The EU Exercise of Competence

Both the Multi-Annual Financial Framework (MFF) and the annual budget are proposed by the Commission. Following the Lisbon Treaty, a legally binding value is now conferred on the MFF. It is subject to the consent procedure, whereby the Council must decide unanimously to adopt it after the European Parliament (EP) has given its consent. For the 2014-2020 MFF, the Parliament gave its approval in November 2013, while the Council adopted it in early December 2013.

Liberal Democrats believe that the successful outcome of the negotiations between the EP and the Council for the new budget for 2014/2020 demonstrate clearly that reform in Europe can be achieved from within. Not only was the overall budget cut by £30 billion but there were substantial increases in spending on transport, energy, telecommunications, research and development, youth unemployment and education, all of which were key priorities for both the UK Government and Liberal Democrats in the European Parliament.

We also believe that the role of the European Parliament needs to be integrated into the negotiations between the Heads of State. The Parliament has a say in giving consent to the MFF deal but finds itself excluded from the final negotiations. That must change next time and there must be an automatic right of place for the EP in the final talks between Heads of State.

Discharge of the Budget

The discharge of the budget is reported by the European Court of Auditors, which produces annual reports on the budget and decides whether or not to 'sign off' the accounts. Since 2007, the Court of Auditors has signed off the European Union's accounts each year.

The Court of Auditors also reports an error rate, which refers to the percentage of monies which have been accounted in error. The majority of errors occur at a member state level and this may be because of confusion with reporting processes on the part of beneficiaries or an incorrect amount being used in error. The UK Government, the Northern Ireland Executive and the Scottish Government have all been fined in recent years for errors in implementing the Farm Payments Schemes. In fact, the UK has the fourth highest total in terms of fines based on its implementation of the CAP, following Greece, Italy and Spain. The total value of disallowances in the CAP provided for by the UK Government is £590.4m between the 2008-09 financial year and 2011-12.[1]

Liberal Democrats believe it is important to put the EU error rate in context. In 2012 the error rate was recorded as 4.8%, which compares with the Government Accountability Office reporting an error rate of 4.4% in the 2012 US federal budget. It is also worth noting that the Department of Work and Pensions in the UK has failed to have its accounts signed off in the last 25 years.

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[1] Pg 2 http://www.nao.org.uk/wp-content/uploads/2012/07/1213_Defra_11-12.pdf

Nevertheless, Liberal Democrats believe there needs to be concentrated effort to drive down error rates and tackle fraud. It is estimated that 0.2% of the budget is subject to fraud[2] and it is increasingly clear that the Commission needs power to take legal action to recover these funds if member states refuse to do so themselves.

Benefits to the UK

From the outset it is important to highlight that there are some areas of public expenditure that are better dealt with at an EU level. We should consider especially cross border projects and spend, such as under the Connecting Europe Facility, which provides funding for inter-European transport, energy and telecommunications.

Pooling resources, such as researchers across European Universities, is hugely beneficial, and in such trans-continental initiatives funding from a central European budget is prudent and logical.

The UK is a net contributor to the budget and it is forecast to contribute net an average of £8bn per year over the next MFF, taking into account the UK rebate.[3] The benefits, however, far outweigh the costs in terms of jobs access to the single market and the trade and exports that flow from being in the EU single market.

Non-quantified benefits include Research and Innovation funding, from which the UK, along with Germany, hugely benefits, taking in £1.40 for every £1 spent. [4]

A summary of key benefits can be seen from the figures set out below.

Single Market Benefits

UK Jobs linked to the Single Market:	over 3 million[5]
UK Jobs created or safeguarded by EU companies 2003-12:	236,166[6]

Costs and benefits

Benefits to each UK citizen from the EU single market £1,225 a year[7]

Cost to each UK citizens of the EU budget:	£116 per year[8]

Trade stats

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[2] http://ec.europa.eu/budget/explained/myths/myths_en.cfm

[3] Pg31 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251516/PU1567_Balance_of_Competences_Review_-_EU_Budget_Call_for_Evidence_p04.pdf

[4] http://www.theguardian.com/science/life-and-physics/2013/may/20/research-eu-ukip

[5] http://www.bis.gov.uk/files/file49880.pdf - page 8 and http://niesr.ac.uk/sites/default/files/publications/AR-2000_0.PDF - page 5 and http://www.europarl.org.uk/resource/static/files/ukjobs.pdf and http://www.theyworkforyou.com/wrans/?id=2011-09-06e.67079.h#g67079.q0

[6] http://www.theyworkforyou.com/wrans/?id=2013-07-05a.163615.h&s=%28section%3Awrans%29+speaker%3A25175#g163615.q0

[7] CBI, report *Our Global Future, the business vision for a reformed EU* – page 11

[8] *Ibid – page 74*

UK Goods & Services Exports to the EU (2011):	£234 billion (47.5% of total exports)[9]
UK total trade with the EU (2011):	£495 billion (49%)[10]
EU foreign investment into the UK (2010):	£365 billion (48%)[11]
UK Financial Services Trade Surplus with the EU (2012):	£16.6 billion (37%)[12]

EU Funding in the UK (2012)

European Investment Bank loans:	3.7 billion Euros[13]
European Research Funding:	1.1 billion Euros[14]
European Regional Development Funding:	£628 million[15]
European Social Fund:	£530 million[16]
Common Agricultural Policy (CAP) Funding:	£4.4 billion[17]

The future for the MFF and the Budget

In the future, the budget will have to continue modernising, and the UK should continue to lead the charge in this respect. Channelling further funding towards research, innovation and job growth should be the UK's top priority as well as continuing the reform agenda of key policy areas such as the CAP. As an example, CAP spending has been reduced from almost 75% in 1985 to 36% under the current MFF.[18]

While the current increased investment in R&D is welcome Liberal Democrats believe that needs to be increased in the future if we are to compete globally. While claims for EU R+D funding by UK higher education institutes increased from £424.1m in 2008 to £714.1m in 2012, and look set to continue increasing, the UK Government's science funding has been frozen.[19] We need to see increased investment in cross-border transport projects as well as digital and energy networks to drive forward growth and improve EU competitiveness.

We also need to strive for a more efficient and effective administration in the EU. In the Joint Working Group of the Budget Committee, Lib Dems have led the way in reducing members travel expenses by 5% from 2012 to 2013 and more than €30 million has been saved in the running costs of the Parliament.

Liberal Democrats in the European Parliament have also helped achieve over €8bn in savings through the reforms of staff regulations. Further administrative reform is desirable and there are further savings to be found.

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9 http://www.parliament.uk/briefing-papers/SN06211.pdf - page 7-8
10 i*bid*
11 http://www.parliament.uk/briefing-papers/SN01828 - page 6
12 http://www.thecityuk.com/assets/Uploads/Seminar-Report-Balance-of-Competences-Sept-2013.pdf - page 7
13 http://www.eib.org/projects/loans/regions/european-union/index.htm?start=2012&end=2012
14 http://www.theyworkforyou.com/wrans/?id=2013-07-03a.162433.h&s=%28section%3Awrans%29+speaker%3A11494#g162433.q0
15 http://www.theyworkforyou.com/wrans/?id=2013-07-03a.162843.h&s=%28section%3Awrans%29+speaker%3A11494#g162843.q0
16 http://www.theyworkforyou.com/wrans/?id=2013-07-03a.162434.h&s=%28section%3Awrans%29+speaker%3A11494#g162434.q0
17 http://www.theyworkforyou.com/wrans/?id=2013-07-12a.162435.h&s=%28Martin+Horwood%29+section%3Awrans#g162435.q0
18 http://ec.europa.eu/agriculture/cap-post-2013/graphs/graph1_en.pdf
19 http://www.theguardian.com/higher-education-network/blog/2013/nov/07/european-funding-higher-education-uk

We believe the work of the two advisory committees, the Committee of the Regions and the Economic and Social Committee could be amalgamated to deliver a more efficient and effective advisory service and free up substantial savings.

Budget cycle.

The current budget cycle is 7 years and for the bulk of the investment programmes this gives the long term certainty which is needed to plan ahead, although there is an argument that the budget and Parliamentary cycles should be aligned at 5 years to give better accountability. MEP candidates would then be able to stand on platform spelling out what size of budget they wanted and what their priorities would be. Liberal Democrats support this change.

There is also a need to take action to ensure that the budgetary commitments entered into by the EU are actually spent. It is estimated that there are currently around €230bn of these commitments, or RALs as they are called, rolling forward into the new MFF from the previous one.

Liberal Democrats believe that the Commission and the Parliament should have the power to de-commit these resources and reallocate them if they are not drawn down within the appropriate period (N+3 rule). That would give greater flexibility to spend EU resources more effectively.

Own Resources.

Currently around 15% of the EU budget is raised through so called own resources which is a combination of VAT based contributions, custom duties and sugar levies. The balance is the GNI contribution from Member States. A High Level Group on Own Resources is to be formed which will consider the most prudent approach to funding the European budget. As part of the MFF deal Liberal Democrats supported the setting up of a working group to examine this issue and bring forward proposals in due course.

Eurozone Budget.

There are some proposals that as part of further moves to strengthen the Euro a Eurozone budget could be set up. Liberal Democrats believe that if this were to happen it should be set up within the current EU accountability and budget process allowing proper EU-wide scrutiny of how the money was spent.

Implications for the UK should it leave the EU

There are some who argue that the UK would be better off out of Europe, that it would save the UK treasury £8 billion a year and we would still get all the benefits of the single market.

Yet if we look at Norway they have to contribute £106 per person to EU programmes[20] on an annual basis just in order to benefit from the single market and access programmes such as Horizon 2020, yet they have no say or influence in making the rules.

[20] www.parliament.uk/briefing-papers/sn06730.pdf

Currently the UK contributes £128 per person to the EU[21]. It would be foolish to suggest that the UK would not have to make a contribution to the EU if we still wanted to access the single market and all the benefits that brings to the UK in terms of jobs, inward investment and the UK exports that flow from that access.

In budgetary terms, if the UK were to contribute on a similar level to Norway after leaving the EU, its contribution to the EU would only be reduced by 17%[22].

It is therefore in the UK national interest to stay in Europe and use our influence to build on the successful reform of the budget we achieved in this negotiation.

That is why the majority of UK business wants us to stay in as the survey results below show.

Business Surveys

CBI membership survey:	78% of firms want to stay in the EU[23]
Federation of Small Businesses:	88% of British small business exporters trade with the EU single market[24]
CityUK:	84% of financial firms want to stay in the EU 37% of financial firms are likely to relocate if the UK leaves the EU[25]
EEF Manufacturers Organisation:	85% support UK membership of the EU[26]
Captains of Industry poll:	73% said leaving the EU would harm Britain's economy[27]

[21] www.parliament.uk/briefing-papers/sn06730.pdf
[22] Pg 25 www.parliament.uk/briefing-papers/sn06730.pdf
[23] http://www.cbi.org.uk/media-centre/press-releases/2013/09/8-out-of-10-firms-say-uk-must-stay-in-eu-cbi-yougov-survey/
[24] http://www.fsb.org.uk/policy/assets/export.pdf - page 12
[25] http://www.thecityuk.com/assets/Article-attachments/Chris-Cummings-speech-October-2013.pdf and http://www.ft.com/intl/cms/s/0/ad0f7f1c-40af-11e3-ae19-00144feabdc0.html#axzz2j7oATsct
[26] http://www.eef.org.uk/publications/reports/Manufacturing-Our-future-in-Europe.htm
[27] http://bnegroup.org/media/bne-deputy-director-in-public-service-europe/ - *N.B. Directors from FTSE 350, top 500 industrials by turnover and top 100 financial companies*