Public Governance Directorate

Budgeting and Performance in the European Union

A review in the context of EU Budget Focused on Results

OECD
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OECD Journal on Budgeting
Volume 2017/1

Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results

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The European Union has a unique system of institutions and relationships between different levels of government resulting in a close attention to the performance aspects of budgeting. The EU system of budgeting for performance and results is advanced and highly specified, scoring higher than any OECD country in the standard index of performance budgeting frameworks. Aimed at improving the effectiveness of the EU budget in contributing to the achievement of EU objectives for growth, the EU Budget Focused on Results initiative is one that is gaining more focus and importance since it was launched in 2015.

This report is the OECD's independent assessment of how the EU model of budgeting for performance and results compares with good practice around the world, in line with the long-established practice of OECD Budget Reviews; and offers suggestions for how the current reform agenda might be advanced.

JEl Codes: H500, H610, H830

Keywords: Europe 2020, Multiannual Financial Framework, Annual Management and Performance Report, European Court of Audit, EU Budget Focused on Results

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Foreword

Budgeting is a key pillar of policy development and accountability in any country or region. In the context of the European Union, with its unique system of institutions and relationships between different levels of government, there has traditionally been a close attention to the performance aspects of budgeting: i.e. demonstrating to stakeholders that EU resources being used effectively to achieve results, and that these results are of benefit to citizens.

One important current initiative is the EU Budget Focused on Results, launched in 2015 by then Commission Vice-President Kristalina Georgieva as a multi-pronged initiative to improve the effectiveness of the EU budget in contributing to the achievement of EU objectives for growth, jobs and stability. A number of reforms and innovations have already been introduced under the aegis of this initiative.

Within this overall context, the EU has asked the OECD to undertake an independent assessment of how the EU model of budgeting for performance and results compares with good practice around the world, in line with the long-established practice of EU Budget Reviews. In carrying out this task, the OECD team has benefited from extensive consultations and interviews with officials and politicians within the various EU institutions, and with civil society interests and independent think-tanks. This report presents the findings of the OECD assessment and offers suggestions for how the current reform agenda might be advanced.

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Executive summary

The EU system of budgeting for performance and results is advanced and highly specified, scoring more highly than any OECD country in the standard index of performance budgeting frameworks. The EU system is *sui generis,* reflecting various aspects of the standard OECD categorisation of presentational, performance-informed and direct performance budgeting, and including strengths and weaknesses that are also seen at national levels. EU budgetary practices include many effective and innovative aspects, which may hold lessons for national governments in reflecting on their own agendas of performance-focused budgetary reform.

The EU's strategic and operational goals are set out in multiple, complementary frameworks – Europe 2020, the Juncker 10 Priorities, the Strategic Agenda of the European Council – which raises potential challenges for coherence and communication. In general, the EU system manages these challenges in a pragmatic and sensible manner: In particular the Europe 2020 agenda of smart, sustainable and inclusive growth has become a *de facto* reference whose influence in transmitted throughout the performance framework of the various Programmes. There is scope for communicating more clearly, in the budget context, how these strategic aspects underpin performance and results: A new *ex ante* “Statement of Goals for the EU Budget” is suggested, using the structural template of the existing EU Budget Headings and specifying a limited number of headline targets in each area. Such an approach would help circumvent the risk of “information overload” which is inherent to many national performance budgeting frameworks, and is also a particular risk in the EU context.

More generally, the Commission has undertaken extensive streamlining of its reporting in recent years, yielding clearer insights on performance and results including *via* the new Annual Management and Performance Report (AMPR), which subsumes the former “Synthesis Report” on management achievements and “Article 318” report on results achieved from the EU budget. It is suggested that the AMPR evolve further to mirror the structure of the proposed *ex ante* Statement of Goals, providing a more systematic *ex post* account of performance against headline targets.

The European Parliament and Council of the European Union together comprise the Budgetary Authority. Parliamentary stakeholders are broadly happy with the level and nature of performance information provided with the budget, although there are recognised challenges in marshalling and using this extensive corpus of material for effective scrutiny and accountability. It is advisable to adopt a more structured, joined-up approach that engages the various Parliamentary committees, including the two budget-related committees and the sectoral Standing Committees, to make the best use of performance information across the budgetary and broader policy-making cycles. In the future, such an approach might also be supported through establishing a European Parliamentary Budget Office, to add extra status, focus and co-ordinating capacity to this core parliamentary function.

The development of clear, concise *ex ante* and *ex post* strategic budget reports, as suggested above, coupled with enhanced institutional co-ordination throughout the budgetary cycle, would facilitate both the Parliament and Council in engaging more fully with the policy substance of the EU budget, helping to shift the focus from (potentially more contentious) proxy issues such as error rates and absorption.

The European Court of Audit (ECA) takes an independent perspective in assessing the qualitative aspects of budgeting, including the performance dimension, as a normal part of its annual reporting and through special reports. The ECA’s focus upon performance aspects of budget accountability ranks highly in terms of international good practice. However, the ECA’s findings on EU performance budgeting are not yet comprehensive or systematic – reflecting the under-developed nature of this dimension of auditing at international level. There are nevertheless advancements that can be considered, drawing on international good practice, including developing a more integrated annual scrutiny of performance information, which might entail clearer specification of basic quality criteria for performance data and for measurement of impacts. The suggested development of standardised *ex ante* and *ex post* strategic budget reports, with a limited number of headline indicators, would also facilitate the ECA’s work in this regard.

As the EU budget is primarily an investment budget with annual ceilings laid down in the 7-year Multiannual Financial Framework (MFF), opportunities are limited for performance signals (positive and negative) to influence the debate on the annual budget. It is suggested that new flexibility mechanisms, building upon the model of the “performance reserve” that applies for European Structural and Investment (ESI) Funds, be adopted as the norm for all future EU programmes.

In addition to the main findings outlined above, other key points and suggestions arising from the OECD assessment are as follows:

- as a further aid to budget responsiveness and flexibility, the EU should consider introducing Spending Review to critically asses the baseline of public expenditures in light of performance and evaluative findings; in principle, a Spending Review process could be linked to a mid-term review of each MFF; and in turn the mid-term review should be standardised as a "window of flexibility" in the EU budget
- stronger linkages should be encouraged between national and EU systems of performance budgeting, to pool good practices and promote synergies and harmonisation between the various approaches; linkages at the level of parliaments and audit institutions would also be beneficial in this regard
- the EU's multi-year budgeting and strategic policy timeframes (currently 7 and 10 years respectively) should be brought into alignment; the expiry of the current MFF and Europe 2020 in the same year, for the first time, offers an opportunity to introduce such an alignment
- the multi-year, investment character of EU programmes should, in principle, facilitate the effective use of a) programme monitoring b) regular strategic performance reporting and c) longer-term evaluation, in contributing to a meaningful performance assessment of policy interventions over the short and longer term. How these evaluative tools will be applied across the policy continuum could usefully be articulated more explicitly
- closer alignment of EU Budget Focused on Results with the EU Better Regulation initiative would promote an integrated approach to modern, evidence-based EU policy-making.

1. The EU model of results-based budgeting in international perspective

1.1. Introduction

The budget of the European Union (EU) in 2017 amounts to EUR158 billion, representing about 1% of EU-wide GDP and 2% of overall public expenditure in the region. While the EU budget is small in proportionate terms, the processes for scrutinising and approving the budget – in parliamentary, political and audit terms – are intensive and highly developed. This report outlines the functioning and efficacy of the overall process, in particular as regards the relationship between spending and results, based upon the range of viewpoints expressed by the stakeholders in the EU budget process, as well as by reference to international practice.

Annex A provides a detailed account of the EU budget process. However, a number of characteristics should be noted from the outset, as they are relevant for an understanding of how the EU model compares with other international models:

- The EU budget is primarily an investment-focused budget, with an emphasis on allocating resources towards specific EU-wide goals, rather than duplicating national budget allocations.
- Investment programmes are, by their nature, best considered from a multi-annual rather than an annual perspective, and it is notable that the EU budget has a strong multi-annual character, to a degree unmatched in any EU member state or OECD country. The EU's Multiannual Financial Framework (MFF) lays down the maximum annual amounts ("ceilings") which the EU may spend in different policy fields ("headings") over the multi-year period: the current MFF covers the period 2014-20. The annual EU budget is, in effect, a specification of the pre-defined MFF ceiling in the given year and the scope for variation is limited.

- While in many national systems, performance information is seen as an adjunct to the financial allocations, the EU budget system is suffused with performance information and reporting structures. This elaborate framework has developed over the years to assure that the EU acts within its mandate and to help justify the spending in terms of results and impacts. As a result, the performance aspects of EU budgeting are in some respects more advanced than is typically seen at national levels.
- EU budgeting is legally required to abide by the principle of "sound financial management" – which includes the principles of economy, effectiveness and efficiency, and encompasses the need to set "SMART" objectives – and in turn Member states are legally required to co-operate with the Commission in in ensuring that these principles are upheld.
- The concern for performance and results in the EU budget system permeates the different institutions and budget processes: From the internal workings of the European Commission (hereafter the "Commission") itself, to the design of all major EU-funded programmes, and to the processes of scrutiny and accountability involving the European Parliament (the "Parliament") and the European Court of Audit (ECA).

In 2015, the European Commission launched the "EU Budget Focused on Results" initiative, aimed at strengthening the systematic focus upon performance and results, while making it easier for citizens and stakeholders to understand the objectives and impacts of the EU budget (see Annex B). This OECD review is intended to complement, and contribute to, this overall initiative. International country experiences of dealing with similar challenges in performance budgeting, as outlined in this report, may yield useful insights for the ongoing EU agenda of reform.

1.2. International approaches to performance budgeting

1.2.1. Performance budgeting – What is it, and what is it for?

Performance budgeting is the systematic use of information about the outputs, results and/or impacts of public policies in order to inform, influence and/or determine the level of public funds allocated towards those policies in the budgetary context. The international experience illustrates that performance budgeting can serve a number of purposes:

- **Transparency:** The OECD *Recommendation on Budgetary Governance* (2015) notes that the systematic use of performance information helps parliament and citizens "to understand not just what is being spent, but also what is being bought on behalf of citizens – i.e. what public services are actually being delivered, to what standards of quality and with what levels of efficiency". Transparency is, in turn, an important underpinning of public trust and assurance regarding how public funds are used.
- **Accountability:** Making explicit the performance objectives and targets helps the public, parliamentarians and senior managers to hold the public administration to account for the proper use of public funds and for the achievement of goals.
- **Efficiency:** Consistent, comparable indicators of outputs and impact in different areas, alongside the corresponding financial allocations, can facilitate an assessment of efficiency by reference to benchmarking of unit costs, and to improvements over time.
- **Evidence-based policy-making:** A clear linking of budgets with results and impacts, drawing on findings from different sectors and from comparable countries and regions, helps to lay the basis for an evidence-based approach to policy-making.

- **Promoting "culture shift":** The practice of specifying objectives, designing indicators and tracking progress is an important element in moving the system of public administration and management from a traditional input-based model, towards a governance model that prioritises performance and results.
- **Budgetary decision-making:** Properly designed, and in light of all of the factors outlined above, a performance budgeting system provides relevant information that facilitates the task of annual and multi-annual budgeting, including the core budgeting task of deciding on where limited resources are best allocated (or re-allocated). The OECD *Recommendation on Budgetary Governance* (2015) specifies that performance information should be presented "in a way which informs, and provides useful context for, the financial allocations in the budget report".

1.2.2. The different models of performance budgeting

Different models and approaches to performance budgeting are observed across the OECD. Even when countries have adopted similar models, they have taken diverse approaches to implementing these and they have adapted them to national capacities, cultures and priorities. In this context, the OECD has identified three broad categories of performance budgeting systems:

1. **Presentational performance budgeting,** which involves the provision of performance information in parallel with the annual budget, e.g. as a transparency exercise or for the background information of policy-makers, with no necessary expectation that the information will be taken into account in deciding upon the budget allocations;
2. **Performance-informed budgeting,** which presents performance information in a systematic manner alongside the financial allocations, in order to facilitate policy-makers in taking account of this information, to the extent that they may deem appropriate, when deciding upon with the budget allocations;
3. **Direct performance budgeting (or performance-based budgeting),** where performance information is provided with the financial information, and where there is the expectation that performance, relative to previously stated objectives, will have direct consequences for the budget allocations.

More recently the OECD has identified a fourth broad category:

4. **Managerial performance budgeting,** in which performance information is generated and used for internal managerial purposes and for organisational/managerial accountability, with a lesser focus upon the linkages with budget allocations.

Across OECD countries more generally, performance budgeting practices tend to fall into the first and second categories, with only a few in the third category (direct performance budgeting) for select types of expenditures (e.g. funding of higher education or hospitals).

1.2. Characterisation of the EU model of performance budgeting

1.2.1. The EU Performance Budgeting model is highly developed by international standards

As outlined in Annex A, issues of performance and results feature strongly in the overall legal basis for budgeting in the EU and this legal basis is carried through both in the design of EU programmes and in the specific reporting requirements upon the Commission and upon those implementing EU-funded programmes. Taken as a whole, the EU budget system takes a sophisticated, systematic approach to developing and using performance information. Some of the key features that underlie this assessment are as follows:

- The **Programme Statements** that accompany the draft budget each year include a performance structure that is very well-designed, by the standards that apply in OECD countries, in providing all of the key information that is necessary for careful programme scrutiny: Including 7-year financial commitments; programme performance baselines (starting points for policy action); end-goals (to be achieved at the end of the multi-annual programming period); and intermediate milestones, expressed by reference to SMART criteria.
- **EU programmes** likewise include both financial and results-based information with structures in place to oversee delivery (see Annex C for an illustration of how these structures and systems apply in the case of EU Structural and Investment Funds).
- The **Commission's institutional performance reporting** is now well-developed along an annual and multi-annual cycle within the Directorates-Generals (DGs), and from the DGs to the College of Commissioners. Communication from the Commission has been streamlined and the mechanisms of policy co-ordination among the EU institutions have been enhanced (see Section 3.1).
- The **ECA** takes a systematic and thorough approach to assessing the qualitative aspects of budgeting, including the performance dimension, as a normal part of its annual reporting and through special reports. The ECA's focus upon performance aspects of budget accountability ranks highly in terms of international good practice (see Section 4).

In principle, all of these elements place the budget authority – which is composed of the Parliament and the Council of the European Union (the "Council") – in a strong position to take performance into account as a significant factor in scrutinising the annual budget. In practice, for reasons outlined in subsequent chapters, making the fullest use of this rich performance information for budget purposes generally proves demanding for policy stakeholders, and some approaches to reforming the system are outlined in order to meet these challenges.

1.2.2. Which model of performance budgeting best describes the EU budget system?

The system of performance budgeting applied in the EU is *sui generis,* reflecting the unique political and administrative construct of the EU itself, and thus cannot be easily assigned to any of the standard categories outlined above. As this report illustrates, a distinctive feature of EU budgeting is the high degree of budget transparency and generation of extensive performance information, on the one hand; coupled with strong constraints on the ability of the budget authority (Parliament and Council) to adjust financial allocations in response to this performance information, on the other hand. Arising from this, the EU model may be characterised as sharing in several of the features of each category of performance budgeting:

- The EU model may be described as **"presentational"** in the sense that performance information is set out in the annual budget with no expectation that it will be used in annual budgetary decision-making, due to the limits on flexibility and responsiveness set out above.
- The EU approach is **"performance-informed"** in the sense that performance information is routinely integrated with the annual budget documentation in a way that is designed to highlight the correspondences between resources and results, and this correspondence is designed to be helpful in informing an "accountability dialogue" with the budget

authority. A limitation of the characterisation, however, is that the performance information is somewhat "sterile" in the sense that is not typically used in a way that is relevant for annual resource allocation in the EU budget.

- The EU model involves aspects of **"direct"** performance budgeting in the sense that there are performance conditionalities built into some aspects of EU budgeting (e.g. in the Operational Programmes), and there are some performance-linked flexibility mechanisms (especially the performance reserve applicable to the European Structural and Investment Funds (ESIF)). These mechanisms go beyond the features seen in most OECD countries and have the potential to introduce stronger incentives for effective performance. However, it should be noted that the conditionalities serve as "emergency brakes" rather than graduated-response mechanisms and that the performance reserve is very limited in scope, and remains to be tested regarding the rigour of its performance-linkage.
- Finally in this regard, the EU system is **"managerial"** in the sense that performance information is transmitted in a structured manner both in the context of Programme monitoring, and in the context of Commission internal processes, in a way that is designed to highlight effectiveness and achievement of results, even if the linkages to broader resource allocation policy are weak and indirect by comparison with national budgeting models. Stakeholders report that the focus upon performance (particularly by reference to the Juncker 10 criteria) has become more systematic and intensive within the Commission since 2015, and that these performance factors have new weight in the processes of internal prioritisation. A limitation in this regard is the Commission's very limited latitude to introduce entirely new programmes each year and thus to re-direct resources at the level of the overall EU budget (as distinct from resource re-allocation within the institution itself).

1.2.3. Analysing and assessing international performance budgeting frameworks: How the EU model compares

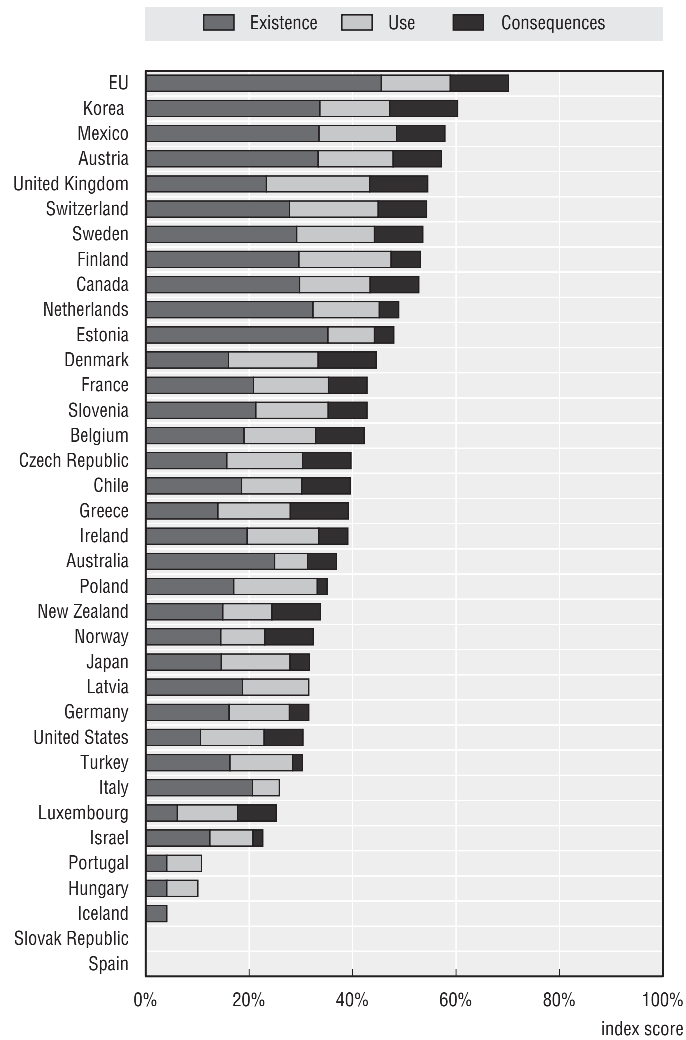
As a way of capturing the extent to which performance budgeting is implemented across OECD countries, the OECD has developed a composite performance budgeting index. It contains 11 variables that cover information on the availability and type of performance information developed, processes for monitoring and reporting on results and whether (and how) performance information is used on budget negotiations and decision making by the central budget authorities, line ministries and politicians. The index highlights three different aspects of the performance budgeting system:

1. **Frameworks:** The existence of a performance budgeting system;
2. **Use:** The use of performance information; and
3. **Consequences:** Consequences if the performance is not in line with targets.

Countries that receive a high overall score have typically created a comprehensive, government-wide framework for developing performance information (evaluations and performance measures), integrating performance information into budget and accountability processes, using it in decision making and monitoring and reporting on results. The index scores for the EU performance budgeting system relative to other OECD countries are shown in Figure 1.1.

It should be noted that this index does not measure how successfully any given system operates in practice. Success is better evaluated by examining whether policy execution is achieving the stated objectives. This dimension cannot be captured in this index. Box 1.1 below provides an explanation of how the index is compiled.

Figure 1.1. **OECD Performance Budgeting Index 2016**



Source: 2016 OECD Performance Budgeting Survey.

Box 1.1. **The OECD's composite performance budgeting index**

The 2016 Performance Budgeting Index presented in Figure 1.1 is a composite index built up using information on 10 variables. These variables cover information on the availability and type of performance information developed, processes for monitoring and reporting on results and whether (and how) performance information is used in the context of budget negotiations. Note that the score for the EU reflects the overall framework for the EU budget as it applies at both EU Institution and Member State levels.

Subject to this caveat, it is notable that the **EU performance budgeting system scores considerably higher than all countries in the OECD composite index.** This is driven by a high score for the "frameworks" component of the index, reflecting the highly specified nature of the EU performance budgeting system. The processes for monitoring and reporting on results in the EU are more elaborate than those in OECD countries. In particular the EU performance budgeting system is characterised with general guidelines and definitions;

standard templates for reporting performance information; a standard set of performance indicators and targets; and a standard ICT tool for entering/reporting performance information. Given the scale and complexity of the EU budget, the highly specified nature of the system generates large volumes of performance information.

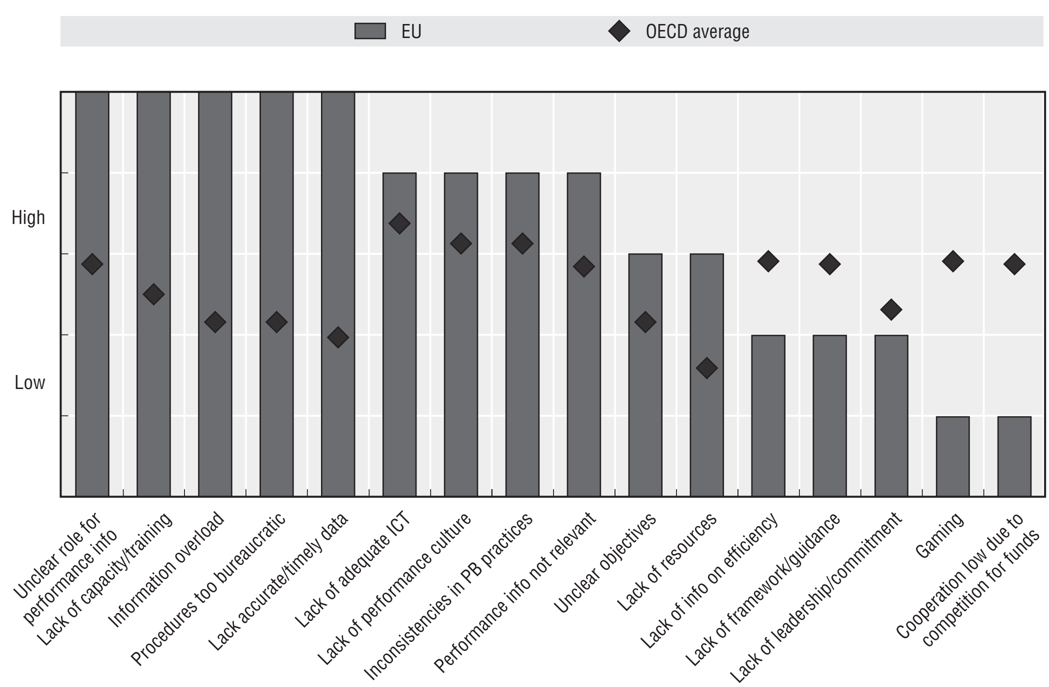
Despite the highly developed nature of the performance budgeting framework in the EU, it is striking that the scores for "use" and "consequences" are relatively similar to OECD countries. This measures the extent to which performance information is used as a decision tool to inform the budget.

In the EU and across the OECD, countries report that poor performance triggers a variety of consequences. Management responses are most common, such as publicising poor performance or more intense monitoring in the future. Budget consequences are more likely in the EU performance budgeting system than in OECD countries. However, in practice the budgetary responses under the EU model tend to be limited in scope.

1.2.4. Key challenges

The 2016 OECD Performance Budgeting Survey also highlights the greatest challenges to effectively implementing performance budgeting. Across the OECD these are: A lack of performance culture, a lack of resources, a lack of capacity/training, a lack of accurate/timely data and a lack of information on efficiency. While these are also reported as challenges at the EU level, a number of other challenges have higher prominence. These include: Information overload, an unclear role for performance information and overly bureaucratic procedures, as illustrated in Figure 1.2. These challenges may well be symptomatic of a system which is highly specified and has a strong presentational focus. Note that as is the case for Figure 1.1, the rating for the EU reflects the overall framework for the EU budget as it applies at both EU Institution and Member State levels.

Figure 1.2. **Challenges to effectively implementing performance budgeting**



Source: 2016 OECD Performance Budgeting Survey.

1.2.5. A superabundance of performance indicators

Alongside its budgetary documents in July 2016, the Commission presented an analysis of budget-related performance indicators showing that the Programme Statements contain in excess of 700 performance indicators, of variable quality. The Commission acknowledged in this context that "in terms of indicator usefulness, experience shows that it might be more important to have good quality information on a fairly small number of simple and key measures rather than a long list of indicators with limited information and relevance".

The indicators arise from negotiations among the EU's institutions and are set in the legal basis of the various programmes. Streamlining this information, so that it is brought within the cognitive capacities of policy-makers and can feed usefully into the processes of budget formulation and scrutiny, is an important challenge for the EU Budget Focused on Results initiative. The OECD suggestions (set out in Section 2) for rationalising and systematising the budget reports, both *ex ante* and *ex post,* are intended to assist in this regard.

1.3. Summary: A distinctive, highly-specified EU system of performance budgeting

Although the EU model of performance budgeting has characteristics in common with a number of different performance budgeting approaches observed across the OECD, it is unique in an international context. The most notable difference between the EU model and that seen across OECD countries is the level of system specification. In particular, the EU performance budgeting system is much more highly specified, complete with guidelines, standard templates, sets of indicators/targets, reporting requirements and a high level of engagement from different institutions.

Against this background, in assessing the effectiveness of the EU performance budgeting system and the most fruitful avenues for continuing reform, some of challenges arise.

First: The primary issue for the EU system is not to adapt to more closely resemble one or other of the national models of performance budgeting, but to start from a recognition of the distinctive characteristics – including strengths and weaknesses – inherent in the EU model and to map a reform strategy around these elements.

Second: It is undoubtedly the case that in several areas, the experience of national performance budgeting systems may hold useful analogies and insights for EU reforms. However given the advanced nature of EU budgeting systems in several respects, further advancement will require a reflection upon the internal logic of the system and upon its future potential and in mapping out a medium-term vision that allows for this potential to be realised more fully; international comparators will become more sparse.

Accordingly the remainder of this report provides analysis and qualitative considerations on the various dimensions of EU performance budgeting, with a view to informing such a medium-term vision of continuing reform.

2. Coherence and co-ordination of performance goals within the EU

2.1. The EU's over-arching goals

2.1.1. Benefits of a strategic framework of high-level goals

The OECD Recommendation on Budgetary Governance (2015) lays down ten internationally-accepted principles of modern budgeting, including the principles that "performance, evaluation and value for money are integral to the budget process"; and that budgets should be "closely aligned with medium-term strategic priorities", including through "organising and structuring the budget allocations in a way that corresponds readily with national objectives" and "showing the correspondence with expenditure objectives and deliverables from strategic plans".

In light of these normative principles, an important starting point in assessing a performance budgeting framework is the degree of clarity that exists regarding performance goals; the existence of an over-arching framework for ensuring the coherence between higher-level strategic goals and more intermediate, operational objectives; and an accountability framework to make clear what is being achieved, to what standards of quality and with what levels of efficiency.

2.1.2. The EU's strategic goals are set out in multiple, complementary frameworks

In principle the above considerations should lend themselves well to the EU budgeting framework, since EU action is predicated upon a clear rationale for intervention that serves to advance EU objectives, and upon the concept of "value-added" – i.e. achieving more through acting collectively than by the member countries acting alone. In practice, the importance of setting down a clear guiding strategy is recognised at EU level and is given effect through a number of complementary frameworks.

2.1.2.1. Europe 2020. The Europe 2020 framework was established in 2010 as a 10-year "jobs and growth strategy" for the EU, succeeding the "Lisbon Agenda" of the previous decade. It aims to be an organising framework for EU policy making, focused upon 3 pillar objectives – *smart, sustainable* and *inclusive* growth. The framework includes specific, high level targets for the EU, to be achieved by the year 2020, under five headings (see Box 2.1).

Box 2.1. Europe 2020 – 3 pillars, 7 flagship initiatives, 5 headline targets

	Flagship policy initiatives:
Pillar 1 – Smart growth	● Digital agenda for Europe ● Innovation union ● Youth on the move
Pillar 2 – Sustainable growth	● Resource-efficient Europe ● An industrial policy for the globalisation era
Pillar 3 – Inclusive growth	● An agenda for new skills and jobs ● European platform against poverty
Headline targets	**To be attained by 2020:**
1: Employment	● 75% of people aged 20-64 years to be employed
2: Research & Development	● 3% of the EU's GDP to be invested in R&D
3: Climate change and energy sustainability	● greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990 ● 20% of energy from renewables ● 20% increase in energy efficiency
4: Education	● Reducing the rates of early school leaving to below 10% ● at least 40% of 30-34–year-olds completing third level education
5: Fighting poverty and social exclusion	● 20 million fewer people in or at risk of poverty and social exclusion

The Europe 2020 strategy is also underpinned by a number of "flagship initiatives" in the various policy domains, and these in turn are supported by sector-specific frameworks. For example, under the pillar of Smart Growth, one flagship initiative is the "Innovation Union", which is supported by the **Horizon 2020** framework programme for the research and development programme which is one of the Europe 2020's flagships, directing EUR 80 billion of funding during the period 2014-20. Europe 2020 is intended as a co-ordinating framework to guide policy action at EU and national levels: Each of the headline targets has a corresponding national target. Monitoring of progress in implementing Europe 2020 is handled as part of the integrated economic surveillance arrangements in the "EU Semester", which also encompasses fiscal and economic policy co-ordination. Moreover, Eurostat (the EU's official statistics agency) has developed a web portal to allow each of the Europe 2020 indicators to be tracked, both at EU and at national levels.[2]

In budget terms, the need for alignment with the EU 2020 strategy of "smart, sustainable and inclusive growth" is ubiquitous in various policy instruments, and monitoring of performance against these headings has become a *leitmotif* of the Commission's activities over recent years.

2.1.2.2. Juncker 10 Priorities. The "Juncker 10" priorities (see Box 2.2) were set out by the Commission President Jean-Claude Juncker in 2014, as political priorities for action by the Commission. The first four of the ten priorities correlate directly with the Europe 2020 strategy for jobs and growth, the other priorities reflecting the EU's broader international and policy remit. Stakeholders report that the Juncker 10 priorities command a high visibility, both externally in communicating and reporting upon the Commission's activities in various spheres; and indeed internally, when assessing the priority areas for resource allocation and re-prioritisation among the Commission Directorates-General.

Box 2.2. **The "Juncker 10" Priority Areas for Action by the European Commission**

1. A New Boost for Jobs, Growth and Investment	6. A Reasonable and Balanced Free Trade Agreement with the U.S.
2. A Connected Digital Single Market Based on Mutual Trust	7. An Area of Justice and Fundamental Rights
3. A Resilient Energy Union with a Forward-Looking Climate Change Policy	8. Towards a New Policy on Migration
4. A Deeper and Fairer Internal Market with a Strengthened Industrial Base	9. A Stronger Global Actor
5. A Deeper and Fairer Economic and Monetary Union	10. A Union of Democratic Change

2.1.2.3. Strategic agenda of the European Council. Article 15 TEU states that the European Council (the institution composed principally of EU national heads of state and government) "shall provide the Union with the necessary impetus for its development and shall define the general political directions and priorities thereof." In exercising this function, a "Strategic Agenda for the EU in times of Change" was adopted by the European Council conclusions of 26/27 June 2014. The European Council sets its strategic agenda in context in the following terms:

> *"The May 2014 European elections open a new legislative cycle. This moment of political renewal comes precisely as our countries emerge from years of economic crisis and as public disenchantment with politics has grown. It is the right time to set out what we want the Union to focus on and how we want it to function".*

The five overarching priorities agreed by the European Council are set out in Box 2.3 below. Two of these priorities (1 and 3) directly relate to the Europe 2020 agenda.

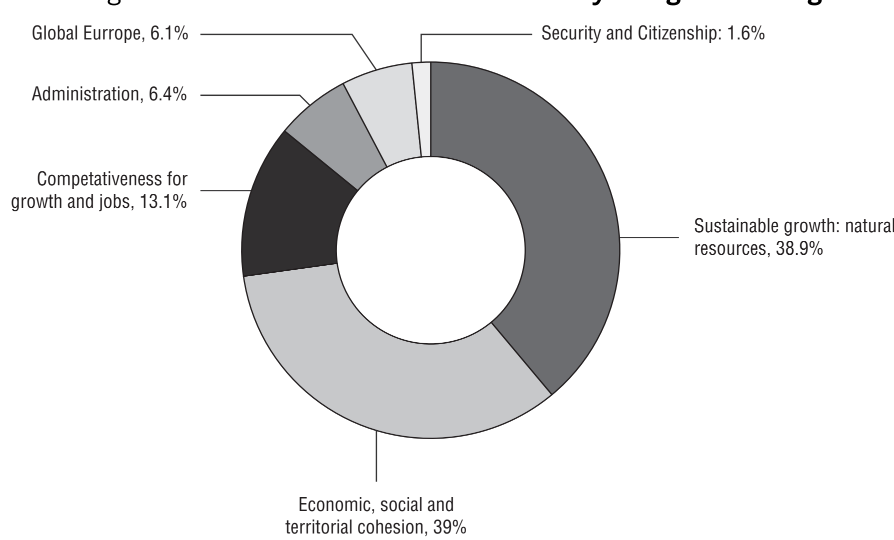
Box 2.3. **The European Council "Strategic Agenda for the EU in times of Change": Five Over-arching Priorities**

1. Stronger economies with more jobs
2. Societies enabled to empower and protect
3. A secure energy and climate future
4. A trusted area of fundamental freedoms
5. Effective joint action in the world

2.1.2.4. The Budget Headings of the multi-annual financial framework. The Multi-annual Financial Framework (MFF) 2014-20 provides that EU expenditure is grouped under five main headings, and these headings form the primary basis for preparing and presenting the annual budget. As illustrated in Figure 2.1, the headings are:

Heading	MFF allocation 2014-20 (Million Euros)
1. Smart and Inclusive Growth	513 563
1a. Competitiveness for growth and jobs (including the Connecting Europe Facility)	142 130
1b. Economic, social and territorial cohesion	371 433
2. Sustainable growth: natural resources	420 034
3. Security and citizenship	17 725
4. Global Europe	66 262
5. Administration	69 585
Compensations	29
TOTAL	**1 087 197**

Figure 2.1. **Allocation of EU resources by Budget Heading**



The budget headings subsume the Europe 2020 goals (smart, sustainable and inclusive growth) which together account for most of the EU budget, while also reflecting the EU's wider policy agenda.

2.1.3. How well do these strategic frameworks support EU performance budgeting?

Where multiple strategic frameworks are in place, it is of fundamental importance that they are well-co-ordinated and that their operational effects are mutually supportive. In general, the EU system manages these challenges in a pragmatic and sensible manner. The Europe 2020 agenda of smart, sustainable and inclusive growth has become a *de facto* reference whose influence in transmitted throughout the performance framework of the various Programmes; Europe 2020 encompasses the bulk although not the totality of EU competencies and thus of EU expenditure. The Juncker 10 priorities are primarily a tool for organising the Commission's activities in response to political priorities (including those of the Europe 2020 framework). The Budget Headings encompass the Europe 2020 framework alongside all other EU competencies and associated expenditure, but are not widely referenced or used outside of the budgeting context.

A shortcoming of this multiplicity of overlapping strategic frameworks is that they can impede clarity and transparency, making it more difficult for stakeholders to apprehend the high-level goals which the budget is intended to advance. Lack of clarity in communication is not a cosmetic matter; it can potentially undermine an important pillar of a successful, well-understood system of budgeting for results.

On the question of communication, there would appear to be scope for a clearer approach in future. It is not obvious, for example, where one would direct a non-specialist, curious citizen who may ask the basic questions: "What is the EU budget as a whole trying to accomplish? And how well is it succeeding?" There is certainly a wealth of detailed information, transparently available on the various internet pages of the EU institutions, regarding the various EU programmes and projects; as well as user-friendly summary guides. However, summary guides and "citizen's budgets" are of limited value compared with official instruments of strategic communication and accountability. At least for the purposes of budgeting, the OECD's view is that there are benefits to be achieved from having a single, strategic frame of reference for how EU resources are deployed, which can command public understanding as well as political authority.

2.1.4. How might strategic clarity and communication be enhanced?

2.1.4.1. A new "statement of goals for the EU budget". During the phase of considering the draft budget, the Budgetary Authority is supplied with a volume of Programme Statements which, while impressive as regards the transparency and comprehensiveness of budgetary information, is nevertheless too large for any one person to come to terms with.

For the purposes of the EU budget process, it would be helpful to present a unified account of the goals and objectives that the EU budget is intended to advance. One possible approach would be to develop a new, clear "Statement of Goals for the EU Budget" to be structured by reference to the existing EU budget headings, drawing together the various goals and objectives that are already articulated in various other policy domains such as Europe 2020 and specifying, in each policy area, a limited number of "headline targets" to be pursued during the course of the budget year. The Statement of Goals could thus serve as a primary focal point, and frame of reference, for objective-setting, evaluation and indeed for *ex post* performance reporting (as discussed in more detail under Section 2.3) in relation to EU budget programmes and policies.

In this context, there would be advantages in abolishing the **"Administration" Budget Heading** (along with the residual "Compensations" line item) and apportioning these amounts appropriately among the substantive policy headings; allowing the Statement of Aims to apply seamlessly across budgetary approval and reporting. This approach would not preclude the monitoring of administrative efficiency via parallel specific reporting (to the extent necessary); but would enhance the transparency of administrative expenditures, by integrating them alongside their associated policy goals and improved performance indicators.

Box 2.4. **Country case: Apportionment of administration costs among Expenditure Programmes in Ireland**

In Ireland's system of performance budgeting, the spending allocations for each ministry/agency (the Vote or Estimate) are framed by reference to the body's Mission Statement (from its Statement of Strategy); the spending allocations are grouped into Programmes (which correspond with high-level objectives from the Statement of Strategy); and a limited number of output objectives are set for each Programme. The administration costs of the body are not handled in a separate Programme or series of subheads: Since 2011, the administration costs – both pay and non-pay – are apportioned across each Programme so that the relative administration efficiency of each Programme can be seen. In determining the accounting basis for the apportionment of costs, standard guidelines were drawn up by the Department of Public Expenditure & Reform (the central budget authority) following consultation with the Office of the Comptroller & Auditor General (the national audit institution).

2.2. Institutional accountability: reporting on performance and results by the European Commission

2.2.1. The Commission has complex reporting obligations relating to Budgeting and performance

As the EU institution that bears central responsibility for the implementation of EU programmes in furtherance of EU objectives, the European Commission must also ensure that its own processes and activities are fully in alignment with these higher-level goals. In keeping with its over-arching responsibility, the Commission has in place a number of reporting mechanisms which form the basis of institutional accountability. These mechanisms have been developed progressively since the far-reaching governance reforms set out in the 2000 White Paper (Prodi) reform, and involve Strategic Planning & Programming (SPP) and Activity-Based Management (ABM) via a sequence of reports on various aspects of institutional planning and performance.

The overall reporting framework is designed to balance financial and non-financial (performance) reporting at key stages of the annual and multi-annual policy cycle:

Forward-looking/planning phase (before the budget year)

- The **draft budget** and accompanying documents, which include extensive information and Commission commentary on objectives and results, are submitted in June.
- The Commission President makes a **State of the Union address** before Parliament in September, presenting a political assessment and an agenda for action over the year ahead. The address is not primarily a budget-related event, but it is important in articulating high-priority EU objectives (and associated resources) for which the Commission will be accountable.
- In autumn, after the State of the Union address, the **Commission Work Programme** for the coming year is presented to the Parliament, Council and other institutions. Again,

this document is not primarily a budget-focused publication but it expresses the Commission's key objectives.

- In January, each Commission Directorate-General produces a **Management Plan** which shows the actions and outputs for the year ahead, reflecting the priorities set in the State of the Union address and in the Work Programme. The Management Plan in turn will form a basis of reporting in the subsequent Annual Activity Reports (see below).

Backward-looking/accountability phase

- In spring, following the completion of the budget year, each Directorate-General prepares an internal management report known as an **Annual Activity Report** (AAR), as required under the Financial Regulation. The AAR outlines how the Directorate-General has achieved its corporate outputs/ objectives, as previously stated in the Management Reports. The AARs also include a "statement of assurance" from each Director-General regarding the correctness of all financial transaction in his/her area of responsibility.
- The key elements of all of the AARs are brought together in a **Synthesis Report,** again in compliance with the Financial Regulation requirements. This synthesis report is submitted by the Commission (the College of Commissioners) to the Parliament and Council.
- Article 318 of the Treaty requires the Commission to produce an annual "evaluation report on the Union's finances based on the results achieved". This **Article 318** report has been the primary vehicle for systematic annual reporting of performance and results, on an overall basis, from the Commission to the budgetary authority.

2.2.2. The reporting cycle is becoming more streamlined and performance-focused

The package of reports from the Commission, as described above, already represents a degree of harmonisation and consolidation of information from disparate sources. In particular, the Synthesis Report on management achievements brings together the key results from the Annual Activity Reports of the various DGs, whereas the Article 318 Report attempts to summarise key messages from the various reporting streams across all of the EU's programmes.

In June 2016 the Commission put forward an **"Integrated Financial Reporting Package"** in respect of the financial year 2015, with a view to providing a more concise and coherent account of its activities to the Budgetary Authority. The Package included the following four reports:

- a new Annual Management and Performance Report (AMPR) which amalgamates the Synthesis Report and the Article 318 Report (see below)
- the EU Annual Accounts
- the Financial Report, and
- the Communication on the Protection of the EU Budget.

The **Annual Management and Performance Report (AMPR)** represents a further, significant stage in the streamlining of performance reporting. It includes separate sections on *performance and results* and on *management achievements*. The section on *performance and results* provides a summary account of progress by reference to the Europe 2020 headline indicators, and proceeds to give an account of results achieved under each of the budget headings, with extensive cross-referencing to Europe 2020 and Juncker 10 priorities. This section of the AMPR is effectively a digest of key performance-related information from the various strands of monitoring and evaluation, and from the Programme Statements; and it spotlights notable outputs in the various areas as well as "Examples of EU added value". The section on *management achievements* is more focused upon issues of probity in financial management including internal control and anti-fraud activities.

In recent years, the Juncker Priorities have also been used as an organising theme for the actions and outputs in the **Management Plans** mentioned above. More fundamentally, since 2016 the focus of the Management Plans has been adjusted in favour of new, multi-annual **Strategic Plans.** These plans make explicit how the Directorate-General will contribute to the Juncker Priorities over the medium term, supported with impact indicators. Alongside these Commission-wide "general objectives" are "specific objectives" for the Directorate-General, including an apparatus of results indicators, milestones and targets – analogous (but not identical) to the performance information provided in the budget-related Programme Statements.

2.2.3. Inter-institutional co-ordination on performance is being strengthened

Various mechanisms to enhance co-operation and co-ordination among the various EU institutions involved in performance monitoring, reporting and accountability have been developed in recent years.

Since 2015 **expert meetings on Performance-based Budgeting** have been organised under the EU Budget Focused on Results initiative, so that the broad range of issues relevant to performance and results can be discussed at technical level, with a view to working towards shared understandings on how the commonly-recognised challenges in this area might be addressed (see also Annex B).

At more formal levels, Article 295 TFEU provides that "the European Parliament, the Council and the Commission shall consult each other and by common agreement make arrangements for their co-operation. To that end, they may, in compliance with the Treaties, conclude interinstitutional agreements which may be of a binding nature." Such interinstitutional agreements (IIAs) allow the three bodies to put co-operative arrangements on a fixed, legal footing, without a requirement for Treaty revisions or the full EU legislative procedure.

The 2013 **IIA on "budgetary discipline, on co-operation in budgetary matters and on sound financial management"**[3] lays down arrangements for a number of matters including budget transparency; handling of the flexibility tools not included in the MFF; and implementation of the principle of "sound financial management of Union funds", including issues relating to the Article 318 Report and the cross-referencing of budgetary and legislative programming.

In 2016, a revised **IIA on Better Law-Making**[4] was introduced to advance a number of important elements of the EU's Better Regulation agenda (see below). Arising from the provisions of this IIA, the **Commission Work Programme** assumes a new importance as a focal point for policy planning and prioritisation over the coming year. The Work Programme is now the subject of *ex ante* consultation with the Parliament and Council. Taking account of the consultation process and as envisaged in the IIA, the Presidents of the Parliament, Council and Commission signed their first **"Joint Declaration on the EU's Legislative Priorities"** for the year ahead in December 2016. The Joint Declaration also referenced the European Council's Strategic Guidelines and the Juncker Priorities.

In addition, the EU's long-standing agenda of Better Regulation aims to ensure that the body of EU laws and procedures agenda are effective in achieving objectives, efficient in doing so, and proportionate as regards "administrative burden". In its 2015 Communication on **"Better Regulation for Better Results"**,[5] the Commission outlined an enhanced, integrated approach to quality in policy-making, grounded in evidence, and with clear professional reporting on the expected and actual impacts of policies (see Annex A).

Finally in this context, the EU's economic governance arrangements have been more closely co-ordinated over recent years via the **EU Budget Semester**, which in principle allows aspects of conditionality arising from the ESI Funds to feed through to fiscal governance (also explained in more detail in Annex 1). However, there is not yet any mechanism in place for analogous EU-wide co-ordination on issues of performance and results.

2.2.4. Are the reforms to budget reporting complete?

The above account illustrates that much progress has been made in rationalising the various performance-related reporting streams and bringing key messages into closer alignment. Specifically in the budgetary context, the new Annual Management and Performance Report (AMPR) from the Commission, which integrates the previous Article 318 report and Synthesis Report on management achievements, is an important streamlining initiative, and is a useful aid to policy-makers and stakeholders in forming a strategic overview of the EU budget.

However the treatment of performance information in the AMPR falls some way short of being structured and systematic, in such a way as to allow policy-makers to get a clear sense of what programmes are working well and not working well in achieving their stated objectives and in contributing to EU goals. The information on performance and achievements spotlighted in the 2015 AMPR (July 2016) may be useful in providing some insights into how money is being spent; but it is not obvious whether or how any of these outputs correspond to objectives and milestones. This issue is linked, in the OECD's assessment, to the desirability of achieving a more fully-integrated strategic framework of EU budgetary goals.

2.2.5. What direction should be considered for future reforms in budget reporting?

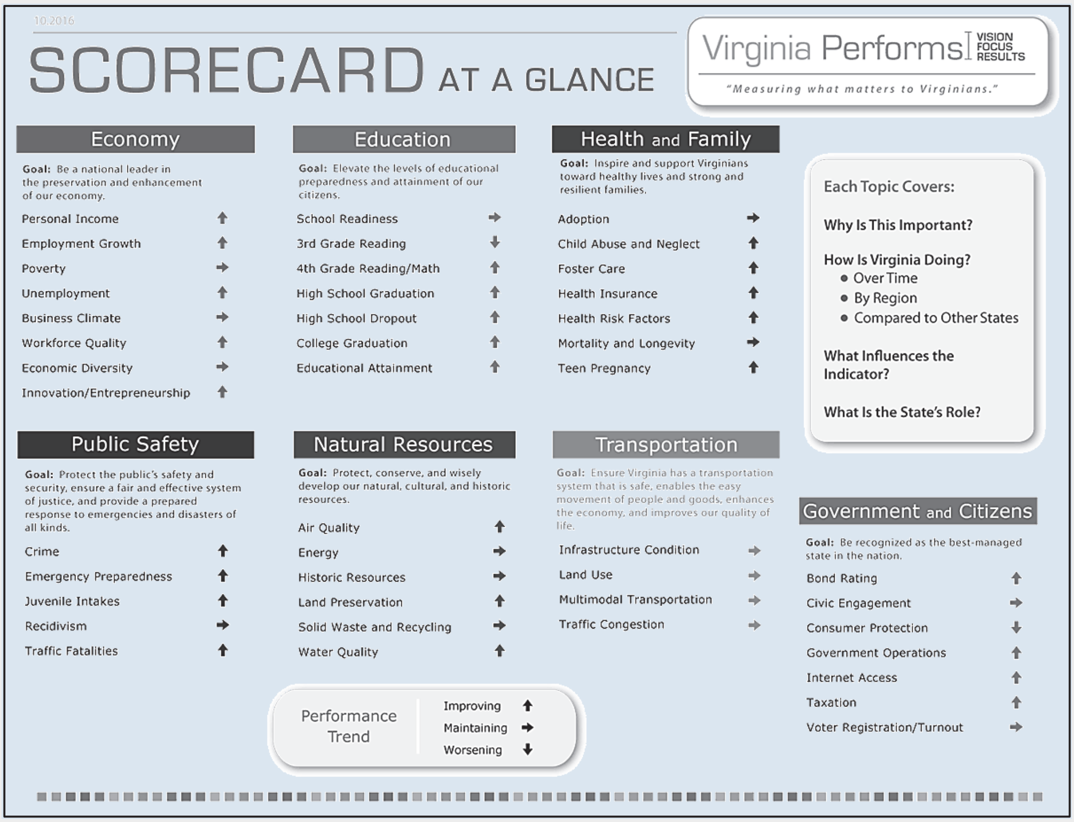
In the previous section, a new *ex ante* "Statement of Goals of the EU Budget" was proposed for consideration, elaborating upon the familiar template of the existing EU Budget Headings. An advantage of this approach is that, by carrying the same structured approach through to the *ex post* accountability phase, this would allow for a more systematic and coherent approach to performance-related budgetary reporting across the cycle.

In practice, this would require the Commission's Annual Management and Performance Report (AMPR) to evolve further, i.e. to be re-configured in line with the Statement of Goals. Rather than provide a sampling of the detailed performance-related information – as is currently the case – the evolved AMPR would report upon performance by reference to the budgetary Goals and Headline Targets. To aid accessibility and clarity of the information, a standardised concise reporting system should be used – e.g. a performance "dashboard" or "traffic light" system – to signal to policy-makers the degree to which Targets have been achieved or not achieved (an example of good practice from Virginia in the Unites States is provided in Box 2.5).

In principle, all of the information in this report should be subject to audit by the ECA. As a standardised, summary document, the AMPR would also be a better basis for citizen-

Box 2.5. **Country case: Performance scorecards from Virginia Performs, United States**

Virginia Performs is a signature initiative of the Council on Virginia's Future. It is a performance leadership and accountability system within state government. An online "Scorecard at a Glance" offers the public a snapshot of how Virginia as a state is performing against each indicator. Scorecards are also available for Virginia's regions, showing how well they are doing on the same indicators tracked at the state level.



faced reporting on EU impacts, and it should usefully be re-branded accordingly – e.g. *Annual Report of EU Achievements*.

A key challenge in this overall context is to agree upon a limited number of headline Targets, which are properly representative of the diversity of EU budget activity and policy priorities. Some country examples from around the OECD may provide useful examples on this point (see Box 2.6).

2.3. Relationship between national and EU performance budgeting systems

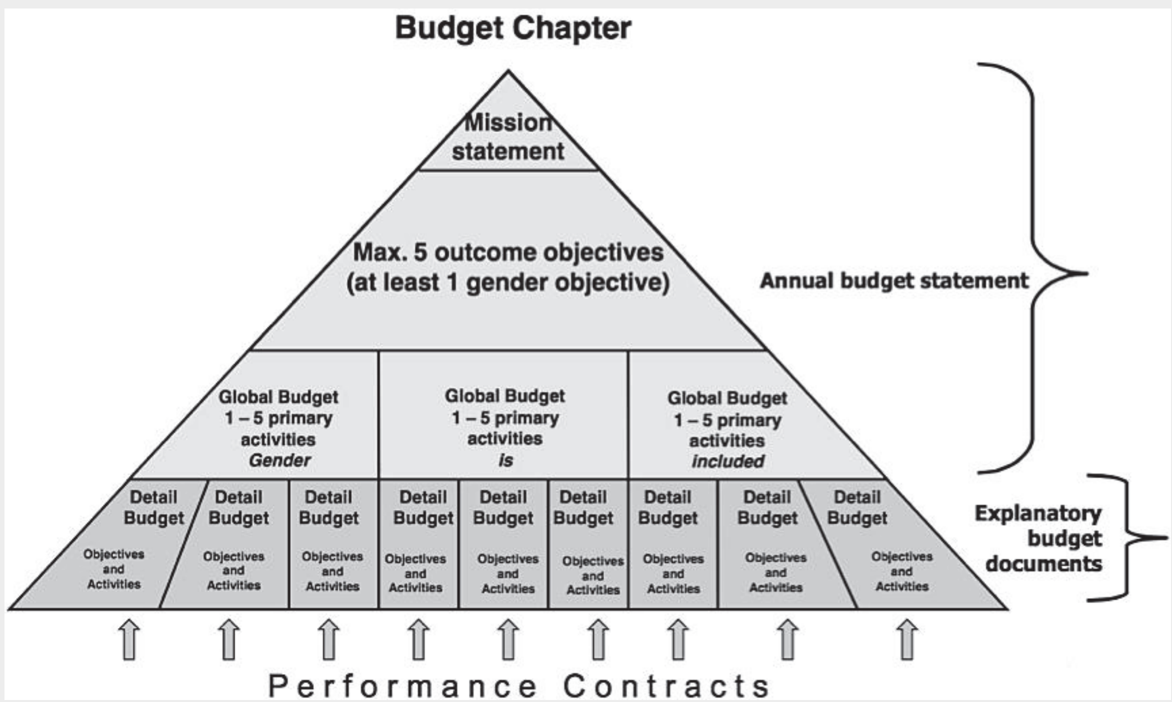
2.3.1. How well co-ordinated are EU and national performance budgeting systems?

Most (59%) EU countries responding to the 2016 OECD Performance Budgeting Survey reported that they have a standardised performance budgeting framework in place for EU funds. Half of these countries observe that the performance framework for EU-funded programmes is more rigorous than the performance framework for nationally-funded programmes (see Figure 2.2).

Box 2.6. **Country cases: Selection of headline performance targets**

Austria

Austria undertook major reforms of its budget law reform in 2009 and 2013 with the objective of improving budgetary decision-making and design of the federal budget as a comprehensive steering instrument for resources, outputs and outcomes. A crucial element of the Austrian reform was performance budgeting. Each ministry now has to define a strictly limited number of intended policy outcomes, outputs, and performance indicators which require the approval of parliament. For each of the 32 budget chapters, a maximum of five outcome/impact objectives (and related performance indicators) have to be defined by the ministries, out of which one objective must be related to improving gender equality. The performance information now published for each budget chapter is shown in the diagram below:

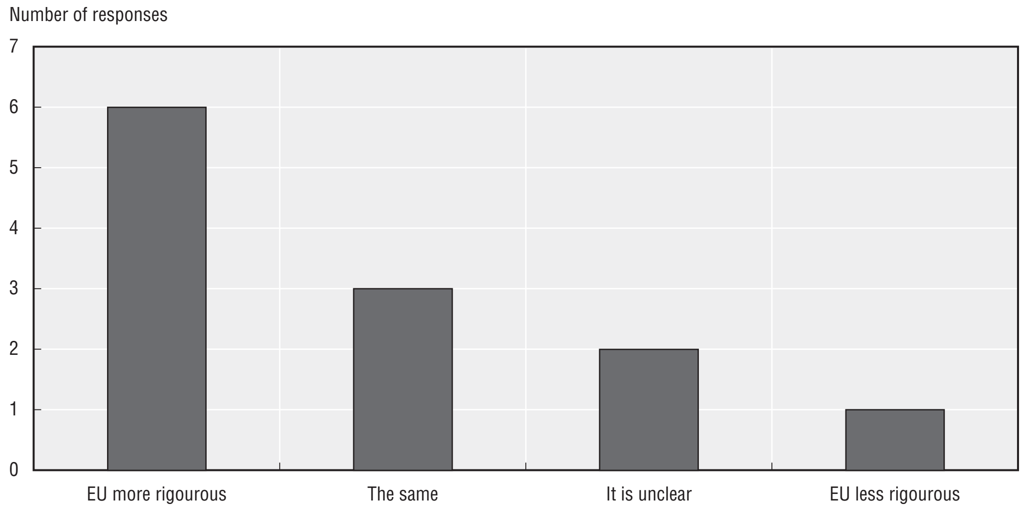


United States

The US Government Performance and Results Modernization Act 2010 created a more defined performance framework by defining a governance structure and by better connecting plans, programmes, and performance information. The law included specific requirements for performance reporting by Federal Agencies. Specifically, it requires the head of each agency to identify a small number of "Agency Priority Goals" from among the agency's performance goals. The Director of OMB has the authority to determine the total number of agency priority goals across the federal government, as well as the number of priority goals to be developed by each agency. A limited number of Cross-Agency Priority Goals are also adopted to improve cross-agency co-ordination and best practice sharing. For the fiscal year 2012-13 there were 103 Agency Priority Goals in total for twenty-four agencies, along with 14 Cross-Agency Priority Goals. Agencies outline long-term goals and objectives in their strategic plans and annual performance goals in annual performance plans. All of this information is available through performance.gov.

Source: US Government Office of Management and Budget.

Figure 2.2. **Is the performance framework for EU-funded programmes the same as the performance framework for nationally-funded programmes?**



Source: 2016 OECD Performance Budgeting Survey, Question 71.

In particular, performance frameworks for EU-funded programmes are much more likely to feature a standard set of performance indicators and/or targets, standard templates for reporting performance information and a standard ICT tool for entering/reporting performance information (see Table 2.1).

Table 2.1. **Frequency of key elements of performance budgeting frameworks**

Performance framework element	General performance budgeting frameworks across the OECD, %	Performance budgeting frameworks for EU-funded programmes, %
General guidelines and definitions	92	85
Standard set of performance indicators and/or targets	73	85
Standard ICT tool for entering/reporting performance information	42	62
Standard templates for reporting performance information	27	62

Source: 2016 OECD Performance Budgeting Survey, Questions 9 and 69.

Although some countries have applied performance practices required at the EU level to national programmes, in general terms, the OECD has heard from stakeholders that the interplay is relatively limited. The extensive performance budgeting practices that apply in the various EU-funded programmes are only partially applied in the equivalent national performance budgeting systems. This tends to create, in effect, a sharp disjunction between national and EU systems, hindering the transfer of knowledge and insights between the two policy realms, and thus the development of capacity and expertise in performance budgeting. It is notable, for example, that the Common Provisions Regulation governing the ESI Funds (see Annex C) calls *inter alia* for the "co-ordination and synergies between ESI Funds and other Union policies and instruments", noting that such approaches can avoid duplication of effort and add impact; but there is no corresponding call for co-ordination and synergies with national systems.

In addition, the EU's budgetary legislation involves an obligation on the part of member states to assist the Commission in ensuring that the principles of sound financial management are obtained, including economy, efficiency and effectiveness.

As the 2016 OECD Performance Budgeting Survey makes clear, almost all EU countries have some performance budgeting and evaluative frameworks in place, and some of these are quite well-established. It would seem implausible to suppose that the development of parallel systems of performance budgeting, servicing both national and EU-level programmes but with limited linkages and synergies is an optimally-efficient administrative arrangement.

2.3.2. How might co-ordination between national and EU levels be enhanced?

The OECD would suggest that the Commission and the member states should work to promote co-ordination of national approaches to performance-based budgeting as a common, qualitative element of public financial frameworks in the EU; consistent with the obligation on member states to co-operate with the Commission in promoting sound financial management. This voluntary co-ordination would be in keeping with the trend among most OECD countries to develop and refine their national systems of performance budgeting.

For the future, in those areas where EU programmes are dependent for their effectiveness on significant national co-financing, in principle it would be reasonable that the *ex ante* conditionalities attached to the programme could also include references to the quality of the national performance budgeting framework and its alignment with accepted standards of good practice.

Sections 3 and 4, which refer respectively to EU-national co-ordination on issues of parliamentary engagement and national auditing, and (in the case of Section 4) to issues of quality and standardisation in performance budgeting frameworks, are also relevant in this regard.

3. Engagement and accountability with the budgetary authority: Institutional and broader strategic considerations

3.1. The EU's Budgetary Authority

In OECD countries, the legislature is the institution invested with the task of formally authorising and approving the annual budget, and is the body to which accountability is exercised. The legislature may be either unicameral or bicameral; in the latter case, the different chambers may have parity of budget authority, or may have distinct roles, in line with national constitutional requirements.

In the EU, the Parliament is not a legislature in its own right but acts as co-legislator, jointly with the Council. Accordingly the two institutions are sometimes referred to collectively as the "legislative authority" or, specifically in the budget context, the "budgetary authority" even though the two institutions are legally distinct and are not referred to in the Treaties as constituent parts of an overall legislative body. In practice, however, the two institutions function in a manner loosely analogous to the two chambers of a bicameral legislature. The budgetary approval procedure (see Section 1) provides for co-ordination and conciliation among the institutions, including also the Commission which has the executive-type role of budget proposer. In practice, the degree of engagement of the Parliament and Council differs significantly, during the various phases of the budget cycle, and in particular with regard to the focus upon performance and results.

There are a number of other distinct differences which affect their budgetary role in practice. For example, the Parliament is not a revenue-raising body and it has tended to advocate increases in EU spending in various areas; by contrast, budget revenue policy is determined by the Council which in recent years has advocated a more constrained approach to EU spending. Since EU spending and revenues must balance, in effect the Council has operational primacy is setting the overall ceilings for the multiannual (and thus the annual) budget. Given the level of detail contained in the EU budget in many distinct policy areas, the Parliament tends to have operational primacy in the exercise of the accountability function.

3.2. The budgetary role of the European Parliament

The European Parliament comprises 751 Members of the European Parliament (MEPs) who are directly elected on a proportional basis by the citizens of the EU. Whereas the Council represents the member states, the Parliament directly represents the interests of EU citizens (i.e. all nationals of EU member states), and it exercises functions of political control and consultation as laid down in the Treaties. As outlined above, the Parliament exercises legislative and budgetary functions jointly with the Council, and so the two institutions together comprise the "budgetary authority". Accountability for the effective and efficient use of budgeted resources is a fundamental role of parliaments in all OECD countries and this is equally the case in the EU.

3.2.1. Parliamentary committees facilitate in-depth policy and budget scrutiny

The work of the Parliament is handled by 23 committees, the structure of which largely mirrors the DG system at Commission level. The Parliament's committees meet once or twice a month as a rule. The role of various committees in the budget process is outlined below:

- **Committee on Budgetary Control (CONT):** This Committee has 30 members and has roles and responsibilities similar to the audit committee of a national parliament. In particular, it has special responsibilities in relation to the EU budget's discharge procedure. During this procedure it scrutinises the implementation of the budget by all actors involved and prepares individual discharge reports for consideration by the plenary. The plenary considers these reports and decides either to grant or postpone discharge.
- **Committee on Budgets (BUDG):** This Committee has 41 members and has roles and responsibilities similar to the budget/finance committee of a typical national parliament. In particular, it discusses, amends and adopts the EU's Multiannual Financial Framework and the annual budget together with the Council. It is also responsible for setting out a Parliament position before the Commission proposal has been submitted, and it undertakes this task by arranging hearings involving expert witnesses.
- **Other Standing Committees:** The Parliament has 18 other standing committees, as well as important sub-committees and other specialised committees. Each standing committee consists of between 25 and 73 members. Responsibilities are diverse, but in general each standing committee oversees matters relating to the establishment, implementation and monitoring of policy measures in their domain, e.g. Employment and Social Affairs (EMPL) or Transport and Tourism (TRAN).

An interesting feature of the committee system at the European Parliament is the rapporteur model. This helps to distribute the work of the committee and enables committee members to develop expertise in relation to particular topics (see Box 3.1).

Box 3.1. **The rapporteur model at the European Parliament**

Rapporteurs in the European Parliament are members of committees that are chosen to report on a particular topic, for example, budget oversight. The rapporteur's key task is to analyse the project, consult with specialists in the particular field and with those who could be affected, discuss with other members within the committee and recommend the political "line" to be followed. All of these considerations flow into a draft report to be presented to colleagues who are also members of the parliamentary committee. Together, the members consider the draft report and may propose amendments before adopting it by vote. The reports are informally known by the personal names of the MEPs who draft and present them (e.g. the "Spinelli report").

The rapporteur receives practical help from the committee's staff and for very technical matters may also get support from external experts and experts from other EU institutions.

3.2.2. The Parliament's ex ante role in performance budgeting is limited

In the early part of the year, in order to inform the deliberations of the Commission as it begins to formulate its budget proposal, the Parliament's Budget Committee (BUDG) prepares "general guidelines for the preparation of the budget". The guidelines, which are submitted to the Commission after ratification by Parliament in plenary session, convey the Parliament's priorities for supportive action in the budget while also expressing views about broader qualitative aspects of the budget process. For example, in its General Guidelines for the preparation of the 2017 EU budget, the Parliament made *inter alia* a number of points relevant to these qualitative aspects, including performance and results – see Box 3.2.

Box 3.2. **Performance-related aspects of the Parliament's budget guidelines for the 2017 budget**

The European Parliament,

5. Welcomes […]the Commission's efforts to enhance the use of the European Structural and Investment Funds in support of key priorities highlighted in the country-specific recommendations; [..]

27. Recalls the importance of gender mainstreaming, which should underpin Union policies as a horizontal principle; calls on the Commission to put the principle of gender mainstreaming into practice when preparing the draft budget for 2017, as appropriate; [..]

29. Welcomes the Commission's efforts in developing the "EU Budget Focused on Results" strategy; calls on the Commission to demonstrate progress in the field of simplification of EU funding, especially with regard to reducing the burden of implementation and management of EU-funded projects; stresses that particular attention should be paid to the performance of financial instruments which can reach out to important target groups, such as SMEs, innovative enterprises and microenterprises under the Union funding programmes; believes, furthermore, that, apart from the Union institutions, considerable responsibility also lies with the Member States, given the fact that 80% of the budget is under "shared management"; calls on the Member States, therefore, to do their utmost to guarantee sound financial management and the reduction of errors, and to avoid any delays in the implementation of programmes under their responsibility; emphasises the need to focus more on developing suitable quantitative and qualitative output indicators in order to measure performance and evolve a concrete picture of the effect of EU spending in the real economy [..]

Source: T8-0080/2016 "European Parliament resolution of 9 March 2016 on general guidelines for the preparation of the 2017 budget, Section III – Commission".

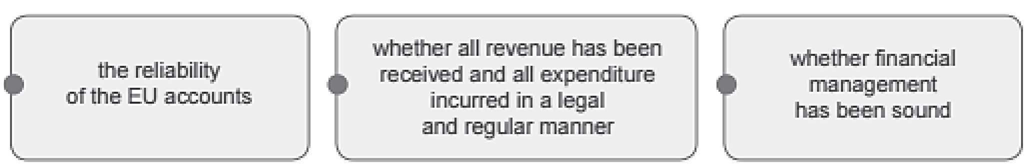
The Council also submits its own guidelines to the Commission (see below). Such a structured, formal opportunity for a legislature to submit its priorities, *ex ante* of the budget being formulated, is an advanced practice among OECD countries.

However, when the cycle moves on to the consideration and approval of the draft budget, the Parliament's role is relatively muted: It is during this phase of the budget that the Council comes to the fore (see below). Despite high level institutional commitment to the principle of performance budgeting, in general it is observed that there is very little practical consideration of performance information by Parliament throughout the budget approval process.

3.2.3. Parliament has a strong role in budget scrutiny and accountability

Once the EU budget is adopted, the Parliament, as the directly-elected institution representing the interests of EU citizens, exercises democratic oversight to make sure that the Commission and the other institutions make best use of EU resources. The principal way in which it exercises this power is by subjecting the annual accounts and other accountability reports from the Commission to scrutiny, and by deciding whether or not to grant the discharge, which marks the conclusion of the Commission's responsibilities with regard to budget implementation in that year. When granting the discharge, the Parliament has not only to verify the correctness of spending (compliance) but also has to ensure that there has been sound financial management and achievement of objectives (performance).

The Parliament's decision to grant, to postpone or to refuse the discharge is primarily, although not exclusively, based on reports from the Commission and the ECA which contain information on:



In the wake of the euro crisis, one particular issue in relation to the discharge procedure is that a number of new financial instruments and tools have been created to allow funding to be allocated in a more flexible way towards new priorities. However, these instruments sit outside the EU's standard budget procedure and as such are not subject to the discharge procedure; a consideration which gives rise to concern among some parliamentarians.

Traditionally, the focus of the discharge procedure has been on verifying compliance through consideration of metrics such as **error rates** (the amount of the adjustments – for example, resulting from errors in the preparation of the cost claims or from non-compliance with financial rules – on the amount audited). In addition, the concept of **absorption** – the degree to which available EU funds ("commitment appropriations") have been successfully drawn down and expended – has been highly significant as an indicator of programme implementation and associated investment in countries and regions. While these concepts remain important, since the amendments introduced in the Treaty of Lisbon (effective since 2009), Article 318 TFEU provides for a new accountability instrument – an "evaluation report on the results achieved with the EU's finances" (the so-called "Article 318 Report"). Over recent years, this instrument has helped to sharpen the focus on monitoring the achievement of policy objectives. For example, in granting discharge in respect of the European Commission budget allocation for the year 2014, the Parliament in its decision of 28 April 2016 included a number of specific observations regarding the performance aspects of the budget, as illustrated in Box 3.3.

Box 3.3. **Selected performance-related aspects of the Parliament's discharge for the 2014 budget**

The European Parliament,

Underlines that in the past, the discharge procedure primarily verified the legality and regularity of financial transactions; believes, in the context of the Commission initiative "An EU Budget Focused on Results", that more emphasis should also be given in future, beyond the above verifications, to examining whether the results achieved by projects and programmes match the intended objectives;

Considers that a results-oriented budget requires strong, solid and commonly agreed indicators; notes, however, that these indicators still need to be agreed with the co-legislators, the Commission and through extensive consultation with Member States' authorities and other stakeholders. Welcomes in this sense the establishment of the inter-institutional working group on performance-based budgeting of results-oriented budget that has only recently started its work; encourages all parties involved to accelerate its work while ensuring that a high quality set of indicators is agreed;

Welcomes the fact that the structure and content of the [ECA's] 2014 annual report follows the headings of the MFF and places greater emphasis on performance and results; Is aware that the move to an increased level of performance auditing cannot be done in a single step, as it is only once the basic legal acts and the budget are drafted with the intention to align policy objectives with qualitative indicators or to produce measurable results that performance audits can move forward;

Points out that since the periods covered by the Union's ten-year strategy and its seven-year budgetary period are not aligned, the Commission's ability to monitor the contribution of the Union budget to the Europe 2020 Strategy is limited for the first half of the strategy period, albeit that all the data necessary for performing annual checks are available;

Points out that the objectives and the budget for results must be geared to the objectives laid down in the Treaties, the Europe 2020 Strategy and sectoral and cohesion policies and must be sufficiently flexible so that it can be adapted to emergency situations that may arise, such as the economic crisis and/or the refugee crisis;

Takes note that according to the Court, there are inherent weaknesses in the performance framework of the common provisions regulation on ESIF, as poor results do not lead to the loss of the performance reserve for Member States and as the financial sanctions available to the Commission are limited; however, considers that before asking for sanctions a better system for performance measurement should be in place and potential sanctions should be preceded by a process of assisting Member States to improve performance

Calls on the Commission to make fuller use of the scope afforded by existing legislation with regard to the performance reserve so as genuinely to create a financial incentive to improve financial management in practice; calls furthermore for greater use to be made of the performance reserve as an instrument to increase the element which is conditional on performance when the legislation is next revised;

Concludes that the discharge: a) priorities include a balanced approach between traditional methods and a strengthened focus on performance and results, taking account in every case of the obligations arising from the Treaties, the sectoral policies and the flexibility necessary to deal with unforeseen events; b) requires improvement in data availability and management to declare the performance and results; c) appreciates a strengthened linkage of the Union budget with key Union policy strategies and concepts (as the Europe 2020 Strategy) and their correlation with key sectoral policies.

Source: P8_TA-PROV(2016)0147: European Parliament decision of 28 April 2016 on discharge in respect of the implementation of the general budget of the European Union for the financial year 2014, Section III – Commission.

3.2.4. Parliamentary scrutiny across the budget cycle is not fully connected

As indicated above, the Parliament's Budget Committee has expressed its views regarding the need for enhanced performance information in the budget and the Budgetary Control Committee has provided extensive, considered commentary on various aspects of this subject. However, the current budgetary procedures provide only limited "windows of opportunity" for Parliament to engage in performance-related scrutiny with any degree of intensiveness or continuity. Some parliamentary stakeholders have expressed the view that while the reforms of recent years are welcome, further re-balancing is needed – for example through a greater degree of practical and operational discussion of performance metrics during the discharge procedure – so that the processes of Parliament scrutiny can have maximum relevance and impact.

As outlined above, the Parliament's various standing committees are the locus of expertise and policy specialism in the various areas of EU activity. Over recent years, the Committee on Budgetary Control has been seeking to encourage a more holistic, Parliament-wide approach to performance oversight, so that the concerns and insights of the Standing Committees are brought to bear in a more systematic way upon the budget process. For example, the Committee on Budgetary Control has made increasing use of the Performance Audits published by ECA (see Section 4). The Committee holds sessions with the ECA on their Special Reports and invites other Standing Committees to participate in these sessions where they are related to their policy domain; however, the level of involvement elicited from other committees to date has been limited. Moreover, some Standing Committees appear reluctant to engage fully with the shift towards performance and results; perhaps reflecting anxieties, which are not uncommon among parliaments in OECD countries, that tools such as performance budgeting may strengthen the hand of the executive, by reducing the scope for budgetary allocations that are not grounded in evidence.

Some MEPs sit on both the Committee on Budgetary Control and the Budget Committee of Parliament. In principle, such an overlap of membership can help in connecting the cycle of budget accountability, by enabling information and issues from the oversight of previous spend to be used to inform the incoming budgetary cycle. However, parliamentarians have pointed to challenges in adopting a fully "joined up" approach to considering performance information, and to using this information systematically as a basis for scrutiny and accountability, throughout the phases of the budgetary cycle and effectively drawing the information provided by the Commission and the ECA in the context of considering the Multiannual Financial Framework and the annual budget.

3.2.5. Enhancing cross-committee engagement in EU performance budgeting

It appears to be widely accepted among stakeholders that the development of a joined-up, Parliament-wide approach to using performance information will require a wider shift in the culture of Parliamentary oversight and cross-committee functioning – i.e. involving the sectoral Standing Committees as well as the budget-related committees.

Accordingly, the various committees of the European Parliament should seek to co-ordinate and connect their activities to make the best use of performance information across the budgetary and broader policy-making cycles. This should involve a structured form of co-operation and engagement among the Budgetary Control Committee, the Budget Committee and the Standing Committees, so that the policy messages arising at the various parliamentary forums can be input and transmitted in a seamless manner through the *ex ante* budgetary approval through to the *ex post* accountability stages.

In the first instance, such a development will require a stronger co-ordinating role for Budgetary Control Committee, which at present bears most responsibility for engaging with information on performance and results. However the availability of clear, strategic statements and reports, which maintain uniformity in structure and content across the budget cycle as recommended above – including also clear, thematic reporting that is relevant for Standing Committees – would facilitate an enhanced and re-balanced performance oversight role across the various parliamentary committees.

One technique that has been used in OECD countries to generate wider parliamentary engagement in performance oversight has been to enhance the consultative role of the legislature, including sectoral committees, in establishing performance indicators. Illustrations of how this type of exercise has been undertaken in both Sweden and the United States, involving parliament and government stakeholders, is provided in Box 3.4.

Box 3.4. **Country cases: Enhancing the role of parliament in selecting performance information**

Sweden

An informal working group of approximately ten civil servants from the Ministry of Finance and the Parliament's Finance Committee was set up in 2000 to improve performance information given to the Parliament. It met over a period of several years. When the group discussed specific budget areas, representatives from various line ministries and parliamentary sectoral committees also participated in the group, ensuring that there was broad engagement in the process. The group served as a catalyst, spreading good ideas to government and parliament and identifying the types of performance information most useful to parliament in its deliberations on the budget.

United States

The Government Performance and Results Modernization Act reforms enhanced the consultative role of Congress in establishing performance indicators. Previously, performance data was highly centred on consultation between the OMB and agencies. As delivery agents, agencies already possessed a large informational advantage and the perception among many Congress members was that performance data could be strategically presented by agencies to reflect intended performance narratives, rather than a comprehensive, performance-informed snapshot. The reforms established more specific requirements for agency and OMB interactions with Congress. This increased consultation, engaging Congress and legislative staff earlier in the process to facilitate better proposals, improving trust in the data presented within. Consultation is required to occur every two years.

3.2.6. More systematic research support on performance budgeting may be useful

The **European Parliamentary Research Service** offers tailored briefing and personalised research for individual MEPs as well as more detailed publications for Parliament as a whole. Each Committee Secretariat also provides some research support to Committees of the Parliament. In general, both services are highly regarded by MEPs. Moreover, as outlined elsewhere in Sections 2 and 4, the Parliament now has available to it a wealth of information and reports relating to performance and results – ranging from the Programme Statements in the draft budget, to the new integrated Annual Management and Performance Report and the ECA's Special Reports.

Parliamentary stakeholders have in general expressed satisfaction with the level and nature of performance-related information that is available, while also acknowledging the practical difficulties of remaining abreast of all of this information and of distilling key messages that are useful for the processes of budget approval and accountability. It appears that there is scope to provide enhanced technical analytical support in the area of budget and performance oversight, in line with developments in a number of OECD and EU member countries (see Box 3.5). Indeed, in the context of implementing a more joined-up approach within parliament to engaging across the budgetary cycle, consideration could be given in future to establishing a standalone European Parliament Budget Office to provide extra status, focus and co-ordinating capacity to this core parliamentary function.

Box 3.5. **Country cases: Resources to support performance budgeting in national parliaments**

The House of Commons Scrutiny Unit at the UK Parliament

The House of Commons Scrutiny Unit supports Select Committees in examining the expenditure and performance of government and the relationships between spending and delivery of outcomes. It does this by promoting the value of linking examination of spending with examination of outcomes, by helping committees analyse spending patterns alongside the performance and by pressing the government to improve the information available and promoting Parliament's interests of holding the executive to account. This includes contributing financial and performance material to committee inquiries, including briefings, questions, reports and analysis of impact assessments.

The Parliamentary Budget Office at the Austrian Parliament

The Austrian Parliamentary Budget Office has a mandate to support Parliament in the budgetary process, in consulting and enacting budget laws and exercising its oversight role. As part of this, it provides Parliament with information on the performance budgeting framework, maps all outcome objectives, advises how to read documents efficiently and provides analysis on each budget chapter, including performance goals/tasks/indicators. It also makes recommendations to the Government on how budget documents (including performance information) can be improved from a parliament user's perspective and pushes for better and earlier access to information.

3.2.7. Fostering Relationships with member state parliaments may be productive

Committees of the European Parliament have, on a number of occasions, held discussions with representatives of the equivalent committees in member state parliaments and national audit authorities. In general, parliamentary stakeholders have expressed support for better contacts with the national parliaments. While enhanced parliamentary contacts involve practical difficulties, the Committee on Budgetary Control has attempted to manage these challenges by systematically inviting a national parliament representative from the member state that holds the Council Presidency. The Committee is also planning to organise periodic meetings with small groups of national parliaments in relation to specific areas of EU spending. Such multi-lateral approaches could also prove helpful, in future, to encourage exchanges of good practice for parliamentary oversight of performance in the budgetary context.

3.3. The budgetary role of the Council of the European Union

The Council of the European Union is composed of representatives of the EU's 28 member states. Traditionally, budgetary concerns of the Council have focused on high political questions of revenue raising ("own resources") and aggregate expenditure management, with countries often characterised as falling into the broad categories of "net payers" (i.e. states whose overall contributions towards the EU budget exceed their benefits received), and "net contributors" (states whose benefits exceed their contributions). While such a characterisation is simplistic – not taking account, for example, of the benefits enjoyed by all member states as part of the single market, or the benefits from economic and democratic convergence in the countries and regions of Europe – stakeholders accept that the budgetary discussions in Council have a political character, involving a regard for state interests, that is distinct from the budgetary discussions in Parliament.

3.3.1. The Council is strongly engaged on financial aspects of budget approval

The Council's engagement with the budget process is handled via its Budget Committee of senior officials. The Budget Committee is chaired by the country holding the Council Presidency, a position which rotates every 6 months.

As is the case with Parliament, the Council submits *ex ante* guidelines to the Commission at an early stage of the cycle, to inform budget preparations. In its guidelines for the 2017 budget, the Council emphasised the need for "a realistic budget respecting the principle of sound financial management" involving strict compliance with expenditure ceilings. As a general principle, the Council puts a very high priority on the need for financial discipline in the preparation and implementation of the EU budget. However, in its guidelines the Council also encouraged the Commission "to further improve the content of its budgetary documents in order to make them more transparent, simple and concise", noting that "Programme statements should, in particular, focus on performance information and ways to improve it, including the results achieved, the justification for the level of appropriations requested, and on the added value of EU activities. This analysis should be clearly linked to the relevant budget lines in order to support the budgetary decision-making process."

Once the draft budget and its associated documentation is published by the Commission, in practice the bulk of discussions and negotiations are handled between the Commission and the Council (see Section 1.2), with the focus of discussions being on the financial rather than the performance aspects.

3.3.2. Better performance reporting would aid the Council's accountability role

While the Parliament is structured in a way that allows members to engage in the details of policy in each area, member state representatives on the Council are subject to more limitations on time and specialist capacity. Accordingly during the *ex post* stages of analysing annual accounts and budget implementation, it is the Parliament rather than the Council that tends to take the primary role in exercising detailed scrutiny.

However Council stakeholders also signal the lack of a single accountability document, of a strategic nature, that would facilitate them in exercising a stronger accountability function. Such a document would need to be concise; structured narrowly on the basis of performance and impact; while also corresponding to the financial allocations. In particular, Council stakeholders emphasise the need for simplicity and streamlining, cutting through the perceived information overload and providing an "executive summary" to form a basis for budgetary decision-making.

The recent evolutions in the Commission's budget-related reporting – notably the Annual Management and Performance Report (see previous Section) – represent a move in this direction. For future reform, the proposed approach of introducing a clear, strategic "Statement of Goals of the EU Budget" and a corresponding *ex post* document, should be considered as a means of facilitating the Council in its task, as a co-equal arm of the Budgetary Authority, of holding the Commission and its agencies to account for the performance aspects (and not merely the financial aspects) of the EU budget.

3.2.3. Budget responsiveness to results information is very limited in the EU model

A more fundamental question is whether such performance information, even if presented in an ideal manner, could realistically be used to influence the budget allocations. Stakeholders in both institutions – Council and Parliament – note that the political sensitivity attaching to the various Programmes precludes such flexibility: In practice, national stakeholders see the allocations, once settled in the MFF context, as "their" money that should not be adjusted except *in extremis*. This inflexible aspect of the MFF, while well-suited to medium-term strategic orientation and planning for resource availability, marks a distinct departure from the practices of national budgeting, where annual or periodic reallocation of resources in response to changing priorities – and indeed in response to evaluations of performance and results – is the norm.

In practice, the EU's annual budget process is now largely an exercise in accountability and reporting, but without the possibility (and expectation) of resource reallocation that features in national systems. In such an environment, it is more challenging to promote engagement among budgetary decision-makers (in Parliament or Council) or the public with information on budgetary performance and results. Indeed, in the absence of opportunities for refining and re-prioritising among programmes to achieve better overall outcomes, there is a heightened risk that the annual budgetary dialogue focuses on issues of contention and fault-finding. The strong focus on the "error rates" of EU programmes, to an extent not typically seen in analogous budget scrutiny processes at national level, is perhaps a reflection of this. It should be acknowledged that in recent years, as outlined above, the Parliament's budget discharge procedure has included more qualitative discussion on performance issues, signalling an appetite for greater engagement on this aspect on budgeting.

The "flexibility instruments" described in Annex A represent a pragmatic workaround for the lack of inherent flexibility in the budget; however these instruments in themselves are not a sustainable solution in the longer term, inasmuch as they are extraneous to the normal budget process and to its standard routines of accountability including Parliamentary scrutiny and discharge.

3.2.4. How could Budget Flexibility and responsiveness to performance-related signals be further enhanced?

Generally, institutional stakeholders appear to accept that innovations such as the performance reserve (see Annex C) could – if handled sensitively and in a way that commands confidence among all stakeholders – be expanded over time to introduce genuinely performance-responsive elements in EU budgeting.

On balance, the OECD would suggest that the principle of making budgetary allocations responsive to performance and results, as introduced with the **performance reserve**, should be applied as a general principle of EU programme design. The principle can be applied in a meaningful way, in terms of its impact of resource allocation, to the extent that it a) accounts for a more significant proportion of spending than the 6% level that currently applies for the ESI Funds; b) allows for greater latitude to move funds across different programmes and regions; even if, for reasons of political acceptability, the reallocated funds must remain with a national area; and c) the results of a performance review allow for a graduated (rather than pass-or-fail) response.

However, even such a model may not be fully effective in helping policy-makers to address a more fundamental question: Whether the current disposition of resources, as reflected in the multi-annual and annual budget envelopes, remains in line with political priorities; and if not, how resources should be reallocated towards these new priorities. The question becomes more relevant, depending on the length and fixity of the budget envelopes: Therefore in the case of EU budgeting, with 7-year budget envelopes and very little latitude for adjustment, the question is indeed highly relevant. Accordingly it may be appropriate to introduce a **Spending Review** model into the EU budget system, along the lines that have been introduced in a growing number of countries around the OECD and in EU member states.

Spending reviews offer policy-makers a range of benefits, from analysis of the baseline of expenditure as between fixed, flexible, legal and discretionary elements; review of efficiency and duplication of resources among various agencies; and an opportunity to re-calibrate their spending framework to reflect new priorities. Such an initiative would introduce a further opportunity to make use of longer-term, evaluation findings across the continuum of public policy in the EU. Indeed, it is worth considering, as outlined in the following section, institutionalising Spending Review as a standard procedure during mid-term review of future MFFs.

Box 3.6. **Use of Spending Reviews in OECD countries**

Spending review is becoming more commonplace as a budget management tool, with it now having been used in 23 OECD countries, compared to 16 in 2011. An additional 6 countries are considering this tool for future use (Austria, Estonia, Israel, Korea, Norway and Turkey). Over 70% of countries that report using spending reviews have now had multiple reviews indicating that spending reviews may be becoming embedded in budgeting processes in some "new adopter" countries rather than being used as an *ad hoc* response to fiscal pressures.

Two models of a spending review have been used historically: i) targeted annual reviews, most common to the Netherlands and Denmark and ii) cyclical comprehensive reviews, common to the UK. So far, comprehensive rather than narrow spending reviews appear to be favoured among "new adopters".

Source: 2016 OECD Performance Budgeting Survey.

3.4. Broader strategic and medium-term considerations for enhancing coherence, co-ordination and flexibility in EU performance budgeting

In addition to considering the coherence and co-ordination of EU performance budgeting from the perspective of the current institutional arrangements, it may be useful to set out some suggestions which may be more far-reaching in terms of their impact upon the political and administrative architecture of the EU budget system; but which may nevertheless be helpful in provoking creative deliberations on how the performance aspects of budgeting may be developed into the future.

3.4.1. Align the multi-year budgeting and strategic policy timeframes

It would be helpful to resolve the mismatch between the current 7-year horizon of the MFF and the 10-year strategic policy horizon (as currently set out in Europe 2020), so that the two frameworks are always in synchronisation and so that the correspondences between strategic goals and the budgetary framework can be maintained and reinforced. The expiry of the current MFF and Europe 2020 in the same year, for the first time, offers an opportunity to introduce such an alignment. This can be achieved *either* by reducing the strategic policy horizon from 10 to 7 years to match the MFF; *or* by reducing the MFF from 7 to 5 years, so that each strategic policy period encompasses two successive MFF periods. There are advantages and disadvantages to both approaches; on balance however, the latter option may be preferable for reasons set out under the next heading.

3.4.2. Align the MFF with the 5-year cycle of the Parliament and commission

Both the European Parliament and European Commission are elected/appointed for five-year terms. By analogy with good practice in national budgeting and in the interests of making the EU-wide discussion of performance and results more meaningful and politically relevant, there may be merit in aligning the EU's budget period with this 5-year cycle of political accountability and renewal.

3.4.3. Standardise the MFF mid-term review as a "window" for budget flexibility

The practice of conducting a mid-term review of the MFF is helpful, in introducing opportunities for reassessment of overall objectives and allocations in what is otherwise an extremely rigid budgetary framework. Whether the future MFF follows a 7-year or 5-year model, the practice of mid-term review should be maintained and its role should be explicitly enhanced to underpin the expectation that the results of performance and evaluations will be used to reassess budgetary allocations. The mid-term review would be an appropriate juncture to conduct an EU Spending Review, to explicitly counteract the "rigidity" in the baseline of expenditure and allow space for political reassessment, including in response to performance and evaluation data.

3.4.4. Making best use of performance and evaluation across the policy continuum

EU programmes are subject to regular monitoring, performance reporting and rigorous evaluation procedures (see e.g. Annex C), all of which are intended to support programme impact and efficiency at various stages of policy design and review. This analytical activity generates a wealth of performance-relevant information and a key challenge for policy-makers is how to make optimum use of this information throughout the policy cycle.

For example, high-quality programme evaluations typically take a long time – a year or more – to deliver findings and so it is difficult to take account of useful results in a timely way during the annual budget cycle. Programme monitoring may yield useful data on a more regular basis, albeit the data are not necessarily intended or designed to influence the annual budgetary discussions.

Box 3.7. **Country case: Multi-annual budgeting and periodic spending review in Ireland**

The design of the Irish budgetary framework – and of the spending review process within it – reflects international best practice. The Comprehensive Expenditure Report 2012-2014 (CER) of 5 December 2011introduced a new model of multi-annual budgeting called a Medium Term Expenditure Framework (MTEF). Another of the key reforms to the budgetary architecture, announced in the CER, was the introduction of regular spending reviews. Since the beginning of the economic and financial crisis, comprehensive spending reviews have played an important role in Ireland's efforts to restore expenditure policy to a more sustainable footing.

The comprehensive spending reviews were integrated in the reformed expenditure framework and are planned to take place on a periodic basis. As such, they are designed to be part of normal budgetary and expenditure management practice and to support the MTEF by allowing for the examination of baseline expenditure alongside new policy proposals to generate better policy choices taking into account emerging political priorities.

The 2014 comprehensive spending review was the first Irish spending review to ask spending departments to identify a certain volume of savings – 5% of the expenditure ceilings for 2015 as set out in the Expenditure Report 2014. The original aim of setting the ceiling was to ensure that the process provided a sufficient and wide range of options to Government that would allow it to achieve its immediate fiscal objectives and potentially allow it to make room for new expenditure proposals.

Source: Kennedy and Howlin, 2017 (*http://dx.doi.org/10.1787/budget-16-5jg30cchf0g0*).

In responding to these challenges, two broad approaches are suggested. *First,* many EU programmes have a multi-year investment character; and the policy issues which they address may have an ongoing relevance, spanning more than one MFF, albeit the details of the programme may evolve from one iteration to another. This longer-term policy continuum provides opportunities for the full spectrum of evaluation and performance reports to "feed forward" to policy design and re-prioritisation, alongside other programme-specific tools and reporting requirements – see e.g. Box 3.8. Mobilising the full range of evaluative and analytical tools is important to counter "policy inertia", whereby established programmes are retained even where their continuing relevance to EU strategic goals may be unclear.

Second, the roles and intended uses of the various performance reporting and evaluative instruments across the policy continuum could be more explicitly catalogued, explained and applied in the EU context. A clearer understanding of the sources and nature of performance-relevant information would promote a more holistic use of this information by policy-makers, in their task of designing, implementing, testing and re-designing programmes. In particular, policy-makers should be in a position to test each element of the programme-logic model in place: Whether the allocated resources are delivering their specified activities and outputs and whether these outputs are indeed well-designed to support higher-level programme outcomes and strategic policy goals. A more integrated approach to drawing upon a) programme monitoring b) regular strategic performance reporting and c) longer-term evaluation, should contribute to a meaningful performance assessment of policy interventions over the short and longer term.

Box 3.8. **Country case: Use of evaluations in the longer-term policy continuum in Canada**

Canada has long used evaluation to support evidence-based policy development. In 2006, the Financial Administration Act introduced the requirement that all ongoing grants and contribution programmes be reviewed every five years. Then in 2009, the Evaluation Policy sought to support better policy and programme improvement, expenditure management, Cabinet decision making and public reporting. Each department has designated a head of evaluation with unencumbered access to the head of the organisation, and most have formed departmental evaluation committees. Sub-directives under the Policy strengthened requirements for programme managers to collect ongoing performance information to support periodic formal evaluation of their effectiveness. Evaluations are increasingly seen as tools that can be used by departments and the centre of government to better integrate performance information into decision-making and the budget. During 2011-12, 80% of relevant evaluations were considered in Treasury Board submissions and 60% of relevant evaluations were considered in Memoranda to Cabinet, the two key financial decision stages for cabinet. In internal reviews of evaluation, two-thirds of programme managers reported that evaluations were useful or somewhat useful for spending reviews.

Source: Government of Canada Treasury Board Secretariat.

3.4.5. Closer alignment of budgeting for results with the "Better Regulation" initiative

As outlined in Section 2, the EU has in recent years taken initiatives to improve the quality of its overall law- and policy-making processes, including through stronger inter-institutional co-ordination. It remains the case, however, that the two flagship initiatives in the area of quality policy-making – the Better Regulation initiative and the EU Budget Focused on Results – are targeted at different policy-making communities and are not completely aligned. Given the large areas of commonality between the two policy domains, not least in the areas of quality evaluation and evidence-based decision-making, it would seem appropriate to bring these areas into closer alignment in future. This would reflect the fact that budgeting and regulation/law-making are key pillars of an overall, integrated approach to modern, evidence-based policy-making in the EU. Such closer co-ordination might require a re-casting and broadening of some elements of Better Regulation and indeed a more holistic re-branding.

4. External scrutiny and quality assurance: The role of the European Court of Auditors

4.1. Functions of the European Court of Auditors

The *European Court of Auditors* (ECA) is the independent external auditor of the European Union (EU) and as such plays a role of fundamental importance as "guardian" of the EU finances. In addition to carrying out the tasks of financial audit that are common to "supreme audit institutions" (SAIs) in the normal course, the ECA has developed a particular role in assessing and reporting on the qualitative aspects of financial management and in particular on its performance dimension.

The ECA annually conducts two types of audits based on international audit standards:

- *Statement of assurance audits*, which are financial and compliance audits on the reliability of financial statements of the EU as a whole[6] and EU agencies individually, as well as the legality and regularity of the transactions from the EU budget and European Development Fund; and

- *Performance audits,* which consider the economy, effectiveness and efficiency (or *sound financial management*) of EU spending.

These audit practices are similar to those implemented in OECD countries (see Box 4.1 below).

Box 4.1. **Financial, Compliance and Performance Audits**

In most OECD countries, external audit bodies or "supreme audit institutions" (SAIs) have three primary areas of responsibility: financial audit, compliance audit and performance audit.

In an annual **financial audit**, SAIs usually evaluate whether the financial statements of government entities are presenting a true and fair view of their operations.

In an annual **regularity audit** (also called **compliance audit**), SAIs assess whether the budget execution is in accordance with the approved budget, and whether the leadership of the authorities being audited are following current ordinances, rules and regulations regarding the legality and regularity of public spending.

Financial and regularity audits may be combined.

In **performance audit** (also called "**value for money audit**"), SAIs evaluate the government entities' efficiency, effectiveness, and economy in getting good results for their efforts. These audits usually examine whether the audited entity is achieving its goals and the appropriateness of the organisation, operations, process, or function for the purpose. Areas for performance audit are usually selected independently by the SAI based on a set of indicators, risk and materiality evaluations.

All three types of audit are usually conducted based on the international audit standards and guidance of the International Standards of Supreme Audit Institutions (ISSAI), which are laid down by the International Organisation of Supreme Audit Institutions (INTOSAI).

The importance of these activities of SAIs are also recognised in the OECD Recommendation on Budgetary Governance (2015), in particular budget principle no. 10 which states that governments should "promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit", including through "promoting the role of both the internal and external control systems in auditing the cost-effectiveness of individual programmes and in assessing the quality of performance accountability and governance frameworks more generally".

The ECA's reports are public documents, communicated to the European Commission, European Parliament, and member states. These reports cover a range of different topics:

- The implementation of the EU budget and European Development Fund is discussed in the **Annual Report**, published in November each year;
- **Specific annual reports** present the results of the annual audits of EU agencies, joint undertakings and other decentralised bodies;
- Policies and management issues selected independently by the ECA for audit are discussed in **Special Reports**. The ECA tries to cover different budgetary and management areas, each year and undertakes verifications in different member states. In 2014 and 2015, the ECA published 24 and 22 special reports respectively.

4.1.1. Financial and compliance audits

Financial and compliance audits have historically been the core activity of the ECA. The results of these audits indeed play a crucial role in the European Parliament's decision whether to grant discharge to the Commission for its implementation of the EU budget.

The main component of the ECA's Annual reports is therefore the *Statement of Assurance* on the reliability of the EU's accounts and the legality and regularity of the transactions underlying them.

Since 2007, the ECA gives a clear opinion on the reliability of the EU accounts, with, however, an adverse opinion in respects of the legality and regularity of EU payments, which are affected by errors over the materiality level of 2%.

Although the European Parliament has granted discharge to the European Commission for its implementation of the EU budget since 1998, the adverse opinion on EU payments has tended to attract most attention over the years both from the Commission and member states. A number of corrective measures, improvements in control systems, and simplification of the administrative rules have been introduced in an attempt to reduce this error rate.

Auditing for Performance and Results

The OECD recommendation on Budgetary Governance provides, at principle no. 10, that internal and external control systems have a role to play *"in auditing the cost-effectiveness of individual programmes and in assessing the quality of performance accountability and governance frameworks more generally"*. The assessment of performance and value for money achieved from EU budget has assumed a heightened prominence in the ECA's work over recent years, in keeping with the Commission's stronger focus upon achieving – and reporting upon – results from the EU budget. The ECA assessment of the performance of EU spending is discussed in two sets of reports. Firstly, the *special reports*: While these are not dedicated to discussing specifically performance, the ECA has placed a stronger focus on results in assessing the principles of sound financial management in these audits over time. Secondly, in the *Annual reports*, *Chapter III* (previously *Chapter X*) discusses the quality of the EU performance framework, from a different angle each year and summarises some of the main performance issues arising from the ECA's *special reports* (see Box 4.2).

Box 4.2. **ECA Annual Reporting on Results from the EU Budget**

In the Annual Report concerning the financial year 2013, Chapter X Getting results from the EU budget is comprised of three sections.

1. *Part 1 Focus on Performance* mainly discusses the mechanics of the EU budget, in particular its focus on the absorption of member states' yearly allocation and compliance of spending.
2. *Part 2 The Commission's reporting on performance* discusses the Commission's performance information and identifies a number of gaps and inconsistencies in this area.
3. *Part 3 Results of the Court's audit on performance* summarises the findings of special reports and includes a follow-up of previous recommendations by the ECA.

In the Annual report concerning the financial year 2014, Chapter III *Getting results from the EU budget* is developed further and comprised of four sections.

Box 4.2. **ECA Annual Reporting on Results from the EU Budget** *(cont.)*

1. *Part 1 The Europe 2020 strategy and monitoring and reporting by the Commission* discusses the "priorities" set by the Commission, their disconnection from the budgetary cycle and limited operational impact, both at the EU and national levels, as well as the difficulties for reporting on achievements against these targets.
2. *Part 2 How Europe 2020 objectives are reflected in member states' partnership agreements and programmes* discusses the disconnection between the Europe 2020's objectives and those set out in partnerships agreements and programmes, the positive introduction of "common indicators" for each fund, and other weaknesses in the design of the performance framework, including the need for focus on result in the partnerships agreements.
3. *Part 3 The Commission's reporting on Performance* discusses the guidance to DGs with regard to performance reporting and possible improvements to the reports established by the DGs.
4. *Part 4 Results of our audit on performance* summarises the findings of special reports and realises a follow-up of previous recommendations by the ECA.

In an annual financial audit, SAIs usually evaluate whether the financial statements of government entities are presenting a true and fair view of their operations.

Source: ECA website (*www.eca.europa.eu/en/Pages/AuditReportsOpinions.aspx?ty=Annual Report&tab=tab2*).

Because of the specific features of the EU budget system (including the seven-year MFF, mid-term and final reviews), the planning and duration of performance audits may substantially compromise their relevance, their interest to stakeholders and, as a result, their usefulness and impact. In this context, the ECA has made sustained efforts over recent years to reduce the duration of its performance audits ("13 months rule"). A number of performance audits have been scheduled for completion before the mid-term review of the MFF in order to maximise their impact.

4.2.1. How well is ECA performance auditing integrated within the EU system of performance budgeting?

The rigorous attention of the ECA to the performance dimensions of the EU budget represents one of the features of the EU budget system that is comparatively advanced and sophisticated, in international terms. Despite this increased focus on performance audit over recent years, the ECA's performance audits are not yet at a stage where they can be regarded as fully integrated within the EU framework of budgeting for results. Firstly, the ECA is not yet in a position to furnish an opinion on the performance framework as a whole (the *Annual reports*' Chapter III discusses different areas of the performance framework each year). Secondly, the ECA's assessments of the performance of EU spending and management are distributed among various special reports, which are prepared on a stand-alone basis. Lastly, the ECA does not scrutinise the full set of performance data produced by the European Commission each year. Only a sample of DGs' *Annual Activity Reports* is reviewed annually and performance figures included in the European Commission's Article 318 Report (now the Annual Management and Performance Report, AMPR) are not commented upon.

This situation is not unique to the ECA, and reflects the comparatively under-developed nature of performance auditing, relative to traditional financial auditing, internationally; reflected also in the fact that practices with regard to auditing of governments' performance measurement systems are not regulated by international audit standards (see Box 4.4 below).

As highlighted by a recent survey, in OECD countries, the most common practices for external auditors involve the conduct of performance or value-for-money audits of their own design. Just over half of the countries surveyed reported that the external auditors always "assess or critique" the quality of the performance information used in the budget, and even fewer audit the achievement of performance objectives and targets in the year-end reporting (see Box 4.3).

Box 4.3. **Role of external auditors in performance budgeting systems**

	Audit financial information of public bodies	Conduct "performance audits" or "VFM audits"	Audit the achievement of performance objectives	Assess the quality of performance information	Assess the quality of the "programme logic models" being used	Assess the performance budgeting system and may recommend reforms
Australia	●	●	▲	◗	◗	▲
Austria	●	●	✦	✦	✦	✦
Belgium	▲	▲	▲	✦	✦	■
Czech Republic	✦	■	■	■	■	■
Chile	●	■	■	■	■	■
Estonia	▲	✦	✦	✦	●	●
Finland	●	✦	●	✦	✦	✦
France	●	✦	■	●	▲	▲
Hungary	●	✦	■	✦	■	▲
Iceland	✦	▲	■	■	■	■
Ireland	●	▲	■	■	■	■
Italy	●	◗	◗	■	■	■
Japan	●	●	✦	✦	▲	▲
Korea	●	✦	●	●	●	✦
Mexico	●	●	●	●	●	✦
New Zealand	●	✦	✦	✦	■	◗
Norway	●	●	●	✦	▲	▲
Poland	●	▲	◗	▲	▲	▲
Slovenia	●	✦	▲	▲	▲	◗
Spain	●	■	■	■	■	■
Sweden	●	✦	▲	✦	✦	◗
Switzerland	✦	▲	◗	■	◗	■
The Netherlands	●	✦	✦	✦	▲	▲
Turkey	●	▲	✦	✦	■	▲
United States	✦	▲	◗	◗	◗	◗
United Kingdom	●	●	●	●	▲	●
OECD Total						
● Always	20	6	5	3	4	2
✦ Often	4	9	5	11	4	4
▲ Sometimes	2	7	5	3	6	8
◗ Seldom	0	1	4	2	3	4
■ Never	0	3	7	7	9	8

Source: OECD (2014), Mini-Survey on Supreme Audit Institutions and Performance-related Budgeting.
StatLink http://dx.doi.org/10.1787/888933248766

Box 4.4. **Links between Performance Budgeting and Performance Auditing**

While financial audits are usually undertaken according to fixed and well-recognised standards, performance auditing is more flexible. The International Organisation of Supreme Audit Institutions (INTOSAI) has issued a standards and guideline document (Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and Practical Experience, ISSAI 3000) that discusses performance audits and how these can relate to measurement by the Government of its own performance. With regard to the latter, the standards and guidelines document only sets out that external auditors might be involved in the check on the quality of performance-related information produced by the executive branch for the legislature.

According to the ISSAI 3000, "(...) one topic for performance auditing is whether performance measurement systems in government programmes are efficient and effective.

Box 4.4. **Links between Performance Budgeting and Performance Auditing** *(cont.)*

For example, questions could be developed that address whether the performance indicators measure the right things or whether the performance measurement systems involved are capable of providing credible measured results." The standard does not specify, though, if this "quality check" should be undertaken regularly – that is annually, before the Government presents its performance information (either in the financial statements or in a dedicated report).

Therefore, while SAIs in OECD countries invariably have a statutory role in auditing the accounts of public entities and undertaking regular performance audits, comparisons between practices in different countries on auditing the governments' own performance measurement system show variations in audits performed and methods used.

In France, performance budgeting started in the 2000s. Since then, the Court of Audit (Cour des comptes – CC) annually performs a review of ministries' key performance indicators. The methodology developed by the CC mentions that auditors should assess i) the indicators' relevance; ii) their consistency over time; and iii) their usefulness (i.e. "is the performance indicator used for improving the efficiency or effectiveness of a given public policy?"). Auditors are also asked to comment on the performance achieved by each ministry over the year.

In the Netherlands, since the 1990s, the Ministry of Finance obliges line ministries to evaluate their own policy areas once every 4-7 years (so-called policy reviews). The Court of Audit (Algemene Rekenkamer – AR) devotes about half of its time to performance audits – that is 10 to 15 reports per year and numerous other products such as fact sheets and letters to Parliament. In the performance audits, an important source of information are policies reviews' evaluation, analysis, and conclusions of the ministries themselves, which allows the AR to assess whether policy reviews provide relevant and reliable information on the effectiveness and efficiency of spending. The performance audits are published during the year. In May the AR publishes its reports on the annual accounts of the ministries. Their focus is evolving from regularity spending to assessment of value for money.

In Sweden, the National Audit Office (Riksrevisionen), in addition to providing an assessment on whether agencies' accounts are in accordance with the Budget Act, attests whether their annual reports contain factually correct qualitative information on performance. That is, where agencies report information on performance outputs and outcomes, the Riksrevisionen verifies that there is evidence in place to support the claim.

In the United Kingdom, with the introduction of the Public Service Agreements (PSAs) in 2002, the National Audit Office (NAO) evaluated the quality of PSA targets and data used to measure progress toward targets. This aspect of the NAO's role was integrated in a phased approach, beginning with trial departments, and within five years covering all major government departments. It was later adapted as the UK government dropped PSAs and put a system of departmental Business Plans in their place (2010). These Business Plans were themselves dropped in 2015 – the NAO will publish in 2016 a report examining the Government's recent development of Single Departmental Plans (SDPs) as a new tool for setting objectives, planning and reporting performance across government. As SDPs are still in their infancy, the NAO has yet to set out any plans for assurance work on this new set of performance indicators.

Overall, findings of national SAIs include issues relating to the relevance of the indicators on the effectiveness and efficiency of spending and quality of the performance evaluation data. Therefore, some SAIs prefer to define their own indicators for assessing the performance of a given policy, rather than rely upon those supplied by the executive.

This situation may also be attributable to the lack of formal, standardised assurance frameworks on the performance data corresponding to those in place for financial data – in other words, the prerequisites for the standardised and systematic audit of performance information are not met in most countries.

Against this background, leading practices with regard to the role of external auditors in performance budgeting systems include those of France and Sweden, where annual verifications of performance information provided in budget documents are undertaken by external auditors:

a) In **France,** performance budgeting was initiated in the 2000s. Since then, the Court of Audit (*Cour des comptes*) annually performs a review of each ministry's key performance indicators. The methodology developed by the Court of Audit specifies that auditors should assess i) the indicators' relevance; ii) their consistency over time; and iii) their usefulness (i.e. "is the performance indicator used for improving the efficiency or effectiveness of a given public policy?") Auditors are also asked to comment on the performance achieved by each ministry over the year.

b) In **Sweden,** the National Audit Office (*Riksrevisionen*), in addition to providing an assessment on whether agencies' accounts are in accordance with the Budget Act, attests whether their annual reports contain factually correct qualitative information on performance. That is, where agencies report information on performance outputs and outcomes, the *Riksrevisionen* verifies that there is evidence in place to support the claim.

4.3. Co-ordination of the ECA and national supreme audit institutions

It is not within the mandate of the ECA to express an opinion on the use of EU funds in individual member states.[7] Therefore, the significant part of the EU budget that is spent via national programmes is not submitted to the ECA's performance audits.

The SAIs of most member states carry out audits on EU programmes, either because they are mandated to so by their Parliament, or because they have independently decided to include that topic on their work programme.[89]

In general terms and in keeping with the ECA's own findings, these national audits have found that little information was available on the outcomes and impacts achieved through EU funding and EU policies either in the Government's units in charge of managing the EU funds, or in the national performance framework.

However, the performance audit of EU funds spent at national level remains scattered. To address this, co-operation between SAIs has increased. For example:

- In 2014, the ECA's examination of a sample of Partnership Agreements and Programmes was undertaken jointly with in partnership with the SAIs of Poland and Spain: The co-operation included parallel audit work, the exchange of planning documents and findings, and activities aimed at sharing knowledge and experiences.
- In 2015, a mandate was agreed by the Contact Committee of the Supreme Audit Institutions of the European Union to the Working Group on Structural Funds for carrying out a parallel audit on the "Contribution of the Structural Funds to the Europe 2020 strategy in the areas of education and/or employment".

However, there would appear to be scope for further collaborative work among SAIs, e.g. by promoting the input of national SAIs in annual declarations of national authorities certifying that EU moneys have been used properly.[10] These national declarations could indeed include a section on performance with a reference to the findings, if any, of the national SAI.

External auditors have an important role to play in providing independent verification of the performance information presented to Parliaments – that is both producing their own evaluation of the governments' implementation of its policies and increasing the legitimacy and trust in performance information produced by other stakeholders across the system.

4.4. How might the role of the ECA in performance budgeting be enhanced?

Among stakeholders in the EU, the role of the ECA is highly valued, and the ECA's capacity for conducting financial, compliance and performance audit is considered a primary source of information for the Budgetary Authority. However, the ECA's capacity to increase the trust in performance information generated throughout the budget process is limited, to the extent that the ECA is not in a position to provide annual quality assurance on the performance data system as a whole – a limitation that is a characteristic of the stage of development of performance auditing internationally.

However, there is scope for the ECA to draw upon international practices to maximise the relevance and impact of its audit activities related to the EU performance budgeting framework. For example, subject to discussions and agreement with the Commission on issues of practicability and procedure, certain basic criteria regarding the quality of performance data could be more clearly specified and centralised: This would include issues such as the traceability of performance data and quality controls in the measurement of outcomes and/or impacts. Such standards would be prerequisites for a move towards annual verification by the ECA of the relevance and accuracy of the key performance figures/headline targets reported in the AMPR (or in the evolved/systematised version of the AMPR proposed in the previous section).

Taken together, these developments would tend to i) encourage the development of more robust and appropriate performance measures supported with accurate and up-to-date data ii) increase the confidence and interest of the Budgetary Authority in this information, and iii) promote a more integrated and systematic approach to the use and audit of performance data in the EU budget. Such an approach should also help to shift the Budgetary Authority's traditional emphasis upon proxy issues such as "absorption rates" (the extent to which financial allocations are successfully "drawn down" and spent) and "error rates" (measures of waste and misuse of funds), in favour of substantive issues of performance and policy impact.

Over the medium to long term, deepening the co-operation between the ECA and EU member countries' appears desirable, including with regard to comparison of national and EU programmes' performance indicators and performance data quality.

In addition, the annual declarations of national authorities certifying that EU moneys have been used properly could include a section on performance with a reference to the findings, if any, of the national SAI.

Notes

1. At the time of their work in preparing this report, Mr Shaw and Ms Léon were working on secondment to the Budgeting and Public Expenditures Division, OECD (respectively from the Office of the Parliamentary Budget Officer of Canada, and the European Commission). Mr Blondal and Mr Downes are respectively Head and Deputy Head of this division. Mr Areosa Feio is a Counsellor with the Portuguese Delegation to the OECD. The information and views set out in this report are those of the authors and do not necessarily reflect the official views of the OECD member countries or the European Union.

2. *http://ec.europa.eu/eurostat/web/europe-2020-indicators*.
3. IIA of 2 December 2013 (2013/C 373/01).
4. IIA of 13 April 2016 (OJ L 123 12.5.2016, p.1-214).
5. COM(2015) 215 final, 19.5.2015.
6. The consolidated financial statements are established by the European Commission's Directorate for Budget.
7. ECA annual and special reports therefore do not include an opinion on the efficiency and effectiveness of EU programmes implemented in the member states.
8. One example of such audits is the Dutch Court of Audit's EU Trend Report 2016: Developments in the financial management of the European Union.
9. In the United Kingdom, the Parliament's Committee of Public Accounts, following a briefing by the NAO on the financial management of the EU budget (report on Financial management of the European Union Budget in 2014: a briefing for the Committee of Public Accounts) have recommended that "HM Treasury (…) publish a strategy for using EU funds in the UK, setting out the performance and value for money expected from this spending".
10. It is to be noted that only three SAIs (those of Denmark, the Netherlands and Sweden) currently audit such national declarations.

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ANNEX A

Budget focused on results

The EU at present is experiencing lower levels of economic growth than in past decades, with lower revenues available to support traditional budget expectations; budgetary pressures from a range of complex social pressures and fiscal risks; and increasing demands from citizens and stakeholders for assurances about the impacts and efficiency of public spending.

Against this background, the **EU Budget Focused on Results initiative** was launched in 2015 to accentuate the performance aspects of the EU budget system, in order to improve accountability and public trust, and to maximise the impact of limited EU resources. The President of the Commission, Mr Juncker, made it a priority that the Commission should "*demonstrate the value added of the EU budget and contribute to a stronger performance culture in relation to the EU budget, including by enhancing performance-based budgeting across the Commission*." In order to succeed, this objective required close co-ordination within the Commission and ownership by the various actors involved. For this purpose a Network of Commissioners on "EU Budget Focused on Results" was created under the chair of Commission's then-Vice-President Ms Georgieva, to provide the political steer, leadership and co-ordination. The network agreed on an overall strategy encompassing three strands: 1) In what areas does the EU spend, 2) how does it spend and 3) how is it assessed? The network agreed to pay particular attention to communication on the EU budget. In addition, technical meetings are held with representatives from Parliament, Council, Commission, Member States, the Court of Auditors and other stakeholders.

In order to follow a clear and realistic approach to overall performance and budget performance issues, the EU Budget Focused on Results initiative aims to address EU budget decision-making *ex ante* (i.e. prior implementation) and *ex post (i.e. based on implementation)*. ***Ex ante*** measures aim to reinforce the performance-informed decision-making process by ensuring delivery of results that matter to citizens, the best possible monitoring and measurement of performance against the indicators set out in programme statements and work programmes and improving the use of performance information in the management of the EU Budget. ***Ex post*** measures focus on management of the residual error rate through implementation of cost-effective controls in view of setting a benchmark for a reasonable risk of error per area of activity/programme and thus also achieving better budget performance.

The EU BFOR initiative is carried forward through **six main "operational workstreams"**:

1. Simplification

The objective is to continue the administrative simplification of EU funding following-up on the Simplification Scoreboard which accompanied the negotiations on the legal bases under the MFF 2014-2020.

2. Indicators

Under the MFF 2014-2020, performance indicators are defined in the programmes' legal bases and delegated/implementing acts. The objective is to analyse these indicators to identify those that provide evidence for the MFF policies and their results against main stakeholders' expectations and can be used to communicate better on the achievements of the EU budget. In doing so, the process will widen the management of priorities from expenditure, control and compliance to a greater focus on performance.

3. Cost-effectiveness of controls

Inefficient control systems misuse resources, which would otherwise contribute to the achievement of results. Furthermore, they impose a significant administrative burden on beneficiaries and discourage participation to the programmes. Thus, ensuring the cost-effectiveness of the control systems for managing legality and regularity risks is a key factor for improving performance. The objective is a process to assess and improve the management and control systems at both Member States and Commission levels. This would allow reallocating resources to those controls yielding the most benefits while appropriately managing legality and regularity risks within the risk environment set in the regulatory framework.

4. Discharge and declaration of assurance

The Commission intends to continue to develop its methodology to estimate the amounts at risk with the budget implementation, to simplify the rules and improve the cost-efficiency of controls, and to estimate on this basis the appropriate residual error rate corresponding to sound financial management for each policy area and the corresponding materiality threshold. This should lead to a substantiated basis for a positive assessment by the Discharge authority.

5. Project database

A search tool is being developed, based on existing project databases covering the main spending Directorates General of the Commission and those with projects closer to the citizen (e.g. agriculture, development co-operation, education and culture, humanitarian aid, employment, growth, maritime affairs, neighbourhood policy, regional policy, research and development) and presenting data on individual project funding, objectives, results and impacts as well as information on the beneficiaries. The project results website is: *http://ec.europa.eu/budget/euprojects*. It should improve public communication on the EU budget, allowing citizens better to see the impact of EU-financed initiatives on their lives. Furthermore, this exercise should reinforce the provision of information on the societal impact of policies and programmes.

6. External communication on EU budget focused on results

The overall objective of this work-stream is to improve communication on EU budget along the taxpayers and beneficiaries' expectations of effectiveness, added value, efficiency and, accessibility of EU funds. So far, it has resulted for example in:

- Annual Conferences on EU Budget Focused on Results to communicate about the increased focus on performance in the EU budget and create a common ground for all actors responsible for the implementation of the budget allowing exchange of views and best practices.

- Experts meetings on Performance-Based Budgeting in operation since 2015, gathering the Institutions involved in the budgetary process (Commission, Parliament, Council, and Court of Auditors) with the objective to create a shared understanding of the performance-based budget concept, its key features, the role and responsibilities of EU Institutions and Member States in ensuring EU budget implementation.

Current developments on the EU Budget Focused on Results can be found at: *http://ec.europa.eu/budget/budget4results*.

ANNEX B

Legal and institutional context of the EU budget framework

The European Union (EU) comprises 28 sovereign member states with over 500 million inhabitants. The EU's key objectives, as set out in its founding Treaties, include promoting peace and fostering "ever closer union" among the peoples of Europe; ensuring economic and social progress by overcoming barriers, particularly to trade and commerce; promoting balanced regional development; and continually improving people's living and working standards and overall well-being.

As a multi-national political and administrative entity, involving some prescribed elements of "pooled sovereignty" as well as inter-governmental action in areas of collective interest, the EU is perhaps unique in global terms. The EU budget process in particular reflects this unique character, combining features common to sovereign national budgeting, with elements that support the distinct relationships of accountability and inter-dependence between the EU and its constituent countries. The EU budget in 2017 amounts to EUR 158 billion, representing about 1% of EU-wide GDP and 2% of overall public expenditure in the region.

Legal and institutional aspects of EU budgeting

The EU is founded upon two treaties, the "Treaty on the Functioning of the European Union" (TFEU) which is the successor to the original 1957 "Treaty of Rome", and the "Treaty on the European Union" (TEU) – together referred to as "the Treaties". The Treaties specify the areas of competence where the EU is authorised to pursue actions: Either "exclusive competence" where only the EU may act (e.g. the customs union, the regulation of the EU internal market); "shared competence" where member states may legislate to the extent that the EU has not done so (e.g. agriculture and fisheries) and where, in general terms, implementation is carried out jointly by both the EU and the member states or regions; or certain other areas where the EU may act in support of member states (e.g. health).

The EU acts through its institutions. The key institutions of relevance to the budget process are as follows:

- the **European Commission ("Commission")** functions as the executive arm of the EU for most areas of EU competence
- the **European Parliament ("Parliament")** is a legislative assembly elected on a proportional basis by the citizens of the EU

- the **Council of the European Union ("Council")** brings together the representatives of national governments, and is a "co-legislator" and "joint budget authority" alongside the Parliament.
- the **European Council** (not to be confused with the Council mentioned above) comprises the heads of state or government of EU member states, and provides political direction for the work of the EU
- the **European Court of Auditors (ECA)** is a "supreme audit institution" which audits the accounts and assesses qualitative aspects of the EU budget and prepares reports for the Parliament, and
- the **European Court of Justice (ECJ)** is a "supreme court" which resolves disputes relating to EU law, and to the interaction of EU and national laws.

EU legislation takes the form of Directives (which must be "transposed" or written by member states into their national laws), Regulations (which apply directly at national level) and Decisions (which apply in specific cases). The Commission alone has the right of initiative in bringing forward such legislative proposals. EU legislation is considered by both the Parliament and the Council and is adopted if approved by both bodies, following a procedure that allows for amendments and conciliation between the two institutions.

The EU's budget procedure is a distinct legislative process grounded on **Title 2 TFEU – Financial Provisions** (Articles 310-324). The procedure is notable, among other reasons, for the clear legal grounding in principles, including sound financial management. In addition to specifying the procedural steps for adopting the budget, the Treaty provisions lay down a number of key features of the EU budget process, including the following:

a) **Authority:** The Parliament and Council establish the EU's annual budget, acting on the basis of a Commission proposal

b) **Multi-annuality:** The budget takes place within a multiannual framework, which sets out annual budget ceilings for the main sectoral categories of expenditure for a period of at least 5 years

c) **Soundness:** "the budget shall be implemented in accordance with the principle of sound financial management"

d) **Responsibility:** The Commission implements the budget "on its own responsibility"

e) **Cooperation:** Member states co-operate with the Commission in implementing the budget and in ensuring that the principles of sound financial management are upheld

f) **Accountability:** The Commission submits annual accounts regarding the preceding year's budget implementation along with a financial statement of assets and liabilities, and also an "evaluation report on the Union's finances based on the results achieved" (Article 318)

g) **Discharge:** Parliament, acting on a recommendation from the Council, gives a discharge to the Commission regarding implementation of the budget, on the basis of consideration of *inter alia* the above-mentioned reports and the annual report of the ECA.

A **Financial Regulation**[1] provides much more specific detail regarding issues of presentation, implementation and accounting for the EU budget. Of particular relevance for the purposes of this report, the Regulation provides in Article 30 that appropriations shall be used in accordance with the principle of sound financial management, "namely in accordance with the principles of economy, efficiency and effectiveness".[2] The Article goes on to specify as follows:

- The principle of effectiveness concerns the attainment of the specific objectives set and the achievement of the intended results.
- Specific, measurable, achievable, relevant and timed objectives[3] shall be set for all sectors of activity covered by the budget. The achievement of those objectives shall be monitored by performance indicators for each activity, and the information referred to in point *e)* of Article 38(3)[4] shall be provided by the spending authorities to the European Parliament and the Council. That information shall be provided annually and at the latest in the documents accompanying the draft budget.
- In order to improve decision-making, institutions shall undertake both *ex ante* and *ex post* evaluations in line with guidance provided by the Commission. Such evaluations shall be applied to all programmes and activities which entail significant spending and evaluation results shall be disseminated to the European Parliament, the Council and spending administrative authorities.

EU budgeting is strongly multi-annual in character

While the EU budget has a well-defined annual procedure (as outlined below), in practice the EU process is marked by a strong multi-annual dimension which governs the annual processes of resource allocation, to a degree unmatched in any EU member state or OECD country. Since 1988, **Multiannual Financial Frameworks (MFF)** lay down the maximum annual amounts ("ceilings") which the EU may spend in different policy fields ("headings") over a period of at least 5 years. These multiannual ceilings are adopted by the EU member states *via* a Council Regulation and implemented on the basis of an Interinstitutional Agreement between the Council, the Commission and the Parliament. Five MFFs have been adopted since 1988: "Paquet Delors" I (1988-1992), "Paquet Delors" II (1993-1999), "Agenda 2000" (2000-2006), MFF 2007-2013 and MFF 2014-2020, which is ongoing with overall ceilings of EUR 960 billion (commitment appropriations) and EUR 908 billion (payment appropriations).

The present MFF is currently the subject of a scheduled mid-term review which provides an opportunity for political re-assessment of spending priorities over the remainder of the MFF period.

The annual budget procedure follows a well-specified course

Within the ceilings laid down in the MFF and taking account of the budget guidelines provided by the Parliament and Council for the coming year, the European Commission prepares the draft annual budget and submits it for the approval of the Council and the Parliament, which together form the European budgetary authority. Over the decades since the EU's inception, Parliament's role in the budgetary process has gradually been enhanced. The Lisbon Treaty, signed in 2007 and in effect since 2009, gives Parliament an equal say with the Council in the entire EU budget.

Over the years, the budget approval procedure has also been simplified and now consists of four stages.

- In **Stage 1** the Parliament and the Council provide guidelines on their priorities for the budget and the Commission draws up a draft budget by 1 September.
- At **Stage 2** the Council adopts its position on the draft budget and forwards it to the Parliament by 1 October.

- **Stage 3** is Parliament's reading, where it has 42 days

  either

  - to approve the Council's position or to decline to take a decision, in which case the budget is deemed finally adopted

  or

  - to send an amended draft back to the Council and the Commission. In such a case, the Parliament and the Council must then immediately convene a meeting of the **Conciliation Committee** (composed of an equal number of representatives from both institutions).
- At **Stage 4** the Conciliation Committee has 21 days to agree on a joint text. If the procedure is successfully completed, the President of the Parliament declares that the budget has been definitively adopted.

In practice, the most substantial changes to the budget occur during **Stage 2** when the Council is negotiating with the Commission. By the time the Parliament is involved at **Stage 3,** much of the groundwork for designing and specifying the details of the budget has already been undertaken. At this stage, it is most usual for the Parliament to approve the budget after a number of smaller amendments are adopted. However, the Parliament has rejected the budget as a whole on two occasions (in December 1979 and December 1984) since acquiring the power to do so in 1975. Under the new rules agreed in the Lisbon Treaty, the Conciliation Committee has also failed to reach agreement three times (on the 2011, 2013 and 2015 budgets). In all three cases, the new draft budget presented by the Commission, reflecting the near-compromise in conciliation, was finally adopted.

The **implementation phase** of the EU budget is carried through mostly by the EU member states and the European Commission. On average, 80% of the EU budget is allocated to the EU Member States to implement via the process of "shared management". The European Commission itself directly pays out only a relatively small part of the EU budget. However, as Article 317 makes clear, the Commission bears the ultimate responsibility for the implementation of the entire annual budget of the EU. Member states are required to co-operate with the Commission is ensuring that the resources are used in accordance with the principles of sound financial management. All actors involved in implementing the EU budget have to observe a comprehensive set of rules defined by the EU legislator.

The annual budget **discharge** procedure examines how the European Commission implements the EU's annual budget. It verifies whether implementation was carried out in accordance with relevant rules (compliance), including the principles of sound financial management (performance seen as economy, efficiency and effectiveness) and looking at inputs, outputs, results and impacts. On the recommendation of the Council of the EU, the Commission is given discharge by the European Parliament on the implementation of the annual budget, having considered a range of accountability reports. For this purpose the Council and the Parliament examine:

- the EU's accounts for the financial year in question, as prepared by the Commission;
- the financial statement;
- the Synthesis Report on the Commission's management activities;
- the Evaluation Report on the EU's finances based on the results achieved (Art 318 TFEU)[5]
- the Annual Report and the Statement of Assurance by the European Court of Auditors
  - the Annual Report includes a special chapter on: "Getting Results from the EU Budget".

The discharge decision formally "releases" the Commission from its responsibility for managing a given year's budget. The Commission may however be obliged to provide follow-up reports informing about its actions in response to issues specified in the statement of discharge.

The EU Budget includes some limited flexibility mechanisms

While multi-annual budgeting has several advantages, especially in providing medium-term assurance regarding resource availability and thereby promoting effective planning, it also carries some heavy disadvantages. Chief among these is the relative lack of responsiveness, i.e. reduced freedom of action for policy-makers to reallocate resources from one area to another, from year to year, in response to emerging policy priorities and exigencies.

To mitigate this limitation, the EU system includes a number of specific mechanisms aimed at allowing for a degree of flexibility from year to year. It is notable that most of these mechanisms are overlaid upon the MFF, rather than integrated within it. The flexibility mechanisms are summarised below.

a) **Emergency Aid Reserve – maximum EUR 280 million per year:** The Emergency Aid Reserve is designed as a rapid-response fund to provide humanitarian aid in unforeseen crisis situations.

b) **Solidarity Fund – maximum EUR 500 million per year:** The EU Solidarity Fund is a rapid-response emergency aid fund available for EU member states and candidate countries.

c) **Flexibility instrument – maximum EUR 471 million per year:** The Flexibility instrument allows for funding for specific, unavoidable expenses than cannot be covered elsewhere in the EU budget.

d) **European Globalisation Adjustment Fund – maximum EUR 150 million per year:** The European Globalisation Fund aims to help workers reintegrate into the labour market after they have lost their jobs due to major structural changes in world trade patterns.

In addition to these pre-existing instruments, the following **new flexibility measures** have been introduced in the MFF 2014-20:

e) **Flexibility for payments:** Under certain conditions, unused payment appropriations and margins can be carried over from one financial year to the next, while adjusting the payment ceiling in other years so that the overall ceiling remains unchanged.

f) **Flexibility for commitments in growth and employment:** Commitment appropriations left unused in 2014-17 will form a reserve for additional expenditure in 2016-20 in the area of growth and employment (in particular for youth employment).

g) **Special flexibility for youth employment and research:** In order to concentrate a maximum of funds where they are the most needed as early as possible, up to EUR 2.1 billion could be brought forward to 2014-15 for the Youth Employment Initiative and up to EUR 400 million for research, Erasmus and SMEs.

h) **Flexibility for aid to the most deprived:** On a voluntary basis, Member States can increase their allocation for aid to the most needy by EUR 1 billion.

i) **Contingency Margin:** This is an instrument of last resort, used as required in reaction to unforeseen circumstances, and amounts to 0.03% of the EU's gross national income (GNI).

j) **Performance reserve:** While not explicitly recognised as a flexibility measure in the MFF, the regulations covering EU Structural and Investment Funds (see Annex C) provide that

6% of the allocation for priorities under these Funds is allocated to a performance reserve, and may be made available for reallocation to other priorities based on results of a performance review.

Performance information is designed into the EU Budget

As outlined above, the Financial Regulation lays down requirements regarding the type of information that should be included with the draft budget. These information requirements are designed *inter alia* to promote transparency regarding the objectives that justify the budget allocations. In practice, the budgetary documentation provided by the Commission is extremely comprehensive and voluminous. Along with the 2017 draft budget (June 2016) which shows the detailed financial allocations down to line item level, the Commission submitted eleven working documents in compliance with its obligations under the Treaties and the Financial Regulation. The first of these, "Programme Statements of operational expenditure", provides extensive information about performance, outputs and evaluative material. The draft budget ("Statement of Estimates of the European Commission for the financial year 2017") runs to over 600 pages, while the working paper on "Programme Statements" runs to less than 500 pages. The other budget-related working documents vary widely in size, with some smaller documents and with one report on the various EU agencies also running to over 600 pages.

The structure of the Programme Statements is intended to facilitate a contextualised, informed consideration of the strategic, financial and performance aspects of budgetary allocations. Box B.1 below provides a summary of the type of information provided for each Programme.

Box B.1. **Information provided by the European Commission in "Programme Statements"**

I. Programme update:

- Implementation status: A short introductory outline of how the Programme is being put into effect, with some key facts and figures about the sub-programmes
- Key achievements: Brief narrative on what has been accomplished under each sub-programme
- Evaluation/studies conducted: Summary of evaluations completed that are relevant to the budgetary consideration of the Programme, including précis of key conclusions
- Forthcoming implementation: Measures envisaged for programme implementation in coming years

II. Programme key facts and performance framework

- Financial programming: The legal basis of expenditure, overall allocation and annual financial ceilings for the 7-year MFF period
- Implementation rates: Percentage of allocated expenditure actually spent in the previous two years. This "absorption rate" is a commonly used, broad proxy indicator of programme implementation.
- Contribution to EU strategies:
  - ❖ EU added value: Explaining why there is a rationale for policy action at EU-level rather than at the level of individual member countries

Box B.1. **Information provided by the European Commission in "Programme Statements"** *(cont.)*

- ❖ Contribution to EU 2020 headline targets: A recap of the strategic targets relevant for this programme (where relevant)
- ❖ Contribution to EU 2020 priorities: The level of resources allocated via this Programme to the relevant EU 2020 priorities (where relevant)
- ❖ Contribution to mainstreaming of cross-cutting issues: The level of resources allocated via this Programme to the relevant objectives/outputs of the cross-cutting programmes in the areas of climate change, biodiversity and/or gender equality (where relevant).

- Performance information
  - ❖ General objectives: for the Programme as a whole
    - Baseline: Starting situation is outlined, against which progress is to be assessed
    - Indicator*: For each general objective, one or more SMART annual objectives are set
    - Milestones foreseen: Linkage to key target levels for each indicator at appropriate stages during the 7-year MFF period (or longer period)
    - Actual results: The actual data, using the specified indicators, are shown in each year
    - Target 2022: The desired end-point at the conclusion of the MFF period; or desired long-term goal
  - ❖ Specific objectives: for each of the sub-programmes within the Programme, a similar range of performance information is supplied (baseline, indicator*, milestones etc.)
  - ❖ Expenditure-related outputs: The activities and outputs to be delivered by the Commission and/or implementing bodies, and which are intended to contribute to achieving general/specific objectives
  - ❖ Justification for changes: Explanation of any changes to financial programming or performance information, relative to that presented previously.

* Note that in the absence of results for 2015/2016, most indicators are not yet included under the "general objectives" and "specific objectives" for the 2017 Programme Statements; the Commission has stated its intention that these indicators will be re-integrated from the 2018 edition, as data becomes available.

III. Performance of the predecessor programme

- The results from evaluations of previous iterations of the Programme are presented, summarising lessons learned that have been taken into account in the design of the current programme, including the assessment of EU added value and how it may be promoted.

Better regulation for better results

The EU's long-standing agenda of Better Regulation aims to ensure that the body of EU laws and procedures agenda are effective in achieving objectives, efficient in doing so, and proportionate as regards "administrative burden". In its 2015 Communication on "Better Regulation for Better Results",[6] the Commission outlined an enhanced, integrated approach to quality in policy-making, grounded in evidence and with clear professional reporting on the expected and actual impacts of policies.

While the focus of Better Regulation has been on assessing the impacts of legislation and policy initiatives, and on cutting down perceived "red tape", the initiative has not generally been perceived as closely relevant for the budget process. In this regard, practice at EU level has not been greatly different from that in many OECD member countries, where the regulatory process (with its strong focus on *ex ante* Regulatory Impact Assessment or RIAs) and the expenditure management process (with its comparative focus on *ex post* evaluations) have not traditionally been well-integrated in overall policy-making.[7]

The 2015 re-casting of the EU Better Regulation agenda has the potential to foster a more integrated, holistic approach to assessing results in policy-making. In particular, the 2015 Better Regulation Guidelines and the Better Regulation Toolkit with more specific guidelines, place a clear focus on the need for high-quality, objective, standardised evaluation processes which can report frankly on whether EU policies are achieving results. The standard methodology for conducting evaluations, as set out in the Guidelines, requires assessment against core criteria: Effectiveness, efficiency, coherence with broader EU rules, and EU added value. Indeed, it is notable that the legal foundations for various EU programmes provide explicitly for such evaluations across the policy cycle: For example Article 32 of Regulation No. 1291/2013 establishing Horizon 2020 requires the conduct of an interim evaluation against these core criteria, along with a number of other programme-specific criteria.

As indicated above, the 2016 IIA on Better Law-Making has already triggered a more closely-aligned approach among the institutions on setting the EU's policy agenda. It must be acknowledged however that the thrust of the Better Regulation initiative, even in its most recent form, leans towards assessment and review of EU laws and is not specifically oriented towards using evaluation results as a basis for informing budgetary discussions.

The European semester

The EU's economic governance arrangements have been modified over recent years, including a distinct annual cycle of monitoring, co-ordination and harmonisation of EU-wide policy efforts known as the European Semester. Its main purpose is to strengthen economic policy co-ordination and to allow the EU's policy-makers – at national and EU levels – to draw together policy messages from parallel policy domains such as fiscal and budgetary policy (the Stability and Growth Pact), structural economic reform (principally via the Europe 2020 strategy) and boosting investment. As outlined in Annex C, the management framework for ESI Funds allows for "macroeconomic conditionality", i.e. the principle of fund availability in member states being linked to compliance with broader economic and fiscal policy guidelines.

Notes

1. Current version is No. 966/2012 effective from 1 January 2016.
2. Financial Regulation Art. 30.1.
3. These criteria are often referred to using the acronym of "SMART" objectives.
4. Article 38(3)(e) relates to annual "activity statements".
5. As of 2016, the Synthesis Report and the Article 318 report are integrated within an Annual Management and Performance Report. The various accountability documents listed above are discussed in more detail later in this report.
6. COM(2015) 215 final, 19.5.2015.
7. See e.g. OECD (2015), *Public Governance of Inclusive Growth*.

ANNEX C

In focus: Performance and evaluation of ESI funds

The bulk of EU resources are spent at national at regional level, across a wide range of programmes and projects and involving a multiplicity of implementing and oversight bodies at each level – regional, national and EU. Ensuring that the funds are used in a way that supports overall EU goals is a major challenge in such an environment and requires special attention at all stages of the programme and project cycles.

Some major EU Programmes are handled via "direct management", i.e. the Commission itself is directly responsible for allocation and management of funds. A primary example of this approach is the Horizon 2020 framework programme which allocates funding to research and innovation projects. However, approximately 80% of EU resources are subject to "shared management" arrangements, in which member states and the Commission are jointly responsible for managing the national and regional institutions which undertake programme delivery subject to closely regulated monitoring, reporting and evaluation arrangements. The bulk of these "shared management" programmes – representing over half of EU resources – are accounted for by "European Structural and Investment funds" (ESI Funds), which are analysed in more detail in this section, to prove an illustrative case of how performance information is embedded within the design and monitoring of EU programmes.

Performance frameworks for ESI Funds are closely linked to EU 2020

The five ESI Funds have distinct objectives, but share a broad aim of promoting sustainable economic growth and job creation across the EU. The five funds are as follows:

1. the **European Regional Development Fund (ERDF)** promotes balanced development in the regions of the EU
2. the **European Social Fund (ESF)** supports employment in the EU through investment in "human capital" and in projects that support activation and development of the labour force
3. the **Cohesion Fund (CF)** supports economic growth through investment in transport and environmental projects in "catch-up" EU countries
4. the **European Agricultural Fund for Rural Development (EAFRD)** addresses challenges to economic growth and development facing rural areas
5. the **European Maritime and Fisheries Fund (EMFF)** promotes sustainable fishing practices and economic diversification in coastal communities.

In addition to their own specific Regulations, all five funds are governed by a **Common Provisions Regulation** (No. 1303/2013) which recognises that the ESI Funds "should play a significant role in the achievement of the objectives of the Union strategy for smart, sustainable and inclusive growth", and which accordingly provides a Common Strategic Framework to promote a co-ordinated management approach designed to support the achievement of these EU goals. The Regulation also outlines the **monitoring and evaluation** arrangements that should be applied.

Box C.1. Monitoring, Evaluation and Performance Framework for ESI Funds

The European Structural and Investment (ESI) Funds are subject to a specific monitoring, evaluation and performance framework, which is largely spelled out in the Common Provisions Regulation (No. 1303/2013) and supplemented with more specific provisions in the Regulations specific to each of the five constituent Funds, as summarised below:

- Thematic and specific objectives: The Common Provisions Regulation sets out 11 thematic objectives which are designed to support the EU strategy for smart, sustainable and inclusive growth; the individual Regulations provide complementary Fund-specific objectives.
- Partnership Agreements: Each EU member state draws up a Partnership Agreement in consultation with key stakeholders (e.g. sub-national governments, civil society bodies) on the basis of dialogue with the Commission. The Agreement takes, as its starting point, the need to support the EU strategy for smart, sustainable and inclusive growth and outlines how the ESI Funds will be used at national and regional level, including the analytical basis for the approaches selected.
- *Ex ante* conditionalities: The Partnership Agreement summarises the member state's analysis of how the various relevant conditionalities (as laid down in the Regulation as fulfilled) and this analysis is subject to assessment by the Commission.
- Programmes: Funding is channelled and managed via specific Programmes – generally referred to as "Operational Programmes" (OPs), or "Rural Development Programme" in the case of the EAFRD Regulation – which break down the overall strategic priorities (as set out in the Partnership Agreement) into investment priorities, specific objectives and concrete actions. Each Programme sets out a strategy for its contribution to the EU strategy for smart, sustainable and inclusive growth.
- Performance framework: Each investment priority must be accompanied by milestones (intermediate targets) for the year 2018 as well as final targets for 2023, using the simple format shown below.

Standard format for Performance Framework for each Programme

Priority	Indicator and measurement unit	Milestone for 2018	Target for 2023

- Performance review: The Commission conducts a review of the performance of each Programme in 2019 by reference to the performance framework/milestones, using information supplied by member states in their annual implementation report
- Performance reserve: As a rule, 6% of ESI Fund allocations under each Partnership Agreement, split across each Programme priority, are set aside in a "performance reserve" which may only be re-released on the basis of a positive performance review. In the case of a negative assessment, the resources will be re-allocated elsewhere by the member state.

Box C.1. **Monitoring, Evaluation and Performance Framework for ESI Funds** *(cont.)*

- Monitoring & Reporting: Each Programme is overseen by a Monitoring Committee (including a Commission representative) to review progress towards achieving objectives, including towards milestones. Each Programme is also the subject of an Annual Implementation Report (AIR), including financial and performance data and a synthesis of findings from evaluations. From 2019, the AIR must also report on how the Programme supports the EU strategy for smart, sustainable and inclusive growth. In 2017 and 2019, member states must submit a Progress Report on the Partnership Agreement.
- Evaluation: Expert evaluations shall be carried out at all stages of Programme roll-out – *ex ante*, during implementation, and *ex post* – to improve the quality and impact of the Programmes.
- Political oversight and debate: The Commission submits an annual “summary report” of Programme performance to Parliament, Council and other institutions based on AIRs and evaluations, and a “strategic report” in both 2017 and 2019 which summarises the Progress Reports. The institutions are invited to debate these reports; the Council shall debate the strategic report in particular regarding the contribution of ESI Funds to the EU strategy for smart, sustainable and inclusive growth.

The Regulation lays down **11 “thematic objectives”** which each ESI fund should support, and which are designed to underpin the achievement of the EU 2020 goals (e.g. “promoting climate change adaptation, risk prevention and management”; “enhancing institutional capacity of public authorities and stakeholders and efficient public administration”). The Regulation also lays down a number of ***ex ante* conditionalities** – i.e. conditions that must be fulfilled before funds may be made available. These conditionalities range from criteria linked to the 11 thematic objectives (e.g. “active labour market guidelines are implemented in light of the Employment guidelines”; “the development of procedures and tools for monitoring and evaluation”) to general prerequisites for all funds (including “The existence of a system of result indicators necessary to select actions, which most effectively contribute to desired results, to monitor progress towards results and to undertake impact evaluation”. In principle, these conditionalities should ensure that an appropriate regulatory and evaluative framework is in place before the start of investments.

More generally, under so-called “macroeconomic conditionality”, ESI Funds may be tied to progress by the member state in implementing recommendations under the EU’s economic governance/multi-lateral budgetary surveillance mechanisms including the Stability & Growth Pact.

In general, the management of the ESI Funds in marked by a **systematic attention to performance and results,** which is explicitly tied to the EU 2020 agenda. Box C.1 above provides an overview of the various performance-related elements that apply to the ESI Funds. In essence, each member state is required to articulate an evidence-based strategy for supporting the EU 2020 goals of smart, sustainable and inclusive growth; must develop a “performance framework” including indicators and milestones; and is held accountable for delivery of its objectives – including by reference to a Commission performance review which is linked to the release of a “performance reserve”.

Challenges in Responding to ESI fund Monitoring and Evaluation

The standing arrangements for monitoring and reporting are elaborate and have the potential to yield much high-quality information about programme performance. The comprehensive cascade of performance information (thematic objectives, strategic/ investment priorities, SMART objectives and associated indicators) facilitates an informed and critical dialogue among stakeholders – including the Commission representatives – through the Monitoring Committees and annual reviews. In principle, this information – coupled with the annual reporting and (from 2017) strategic reporting by the Commission to the institutions – could contribute to an informed qualitative debate during the processes of scrutiny at Parliament and Council level.

In addition, **sanction mechanisms** are, in principle, available to the Commission where programmes are deemed to be non-performing (or where financial irregularities are detected). Article 142 of the Common Provisions Regulation allows the Commission to suspend payments *"where there is evidence resulting from the performance review for a priority that there has been a serious failure in achieving that priority's milestones relating to financial and output indicators and key implementation steps set out in the performance framework"* or where (e.g. as a result of systems audit) "*there is a serious deficiency in the quality and reliability of the monitoring system or of the data on common and specific indicators"*.

In practice, however, the monitoring framework appears to have little direct impact on how resources are used from year to year. The suspension powers for non-performance are linked to the performance review (a once-off exercise which takes place in 2018) rather than to any performance weaknesses discerned *via* the annual monitoring procedures; and the suspension power relating to the "quality and reliability of the monitoring system" is seen as an option of last resort – in effect a "nuclear option" – rather than a routine tool of management control and programme adjustment.

Moreover, the complex cascade of indicators, however well-designed, remain but a proxy for objectives and goals, and Commission staff are reluctant to penalise national authorities for slippage in indicators, in the absence of solid data regarding the actual objectives.

This is why the role of **evaluation** has a particular significance: In principle, evaluation allows for more in-depth, qualitative judgements about the relationship of inputs, outputs and outcome goals. The requirement for evaluation is built into all EU programmes – whether directly managed (as in the case of Horizon 2020) or via shared management (e.g. the ESI Funds). The use of evaluation results is, however, hampered by mismatches in timing: The results from interim and *ex post* evaluations often become available after the original programme has been revised, and are not available in "real time" to inform annual monitoring and review discussions.

In practice, the annual "summary report" on programme performance (see Box C.1) and the annual Article 318 Report on results achieved in the budget (now the Annual Report on Management and Performance, AMPR) attempt to synthesise key messages from evaluations conducted to date, including (where relevant) *ex post* evaluations from predecessor programmes. Collating this information in a manner that conveys meaningful, practical information on programme performance is a challenging task given the timing and institutional factors involved.

The **performance reserve** is an important innovation and represents a clear adoption of the principle that information of performance and results should have budgetary consequences. It must be acknowledged that the performance reserve is modest in scope (up to 6% of each Fund allocation, subject to various exclusions) and that the penalty for failure to pass the Commission's performance review mechanism is not especially onerous (the member state proposes a reallocation of the reserve to other priorities). It remains to be seen whether the flexibility mechanism – involving a public judgement on programme effectiveness and potential loss of funds to another more effective area – will be effective in introducing a new behavioural spur towards more rigorous focus on results.

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