1) State of play de jure and in practice

Framework Financial Regulation

Article 30 of the Framework Financial Regulation lays down that agencies' expenditure budgets must be set out on the basis of a nomenclature with a classification by purpose ("activity-based"), in so far as this is justified by the agencies' activities.

ABB principles

Activity Based Budgeting (ABB) is a key element of Activity Based Management, that is to say that budget, management and reporting are treated as components of one single conceptual framework, based on common performance information.

Guiding principles of ABB are:

- **Coherence** in the translation of political priorities into budgetary resources: the creation of a policy-guided budget procedure and structure ensures that priorities are reflected in resource allocation and that planning of work is consistent with policy objectives and available resources.

- **Transparency** in the allocation of resources and in the global cost of activities: ABB provides information about the full cost of running activities. By attributing all types of resources to activities, the allocation of resources is done in coherence with priorities, thus rendering resource allocation a more rational and transparent process.

- **Accountability** of managers for objectives pursued and results achieved: managers will be responsible for achieving and reporting on results. Improved information on the full cost of running activities and on their benefits will promote efficient use of those resources and will help future decision-making on resource allocation.

- The full potential of ABB can only be realised when programming of work, management of information systems, performance information (as objectives and indicators) and evaluation of results are linked to activities. This can only be achieved through a gradual development process over several years, involving major changes in administrative culture and management information systems.

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2 The issue of activity-based budgeting links to the agencies' annual work programmes, see also Fiche 13.
The benefits of ABM

Activity based management (ABM) provides the Institutions, and by extension, the agencies, with the tools to plan, monitor, report on and evaluate their activities. In this regard, objectives, indicators, inputs (in terms of human and financial resources) and key actions need to be defined, *ex ante*, to set out how the intended results are to be achieved, how progress towards these intended results can be measured, and which resources are required to produce these results. Key ABM tools are the annual management / work plan, to be drawn up in advance of the start of the year (towards the end of year n-1) and to be monitored throughout the year (in year n), as well as the annual activity report, which reports (*ex post*, in year n+1) on the achievement of the intended results as defined in the annual management / work plan. Thanks to the provision of performance information, ABB-ABM would allow agencies to be monitored on the basis of their results and impacts, avoiding cruising speed agencies to be funded with no consideration to their results.

Activity based budgeting (ABB) is the budget element of the broader activity based management (ABM) concept, and relates mainly to operational activities. For the Commission, this is reflected in the fact that the activity statements apply to operational activities only, with a focus on spending programmes (objectives, indicators, expenditure related outputs and results). Whereas in the Commission administrative resources are clearly linked to operational activities (by Title and chapter) through Activity-based budgeting, in order to show the full cost of carrying out the activities, the justification of other institutions' and bodies' required administrative resources can be enhanced by other activity based management tools (annual management / work plan, annual activity report, etc.).

2) Critical analysis of the issue at hand

In its Special Report of June 2008⁴, the Court of Auditors notes that some agencies prepare activity-based budgets⁵, for internal management needs. However, none of the agencies included in the audit of the Court had introduced ABB to its full extent. In this regard, the Court stated that introducing activity based budgeting and activity based management would encourage the agencies to clarify the aims they intend to achieve. Furthermore, genuine systems for fixing objectives and assessing results would serve to improve the quality of the annual activity reports and the periodic external evaluations, thereby enhancing agencies' accountability and transparency.

The section below tries to specify when activity based budgeting is justified by the agencies' activities, as foreseen in the Framework Financial Regulation.

The adequacy of ABB for agencies depends on the agency's activities and its size

Unlike the Commission, many agencies do not implement major spending programmes. Their type of core activities (e.g. collection of information, coordination between national bodies) is in reality more of an administrative nature. Such activities typically depend heavily on human resources, as reflected in the importance of

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3 See, for more details, PDB 2010 Working Document I ("activity statements"), COM (2009) 300
5 EU-OSHA, EFSA, EMA
expenditure related to staff (Title 1) and buildings (Title 2) as compared to operational expenditure (Title 3).

Some agencies, on the other hand, carry out activities which are to a larger extent of "operational" nature, for instance the operation teams of FRONTEX, the scientific opinions of EFSA, the anti-pollution measures of EMSA and evaluation of medicines (EMA, primarily financed by industry). In turn, this is reflected in the budget structure of the agencies: these agencies have a larger share of Title 3 expenditure, as compared to administrative expenditure (Title 1 and 2).

The classification of expenditure by nature in agency budgets at times may lead to debates, as the contribution of the agencies to the inter-institutional working group shows: "the separation between administrative and operational expenditure, as currently reflected in the EU funding to agencies, does not take into account the fact that agencies are delivery-oriented bodies and that most of their staff-related expenditure covers costs for staff directly assigned to carrying out their operational tasks (thus to be considered as operational expenditure according to the principles of activity-based budgeting). This separation (which normally corresponds to two separate budget lines of the EU budget) gives a distorted picture of the actual administrative expenditure of the agencies and often creates artificial constraints for budget allocation and management."6

The ABB methodology, however, requires a grouping of administrative and operational resources by (a number of) activities, with objectives, indicators and results to be achieved. This does not primarily relate to the ratio between administrative (Title 1/2) and operational expenditure (Title 3), which is a different issue; activity based budgeting is about presenting the full costs (operational and administrative financial resources combined) of activities in a coherent manner, linked to the intended results of the activity.

Nonetheless, the Framework Financial Regulation reflects that the main activities which agencies carry out (i.e., of a more administrative or operational nature) impact on the ability of an agency to implement an activity based budget ("in so far as this is justified by the agencies' activities").

This also goes for the size of the agency, in terms of human and financial resources: a "larger" agency is likely to have more scope for activity based budgeting than a "smaller" agency with a limited number of staff and a more "networking" related mandate. The former is also more likely to be able to cope with the additional costs implied by the setting up and running of an ABB-ABM system. The latter, however, would still have to plan and report on its work using regular management tools such as the work programme and the annual activity report. See, in this regard, also fiches 13 (work programme) and 25 (reporting requirements).

Agencies which carry out clear operational activities and which have more significant human and financial resources at their disposal, should be in a position to further develop activity based budgeting, as foreseen in the Framework Financial Regulation

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6 The experience of the agencies: a contribution to the debate on the future of the agency model
"Learning with the past, building the future", Agencies' Contribution to Inter-institutional Debate, p. 7
and along the lines of the Court's report, so as to reinforce the orientation on performance in the agencies.\(^7\)

In addition to a better appraisal of agencies' performance, results and contribution to the achievement of EU objectives, key information from the agencies on objectives, indicators and results could in theory then be used in the activity statements of the Commission, in order to better justify the Union contribution to the agency in question. Moreover, this could clarify the role which the agency plays as compared to the related activities carried out by the Commission in a particular policy area. In reality, however, this may require considerable time and resources, both on the side of the agencies and on the side of the Commission.

\(^7\) CoA, point 49, p. 29. The Council also raised this issue, e.g. in its recommendation on the 2007 Discharge.