The "Flexibility Instrument" of the EU budget

If multi-year financial planning includes strict expenditure limits, it can be difficult to deal with unforeseen events or new priorities. In case of need, the EU can resort to its Flexibility Instrument (FI), which has, up to now, been used mainly for external action and competitiveness policies. The maximum annual budget of the FI is expected to increase in the 2014-20 financial programming period, which should also see a growing number of flexibility tools for the EU.

Objectives and functioning

As one of the EU's budgetary tools outside the Multiannual Financial Framework (MFF), the FI gives some room for manoeuvre in multi-year financial planning, with the possibility to increase funding in one or more categories of expenditure ("headings"). In case of clearly identified needs requiring expenditure above the maximum allocations of resources ("ceilings") set in the MFF, the European Commission (EC) can propose to use the FI, after verifying that no reallocation of funds is possible under the relevant heading. The decision to mobilise the instrument is made jointly by the European Parliament (EP) (absolute majority and three-fifths of the votes cast) and the Council (qualified majority).

At present, the maximum annual ceiling for the FI is €200 million. Any part of this amount which is not used in a given year can be carried over for two years, increasing the annual ceiling of the FI correspondingly. The EP, the Council and the EC introduced this tool in their Inter-institutional Agreement (IIA) of 1999 and confirmed it in the 2006 IIA.

Main areas of use and reactions

Since its creation in 1999, the FI has been mobilised by the budgetary authority over 10 times. Using the 2007-13 MFF classification, activities financed by the instrument mostly belong to two categories of expenditure:

- **EU as a global player (heading 4)**. Examples of external action operations that required funding from the FI include: facility for a rapid response to soaring food prices in developing countries (€420 million); rehabilitation and reconstruction assistance to countries hit by the 2004 tsunami (€15 million); increasing needs of the Common Foreign and Security Policy (€70 million); Palestine (€71 million); reconstruction aid for Iraq (€95 million); and European Neighbourhood Policy (€150 million).

- **Competitiveness for growth and employment (heading 1a)**. For example, the instrument contributed to financing energy projects in the context of the European Economic Recovery Plan (€120 million) and the decommissioning of a nuclear power plant in Bulgaria (€75 million). The FI provided funding beyond the MFF ceilings to EU programmes related to a number of policy areas, such as education and training (€18 million), competitiveness and innovation (€16 million), and space (€200 million).

A 2012 EP resolution considered various MFF ceilings, notably those for headings 1a and 4, insufficient to meet agreed EU policy priorities. In addition, the text noted that almost every annual budget had needed to resort to the FI.

The EC proposal for the 2014-20 MFF, adjusted to allow comparison with its predecessor, would have seen significant increases for both categories of expenditure. Budgetary ceilings would be set at €164.3 billion for programmes related to competitiveness for growth and jobs, i.e. an 80% increase on the current MFF. The ceiling for external action would grow by 23% to €70 billion. In 2013, the European Council reduced these amounts to €125.6 billion and €58.7 billion respectively.

Next financial programming period

In a 2011 resolution, following the work of its special committee on the next MFF, the EP stressed its view that the MFF needs more flexibility in order for the EU to be able to respond to new and variable challenges. The EP underlined that the FI had been essential in providing additional flexibility, and suggested a significant increase in its annual ceiling and the confirmation of its carry-over features.
Along the same lines, the subsequent EC proposal for the 2014-20 MFF argued that the use of the FI during the current framework has been wide and regular, thus demonstrating its necessity. On this basis, the EC proposed to increase the maximum annual ceiling of the FI to €500 million (2011 prices). In addition, the timeframe during which the unused portion of this amount can be carried over would be extended from two to three years.

In its conclusions on the EC proposal, the February 2013 European Council reduced the maximum annual budget proposed by the EC for the FI to €471 million (2011 prices). Yet, this is more than twice the current amount. In contrast, other budgetary tools outside the MFF, which are mobilised only in case of need, saw their annual ceilings significantly cut (halved to €500 million for the European Union Solidarity Fund; and reduced by more than two-thirds to €150 million for the European Globalisation Adjustment Fund).

In March, the EP rejected the February 2013 European Council’s conclusions, requesting, amongst other changes, more flexibility tools to encourage full use of available funds. Intensive negotiations allowed the EP and the Council to reach political agreement in June. The deal does not modify the overall ceilings set for 2014-20 by the European Council, but includes more flexibility in multi-year financial planning, the possibility to bring forward expenditure in some areas and a compulsory review of the next MFF in 2016. As for the FI, its maximum annual ceiling is set at €471 million (2011 prices) and any unused portion of this amount can be carried over for three years. In July 2013, the EP endorsed the outcome of the MFF negotiations, setting out the conditions for its consent vote, expected in Autumn 2013.

Draft amending budget No 7/2013
The June 2013 European Council focused on addressing the problems of youth unemployment, stating that all available EU instruments would be mobilised. In this context of the fight against unemployment, the EC subsequently tabled draft amending budget No 7/2013, proposing that the FI be mobilised to increase the 2013 European Social Fund allocations for France, Italy and Spain by €134 million on top of the MFF ceiling for cohesion expenditure (heading 1b). The objective is to contribute to fighting unemployment, poverty and social exclusion in these countries. In a memorandum, the UK government supports this initiative addressed to countries with high youth unemployment rates, indicating this was part of the MFF deal unanimously agreed in June. The EP and the Council are currently examining the proposal.

Other EU budgetary tools for flexibility
The updated draft MFF, mainly in chapter two, contains specific tools allowing some flexibility in MFF planning. These include:

- **Instruments outside the MFF ceilings that can be mobilised only in case of specific events or needs (Articles 9-12 of the draft).** In addition to the FI, this category has three tools that already exist in the 2007-13 period: Emergency Aid Reserve, European Union Solidarity Fund and European Globalisation Adjustment Fund. Their overall maximum budget for 2014-20 is €9.8 billion (2011 prices), i.e. just over 1% of the total MFF commitment ceiling for the period.

- **Contingency margin (Article13).** This last-resort tool (up to 0.03% of the EU’s gross national income) outside the MFF ceilings can be mobilised under certain conditions to react to unforeseen circumstances.

Furthermore, the June EP-Council deal saw a number of additional flexibility measures included in the draft MFF Regulation, such as:

- **Global margin for commitments for growth and employment, in particular youth employment (Article 14).** This clause allows transfers between financial years and headings. Any unused portion of the commitment ceilings for 2014-17 will form a reserve for additional expenditure in these policy areas in 2016-20. The EP and Council may decide to mobilise this reserve or part of it through the budgetary procedure (Article 314 TFEU).

- **Specific flexibility to tackle youth unemployment and strengthen research (Article 15).** Up to €2.5 billion of expenditure related to youth, research and SMEs can be brought forward to 2014-15.

- **Global margin for payments (Article 5).** This allows transfers between financial years, with maximum limits for this adjustment in 2018-20.