

# Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management 2014-2020

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**PURPOSE:** to propose a new Interinstitutional Agreement (IIA) to take over from the current IIA on budgetary discipline and sound financial management in the context of the future financial framework 2014-2020.

**PROPOSED ACT:** Interinstitutional Agreement.

**BACKGROUND:** the Commission presented, on 3 March 2010, proposals for a [Council Regulation](#) laying down the multiannual financial framework (MFF) for 2007-2013 and for a [new Interinstitutional Agreement \(IIA\)](#) on cooperation in budgetary matters. These two proposals, once adopted, will replace the [current IIA](#) and bring the provisions on the 2007-2013 financial framework and on cooperation of the institutions in the budgetary procedure in line with the Treaty. Meanwhile, the provisions of the current IIA that are not rendered obsolete by the Treaty remain valid.

These proposals deal with the new elements as compared with the March 2010 proposals, for both the proposal for a Regulation laying down the MFF for the years 2014 to 2020 and the [draft IIA](#) on cooperation in budgetary matters and sound financial management. This proposal for the MFF Regulation accompanied by the draft IIA represents the legal transposition of the Commission Communication on "[A Budget for Europe 2020](#)". It will be complemented by a proposal amending the Commission's proposal for a Regulation on the financial rules applicable to the annual budget of the Union in order to introduce a few new provisions which are part of the package of proposals for the 2014-2020 financial framework.

**A financial framework that is flexible:** the financial framework must provide for adequate levels of flexibility to allow for effective resources allocation and a swift Union response to unforeseen circumstances. Recent experience demonstrates that challenges resulting from unforeseen events with global repercussions have reached a new quality. The Union will increasingly be exposed to the effects of globalisation of the economy and society, to climate change, energy dependency, migratory pressure and other global challenges, most of which in areas for which the Lisbon Treaty has increased the Union's responsibility and role. This is why the Commission is proposing a financial framework that seeks to strike the right balance between strict budgetary discipline and predictability of expenditure, on the one hand, and the flexibility needed to enable the Union to respond to unforeseen challenges.

For the sake of integrity, the MFF draft regulations and the new IIA are presented together as part of a "package" to be negotiated and approved at the same time.

**IMPACT ASSESSMENT:** no impact assessment was carried out.

**LEGAL BASIS:** Article 295 of the Treaty on the Functioning of the European Union (TFEU).

**CONTENT:** the proposed new agreement is based on the draft IIA of March 2010, which is amended due to the flexibility requirements of the financial framework. The logic is to maintain, as far as possible, the rules currently in place that have proven to be effective, and maintain the balance of power and participation of institutions in the budgetary procedure. Only amending measures have been detailed.

**Introduction** – the introductory part of the draft IIA introduces the Treaty reference (Art. 295), the binding nature of this agreement, its coherence with other legal acts linked to the multiannual financial framework and the budgetary procedure, describes the structure of the Agreement, and stipulates the date of its entry into force (the same date as the MFF Regulation). It reproduces the wording of Points 1 to 6 of the March 2010 proposal.

## **Part I – provisions related to the financial framework and special instruments not included in the financial framework**

### **A. Provisions related to the financial framework**

- **on rules on presenting information about operations not included in the budget** (i.e. European Development Fund) and about the development of the categories of own resources. The practice of providing this information is maintained but it is proposed to present it no longer with the technical adjustment of the financial framework but with the documents accompanying the draft budget where this more logically belongs. The timing of the presentation remains practically the same (end of April/beginning of May). This change has been included already in the March 2010 proposal.
- **as regards margins beneath the ceilings.** The MFF Regulation establishes the ceilings for all headings that have to be respected during each annual budgetary procedure as required by the Treaty. However, the practice to ensure as far as possible sufficient margins beneath the ceilings should be preserved. It constitutes an element of the interinstitutional cooperation and good will of the institutions in the budgetary procedure and as such belongs in the IIA. The provision is kept without any changes to the current practice and also compared to the March 2010 proposal.
- **an update of forecast for payment appropriations after 2020** in the fourth year of the financial framework, according to the current practice and the March 2010 proposal.

### **B. Provisions related to the special instruments not included in the financial framework**

The existing instruments that are not included in the financial framework (the Emergency Aid Reserve, the Solidarity Fund, the Flexibility instrument and the European Globalisation Adjustment Fund) are maintained in the IIA. The MFF Regulation includes in Article 2 the possibility to mobilise them, if necessary, over and above the ceilings established by the financial framework. This split of the provisions between the two acts corresponds to the logic presented in March 2010 proposals.

The changes compared to the March 2010 proposal consist of the increase of the amounts for the Flexibility instrument and the Emergency Aid Reserve, a decrease of the amount of the European Globalisation Adjustment Fund, the introduction, subject to a provision to be introduced in the Financial Regulation, of the possibility to use unused portions of annual amounts available under the EAR until the year  $n+1$  and broadening its scope to cover also situations of particular pressure resulting from migratory flows at the Union's external borders, the prolongation of that possibility for the Flexibility instrument from year  $n+2$  to year  $n+3$ , as well as deleting the provisions which limit the yearly amounts available under the European Globalisation Adjustment Fund (EGF) to the availability of unspent and decommitted amounts from the previous two years and broadening its scope to help mitigate effects of globalisation affecting farmers. All amounts are expressed in 2011 prices to be coherent with the overall presentation of the financial framework. The mobilisation procedures are simplified compared to the current practice.

A new Reserve for major crises in the agriculture sector is proposed. Detailed rules for the eligibility of the assistance from this Reserve will be laid down in a specific legal base. The IIA defines the amount and the rules for its mobilisation.

A new instrument outside the financial framework – the '**Contingency Margin**' - is proposed. The wording corresponds, in substance, to the provisions adopted by the Council in its position of 18 January 2011 on the March 2010 proposals. However, the split of provisions on the Contingency Margin

corresponds to the logic of the March 2010 proposals – i.e. maintaining in the IIA all the provisions related to the special instruments outside the financial framework.

## **Part II – improvement of interinstitutional cooperation in budgetary procedure**

- A. The interinstitutional collaboration procedure:** the provisions on interinstitutional cooperation in budgetary procedure have been significantly amended compared to the current rules to comply with the new budgetary procedure introduced by the Treaty. All the provisions are included in the Annex of the IIA as proposed in March 2010. The provisions included in the annex correspond to the March 2010 proposal but incorporate the changes agreed since in the Declarations by the institutions.
- B. Incorporation of financial provisions in legislative acts:** the provisions of the current IIA and therefore also of the March 2010 proposal are maintained. The possibility to depart from the amounts included in the legislative acts is increased from 5% to 10% in order to increase flexibility within the headings. This provision does not apply to amount pre-allocated to Member States for the whole duration of the financial framework and newly to the large scale project defined in Article 13 of the MFF Regulation.
- C. Expenditure relating to fisheries agreements:** it is proposed to align the provisions of the current IIA on the expenditure relating to fisheries agreements with the new budgetary rules. The proposed change in wording reflects those parts of the existing text which are still relevant and they are purely related to good cooperation and keeping the institutions informed of developments. The provisions correspond to the March 2010 proposal, no changes were deemed necessary.
- D. Financing of the Common Foreign and Security policy:** the provisions correspond to the March 2010 proposal, no changes were deemed necessary.
- E. Involvement of the institutions in the management of the European Development Fund:** in order to improve parliamentary scrutiny of the European Development Fund (EDF) and bring it closer to the rules of the Development Cooperation financed by the Union's budget, a new provision is proposed to be introduced concerning the dialogue with the European Parliament on the programming documents to be financed by the EDF.
- F. Cooperation of the institutions in the budgetary procedure on administrative expenditure:** a new provision is introduced aimed at making sure that institutions agree each year at an early stage of the budgetary procedure (timing introduced in Annex) on the sharing of administrative expenditure; the annual variation in the level of administrative expenditure for each institution should also reflect the possible budgetary impact from changes to provisions in the staff regulations and the impact of progressively reducing staff levels by 5% between 2013 and 2018 in all institutions, bodies and agencies.

**Part III – Sound financial management of EU funds:** this part reproduces the text of the March 2010 proposal on the Financial programming (with a few adjustments to bring the text closer to the current practice) and on Agencies and European Schools (with an addition to follow the same rules as for setting up any new Agency to modifying the relevant legal act or modifying the tasks of any agency and a specification on the details of the impact assessment to be undertaken by the Commission before presentation of a proposal to establish a new Agency or a new European School).

The section on New or Innovative Financial Instruments is no longer necessary as the Financial Regulation will include a new Title entirely devoted to financial instruments and with detailed rules for reporting on those instruments.

**Entry into force:** the new IIA should enter into force on the same day as the MFF Regulation.