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BRUSSELS AND EUROPE LIBERAL DEMOCRATS SUBMISSION
BALANCE OF COMPETENCES REVIEW
EU BUDGET

https://www.gov.uk/government/consultations/balance-of-competences-review-eu-budget

1 What do you see as the rationale for having an EU budget?

The European Union's Member States have agreed unanimously, in the Treaties concluded between them from 1957 onwards, that certain activities are better dealt with together at Union level, rather than individually at national or other level.[1] This may be to take advantage of economies of scale, or to simplify standards and norms, or to improve the single market for consumers and producers, or to increase competitiveness, cohesion, and innovation Union-wide, or to provide examples of best budget practice, for instance.

Member States have also agreed to make available the resources necessary to achieve the Union's objectives and to fulfil its policies.

The reasons for acting together are more pertinent today in ever more global economic, commercial, social and environmental circumstances than when the first European Economic Community (EEC) and European Atomic Energy Community (EAEC) treaties were agreed in 1957, and before them when the strategic 1951 European Coal and Steel Community treaty (ECSC) was concluded.[2] As we have said in another of our submissions, "in a globalising world where we are increasingly inter-connected, and with the rise of non-Western emerging powers not necessarily espousing our values, the UK cannot work alone."[3]

To ensure the application of high democratic standards and the respect of the rule of law, the Union has developed beyond intergovernmental cooperation to provide transparent and democratic decision and oversight over the Union's activities, their funding and other support. It has parliamentary, executive, judicial and control institutions and bodies to do this. Member States' governments and parliaments have essential roles in the EU institutional structure.

Are we sure of European added value?

Each major proposal is assessed to see that it is best done at Union level, that it provides European added value, respecting the principle of subsidiarity. The EU legislative authority and member states national parliaments check this.

The EU budget totals less than 1% of EU gross national income, as it does not need to mirror

[1] The treaties foresee that the Union implement certain policies through the Union (exclusive competence), others through a mix of national and Union measures (shared competence), and still others at national or other levels of government, with the Union acting as coordinator. Certain policy areas are not cited and remain the exclusive competence of the Member States.

[2] While having more general objectives and activities than the European Coal and Steel Community founded in 1951 and dissolved in 2002, the Union is less budgetarily supranational than its predecessor.

[3] Brussels and Europe Liberal Democrats Submission for the Balance Of Competences Review: Foreign Policy Report

national budgets, for instance for funding direct health care for citizens, or for the running of schools. National budgets do those things.

The EU budget is an investment budget, where nearly 95% is spent in the Member States.[4] It not only expresses the added value of funding some actions through the EU, but it also requires commitment from others, as with few exceptions funding is shared between the EU (largest share) and the recipient of funding.

2 What are your views on the appropriate roles of national and European institutions, particularly the voting rules and relationship between the domestic and European Parliaments, the Council and the Commission, in agreeing the EU budget?

The balance between the EU and member states in the budget domain seems weighted towards member states and more so today than twenty-five years ago.

The maximum rate of increase of non-compulsory expenditure that set a ceiling to increases in the EC budget until the entry into force of the Lisbon Treaty was an index calculated from economic variables (growth of GNP, inflation, development of national public budgets) by the European Commission. Even though a financial perspective was agreed between European Parliament, Council and Commission in 1988 setting several sectoral ceilings to annual expenditure, this was not a binding law. Now, the multiannual financial framework is a law, setting several ceilings each year, and is agreed for at least five years unanimously by the Council with the consent of Parliament.

Principles and procedures concerning the EU budget appear in general more restrictive than those concerning Union legislation and those concerning national government budgetary provisions, both for establishing, implementing and accounting for the budget.

This may nevertheless be in keeping with the tightening and extension of European economic governance concerning national budget surveillance and economic policy guidance, though the economic impact of the EU budget is difficult to measure given its relatively small size as compared to the sum of all member states' national budgets.

The EU treaty provisions distinguish the budget authority from the EU legislative or control authorities. Eight budgetary principles apply to the EU budget. These principles are arguably applied in national budgets, though few of the latter require no deficit financing and that each annual budget balance revenue and expenditure.[5]

Almost all EU funding is authorised not only by an entry in the EU budget but also by an authorising act describing the activities to be funded and procedures applying. That legislative act is in almost all cases based on specific treaty articles permitting such EU activity. It will almost certainly contain an article setting a maximum amount deemed necessary to fund the activities, and one establishing a committee of member states' administrative representatives to oversee implementation. Co-decision, or the ordinary legislative procedure as it now is, implies significant majorities in the Council, as well as the majority of component members in the Parliament.

Procedures concerning the EU budget are in general more restrictive than those concerning Union legislation. Special legislative procedures apply for decisions on own resources – EU budget revenue – and for decisions on the multiannual financial framework fixing annual

[4] The EU budget 2012 Financial Report of the European Commission shows that 94% of the total EUR 135.6 billion of the EU 2012 budget was dedicated to beneficiaries across Europe such as researchers, students, small and medium enterprises, towns and regions and NGOs.

[5] Unity and accuracy, unit of account, universality, specification, annuality, transparency, respect of sound financial management and equilibrium.

ceilings to expenditure. Unanimity in Council is required in both cases and in the first case approval by member states according to their own constitutional requirements is also necessary. The European Parliament has restricted powers in both, being consulted on the first and giving consent by a majority of its members in the second.

While the European Commission proposes the draft budget, it is not responsible for its adoption, where the European Parliament and the Council of the European Union co-decide after a single reading procedure and conciliation if the two sides do not agree in first reading. This procedure differs from the normal legislative procedure of two readings and possible conciliation. This difference arose through practices under the previous treaty provisions, which showed little gain in a two reading process. The current single reading procedure continues to be justified, though the conciliation process can be vitiated in the event of there being no joint agreement, as has happened.

Voting majorities are also strict. The European Parliament decides on amendments to the draft budget by a majority of the component members of the EP – a qualified majority. In the event of a conciliation joint text not being approved by the full Council, Parliament may override this rejection by a majority of its component members and three-fifths of the votes cast. The Council decides on its amendments to the Commission's draft budget by a qualified majority, which requires effectively a nearly three quarters majority of votes in Council (260 of 352 or about 74 percent) and a majority of member states (currently 15) in favour. With the population rule included, states with at least 62 percent of the EU population need to approve also. A blocking minority can be formed with at least 93 votes or 14 or more member states.

The Commission is responsible for the implementation of the budget in cooperation with the member states that nevertheless manage over three quarters of the funds of the EU budget. The Commission by itself is accountable each year to the European Parliament and Council for its use of the funds voted and can rely on the annual audit of the budget undertaken by the external auditor, the European Court of Auditors, as well as the accounts, budget management report, annual reports of each Commission Directorate General and a synthesis report of the Commission. Answers to question 5 will expand on this.

3 What are the advantages and disadvantages of having unanimously-agreed long-term budget periods? How long should they be?

The EU budget is largely an investment budget, funding a range of medium to long term activities, where assured continuity in finance can increase the chances of success of those activities, especially where a proportion of the funding has to come from other sources than the EU budget – often national or regional or local budgets.

Medium term predictability in finance was a major reason for the first multiannual financial perspective agreed in 1988 and remains relevant. As funding for the common agricultural policy, covering many annual activities declines as a proportion of the total and longer term activities take up a larger share, so the justification of a multiannual framework strengthens.

The process of agreeing all the activities, their focus and financing needs, and verifying the added value of undertaking them at Union level, as well as drawing up the necessary legislation takes time and considerable administrative resource in all member states and in the EU institutions. Studies show that the negotiation of a financial framework can take two years with further time needed for implementing legislation of the activities. This is a further justification for a multiannual framework.

A degree of flexibility is needed to take account of emergencies, changing circumstances, and to allow priorities to be reconsidered in mid-term. So a multiannual framework needs to be longer than two years but probably shorter than seven. Many government mandates in the Union are limited to five years. The term of an MEP is also of that length, as is the term of the European Commission. The term of the European Council President is half that, namely two and a half years, which is renewable.

But the long-term energy, telecommunications, and transport infrastructure projects and some large regional development projects, part funded through the EU budget require a longer term than five (or even seven) years. While a multiannual framework is justifiable, arguments can be made to modify the length to five years, with exceptions for the longer-term large infrastructure projects up to ten years (Connecting Europe, GNSS, ITER…).

The second aspect of the question is whether unanimity is needed. At the moment the MFF decision needs unanimity in Council, and it covers the annual commitment expenditure ceilings for eight headings or domains of activity.[6] These commitments are promises to fund, if conditions in contracts are fulfilled. The MFF decision also sets an overall ceiling on payments to be made each year, knowing that in many cases commitments in one year will lead to payments in a later year if the required contractual conditions are met.

While the MFF legal decision 2014-2020 appears to have provided a greater degree of flexibility than its preceding soft law financial perspective for the period 2007-2013, it is doubtful that so many ceilings need to be agreed if efficiency of implementation of the budget as a whole is a key criterion. This is especially so if the process of fixing the ceilings remains largely bottom-up (programme by programme within activities and within headings), and thus likely to favour the continuation of programmes and activities. The wider use of sunset clauses could reduce this bias.

The current MFF appears to have several instruments to increase flexibility in the annual budget process, each requiring decisions of the budgetary authority. If simplification is to remain an important criterion in EU budget management then the need for these instruments should be reduced with a corresponding reduction of headings subject to unanimity in the MFF decision. For instance the MFF could be limited to annual commitments for the short term and for the long-term activities, and to annual payments and the number of flexibility instruments could be reduced.

4 What are the advantages and disadvantages of the existing system of commitments and payments? Can you think of ways to improve that system?

The EU budget rightly divides operational expenditure into commitments – promises to pay according to specific criteria - and payments once the conditions have been met. This means that the whole process of identifying likely projects for support, undertaking procurement, concluding contracts, verifying that contracts have been correctly fulfilled and then paying against results is covered in the budget process, and is visible to the budgetary authority and to the public. It improves predictability on cash flow, and on the need for revenue in general. It aids the identification and correction of management weaknesses.

The distinction is less clear when the act of commitment is virtually at the same time as the act of payment – such as in the case of direct payments in agriculture. Even with direct payments, some conditions need to be fulfilled before payments are made, making the distinction between commitments and payments relevant there too.

The distinction between differentiated and non-differentiated appropriations continues largely to distinguish administrative from operational expenditure, and appears justified.

[6] Competitiveness for growth and jobs, economic, social and territorial cohesion, sustainable growth: natural resources, rural development and market related expenditure and direct payments to farmers, security and citizenship, global Europe, administration, and compensation.

5 What are your views on the current financial management system, in particular the Discharge process, in ensuring EU budget funds are properly spent and audited?

EU financial management has already made significant improvements over the last fifteen years. It still needs further improvement, as does that of each of the member states. It has to work under unusual conditions. Member states' authorities largely manage the EU budget even though the European Commission is formally responsible for its implementation. Member States have their own administrative principles and practices, which may not always be the same as those in the relevant EU legislation, which justifies detailed written rules at Union level, such as the Financial Regulation, setting out the conditions for the establishment, adoption, implementation, control, accounting, audit and discharge of the EU budget.

The Commission implements some programmes itself, and some through EU bodies (decentralised agencies, executive agencies, joint undertakings, and the like). Internal auditors make systemic checks in each of the institutions and bodies and report to the political authorities. Each EU institution and body has a degree of administrative autonomy for its administrative expenditure. Some funding for EU external actions is channelled through international organisations and non-EU states with their own control and audit procedures.

The Commission exerts its responsibility for funding implemented by other authorities by requiring through EU legislation that the other authorities to set up effective management, control and reporting bodies and systems. The Commission also makes its own checks and audits, and can require repayment of undue expenditure, or non-payment of incorrectly attributed allocations. It may stop payments. A difficulty arises when the control and audit of EU budget funding in a member state are insufficient, and insufficiently reported.

While the European Court of Auditors (ECA) audits the implementation of the EU annual budget, publishes its results, and makes a declaration of assurance on the reliability of the accounts and the legality and regularity of the underlying transactions, it has not the resources to conduct a very large number of audits on the large funding programmes implemented by the member states.[7] Member states need to submit to the discharge authority audited declarations on the legality and regularity on the management and control of EU budget funding in their states. This is one shortcoming of the current discharge process, where a few member states only make audits and statements of assurance about their own management of EU funding.

The annual report of the ECA on the implementation of the EU budget is a cornerstone in the accountability exercise of the Commission before the European Parliament each year. The executive or implementing authority (the European Commission) accounts for its implementation of the EU budget to the European Parliament (discharge decision) and the Council (recommendation to the Parliament). In principle this gives the European Parliament major powers and responsibilities. But without the cooperation of member states in auditing and reporting on their management of the large structural programmes, these powers and responsibilities are weakened.

A case can be made for the budgetary control committees of national parliaments to receive and examine member states own audit and control practices concerning the EU budget managed by them, and to inform the European Parliament and the Council before the latter adopts its recommendation for the discharge authority.

[7] Some argue that the balance between Court members and auditors could be improved by reducing the number of members drastically and increasing the number of active auditors.

The discharge process risks becoming overburdened if the number of EU bodies (agencies) managing EU funding increases dramatically with the requirement that they all be formally discharged.

The European Anti-Fraud Office (OLAF) examines possible cases of fraud or corruption concerning EU resources, and pursues with national authorities prima facie cases. The annual reports of OLAF are subject to parliamentary examination and debate.

6 What are the advantages and disadvantages of having some expenditure, including to provide flexibility, held 'off-budget'?

Some expenditure in the EU budget is occasional and very unpredictable. Catastrophes within the Union or outside need responses but one cannot foresee the extent of these beforehand. Instruments have been agreed that aim at providing rapid response to exceptional or unforeseen events, and provide some flexibility beyond the agreed expenditure ceilings within certain limits. Certain instruments have been agreed to increase flexibility in funding. If the MFF were already more flexible, these latter instruments would not be so necessary.

7 What are your views on the future structure of the EU budget and should the system change to reflect developments in the Euro Area? Should there be differentiated systems between Euro Area and non-Euro Area Member States, for example to allow fiscal transfers?

The future structure of the EU budget should reflect the long-term political priorities of the Union as it develops. These should be examined during the negotiation and adoption of the MFF.

The Euro area should in due course have its own budget.

General value of spend

8 In your view, is the EU budget focussed on areas of EU added value in expenditure?

Broadly, yes.

9 What modes of expenditure (e.g. bid-based expenditure, automated expenditure, loans, grants) in the budget represent the most effective use of EU funds?

This depends on the activities being funded. The application of transparent public procurement procedures is appropriate; grants are appropriate where other alternatives are not practicable.

The use of innovative financial instruments is not yet extensive in those sectors where such instruments could provide equity, generate revenue, and thus reduce in the longer term call on the subsidies of the EU budget. This depends in part also on the participation of development banks such as the European Investment Bank.

Innovative financial instruments proposed in the new MFF may be supported by the EU budget, and provide equity/risk capital to the real economy, or instruments providing debt. The debt instrument includes loans or guarantees to intermediaries that provide financing to a large number of final recipients who have difficulties in accessing finance, or risk sharing with financial institutions in order to increase the volume of finance and hence the impact resulting from the EU budget.

10 What is the right level for the EU budget?

The MacDougall report in the 1970s examined the macroeconomic impact of the EU budget and noted that at 2% of public expenditure for the Union as a whole (about 1 per cent of gross national income) little perceptible macroeconomic impact could be attained. The report seemed to imply that an EU budget of at least 2 per cent of GNI could have noticeably more economic impact. While experts have not yet agreed on the size and impact issue, the macroeconomic impact in individual member states can be assessed where the net inward flow is of a significant size.

While the level of the EU budget should depend on the political priorities of the Union, it may be that a larger EU budget could have a clearer positive impact. Confederal systems' public budgets are many times greater than the EU budget's size in relation to GNI, but the activities financed through confederal systems' governments are also much more extensive.

11 What are the arguments for and against increasing or decreasing the degree of national flexibility in spending money allocated to Member States under one part of the EU budget in other parts of the budget?

Transparency is reduced and control and audit more difficult if member states are able to change spending allocations between different parts of the budget and between different programmes (each with their own legislative act). It is already the case that most member states do not provide sufficient assurance on their use of EU funding in their state.

12 What are your views on the current system whereby the EU budget is resourced on the basis that Member States contribute in relation to their income, with corrections where necessary?

The current own resources system is complex, does not respect fully the precept of "own resources", and is undermined by correction systems. It is too dependent on contributions of member states according to their GNI. The link between the funded actions of the Union and its sources of revenue should be understandable for the general public. It is not. Ideally long-term corrections should not be needed and all major sources of revenue should be linked to the activities of the Union. The European Parliament should take greater responsibility for voting revenue for the EU budget, and to be seen to be doing so.

13 Do you have any other points to raise relating to the EU budget system, not covered by the questions above?

N/A