

## *Review of the Balance of Competences*

### **Note of Discussion with Alex Boyd on the EU budget call for evidence Friday 17 January 2014**

#### **Attendees**

Alex Boyd, Political Counsellor, European Conservatives and Reformists Group, European Parliament
HM Treasury

HM Treasury provided an overview of the Balance of Competences process and the EU budget reports.

The following points were made in the subsequent discussion:

#### **Rationale for the EU budget**

- The EU budget is a vehicle to modernise European economies, ideally not by simple transfer of funds, which can create dependencies. Member States should be looking to graduate from receiving substantial budget funds.

#### **Size of the budget**

- 1% of EU Gross National Income, used well, could have a substantial economic impact. Ultimately, the EU budget provides a large portion of expenditure in some Member States and can proportionately have a large impact in those regions. Indeed, contrary to some opinions, 1% of EU GNI was a substantial amount of money – one trillion euros over 2014-2020.

#### **Long-term budgets**

- The existing system of having long-term budget periods (the MFF) was seen as necessary – it was hard to foresee any other process. However, the length of frameworks, and the timing of negotiations, should be aligned with European Parliament terms – and therefore set at five years, as provided for in the Treaty.

#### **Roles of Institutions in budget negotiations**

- The Lisbon Treaty gave the European Parliament increased responsibility in long-term budget negotiations. However, the European Parliament having 'consent' on the MFF resulted only in an impact on the timetable for agreement. The Parliament hadn't sought changes in budget size or in allocation of the budget between headings.

- The European Parliament continues to have a reduced role in negotiations on the revenue side of the budget. Although some commentators had suggested that some MEPs would be less supportive of increasing the size of the budget if they needed to request taxes from citizens, it was seen as more likely that MEPs' 'asks' on the budget would only increase. MEPs were seen as more distanced from voters – and not always seen as local, due to the use of selection lists in some European elections – and would not feel the same pressure as national MPs.

#### **The commitments and payments system**

- Discussing the commitments and payments system, it was noted that the majority of Member States had an alternative system for budgeting, which still allowed for long-term certainty in planning expenditure. The existing system had, for several reasons including the outcome of budget negotiations, resulted in a substantial liability of unspent commitments.
- The UK's accruals-based system (i.e. effectively payments only) still provided for the funding of major infrastructure projects, which were often cited in the EU as needing a commitments and payments structure.

#### **Off-budget expenditure**

- In order to ensure proper transparency, all expenditure should be held on-budget, excepting those instruments which provided for emergency relief (the European Solidarity Fund and the European Aid Reserve). The European Globalisation Adjustment Fund should be moved on-budget.

#### **Financial management**

- The balance of powers between institutions was seen as being 'about right'. The European Court of Auditors was seen to be doing a good job and needed greater encouragement.
- This was an area where the budget was often attacked, although this was in many cases due to misconceptions in Member States, or in the media, about assurance and error rate targets. The ECA set high standards and their reports should be acted upon. However, this wasn't seen as the most pressing problem facing the budget system as a whole.
- Institutions could do more, though increased, better-targeted, information from the Commission would be needed to ensure Member States and MEPs could fully scrutinise the system – in the way the Public Accounts Committee in the UK scrutinises the UK's national budget. An inter-institutional agreement on transparency of budget information could be one approach to providing this.

#### **Value for money**

- The focus of the budget should be more towards future needs, rather than historic patterns. Heading 1A and research and development spend should be the major focus of spend.

- Negotiations focussed on where to spend in the EU, or which heading of the budget was increased or decreased, while the focus should be on how money is spent, and where the best returns for that spend were.
- In particular, greater effort was needed in the digital field, where the EU was lagging behind other international actors. The Connecting Europe Facility aimed to address this, but didn't go far enough and had seen technology and broadband infrastructure spending reduced from proposed levels.

#### **Own Resources**

- Many Member States had called for new own resources, including a Financial Transaction Tax. However, this would require treaty change (although that looked likely in the future), which could pose major questions for the UK national interest.
- The UK's abatement was seen as entirely justified – no convincing case had been made for its removal or reform. However, if one could be devised to provide fairness and equality in contributions, a generalised correction could be a way forward, possibly in the form of a % cap GNI for net contributors.