BRIEFING

2021-2027 MFF

# Financing the EU's administration:

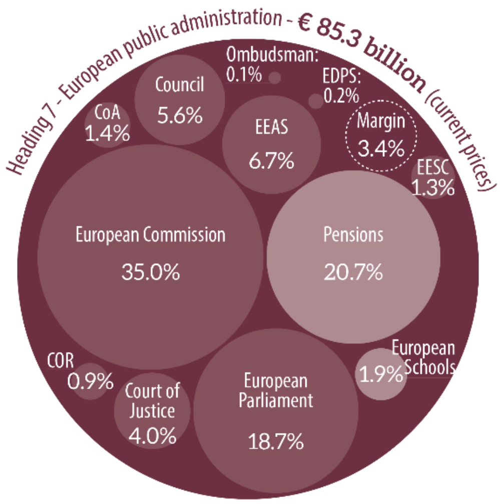
## Heading 7 of the 2021-2027 MFF


### SUMMARY

In May 2018, the European Commission published its proposal for the EU's long-term budget for 2021-2027, known as the multiannual financial framework (MFF). The proposed next MFF is structured in 7 headings, encompassing 17 policy clusters. The Commission has proposed a total budget of €1 134 583 million in current prices. The vast majority of these funds – over 93 % – is dedicated to a variety of EU programmes, and is invested primarily in Member States, as well as partially in partner countries as external spending. The remaining funds cover the administrative expenses of the EU, an underlying cost of all EU activities.

In the current MFF for 2014-2020, Heading 5 covers administration, while in the proposed 2021-2027 MFF, administrative costs will be funded under Heading 7, entitled 'European public administration'. While in other policy areas there is more significant restructuring, the heading that covers EU administrative costs is comparable to that of the current MFF in size and structure.

In its proposal for the future Heading 7, the Commission upholds its view that, to ensure the smooth functioning of the Union, the EU budget must finance its administration adequately, particularly in view of the fact that the EU civil service has undergone two successive and substantial reforms within a short time frame, in 2004 and 2014. The Commission proposal aims to ensure that the EU can rely on a highly qualified administrative service, which respects a geographical and gender balance. The proposal has been backed by the European Parliament. On the other hand, in its first draft 'negotiating box' including figures from December 2019, the Council proposed a 2.6 % cut to the allocations in the Commission proposal and Parliament's position.


Source: EPRS

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# Background

The current multiannual financial framework for 2014-2020 is due to expire on 31 December 2020. On 2 May 2018, the European Commission published its proposal for 'A Modern Budget for a Union that protects, empowers and defends: the Multiannual Financial Framework for 2021-2027'. This was the first step in a complex and lengthy process (negotiating the current MFF took two and a half years), that advances via interinstitutional negotiations with the European Parliament and the Council and ends with the adoption of the MFF under a special legislative procedure, which requires the Council's unanimous adoption of the MFF regulation, after obtaining Parliament's consent.

The EU budget is modest in comparison with the size of the European economy and national budgets, representing around 1 % of the total value of the EU economy (gross national income (GNI) of all EU Member States). The Commission's EU budget fact check states that the 2014-2020 EU budget amounts to about 2 % of the combined national budgets of 28 EU Member States. Unlike national budgets (mainly used to provide public services and fund social security systems), the EU budget is an investment budget, of which over 93 % goes to EU Member States' citizens, regions, cities, farmers and businesses, and partially to partner countries worldwide as external spending. The remaining funds cover the EU's administrative expenses, an indispensable cost for implementing EU policies and programmes.

Comparisons between the EU's public administration and the Member States' national public administrations are difficult to make due to the different ways they are organised in each Member State and the availability and methodology of collecting statistics. Eurostat is tasked with monitoring and collecting data from Member States, on which the adjustments of salaries and pensions of EU staff are based, and publishes data on the number of national civil servants in central EU Member State public administrations. This data, as well as the Commission's 2018 'Comparative overview of public administration characteristics and performance in EU28' (which provides figures on the size of core public administration employment per Member State as a percentage of general government employment), indicates that while there are variations by country, when compared to national administrations, the European Union public administration is relatively small. With around 60 000 civil servants for some 500 million Europeans, the EU administration however plays a crucial role in helping the EU deliver on its priorities and implement its policies and programmes.

Influenced by the overall EU context (such as its 2004 enlargement, and the 2008 economic crisis), the EU administration has undergone two deep reforms in the last two decades. The 2014-2020 MFF was negotiated against the background of economic crisis, and for the first time its overall size was reduced compared to preceding periods, given the economic restraints. This has had an impact on the EU administration. A substantial reform of the Staff Regulations to which EU secretariats are subject, took place alongside and as part of the MFF negotiations, which has had long-lasting budgetary as well as non-budgetary implications for EU staff.

The context in which negotiations for the upcoming 2021-2027 MFF are to take place in the next months is no less complicated. The United Kingdom's withdrawal from the EU, as well as new priorities that need resources, have to be factored in. The Commission has proposed to maintain a stable level of resources for the EU administration, in view of its recent reforms and the incremental new tasks it has had to face in the current period, as well as the likelihood of new issues emerging in the future. Parliament endorsed this proposal in its negotiating mandate on the MFF. However, the Finnish Presidency of the Council recently published indicative figures in its 'negotiating box' for the MFF, revising the Commission proposal downwards.

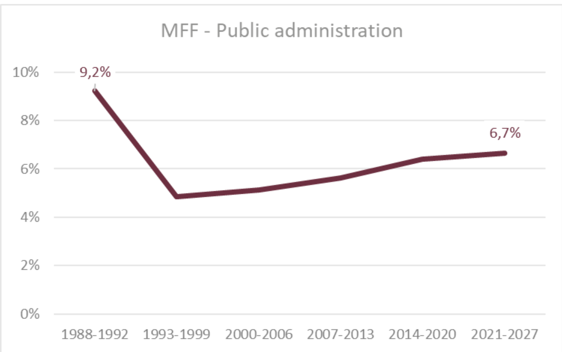
## MFF Heading 7: Administration – overview

Expenditure in the MFF is divided into headings, corresponding to broad policy clusters. Under the 2014-2020 MFF, resources dedicated to the functioning of EU administration are covered under Heading 5: Administration. The proposal for the 2021-2027 MFF sets out a different structure: it is organised around 7 headings, and 17 policy clusters, of which Heading 7, entitled 'European public administration', corresponds to the current Heading 5. Commitment appropriations under this heading finance the functioning of the EU institutions and as a general rule cover all administrative expenditure necessary for the EU institutions to carry out their duties, including human resources (salaries, allowances and pensions), which accounts for the biggest share of spending in this policy cluster, in addition to expenditure on buildings, equipment, energy, communications and information technology. These costs are necessary for the running of programmes and policies. Heading 7 covers the administrative costs of the following institutions: the European Parliament; the European Council and Council; the Commission; the Court of Justice of the European Union; the Court of Auditors; the European Economic and Social Committee; the European Committee of the Regions; the European Ombudsman; the European Data Protection Supervisor; and the European External Action Service.

European Union agencies, as the European Court of Auditors' '2018 audit of the agencies in brief' illustrates, are financed from a variety of sources, with only partial contributions from the EU general budget, of which most funding comes from outside the dedicated heading for administration.

The evolution for administrative expenditure since 1988 as a percentage of the overall MFF (see Figure 1) is included in the Commission's May 2018 proposal, along with other policy areas.

Figure 1 – Evolution of administrative expenditure




Source: European Commission, 2018.

For the upcoming period, the Commission has proposed to create Heading 7, representing 6.7 % of the total MFF, with the objective of consolidating the results from recent reforms and also preserving the level of qualification and attractiveness of EU service. The proposal has preserved the stability of the expenditure and, while there is an increase compared to the current MFF, this is to a large extent due to taking inflation into account[1] and estimations of the pension costs for the upcoming period, costs that depend on factors external to the institutions.

The vast majority of the amount attributed to Heading 7 relates to salaries and pensions. This heading also differs from others in that it contains primarily non-differentiated appropriations (equal commitment and payment appropriations). Its implementation is evenly distributed throughout the year due to the regular nature of expenditure.

## Reform of the Staff Regulations

The EU institutions and agencies employ around 60 000[2] people in total (over half of which are Commission staff), under various types of contract (permanent and short-term), both in the EU and in third countries. The 'Staff Regulations of Officials and the Conditions of Employment of Other Servants of the EU', first adopted in the 1960s, set the terms of employment and can be reformed following a Commission proposal. Relatively few changes were made until the early 2000s. In 2003, ahead of the 2004 EU enlargement, the Commission proposed a set of far-reaching adjustments alongside the MFF negotiations, following which further reform was carried out in 2013, with both budgetary and structural consequences. Both reforms were driven by the aim of increasing the efficiency of the administration and generating savings.

### 2004 and 2014 Staff Regulation reforms: main measures taken

The 2004 reform included revision of the career system; introducing a category of 'contract agents' with generally lower salaries; revision of the salary grid for officials and temporary agents, allowing staff to be recruited at lower grades; increased retirement age, from 60 to 63 years, with transitional measures for staff already employed; and for staff recruited after 1 May 2004, reduced pension accrual rate from 2 % to 1.9 %

and an end to pension rights to correction coefficients for higher costs of living; as well as adoption of a new salary update 'method'.

The 2014 staff reform package aimed at making budgetary savings and improving human resource management.

**Budgetary savings:** The main measures included a 5 % reduction in staff positions, and a two-year freeze in salary and pensions; a further increase of the retirement age (to 66 years) and a reduction of the annual accrual rate for pensions (1.8 % per year); reintroduction of a contribution of 6 % from salaries ('solidarity levy'), 7 % for top grade officials; a renewed salary adjustment method and introduction of a 'crisis clause', allowing for automatic suspension of salary/pension updates; the creation of a lower-paid AST-SC function group; limits to access to top career grades; changes to annual leave allocations and allowances in EU delegations, and a reduction in the annual travel allowance. These measures have led to a total of €4.2 billion in savings in 2014-2020, according to the Court of Auditors. Furthermore, the freeze on salaries and pensions in 2011-2012 (0.8 % over two years instead of 3.4 % based on Staff Regulation provisions and Eurostat calculations) generated further a €1.2 billion in savings. The financial impact of certain provisions is expected to increase and reach its full effect only in the long-term. The new automatic salary update method and the rules on the functioning of the pension system are to remain in force until the end of 2023.

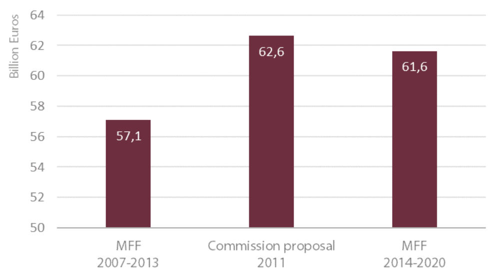
**Improving human resource management:** measures were introduced to adjust employment conditions and career structure. Minimum working time increased from 37.5 to 40 hours per week (compensating for the 5 % cut in staffing); creation of a new AST/SC function group; extension of parental leave by 50 %. As regards careers, the maximum length of employing contract staff was extended, with a possibility to open internal competitions to give access to permanent employment. An option to downgrade or dismiss staff was also introduced.

At present, EU staff pay taxes of between 8 % and 45 % on their salaries (for EU Commissioners almost 45 %). They also pay a special levy of 6-7 %, which is returned to the EU budget. They also pay some of the highest pension contributions in the EU compared to civil servants in Member States (10 % of gross basic salary).

These staff reforms occurred at a time of a global economic and financial crisis, when many Member States had announced measures to reduce the cost of their national public administrations. In addition, the reforms can be seen in the context of a 2010 Eurostat study on the budgetary implications of pension costs, added to which the Council and the Commission had been in conflict over annual adjustment of salaries and pensions, which led to litigation before the Court of Justice in 2009. The 2011 Commission proposal for Staff Regulation revision fed into the MFF negotiations and was incorporated in the 2013 Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management. It envisaged that the 5 % cut of staff positions would be shared proportionally between all institutions and agencies and implemented between 2013 and 2017.

# 2014-2020 MFF: Heading 5

Figure 2 – Heading 5 under the 2007-2013 and 2014-2020 MFFs




Source: Elcano Royal Institute, 2014.

On 2 December 2013, the Council adopted the regulation laying down the 2014-2020 MFF, the overall amount of which accounted for around 3.5 % less than the preceding 2007-2013 MFF.

For Heading 5 (see Figure 2), the Commission proposed €62 629 million in 2011 prices (up from €57 082 under the 2007-2013 MFF), which the Council cut to €61 629 million in answer to the concerns expressed by some Member States. At the same time, despite the reform of the Staff Regulations, expenditure rose by 8 % as a result of increases in pensions and the creation of a new European External Action Service in 2011. It should be noted that the staff reforms were carried out at a time when the EU's staff needed to intensify work, take on new tasks in new priority areas, and address urgent challenges such as the migration and refugee crisis.

The 2014-2020 figures (in 2018 prices, € million) account for 6.4 % of the 2014-2020 MFF.

Table 1 – Heading 5 in the 2014-2020 MFF per year

| Heading/annual budgets | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Administration** | 8 721 | 9 076 | 9 483 | 9 918 | 10 346 | 10 786 | 11 254 | 69 584 |
| **Of which, administrative expenditure** | 7 056 | 7 351 | 7 679 | 8 007 | 8 360 | 8 700 | 9 071 | 56 224 |

Source: Consolidated annual accounts of the European Union, Financial year 2018.

## Final annual MFF budget for financial year 2020: state of play

The Council and the Parliament reached agreement on the annual budget for 2020, the last under the 2014-2020 MFF, in November 2019. The Council approved the deal on 25 November 2019 and Parliament adopted it during its November plenary session. The agreed EU budget for 2020 envisages a 3.3 % increase in funding under Heading 5 in both commitments and payments (see Table 2). The impact of the automatic salary update to be applied from 1 July 2019 (2.0 % instead of the initially projected 3.1 %) on the 2020 EU budget is integrated in all sections of funding for the EU institutions, resulting in an overall decrease of €76 908 672.

Table 2 – Heading 5 in the 2020 annual budget

| Appropriations heading | Budget 2020 (nominal change in % compared to 2019) | |
|---|---|---|
| | Commitments | Payments |
| **Administration** | 10 272 (+3.3 %) | 10 275 (+3.3 %) |

Source: EPRS, Conciliation agreement on the 2020 EU budget.

Under the 2020 annual budget, Heading 5 is divided between the EU institutions' administrative expenditure, which accounts for 77.3 %, and pensions and European Schools, with almost 23 %.

Throughout the current MFF, the EU institutions have pursued the objective of reducing staff numbers and maintaining a rigorous approach towards administrative expenditure in general, as noted in the regular reports submitted ahead of the agreements on annual budgets. Together with its proposal for the 2020 budget, the Commission presented an account of its administrative expenditure in its Working Document Part VI. Its draft estimates accounted for a 3.8 % increase compared to the 2019 budget, most of which related to its administrative expenditure and was mainly due to a higher than expected salary update at the end of 2019 and 2020.

The statement of estimates for the financial year 2020 stresses that administrative discipline remains a guiding feature of the 2020 budget proposal. The Commission continues to exercise financial discipline and to seek efficiency gains to minimise its administrative costs and those of its executive and decentralised agencies. The Commission has stabilised its human resources and continues to apply a nominal freeze of non-salary related costs, apart from exceptional items. For 2020, the Commission has encouraged other institutions to pursue a rigorous approach, both as regards staffing numbers and administrative expenditure. For the decentralised agencies, the Commission has also aimed at stabilising staffing levels and overall costs, while taking the evolution of their mandate into account, mostly as regards the migration and security challenges of recent years.

## Human resources

Even though most EU institutions and agencies have met their commitments to reduce staff by 5 % in 2013-2018, the Commission has continued to closely monitor the evolution of staff positions, and has continuously encouraged making savings through synergies and efficiency. The 2020 statement of estimates gives an overview of the human resources situation in each institution, the number of establishment plan staff positions authorised in the 2019 budget and those requested in the 2020 draft budget (see Table 3).

Table 3 – Human resources in 2020

| Institution | 2019 budget | 2020 | | 2020 DB total | Net change | |
|---|---|---|---|---|---|---|
| | | Reductions | Requests | | 2020/2019 | |
| European Parliament | 6 633 | 0 | 0 | 6 633 | 0 | 0 % |
| European Council and Council | 3 033 | -8 | 4 | 3 029 | -4 | -0.1 % |
| Commission | 23 613 | -38 | 3 | 23 578 | -35 | -0.1 % |
| Court of Justice of the EU | 2 068 | 0 | 5 | 2 073 | 5 | 0.2 % |
| Court of Auditors | 853 | 0 | 0 | 853 | 0 | 0 % |
| European Economic and Social Committee | 668 | 0 | 0 | 668 | 0 | 0 % |
| Committee of the Regions | 491 | 0 | 0 | 491 | 0 | 0 % |
| European Ombudsman | 66 | 0 | 3 | 69 | 3 | 4.5 % |
| European Data Protection Supervisor | 71 | 0 | 13 | 84 | 13 | 18.3 % |
| European External Action Service | 1 634 | 0 | 65 | 1 699 | 65 | 4 % |
| **Total institutions** | **39 130** | **-46** | **93** | **39 177** | **47** | **0.1 %** |

Source: Statement of estimates for the financial year 2020.

Following the 5 % staffing reduction, the Commission is committed to facing future challenges with reduced resources and delivering on new priorities through efficiency gains and internal redeployments.

The European Parliament and the Court of Justice had not achieved a 5 % staff reduction by the end of 2018. Due to specific new needs, arising within Parliament, the institution extended measures to cut staff positions by one year, to 2019. In the framework of the conciliation process for the 2016 budget, the European Parliament committed to cutting 179 staff positions from its establishment plan in 2017-2019. Parliament applied the last tranche, a 1 % reduction in establishment plan staff positions, in its 2019 statement of estimates (-59 posts).

Staff reduction targets also had to be implemented in the EU agencies, and the European Court of Auditors (ECA) concluded that this had been achieved, although with some delays. The ECA found indications in some agencies (see ECA 2018 audit of EU agencies in brief) of a trend to compensate shortages in statutory staff by employing external staff, where temporary workers and consultants are not always engaged in compliance with the legal framework.

The Commission also regularly monitors the geographical balance of its staff, verifying that staff are recruited on the broadest possible geographical basis from among Member States and that there is no significant and unjustified imbalance between nationalities among officials. However, a recent report found that some nationalities are under-represented in two grade brackets: AD5-AD8 (10 nationalities from pre-2004 Member States) and the AD9-AD12 clusters (all post-2004 Member States plus Luxembourg). While the dynamics and reasons for under-representation in both groups is not the same, the report stresses the issue of the EU's attractiveness as an employer, at a time when the employment package offered 'may be perceived as having suffered a deterioration in relative terms over time'.

Gender balance is another objective that the outgoing Commission had aspired to, and the current Commission has set to continue and improve. In her political guidelines stated at Parliament's July 2019 plenary session, then Commission President-elect Ursula von der Leyen set six strategic objectives for her mandate, mentioning in particular the goal of achieving gender balance within the College of Commissioners and at all levels of Commission management.

## Pensions

The pension scheme for EU staff is one of the main (post-employment) benefits under the Staff Regulations. A compulsory pension contribution, currently 10 %, is deducted from the basic salaries of active staff and treated as budget revenue for that year, and contributes to the funding of EU expenditure in general. Payments to be made from the scheme on an annual basis are included as a charge to the EU budget. The scheme is notionally funded, and Member States guarantee the payment of the benefits collectively. A 2018 Commission report on the application of Annex XII to the Staff Regulations notes that, in budgetary terms, the EU pension scheme has produced net revenue in the past, as it is not yet mature, meaning that the contributions from active staff acquiring pension rights have to date outweighed the benefits drawn by a limited number of retirees. Consequently, the EU budget has been borrowing money from scheme members in return for a guarantee to pay future benefits.

As the EU and its workforce have grown, so has the net number of pensioners, and this is expected to continue increasing over the next MFF. A 2016 Eurostat study on the long-term budgetary implications of pension costs addresses major trends in pension expenditure for 2015-2064. Assuming that active staff levels remain constant, the annual pension cost (at constant prices) is expected to peak in 2046, before falling until 2064. The study estimates that, without the 2013 reform, expected additional pension expenditure would have been 'markedly higher (34.3 %)'. It finds that the 2013 measures are expected to increase annual cost savings until 2064 (circa €19.2 billion), on top of the savings expected to be generated from the 2004 reforms (€24.8 billion during 2004-2059, see Figure 6 of the ECA's Special Report No 15 from 2019).

Due to demographic factors, pensions as a share of the annual budget are thus bound to gradually increase in the near future, and decrease in the longer term. The draft 2020 budget estimated a 7 % increase in appropriations for staff pensions, reflecting the growing number of pensioners (+4 %). Most of the increase is due to the expected number of former MEPs (+46 %).

## European schools

The European schools are official educational establishments set up jointly by the governments of the EU Member States and the European Community, intended mainly for the children of EU staff. In its 2013 legislative resolution on the amendment of the Staff Regulations, the European Parliament highlights that, to facilitate recruitment of staff on the broadest geographical basis, the institutions should strive to support multilingual and multicultural education for the children of such staff. It also states that it is desirable that the EU budget contributes to the schools' financing.

European schools account for a stable and comparatively small element of around 2 % of EU administrative expenditure. Contributions are divided into 'type I', dedicated to European schools, and 'type II' for national schools that offer an equivalent curriculum. In the draft 2020 budget, appropriations for 'type I' show a slight increase of 0.4 % compared to 2019, as a result of the integration of new attractiveness measures for European school staff, aimed at maintaining competitiveness and ensuring high standards of teaching and learning, including increased allowances and salaries and introducing other incentives. The increase is, however, almost fully compensated by the fact that the EU institutions and bodies with budgetary and administrative autonomy now contribute to the European schools budget. The European Investment Bank has committed to cover the entire education cost of the children of their staff attending the Luxembourg European schools. At the end of 2017, the European Central Bank signed an agreement with the European school in Frankfurt, resulting in a reduction of the EU contribution to the school.

## European Court of Auditors

As the EU's external auditor, the European Court of Auditors (ECA) examines the accounts of all EU institutions and bodies to verify that EU finances are managed in a sound and economical manner. The summary of the ECA 2018 annual report, published in 2019, confirms that 'thanks to improvements in its financial management, the EU now meets high standards of accountability and transparency when it comes to spending public money'. The ECA's 2018 audit covered the administrative expenditure of the EU institutions and certain other bodies – a total of €9.9 billion. In 2018, as in previous years, the ECA estimated that expenditure under 'Administration' was free from material error. However, it detected a greater number of internal control weaknesses at the Commission; in its management of family allowances payable to staff, as well as on procurement procedures to improve the security of people and premises.

The ECA 2018 audit of EU agencies in brief, published in October 2019, summarises audit results for the financial year 2018 for the 41 EU agencies and other Union bodies. Regarding the use of external staff, the ECA recommends that agencies analyse, together with the budgetary authorities, whether the use of external staff is cost efficient, when compared to employing statutory staff.

As EU institutions spend around 11 % of their budget for administrative expenditure on buildings, the ECA issued a special report in 2018, entitled 'Office accommodation of EU institutions – Some good management practices but also various weaknesses'. Overall, the report found that the institutions manage their spending on office accommodation efficiently, but that building strategies are not always formalised and the related planning is not optimal. Financing mechanisms for the large construction projects undertaken were also found to be often complex, which in some cases affected budgetary transparency. The ECA also found that most of these projects were affected by delays which, in some cases, resulted in substantial additional costs.

In September 2019, the Court of Auditors published its Special report 15/2019 on the 2014 EU staff reforms, summarising the main message in the title: 'considerable cost-savings, but also negative consequences for human resources'. According to the report, the 2014 staff reforms package was successful in achieving significant budgetary savings (beyond the amounts agreed in the MFF negotiations, and higher in the long-term), but the auditors also identified a mixed impact on staff and additional challenges for human resources management. Some of the negative consequences could have been mitigated, at least in part, if the reforms had been better prepared and monitored. The report estimates that the direct budgetary impact on the 2014-2020 MFF alone is likely to be around €4.2 billion – more than planned. The report also states that savings are likely to increase in the long-term, due to the changes in the retirement age, career structure and pensions, which are likely to reduce EU administrative expenditure by over €19 billion by 2064.

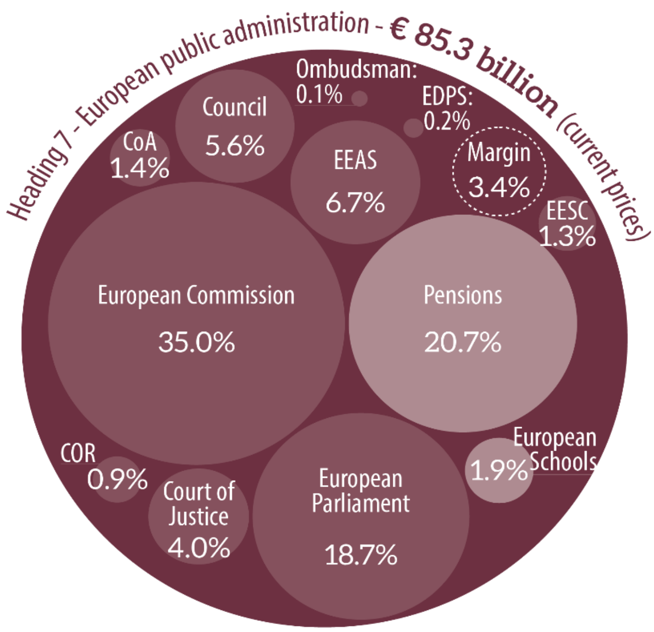
As for the non-budgetary aspect, the picture is more mixed. Changes in career structure have improved the link between pay, grade and responsibility, and the Commission's workforce is becoming more gender balanced and flexible. However, raising the retirement age and cutting recruitment have left the Commission with an ageing workforce. The increasing use of staff on short-term contracts has longer-term implications for knowledge management and business continuity, while less favourable employment conditions have reduced the attractiveness of working for the EU, at a time when the Commission already experiences difficulties in attracting highly qualified, multilingual staff.

# European Commission proposal for 2021-2027

In the spending review accompanying the proposal for the next MFF, the Commission stressed that, together with other institutions, it has taken measures to contain EU administrative costs in the current MFF period. The most visible of these is the commitment, largely implemented according to the ECA, to a 5 % reduction in EU staff. At the same time as the cuts were carried out, however, additional tasks were assigned to the EU, notably in the context of the migration crisis, repeated security threats and the launching of the new investment plan. The Commission also highlighted that, while it will continue to seek improvements in efficiencies, additional cuts to staff and related expenditure could lead to serious repercussions on the proper implementation of EU programmes and policies, a negative impact on staff motivation and possible drawbacks for productivity. An administrative budget maintained at its current level would allow the EU to maintain a strong civil service, which is attractive across the EU and capable of delivering on the priorities and challenges ahead.

In its proposal for the 2021-2027 MFF, the Commission reiterates that, while continuing to seek synergies and efficiencies, the administration must nevertheless be adequately resourced to deliver on its essential functions. Recurring needs, such as providing translation and interpretation services, investing in information technologies or upgrading buildings, should be factored in to the next MFF.

Figure 3 – Heading 7 by institution




**Note**: Court of Auditors (CoA), European Economic and Social Committee (EESC), Committee of Regions (COR), European Data Protection Supervisor (EDPS), European External Action Service (EEAS)

Source: European Commission.

The Commission set the ceiling for EU public administration expenditure at 6.7% % of the overall 2021-2027 MFF, maintaining stable administrative spending at its current level, as well as its capacity to retain highly qualified staff based on geographical balance between EU nationalities. The €75 602 million (in 2018 prices) assigned to Heading 7 comprises €58 547 million for the administrative expenditure of the institutions (+3 % compared to the current MFF) and €17 055 million for European schools and pensions (+21 %). Figure 3 shows the relative share of the allocations per institution in current prices (€85 287 million).

## Impact of the United Kingdom withdrawal for the EU administration

When considering the United Kingdom's withdrawal from the EU and its impact on the EU administration, the spending review envisages no reductions in terms of workload, but rather a reorientation or even increase in some areas. The spending review states that the reduction of the number of British nationality members of certain individual institutions could generate some limited savings, but the overall scope of activities of the Union is not expected to decrease as a consequence of Brexit. For the European Parliament, any savings resulting from the withdrawal would be due to having 46 fewer Members. This also applies to other institutions which have members based on national affiliation, such as the Council, the Commission, the Court of Justice, the Court of Auditors, the European Economic and Social Committee and the European Committee of the Regions.

In its proposal for the 2021-2027 MFF, the Commission also highlights that despite the United Kingdom withdrawal, English language translation and interpretation services will remain unaffected. Other functional changes, such as closing the EU Representation in the UK (London) and regional offices (Belfast, Cardiff and Edinburgh), and opening an EU delegation in London, are also planned.

# Council position

In general, the Council's position on the entire MFF proposal favours a more modest budget compared to the European Parliament and Commission positions. In December 2019, the Finnish Presidency submitted a draft 'negotiating box' with figures. The Finnish proposal gives a maximum figure for total expenditure for the EU27 of €1 087 327 million in appropriations for commitments for 2021-2027, representing 1.07 % of EU GNI, and €1 080 000 million in appropriations for payments, representing 1.06 % of EU GNI. The Finnish proposal states that Member States' views differ greatly on the overall contribution to the future MFF, ranging between 1.00 % of EU27 GNI, the Commission proposal of 1.11 %, and some countries' aim for more ambitious levels. Therefore, for some, the size of the budget is unacceptably high, which coupled with the proposed phasing-out of rebates, could lead to steep increases in net payments. At the other end of the spectrum, there is criticism of a 'lack of ambition' in the EU budget, a stance shared by Parliament and the Committee of the Regions.

Member States are generally focused on major spending areas, such as cohesion policy and agriculture, and the debate on administration is not as visible in 2020 as during the previous negotiations. At the same time, some examples show that cutting administrative costs further is favoured by some states. In its 2018 opinion the German Bundesrat stated regarding Heading 7 that it 'welcomes the Commission's efforts to organise the work of European public administration as efficiently as possible and its attempt to make the most of synergies and efficiencies. However, it finds the expenditures for administration disproportionately high compared with the current MFF'. In an October 2018 resolution, the Czech Senate disagreed with the proposed increase in the EU budget, in the light of the expected withdrawal of the United Kingdom, as well as with the 'dramatic increase in spending in Chapter 7'. The Czech Senate called, among other things, for reduced administrative expenditure. The Dutch Foreign and Finance ministers indicate in a 2018 letter that the Netherlands also believes that further cuts can be made on administrative expenditure. France's draft 2019 Finance Law on 'Financial Relations with the EU' reveals the French position that administrative expenditure is to be kept under control. France sees the United Kingdom's withdrawal as an opportunity to modernise the EU administration and adopt further cost-saving measures.

As regards administrative expenditure, the Council has proposed a €2 billion cut (-2.6 %) to the Commission proposal, stating that commitment appropriations should not exceed €73 602 million. Its proposal states that the ceilings are to be set in such a way as to avoid excessive margins and to reflect expected salary adjustments, career progression, pension costs and other relevant assumptions. The text further states that a highly professional European public administration, recruited on the broadest possible geographical basis, plays a crucial role in supporting the EU to deliver on its priorities and implement policies and programmes. At the same time, while recalling previous and ongoing reform efforts, European citizens expect every public administration and its staff to operate as efficiently as possible. The Council finds it necessary to continuously consolidate these reforms and constantly improve the efficiency and effectiveness of the EU public administration. In the context of a future EU of 27 Member States, all EU institutions should adopt a comprehensive and targeted approach for considering the number of staff and should conduct a regular staff screening that ensures the optimisation of staff resources, as well as continue to seek efficiency gains in non-salary related expenditure, including by deepening interinstitutional cooperation in areas such as IT, procurement and buildings.

# European Parliament position

The European Parliament, together with the Council, adopts the budget, including the resources allocated to the administration for all institutions. As the discharge authority, Parliament checks and approves the budgets of all institutions and agencies, or refuses to do so (as has been the case with the Council and the European Council for a number of years). Its own budget accounts for about 1.2 % of the total EU budget, or about a fifth of the overall EU administrative expenditure.

Concerning the 2021-2027 MFF, Parliament's consent is required. Parliament adopted its negotiating mandate in its November 2018 resolution, which was subsequently updated by a resolution of 10 October 2019. Parliament calls for the MFF to be set at 1.3 % of EU-27 GNI and declares its readiness to reject any Council position that does not respect Parliament's prerogatives or take due account of its positions. It calls on the Commission to put forward a contingency plan as a safety net to protect the beneficiaries of EU funding programmes, as well as the immediate launch of interinstitutional negotiations.

In its November 2018 resolution, Parliament stated its intent to defend the Commission's proposal on securing a sufficient level of funding for a strong, efficient and high-quality EU public administration at the service of all Europeans. It recalls the implementation of a 5 % reduction in staff in the current period, and believes that any further reduction would directly jeopardise the delivery of EU policies.

Table 4 – Commission proposal and European Parliament and Council positions'

| Heading<br>( € million – 2018 prices) | 2014-2020 MFF (EU27+EDF) | Commission proposal 2021-2027 | Parliament position 2021-2027 | Council draft 'negotiation box' 2021-2027 |
|---|---|---|---|---|
| **VII. European Public Administration** | 70 791 | 75 602 | 75 602 | 73 602 |
| European schools and pensions | 14 047 | 17 055 | 17 055 | ? |
| Administrative expenditure of the institutions | 56 744 | 58 547 | 58 547 | ? |
| TOTAL MFF | 1 082 320 | 1 134 583 | 1 324 089 | 1 087 000 |
| Percent of MFF | 6.5 % | 6.6 % | 5.7 % | 6.7 % |

Source: European Parliament resolution of 14 November 2018 and the Council's 'negotiation box'.

Heading 7 is the only heading for which the Parliament and Commission positions converge, although the Parliament proposes an overall higher total ceiling for the MFF. The Commission has already acknowledged that its May 2018 proposal is a minimum and represents a decrease in real terms when compared to the current MFF. Following the publication of the Council's draft 'negotiation box', the European Parliament negotiating team reacted, saying that the proposal 'condemns the EU to failure'. For Johan Van Overtveldt (ECR, Belgium), Chair of the Committee on Budgets, the proposal is 'well below Parliament's expectations'.

## Advisory Committees

On 25 July 2018, the Council decided to consult both advisory committees on the proposal for the regulation laying down the next MFF. The European Economic and Social Committee, in its opinion of 19 September 2018 (rapporteur: Javier Doz Orrit, Workers-Group II, Spain), and the European Committee of the Regions in its opinion of 9 October 2018 (rapporteur: Nikola Dobroslavić, EPP, Croatia), side with the European Parliament's view that the Commission proposal is insufficiently ambitious and that the future MFF should be set at least at 1.3 % of GNI. The European Committee of the Regions also points out that it 'considers that a strong, efficient and high-quality European public administration is indispensable to the delivery of Union policies and to restore trust in the EU added value and strengthen dialogue with citizens at all levels'.

# Next steps

In the words of Jan Olbrycht (EPP, Poland), Parliament's MFF co-rapporteur, and a Member of the European Parliament negotiating team: 'the MFF is not only about the money, but also about the future of the EU'. The European Parliament has been calling for urgent action to decide on the next MFF in view of the crucial choices to be taken that will shape the future of the EU for years to come, not least because of the estimated consequences of delays. Without a swift agreement in the European Council, delays to essential investments and projects could have real impact on the beneficiaries of EU funding.

The Finnish Presidency 'negotiating box' was a further step towards an agreement on the 2021-2027 MFF. While the Commission has proposed a budget that preserves the level of funding for EU administration, confirmed by Parliament in its negotiating position, the Council has proposed to cut funding under Heading 7. In a context of diverging national positions, an imminent gap in the EU budget due to the United Kingdom's withdrawal, as well as other divisive issues, a key challenge for the future MFF would be to secure and distribute adequate resources to address new and existing priorities, as well as maintain a level of resources allowing its administration to function efficiently.

## MAIN REFERENCES

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D'Alfonso A., 'Multiannual financial framework for the years 2021 to 2027: The future of EU finances', EPRS, European Parliament, 2019.

Special report no 15/2019, European Court of Auditors, September 2019.

## ENDNOTES

[1] In accordance with Articles 64 and 65 of the Staff Regulations, the remuneration of EU staff is updated each year, in the light of a report presented by the Commission, based on statistical data prepared by Eurostat and the Member States' national statistical offices. Most administrative expenditure is inflation driven and thus dependant on external factors.

[2] This figure encompasses EU staff employed in the EU institutions financed by Heading 7, as well as all EU agencies, whose budget is mostly outside of the scope of this briefing. In 2018, the agencies employed some 17 % of the total staff employed by EU institutions and agencies.



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