Budgetary discipline and sound financial management as well as financial perspectives 2007-2013

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The European Commission presents a report on the functioning of the Interinstitutional Agreement on budgetary discipline and sound financial management for 2007-2013 (IIA).

To recall, the IIA is a political agreement between the European Parliament, the Council and the Commission. It contains many provisions and principles that have proven to be helpful and even necessary to ensure budgetary discipline and smooth budgetary procedures. The IIA affects numerous aspects of the planning, preparation, execution and control of the budget.

This report presents a **thorough examination of the functioning of the current IIA** and concerns the following issues:

- procedures implementing the Multiannual Financial Framework (MFF), in particular the adjustments and revisions;
- flexibility (margins and instruments of flexibility);
- provisions related to the institutional collaboration during the budgetary procedure;
- issues related to the sound financial management of EU funds (Statements of Assurance, financial programming and the new financial instruments).

The report does not claim to be exhaustive. A number of important issues related to interinstitutional collaboration are not examined here. And many important aspects of the budget reform are left to the ‘full, wide-ranging review' of the EU budget pursuant to Declaration 3 to the IIA.

It should be noted that the Treaty of Lisbon introduces or gives new emphasis to many policy areas that may in the longer term require corresponding budgetary changes. But this will first require the preparation of new legal acts and a careful assessment of their potential financial impact.

Main conclusions: the IIA has proved invaluable in facilitating budgetary discipline and ensuring a smooth budgetary procedure. Overall, the track record of this instrument and, in particular, of the Multiannual Financial Framework (MFF) can be regarded as **quite positive**.

At the same time, this report has highlighted that **adjustments to the current MFF** and the IIA **totalling a gross amount of EUR 8.4 billion** have already been required in the first half of this MFF, and that the remaining margin for manoeuvre is now severely limited. This raises questions as to **whether the Union will be adequately equipped for new challenges and rapidly evolving circumstances in the second half of this MFF**. Concerns along these lines have already been expressed by the European Parliament in its Report on the Mid-Term Review of the 2007-2013 Financial Framework. Furthermore, the Europe 2020 strategy makes it clear that more can and must be done to deliver smart, sustainable and inclusive growth and to create new jobs.

Heading by heading analysis

- under **heading 1A**, a number of issues are emerging, for which the exact additional financial needs still have to be determined (for example on ITER). Given the extremely limited margin, the

potential amounts at stake decisively exceed amounts anticipated to remain unspent/uncommited under the current ceiling of heading 1A and there is no budgetary room for new initiatives;

- regarding **heading 4**, the current foreseeable margins are very limited and may not be sufficient to deal with future demands. In particular, the consequences of recurring international crises and the potentially important impact of the 2013 climate change financing needs to be considered carefully.

Depending on the size of additional requirements in headings 1A and 4 and the nature (one-off vs. permanent) of additional needs, a number of options could be envisaged:

- redeployment within the heading concerned for limited amounts;
- mobilisation of the Flexibility instrument could play a role;
- revision of the ceiling of the heading concerned may need to be necessary if the amounts required are substantial and permanent, which could be the case for either ITER or climate change financing in 2013. Such a revision could either take the form of a **compensation mechanism offsetting the increase in one heading by the decrease in another or**, if necessary, a **net increase of the overall ceiling of the 2007-2013 MFF**.

Other financing possibilities outside the scope of the IIA such as EIB loans or intergovernmental financing could be examined as well.

In view of the very limited margins, it is clear that more flexibility will be needed to cope with the potential budgetary impact of new developments. On the basis of the abovementioned options, the Commission will make proposals as soon as the budgetary impact of the pending issues mentioned in this report has been sufficiently clarified.