

Working Group IX

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Working Group IX on Simplification

Subject: “Budget procedure”
- Paper by Mr Matti Vanhanen

Members of Working Group IX “Simplification” will find hereafter a paper by Mr Matti Vanhanen, member of the Convention.

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Subject: Budget procedure

**TOWARDS A MORE EFFECTIVE, TRANSPARENT AND CITIZEN-ORIENTED
BUDGET PROCEDURE IN THE EUROPEAN UNION**

1 The Balance of powers and the specific features and needs of the budgetary procedure

1. Simplification of the different procedures should not be a pretext for changing the carefully designed balance of powers between the European Union and its Member States and between the different European Union Institutions without careful consideration. The European Parliament and the Council of the European Union represent both the democratic element in the institutional system of the Union. The Council is the body supervised by the Member States Parliaments, the European Parliament represents the electorate on the Community level. Simplification of the procedures and the changing participation and decision-making rules should duly take into consideration the balance of powers between the Council, effectively supervised by and representing the voice of the Member States Parliaments and the European Parliament.
2. Reduction of the number of the different decision-making procedures and simplification of the procedures should not be an aim itself but connected to the overall objectives of the Convention, that is, to increase transparency, to enable better and clearer understanding for the citizens on how Union works, to improve possibilities for public debate and participation, and to improve the efficiency and effectiveness of the Union decision-making.
3. It is vital that we do not forget these points of departure when the reform of the Union's budget procedure is considered. Furthermore, the future budgetary system should be based on the principles of long-term stability and sustainability of the Union's finances, good governance and sound financial management, accountability and institutional balance. Here I support the principles and the general approach proposed by Mrs. *Lena Hjelm-Wallén* and Mr. *Kenneth Kvist* (Non-paper on the future budgetary system in the European Union, WG IX – WD 15) and by *Lord Tomlinson* in his paper on the budget procedure (WG IX – WD 19).
4. Budget procedure is in some aspects relatively close to co-decision procedure as defined in article 251 of the EC Treaty. The objectives of the budget procedure, the basic requirements concerning it and its actual content are distinct from the co-decision procedure applied in legislative affairs. One of the particular differences is the need of a substantive decision in the budget procedure within a time limit while the legislative procedure defined in art. 251 of the EC Treaty can without serious immediate damage tolerate as one of its default options the conclusion that no new piece of legislation is passed. The Union needs a budget and,

one cannot imagine that at the end of eventual conciliation there would be the conclusion that the Union has not passed the budget as the default option of the procedure. Also the timetable and deadlines and the various stages of the co-decision could not be applied in the budgetary procedure. Budget procedure differs from the co-decision procedure particularly in the fact that the inter-institutional agreements have somewhat formalised the inter-action between institutions in the budget procedure while that remains a matter of informal and also less transparent political practises in the co-decision procedure.

5. We have to remember that the budget procedure has distinct features in many national constitutions. This results from the role of the budget as the general and horizontal decision on the co-ordination of policies and setting the priorities. Recent trend in the reform of the public sector governance and management is to emphasise all-of-government policies. The rationale of favouring these is the aim to establish a more democratic, responsive and co-ordinated approach and thereby a better, and more productive and effective response to current expectations and challenges. The establishment of all of government policies requires formal strategic policy documents and decision-making procedures. Budget and budgetary procedure is in this respect of utmost importance. Good budget procedure is, then, an essential part of a Union which is close to its citizens, responsive to them and accountable in front of them.
6. The budget procedure should, therefore, remain a distinct procedure in the decision-making system of the European Union and be developed as such..
7. Any simplification should be assessed very critically from the perspective of the maintenance of the institutional balance. This concerns particularly the differentiation between compulsory and non-compulsory expenditure. The abolition of such differentiation requires new mechanisms for balancing the power between the two arms of budgetary authority, the European Parliament and the Council. The abolition of the differentiation strengthens the powers of the European Parliament. Council, supervised by the Member States parliament is the other democratic pillar in the institutional design of the Union. Therefore, the powers of the Council should be strengthened if the abolition of the division to compulsory and non-compulsory expenditure is considered.

2 Possible simplifications and improvements of the budget procedure while maintaining the institutional balance

8. The budget procedure could be made simpler and more effective and transparent by recognising in the Treaty the significance of the multi-annual financial perspective including budget priorities and legally binding budget frames. Currently article 272 of the EC Treaty reflects practical budget process only partly. The most important aspect differentiating the political realities and well-established practises is the system of financial perspectives. The institutions have agreed in the inter-institutional agreement on practises to improve the functioning of the budget procedure and these practises, most notably the system of financial perspectives and agreed how they should co-operate and use their respective budgetary powers. The recognition of the system of financial perspective would also further strengthen the financial stability and sustainability of Union's finances.
9. The budget system could be made more transparent and understandable by abolition of the division to compulsory and non-compulsory expenditure. The balance of power between the European Parliament and the Council could be safeguarded by writing the system of the legally binding financial perspectives into the text of the Treaty and, by giving the Council a final say on the financial perspectives.

10. The budget procedure could be simplified further by adopting the budget in a single reading. Adoption of the budget in a single reading is the constitutional practise in those Member States in which the budget is not a legal act (Act of Law).
11. The Treaty should, thus, stipulate that there shall be a multi-annual financial perspective and that annual budget shall be drawn in accordance with the financial perspective. The financial perspective should be established within the limits of revenue available to the European Union according to the decision on the own resources of the European Union. There should be no borrowing to finance the general budget of the Union. The regulation of the Financial Perspective in the Treaty would bring the description of the budgetary procedure in the Treaty closer to the political realities and, thereby increase transparency. It would also enhance the long-term perspective in the EU budgeting, which would have positive effects on the fiscal discipline and strategic planning and co-ordination.
12. The principal stages of the procedure to establish the Financial Perspective could be the following:
- Trilogue with the European Parliament and the Council
 - proposal by the Commission
 - single readings by the European Parliament (EP position) and the Council (Common Position)
 - Conciliation if the Council intends not to accept the modification proposed by the EP
 - Adoption of the Financial Perspective by the Council. In the absence of the agreement between Parliament and Council, the Council could make the final decision on the Financial Perspectives. However, if the Commission supports the modifications proposed by the EP to financial perspectives, the Council can reject that modification only by unanimous decision. Otherwise the Council can approve the financial perspectives, which shall be in the limits of the own resources decision, by qualified majority.
 - The Financial Perspective could be substantially modified in the same procedure in which it was adopted. The commission should make the annual technical adjustment of the financial perspective.

The European Council would, of course, remain the principal source of the overall political stimulus and guidance for the content of the Financial Perspectives.

13. The annual budget should be adopted in accordance with the multi-annual Financial Perspective. The budgetary authority should not have powers to adopt a budget in contradiction with the Financial Perspective. The principal stages of the procedure leading to the establishment of the Budget would be the following:
- Technical adjustment of the Financial Perspective by the Commission
 - Trilogue between European Parliament, Council and Commission
 - Budget proposal of the Commission
 - readings by the Council (Council Common Position) and the EP (EU draft budget) with Conciliation if the Parliament intends to make modifications to the Council Common position
 - Final Adoption of the Budget by the European Parliament on the basis of the results of the conciliation. The items agreed on conciliation should be adopted as agreed. The Commission should give a reasoned opinion concerning the modifications the EP intends to make to the Council Common Position and which have not been resolved in the conciliation between EP and the Council. If the Commission supports the Council Common Position, the EP can only adopt the modification only by the votes cast

representing 2/3 majority of its members. Should there not be sufficient majority, the Council Common Position would prevail. If the Commission supports the amendments the EP intends to make, the EP can adopt the modification by majority of the votes cast. At the end of the procedure, the President of the European Parliament should declare the procedure finished, sign the budget and publish it in the Official Journal.

14. The budget procedure would in this system be simplified by abolition of the division of the expenditure and the consequent differentiation of the decision-making rules between compulsory and non-compulsory expenditure and also by abolition of the rule established by the Treaty for the maximum growth rate of the Union expenditure.

3 Better transparency and accountability for results

15. Transparency and accountability for results is vital for the Union's legitimacy. In this respect the procedures related to annual accounts and the related report on the results and effectiveness of the Union's activities are of utmost importance. Currently these procedures are inadequately regulated in the level of the Treaty. There are needs of clarification and simplification and, most importantly, to improved accountability. The Treaty should stipulate that:

- The Union's institutions and bodies shall draw up annual financial accounts and a related performance report on the results and effectiveness of the operations and policies which are charged from their respective parts of the Budget;
- The Commission shall compile and present annually the consolidated accounts giving a true and fair view of the execution of the budget, of the revenue and expenditure of the Union (profit and loss account) and of the financial situation of the Union, and, a related consolidated performance report on the results and effectiveness of the Union's operations, policies and the related use of financial and other Union resources (European Union Annual Accounts and Performance Report). These accounts and reports should, in particular, establish view on how the Union's budget has been implemented, how, where and in which domains and policies financial and other resources have been used and which effects and other results they have had in the Union as a whole, in the various policy areas and in the various Member States;
- The Annual Accounts and Performance Report shall be published in the Official Journal and submitted as part of the Discharge procedure for examination by the Court of Auditors and then consequently, for discharge decision to the Council and European Parliament.

4 Better co-ordination between the legislative and budget procedure

16. There should be a better co-ordination between legislative and budgetary procedure. The sectoral legislation should contain financial allocations only as they have been agreed and adopted in the in the budget.

17. Legislation regulating the use of budgetary funds should be decided in close connection to the drafting and adoption of the Union's budget. This would enable the budgetary procedure to serve as the strategic planning and co-ordination process of the Union's activities requiring use of Union's resources. With such system the Union would better equipped by having a modern all-of-government wide strategic policy-coordination process.

18. A lot of improvements in this respect can be attained in changing the legislative practises of the Union. Safeguarding of this change requires, however, certain provisions in be inserted into the Treaty. The Treaty should make clear the relation between the budget and the legislation. While remaining separate procedures and instruments, the Treaty should make clear that no act of the Union may establish commitments or obligations of the Union for which appropriations have not been provided in the financial perspectives and budget.

19. There could also be a provision in the Treaty calling for co-ordination of the legislative and budgetary procedures. According to that provision the Commission should make legislative proposals for legislation needed for or related to the implementation of the Financial Perspective and budget on the same occasion as it represents its proposal for Financial Perspective or the Budget and the European Parliament and the Council should be obliged, if possible, to read those proposals in connexion with the budget.

20. Under no circumstances it should be possible to circumvent the financial perspective and rules of the budget procedure in the legislative procedure and vice versa. This would, as stated also in the contribution by Lord Tomlinson, only blur the responsibilities and the border-liners of the legislative and budgetary authority and the related procedures.

5 Setting limits to the recent trend towards extra-budgetary special funds

21. The EC budget procedure deals currently with the drafting and adoption of the general budget of the European Communities. Widening of the political tasks entrusted to the Union and some urgent, political needs have led to establishment of several special purpose funds in the Union. This tendency creates several constitutional and governance problems. Each fund is currently governed by separate foundational acts where a separate budget procedure for each respective fund is established. These procedures tend to be considerably less transparent and, the level of accountability tends to be considerably lower than in the general budgetary procedure.

22. The Treaty should allow necessary flexibility to cover all areas of the activities of the Union level in the general EU budget. It might be advisable to limit the possibilities of the establishment of special funds whose activity fall under the powers and policies of the Union. The Union should also make a clear commitment to the respect of the principles of transparency, accountability and good constitutional governance in all of the financial activities and finances of the Union policies.