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**COMMUNICATION FROM THE PRESIDENT
IN AGREEMENT WITH MR KINNOCK AND MRS SCHREYER
TO THE COMMISSION**

IMPLEMENTING ACTIVITY BASED MANAGEMENT IN THE COMMISSION

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IMPLEMENTING ACTIVITY BASED MANAGEMENT IN THE COMMISSION

This Communication reports on implementation of Activity Based Management within the Commission, which is one of the pillars of the reform endorsed by the Commission in March 2000[1].

A key objective of the reform is to allow the Commission to set political priorities each year, to translate them into operational terms, and to allocate resources accordingly. Better monitoring and reporting on achievement of objectives improves the Commission's public accountability. This is why the Commission decided to introduce Activity Based Management: "*This system aims at taking decisions about policy priorities and the corresponding resources together, at every level in the organisation. This allows the resources to be allocated to policy priorities and, conversely, decisions about policy priorities to be fully informed by the related resources requirements.*"

The main objective of the communication is to establish the basic components of Activity Based Management, to define the links between them and to set a consistent framework for their gradual implementation. It also presents an overview of the components that are being developed with a planned calendar for action, in order to ensure full implementation of Activity Based Management. These components are:

- the Annual Policy Strategy, including political priorities and orientations on resource allocation (to be decided by the Commission);

- the Annual Management Plans, including objectives, indicators, evaluation plans (to be established by each service) ;

- the Commission Work Programme, drawing on the above Management Plans;

- the services' Annual Activity Reports, monitoring progress and reporting services' activities.

This is clearly a long-term and complex task, which represents a major challenge for the success of the Reform. The Commission is both an administration and a political institution and this pillar of the reform is about more than modernising its management: it is about the way in which it decides on policy and translates policy into action. Improving how the Commission sets its strategic objectives, determines its activities and allocates its internal resources, carries a fundamental political significance. The introduction of this important change raises a number of concrete issues:

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[1] Documents adopted on 1.3.2000 "Reforming the Commission", A White Paper Part I, and Part II, Action Plan; COM(2000) final/2

- **The burden represented by this modernisation process**

Although in some services a significant initial investment will be required to implement Activity Based Management, it is important to note that the Commission does not start from scratch: Activity Based Management entails bringing together, standardising and articulating a number of separate existing processes. Furthermore, it draws on the experience already gained in the Commission and on best practices developed by individual services.

In this respect, it should be noted that the implementation of Activity Based Management does not add new requirements for the Commission's services (to those introduced by the Reform White Paper and by the decision on the Internal Control Standards). On the contrary, this new process simplifies the workload resulting from already existing requirements, in particular for reporting, by introducing a standard management information system for the whole Commission instead of different, often non-compatible, standards. It connects the management information systems of the services with Commission-wide decision-making. A common informatics tool will provide support and facilitate reporting. A table in section 1.3.2 gives an overview of the different processes requiring an input from the services as a result of the present communication.

- **A gradual implementation**

The implementation of Activity Based Management takes into account the situation in all Commission services, including the less advanced ones, in terms of management structure and availability of delivery tools. It is therefore proposed **to introduce Activity Based Management in a progressive way over three years** by setting realistic minimum standards for each year to be implemented by all services, leaving of course the possibility for more advanced services to progress more quickly.

The Commission is taking **a careful and measured approach** – introducing the methodological instruments progressively to take account of the different starting points in individual services. The **main priority** in 2002 will be the establishment by all services of the basic structure, i.e the **Annual Management Plans** at an aggregated level. As far as indicators are concerned, 2002 will be a trial phase in order to allow all services to get acquainted with concepts and to test feasibility. Activity Based Management will be further developed in 2003, implemented fully in 2004.

- **Monitoring and evaluation**

Implementation of Activity Based Management is largely a collective "learning- by-doing" process in which all services will participate through the Activity Based Management network of correspondents. Progress will be monitored and results assessed, in particular with respect to the milestones outlined in section 6 for each year: to that end, an annual evaluation will be presented to the Commission starting with the 2002 exercise. This evaluation will be based on an assessment by the services of the whole implementation of Activity Based Management. It may provide, as necessary, for changes to the level of detail required.

- **Information to other Institutions**

Although ABM is the management system for the Commission's internal use, the Commission Work Programme and the Commission synthesis of Annual Activity reports will be presented to Parliament and Council, as will the Annual Policy Strategy. It is therefore important that these Institutions are made aware of the articulation of the various components with existing processes (see section 2.2). In this respect, it is important to distinguish between these aggregate documents and the other purely internal, disaggregated, management information instruments.

1. INTRODUCING ACTIVITY BASED MANAGEMENT WITHIN THE COMMISSION

1.1. The principles

Three connected elements define a logical sequence which should apply at all levels of the Commission, from political functions to technical actions:

- the definition of objectives,

- the selection of activities to pursue them,

- the allocation of resources to carry out these activities.

The rationale for activity based management is:

- **Policy comes first**. The Commission focuses on a restricted number of politically relevant priorities. It supports its choice through proper allocation of resources. This means increased selectivity in the choices made. Not all demands will be able to be met, and what will not be done should be specified.

- **Strategy is decided with resource implications**. The decisions on policy objectives, the activities selected to pursue them and the corresponding resources are integrated.

- **Transparency on how the policy is implemented:** clear objectives, monitoring and reporting provide transparency. Progress and results should be assessed and reported (internally and externally), so as to gauge, inter alia, how far the objectives set have been achieved.

- **Increased awareness of cost/benefit:** the Commission will first lay down its strategy and specify priority objectives. It will then prepare a coherent preliminary draft budget. Consequently, the Commission will only do what is achievable with the level of resources granted. This approach is likely to result in more concentration on activities that have clear benefits and are effectively manageable.

1.2. Implementation: a planning and programming cycle

Activity Based Management encompasses a **series of components** that are detailed in the following sections. However, other components that are being developed under different pillars of the Reform will also interface with Activity

Based Management. This is clearly the case for the guidelines for **job descriptions and task assignments** which are being prepared in the framework of the reform of the management of human resources. They will allow to translate policy priorities and actions into the level of individuals activities and to allocate workload and resources in a more efficient way. Likewise, the final section of this communication recalls the main budget aspects relevant to the implementation of the cycle components, i.e **Activity Based Budgeting. A coordinated and timely introduction of the above elements is essential. Monitoring of their coherence will be a priority in the implementation of Activity Based Management.**
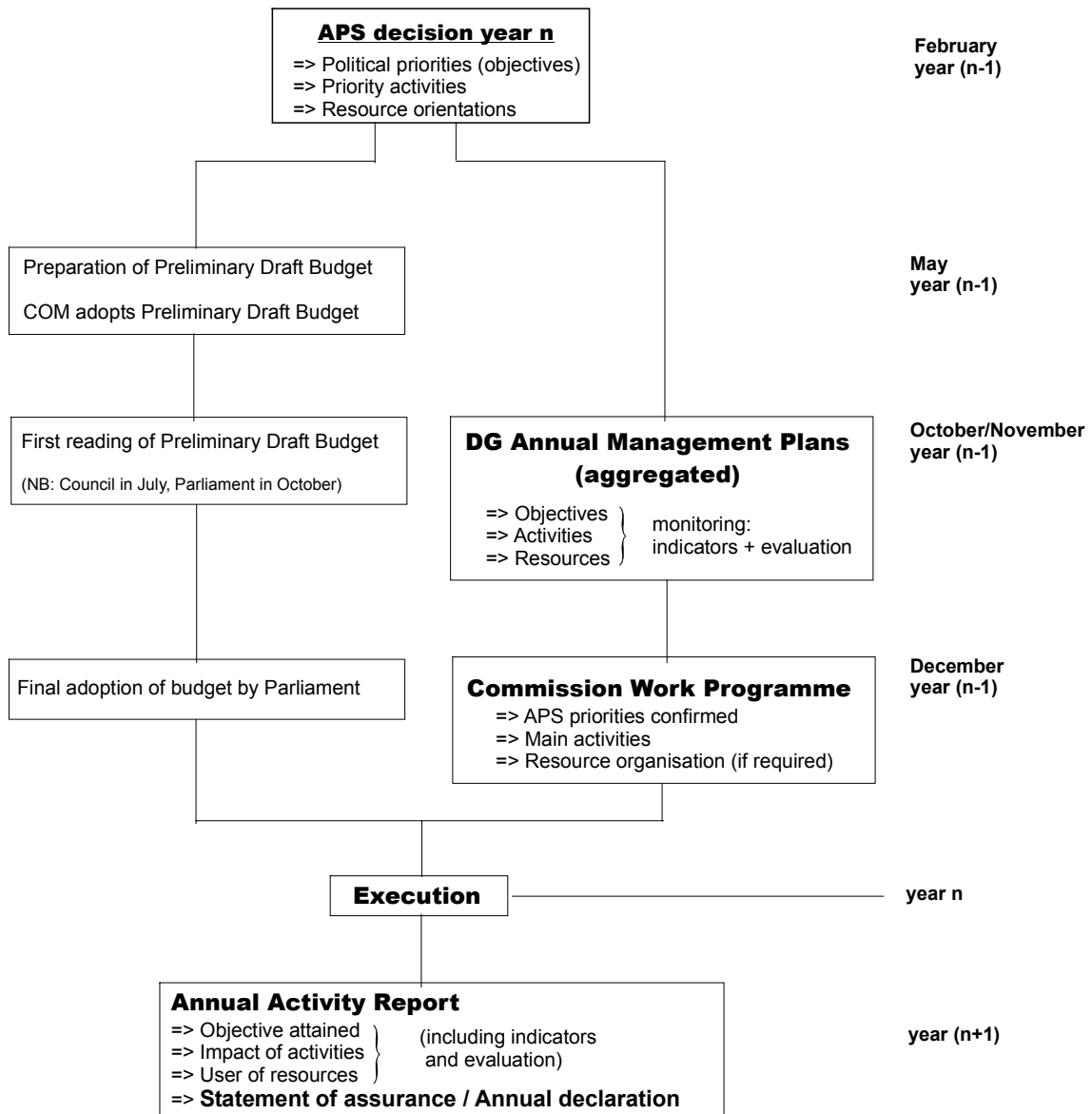
1.2.1. *Description of the cycle*

The introduction of a policy-driven, integrated **planning and programming cycle** translates the above principles into practice.

The cycle for any given year comprises the following steps:

- The **Annual Policy Strategy** which is launched by a political orientation debate and decided by the Commission is the first step in the cycle. The Commission sets policy priorities, defines priority actions, and allocates corresponding financial and human resources to them. This gives the overall framework for the Preliminary Draft Budget and lead to operational programming by services (see below).

- Operational programming by the services takes the form of **Annual Management Plans**. They will set out the objectives and identify indicators enabling the monitoring of progress, and will include reporting arrangements and schedule evaluations on activities. Management plans will of course link the activities to the human and financial resources allocated to the service, i.e., they will be updated in accordance with the decisions taken during the budgetary procedure.

- A more politically oriented **Commission Work Programme**, inspired from the Management Plans will then be adopted by the College and subsequently presented to Parliament and Council in principle in December. Based on the operational input from the services, it will translate the policy strategy into a concrete action plan.

- Results will be reported yearly, together with the annual declaration, in the **Annual Activity Reports**. They constitute the bridge between two cycles. A substantive preview of the results of activities and use of resources will therefore be needed at the beginning of the year to be fed in the next cycle.

Graphically, the relation between the various elements of a cycle can be described as follows:

APS decision year n => Political priorities (objectives) => Priority activities => Resource orientations	**February** **year (n-1)**
Preparation of Preliminary Draft Budget COM adopts Preliminary Draft Budget	**May** **year (n-1)**
First reading of Preliminary Draft Budget (NB: Council in July, Parliament in October) — **DG Annual Management Plans (aggregated)** => Objectives => Activities } monitoring: indicators + evaluation => Resources	**October/November** **year (n-1)**
Final adoption of budget by Parliament — **Commission Work Programme** => APS priorities confirmed => Main activities => Resource organisation (if required)	**December** **year (n-1)**
Execution	**year n**
Annual Activity Report => Objective attained => Impact of activities } (including indicators and evaluation) => User of resources => **Statement of assurance / Annual declaration**	**year (n+1)**

Annual Activity Reports will serve to prepare the Annual Policy Strategy of the following year.

1.2.2. Practical consequences

The Commission services will provide an input on 4 occasions:

– reply to the Annual Policy Strategy circular in January, including a preview of the execution of Annual Management Plans.

– reply to the Budget circular in March;

– preparation for the aggregated Annual Management Plans by the end of October,

– elaboration of the Annual Activity Reports by 1 May as provided for in the Communication adopted on 27 June[2].

These provide 4 main deliverables for the Commission:

– the Annual Policy Strategy decision,

– the Preliminary Draft Budget,

– the Commission Work Programme,

– the Commission's synthesis of the Annual Activity Reports.

The main changes between the current situation and the components of Activity Based Management introduced by the Communication can be summarised as follows:

	Existing situation	ABM Cycle
APS	APS Circular and contribution towards APS decision	*No change, except for preview of Annual Activity Reports*
Commission Work Programme/ Annual Management Plans	*2 elements not linked* → **DG work programme** Obligatory but not fully respected, no common standard, no link with the Commission's work programme → Commission Work Programme catalogue of proposals resulting from programming circular	*Change : 2 elements linked* → **DG Annual Management Plan** Plan based on a standard format prepared on the basis of a programming circular → **Commission work programme** a political programme drawing on the DG Annual Management Plan. Separate agenda planning for the College and other institutions (3-month rolling plan)
Evaluation	July 2000 Communication: sets several evaluation requirements for services	*No change:* Implementation of the July 2000 communication confirmed, in particular the need to have an evaluation plan (integrated in Annual Management Plan)
Objectives / Indicators	December 2000 : obligation to introduce objectives and indicators set up as part of Internal Control Standards	*No change:* Implementation of objectives and indicators in a gradual manner (Integrated in Annual Management Plans)
Annual Activity Reports	2001: limited application (implementation of Financial	Full application from 2002 onwards

[2] Communication SEC(2001)875/6

	Reform)	

Furthermore, the <u>following points</u> should be stressed:

(1) There are **no new reporting requirements: all the elements**, for which guidelines are set in this Communication, are de facto already existing under various formats and separate calendars. What is new is their standardisation and integration in a coherent cycle.

(2) The continued development and deployment of an integrated informatic tool (IRMS[3]), interfacing with others, will **support all the elements** needed for a cycle.

(3) In order to ensure consistency and ease of use, all the elements will be coherent with the **nomenclature and the structure** designed in accordance with the Activity Based Budgeting prescriptions[4].

(4) **Implementation will be progressive**, ensuring feasibility. Major efforts will also be carried **out in training and assistance**. Flexibility do take into account specific situations will be provided for.

(5) An important objective of the cycle will be to **improve transparency in the information collectively available** to services when preparing strategy decisions that have resources implications.

The following sections present first the components of the cycle, starting with the Annual Policy Strategy, followed by the Annual Management Plans, the Commission Work Programme and the Annual Activity Reports. Then come the elements designed to measure progress, i.e indicators and evaluation, which will be integrated into Management Plans and Activity Reports. Finally, it addresses the information technology support (i.e IRMS) necessary to make the information provided by the above elements accessible.

2. THE STARTING POINT OF THE CYCLE : THE ANNUAL POLICY STRATEGY

Political objectives have **long-term dimensions**. At the start of its mandate, the College adopted the "strategic objectives 2000-2005 – Shaping the New Europe[5]".

Other planning **processes** like the Commission Work Programme, preparation of the budget or the allocation of human resources are **annual**. The long-term political planning of the Commission needs to be translated into annual objectives and operational activities and resources allocation following clear political leadership.

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[3] i.e. the Integrated Resource Management System
[4] SEC (1999) 1883
[5] COM (2000) 154

2.1.   The first Annual Policy Strategy

The Commission adopted the first Annual Policy Strategy on 21 February 2001[6].

It reinforces the coherence of the Commission action as the driver for the preparation of the Preliminary Draft Budget 2002, of services' Annual Management Plans and of the 2002 Commission Work Programme. It simplifies **the decision-making** as it merges the political orientation debate and the budgetary orientation debate that occurred according to different schedules and modalities in the past.

This first exercise **delivered results** according to the planned schedule despite severe time constraints, and served as an effective **framework** for the preparation of the Preliminary Draft Budget.

The exercise also raised **the following issues:**

–   The choice of political priorities is a combination of those requiring mobilisation of resources and those justified by their political importance even though they have little impact on resources. Furthermore, priorities cannot be separated from the services' "core activities", as this would give the false impression that the process only addresses a fraction of the activities of the Commission's services.

–   A decentralised approach proved crucial in defining and building consensus around the preparation of the first cycle. It also contributed to tranparency which has been underlined as being a critical factor.

–   With some exceptions, the variety of actions proposed, the diversity in their presentation, the lack of concrete milestones and of measurement tools rendered the preparation of this first exercise more difficult to handle for all services. For human resources, moreover, the Peer Group review had already given guidelines for the allocation of resources for the 2001-2002 period.

–   The importance of establishing a dialogue between the Commission and the Parliament and the Council, on the political priorities that the Commission sets in the Annual Policy Strategy.

2.2.   Future Annual Policy Strategy decisions

To develop further a comprehensive approach to priority setting and allocation of resources, **future Annual Policy Strategy decisions must** become the tool for the Commission to steer the entire set of its activities, whether new political priorities or core business. Naturally, the fulfilment of the Commission's core business will be considered as a permanent priority for the preparation of the annual strategy. This will imply the following:

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[6]Communication adopted on 21.2.2001; SEC(2001) 268/8

–   At the **political level**, each year the Commission must integrate the selection of its political priorities into a pluriannual perspective, as political priorities usually have a pluriannual time-span. This should be recognised by confirming them in subsequent years. The underlying political project should have a pluriannual dimension and integrate the core business of the Commission services. The **orientation debate** can be seen as a starting point at political level for a new cycle. Taking into consideration input from the services, it will be launched on the basis of a note from the President setting out the main strategic issues and options to be addressed.

–   Planning and programming are *de facto* **pluriannual processes**: in most cases the political orientations fixed in the Annual Policy Strategy will imply pluriannual work and resources. Similarly, the Commission adopts throughout the year decisions which have major implications for the mobilisation of its resources for several years, e.g., pluriannual expenditure programmes. Given their strategic nature and the impact that they have on political orientations, the broad lines of financial programming should be included in the Annual Policy Strategy, and the full financial programming continuing to be adopted after the Preliminary Draft Budget.

–   The Annual Policy Strategy has to become the **natural place where strategic decisions on resource orientations are taken**, including decisions to adjust the focus of activities and the consequent redeployment of resources - where necessary. Furthermore, the specific situation of central services not directly affected by the selection of political priorities will receive due consideration.

–   **Information to other institutions on the Annual Policy Strategy of the Commission**. Building on the Reform White Paper, the Commission will present the Annual Policy Strategy to the Parliament and Council, in order to allow for these institutions' feed-back before the Commission adopts its Work Programme. Besides, the Commission will organise with Parliament and Council an information on Activity Based Management and its components.

–   **The use of analytical tools supporting the Annual Policy Strategy must be strengthened**. Learning from past experience and analysis of results achieved is a necessary component of the new management cycle. Synthesised information from Annual Activity Reports and evaluation findings will provide input for the orientation debate and for the preparation of the Annual Policy Strategy decision.

> **The Commission Annual Policy Strategy provides the framework for the cycle, steering the budget drafting process and the operational plans of the services. It will be, as such, presented to the other Institutions. Therefore it needs to take greater account of the pluriannual perspective, the core activities of the services, and cover the broad outlines of financial programming, the full financial programming continuing to be adopted after the Preliminary Draft Budget.**

3.   IMPLEMENTATION OF THE SUBSEQUENT CYCLE ELEMENTS

3.1.   **General remarks**

- **A common management standard is necessary…**

As said before, the Commission is **not starting from scratch** to establish the cycle components: most of the elements have already been introduced following earlier demands (e.g planning, Commission Work Programme, indicators, reporting, evaluation).

In the field of **planning and programming**, a certain number of services have taken interesting initiatives, based, however, on different concepts, methodologies and standards: it is therefore necessary to <u>bring all these initiatives into a coherent framework.</u>

The first **planning and programming cycle** has already been launched. It is therefore necessary to launch <u>the other steps of the cycle:</u> the establishment of Annual Management Plans translating the policy strategy in operational terms and the integration of the Work Programme in the cycle as implementation of the Annual Policy Strategy.

- **which will be introduced in a progressive way**

For this reason, it is necessary **to build on experience** to implement the cycle components across the Commission and allow for <u>progressivity and simplicity</u> in implementation, as services start from different development levels. This Communication sets out <u>minimum obligations</u> for all services on the basis of what is feasible. Of course, this should not prevent services that are already more advanced or wish to have more elaborate instruments to do so, provided that they use the standard framework set out in this Communication.

The table in section 6 provides a calendar for the progressive implementation of the Activity Based Management components.

Although the **elements** of the cycle will help to ensure timely and effective **decision-making by the Commission**, they are first of all powerful **management tools** that should help services in their internal management, notably in managing resources and measuring performance.

The Commission is aware of the efforts that services will have to invest in this process: while keeping to the minimum necessary the efforts required, an **infrastructure necessary to deliver technical assistance and training** to all services will be organised.

In particular, a **Support Function** will be set up to provide both **help-desk and assistance functions** to the services in introducing the cycle elements, starting with the Annual Management Plans. This function will be ensured through a light co-ordination of the competent units of the SG, DG BUDG, and DG ADMIN.

The following is an overview of the various **concepts, processes and instruments** that form part of the cycle. Further details on their content and calendar are presented in the technical notes circulated separately.

3.2. Programming

This entails the introduction of Annual Management Plans as the vehicle for planning and programming at service level, the restructuring of the Commission Work Programme as a political instrument, and the introduction of Annual Activity Reports.

3.2.1. Annual Management Plans

The **Annual Management Plan** is the key instrument to help management integrate priorities, objectives and resource allocation at the operational level.

The Annual Management Plan will unify services' existing work programmes, work plans and other internal planning and programming exercises which have already been developed by a certain number of services, albeit in an uncoordinated way. 3 points should be underlined:

- **It will have a common structure Commission-wide[7]** drawing on existing experiences. At the same time, this common structure includes in-built flexibility to accommodate different needs and levels of planning experience in the services.

- **It will have a dual use**: it will enable each Commission service to organise and improve the management of its activities and resources on the basis of set objectives. It will also translate the Commission's political priorities into concrete actions and ensure monitoring and reporting, which will be used by the Commission to decide on its Work Programme.

- **it will help to measure performance**: it will present objectives with their indicators (see 3.3), and an evaluation plan (see 3.4), with special attention for the monitoring of actions related to Annual Policy Strategy priorities and other important actions forming part of the Commission Work Programme.

3.2.2. The Commission Work Programme and Commission agenda

The Commission Work Programme needs to be changed to be integrated into the cycle. As it currently stands, both its timing (beginning of the year) and its contents (political priorities not clearly spelled out and a descriptive catalogue of hundreds of items) do not respond to the logic of the cycle. It is proposed, therefore, to enhance the political nature of the Commission Work Programme and remove from it the catalogue of legislative and non-legislative proposals. 3 points should be underlined:

- The Work Programme should confirm the political priorities made in the Annual Policy Strategy, but could also amend these if necessary, for

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[7] The specific features of this tool are described in the technical note n.1

example to reflect urgent new circumstances or important emerging developments.

- Drawing on the Annual Management Plans and consistent with the budget, it will concentrate on **presenting important initiatives**, including those in the Annual Policy Strategy, falling within a particular calendar year, but should do so within a multi-annual perspective. It should not attempt to provide a comprehensive picture of Commission activity but should highlight the main political actions presented by the services in their Annual Management Plans. In order to improve the Work Programme's focus, it should indicate objectives and actions that best illustrate how the Commission intends to deliver its political priorities.

  The Work Programme will be presented to Parliament and Council in December as part of the state of the Union address, setting the tone for the EU agenda in the coming year.

- Separately from the Work Programme, the Commission will develop a tool based on Annual Management Plans designed to improve the planning of the agenda for the College. It will be made available to theother institutions[8].

3.2.3. Annual Activity Reports

As already announced in the separate communication on annual reports and declarations adopted by the Commission on 27 June 2001, the **Annual Activity Report provides an assessment on the use of resources by services to attain objectives and meet the Commission's priorities, and allows Directors generals to state the reliability of their internal control systems**. It enables services to identify the achievements and shortcomings of their activities on the basis of the objectives set out in the Annual Management Plan at the beginning of the year. **It is therefore the bridge between 2 cycles**, and the foundation of the following cycle.

For the procedural aspects of the elaboration of the reports, (calendar, synthesis preparation, transmission to other institutions, etc.) reference is made to the above-mentioned communication. As to their content, it should be recalled that **the Annual Activity Report is the mirror of the Annual Management Plan**. The reports will present a **general assessment** of the way in which the objectives set in the Annual Management Plan have been fulfilled on the basis of the resources allocated and will detail both achievements and shortcomings by activity, including the results of indicators and evaluations.

Annual Activity Reports are to be ready by 1 May of the year following the year that they cover. Therefore, in order to bridge the 2 cycles, the **Annual Policy Strategy circular will request services to provide a preview** of their management plan execution, in particular concerning the attainment of their objectives. This preview could be largely identical to the part on meeting the political objectives of the Annual Activity Report.

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[8] The specific features of this tool are described in the technical note n.3

In the framework of simplification, services are also requested to reflect upon the activity reports that they already produce, and whether these reports could be replaced or integrated into the Annual Activity Report.

> **Annual Management Plans for 2002 will be prepared at an aggregated level, i.e. they will cover the Activity Based Budgeting activities (i.e., 6 or 7 for each service), the actions listed in the 2002 Annual Policy Strategy and the actions proposed for the Commission 2002 Work Programme.**
>
> **Annual Management Plans for 2003 will also include all actions of particular significance for achieving the Activity Based Budgeting activities.**
>
> **The structure of Annual Activity Reports will be adapted to reflect the progressive evolution of the Annual Management Plans.**

3.3. Measuring performance

3.3.1. Setting of Objectives and Indicators

To strengthen its focus on results, the Commission has set out to define clear and realistic objectives for its operations, to monitor progress and to ensure its transparent reporting. A first step has been taken in December 2000, with the adoption by the Commission of a series of *Internal Control Standards*. Those standards are completed and further explained by the present communication.

The Commission will now **implement a common framework** for the setting of objectives and indicators combining already existing requirements into one comprehensive framework.

The Commission will follow a gradual implementation plan for this framework to ensure that the culture of setting objectives and indicators is developed progressively. The Directorate Generals will be driving this iterative process, which will start by a **trial phase** for the year 2002. During this trial phase, the concepts will be tested by the services to their best endeavour.

- **Objectives** are fundamental in every aspect of Commission activities, as they translate political priorities into concrete targets guiding the everyday functioning of the services. In most cases, these already exist in different forms. The Commission will use a common framework for the definition of objectives and the reporting in the Annual Management Plans and Annual Activity Reports.

  In setting objectives, some **basic principles** are indispensable. For any activity, the input of resources, the immediate output and the intended impact have to be planned. The objectives defined have to be specific and precise, measurable or verifiable, agreed by main actors, realistic and based on deadlines. It is understood that the implementation of the framework will require flexibility and time to get acquainted with the common standards.

Indicators are necessary to monitor progress on the objectives set: they are designed by the services for their internal use. A distinction has to be made between indicators for the immediate output of the activities (e.g. deliverables such as a common market directive) and their overall impact on the issue being addressed (e.g. such as degree of market integration). Impact indicators can be more difficult to define than output indicators but they are the most relevant to strategic decision-making.

Indicators will, however, provide only a **rough indication** as to whether a specific activity has the desired effects. A qualitative interpretation of the data produced is essential, as the effects will usually depend on many different internal and external factors. Follow up may consist in corrective action (if the indicator is found to be sufficiently clear) or a more detailed assessment, or the re-adjustment of the initial objective where appropriate.

It is not intended centrally to impose any indicators within the Commission. Presentation and monitoring will be the responsibility of the Directors General concerned.

- Regarding **implementation**, the first phase will be a **trial run** for the year **2002**.

During this phase, services will test the application of the common framework: **the emphasis will be put on the definition of objectives**, which must be introduced at the level of aggregation foreseen for the 2002 Annual Management Plans. As regards **indicators**, services are only **encouraged** to start setting the corresponding indicators.

For 2003, objectives will be set at action[9] level. The corresponding indicators will consist of **output indicators and where possible impact indicators. Although they may be more difficult to establish, impact indicators should be set whenever possible.**

For 2004, the definition of output and impact indicators, and the level to which they apply, may be adjusted on the basis of the results of the evaluation of the ABM process, in particular of the experience of indicators in the initial exercises. On this basis, they should be introduced for all levels and be **fully operational.**

> **For 2002, objectives should be set at the level of Policy areas and Activity Based Budgeting Activities, and be presented in the Annual Management Plans. Services are encouraged to set the corresponding indicators.**
>
> **For 2003, both objectives and indicators (output and, where possible, impact) will be set at the level of Policy areas, Activity Based Budgeting**

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[9] An action corresponds to the level of detail that is identified by the service as politically significant and separately manageable in terms of allocation of resources

> **Activities and actions, and be presented in the Annual Management Plans.**
>
> **On the basis of the experience gained from the first exercises, objectives and indicators may be adjusted with a view to being fully implemented from 2004 onwards.**

3.3.2. *Evaluation*

Evaluation is a crucial information tool on policy performance for services and for decision-making. There is already a culture of evaluation in the Commission, and a practice which is constantly improving throughout the services. However, still more effort is needed to enable evaluation to become the basis for informed decision-making in the planning and programming cycle. For this it is necessary to:

<u>**Strengthen policy evaluation through**</u>:

- **Application of standards for evaluation:** for the time being, only non-mandatory guidelines ("Good practice guidelines for the management of the evaluation function"[10]) exist for guiding services' organisation of evaluation work. To ensure the quality and reliability of the information supplied by evaluations, these guidelines are being reviewed with a view to establishing mandatory standards to be adopted by the Commission.

- **Ex-ante evaluation:** Ex-ante evaluation is still not a regular practice. As part of the effort to improve this, guidelines are being developed to establish good practice in ex-ante evaluation for expenditure programmes and for policies. Regulatory impact assessment will be gradually developed as a tool for ex ante assessment and for improving the quality of regulatory activities.

<u>**Integrate evaluation in the cycle**</u>:

- Many DGs already carry out regular evaluations of their programmes and activities. The findings of these individual evaluations will provide relevant input for the preparation for the Annual Policy Strategy. However, the quality of this information must be assessed and the relevant findings must be synthesised so that they are easily accessible for the political debate.

- Although the requirement to have an evaluation plan has been introduced by the Communication on evaluation in July 2000, not all services have such a plan yet. It is necessary that all services establish an **evaluation plan** anticipating policy changes and covering priorities and integrate this plan in their Annual Management Plans. The Annual Activity Report, mirroring the Annual Management Plan, should contain the main conclusions of the evaluations completed during any given exercise.

- In addition, the Commission will decide annually a limited number of **strategic evaluations**, designed specifically to prepare its Annual Policy

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[10] SEC (2000)245/4

Strategy debate. These crosscutting evaluations are designed to complement the results of the evaluations carried out by services. They will either assess the impact of a policy that mobilises resources from several services, or will cover information gaps, or will relate to political priorities decided by the Annual Policy Strategy. They will be carried out by the services concerned.

In 2001, a small number of "strategic" evaluations will be launched through a specific communication.

In 2002, they will be integrated into preparation of the Annual Policy Strategy, in order to be adopted by the Commission as part of the 2003 Annual Policy Strategy.

Services' evaluation plans will be included in the 2002 Annual Management Plans. Progress will be subsequently reported in the Annual Activity Reports.

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4.   INFORMATION TECHNOLOGY SUPPORT

The introduction of a cycle connecting decisions on policy priorities/objectives, activities, and resources from conception to execution, requires an information system to support it. This information system, must be common, and have the flexibility required to transmit, and provide access to information from different sources with a standard format. To this end, the Integrated Resource Management System, IRMS, **will be adapted** as soon as possible, to provide the informatics support necessary for the cycle components outlined in section 3 above.

IRMS will have to be introduced in all services by mid-2002 and will become the common information vehicle for the implementation of the cycle components. **IRMS is an informatics tool, not a generator of content:** the prerequisite for its successful introduction within the services are the definition and the standardisation of the content, and in particular the establishment of structured and harmonised Annual Management Plans containing the elements outlined in the above sections (e.g., indicators, evaluations, etc.).

IRMS integrates the day-to-day management needs of DGs with the essential reporting requirements of the Commission and for this, functions as a portal integrating information from different sources. For instance, the input for the Work Programme coming from the Annual Management Plans will be more easily reported through the same system, and the same applies to the input necessary for the preparation of the Annual Policy Strategy and the Annual Activity Reports.

After the initial pilot phase and on the basis of this experience, IRMS is now being implemented progressively. As of today, IRMS is operational in the following services: DG ENTR; DG MARKT; DG REGIO; DG INFSO; DG BUDG; SG. IRMS is currently being introduced in: DG DEV; DG FISH; DG

ENV; ECHO; EUROSTAT, DG EMPL, whereas it is in its initialisation phase in DG COMP.

It is expected that all the above services should normally be fully operational on IRMS by the end of 2001. The remaining services will follow, with a view of making IRMS fully operational Commission-wide by mid-2002. Services are therefore encouraged to take the necessary steps to adopt IRMS as soon as possible. In this respect, it is noted that the elaboration of the Annual Management Plans foreseen in section 3.2.1 is a determining factor for success. The support function foreseen in section 3.1 above will assist services in their implementation.

> **A full deployment of IRMS is necessary by mid-2002 to ensure the effectiveness of all Activity Based Management components as well as enhance services' management facilities.**

5. THE ACTIVITY BASED MANAGEMENTBUDGET COMPONENT: ACTIVITY BASED BUDGETING

5.1. What is Activity Based Budgeting?

Activity Based Budgeting is the <u>budget component</u> of Activity Based Management. In consequence, the structure of the Commission's budget undergoes a significant transformation and becomes more relevant politically. The traditional separation between administrative and operational resources is thus replaced by <u>a structure presenting the Commission's resources by Policy Area and Activity</u>. Such a structure has been prepared and agreed by the Commission's services and will be the basis for their planning, budgeting and reporting processes.

5.2. Where do we stand today?

A first political presentation of the 2001 Preliminary Draft Budget (PDB) following the Activity Based Budgeting approach was transmitted to the Budgetary Authority in parallel with the traditional presentation on which the budget is adopted. This has been completed in the 2002 PDB with a presentation of the main objectives of all Policy Areas and with more detailed Activity Statements which have been introduced for a selected number of Policy Areas in order to invite the Budgetary Authority to a gradual transition to Activity Based Budgeting.

However, such a transition will not be complete as long as the current Financial Regulation is in place. In this context, the Commission has presented a proposal to the Council and the European Parliament for the recast of the Financial Regulation including provisions where the budget structure would follow the Activity Based Management approach.

According to the conclusions of the European Council of Gothenburg, the Financial Regulation, having been subject to recasting, should be adopted by the end of 2002. In this context, the Commission's services have to prepare for the definitive transition to the new budget approach. To this end, a Task

Force has been created in the Directorate General for Budgets and will work on the adaptation of accountancy and reporting tools.

> **The further development of Activity Based Budgeting will strengthen the link between activities and resources affected to them, thus contributing to increasing the efficiency and the accountability of the Commission**.

6. **CALENDAR FOR THE IMPLEMENTATION OF ACTIVITY BASED MANAGEMENT COMPONENTS**

Although most of the components outlined above already exist, such as the well-established annual budgetary procedure, the introduction of common standards and their integration in a coherent cycle will represent a significant investment. This investment will obviously mobilise human resources, though not on a permanent basis, as when the cycle becomes fully operational, resulting simplification will bring along resources savings.

Moreover, a substantial number of additional human resources, allocated since July 2000, have been earmarked for the implementation of the reform.

This is why a very progressive introduction has been preferred, with reporting requirements for this year limited mostly to policy area and activity level (as defined in the Activity Based Budgeting nomenclature), thus aggregated to Directorate-General level.

The following tables give an overview of the tentative timetable foreseen for the implementation of the main cycle elements until the end of 2003, excluding the annual budget procedure, the results of which will be taken into account at appropriate stages of the cycle (annual management plans, Commission Work Programme, etc.). Actions requiring major services' contributions are shown in *italics*.

2001	Annual Policy Strategy (APS)	Annual Management Plans (AMP) Annual Activity Reports (AAR)	Commission Work Programme (WP)	Performance Management Framework	Evaluation
July		Programming circular requesting establishment of 2002 AMP at policy area, ABB activities and 2002 APS actions level	Programming circular requesting input for 2002 WP	Programming circular including guidelines for setting output and impact objectives for 2002 limited to Policy Areas, ABB activities and 2002 APS actions level. Testing indicators where possible.	Programming circular requesting proposed evaluation plans for 2002
Sep					Communication on strategic evaluations
Oct		*Aggregated 2002 AMP prepared by services*	*Services input on Commission WP drawing on 2002 AMP*	*Trial phase: set of output and impact objectives (and possibly indicators) in 2002 AMP.*	*Evaluation plan included in services 2002 AMP*
Nov	Commission orientation debate. Choice of political priorities for 2003				Synthesis of evaluation studies conducted by services for the 2003 APS
Dec	APS circular requesting services input for 2003 APS		Adoption of Commission 2002 WP and presentation to EP		

2002	Annual Policy Strategy (APS)	Annual Management Plans (AMP) Annual Activity Reports (AAR)	Commission Work Programme (WP)	Performance Management Framework	Evaluation
Jan	*Replies to APS circular*	*Finalisation of 2002 AMP* *First preview of 2001 results*			
Feb	Adoption of 2003 APS				Decision on strategic evaluations incorporated in 2003 APS
May		*Presentation of 2001 AAR followed by synthesis*			
July		Programming circular requesting establishment of 2003 AMP at actions level	1st review of Commission 2002 WP Programming circular requesting input for 2003 WP	Programming circular requesting objectives and indicators for 2003 at Policy Areas, ABB Activities and actions level	Programming circular requesting proposed evaluation plans for 2003
Oct		*2003 AMP prepared by services*	*Services input on Commission WP drawing on 2003 AMP*	*Set of objectives and indicators in 2003 AMP, (output and where possible impact indicators)*	*Services evaluation plans included in services 2003 AMP*
Nov	Commission orientation debate. Choice of political priorities for 2004		2nd review of Commission 2002 WP		Synthesis of evaluation studies conducted by services for the 2004 APS
Dec	APS circular requesting services input for 2004 APS		Adoption of Commission 2003 WP and presentation to EP		

2003	Annual Policy Strategy (APS)	Annual Management Plans (AMP) Annual Activity Reports (AAR)	Commission Work Programme (WP)	Performance Management Framework	Evaluation
Jan	Replies to APS circular	Finalisation of 2003 AMP First preview of 2002 results			
Feb	Adoption of 2004 APS			Start overall review of the Performance Management framework	Decision on strategic evaluations incorporated in 2004 APS
May		Presentation of 2002 AAR followed by synthesis			
July		Programming circular requesting establishment of 2004 AMP at policy area, ABB activities and actions level	1st review of Commission 2003 WP Programming circular requesting input for 2004 WP	Programming circular requesting objectives and indicators for 2004 at actions level	Programming circular requesting proposed evaluation plans for 2004
Oct		*2004 AMP prepared by services*	*Services input on Commission WP drawing on 2004 AMP*	*Set of objectives and indicators in 2004 AMP*	*Services evaluation plan included in services 2004 AMP*
Nov	Commission orientation debate. Choice of political priorities for 2005		2nd review of Commission 2003 WP		Synthesis of evaluation studies conducted by services for 2005 APS
Dec	APS circular requesting services input for 2005 APS		Adoption of Commission 2004 WP and presentation to EP		

7. CONCLUSIONS

The Commission is invited:

– to <u>adopt</u> the above communication and to authorise the President to transmit it to the other Institutions;

– to <u>instruct services to implement</u> it on the basis of the technical notes circulated with the present communication, according to the calendar specified;

– to <u>charge the Secretariat-General to follow-up and report</u> regularly to the Reform Commissioners' Group on progress made in implementing Activity Based Management within the Commission. An annual evaluation will be presented to the College starting with the 2002 exercise.

List of Technical Notes:

Note 1: Guidelines for Annual Management Plans;

Note 2: Guidelines for the Commission Work Programme;

Note 3: Guidelines for the Commission's agenda planning;

Note 4: Guidelines for setting a framework for performance management;

Note 5: Commission organisational structure for implementing Activity Based Management

Note 6: Activity Based Management Glossary