

The revision of the Financial Regulation in view of the entry into force of the 2021-2027 multiannual financial framework

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The Committee on Budgets and the Committee on Budgetary Control adopted the own-initiative report by Monika HOHLMEIER (EPP, DE) and Nils UŠAKOVŠ (S&D, LV) on the revision of the Financial Regulation in view of the entry into force of the 2021-2027 multiannual financial framework (MFF).

The upcoming revision of the Financial Regulation is necessary following the entry into force of the MFF 2021-2027, including the NextGenerationEU instrument. It is also necessary for the proper implementation of the Interinstitutional Agreement on budgetary discipline, cooperation in budgetary matters and sound financial management and on new own resources (IIA).

Members believe that the revision should aim to **modernise the rules applicable to the EU budget** in line with its latest developments and in accordance with budgetary principles and the Union's values, as well as to improve parliamentary scrutiny, democratic accountability, transparency, civic engagement and the ability to respond to citizens' needs quickly and effectively, especially in times of crisis.

According to Members, the main objectives of the revision of the EU's financial rules should include:

- strengthening the protection of the Union's financial interests;
- aligning the regulation with the rule of law conditionality;
- strengthening public procurement rules to avoid potential conflicts of interest and improve transparency;
- reducing administrative burdens for beneficiaries;
- increasing the efficiency of spending to achieve higher European added value and;
- improving access to EU funding for citizens, SMEs and local and regional authorities.

Democratic accountability

The number and scope of off-budget instruments have grown considerably over the last decade. The NextGenerationEU instrument has taken them into a new dimension by significantly increasing the volume of the EU's budget in the form of external assigned revenue and by creating liabilities until 2058 through borrowing for lending and borrowing for direct EU expenditure.

As a branch of the budgetary authority, **Parliament considers that it must be able to scrutinise** and, where appropriate, authorise the Commission's use and management of external assigned revenue and its borrowing and lending operations. It proposes that the Financial Regulation be revised to specify that external assigned revenue and the assets and liabilities relating to borrowing and lending operations are included in the EU budget so that they are subject to audit and reporting by the European Court of Auditors and that the budgetary authority and the discharge authority can be duly informed of any suspected cases of misappropriation, corruption, fraud or breach of the rule of law.

Rule of law

Members recalled that when adopting the **Conditionality Regulation**, Parliament, the Council and the Commission agreed to consider including the content of the Conditionality Regulation in the Financial Regulation upon its next revision. Therefore, they called on the Commission therefore to make that proposal. The Commission should ensure that expenditure from the EU budget is allocated to projects or organisations that respect the values of the Union as set out in Article 2 of the Treaty on European Union.

Digital tools

In the light of the Pandora Papers, there is an urgent need to ensure transparency for beneficial owners. Members believe that compulsory centralisation of information in a single, interoperable reporting and monitoring system and in a **public EU database**, including information on direct and final beneficiaries of EU funds, would address the lack of transparency and increase public scrutiny and confidence in EU public spending.

The Financial Regulation should include provisions obliging the responsible actors to establish uniform records of economic operators and beneficial owners to allow their identification in all EU programmes, regardless of who implements them and regardless of the management mode (direct, indirect or shared management).

Public procurement

Members proposed to amend the financial regulation to include a definition of ‘**professional conflict of interest**’ so that EU institutions can adopt mitigating measures against bidders with a financial interest in a policy-related service contract.

The revision of the Financial Regulation should **take into account the EU's autonomous strategic interests**, including fair competition, as well as the need to stimulate EU job creation in a range of industries that are key to achieving the Union's future policy goals while ensuring a level playing field.

The Commission is called on to ensure that ambitious awarding criteria are set, particularly taking into account the Union added value of projects and the principle of the ‘most economically advantageous tender’. Safeguards should be included in public procurement rules to evaluate the activities of companies that contradict the **social and environmental objectives** of the Union in the award decision.

Members also insisted that the budget should be gender-sensitive, that climate and biodiversity should be considered and that the Financial Regulation should allow for the proper implementation of the European Pillar of Social Rights.