

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

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PURPOSE: to present a revised version of the Interinstitutional agreement on budgetary discipline and the improvement of the budgetary procedure in light of the discussions on the 2007-2013 financial perspectives.

CONTENT: in 2004, the Commission presented a proposal on the renewal of the Interinstitutional agreement (IIA) on budgetary discipline and the improvement of the budgetary procedure for the period 2007-2013 (please refer to the summary dated 14/07/2004). Since then, the European Parliament has adopted a resolution on policy challenges and budgetary means of the enlarged Union 2007-2013 (see INI /2004/2209 dated 08/06/2005), followed by a political agreement by the Council on 1 December 2005 on the financial perspectives. In parallel, the European Parliament adopted a resolution on the European Council's position on the Financial Perspective and the renewal of the Interinstitutional agreement (see RSP/2006/2502).

The enclosed draft IIA is intended as a working paper for the last phase of the negotiations between the European Parliament, the Council and the Commission taking into account in particular the conclusions of the European Council of 15-16 December 2005.

The purpose of this IIA is to provide a set of agreed rules concerning the multiannual financial framework and the sequence of operations as regards the annual budgetary procedure.

Maintaining the fundamentals : given that the Budget of the European Union has been adopted on time each year, it is proposed that the IIA maintains its main features :

- 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; expenditure levels are based on the assumption that Bulgaria and Romania join the EU on 1 January 2007; in case of their accession at a later date, the expenditure ceilings may have to be revised accordingly;
- 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 present Interinstitutional Agreement proposes to replace the term 'financial perspective' with 'multiannual financial framework', also referred to as the 'financial framework';
- it proposes to insert a new provision whereby in 2008/2009 the Commission will present to the European Parliament and Council a wide-ranging review covering all aspects of EU spending and resources.

Simplification, consolidation: the present IIA provides for the renewal of the Interinstitutional Agreement of 6 May 1999 in the light of experience acquired with its implementation but also for the

consolidation of all the joint declarations and interinstitutional agreements concluded on budgetary matters since 1982. It also proposes the simplification of the framework wherever justified and possible on the following issues:

- incorporating 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 as a separate supplementary interinstitutional agreement. It is proposed that the EUSF maintains the current rules for its mobilisation whereby, when the Fund is mobilised, corresponding expenditure be 'entered in the budget over and above the relevant headings' in the financial framework;
- simplification of the method for the technical adjustment, by extending the predetermined 2% annual inflation rate used for structural funds and agriculture, to the rest of expenditure;
- the provisioning of the guarantee fund for loans to third countries is rationalised so that there is no longer any need for a 'reserve' to this end. The related (reduced) expenditure to be budgeted becomes part of the instruments available for the Union's external policy.

Flexibility: flexibility within the agreed multiannual financial framework is the essential corollary to financial discipline. If properly designed, it contributes to enhancing effective resources allocation while allowing responding to unforeseen needs or new priorities. Several parameters influence the degree of flexibility of the financial framework: the length of the period covered by the financial perspective; the number of expenditure headings; the margins available within each expenditure ceiling; the margin below the own resources ceiling; the share of EU spending pre-determined by 'amounts of reference' in co-decided legislation; preallocated multiannual programmes; the general attitude towards using the revision procedure.

On 15-16 December 2005, the European Council reached a political agreement which entails expenditure ceilings significantly lower than those proposed by the Commission. Tighter expenditure ceilings entail more rigidity in the financial framework and risks undermining the Union's ability to address future challenges and hinder rather than encouraging effective resource allocation. That is why the Commission proposes the following measures to address future challenges and find the proper balance between budgetary discipline and efficient resources allocation:

- the revision of the multiannual financial framework remains the main instrument to respond to significant changes of permanent character in the EU policies in a fast developing context;
- the mobilisation of some flexibility instruments within the limits of the agreed financial framework, in view of facilitating the deployment or redeployment of financial resources within the expenditure ceilings. These include the following:
 1. the Emergency Aid reserve within Heading 4 to respond to emergency situations in third countries. Its amount and mobilisation procedure remain unchanged;
 2. a new European Globalisation Adjustment Fund intended to provide additional support for workers who suffer the consequences of major structural changes in world trade patterns, to assist them with their reintegration into the labour market;
 3. the possibility for the budgetary authority based on a Commission proposal, in the framework of the annual budgetary procedure, to depart by up to 10% from the so-called 'reference amounts' concerning multiannual programmes adopted under the co-decision procedure (except for cohesion programmes).
- the mobilisation of other instruments above the agreed expenditure ceilings within certain limits. These instruments, to be used in the framework of the annual budget procedure according to the relevant provisions defined in the enclosed draft IIA, include:
 1. the European Union Solidarity Fund, with unchanged amount and mobilisation procedure;

2. the Flexibility Instrument, whose maximum annual amount is increased to EUR 700 million, with the possibility to cover requirements of multiannual nature. The mobilisation procedure remains unchanged.

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 2040/2000/EC on budgetary discipline, since agriculture expenditure is already constrained by ceilings agreed till 2013. With the shift from market intervention towards direct payments to farmers and rural development measures agriculture expenditure has also become more predictable. Under these conditions, the Commission considers that Council Regulation 2040/2000/EC should be repealed. The Commission will accordingly propose separately the appropriate legal act in due time.

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:

- structure and classification of expenditure: Annex III provides an update of the classification of expenditure between compulsory and non-compulsory expenditure for the new structure by heading;
- financial provisions in legislative instruments: the principle set out in the Joint Declaration of 6 March 1995 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 proposes that the budgetary authority and the Commission, in the course of the annual budgetary procedure, can depart from these amounts by a limited margin (10%).

Conclusion: the IIA has proved an efficient tool to frame the annual budgetary practice within an agreed multiannual financial framework. Its renewal should be taken as an opportunity to update and simplify the various existing agreements and joint declarations concerning budgetary matters. Finally, this agreement should aim at finding the proper balance between budgetary discipline and efficient resources allocation.