EU Budgetary Perspectives 2014-2020

Context

The European Commission has faced the challenge of being able to fund a number of policy areas where the EU could be more effective, by acting at EU level, in preparing its proposals for the future budget of the European Union. In its proposal, based on the Europe 2020 Growth Strategy, a new funding potential can be seen attempting to ease the direct impact of the national budgets with the creation of a new Multiannual Financial Framework (MFF).

Legal framework of the MFF

The Treaty of Lisbon included the MFF into EU primary law. Article 312 of the Treaty on the functioning of the European Union, stipulates that the MFF shall be established for a period of at least five years. The framework is set down in the form of a regulation to be adopted unanimously by the Council after obtaining the consent of the European Parliament given by a majority of its component members.

In July 2010, the European Parliament established a special committee on policy challenges and budgetary resources for the future of the EU after the present programming period, known as the SURE Committee. Its task is to examine the sectoral policies and the horizontal issues to be covered in the duration of the next MFF.

Financial capacity of the MFF

Based on the views of the European Parliament, freezing the next MFF is not a viable option for the EU; at least a 5% increase of resources is needed for the next MFF according to the European Parliament's resolution of 8 June 2011. Investing in the future for a competitive, sustainable and inclusive Europe, the Commission proposes a financial framework with 1.05% of GNI in commitments, translating into 1% in payments from the EU budget. A further 0.02% in potential expenditure outside the MFF and 0.04% in expenditure outside the budget will bring the total figure to 1.11%, which includes the financial amounts to respond to prices and emergencies.

For the new MFF there are also details provided for the expected rhythm of payments in order to give greater creditability which is of great importance for the budgetary consolidation and for tight control of payments at the beginning of the next programming period.

New principles for the EU budget

It is important to underline that the EU budget is different in structure, in approach and in its process from the national budgets. Based on pan-European logic and due to its comparatively small size, it concentrates on specific areas and policies, where it delivers high EU added value. The EU budget does not seek to fund interventions that the

Member States could finance by themselves. Its objective is to enable the EU to function effectively through collective actions.

The existence of the EU budget aims to fund the common policies that the Member States have agreed to be handled at EU level, to express solidarity between EU Member States and regions, to support the development even of the weakest regions, in order to allow the function of a cohesion policy in a single economic space. Furthermore, it aims to finance interventions which complete the internal market through funding of actions, ie investment in infrastructure of pan-European use. Moreover, the objective of the EU budget is to ensure synergies and to facilitate cooperation and joint solutions that cannot be supplied or implemented by Member States acting alone as in the case of migration, justice, home affairs, research and innovation. Last but not least, new policies which need a pan-European approach can be confronted, such as demographic change, culture, environment or even climate change.

The next MFF implements principles which focus on EU added value, delivering key policy priorities, and presenting impacts and results which deliver neutral benefits across the totality of the EU Member States.

With regard to this policy in numbers and due to the fact that funding must deliver the expected results, public authorities are not entitled to receive funds and spend them as they wish, because EU funding should be delivered on commonly agreed EU objectives. The redesign of the programmes and instruments included in the MFF are mainly based on the principles of simplification and conditionality, where the results are clearly related to the implementation of the Europe 2020 Strategy and where the investment of the private sector is considered as an innovative financial instrument to magnify the impact of the EU budget enabling the use of a greater financial EU potential.

European added value

The principle of European added value reflects a legitimate expectation that EU spending is justified and based on its effective contribution to efficiently achieve the Union's policy goals. While the concept is hard to define and generally considered unable to capture the political and economical implications of the European integration, there is a consensus that every EU funding should cover those actions that Member States cannot ensure, or where it can obtain high value European results. Yet, at present, the EU and national budgetary processes are largely separated. Greater synergy with national budgets could secure better results and produce savings.

In that direction, the logic of the European semester assists. The semester, according to which Member States will have to translate EU guidance and rules in their annual policy and their budgetary choices, will be based on an interactive dialogue of control and peer review. This mechanism creates new bridges between the EU and national authorities with the aim to create more stable links in order to improve coherent transparency and efficiency in public spending.

New elements in the EU budget

The ambition of the modernised budget is to reallocate resources to priority areas such as research and innovation, education and culture, security of the EU's external borders and European infrastructure.

The key changes to be made in the main spending areas include Horizon 2020, which is a common strategic framework for research, innovation and technological development. The Commission proposes to allocate EUR 80 billion to the 2014-2020 period for the Common Strategic Framework for Research and Innovation. This funding will be complemented by important financial support for research and innovation through the structural funds. In contrast, only EUR 60 billion was spent on research and innovation during the programming period 2007-2013.

In cohesion policy instruments concerning solidarity and investment for sustainable growth and employment, the amount of EUR 376 billion is proposed for the 2014-2020 period. This amount comprises EUR 162.6 billion for convergence regions, EUR 38.9 billion for transition regions, EUR 53.1 billion for competitiveness regions, EUR 11.7 billion for territorial cooperation, EUR 68.7 billion for the Cohesion Fund and another EUR 40 billion for the new instrument of Connecting Europe Facility. Moreover, the European Social Fund will represent at least 25% of the cohesion envelope, not taking into account the Connecting Europe Facility.

As already stated the Commission proposes to allocate EUR 40 billion for the 2014-2020 period for the Connecting Europe Facility which will be complemented by an additional EUR 10 billion, ring fenced for related transport investments inside the Cohesion Fund. Specifically, this amount comprises EUR 9.1 billion for the energy sector, EUR 31.6 billion for transport and EUR 9.1 billion for ICT.

The policy for agricultural and rural development is covered by the Common Agricultural Policy (CAP) which is designed to deliver a modern sustainable and efficient agricultural sector in Europe. Its objective is to promote the competitiveness of the sector to ensure full security and to preserve the environment and a fair standard of living of the agricultural community. It is one of the most important policies of the European Union as it operates a single policy with a single and significant European budget.

The reformed CAP will promote resource efficiency in order to maintain the production base for full and renewable energy across the EU. Moreover, one of its world objectives is to proceed to those actions in order to adapt to climate change and to the protection of ecosystems as well as to fight biodiversity laws.

The Commission proposes to maintain the current two Pillar structure of the CAP. Pillar I will continue to provide direct support to farmers and support market measures and Pillar II will continue to deliver specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors and promote the diversification of economic activity in rural areas. The main elements of the reform will include a more equitable distribution of direct income support, the greening of direct payments, support for active farmers, capping the level of direct payments for the largest farmers, simplification of the scheme and market expenditure as well as price mechanisms. The implementation of the measures will take place with the creation of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). In the post 2013 period the Commission proposes to maintain the alignment of the two funds as far as possible.

It is proposed that EUR 281.8 billion will be allocated for Pillar I of the CAP and EUR 89.9 billion for rural development. This funding will be complemented by a further EUR 15.2 billion which comprises research and innovation in food security, bio-economy and sustainable agriculture, food safety, food support for the most deprived persons, new reserve for crisis in the agricultural sector and EUR 2.5 billion in the European Globalisation Fund (EGF).

As far as human capital is concerned, in the area of education and training EUR 15.2 billion is proposed and another EUR 1.6 billion in the area of culture for the next programming period. An important financial support from structural funds will complement this funding, which in the 2007-2013 period represented EUR 72.5 billion in education and training across Europe's regions.

In order to respond to the challenges of migration, the Commission proposes to allocate EUR 8.2 billion in the area of home affairs and EUR 455 million for civil protection and the European Emergency Response Capacity.

For external instruments which identify the role of the EU as a global player, the Commission proposes to allocate EUR 70 billion for 2014-2020.

Traditionally, the European Development Fund (EDF), which finances development assistance for the EU's developing country partners, has been financed outside the EU budget to reflect the particular relations that certain Member States have with different parts of the world. For the period 2014-2020, the Commission considers bringing the EDF contribution key closer to the EU budget in order to control the visibility of the actions and the amounts provided in development aid.

Large scale projects tend to be disproportionately expensive for the small EU budget. Therefore, the Commission proposes to foresee their funding outside the MFF for the next programming period in order to ensure that the EU continues to meet its international commitments.

Instruments and implementation of the EU budget

In order to ensure accountability and cost effectiveness on EU programmes, the Commission has decided to propose radical simplification of the future sectoral programmes in order to guarantee clear eligibility conditions and appropriate levels of control, limiting risk of errors and exposure to fraud. The review of the general rules of the financial regulation will comprise a reduction of the number of separate programmes and instruments. This approach covers areas such as maritime affairs and fisheries, justice and fundamental rights, and education and culture.

Another simplification method regarding the management of programmes is the creation of a single framework with common rules where exceptions and specificities will be kept to the minimum. This means that all EU funding programmes for a certain sector will be covered within a common strategic framework.

The externalisation option of the European Commission is a possible solution as it provides extensive recourse to specialised agencies and enhances the visibility of the EU in the private sector.

One of the most important simplification rules is the mainstreaming of priorities across EU policies. EU objectives need to be reflected in proper instruments contributing to a certain policy, facilitating access to other EU policies and proposing solutions for them, such as competitiveness, creation of greener jobs and strengthening energy security.

In order to achieve more efficient administration and parallel cost reduction of the administrative expenditure, the Commission has decided to propose a number of changes to the staff regulations applicable in the EU institutions, such as adaptation of salaries with an increase of working hours without compensatory wage adjustment and an increase of the pension age in line with similar trends in Member State administrations. A new draft regulation is to be discussed together with the European Parliament and the Council for adoption as soon as possible, before the beginning of the next programming period 2014-2020.

Regarding the duration or the MFF, the Commission proposed a seven year timeframe for the 2014-2020 period in order to achieve flexibility and to strengthen the link to the achievement of the Europe 2020 targets in time. According to the EU institutions, budgetary flexibility is essential to facilitate the decision making process within the institutions, accompanied by an inter-institutional agreement on cooperation in budgetary matters and financial management. At last, responsibilities of the Member States in the management of the structural funds should be taken into consideration and therefore, a legislative framework needs to be implemented regarding the management of EU funding programmes.

EU budget results

Delivery of tangible results is a major priority for the EU budget; therefore, spending the right amount on the right policies should have a measurable and relevant impact. Attempts to address the greater concentration on strategic priorities and objectives in the 2007-2013 programming period have not always been successful due to the broad list of priorities laid down in the regulations from which the Member States could select. The lack of effectiveness is also due to the absence of coordination and complementarity between the different European funds.

Finally, the limited development of mechanisms to reward performance or to penalise non-effective use of the funds allocated to each Member State as well as the lack of sufficient incentives to improve performance are the main factors for the lack of effectiveness in financial interventions during the last programming period. It will be useful for the new MFF to create a reward fund and to be able to develop such controls on the appropriate use of the structural funds but also of the use of horizontal European programmes in order to stimulate Member States to create internal, national and regional synergies which will allow them to use the EU budget efficiently, with a perspective on future investment and development.

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