

THE EUROPEAN CONVENTION

THE SECRETARIAT

Brussels, 19 February 2003

CONV 568/03

CONTRIB 254

COVER NOTE

from Secretariat

to The Convention

Subject : Contribution by Mr P. Hain, member of the Convention
 - “Budgetary process”

The Secretary-General of the Convention has received the contribution annexed hereto from
Mr. P. Hain, member of the Convention.

CONTRIBUTION BY PETER HAIN ON BUDGETARY PROCESS

The UK Government firmly supports principled proposals for simplification where those add to the effectiveness of the EU and bring it closer to its citizens. For the budgetary procedures, the guiding principles on which effectiveness and legitimacy of the budgetary process are, in our view:

Legitimacy - through an appropriate institutional balance in the decision-taking process and demonstrable good value for money in EC spending;

Budget discipline - *throughout the budget process;*

Stability of medium-term financial planning and certainty that a budget will be agreed;

Transparency of the annual budget process.

Legitimacy

This requires:

The **Parliament** and **Council** jointly to adopt the annual budget. Current arrangements giving the Council the last word on compulsory expenditure and the Parliament the last word on non-compulsory expenditure have worked well. But provided there are adequate safeguards for budget discipline, we are open to considering the case for full budgetary co-decision on all annual expenditure decisions for matters within the Community's competence (see possible model attached).

The **Council**, acting unanimously, to maintain its dominant role for defining the regime for the EU revenues, which must subsequently be adopted by the Member States in accordance with their own constitutional requirements. This is because the legitimacy of the raising of revenues for the EC Budget derives from national Governments and Parliaments, rather than solely from Community institutions.

The **citizen** to see good value for the money that is spent. There needs to be full opportunity in the budget process for spending decisions to be matched to clear objectives and performance indicators, which should be a requirement for all legislation with budgetary implications, and for rigorous evaluation so that the citizen can be confident that well justified budget decisions have been followed through into sound and efficient management of the budget by the Commission.

Budget Discipline and Stability

These require:

A clear **annual cycle and process** which results in the budgetary authority establishing an annual budget within Financial Perspective ceilings, and respecting amounts for multi-annual programmes indicated by the legislative authority when acting by co-decision, as well as amounts for which the Treaty or legislation give third parties a legal claim against the Budget. Current arrangements have worked well, but we are open to a simplified model on the basis of the alternative attached.

A Treaty-based **Financial Perspective** setting ceilings for the main headings of budget expenditure, set periodically by the European Council, on a Commission recommendation, and after consulting the Parliament, and binding on all institutions in the budget process. A tie-break mechanism is needed to make sure budget discipline does not lapse in the event that a Financial Perspective is not agreed.

Transparency

This requires:

Key **budget principles** currently included in the EC Treaty, supporting legislation and inter-institutional agreements to be included in the Treaty, including the principle of sound financial management.

A **budgetary process** which respects rules set out in the Treaty, including a mandatory Financial Perspective. Current inter-institutional agreements between the Council, Parliament and Commission have served us well, but we are open to considering a streamlined budgetary process based entirely on rules laid down in the Treaty and supporting legislation provided budgetary discipline was safeguarded (see possible model attached).

A clear **relationship between legislative and budgetary procedures**, though a Treaty requirement for a legal base for all spending and for all legislation with budget implications to be accompanied by appropriate objectives and performance indicators which justify the allocation of resources.

POSSIBLE MODEL FOR THE BUDGETARY PROCESS

MULTI ANNUAL FINANCIAL PERSPECTIVE

- established by European Council on a Commission recommendation, consulting EP;
- mandatory (required by the Treaty) and binding throughout the budget process;
- for period set by the Council – carried forward in the event of no agreement on revision.

ANNUAL PRELIMINARY DRAFT BUDGET

- Established by Commission, taking account of Council and EP debates on political priorities;
- Includes proposed allocations within FP ceilings, justified by relevant SMART objectives/ indicators;

ANNUAL DRAFT BUDGET

- Established by European Parliament within FP ceilings;
- In light of PDB and examining match of proposed allocations to objectives/ indicators;
- Respecting indicative amounts in co-decided legislation and amounts for which third parties have a legal claim on the budget;
- Decided by majority

COUNCIL COMMON POSITION

- Proposing amendments to draft budget within FP ceilings;
- In light of PDB and examining match of proposed allocations to objectives/ indicators;
- Respecting indicative amounts in co-decided legislation and amounts for which third parties have a legal claim on the budget;
- Decided by QMV

CONCILIATION

- Of representatives of all Members of Council and equal number of EP representatives, attended by the Commission
- Common **agreement** sought within 3 weeks on all budget lines (with positions of Council/ EP throughout conciliation determined by voting rules above) within FP ceilings
- In absence of agreement, expenditure **determined** at lower of Council's or EP's final conciliation position, or at level set in previous budget, if higher and within FP ceilings for current year

FINAL ANNUAL BUDGET

- Formally adopted by President of Parliament in amounts **agreed** or **determined** as above.
- Implemented by Commission within principles of sound financial management