

CERCLE II

Working document 09

"Discussion circle" on budgetary procedure

Subject : Paper by Mr. Kimmo Kiljunen, Member of the Convention

Members of the "Discussion circle" on the budgetary procedure will find hereafter a paper from M. Kimmo Kiljunen, Member of the Convention.

**Contribution to the Discussion Circle
on the budgetary procedure
by Mr Kimmo Kiljunen, Member of the Convention**

The draft articles presented by the Praesidium on the Union finances form a good basis for discussion. They include many of the principles currently applied when deciding on the Union finances and on the annual budget. Some of the principles that have proved useful are not, however, well-represented in the proposed texts. On the other hand, in certain areas, more profound reforms than those proposed are needed. The following would, in my view, represent a balanced compromise that would guarantee the continuation of the good financial practices the Union has established throughout its existence and at the same time would reform those aspects that are no longer viable.

The basic aims should be the following:

- Maintaining the institutional balance between the two arms of the budgetary authority, the Council and the European Parliament, in the budgetary procedure; and
- Simplification and improvements in the budget procedure.

The principle of budgetary discipline should be enshrined in the Constitution in order to avoid disagreement on the fundamentals in the annual budget procedure. The existing rules on budgetary discipline have served us well. The principle of budgetary discipline must continue to bind all Institutions.

System of the Financial Resources of the Union

1. The Member States, including the National Parliaments, must continue to have the sole right to decide on the system of financial resources of the Union. This implies that it is for the Council to do unanimously the recommendation for a decision concerning the financial resources of the Union and the decision should be adopted by the Member States in accordance with their respective constitutional requirements. As a whole the Council and the Member States should have a final say on the financial ceiling, on the revenue and on the control over the rules for budget revenues.
2. Maintaining the sole right of the Member States to decide on the system of financial resources of the Union should not prevent us from simplifying and clarifying the current system in order to make it more understandable and acceptable to the citizens. Careful consideration should be given to the possibility of abolishing the existing rebates and the VAT resource. In this way it is possible to simplify and clarify the current financing system in order for the citizens to be able to assess the benefits they derive from activities financed by the Union.
3. A mechanism of binding multi-annual expenditure ceilings is a prerequisite for any meaningful reform of Union's financial system.

Multi-annual Financial Framework

4. The financial perspectives should be incorporated in the Constitution, thereby creating legally binding budget frames and budget priorities. The financial perspective could be renamed the Multi-annual Financial Framework in order to better reflect its binding character and it should be adopted for a period of at least five years. All proposals from the Commission must remain in the framework defined by the financial framework and this requirement should be stated in the principles to be written into the Constitution. When decisions that have considerable financial implications are made, the financial framework must be adjusted accordingly, and this adjustment must be a precondition for such decisions.

5. Procedure for adoption of the Multi-annual Financial Framework 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)
- Trilogue if the Council intends not to accept the modification proposed by the EP
- Adoption of the Multi-annual Financial Framework by the Council. Items in which there is a common understanding between the Parliament and the Council shall be adopted as agreed. In the absence of the agreement between Parliament and Council, the Commission shall give its reasoned opinion on the subject. If the Commission supports the modifications proposed by the EP to the Multi-annual Financial Framework, the Council can reject that modification only by an unanimous decision. Otherwise the Council can approve the Multi-annual Financial Frameworks, which shall be in the limits of the own resources decision, by qualified majority.

The Multi-annual Financial Framework could be substantially modified in the same procedure in which it was adopted. The Commission should make the annual technical adjustment of the Framework.

Budgetary Procedure

6. The distinction between compulsory and non-compulsory expenditure is no longer relevant. If Parliament is given the final say on the budget, it should assume this responsibility in all headings of the budget and bear responsibility for the whole. To follow this logic, the annual expenditure ceilings per heading should all be treated equally.

7. The budget should be adopted in accordance with the Multi-annual Financial Framework. 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. Safeguards preventing such an outcome should be included in the procedure.

8. The budget procedure could be simplified further by adopting the budget in a single reading. The principal stages of the procedure leading to the establishment of the Budget would be the following:

- Technical adjustment of the Multi-annual Financial Framework by the Commission
- Trialogue between European Parliament, Council and Commission
- Budget proposal of the Commission

- Readings by the Council (Council Common Position) and the European Parliament (EP position) with a trialogue between Parliament, Council and the Commission 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 trialogue. The items agreed on trialogue between Parliament and Council 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 negotiations between the Parliament 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 Parliament intends to make, the Parliament 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.

9. Budgetary flexibility should be increased by adopting explicit acts on when where it could be applied. It is not a matter for the Constitution. The inherent need for flexibility in certain sectors such as crisis management or civil protection can be catered for by legislation.

Financial Management and Accountability

10. The requirement of a basic act for any expenditure to be included in the budget must be enshrined in the Constitution. It will further transparency and sound financial management. All exceptions to this rule should be abolished.

11. The general responsibility of the Commission for the implementation of the budget must be enshrined in the Constitution despite the fact that its possibilities to carry out this task are limited. General responsibility must lie somewhere. The abolishing of this responsibility would make the discharge procedure irrelevant.

12. Transparency and accountability 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. In order to improve accountability, the Constitution 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).
- 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 the European Parliament.

Clarification of the relationship between legislative and budgetary provisions

13. The relationship between legislative and budgetary procedures should be clarified by stipulating that legislative acts should only contain financial allocations as they have been agreed upon and adopted in the in the budgetary procedure i.e. after having a legal base for budgetary spending.

14. The constitution should clarify the relation between the budget and the legislation. Despite the fact that they will remain separate, the Constitution should make clear that no act of the Union may establish commitments or obligations of the Union for which appropriations have not been foreseen in the financial framework and the Budget.

15. A provision should be incorporated in the Constitution calling for co-ordination of the legislative and the budgetary procedures. According to that provision, the Commission should make legislative proposals needed for or related to the implementation of the Financial Framework and the Budget on the same occasion that it represents its proposal for the Financial Framework or the Budget. The European Parliament and the Council should be obliged to treat those proposals as a whole.