Interinstitutional agreement on budgetary discipline and sound financial management for the period 2007-2013

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PURPOSE : to renew the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure.

PROPOSED ACT : Renewal of the Interinstitutional Agreement.

CONTENT : The purpose of this Interinstitutional Agreement is to provide a set of agreed rules concerning the management of the multiannual financial framework and the sequence of operations as

regards the annual budgetary procedure.

Agenda 2000 successfully fulfilled its main purposes as regards financial discipline, the orderly evolution of expenditure and interinstitutional collaboration during the budgetary procedure. The Budget of the European Union has been adopted on time each year, and the two arms of the budgetary authority have jointly adjusted Agenda 2000 to face supplementary financial requirements linked to the enlargement to ten new member States. The Interinstitutional agreement therefore proposes to maintain unchanged the main features of the financial framework:

- expenditure is broken down by broad categories of expenditure called headings for each year of the 2007-2013 period;

- maximum amounts called ceilings are established in the financial framework table for the period 2007-2013 in terms of appropriations for commitments and for each heading;

- overall annual amounts are expressed both for commitment appropriations and payment appropriations;

- the annual ceiling for payment appropriations must respect the own resources ceiling currently established at 1.24 % of the EU gross national income (GNI).

The Interinstitutional Agreement also provides for the consolidation of all the joint declarations and interinstitutional agreements concluded on budgetary matters since 1982. In particular, it aims to incorporate the Interinstitutional Agreement of 7 November 2002 on the creation of the European Union Solidarity Fund (EUSF), agreed upon during the current period of the financial perspective. It is proposed that the EUSF develops into a European Solidarity and Rapid Reaction instrument.

In the perspective of future institutional developments, it is proposed to replace the term 'financial perspective' with 'multiannual financial framework', also referred to as the 'financial framework'.

On the question of the flexibility instrument, the Commission states that the actual use of the instrument of flexibility reveals a departure from its original purposes which risks weakening the credibility of the system and undermining the interinstitutional collaboration on budgetary matters. The

Commission considers that more transparent instruments fully integrated in the financial framework would reinforce budgetary discipline.

The Commission proposes certain measures to address future challenges and find the proper balance between budgetary discipline and efficient resources allocation:

- the procedure to revise expenditure ceilings should be given its original role as the main instrument to allow adjustments to the financial framework when substantial and lasting changes in political priorities occur. The Commission proposes a regular review of needs, e.g. in the form of a trialogue meeting between Parliament, Council and the Commission ahead of the presentation of each preliminary draft budget;

- the intensive use of the flexibility instrument during Agenda 2000 shows its creation was justified. However, this instrument does no longer fulfil its original purposes and, to a large extent, has been used as an indirect means to raise the ceiling for external actions. Such a departure from its original purposes risks weakening the credibility of the system and undermining the interinstitutional collaboration on budgetary matters.

Therefore the Commission proposes a new reallocation flexibility, replacing the existing 'flexibility instrument', which would allow the budgetary authority on a Commission proposal to re-allocate appropriations between expenditure headings within certain limits and within the overall ceilings.

- the creation of a growth adjustment fund is proposed to adjust the financial framework to economic environment. The growth adjustment fund can be mobilized up to EUR 1 billion within the "competitiveness for growth and employment" expenditure heading (1a). This amount may be increased by unused appropriations from the Structural instruments, when the situation allows, in application of the N+2 rule, up to a maximum of EUR 1 billion per year;

- the proposed new classification of expenditure is also going to enhance flexibility and the effective allocation of resources by avoiding unnecessary ringfencing. The structure of expenditure in Agenda 2000 is to a large extent the legacy of the establishment of the first financial perspective and its successors. It is structured in 8 expenditure headings, which become 11 when taking sub-headings into account. Ring fencing of resources in a large number of headings and sub-headings makes the system

rigid and can prevent proper adjustment and a more effective use of resources to achieve the Union's policy goals, thus hindering the ultimate goal to have budgetary means at the service of a policy objective.

For the 2007-2013 financial framework, the Commission proposes five main expenditure headings which appear in the financial framework table. The European Solidarity and Rapid Reaction Instrument will be included within the financial framework for budgetary discipline and transparency purposes.

- Consequence for the Regulation on budgetary discipline: the experience with the 2000-2006 financial perspective has shown that there is no longer any need for maintaining the agricultural guideline foreseen in Council Regulation no. 2040/2000 on budgetary discipline, since agriculture expenditure is already constrained by ceilings agreed till 2013. The other provisions concerning budget discipline for agriculture will be overtaken and reinforced by the proposed new Regulation on the financing of the common agricultural policy (Please see CNS/2004/0164). The Commission considers that Council Regulation 2040 /2000/EC should be repealed.

- Guidelines on interinstitutional collaboration for the budgetary procedure: provisions included in Part II aim at improving the annual budgetary procedure. Most of these provisions result from budgetary practice or previous agreements and declarations. They have been updated in relation with the new financial regulation.

- Annex III provides an update of the classification of expenditure between compulsory and non-compulsory expenditure for the new structure by heading. A provision is maintained so that the two arms

of the budgetary authority determine the classification of new budget items within the annual conciliation procedure.

- The principle whereby the institutions undertake to comply during the budgetary procedure with the reference amounts adopted in the legislative codecision procedure, is maintained. However, the codecision procedure has been regularly extended since 1995 and the strict provisions as regards reference amounts impose increasing constraints for budgetary policy. The Commission therefore proposes that the budgetary authority and the Commission, when drawing up its preliminary draft budget, are given a margin of manoeuvre through the possibility to depart from these amounts by a limited margin (5%).