

## Mid-term review/revision of the MFF Key issues at the outset of the debate

### SUMMARY

The EU's Multiannual Financial Framework (MFF) lays down maximum annual levels of EU spending in different areas. The current MFF covers seven years, from 2014 to 2020. According to Article 2 of the MFF Regulation the Commission is obliged to prepare a mid-term review of the functioning of the MFF and, as appropriate, a legislative proposal for a revision of the MFF Regulation no later than the end of 2016. This dual requirement is referred to as the mid-term 'review/revision'. Although the idea of reviewing the framework during its lifespan is not new, the current MFF is the first to include specific provisions providing for a mid-term review that may lead to revision of the Regulation.

For a number of reasons, implementation of the 2014-2020 MFF has already proven to be challenging, even in its first two years. In order to accommodate unexpected needs within the authorised ceilings, the budgetary authority has already had to resort to almost all the special levers and flexibility instruments provided for in the MFF Regulation. This raises questions about the functioning of the MFF through to 2020, and, in particular, about the adequacy of the agreed spending ceilings.

The European Parliament has consistently supported the idea of a genuine, post-electoral mid-term MFF review combined with appropriate revision of the MFF Regulation. Parliament's ambition is to set the agenda and to be at the forefront of the debate, which is why in December 2015 the Committee on Budgets (BUDG) launched a discussion with a view to adopting a strategic initiative report ahead of the Commission's adoption of the review/revision.



### In this briefing:

- Development of the idea of mid-term review/revision
- Post-electoral mid-term review/revision
- The European Parliament's position
- Procedure and calendar
- Main references

## Development of the idea of mid-term review/revision of the MFF

Multi-year financial planning in the public sector has definite advantages. However, it is not easy to create a system with the right balance between stability, predictability and flexibility, allowing quick reactions to unexpected circumstances.<sup>1</sup> The multiannual approach to spending was introduced to the European Communities in 1988 with the aim to improve budgetary discipline, predictability of expenditure and to ensure the smooth financing of policies.<sup>2</sup> The first financial perspective covered five years (1988-1992), but all others have covered seven years.<sup>3</sup> Experience shows that the longer the time-frame and the more dynamic the political and economic circumstances faced by the EU, the greater the need for various mechanisms for interim evaluations and adjustments. With this in mind, the European Parliament has repeatedly underlined the need for a formal, mandatory mid-term review allowing for quantitative, and qualitative, analysis and stock-taking of the functioning of the Multiannual Financial Framework. Moreover, since there is no synchronisation between the duration of the MFF and the Commission's or EP's legislative terms, such a review should allow the newly elected EU institutions to reassess the EU's political priorities and endow the MFF with renewed democratic legitimacy.<sup>4</sup>

For the 2014-2020 period, Parliament negotiated provisions obliging the Commission to present, no later than the end of 2016, a **review** of the functioning of the MFF and, as appropriate, a legislative proposal for **revision** of the MFF Regulation (Article 2 of the [MFF Regulation](#)). This dual requirement is known as '**the mid-term review/revision**'.<sup>5</sup>

The current MFF covers the 2014-2020 period, and is the EU's fifth consecutive multiannual financial plan. However, it is the first to take the form of a regulation, and the first to contain provisions providing for a mid-term review that may lead to its revision. The idea of a mid-term review and revision, however, is not new. For as long as the EU has had multiannual financial plans, they have come under pressure from political and economic developments, both expected and unexpected, requiring certain adjustments to the agreed figures and rules (Table 1).

**Table 1: Development of the idea of mid-term review/revision of the EU multiannual financial perspectives/frameworks 1988-2020**

1988-1992	1993-1999	2000-2006	2007-2013	2014-2020
No formal mid-term review or revision.	Provisions of the Interinstitutional Agreement (IIA) to be 'confirmed or amended' at the time of the intergovernmental conference scheduled for 1996 ( <a href="#">Article 24, IIA</a> ).	No formal mid-term review or revision.	'A full, wide-ranging' mid-term review of the MFF laid down in the European Council Conclusions <a href="#">part III</a> and <a href="#">Declaration No 3, IIA</a> .	Mid-term review/revision of the MFF laid down in <a href="#">Article 2 of the MFF Regulation</a> .

The first Financial Perspective, for **1988-1992** ([Delors I package](#)), covered a period of five years, with no mid-term review. The provisions of the second perspective covered a period of seven years (**1993-1999**, [Delors II package](#)), and although it did not explicitly provide for a comprehensive mid-term review, the intergovernmental conference scheduled for 1996 (in the middle of this period) was intended as an opportunity to introduce amendments to the Interinstitutional Agreement (IIA) laying down the provisions of the Financial Perspective. This could be seen as an intention to conduct a mid-term revision of the Financial Perspective.<sup>6</sup>

The provisions for **2000-2006** did not provide for a mid-term review or revision of the Financial Perspective. In fact, however, the amounts were revised in the middle of the period covered, through the financial package for EU enlargement in 2003.<sup>7</sup>

As a result of the negotiations on the [2007-2013 Multiannual Financial Framework](#), for the first time the Council conclusions and the IIA provided for 'a full, wide-ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate'.<sup>8</sup> This agreement was further developed in Declaration 3 attached to the IIA, which specified that the results of the review were to be accompanied by an assessment of the functioning of the IIA. Moreover, the European Parliament was to be involved in the review at all stages of the procedure, including the formal follow-up steps.

The review was to be presented in 2008/2009, however, circumstances delayed it until late 2010: coincidence with the European Parliament elections in 2009 and the formation of a new Commission (Barroso II), as well as the protracted ratification of the Lisbon Treaty (which came into force in December 2009). Moreover, the economic crisis had by then struck the Member States. None of these pressures encouraged a radical debate about the budget.

Nevertheless, in order to gather ideas on reforming the budget in preparation for the review, the Commission conducted [public consultations](#) (from September 2007 to June 2008), which provoked a substantial response from academic and expert circles, governments and NGOs. Many participants in the debate saw the review as an opportunity for change and had high expectations. The EP set out its ambitious position on the budget review in a [resolution in March 2009](#), before the Commission presented its document. When the Commission finally presented the results of its budget review on 19 October 2010, both the European Parliament and experts were disappointed by the lack of any proposals for genuine reform.<sup>9</sup>

By the time the review was published, the 2007-2013 MFF had already been revised four times; for example, to cover the additional needs of the Galileo project and the Food Facility.<sup>10</sup> The Lisbon Treaty created the legal basis for the MFF – in place of the voluntary IIA used before – mandating the form of a regulation and establishing a new role for the EP. Moreover, the Europe 2020 Strategy presented at the beginning of 2010 prompted calls for a new MFF, instead of revision of the current one. In order to take all these factors into account, the EP decided to focus on the future MFF and set up a special committee for a debate on the EU's post-2014 finances. Thus, what was meant to be the first formal, full and wide-ranging mid-term review of the MFF, turned out to be merely a contribution to the debate on the future MFF.

### Post-electoral mid-term review/revision

Given the unsatisfying experience with the mid-term review of the 2007-2013 MFF, there were concerns that a similarly weak promise might be made under the pressure

#### Scope of the review/revision according to the MFF Regulation

Article 2 provides for a compulsory mid-term review to be presented by the Commission no later than the end of 2016, taking into account the updated economic situation and macroeconomic projections. It should allow the newly elected institutions to reassess the MFF's priorities (Recital 2) and, as appropriate, be followed by a proposal for revision of the MFF Regulation. The revision, however, should not result in a reduction of the so called national envelopes (amounts pre-allocated for the Member States in the areas of rural development, fisheries and cohesion policy). Furthermore, as stipulated in Recital 3, the mid-term review/revision is an opportunity to consider the appropriate duration for the subsequent MFF.

of negotiations on the 2014-2020 MFF. From the outset, therefore, Parliament demanded an obligatory mid-term review of the MFF ceilings, along with a revision should the review establish that they were inadequate. Moreover, the EP called for a binding calendar and a specific procedure ensuring Parliament's full involvement.<sup>11</sup>

As a result of the interinstitutional negotiations, the EP's demand was met almost entirely and relevant provisions were inserted in the MFF Regulation and confirmed in the European Commission's declaration which formed part of the political agreement reached.<sup>12</sup> Never before had a genuine review/revision been formally stipulated in the legislation. Compared with previous financial frameworks, therefore, this time the possibility to change and adjust the MFF seems more realistic than ever.

#### **What issues are at stake and why?**

It is expected that the list of issues at stake will include both current problems requiring immediate action, and long-standing, contentious aspects of the MFF. The former concern the MFF's flexibility, and adjustment of expenditure ceilings in the light of various recent crises and new political priorities. The latter would cover aspects that need to be considered with a view to a post-2020 MFF.

#### *Improving the flexibility of the current MFF and revision of the MFF ceilings, in the light of new events and priorities*

For a number of reasons, implementation of the 2014-2020 MFF has already proven to be challenging in its first two years. First of all, as a result of negotiations between Member States facing fiscal constraints amid economic downturn, the resources agreed for the current MFF were not only substantially lower than the Commission's proposal, but also below those of the 2007-2013 period.<sup>13</sup> Second, [due to late agreement on the MFF](#), the start of its implementation was delayed. As a consequence, the revision based on Article 19 of the MFF Regulation was necessary, allowing the transfer of over €21 billion in unused 2014 allocations.<sup>14</sup> Third, since December 2013, when the current MFF was adopted, the situation in the EU has changed significantly, and the need for funding has dramatically increased in some areas. Some of the decisions and actions taken by the EU in response to unexpected domestic and international developments, such as the refugee crisis, the increased threat of terrorism, the war in Ukraine, and the protracted economic crisis in Greece, have major budgetary consequences. Moreover, in order to mitigate the impact of the ongoing economic downturn, a decision was taken to establish a new financial initiative with a contribution from the EU budget – the European Fund for Strategic Investments (EFSI).<sup>15</sup> The reduced MFF also had to absorb the abnormal backlog of payments that had built up in the EU budget since 2011.<sup>16</sup>

Therefore, although barely two years have passed since the beginning of the current MFF, in order to accommodate these needs and ensure smooth implementation of the EU budget, the budgetary authority has already had to resort to almost all the special, 'last-resort', levers and flexibility instruments provided for in the MFF Regulation.

#### **Declaration by the European Commission on the review/revision**

'With regard to the provisions of Article 2 MFFR, taking into account the result of the Review, the Commission confirms its intention to submit legislative proposals for a revision of the MFF Regulation. In this context, it will pay particular attention to the functioning of the global margin for payments in order to ensure that the overall payments ceiling remains available throughout the period. It will also examine the evolution of the global margin for commitments. The Commission will also take into account the particular requirements of the Horizon 2020 programme. The Commission will also examine aligning its proposals for the next MFF with the political cycles of the Institutions.'

**Examples of special and flexibility instruments applied so far to the 2014-2020 MFF<sup>17</sup>**

**Mobilisation of the Contingency Margin** (Article 13 of the MFF Regulation) (€3.2 billion) to make up for the particularly low level of payment appropriations in 2014, especially in Sub-heading 1a, Sub-heading 1b, Heading 2 and Heading 4. Although this happened at no additional cost to national budgets (due to unexpected additional revenue for the year 2014), it will have to be offset against the margins under the payment ceilings for 2018, 2019 and 2020 ([Decision \(EU\) 2015/435](#)).

**The Flexibility Instrument** (Article 11 of the MFF Regulation), amounting to €1.53 billion in 2016, to finance support for measures for managing the refugee crisis, under Headings 3 and 4 ([Decision \(EU\) 2015/2248](#)).<sup>18</sup>

**The Global Margin for Commitments** (Article 14 MFF Regulation) exhausted in 2014 and 2015 to finance the European Fund for Strategic Investments ([Amending Letter No 1 to the Draft General Budget 2016](#)).

**Frontloading** of the programmes supporting youth employment, research and small and medium-sized enterprises (Article 15 of the MFF Regulation, and the European Council Conclusions of 27/28 June 2013, [EUCO 104/2/13](#)), which consequently reduced the level of appropriations in subsequent years. Similarly, in order to boost the uptake of the European Structural and Investment Funds in [Greece](#), it was decided that **the level of initial pre-financing** paid in 2015 and 2016 **would be increased** ([Regulation \(EU\) 2015/1839](#)).

It should be noted that most of the adjustments made to the MFF so far do not increase the overall MFF ceilings; they merely shift amounts already allocated and will have to be offset in full against margins in future financial years. This raises questions about the consequences of these measures for the functioning of the MFF through to 2020. The picture may become even more complicated in coming years since some problems, especially the refugee crisis, are likely to continue and require further political action and, hence, financial support. Such intensive recourse to flexibility provisions so soon after the start of the new MFF provides arguments for advocates of an MFF revision, including an increase in the ceilings. Given the scale of the challenges, it is not clear whether some of the arrangements enshrined in the current MFF will prove sufficient.

*Other issues to be considered, especially with a view to a post-2020 MFF*

Alongside the assessment of the functioning of the 2014-2020 MFF, the mid-term review/revision will be an opportunity to highlight certain issues related to the EU's finances beyond the current MFF, for instance:

- New own resources: the extent to which this question will feature in the debate depends on the content and timing of the report by the High-Level Group on Own Resources;<sup>19</sup>
- Duration of the MFF: according to recital 3 of the MFF Regulation, the MFF review/revision is the opportunity to re-open discussion on aligning the MFF with the legislative terms of the main EU institutions;
- Budget focused on results: following statements by Commission Vice-President Kristalina Georgieva, and Parliament's firm support for stronger emphasis on performance-based budgeting, some progress and detailed proposals can be expected as part of the mid-term review/revision;<sup>20</sup>
- Unity of the budget: the debate on a [fiscal capacity for the euro area](#) and a separate budget, as well as the recently developed [trust funds](#) used to finance certain EU measures, raise important questions about the unity of the EU budget and the democratic accountability of these new financial tools;

- Role of the budget in EU economic governance: this aspect could be highlighted during the debate, given [linkages between the EU budget and its economic governance framework](#) (for example, macro-conditionality of the ESI Funds, and linkages with country-specific recommendations), as well as the growing role of the EU budget in efforts to mitigate the consequences of the economic crisis;
- [Reviewed priorities of the Europe 2020 strategy](#): a renewed strategy is meant to be presented in early 2016. The MFF review/revision could take into account any new priorities and headline targets set out therein.

### The European Parliament's position

The European Parliament has consistently and firmly supported the idea of an obligatory, genuine, post-electoral mid-term MFF review and revision.<sup>21</sup> The provisions of the MFF Regulation and assurances it received from the European Commission now have to be put into effect. Therefore, the Parliament's ambition is to set the agenda and to be at the forefront of the debate. In December 2015, the Committee on Budgets (BUDG) launched discussions with a view to adopting a strategic initiative report ahead of the Commission's presentation of the review and legislative proposal for revision of the MFF Regulation. The co-rapporteurs, Jan Olbrycht (EPP, Poland) and Isabelle Thomas (S&D, France), envisage a series of meetings, including in the form of a dedicated monitoring group, as well as BUDG Committee hearings.

Parliament has on a number of occasions already set out its expectations for the review/revision.<sup>22</sup> They are summarised in the rapporteurs' first [working document](#) presented at the launch of the debate in the Committee. Given the exceptionally difficult circumstances (as outlined above), the rapporteurs insist on a fully fledged revision of the MFF Regulation, taking into consideration:

- the use so far of the flexibility provisions to reinforce political priorities, and their future role in the MFF;
- the budgetary consequences of new, unforeseen events and their impact on the level of the MFF ceilings, in particular for Heading 3, 'Security and Citizenship', and Heading 4, 'Global Europe';
- possibilities for compensating the EFSI-related cuts to Horizon 2020 and the Connecting Europe Facility;
- the continuation of the Youth Employment Initiative;
- the consequences of the payments backlog, and measures that could be taken in order to prevent problems of this kind in future.

The rapporteurs also intend to use the debate as an opportunity for reflection on the MFF after 2020, and to tackle such issues as: the duration of the MFF; the own resources system; performance-based budgeting; the unity of the budget; the use of financial instruments; and improvements to the procedures for EP involvement in the MFF negotiations.

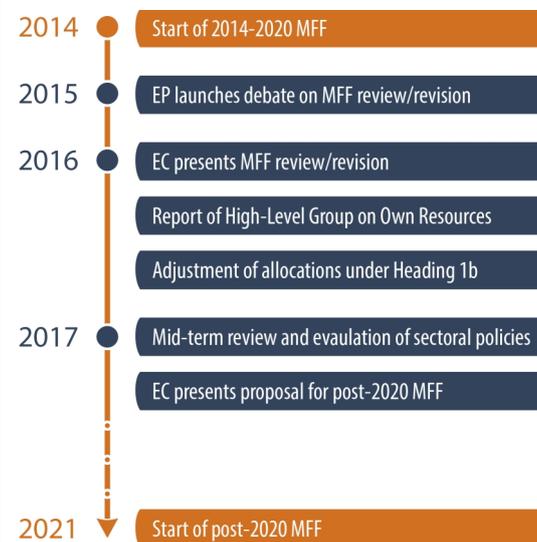
### Procedure and calendar

The MFF Regulation states that the Commission must present the review before the end of 2016. This compulsory review will, as appropriate, be accompanied by a proposal for revision of the MFF Regulation, which will trigger the procedure stipulated in Article 312 TFEU. The MFF Regulation is revised by way of a special legislative procedure requiring a unanimous vote in the Council, unless the European Council authorises the Council to act by qualified majority. The Parliament has to give its consent to revision by a majority

of its members. It is important to stress that, in accordance with Article 312(5) TFEU, the Council, the Parliament and the Commission are to cooperate throughout the procedure leading to the adoption of the revision.

Although the European Parliament has already launched the debate and presented a preliminary calendar of key events, the formal start of the procedure will depend on when the Commission presents the review and any proposal for revision. This has not yet been announced.<sup>23</sup> As shown in Figure 1, the later the presentation of the review/revision takes place, the more it may conflict or overlap with other events provided for in legislation, such as the mid-term review of sectoral policies (2017) and the presentation of a draft post-2020 MFF (by 1 January 2018). Finally, some important political events may yet have an impact on the course and direction of the debate, not least the United Kingdom's referendum on EU membership.

**Figure 1: Timeline of MFF review/revision-related events**



## Main references

[Council Regulation \(EU\) No 1311/2013](#) laying down the multiannual financial framework for the years 2014-2020, OJ L 347.

[Interinstitutional Agreement of 2 December 2013](#) between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, OJ C 371.

[Working document No 1](#) on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal, Committee on Budgets, 30 November 2015.

## Endnotes

<sup>1</sup> Advantages of multi-annual financial planning and budgeting in the public sector are summarised and broadly discussed for example in: *Evolutions in Budgetary Practice*: Allen Schick and the OECD Senior Budget Officials, OECD 2009; [Managing public expenditure. A reference book for transition countries](#), R. Allen, D. Tommasi (ed.), OECD 2001; [M. Spackman, Multi-year perspective in budgeting and public investment planning](#), OECD, Paris 24-26 April, 2002.

<sup>2</sup> The first three financial periods, 1988-1992 and 1993-1999 and 2000-2006, were known as 'financial perspectives'. The provisions for 2007-2013 introduced the term multiannual financial framework, also used for 2014-2020.

<sup>3</sup> Under Article 312 of the Treaty on the Functioning of the EU, the MFF must cover a period of at least five years.

<sup>4</sup> [EP resolution of 8 June 2011](#) on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe; [EP resolution of 15 April 2014](#) on Negotiations on the MFF 2014-2020: lessons to be learned and the way forward.

<sup>5</sup> Apart from the mid-term revision strictly related to the mid-term review of the MFF, Regulation 1311/2013, in Articles 17-22, provides for different circumstances that may lead to a revision of the MFF. This briefing concerns only the mid-term review and revision.

<sup>6</sup> In addition, the European Council conclusions provided for an interim review of the operation of the Own Resources System, and of the scope of the agricultural guideline. See: [Council Conclusions, Edinburgh](#), 12 December 1992; Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure (93/C 331/01).

<sup>7</sup> The adjustment of the financial perspective to cater for enlargement was foreseen in Article 25 of the [Interinstitutional Agreement of 6 May 1999](#) on budgetary discipline and improvement of the budgetary procedure. The revision was introduced by the [Decision of 19 May 2003](#).

<sup>8</sup> Council of the European Union, Financial Perspective 2007-2013, [Note 15915/05](#), 19 December 2005.

- <sup>9</sup> See for example: EU budget review – MEPs welcome new ideas but miss real vision, EP press release; Iain Begg said that the Commission's document was rather weak and lacked any sense of a clear break with the past. It would not, therefore, have any impact, I. Begg, [Mollifying everyone, pleasing no-one?](#) An assessment of the EU Budget Review, European Policy Analysis, November, Issue 2010; Becker P. Lost in Stagnation. The EU's Next Multiannual Financial Framework (2014-2020) and the power of the Status Quo, SWP Research Paper 14, October 2012 Berlin.
- <sup>10</sup> The [Galileo](#) programme is the EU's initiative developed since 1999 and aimed at creating a state-of-the-art global satellite navigation system, providing a highly accurate global positioning service under civilian controls. The Food Facility was set up in 2008 in order to provide a rapid EU response to soaring food prices in developing countries. For more see: [Food Facility Auction Floor: Food security projects, a match for development](#), European Commission, 2010.
- <sup>11</sup> Working Document No 3 on the Structure, Duration and Flexibility of the MFF post 2013, Special Committee on the policy challenges and budgetary resources for a sustainable European Union after 2013, 2 March 2011; [European Parliament resolution](#) of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.
- <sup>12</sup> The Commission's declaration is included in the [Council minutes](#) (see p. 5), Brussels, 25 November 2013.
- <sup>13</sup> In constant prices, the total ceiling for commitments and payments decreased by €34.2 billion (-3.4%) and €34.4 billion (-3.7%) respectively. See 'Council adopts the multiannual financial framework 2014-2020', [press release](#), Council of the EU, 2 December 2013.
- <sup>14</sup> Council Regulation (EU, Euratom) [2015/623 of 21 April 2015](#). For more on this revision, see: Jedrzejewska S., [Revision of the Multiannual Financial Framework \(Article 19 MFF Regulation\)](#). Transfer of unused allocations for 2014, EPRS, European Parliament, July 2015.
- <sup>15</sup> D'Alfonso A., [European Fund for Strategic Investments \(EFSI\): set-up and EU budget contribution](#), EPRS, European Parliament, 22 June 2015.
- <sup>16</sup> D'Alfonso A., Sapala M., [Payments backlog in recent EU budgets. Lessons learnt and outlook](#), EPRS, European Parliament, 2015.
- <sup>17</sup> For presentation and analysis of the flexibility provisions in the MFF Regulation lease see: MFF 2014-2020: Background note with a view to the mid-term review/revision, Committee on Budgets secretariat, European Parliament.
- <sup>18</sup> The Flexibility Instrument, mobilised in 2014 and 2015 to cover additional assistance [to Cyprus](#) to be provided under European Structural and Investment Funds, made use of amounts carried over from 2013.
- <sup>19</sup> D'Alfonso A., [Monti Group's first assessment of EU own resources](#), EPRS, European Parliament, February 2015.
- <sup>20</sup> DG Budget Annual [Conference 'The EU Budget focused on results'](#), [EP Resolution of 26 February](#) on The evaluation of the Union's finances based on the results achieved: a new tool for the European Commission's improved discharge procedure.
- <sup>21</sup> In point 32 of the Resolution of 15 April 2014 on negotiations on the MFF 2014-2020: lessons to be learned and the way forward, the European Parliament 'reiterates its intention to make the compulsory MFF revision a key demand in the investiture of the next Commission'.
- <sup>22</sup> [EP resolution of 8 June 2011](#) on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe; [EP resolution of 15 April 2014](#) on Negotiations on the MFF 2014-2020: lessons to be learned and the way forward; [EP resolution of 28 October 2015](#) on The Council position on the draft general budget of the European Union for the financial year 2016.
- <sup>23</sup> The review of the MFF 2014-2020 is included in the Commission's Work Programme for 2016 under 'New Initiatives'.

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