Review of the
Balance of Competences

Note of Brussels seminar on the EU budget call for evidence
Tuesday 3 December 2013

Attendees

(Chair) George Lyon, MEP, Vice Chair European Committee on Budgets
(Co-chair) Richard Ashworth, MEP, European Committee on Budgets
Business Europe
Brussels School of International Studies
European Commission, DG Budget
European Parliament
Foreign and Commonwealth Office (FCO)
HM Treasury
Institute for European Environmental Policy (IEEP)
National Farmers Union (NFU)
Scottish Executive Office
UK Representation to the European Union (UKRep)

FCO and HM Treasury provided an overview of the Balance of Competences process and the EU budget reports. Attendees discussed three broad areas of the budget:

1. Setting and agreeing the budget
2. Spending the budget
3. Running the budget

The following points were made in the discussion, held under the Chatham House Rule:

1 Setting and agreeing the budget

Length of agreed budget periods
The current seven year budget-setting period was questioned. Would budgets remain fit for purpose over the time frame or is greater flexibility required? Also did it matter that this was out of sync with the five year mandate of the European Parliament and typically of national Parliaments?

Some viewed the EU budget as an investment budget, raising the challenge of how to reconcile longer term planning required for investment budgets with a need for flexibility to be able to respond to a changing economic climate.

Some sectors, including the farming sector, appreciated the relative degree of stability derived from the seven year period and did not see a specific requirement for aligning with the timing of political cycles.

In contrast others felt that ‘certainty is a luxury’ and viewed the seven-year Multiannual financial framework (MFF) as a ‘straight jacket’. A suggestion was put forward to set up rolling budgets looking three or four years ahead with 10 to 20% of the budget left undecided until the point at which the annual budgets are agreed. It was argued that this would allow for staying within the ceilings of the MFF whilst allowing for flexibility from year to year.

Some participants felt that EU budget expenditure was removed from citizens, making it hard for them to comprehend or engage with. By contrast it was clear where domestic budgets were spent and the benefits of doing so (e.g. on schools and hospitals). There was a recommendation for national Parliaments to have a say about the allocation of this flexible 10-20% of the EU budget in order to breakdown this gap and encourage citizens to become involved in the EU budget.

However this suggestion of opening up parts of the EU budget to national level decision making was met with some caution by some. It was felt that it could actually create more problems against a backdrop of Member States having either ’net recipient’ or ‘net contributor’ status.

Commitments and payments

There was discussion of the commitments and payments system of the EU budget. Some felt that Member States focussing on payments rather than commitments was a good thing and provided for better financial management. However others felt that a focus on commitments allowed for better transparency of liabilities.

In particular, some focussed on the ‘snowball of liabilities’ represented by the growing stock of Reste a liquider (RAL) – the commitments in the budget yet to be followed by payments. Some suggested that this was a natural part of the budget system and the increased pressure through RAL was a result of the large gap between commitment appropriations and payment appropriations in General Budget agreements. One suggestion was to include more ‘sunset clauses’ on commitments – or to ensure existing sunset clauses were brought to bear (with some noting that ‘N+’ rules currently existed in many areas of the budget).

Some saw the commitments-led budget as a more transparent system, when compared to the current perceived focus on payments limits, arguing that focus on commitments allowed greater transparency of liabilities.

Role of national and European institutions
There was substantial suggestion of a greater role for the European Parliament in scrutinising the effectiveness of EU budget spend. Some saw the current EP role to be focussed on making 'cursory amendments', with the argument that the EP was currently doing the budgetary process 'an injustice'. Others suggested that the EP needed better information and evidence to enable greater scrutiny, with the suggestion to develop a new research library, or independent institution to gather and provide that evidence.

2. Spending the budget

Is the current budget focussed on the right areas of spend?
There were calls for more focus on investment and driving economic growth through the Horizon 2020 programme, Competitiveness and Small and Medium Enterprises and the Connecting Europe Facility in particular. Research spending was identified as reaping benefits to local communities and across national borders – particularly in the UK. Some argued that it was a benefit which the UK could make more of.

It was also noted that the distribution of the budget between major expenditure areas was very similar to the distribution in 1957. There were calls for greater focus on Heading 1A (competitiveness for growth and employment) both now and in the future and away from country-specific expenditure which represented re-distribution of money between Member States. Increased Member State flexibility was challenged, with some suggesting that while flexibility as a principle might be attractive, some spend is considered 'common' policy and should therefore not be subject to flexibility at Member State level.

Delegates noted the challenge to prove money spent has produced required outputs, although many argued that greater focus was needed on the impact of spend. There were calls for a greater focus on evaluation, including more scrutiny by the European Parliament in the form of smaller select committees and a more evidence-based system of scrutiny.

3. Running the budget

Current financial management system

A range of views were raised on the transparency of the current financial system. While some participants called for greater transparency, others felt that data and relevant information were already and sufficiently available for those seeking it, including data from the Court of Auditors.

Some attendees noted the recent Court of Auditors report's criticism of agricultural spend, arguing that some perverse incentives existed which allowed continued errors in the budget.

Some delegates suggested there were distorted perceptions that exist about the percentage of Gross National Income (GNI) the UK contributes to the EU. Current contributions amount to less than 1%, however there was considered to be a common misconception that contribution levels are much higher. The question was raised as to why the UK Government was not doing more to create transparency on the relative value of contributions. There was also a question about whether the Commission could do more on the presentation side to convey this point.

The UK's abatement was considered, with a wide range of views. To some, the abatement was seen as an obstacle to financial management, with an uncertain rationale in the modern budget. There was recognition by many, however, of the clear link between the abatement and the EU's agricultural policy. Some suggested there was a further link to the position of UK farming relative to that policy.

It was also suggested that the current Own Resources system did not allow for accountability because there was no link between the mechanism for spending and raising resources; those spending resources did not face the financial repercussions of their decisions. There was also little support for any sort of European wide tax (e.g. some strongly opposed the implementation of a financial transaction tax).