functioning institutions.

The budget authority should make systematic use of the findings and recommendations of **performance assessments** and audits when drawing up annual budgets. The decision for resource allocation must be substantiated by a positive performance review. If programmes persistently fail to deliver on their predefined objectives, they should be revised.

Conclusion:
how can the PBB concept be turned into a useful policy tool?

PBB must increase the contribution of the EU budget to **advancing the EU's priorities and policies** and to making it more responsive in a crisis, thereby enabling the Union to successfully prosper and face current and future challenges.

PBB involves **formulating strategic objectives and targets**, defining credible measures to achieve the envisaged objectives and finding adequate indicators to measure performance while ensuring coherence between the different policies and political levels.

In this regard, the EPP Group attaches particular importance to the following issues:

> the elaboration of a post-2020 **long-term political strategy** with narrowly-defined and measurable targets, a focus on European added-value, relevant indicators for enhanced measurability and a clear assignment of responsibilities to the EU and its Member States;

> stronger **incentives for Member States** to make good use of EU funds, i.e. through drawing lessons from existing conditions and by creating a link between EU funding and the implementation of the country-specific recommendations;

> sufficient **flexibility for lower governance levels** on how to achieve objectives;

> a framework which increases **the consistency of data** submitted by Member States to the EU for assessment, including EPSAS;

> further **simplification** to cut red tape and reduce control costs and error rates, including a common Financial Regulation with consistent rules for all funds and a single rule book for programmes and operational programmes;

> further enhancement of the **internal flexibility of the budget** to allow for a rapid response to unforeseen events, with performance updates and improved forecasts; systematic monitoring and evaluation, as well as the public availability of results to offer all stakeholders the possibility to assess and improve their performance;

> **a pragmatic approach** to budget-making, which places emphasis on the identification of positive and negative priorities, based on the results of performance evaluations;

> a stronger link between **revenue and expenditure** via a new system of genuine own resources.

We consider it essential that all stakeholders involved in the budgetary cycle are committed to this new approach. We ask the Commission to initiate, as soon as possible, a new **pilot action** in a specific area of activity where the concept of "performance-based budgeting" is fully implemented and indicators and assessment models are fully applied.

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