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

2006/2028(ACI) - 17/05/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution drafted by Sérgio **SOUSA PINTO** (PES, PT) on the conclusion of the Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management. (Please see the summary dated 25/04/2006.) The report was approved by 418 votes to 187 with 15 abstentions. Parliament approved the IIA, which covers commitment appropriations for the seven years and provisions on budgetary discipline as well as improvements to budgetary procedure. It is due to enter into force on 1 January 2007, replacing the current medium-term agreement which dates back to May 1999. Parliament stated that the agreement reached by the three institutions on 4 April 2006 was the only possible compromise that Parliament could achieve, within the magnitude of the negotiations, for a multi-annual Budget with a view to guaranteeing the continuity of EU legislation, ensuring sound financial management of EU funding and maintaining Parliament's legislative and budgetary powers over the next period.

It welcomed the agreement reached, and in particular the progress achieved under the three pillars of its negotiating position:

**Matching political priorities and financial needs through:**

- an increase of EUR 4 billion for policies agreed by the European Council of December 2005, to be directly allocated to programmes in Headings 1a, 1b, 2, 3b and 4,

- a substantial increase in the EIB reserve of EUR 2,5 billion to be made available by the Member States under a new scheme of co-financing between the EIB and the EU Budget with a view to reinforcing the leverage effect of the EU budget in the areas of Research and Development, TENs and SMEs up to a total of EUR 60 billion,

- the financing of non-programmed needs such as the Emergency Aid Reserve (EUR 1,5 billion) and the EU Solidarity Fund (up to EUR 7 billion) outside the financial framework by supplementary resources called from the Member States, if needed,

- the financing of the European Globalisation Adjustment Fund (up to EUR 3,5 billion) by re-use of cancelled appropriations, outside the financial framework;

**Improving the budget structure by more flexibility through:**

- maintenance of an overall amount of EUR 1,4 billion for flexibility over the period, financed, in case of utilisation, by supplementary resources to be called from the Member States, with the possibility to carry over the annual amount (EUR 200 million) in case of non-utilisation to the next two years and a new possibility to use the instrument for the same needs for more than one year,

- the possibility for the newly elected Parliament to assess the functioning of the Interinstitutional Agreement and the financial framework by the end of 2009 on the basis of a report which the Commission unilaterally undertook to present, accompanied where necessary by proposals;

**Improving the quality of implementation of EU funding and preserving Parliament's prerogatives through:**

- inclusion of principles of proportionality and user-friendly procedures in the revised Financial Regulation, the responsibility of Member States in shared management activities for a better internal control of EU funding, the requirement to introduce a co-financing mechanism with the EIB to reinforce the leverage effect of EU policies, the involvement of Parliament in the financial programming and the financing of new agencies without prejudicing operational programmes,

- the full participation of Parliament in the wide-ranging review, an increased participation of Parliament in the CFSP decision-making process and more democratic scrutiny in external actions;

Parliament was nevertheless aware of the fact that a number of deficits are still unresolved in the outcome of the negotiations. These deficits should be addressed in the 2008-2009 review and, where possible, in the course of the annual budgetary procedures. In particular the system of own resources as well as the expenditure side needed to be reformed urgently in order to avoid the same painful experience of national bargaining for the next financial framework.

Parliament confirmed its opinion that all future financial frameworks should be established for a period of five years compatible with the mandates of the Parliament and the Commission.

It recalled that it would be necessary to introduce secure transitional arrangements in the event that the Constitutional Treaty comes into force before the end of the new financial framework.

Under the IIA, EUR 864 billion is earmarked for spending over 2007-2013. This is EUR 4 billion more than agreed by EU leaders at the European Council on 16 December 2005, divided up as follows:

- EUR 2.1 billion for the Erasmus and Leonardo programmes on education and training (EUR 800 million), trans-European networks (EUR 500 million), competitiveness and innovation (EUR 400 million), the Seventh Framework Programme for Research (EUR 300 million) and the social programme on progress for jobs (EUR 100 million);

- EUR 300 million for territorial cooperation;

- EUR100 million for environmental programmes (LIFE+, Natura 2000 conservation network);

- EUR 500 million for culture, youth and citizenship (EUR 300 million) and for health and consumer protection (EUR 200 million);

- EUR 1 billion for the common foreign and security policy (800 million) and for the neighbourhood policy and partnership (EUR 200 million).

This has been made possible by placing four areas of spending in “reserve” outside of the financial framework:

- Flexibility instrument: with a threshold of EUR 200 million a year for clearly identified spending which cannot be funded within budgetary ceilings;

- Solidarity Fund: EUR 1 billion per year for rapid assistance in the event of major disasters in the member states (a Fund established in 2002 but henceforth included in the IIA);

- Globalisation Fund: up to EUR 500 million a year (from spending outlined in the budget but not committed) to provide assistance to workers made redundant following important structural changes due to international trade;

- Emergency aid reserve: EUR 221 million per year to provide assistance to third countries in response to unforeseen events.

The IIA also provides for increased and integrated control of the use of EU funds, as well as improvements and a simplification of budgetary procedure and better visibility of spending on the basis of Commission proposals.

The financial allocation for the entire seven-year period therefore amounts to EUR 864.316 billion in commitment appropriations (the equivalent of 1.048% of EU gross national income) and EUR 820.780 billion in payment appropriations (1.00% of EU GNI).

European Investment Bank reserves will be increased by EUR 2.5 billion and used to fund research and development (+1 billion), trans-European networks (+500 million) and SMEs (+1 billion).

The flexibility instrument designed to cover unforeseen spending will remain at its current level of EUR 200 million a year, but funds not used may be transferred and used within two years of the date of their release. The compromise also contains joint declarations aiming to improve budgetary procedure, such as the 2008-2009 budget review clause and the annual certification by member states of the proper use of EU funds to the Court of Auditors.

Parliament has negotiated an increase in allocations to certain research programmes and lifelong learning. Programmes listed in the “competitiveness for growth and jobs” sub-section (1a) were granted a further EUR 2.1 billion (representing the largest increase), thanks to the Commission and Parliament’s protest against the cuts made in this area by the Council in its compromise in December.

The IIA also introduces the principle of “voluntary modulation” (permitting member states to transfer additional CAP funding to rural development up to a maximum proportion of 20%).

It should be emphasised that the biggest increase will be for policies related to the Lisbon strategy, such as research, innovation and trans-European networks (heading 1a).