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THE SECRETARIAT

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COVER NOTE

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| from | Secretariat |
| to | The Convention |
| Subject : | Contribution submitted by Lord Tomlinson, alternate member of the Convention : "Simplifying the EU Budget procedure : a tie break mechanism" |

The Secretary-General of the Convention has received the attached contribution from Lord Tomlinson, alternate member of the Convention.

SIMPLIFYING THE EU BUDGET PROCEDURE: A TIE BREAK MECHANISM

The current budgetary arrangements generally result in the budget being adopted by the budgetary authority before the start of the financial year concerned, failing which there are emergency stop-gap procedures allowing expenditure to continue each month at up to a twelfth of the previous year's level pending adoption of a new budget. These arrangements rely on Treaty rules setting out a clear budgetary timetable and division of responsibility between the two arms of the budgetary authority, with the Council given the last word over compulsory expenditure and the EP over non compulsory expenditure.

These Treaty rules are underpinned by the Inter-Institutional Agreement, which further clarifies the division of responsibility between the Council and EP by classifying all expenditure as either compulsory or non-compulsory and which introduces rules on inter-institutional collaboration designed to secure timely agreement between the two arms of the budgetary authority on all expenditure.

Unlike the proposals for the “legislative procedure” in Article 25, any simplification of the current budgetary arrangements which involves co-decision by the EP and Council could not include provisions for the termination of the procedure in the event of disagreement, for the simple reason that the Union's ability to function depends on an annual budget (or emergency stop gap measures) being in place to allow expenditure to be made. Instead, any new budgetary arrangements will need to provide for clear but balanced tie-break rules, determining how differences between the EP and the Council are to be resolved, preferably before the start of the financial year concerned. The tie-break rules should apply at a sufficiently detailed level of disaggregation to support full and transparent consideration by the budgetary authority of the level and value for money of proposed spending, rather than encouraging trade-offs between broad headings of spending which would be untransparent and less likely to result in good value for money.

A simple, balanced and effective tie-break mechanism would consist in the following elements:

- Following a single budget reading by each arm of the budgetary authority, there would be a time-limited conciliation mechanism involving representatives of the Council and EP, attended by the Commission, with the aim of securing agreement on all disputed budget lines no later than mid-December before the start of the budgetary year in question. Each arm of the budgetary authority would adopt its positions in conciliation under the same voting procedure as for its reading of the draft budget.
- The tie-break, where needed, would apply to the commitment appropriations for each budget item¹. In each case, the disputed amount would be determined at the lower of the level finally proposed by either the EP or the Council, or at the level of the previous year's budget, if higher. This would ensure that increases in spending on any Item compared with the previous year's level would be limited to the lower of the levels proposed by either arm of the budgetary authority, whereas the agreement of both arms of the budgetary authority would be needed for reductions in spending compared with the previous year's level.
- A similar tie-break would apply, where needed, to the total of payment appropriations in each title of expenditure.
- The relevant expenditure ceilings of the financial perspective (as well as the ceiling on own resources) would apply throughout.

¹ Under Activity Based Budgeting, which will apply to the Budget from 2004, expenditure is disaggregated by Title, Chapter, Article and finally Item. An Item corresponds to a Budget Line under the pre-2004 system.