

Working Group IX

Working document 19

Working Group IX on Simplification

Subject: “Budget Procedure”

- Paper by Lord Tomlinson, alternate member of the Convention

Members of Working Group IX “Simplification” will find hereafter a paper by Lord Tomlinson, alternate member of the Convention.

1. The Union's expenditure must respect the principle of budgetary discipline

- 1.1 We all accept the crucial importance of budgetary discipline for both national and EU spending. Failure to respect budget discipline would undermine the Union's credibility. Sound public finances are rightly recognised in the Treaty as one of the key guiding principles for both the Community and the Member States¹.
- 1.2 The current EU Budget arrangements are successful in securing budget discipline. But this is a result of inter-institutional agreement between the Council, Parliament and Commission, rather than Treaty rules.
- 1.3 Because the Budget has to be in balance, the Treaty ceiling on Own Resources acts as a upper limit on annual expenditure. Other Treaty rules limit the growth of non-compulsory expenditure. And the Budget Discipline Regulation sets a limit on real terms growth in overall agricultural spending. But all these rules would still allow significant real terms growth in the annual budget year on year.
- 1.4 In recent years, effective budget discipline has resulted instead from the binding ceilings for specific items of expenditure in the Financial Perspective. For example, the current Financial Perspective provides ceilings which result in real terms stabilisation in spending in the current member states over the period 2000-2006. But these are self-imposed ceilings, relying crucially on the continuation of the three-way Inter-Institutional Agreement, and the balance of inter-institutional budgetary powers for compulsory and non-compulsory expenditure underpinning that.
- 1.5 It is vital that we do not allow any shift in the balance of inter-institutional responsibility to weaken the current levers for sound public finances and budgetary discipline in the EU budget. Any abolition of the distinction between compulsory and non-compulsory expenditure would therefore need to be accompanied by strengthened Treaty provisions on budget discipline which are at least as effective as the current Financial Perspective ceilings in containing EU spending.

¹ Article 4 (3) TEC

2. The annual Budget must be set in a stable policy and budgetary framework

- 2.1 The overarching aim of this Convention is to find ways to bring the EU closer to citizens. And the citizen wants to see the EU working clearly towards better results and better responses to practical issues. Citizens want to see a clear policy framework setting the direction for the EU's activities. Those must be carried out in a framework of budget discipline and sound public finances. But detailed budgetary decisions should be driven by a stable policy framework, not the other way round.
- 2.2 The European Council has an important role in providing the stable and strategic direction citizens demand. Establishing a multi-annual financial framework setting out how policies are to be funded over the medium terms is an essential element in that agenda setting role.
- 2.3 So it is vital that any change in the balance of inter-institutional budgetary responsibility is not allowed to weaken the current arrangements for establishing a framework of policy and budgetary stability through multi-annual Financial Perspectives. Any abolition of the distinction between compulsory and non-compulsory expenditure would need to be accompanied by a Treaty requirement for the European Council to set, and both legislative and budgetary authorities to respect, a multi-annual financial framework.

3. Budgetary procedures must be transparent and effective

- 3.1 The current budgetary procedure is complex, incomprehensible to the citizen, and not always effective in matching either the clear division of responsibilities between the Council and Parliament laid down in the Treaty, or the model of inter-institutional conciliation codified in the three-way Inter-Institutional Agreement of 1999. The process is dominated by spending, rather than results.
- 3.2 The introduction of Activity Based Budgeting (ABB) from the 2004 budget onwards provides an opportunity not only to simplify the presentation of budget documentation but also to shift the focus of the budget procedures closer to the outcomes which Budget spending is designed to deliver. But it also carries the risk of a blurring of responsibilities between the legislative and budgetary authorities, which in the process could lead to a further blurring of responsibilities between the two arms of the budgetary authority.

- 3.3 There is a case for simplifying future budgetary procedures to provide for a single budget reading by each arm of the budgetary authority, with examination of ABB documentation falling into a prior stage in which the Parliament would have a natural leading role. As with any change in the balance of inter-institutional budgetary responsibilities, however, there would need to be clear Treaty provisions setting out the respective roles of the Commission and each arm of the budgetary authority, clearly separating budgetary from policy making and legislative functions.