Basic information

2006/2028(ACI) ACI - Interinstitutional agreement procedure	Procedure completed
Budgetary discipline and sound financial management as well as financial perspectives 2007-2013 **Subject** 8.70.01 Financing of the budget, own resources	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
AFCO Constitutional Affairs	SOUSA PINTO Sérgio (PSE)	17/11/2005

Council of the European Union

Council configuration	Meetings	Date
General Affairs	2727	2006-05-15

European Commission

Commission DG	Commissioner
Budget	

Key events

Date	Event	Reference	Summary
25/04/2006	Vote in committee		Summary
26/04/2006	Committee report tabled for plenary	A6-0144/2006	
15/05/2006	Committee referral announced in Parliament		
17/05/2006	Debate in Parliament		
17/05/2006	Decision by Parliament		
17/05/2006	End of procedure in Parliament		
14/06/2006	Final act published in Official Journal		

Technical information

Procedure reference	2006/2028(ACI)
Procedure type	ACI - Interinstitutional agreement procedure

Procedure subtype	Interinstitutional agreement
Legal basis	Rules of Procedure EP 154
Stage reached in procedure	Procedure completed
Committee dossier	AFCO/6/33735

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE371.888	06/04/2006	
Amendments tabled in committee		PE372.114	10/04/2006	
Amendments tabled in committee		PE372.151	20/04/2006	
Committee report tabled for plenary, single reading		A6-0144/2006	26/04/2006	
Text adopted by Parliament, single reading		T6-0210/2006	17/05/2006	Summary

European Commission

Document type	Reference	Date	Summary
Follow-up document	COM(2006)0327	22/06/2006	Summary
Follow-up document	COM(2007)0208	24/04/2007	Summary
Follow-up document	COM(2010)0185	27/04/2010	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

52006PC0448
OJ C 139 14.06.2006, p. 0001-0017 Summary

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

2006/2028(ACI) - 24/04/2007 - Follow-up document

PURPOSE: to present to the budgetary authority the result of the technical adjustment (EU-27) for 2008.

CONTENT: the Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management that was concluded in May 2006 contains the financial framework table for the EU-27 (2007-2013) and is expressed in 2004 prices.

The Commission is expected (Point 16 of the IIA), on a yearly basis and ahead of the budgetary procedure for year n+1, to make a technical adjustment to the financial framework in line with movements in the EU's gross national income (GNI) and prices. Movements in GNI have been updated with the latest economic forecast.

As far as prices are concerned the IIA now foresees a fixed 2% deflator for all expenditure, as applied for the technical adjustment for 2007. Thus, no modification on prices is made in the present adjustment given that expenditure ceilings at current prices are already available.

In summary, the Communication sets out the following facts :

- According to latest forecasts, the GNI for 2008 is established at EUR 12.454 billion in current prices for the EU-27 compared to EUR 11.941 billion for 2007. For subsequent years (2009-2013) the EU-27 GNI prices will be calculated on the basis of internal Commission projections for the annual average growth rate in real terms.
- The overall ceiling on commitment appropriations for 2008 equals 1.06% of GNI (EUR 131 487 million). The corresponding overall ceiling concerning the payment appropriations EU|R 129 481 million equals 1.04% of GNI. On the basis of the latest economic forecasts, this leaves a margin beneath the 1.24% own resources ceiling of EUR 24.949 million (0.20% of GNI for EU-27).
- On the matter of pensions (heading 5), for 2008 the amount to be deducted is EUR 77.3 million at current prices.
- The Emergency Aid Reserve, can be mobilised up to a maximum amount of EUR 221 million per year in 2004 prices, or EUR 239.2 million in 2008 at current prices (EUR 1.744 million for the whole period in current prices).
- The EU Solidarity Fund, has a maximum annual amount in current prices of EUR 1 billion.
- The Flexibility Instrument, has a maximum annual amount in current prices of EUR 200 million, plus the portion of the unused annual amounts of the years 2005, 2006 and 2007, which may be carried over to year 2008.
- It will be possible to mobilise the European Globalisation Adjustment Fund (EGF) up to a maximum of EUR 500 million per year in current prices by drawing from any margin existing under the global ceiling for commitment appropriations of the pervious year, and/or from cancelled commitments from the previous two years. For the year 2008 the conditions have been met to enter the EUR 500 million provision in the budget.

On a final point, the Communication also updates, in line with the most recently available statistics the European Development Fund (EDF) and the structure of its own resources.

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

2006/2028(ACI) - 15/05/2006

INTERINSTITUTIONAL AGREEMENT ON THE FINANCIAL PERSPECTIVES 2007-2013

The Council approved, without discussion, the Interinstitutional Agreement with the European Parliament and the Council on the 2007-2013 budget discipline. In doing so, the Council endorses the agreement reached on 4 April 2006 with representatives of the European Parliament on the EU's budgetary framework for the 2007-2013 period, together with a number of provisions on budgetary discipline and improvement of the EU's annual budgetary procedure.

The new interinstitutional agreement (IIA) will enter into force on 1 January 2007, replacing an existing agreement dating from May 1999. It is based on the consensus reached by the European Council on 16 December 2005 on the EU's budgetary framework for the 2007-2013 period (see Council document 15915/05).

Main issues of the agreement:

1. Level of spending (IIA): Parliament and Council reached agreement on a budgetary framework providing for EU spending of up to **EUR 864 billion over the 2007-13 period**. Although the new overall ceiling is only EUR 2 billion higher than that in the European Council's December agreement, the agreement with Parliament in fact allows for **an increase in expenditure of EUR 4 billion**. This is achieved by removing from the financial framework a EUR 1.5 billion emergency aid reserve (see below) and establishing it outside the framework, and by reducing the heading for administrative expenditure by EUR 500 million.

The EUR 4 billion extra spending is allocated as follows:

Heading 1A: EUR 2.1 billion, of which:

§ lifelong learning (Erasmus and Leonardo programmes) EUR 800 million;

§ trans-European networks (energy, transport, telecommunications) EUR 500 million;

§ competitiveness and innovation, EUR 400 million;

§ research and technological development (7th framework programme), EUR 300 million;

§ social policy agenda (Progress programme), EUR 100 million.

Heading 1B: EUR 300 million, for territorial cooperation.

Heading 2: EUR 100 million for future actions (Life + and Natura 2000

programmes).

Heading 3B: EUR 500 million, of which:

- culture, youth, Citizens for Europe, EUR 300 million;
- health and consumer protection, EUR 200 million.

Heading 4: EUR 1 billion, of which:

- common foreign and security policy, EUR 800 million;
- European neighbourhood and partnership instrument, EUR 200 million.

2. Flexibility in the allocation of spending (IIA): four spending reserves outside the financial framework are provided for:

- **Flexibility instrument:** with an annual ceiling of EUR 200 million, the instrument enables the financing of clearly identified expenditure that cannot be financed under the budget ceilings;
- **Solidarity fund:** funded up to EUR 1 billion annually, the EU solidarity fund, created in 2002 in order to provide rapid assistance in the event of major disasters in the member states, is incorporated into the new IIA;
- **Globalisation fund:** the Commission has made a proposal for the creation of a fund, as agreed by the European Council in December, to assist workers made redundant as a result of major structural changes in world trade as regards retraining and their efforts to find new jobs. The fund will be financed up to EUR 500 million annually through under-spends in the budget ceilings and/or decommitted funds;
- **Emergency aid reserve:** the reserve, which allows rapid response to the needs of third countries following unforeseen events, will be financed up to EUR 221 million annually. It is essentially for humanitarian operations, though also civil crisis management and protection where required.

3. Review in 2008-09 (joint declaration): Parliament, Council and Commission agreed on a declaration on the subject of the review provided for by the European Council's agreement in December. This concerns essentially how the Parliament will be associated with the review.

4. Other issues:

- Control of funds (IIA): Parliament, Council and Commission agreed on the importance of ensuring effective and integrated internal control of EU funds;
- Implementation (IIA and joint declaration): the Parliament and the Council commit themselves to concluding negotiations, on the basis of a proposal from the Commission, so as to enable a new financial regulation to enter into force, if possible on 1 January 2007. The aim is to improve implementation of the budget, to ensure sound financial management and to increase the visibility of spending, whilst simplifying funding procedures and ensuring the protection of the EU's financial interests;
- New financial instruments (joint declaration): the Commission is requested to make proposals, in cooperation with the European Investment Bank and in accordance with the European Council's December conclusions, to enable an increase in the EIB's capacity for research and development loans up to EUR 10 billion for the 2007-13 period. It is also requested to make proposals to reinforce instruments in favour of trans-European networks and small and medium-sized enterprises;
- External relations (joint declaration): the three institutions acknowledge the need for rationalising the various instruments for external relations, without affecting the powers of Parliament or Council in either the legislative or budgetary fields.

Lastly, it should be noted that this agreement should be formally approved by the institutions on the 17th May 2006 at the European Parliament plenary session in Strasbourg.

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

2006/2028(ACI) - 17/05/2006 - Final act

PURPOSE: to conclude a new Interinstitutional Agreement on improving budgetary discipline and sound financial management for the period 2007-2013.

LEGISLATIVE ACT: Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management.

CONTENT: the purpose of this Agreement is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters as well as to ensure sound financial management. Budgetary discipline under this Agreement covers all expenditure. It is binding on all the institutions for as long as this Agreement is in force.

This Agreement does not alter the respective budgetary powers of the institutions.

Any amendment of this Agreement requires the consent of all the institutions. Changes to the financial framework must be made in accordance with the procedures laid down for that purpose in this Agreement.

This Agreement is in three parts:

- Part I contains a definition and implementing provisions for the financial framework and applies for the duration of that financial framework (see procedure file ACI/2004/2099 for more information on this issue).
- Part II relates to improvement of interinstitutional collaboration during the budgetary procedure.
- Part III contains provisions related to sound financial management of EU funds.

The Commission will, whenever it considers it necessary and in any event at the same time as it presents a proposal for a new financial framework, submit a report on the application of this Agreement, accompanied where necessary by a proposal for amendments. This Agreement enters into force on 1 January 2007 and replaces the Interinstitutional Agreement of 6 May 1999 (see ACI/1998/2064).

Main issues of the agreement are as follows:

Level of spending (IIA): Parliament and Council reached agreement on a budgetary framework providing for EU spending of up to **EUR 864 billion** over the 2007-13 period.

- 2007 : EUR 120 702 million;
- 2008 : EUR 121 473 million;
- 2009 : EUR 122 564 million;
- 2010 : EUR 122 952 million;
- 2011 : EUR 124 007 million;
- 2012 : EUR 125 527 million;
- 2013 : EUR 127 091 million.

Flexibility in the allocation of spending (IIA): four spending reserves outside the financial framework are provided for:

- **Flexibility instrument**: with an annual ceiling of EUR 200 million, the instrument enables the financing of clearly identified expenditure that cannot be financed under the budget ceilings;
- **Solidarity fund**: funded up to EUR 1 billion annually, the EU solidarity fund, created in 2002 in order to provide rapid assistance in the event of major disasters in the member states, is incorporated into the new IIA;
- **Globalisation fund**: the Commission has made a proposal for the creation of a fund, as agreed by the European Council in December, to assist workers made redundant as a result of major structural changes in world trade as regards retraining and their efforts to find new jobs. The fund will be financed up to EUR 500 million annually through under-spends in the budget ceilings and/or decommitted funds;
- **Emergency aid reserve**: the reserve, which allows rapid response to the needs of third countries following unforeseen events, will be financed up to EUR 221 million annually. It is essentially for humanitarian operations, though also civil crisis management and protection where required.

Review in 2008-09 (joint declaration): Parliament, Council and Commission agreed on a declaration on the subject of the review provided for by the European Council's agreement in December. This concerns essentially how the Parliament will be associated with the review.

Other issues:

- **Control of funds (IIA)**: Parliament, Council and Commission agreed on the importance of ensuring effective and integrated internal control of EU funds;
- **Implementation (IIA and joint declaration)**: the Parliament and the Council commit themselves to concluding negotiations, on the basis of a proposal from the Commission, so as to enable a new financial regulation to enter into force, if possible on 1 January 2007. The aim is to improve implementation of the budget, to ensure sound financial management and to increase the visibility of spending, whilst simplifying funding procedures and ensuring the protection of the EU's financial interests;
- **New financial instruments (joint declaration)**: the Commission is requested to make proposals, in cooperation with the European Investment Bank and in accordance with the European Council's December conclusions, to enable an increase in the EIB's capacity for research and development loans up to EUR 10 billion for the 2007-13 period.

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

2006/2028(ACI) - 22/06/2006 - Follow-up document

PURPOSE: to present the technical adjustment of the financial framework for 2007

in line with movements in GNI and prices.

CONTENT: the Interinstitutional Agreement (IIA) of 17 May 2006 on budgetary discipline and sound financial management contains the financial framework table for EU-27 for the period 2007-2013, expressed in 2004 prices.

Point 16 of the Interinstitutional Agreement states that **each year** the Commission will make a technical adjustment to the financial framework in line with movements in the EU's gross national income (GNI) and prices. Movements in GNI have been updated with the latest economic forecasts available.

As far as prices are concerned, the IIA (point 16) now foresees a fixed 2 % deflator for all expenditure, already applied for the 2007 technical adjustment. It is therefore possible at this stage to calculate the expenditure ceilings at current prices for the whole period 2007-2013. The purpose of this communication is to present to the budgetary authority the result of this technical adjustment (EU-27) for **2007**.

Adjustment of expenditure ceilings by heading for the year 2007: the adjustment is calculated by applying a fixed annual deflator of 2 % to the commitment appropriations in the financial framework (at 2004 prices). The resulting cumulative deflator for the period 2004-2007 amounts to 6.1208 %. To ensure consistency with the allocations of expenditure between the beneficiary Member States, the overall figure for Sub-heading 1B 'Cohesion for growth and employment' in 2007 prices has been rounded up to the superior unit.

As regards payments, the global ceiling has been adjusted by applying the same deflator (6.1208 %) used for commitment appropriations.

Total figure for GNI: according to the latest forecasts available, the GNI for 2007 is established at € 11.566 billion in current prices for EU-25 and € 128 billion in current prices for Bulgaria and Romania. For subsequent years (2008-2013) the EU-27 GNI has been calculated on the basis of the long-term projections for the annual average growth rate (2.3 % in real terms for the EU-27) used in the negotiations on the financial framework 2007-2013, and on the same fixed annual inflation rate of 2 % as agreed in Point 16 of the IIA. These projections are indicative and will be updated annually on the basis of the latest economic forecasts available.

Main results of the technical adjustment of the Financial Framework for 2007 (EU-27):

- the overall ceiling on appropriations for commitments for 2007 comes to € 128.091 million, equal to **1.10 %** of GNI;
- The corresponding overall ceiling concerning the appropriations for payments comes to € 123.790 million, i.e. **1.06 %** of GNI.

On the basis of the latest economic forecasts, this leaves a margin beneath the 1.24 % own resources ceiling of **€ 21.219 million** (0.18 % of GNI for EU-27).

Heading 5 (Administration): in the case of heading 5, a footnote to the financial framework states that the figures for pensions included under the ceiling for this heading are to be calculated net of staff contributions to the pension scheme, up to a maximum of € 500 million (2004 prices) for the period 2007-2013. This provision should be interpreted as imposing a dual limit on the amounts deducted from expenditure on pensions when applying the ceiling of the heading:

- this amount may not exceed the contributions actually entered as budget revenue in any one year;
- the accumulated total of deductions for the period 2007-2013 may not exceed € 500 million at 2004 prices, equivalent to an average of € 71.4 million (€ 75.8million at 2007 prices).

The recurrent nature of administrative expenditure imposes that the lowest limit is adopted annually to avoid using a margin at the start of the period which would no longer be fully available afterwards. For 2007 – the first year of the period – the amount to be deducted is the lowest amount, i.e. € 75.8 million at current prices for 2007.

Expenditure items outside the financial framework 2007-2013: a number of instruments are available outside expenditure ceilings agreed in the financial framework 2007-2013. These instruments aim at providing rapid response to exceptional or unforeseen events, and provide some flexibility beyond the agreed expenditure ceilings within certain limits:

- the Emergency Aid reserve, which can be mobilised up to a maximum amount of € 221 million per year in 2004 prices, or € 234.5 million in 2007 at current prices (€ 1744 million for the whole period in current prices);
- the EU Solidarity Fund, whose maximum annual amount in current prices is € 1 billion;
- the Flexibility Instrument, with a maximum annual amount in current prices of € 200 million, plus the portion of the unused annual amounts of the years 2005 and 2006, which may be carried over to year 2007.

In addition, it will be possible to mobilise the European Globalisation Adjustment Fund (EGF) up to a maximum of € 500 million per year in current prices by drawing from any margin existing under the global ceiling for commitment appropriations of the previous year, and/or from cancelled commitments from the previous two years (excluding those related to heading 1b). For the year 2007 the conditions are met to enter the € 500 million provision in the budget.

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

2006/2028(ACI) - 27/04/2010 - Follow-up document

The European Commission presents a report on the functioning of the Interinstitutional Agreement on budgetary discipline and sound financial management for 2007-2013 (IIA).

To recall, the IIA is a political agreement between the European Parliament, the Council and the Commission. It contains many provisions and principles that have proven to be helpful and even necessary to ensure budgetary discipline and smooth budgetary procedures. The IIA affects numerous aspects of the planning, preparation, execution and control of the budget.

This report presents a **thorough examination of the functioning of the current IIA** and concerns the following issues:

- procedures implementing the Multiannual Financial Framework (MFF), in particular the adjustments and revisions;
- flexibility (margins and instruments of flexibility);
- provisions related to the institutional collaboration during the budgetary procedure;
- issues related to the sound financial management of EU funds (Statements of Assurance, financial programming and the new financial instruments).

The report does not claim to be exhaustive. A number of important issues related to interinstitutional collaboration are not examined here. And many important aspects of the budget reform are left to the 'full, wide-ranging review' of the EU budget pursuant to Declaration 3 to the IIA.

It should be noted that the Treaty of Lisbon introduces or gives new emphasis to many policy areas that may in the longer term require corresponding budgetary changes. But this will first require the preparation of new legal acts and a careful assessment of their potential financial impact.

Main conclusions: the IIA has proved invaluable in facilitating budgetary discipline and ensuring a smooth budgetary procedure. Overall, the track record of this instrument and, in particular, of the Multiannual Financial Framework (MFF) can be regarded as **quite positive**.

At the same time, this report has highlighted that **adjustments to the current MFF** and the IIA **totalling a gross amount of EUR 8.4 billion** have already been required in the first half of this MFF, and that the remaining margin for manoeuvre is now severely limited. This raises questions as to **whether the Union will be adequately equipped for new challenges and rapidly evolving circumstances in the second half of this MFF**. Concerns along these lines have already been expressed by the European Parliament in its Report on the Mid-Term Review of the 2007-2013 Financial Framework. Furthermore, the Europe 2020 strategy makes it clear that more can and must be done to deliver smart, sustainable and inclusive growth and to create new jobs.

Heading by heading analysis

- under **heading 1A**, a number of issues are emerging, for which the exact additional financial needs still have to be determined (for example on ITER). Given the extremely limited margin, the potential amounts at stake decisively exceed amounts anticipated to remain unspent /uncommited under the current ceiling of heading 1A and there is no budgetary room for new initiatives;
- regarding **heading 4**, the current foreseeable margins are very limited and may not be sufficient to deal with future demands. In particular, the consequences of recurring international crises and the potentially important impact of the 2013 climate change financing needs to be considered carefully.

Depending on the size of additional requirements in headings 1A and 4 and the nature (one-off vs. permanent) of additional needs, a number of options could be envisaged:

- redeployment within the heading concerned for limited amounts;
- mobilisation of the Flexibility instrument could play a role;
- revision of the ceiling of the heading concerned may need to be necessary if the amounts required are substantial and permanent, which could be the case for either ITER or climate change financing in 2013. Such a revision could either take the form of a **compensation mechanism offsetting the increase in one heading by the decrease in another or**, if necessary, a **net increase of the overall ceiling of the 2007-2013 MFF**.

Other financing possibilities outside the scope of the IIA such as EIB loans or intergovernmental financing could be examined as well.

In view of the very limited margins, it is clear that more flexibility will be needed to cope with the potential budgetary impact of new developments. On the basis of the abovementioned options, the Commission will make proposals as soon as the budgetary impact of the pending issues mentioned in this report has been sufficiently clarified.

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).