Revision of the Financial Regulation

In March 2021, the European Commission announced a legislative proposal to revise the EU Financial Regulation to align it with the 2021-2027 multiannual financial framework and Next Generation EU. In anticipation of the Commission's proposals, an own-initiative report by the relevant European Parliament committees clearly expresses expectations of a stronger Parliamentary role in the budgetary scrutiny of Next Generation EU funds, and the integration of the rule-of-law conditionality in the Financial Regulation. The report is on the agenda for debate during the November II plenary session.

Background

The current EU Financial Regulation, i.e. the EU rules governing the establishment, implementation and scrutiny of the EU budget, came into force on 2 August 2018. Article 280 of the Financial Regulation provides for regular review of the rules whenever necessary, and in any case at the latest two years before the end of each multiannual financial framework (MFF). A revision is needed following the entry into force of the 2021-2027 MFF on 17 December 2020. The European Parliament, the Council and the Commission have already agreed, in a joint declaration at the time of the political agreement on the MFF and Next Generation EU (NGEU), that this revision will assess, and revise as appropriate, the provisions on external assigned revenue and reporting on borrowing and lending operations.

Expected European Commission proposal

On 19 March 2021, the European Commission announced a targeted revision of the Financial Regulation, to align it with the new MFF, introduce some specific improvements in crisis management and the protection of the EU's financial interests, and simplify administrative procedures for recipients of EU funds. On the same day, it launched a 12-week public consultation on the matter. The Commission's proposal for the revision of the Financial Regulation has been scheduled for the fourth quarter of 2021.

European Parliament position

On 25 October 2021, the two competent committees within the European Parliament, the Committee on Budgets and the Committee on Budgetary Control, adopted an own-initiative report defining expectations for the forthcoming revision of the Financial Regulation. The revision should modernise the rules applicable to the EU budget in respect of EU values, and increase transparency, democratic accountability and spending efficiency.

The report therefore particularly highlights the need to respect democratic accountability, even when managing crises or when 'off-budget instruments' are established. It calls for external assigned revenue to form an integral part of the budget, so that Parliament, as one arm of the budgetary authority, can fulfil its decision-making, scrutiny and discharge function. The report also calls for the Financial Regulation to reflect an appropriate role for Parliament in budgetary scrutiny and discharge functions, including for the NGEU operations. It also calls on the Commission to incorporate the content of the Rule-of-Law Conditionality Regulation into the Financial Regulation, since this is an essential precondition for compliance with the principles of sound financial management. To increase spending transparency, the report proposes that information about recipients of EU funds is centralised in a single, user-friendly public EU database. Finally, the committees expect the Commission to develop a clear methodology to track climate, biodiversity, and gender expenditure and to reflect this in the revised Financial Regulation.

Own initiative report: 2021/2162(INI); Committees responsible: BUDG and CONT (Rule 58); Rapporteurs Monika Hohlmeier (EPP, Germany) and Nils Ušakovs (S&D, Latvia).