ECR POLICY GROUP ON BUDGETS

EFFICIENCY & SUBSIDIARITY

GUIDELINES ON REFORMING EU BUDGETARY POLICY



European Conservatives and Reformists Group

ECR Policy Group on Budgets

Reforming the EU budget is essential if it is to meet the challenges of the future not the past. In this paper Bernd Kölmel, Anders Vistisen and Richard Sulík provide their guidelines on reform, arguing for a sustainably financed EU budget and an efficient budgetary policy in keeping with the principle of subsidiarity.



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1 List of Abbreviations

CAP	Common Agricultural Policy
ECR	European Conservatives and Reformists Group
ERDF	European Fund for Regional Development
EFSI	European Fund for Strategic Investments
EGF	European Globalisation Adjustment Fund
EIB	European Investment Bank
EPRS	European Parliamentary Research Service
ESF	European Social Fund
EU	European Union
EP	European Parliament
FI	Flexibility Instrument
MFF	Multiannual Financial Framework
NUTS	Nomenclature des unités territoriales
OJ	Official Journal of the European Union
PPP	Public private partnerships
RAL	Reste à liquider
SMEs	Small and Medium Enterprises
TEU	Treaty on European Union



2 Executive Summary

1. **Global objectives:** The ECR Policy Group on Budgets wants the EU budget to be fit for the future. We pledge for a sustainable, balanced and transparent budget based on an efficient and performance-based budget policy that respects the principle of subsidiarity. These are essential requirements for a lasting partnership, improved cooperation and trust between the EU Member States.

2. **Balance and sustainability:** All commitments must be reached in a timely manner. We respect that Member States will not increase their contribution to the EU budget. Therefore, commitments must not be increased until existing commitments are honoured (see Chap. 4.1 to 4.3).

3. **Subsidiarity and added value:** The ECR Policy Group on Budgets favours an efficient budget policy that respects the principle of subsidiarity. The EU shall only take action when it is more effective than action taken at national, regional or local level. The EU budget shall only contribute to actions with a clearly identified added value for citizens (see Chap. 4.4 and 4.5).

4. **Transparency and accountability:** The EU budget is very complex in its drafting and in its management. Citizens rightly expect high standards on transparency. They expect accountability to see who is responsible for EU action. The whole budget should be clearly presented in order to avoid a high level of reserves (see Chap. 4.8).

5. **Promotion of national fiscal sovereignty:** The ECR Policy Group on Budgets wants the EU to complement the sovereign Member States. Genuine EU Own Resources would pave the way for the EU to act as an independent state (see Chap. 5.1).

6. **Risk provisions:** The EU must take adequate precautions against all risks, for example through guarantees (see Chap. 5.2).

7. **Options for Member States contributions and programs:** Where measures are supported by several institutions, this automatically increases administrative costs. Co-financing between the EU and the Member States is intended to ensure that support is only given to projects backed and considered useful by the Member State. The actual net contributions of the member states remain the same. Thus the principle of solidarity will not be questioned (see Chap. 5.3).

8. **Spending priorities:** Spending should be concentrated on the future challenges rather than on an annual update of the status quo (see Chap. 6.1). All administrative expenditure must be reviewed in order to identify savings (see Chap. 6.2). Support measures should generally aim to provide an incentive for the creation of a particular project. Permanent financing and deadweight effects should be avoided (see Chap. 6.3 and 6.4).

9. **Budgetary Control:** The EU must pay greater attention to which concrete results have been achieved through EU funding. This means that a transparent control system needs to be developed, the costs of which are proportionate to the benefits which can be achieved. We need to create real added value for our citizens (see Chap. 6.5).


OR

3 Introduction

The ECR Policy Group on Budgets believes that the key to long-term cooperation and partnership between the Member States lies in a sustainably financed EU budget and an efficient EU budgetary policy in keeping with the principle of subsidiarity.

The budget must comply with strategic principles if the objective of economical and prudent appropriation of budget resources is to be achieved. In this paper, the ECR Policy Group on Budgets outline guidelines on reforming EU Budget policy.



4 General principles

4.1 Ensure sustainable budget balancing

The EU budget must be sustainably balanced. This means that, as a general rule, revenue must cover all expenditure. No form of shadow budget should be allowed. The EU must continue to be prohibited from borrowing.

From time to time, payments may temporarily exceed available liquidity in the EU budget as a result of programme implementation in the Member States. It should therefore be possible to provide liquidity via a new instrument to be created, i.e. short-term cash advances. These should not exceed 10 % of the annual budget and must be repaid by no later than 31 January of the following year. They should be reduced to a maximum of 5 % of the annual budget the following year and to zero the year after that.

If guarantees are provided, a provision for risks must be set up based on prudent business practices. The provision must be set up for the maximum anticipated default based on empirical values. The European Parliament should be provided with a quarterly report on risk provisions.

4.2 Limit the RAL (reste à liquider)

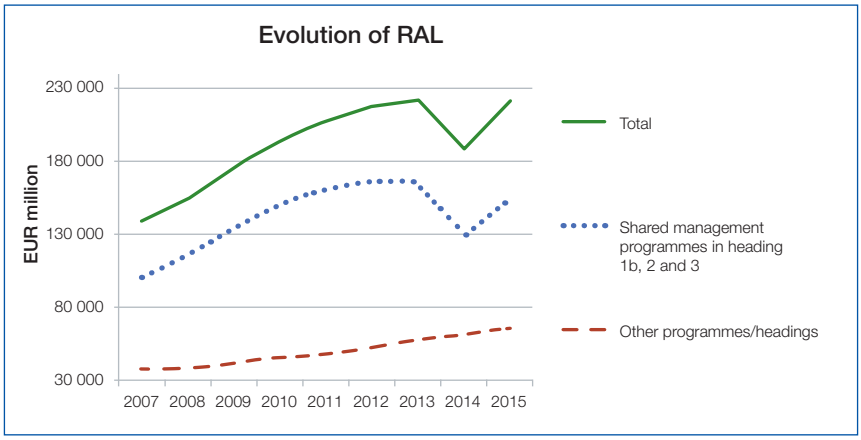
The 'Reste à liquider' (RAL) or outstanding commitments are defined as the amount of appropriations committed that have not yet been paid.

RAL is an inherent part of the EU budget system (programme budget). Initially payment appropriations are made, due to the necessary time lag between the decision on budget resources, the definition of the programme and the start/implementation of the programme. These commitments are payable at a later date.

As fundamental EU political programmes (especially cohesion policy programmes) are multiannual programmes, payments tend to increase towards the end of the multiannual financial framework. That is because the programme is (provisionally) closed then. However, commitments must be managed so that they do not overly affect Parliament's right to exercise influence.

However, the RAL has been rising for years. In the year 2000 it was EUR 66 billion. By 2013, it had risen by EUR 156 billion to EUR 222 billion, although it dropped back to EUR 189 billion by 31 December 2014. However, it had crept back up to EUR 219 billion at the beginning of December 2015[1].

Figure 1 RAL 2007-2015



[1] *4th weekly report "Implementation of the Budget 2015", figures by EPRS*

Such a high RAL harbours the risk that it will be impossible to honour all payment commitments on time. The RAL should therefore be brought down to a level at which all invoices due can safely be expected to be paid on time.

The European Parliament should receive a quarterly report on the current RAL.

4.3 Avoid unpaid bills (debts)

The EU is prohibited from borrowing. Invoices not paid on time must be seen as debts. Nonetheless, on 31 December 2014, the EU was unable to pay invoices totalling EUR 24.7 billion only for the 2007-2013 Cohesion programmes[2] on time.

In future, the EU institutions should check and pay duly received invoices within four weeks. This should be included in binding rules.

As soon as an EU institution required to make payment realises that it will be unable to pay incoming invoices on time, it must apply to the Commission for a cash advance. The Commission must provide liquidity and must take the necessary action to re-balance the budget as quickly as possible. The rules governing cash advances are described under point 4.1.

The European Parliament should receive a quarterly report on the status of any unpaid invoices.

4.4 Maintain subsidiarity in the EU budget

The ECR Policy Group on Budgets supports broad sovereign powers for the Member States. It is therefore in favour of a lean EU budget based on the principle of subsidiarity and of concentrating resources on important projects, in full respect of Art 5 of the Treaty on European Union (TEU)[3]. Performance of tasks by the Member States should be the preferred method. The EU should only finance measures where its contribution provides more than the sum total of individual measures by the Member States. For example, the environment and energy sectors require numerous measures at EU level.

As a guiding principle, cost-effectiveness must be illustrated by appropriate calculations.

4.5 Create added value with EU resources

Even where EU measures are in keeping with the principle of subsidiarity, they must be reviewed carefully in order to check if they are necessary and generate added value for EU citizens. Added value for EU citizens means that citizens enjoy a long-term additional benefit. This includes inter alia European cooperation on research and development, the internal market or cross-border infrastructure.

The added value must be generated over a period which is at least as long as the duration of the project. The following must be clarified in advance: What are the overall costs of the project, how long can it be used, can it be operated long-term, what basic conditions must be met, what are the risks?

Often the deliverables of a financed programme do not generate any added value. Sometimes a reduced number of measures provides for greater scope and creativity.

4.6 Keep the multiannual financial framework up to date

The EU budget is planned and implemented within a seven year budget cycle, known as the 'multiannual financial framework' (MFF). The current MFF covers the period from 2014 to 2020. It has an upper limit of EUR 960 billion for investments and of EUR 908 billion for payments.

We wonder whether a fixed 7-year period is still appropriate in a dynamically changing EU. A 5-year period in accordance with the EU legislative period should be considered. This would offer the possibility that the elected Parliament as well as the Commission to draft and adopt a MFF, which would come into force the following year. Thus the responsibilities for the MFF would reflect more or less the mandate of the European Parliament (election year + 2 years).

[2] *See information of the European Commission from 27 May 2015, http://europa.eu/rapid/press-release_MEMO-15-5045_en.htm*
[3] TEU, OJ Nr. C 326, 26th October 2012

4.7 Reforming the budgetary procedure

The budgetary procedure is extremely time consuming and labour-intensive. The long time frame for annual negotiations should result in decisions within the scheduled timeframes. Any delays in reaching an agreement have a negative impact on the overall image of the EU.

The European Parliament's co-decision rights were strengthened in 2009 under the Treaty of Lisbon. Since then, the European Parliament and the Council have been jointly responsible for the annual budget. The annual budget is based on a draft submitted by the Commission. The Council is required to comment on the draft by 1 October. The European Parliament is required to comment on Council´s position within 42 days. If the Council text is amended by the Parliament, the Conciliation Committee is convened consisting of representatives from the Commission, Council and Parliament. The Committee has 21 days in which to broker a compromise between the Council and the European Parliament. If the Conciliation Committee fails to reach an agreement by that deadline, the Commission submits a new draft budget and the procedure starts anew. If the three institutions have not agreed on a budget by the beginning of the calendar year, negotiations will continue. In the interim, a system of 'provisional twelfths' applies in which appropriations for each chapter of the budget are funded monthly, by one twelfth of the previous budget, or by the relevant amount in the draft budget, whichever is less. Although this system makes it possible for the EU to continue functioning, it is deprived from making any long-term commitments or using tools that can mobilised only through an amending budget, such as the European Union Solidarity Fund.

The budget allocation process for the EU budget for 2016 lasted from 27 May 2015 (Commission´s proposal) through to adoption by Parliament on 25 November 2015. Dozens of meetings at various levels took place during that period.

The Conciliation Committee has already failed to find agreement three times in the six years since this budget allocation process was introduced. This suggests that the process urgently needs to be changed.

Considerable changes are made to the budget from the first proposal through to adoption, as the table below illustrates.

Table 1 Change to 2016 EU budget from first proposal through to adoption[4]

Institution / Date	Commitment appropriations	Payment appropriations
Commission (proposal of 27 May 2015)	EUR 153.52 billion	EUR 143.54 billion
Council (proposal of 27 July 2015)	EUR 153.26 billion	EUR 142.11 billion
European Parliament (proposal of 17 October 2015)	EUR 157.42 billion	EUR 146.45 billion
Outcome of trilogue (budget adopted on 25 November 2015)	EUR 154.00 billion	EUR 143.88 billion

Interestingly, the budget adopted on 25 November 2015 is almost exactly the amount proposed by the Commission and the Council. Most of the amendments proposed by the European Parliament were disregarded.

These facts demonstrate that the current budget allocation process is inefficient. We therefore need to look for better alternatives. First we have to consider how EU revenue is financed.

The EU budget is financed from various contributions. The three most important sources of financing are traditional own resources (customs duties and sugar levies), own resources accruing from value added tax and the Member States' contributions based on their gross national income (GNI). The original method of financing the EU budget reflected the following founding principle: To generate revenue through the competence of the EU. Thus, in the 1970s, traditional own resources accounted for 60 % of overall revenue. Own resources accruing from VAT were introduced in the first Own Resources Decision

[4] *Sources: http://ec.europa.eu/budget/annual/index_de.cfm and http://ec.europa.eu/budget/explained/glossary/glossary_de.cfm*

adopted in 1970 and, until 1998, they represented the most important source of financing for the EU. Between the 1980s and 2013, the proportion of traditional own resources fell to around 10 %.

Today, the most important source of revenue is the GNI-based contributions by the Member States, which account for 75 % of overall EU revenue.

If the budget allocation process is to be simplified, this is where we must start. As the Member States have sovereign powers to decide on the financing of the EU, it would make sense to allow them to decide exclusively through the Council. It is counterproductive for Parliament to consider that it has a duty to demand the maximum possible contributions from the Member States as a matter of course. The Member States must decide what the tasks performed by the EU are important to them.

Discussions about expenditure should continue to be based on a Commission draft. The Council and Parliament should then discuss how funds are to be allocated to the budget headings. In the event of disagreement, the Council should decide.

The implementation of these measures would make the allocation process much simpler, quicker and more transparent. More importantly, responsibilities are then clearly allocated. This would be a significant step towards a Europe which is close to its citizens.

4.8 Establish budgetary transparency

One of the principles of any budget is budgetary transparency. That means that, from the outset, the budget must clearly illustrate what funds have been earmarked for what purposes.

The EU budget is particularly confusing when it comes to various flexibility and special instruments. These flexibility mechanisms were originally designed to enable the EU to react to unforeseen events such as crises and emergencies, and they include:

1. **Emergency Aid Reserve (EAR)** – maximum of EUR 280 million per year (in 2011 prices)
2. **European Union Solidarity Fund (EUSF)** – maximum EUR 500 million per year.
3. **Flexibility Instrument** – maximum EUR 471 million per year (in 2011 prices)

For further detailed explanations of these instruments, and all other flexibility mechanisms in the MFF, please refer to annex 1.

The ECR Policy Group on Budgets is not principally opposed to these instruments as long as they help to cushion the consequences of unpredictable catastrophes - we have regularly supported the release of funding via these instruments on a number of occasions in recent years. However, in our view these instruments should still be assessed with regard to the volume and utility of expenditure. In order to achieve budgetary transparency these means should be clearly integrated and identifiable within the EU budget. They must also be used exclusively for the clearly defined objectives of each instrument.

4. **European Globalisation Adjustment Fund** – maximum EUR 150 million per year (in 2011 prices)

The ECR Policy Group on Budgets has concerns with this fund. We are of the opinion that the EU has no primary competence for such payments and that they do not provide any added value. There appears to be no advantage to the Member States other than to relieve the pressure on their budgets. However, the pressure on their budgets could also be relieved under the cohesion programmes available. Moreover, EU support complicates controls and this can easily lead to abuse. We therefore need to stop shifting such social measures from the Member States to the EU. This issue is addressed in detail in Annex 2.

We often oppose most draft amending budgets as more often than not there is a lack of available finance identified by the Commission to finance these amending budgets. There is a lack of political will to ensure timely planning. In the meantime, it is standard practice in Parliament to declare necessary expenditure as unforeseeable in order to include projects in the budget that were not eligible when the budget was allocated.

5 Revenue

5.1 No new EU tax

As mentioned under point 4.7, the proportion of traditional own resources (customs duties and sugar levies) has been in decline for years. Some politicians are calling for the EU to replace these declining own resources. For example, they want a fixed amount to be levied on gross national income that would be available to the EU without the need for further negotiation or they want certain types of taxes to be levied, such as a new financial transaction tax that would be available to the EU alone.

The ECR Policy Group on Budgets considers that this is a step in the wrong direction. We want the EU to complement the sovereign Member States. However, independent revenue collection rights would pave the way for the EU to act as an independent state.

5.2 'Innovative sources of financing'

Budgets are usually broken down by revenue and expenditure ('public service accounting'). This breakdown provides a clear overview, making it easy to see if there is sufficient revenue to cover expenditure. However, problems arise with investments. In public service accounting, they are entered at the full amount in the 'payment year'.

The inclusion of innovative sources of financing clouds this picture. That is because this form of financing cannot be allocated in an exact amount to one budget year.

The following are examples of innovative financing sources:

- Financing by downstream institutions rather than by the EU (for example the European Investment Bank). It may be necessary for the EU to accept liability here.
- Provision of guarantees by downstream institutions such as the EFSI. The liability risk must be assessed on market lines.
- Public-private partnerships (PPPs) impact on the budget because expenditure may be stretched in small amounts over several years and therefore on paper the budget appears to be lower than for investments. However, this restricts budget legislature's capacity to act, as expenditure is charged to the budget over several years.
- Financial derivatives to hedge exchange risks. The issuer's fees and default risk must be taken into account.

The ECR Policy Group on Budgets does not oppose progressive developments in the financial sector. However, the risks assumed in connection with innovative sources of financing must be carefully checked and documented. A provision for risks must be set up in the budget. The provision must be equal at least to the average anticipated default.

5.3 Introduce options for Member States

The Member States make contributions to the budget based on their GNI. At the same time, they receive payments for measures in their countries. The payments made and received are set out in Table 2.

Table 2 2014 budget: Contributions by and payments received from the Member States according to the official accounting method[5]

Member State	Amount in million EUR	Payments received in million EUR	Balance calculated using the official method in million EUR
Belgium	5 233	7 044	- 1 478
Bulgaria	467	2 255	1 824
Czech Republic	1 507	4 377	3 004
Denmark	2 508	1 512	- 836
Germany	29 143	11 484	- 15 502
Estonia	200	668	474
Ireland	1651	1 563	39
Greece	1950	7 095	5 163
Spain	11 111	11 539	1 091
France	20 968	13 479	-7 165
Croatia	430	584	173
Italy	15 889	10 695	-4 467
Cyprus	161	273	115
Latvia	270	1 062	800
Lithuania	385	1 886	1 543
Luxembourg	246	1 714	80
Hungary	996	6 620	5 682
Malta	76	255	179
Netherlands	8 373	2 014	- 4 711
Austria	2 870	1 573	- 1 241
Poland	3 955	17 436	13 748
Portugal	1 748	4.943	3 211
Romania	1 459	5.944	4 520
Slovenia	385	1.142	794
Slovakia	720	1.669	1010
Finland	1 904	1.062	- 809
Sweden	4 294	1.691	- 2 313
UK	14 072	6.985	- 4 930
Total Sum only net contributors	132 961 105 253	128 565 57 539	+43 450 -43 450

Source: European Commission, http://ec.europa.eu/budget/financialreport/2014/annex/2/index_en.html

[5] *See also annex 3 and 4, Net contributions of EU countries in absolute figures (2014) and Net contributions of EU countries per capita (2014)*

Although payments for 2014 are not binding for subsequent years, they are indicative of the levels expected in subsequent years. The considerations below are based on these figures.

The main issue from a budgetary perspective is whether, on balance, a state pays a net contribution or receives more money than it pays. However, this perspective overshadows two important aspects:

- budget sovereignty of each Member State and
- the administration costs of the measures needed.

Every Member State relinquishes budgetary sovereignty in the amount of its gross contribution. It is no longer able to decide if those amounts should be spent on the projects stipulated by the EU. This is ambivalent: If the EU finances projects with added value for EU citizens, that is a good thing and the states should participate in such measures in their own interest. However, if the projects provide no added value for EU citizens, joint financing has a negative impact for that reason alone, as the states must finance measures that they would not implement under their own sovereign powers.

The decisive factor from this perspective is whether or not any added value is generated. However, each state should be able to decide that for themselves. Otherwise, in an EU of 28 Member States, individual states will always call this into question.

Aside from budgetary sovereignty, the administration costs of public tasks must also be considered. Clearly, these administrative costs increase in line with the size of the area affected by the task. Thus, if the EU performs a task in all the Member States, regional differences must either be masked over or taken into proper account. If they are masked over, important differences will certainly be ironed out; if they are not, the provisions will be highly complex. In all cases, the EU causes an additional administrative level to be created for the Member States.

The complex payment process between the EU and the Member States is illustrated by the (highly simplified) process steps listed below:

1. Budget planning (Commission calculates, Member States propose their own interests)
2. Project definition
3. Agreement on provisions (taking account of differences between Member States)
4. Information
5. Project monitoring (formalities, standards and budget)
6. Involvement of national institutions for administrative assistance and payment support
7. Applications by project participants
8. Project approval and billing
9. Auditing of accounts

Special administration costs for these activities are quite high. For the year 2015 on the side of the Commission this is around EUR 1.2 billion.[6]

In order to avoid the drawbacks of both these aspects, the Member States should retain maximum possible sovereignty over their budget resources.

In theory, this might mean that the Member States only continue to make payments to the EU which they do not get back. In an extreme case, Member States would have the right only to pay the net contribution (if they are net contributors) or nothing (if they are net recipients) to the EU. Thus, Member States could be granted the right to decide on a large amount of financial means which today are paid to the EU. If the Member States want to participate in a project, they could do so under their own management, subject to their own formalities, rather than via the EU budget. If they do not want to participate, they could freely dispose of the budget resources saved.

[6] *See http://eur-lex.europa.eu/budget/data/DB/2015/en/SEC00.pdf, p. 77.*

This would simplify the administration of individual types of projects considerably, for the benefit of all participants. The EU institutions would no longer have to take account of individual states for the purpose of their administrative action. Those Member States would no longer need to agree such types of projects with the EU institutions, i.e. they could again plan and act independently. Finally, the beneficiaries would likewise only need to ensure they complied with national provisions.

In 2014, there were 10 net contributors whose contributions exceeded the payments received for measures. They were Belgium, Denmark, Germany, France, Italy, the Netherlands, Finland, Sweden, Austria and the United Kingdom.

However, net contributions can only be properly assessed over a longer period of time. The last multiannual financial framework 2007-2013 is an appropriate period. Germany, for example, paid the EUR 29 143 million in contributions to the EU in 2014, and received EUR 11 484 million in payments.

Overall, Germany paid EUR 15 502 million net to the EU in 2014. An appropriate amount for the future would have to be set following negotiation.[7]

Based on 2014, the EU budget could have been at least halved if all net contributors would have chosen this option. This should not reduce the effectiveness of programmes. On the contrary, Member States making net payments would be free to choose the programmes in which they wish to participate. This should in fact improve the efficiency of the EU measures.



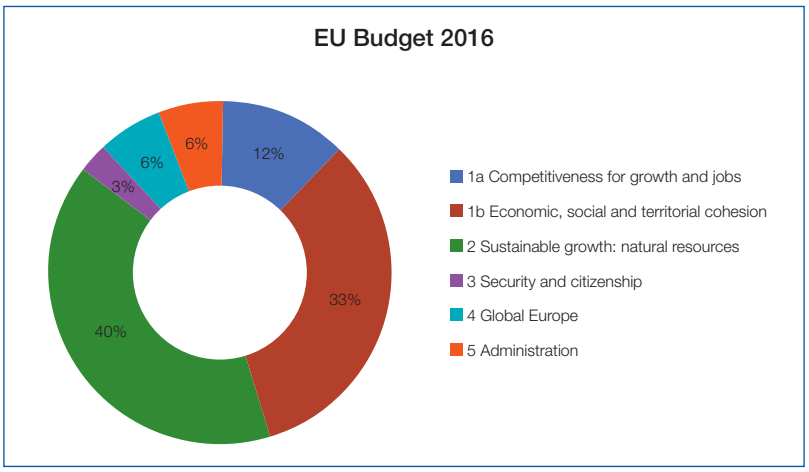
[7] *Source: http://ec.europa.eu/budget/financialreport/2013/annex/3/index_en.html#note2#*

6 Expenditure area

6.1 Set priorities

EU expenditure is planned in the following areas for the 2016 budget year:

Figure 2 Breakdown of EU Budget 2016 by heading (percentages in commitment appropriations)[8]



The diagram clearly illustrates that the EU budget focuses primarily on agriculture and rural development (sustainable growth, natural resources etc.; approx. EUR 62 billion or 40% of the budget) and cohesion policy (approx. EUR 50 billion or 33 % of the budget). First and foremost, agriculture and under-developed regions in Europe are subsidised with a view to improving the economic situation and competitiveness of the poorer Member States.

Agricultural subsidies in particular are financial support for beneficiaries providing services to society related to food security and food safety as well as to the care for the environment and for the landscapes. To date programmes tend to focus less on technical inventions or innovations. Therefore innovative projects related to agriculture should be prioritised.

A significant proportion of cohesion measures (especially the Cohesion funds) are by definition directed at Member States which are not net contributors. This again illustrates that these states should be given an option (see point 5.3).

Options would enable the EU to focus its budget in accordance with the principle of subsidiarity on areas where there are urgent problems such as high unemployment (especially among young people) and to support small and medium-sized enterprises, research and development, public infrastructure, external border protection and environmental protection.

In this context it is important to mention that the EU Cohesion policy must not be an end in itself. Instead it is more about promoting the competitiveness of economically and socially weaker regions in Member States with a relatively low income. Based on this goal the programmes within the EU Cohesion policy have to be monitored and assessed regularly. In case the measurable objectives of programmes are not reached, an adaptation of the programmes or even a new definition of objectives has to be taken into consideration.

[8] *Source: http://ec.europa.eu/budget/annual/index_en.cfm*

In addition it has to assess how effective an extensive private sector promotion and especially direct payments to private actors are in the context of EU Cohesion policy. Such policies potentially are creating distortions of competition. Instead, priorities have to be set on public investments in order to ensure equal competition for all.

6.2 Minimise administration costs

The EU will spend around EUR 8.9 billion on its administration in 2016.[9] This represents just under 6 % of expenditure.

Even though this is a small percentage of overall expenditure, everything must be done to keep costs to a minimum. EU citizens rightly expect the EU to act economically and prudently.

Aside from economic and prudent spending, the structure and size of the administration are also extremely important. Many citizens consider that the EU and its institutions are over- inflated. This is surely due in part to the fact that these institutions necessarily tend to be set up a long way away from the citizens; after all, the EU covers several million square kilometres and is home to over 500 million people. The EU must therefore do everything in its power to set up lean and transparent institutions.

This has not always been the case. For example, decentralised agencies are criticised for generating high costs and providing little added value. The European Court of Auditors has investigated all decentralised agencies and found that nearly every agency needs to tighten up its structure. Consideration should be given to minimising the number of locations for agencies, in order to benefit from synergies such as shared staff, rented premises and office equipment. According to the report of the Court of Auditors, there is no (self-) control over the agencies.

The ECR Policy Group on Budgets considers necessary that the European Court of Auditors reviews the number and size of agencies needed. The objective should, where possible, be to re-integrate agencies into the Commission's administrative units, so that they can be managed more efficiently.

6.3 Define co-financing of support measures

At present, measures in the Member States can be supported both by the EU and by the Member States or other institutions. Co-financing between the EU and the Member States is intended to ensure that support is only given to projects backed and considered useful by the Member State. Member States manage funds locally within the framework of 'shared management'. Each Member State can use all the money allocated to it from a fund as it sees fit. In practice, this means that the Commission no longer has an overview of who is paid what in subsidies.

Where measures are supported by several institutions, this automatically increases administration costs. Given the number of authorities (aside from the European Commission) which must be set up in the national states and involved in project implementation, administration costs are bound to be high.

First the Commission negotiates and decides on the programmes proposed by the EU Member States and allocates the funds. The Member States/regions then manage the programme under their own national authorities. That means that they are responsible for implementing, monitoring and assessing programmes.

The national authority also appoints a national, regional or local authority or private institution to manage the operational programme. Moreover it also sets up a certification body. Finally, there is an audit body which audits the efficacy of the control and management system.

These costs can only be justified if they allow important objectives to be attained more efficiently than where the Member States have separate competence. That means:

- Good programme selection
- Economical and prudent planning and implementation
- Effective control

[9] http://ec.europa.eu/budget/annual/index_de.cfm?year=2016

These objectives can be achieved by having Member States pay a contribution, as they then have more interest in the measure than they would if it were financed externally. However, the framework conditions must be respected.

First, as few public bodies as possible should support one and the same measure, as otherwise administration costs rise unnecessarily. It would therefore be desirable if a maximum of two public bodies were to support one and the same measure.[10]

Moreover, the EU contribution should be set within a defined and sensible range. If too little pro rata funding is provided, there is no incentive to implement the project. If pro rata funding is too high, cost-effectiveness loses its importance.

According to information from the European Commission, the range of funding quotas currently depends on the state of development of the region concerned. Thus, for the period from 1 January 2014 to 30 June 2017, the funding quota should not exceed 80-85 % for less developed regions, 60 % for transition regions and 50 % for more developed regions.

The ECR Policy Group on Budgets considers that funding quotas of up to 85 % are too high. A reasonable funding quote might be 20 % to 60 %. Worthwhile projects which are not expected to be implemented even with funding of 60 % should be implemented as measures by the Member State for which no co-financing is needed.

Furthermore, a small portion of the budget can be set aside for projects for which the EU expects no or a very small contribution from the Member States. These must be projects in which the EU has a particular interest. Support should only be paid to public-sector bodies.

6.4 Provide more start-up financing and less long-term financing

Support programmes must basically be designed to stimulate growth or eliminate/mitigate problems and thus permanently improve the situation. Thus they should act as a stimulus without giving rise to long-term subsidies. Once they have started to receive support, beneficiaries have expectations; all support must therefore be limited in time.

This also applies to both major expenditure areas (agriculture and cohesion). Numerous measures have been subsidised in the agricultural sector for years now. We need to carefully check if the support is in fact unlimited and needs to remain at the same level. In addition effectiveness of the objectives of the Common Agricultural Policy (CAP) has to be assessed regularly and innovations in the agrarian sector have to be promoted.

Eleven thematic objectives designed to promote growth are currently being supported in the current Multiannual Financial Framework under cohesion policy:

1. Strengthening research, technological development and innovation
2. Enhancing access to, and use and quality of information and communication technologies
3. Enhancing the competitiveness of SMEs
4. Supporting the shift towards a low CO2 economy in all sectors
5. Promoting climate change adaptation, risk prevention and management
6. Preserving and protecting the environment and promoting resource efficiency
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures
8. Promoting sustainable and quality employment and supporting labour mobility
9. Promoting social inclusion, combating poverty and any discrimination
10. Investing in education, training and vocational training for skills and lifelong learning
11. Enhancing institutional capacity of public authorities and stakeholders and efficient public administration

Care must be taken with these objectives to ensure that the EU provides start-up financing for the sustainable development of the regions, rather than permanent subsidies.

[10] *It should be noted that it is up to Member States to decide how to organise their own administration.*

6.5 Budgetary control

6.5.1 Measure and improve effects

Effective and efficient budgetary control is key to an economical and prudent budget. Parliament considers that, aside from the technical and administrative aspects, it should be possible to measure and compare the effectiveness of EU measures. Measures could then be taken on that basis to improve the results.

This means that both the European Commission and, more importantly, the European Court of Auditors should present their audit results transparently by category of measures, group of beneficiaries and beneficiary countries. A presentation of average values is not good enough. To reach this goal there has to be provided open and clear databases by the European Commission. Thus, every EU citizen has the possibility to check the figures by himself.

However, it is important to do more than simply comply with provisions. The EU must pay greater attention to which (permanent) effects were achieved using its funds. This means that a transparent controlling system needs to be developed, the costs of which are in reasonable proportion to the benefits which can be achieved. Furthermore the good use of EU funds has to be ensured.

6.5.2 Implement proposals consistently

The European Court of Auditors sends the European Parliament numerous proposals a year suggesting how action by the European institutions can be improved. The proposals should be implemented as soon as they have been adopted by the European Parliament.

A controlling system should also be developed for such proposals, so that their implementation can be verified. Otherwise there is a risk of proposals falling down a gap between the various organisational levels within the institutions.

6.5.3 Budgetary Control Commissioner:

The effective budgetary control would be better performed with the existence of the Budgetary Control Commissioner. The specific mandate of the Commissioner in question would mean the responsibilities of the Commissioner would concentrate only among the budgetary control.

The request for the Budgetary Control Commissioner has been continuously called for by the ECR for many years during the annual discharge procedure.

6.5.4 Merging of small agencies

The establishment of agencies was done on a case by case basis which means that there has not been any overall vision of their role in the European Union really provided.

When the respective tasks of the agencies are overlapping, when the synergies are expected or in the situation when better performance would be the result of existing in a bigger structure, merging or even closing of agencies should be taken into consideration.

Annex 1

Budgetary reserves

1) Emergency aid reserve - maximum EUR 309 million per year (2011 prices)

The emergency aid reserve is used to fund humanitarian aid, civilian crisis interventions and natural disaster relief operations in third countries, and is intended to facilitate the rapid provision of aid following unforeseen events.

2) Solidarity Fund - maximum EUR 500 million per year (2011 prices)

Solidarity Fund resources are used to provide emergency financial aid in the event of a major disaster in a Member State or candidate country.

3) Flexibility instrument - maximum EUR 471 million per year (2011 prices)

The rather vaguely termed flexibility instrument supposedly provides funds only for clearly defined tasks. The criterion is that, because they are unforeseeable, these tasks cannot be financed from the budget without the maximum annual expenditure laid down in the MFF being exceeded.

Provided that these reserves are used to deal with the consequences of unforeseeable disasters, we have no objection to them; in fact, we have supported the release of funds for such purposes in the past. These three reserves should, however, be the subject of a comprehensive review to determine whether the sums involved could be reduced.

This applies in particular to the Flexibility Instrument (FI). Funds are often released from the FI even though the expenditure was foreseeable. The Commission lists the financing of energy projects in conjunction with the EU Economic Recovery Plan and the closure of a nuclear power plant in Bulgaria as examples of projects funded by the FI. We do not regard these as unforeseeable events which warrant payment from this fund. On the contrary, power plant closures and energy projects in connection with the EU Economic Recovery Plan are events which are foreseeable and require specific planning, i.e. specific negotiations in committee and plenary, and inter-institutionally between Parliament and the Council. We consider that it is misguided in such cases to mobilise funds from a flexibility instrument.

4) European Globalisation Adjustment Fund – maximum EUR 150 million per year (2011 prices)

The European Globalisation Adjustment Fund is designed to support the reintegration into the job market of workers made redundant as a result of far-reaching structural changes in world trade patterns and, more recently, as a result of the global economic and financial crisis. It is endowed with a maximum of EUR 150 million a year.

The ECR Policy Group on Budgets also has misgivings about this fund. It takes the view that the EU has no primary competence to make such payments and that they do not generate any added value. The only benefit for the Member States would seem to be an easing of the pressure on their budgets. That pressure could also be relieved by employing the cohesion measures available, however. Moreover, EU support makes monitoring more difficult and this can easily lead to funds being misused. We therefore need to stop shifting responsibility social measures of this kind from the Member States to the European Union. This issue is addressed in detail in Annex 2.

The ECR Policy Group on Budgets is also concerned because in addition to these existing instruments **new flexibility measures** were included in the MFF 2014–2020 only last year.

- **Flexibility as regards payment appropriations:** Subject to certain criteria, unused funds and margins below the overall limit laid down in the MFF can be carried over to the next financial year.
- **Flexibility as regards commitment appropriations in the areas of growth and employment:** Unused commitment appropriations from the period 2014-2017 are allocated to a reserve for additional expenditure to boost growth and employment between 2016 and 2020 (in particular to promote youth employment).
- **Special flexibility for youth employment and research:** Appropriations of up to EUR 2.1 billion for the youth employment initiative and of up to EUR 400 million for research, Erasmus and SMEs set aside for subsequent years can be used in 2015.
- **Flexibility in the Fund for European Aid to the Most Deprived:** Member States can voluntarily top up the resources allocated to this fund to bring it to an overall total of EUR 1 billion.

- **Contingency margin:** This instrument was set up as a fund of last resort for the purpose of responding to unforeseen circumstances. It is endowed with 0.03 % of EU gross national income (GNI).

Annex 2

European Globalisation Adjustment Fund

First, expenditure in the EU should be paid by the Member States in keeping with the principle of subsidiarity. The EU should only acquire competence where that would bring about improvement and simplification. Payments from the European Globalisation Adjustment Fund (EGF) do not appear to satisfy that requirement.

The EGF Regulation should therefore be repealed. This would reduce the EU budget by EUR 150 million per year (in 2011 prices).

The first step should be to stop direct cash payments to workers from the EGF. These payments supplement and replace national unemployment benefits and are therefore a step in fact towards social union. The EU Treaties make no provision for social union.

Even if the objectives of these payments were acknowledged, other existing funds, such as the European Social Fund or the European Regional Development Fund (ERDF), could finance such measures better and more quickly.

Current situation

Aid in the form of payments from the EGF was applied for in 129 cases between 2007 and 2012. The amount applied for was EUR 498 million, of which EUR 421 million has been approved for payment to date. Payments averaged EUR 3.2 million per case and ranged from EUR 0.1 million (Poland) to EUR 26 million (France).

Overall, the measures applied for concerned over 100 000 workers. Beneficiaries were paid an average of EUR 4 667 each. Individual payments ranged from EUR 498 (Luxembourg) to EUR 23 272 (Austria). Applications were based on major structural changes in world trade patterns (globalisation) in just 43 cases. In 65 cases, the applications were based on the effects of the economic and financial crisis in Europe.

Legal framework

The European Union uses the EGF to support the re-integration into the job market of workers made redundant.

The EGF was created under a regulation adopted in 2007 and EGF Regulation (EU) No 1309/2013 has regulated the preconditions to and legal consequences of the EGF since 2013. Originally it was intended to compensate solely for fundamental changes in world trade patterns. Since May 2009, however, it can also be used in the event of mass redundancies caused by the global economic crisis. This has resulted in a considerable increase in the number of applications.

The purpose of the EGF is to support individual active labour market measures introduced by the Member States, in order to help workers affected acquire new skills and a new job. The European Council agreed in February 2013 to leave the EGF outside the cap on the 2014-2020 MFF, but to reduce its maximum annual budget from EUR 500 million to EUR 150 million. As one of the EU flexibility instruments outside the cap on the MFF, it can only be used in the event of specific crisis at the request of a Member State.

The Commission must pass each individual case to Parliament and the Council for approval.

Payments are made from the EGF, in keeping with the Regulation, either in the case of a minimum of 500 redundancies by one company (including suppliers and the processing sector) or by various different companies all engaged in the same economic venture and located in no more than two neighbouring regions (NUTS2[11]). In exceptional cases, i.e. where there is an urgent need for help or a particular interest, payment from the EGF may be made in the case of fewer than 500 redundancies.

[11] *NUTS = Nomenclature for Units of Territorial Statistics (a hierarchical system for identifying and referencing territorial units for the official statistics of the Member States of the European Union). NUTS2: 'basic regions for the application of regional policies'. These are medium-sized regions and million-cities.*

Under the new, extended EGF Regulation (Regulation (EU) No 1309/2013), payments can be made for redundancies caused either by globalisation or by the global financial and economic crisis. The EU now finances 60 % of the costs (compared to 50 % previously). Between May 2009 and 2011, it even co-financed 65 % of the costs. Support in the form of cash payments cannot exceed 35 % of overall support.
The EGF cannot be used for agricultural professions, as there are insufficient funds.

External reports on the EGF
According to an investigation carried out on behalf of the Commission in 2011, the massive payments made by the EGF (EUR 421 million) only enabled 50 % of the 106 711 workers affected to reintegrate into the job market. In some cases, EGF funds were simply used to replace payments under national unemployment programmes.

In 2013, the European Court of Auditors issued a report on the EGF, following a study of eight cases in four Member States (Germany, Denmark, Ireland and Lithuania) designed to establish if the EGF is able to generate added value.

According to the report, nearly all the workers made redundant in the cases investigated were offered bespoke, well-coordinated measures. However, every single measure could have been financed from the European Social Fund. In fact, some Member States opted for financing from the European Social Fund. It also found that there were no data available that allowed the effectiveness of the reintegration of workers into the labour market to be assessed.

In all cases cash payments were received that could otherwise have been paid by the Member States themselves. In other words, national unemployment benefits were merely replaced by EGF payments. This did not generate any added value compared to what the Member States could have achieved themselves.

The approval process, which took an average of 11 weeks, was disproportionately long compared to other decisions adopted by the Commission.[12]

Opinion of the ECR Policy Group on Budgets
The ECR Policy Group on Budgets is of the opinion that the EGF should be abolished. It conflicts with the principle of subsidiarity and is ineffective, because it does not generate any European added value. Thus the proposals by the European Court of Auditors are obsolete.

Table 1: EGF payments 2007-2015

Year	Total in million EUR	Average payments in million EUR	Range of payments in million EUR
2007	51.8	5.18	0.7 to 12.8
2008	20.6	4.12	0.3 to 10.5
2009	122.3	3.95	0.3 to 24.5
2010	132.1	4.26	0.1 to 21.7
2011	67.7	2.6	1.2 to 5.2
2012	43.8	3.98	2.0 to 7.5
2013	53.7	3.84	0.1 to 22.8
2014	63.1	3.5	0.9 to 12.7
2015	2.8	1.4	1.4

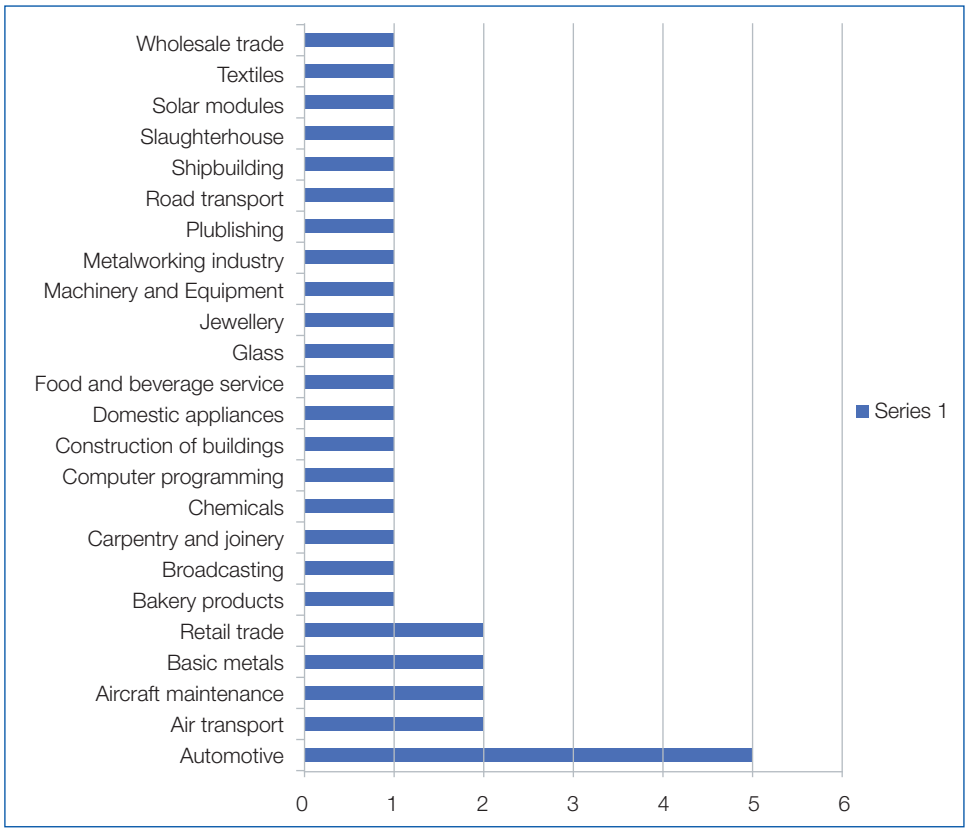
[12] *Newest studies to this issue: European Globalisation Adjustment Fund, Sgueo Gianluca, Plenary at a glance, European Parliamentary Research Service, 4 March 2015; Report on the activities of the European Globalisation Adjustment Fund in 2013-2014, European Commission, COM(2015) 355 final, 22 July 2015.*

Table 2: EGF cases / Number of workers who received payments and average payments to workers

Year	Total number of workers paid	Average payment per worker in EUR	Variance in payments per worker in EUR
2007	10 679	4 847	1 009 to 10 509
2008	5 435	3 795	498 to 6 590
2009	26 332	4 643	538 to 14 264
2010	26 867	4 917	604 to 23 272
2011	15 052	4 495	1 144 to 14 859
2012	9 657	4 540	2 569 to 10 400
2013	12 184	4 406	1 177 to 17 886
2014	15 657	4 032	1 208 to 6 018
2015	9 076	306	2 730 to 7 689

Source: http://ec.europa.eu/social/BlobServlet?docId=4558&langId=en

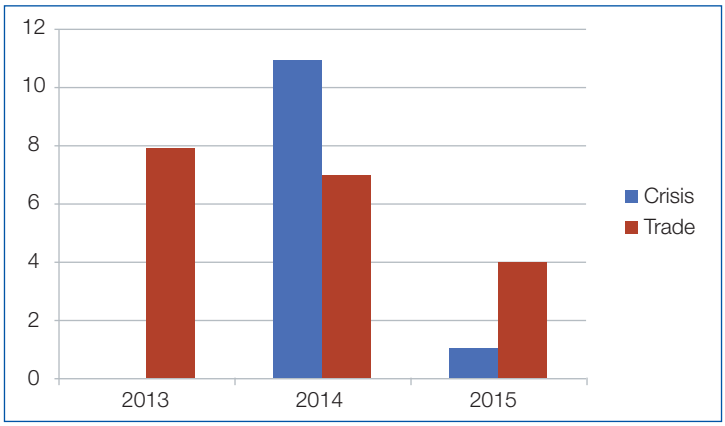
Table 3: EGF applications by industry 2013-2015



Source: http://ec.europa.eu/social/BlobServlet?docId=4558&langId=en

Table 4: EGF applications by legal basis

There are two ways of applying for funds from the EGF. One is to prove that the redundancies were caused by changes to world trade patterns caused by globalisation (Trade, blue; Example: clothing previously manufactured in Europe is now made in Bangladesh => tailors in Europe are made redundant and the Member State can apply for funds from the EGF). The other is to prove that the redundancies were caused by the economic and financial crisis (Crisis, red)



Source: http://ec.europa.eu/social/BlobServlet?docId=4558&langId=en

Table 5: EGF payments classed by type of bespoke measure and Member State

Member State	EGF measures				
	Active measures		Income support		Total
	EUR	%	EUR	%	EUR
Austria	8 234 726	23 %	27 602 090	77 %	35 836 816
Germany	26 038 835	36 %	46 985 923	64 %	73 024 758
Italy	26 736 900	36 %	46 753 250	64 %	73 490 150
France	25 857 836	42 %	35 239 500	58 %	61 097 336
Malta	792 920	62 %	476 942	38 %	1 269 862
Denmark	59 405 375	68 %	27 871 817	32 %	87 277 192
Czech Republic	353 171	74 %	121 292	26 %	474 463
Lithuania	3 273 610	77 %	969 200	23 %	4 242 810
Spain	61 810 966	88 %	8 288 900	12 %	70 099 866
Poland	1 637 795	92 %	137 050	8 %	1 774 845
Ireland	86 027 249	92 %	7 153 436	8 %	93 180 685
Greece	3 956 000	93 %	310 000	7 %	4 266 000
Romania	4 036 200	93 %	310 000	7 %	4 346 200
Sweden	29 242 680	93 %	2 151 000	7 %	31 393 680
Portugal	13 739 582	97 %	464 000	3 %	14 203 582
Finland	3 783 575	98 %	94 500	2 %	3 878 075
Netherlands	35 500 765	100 %	-	-	35 500 765
Belgium	27 864 008	100 %	-	-	27 864 008
Slovenia	3 325 370	100 %	-	-	3 325 370
Total	**421 617 563**	**67 %**	**204 928 900**	**33 %**	**626 546 463**

All amounts in EUR as at 31 December 2012

Cases rejected or withdrawn have been omitted.

Source: European Court of Auditors, based on Commission data for 89 cases accepted.

Annex 3

Net contributions by the Member States in absolute figures in 2014

Member State	Net contributions according to the official method of the European Commission (in EUR million)
Germany	- 15 502
France	- 7 165
United Kingdom	-4 930
Netherlands	-4 711
Italy	- 4 467
Sweden	- 2 313
Belgium	- 1 478
Austria	- 1 241
Denmark	- 836
Finland	- 809
Ireland	- 39
Luxemburg	80
Cyprus	115
Croatia	173
Malta	179
Estonia	474
Slovenia	794
Latvia	800
Slovak Republic	1 010
Spain	1 091
Lithuania	1 543
Bulgaria	1 824
Czech Republic	3 004
Portugal	3 211
Romania	4 520
Greece	5 163
Hungary	5 682
Poland	13 748
Total Sum only net contributors	 -43.450
Total budget 2014 Expenses Revenues	148.468 149.503

Source: European Commission,
http://ec.europa.eu/budget/financialreport/2014/annex/2/index_en.html
http://ec.europa.eu/budget/figures/interactive/index_de.cfm

Annex 4

Net contributions by the Member States per capita in 2014

Member State	Saldo in EUR
Sweden	-239
Denmark	-148
Luxemburg	145
Germany	-191
Netherlands	-279
Belgium	-131
Austria	-145
France	-108
Finland	- 148
United Kingdom	- 76
Italy	-73
Cyprus	-133
Spain	23
Ireland	8
Malta	421
Bulgaria	251
Slovenia	385
Czech Republic	285
Slovak Republic	186
Poland	361
Hungary	575
Greece	472
Latvia	399
Portugal	307
Lithuania	524
Estonia	360

Source: EPRS; please note in this context that the European Commission till today does not provide own figures on net contributions by the member states per capita

Notes



"The views and ideas expressed here represent the view of the author(s). These views and ideas are not necessarily the views and ideas of the ECR Group nor should they be considered to represent ECR Group policy. The ECR Group wishes to publish new ideas by its Members in order to further the EU reform debate but, as a democratic group, these ideas only become official group policy when endorsed by the full group."