OPINION

of the Committee on Budgetary Control

for the Committee on Budgets

on the next MFF: preparing Parliament’s position on the MFF post-2020 (2017/2052(INI))

Rapporteur: Petri Sarvamaa
SUGGESTIONS

The Committee on Budgetary Control calls on the Committee on Budgets, as the committee responsible, to incorporate the following suggestions into its motion for a resolution:

**Objectives of the multiannual financial framework (MFF)**

1. Points out that the MFF should be planned on the basis of amounts which can secure strategic growth, leveraging EU added value, making the EU economy stronger and making societies more pro-European; stresses that the EU budget should be readable and transparent;

**Alignment of the budgetary and strategic cycles**

2. Notes that the seven-year duration of the MFF is not synchronised with the five-year mandates of Parliament and the Commission, nor aligned with the Union’s 10-year strategic planning cycle and the Europe 2020 strategy; is of the opinion that this lack of synchronisation could undermine the Union’s democratic legitimacy and the efficiency of its political governance, given that situations may arise where Parliament and the Commission are bound by agreements on political objectives and finances made in the previous framework period; stresses that this could create an impression that the European elections are somewhat irrelevant in the context of long-term budgetary and strategic planning;

3. Reiterates its view that the duration of the MFF should be reduced from seven years to five so that it is aligned with the political mandate periods of Parliament and the Commission\(^1\), without jeopardising the implementation or administration of ongoing programmes, while providing for a long-term programme strategy of five years plus five, with a mandatory mid-term review; points out that in 2020 there will be an opportunity to bring the long-term strategic cycle in line with the budgetary cycle, and strongly recommends that this opportunity be taken; considers that the Commission should also examine the possibility of introducing a rolling programme in which each MFF, while having the same duration as now, would partially cover the previous one, on the premise that overlapping could help mitigate naturally existing peaks and troughs;

**Comprehensive review of EU spending**

4. Points out that the European Court of Auditors, in its annual and special reports\(^2\), has highlighted many instances where EU spending could have been planned more strategically and achieved better results; regrets, in this regard, that the resources allocated to major spending programmes and schemes were often not aligned with the political objectives set out in the 10-year strategic planning cycle, thus potentially leading to contradictory results;

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\(^1\) See paragraph 73 of its resolution of 6 July 2016 on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament’s input ahead of the Commission’s proposal (Texts adopted, P8_TA(2016)0309) and paragraph 5 of its resolution of 27 April 2017 with observations forming an integral part of the decisions on discharge in respect of the implementation of the general budget of the European Union for the financial year 2015, Section III – Commission and executive agencies (Texts adopted, P8_TA(2017)0143).

\(^2\) See, for example, European Court of Auditors Special Reports 4, 8, 19 and 23 of 2016.
5. Calls on the Commission, when presenting its proposal for the post-2020 MFF, to accompany it with a detailed outline of the strategic priorities in accordance with which the draft MFF is built; stresses that these priorities should be considered when drawing up a comprehensive Europe 2030 strategy, which is to be examined in-depth by Parliament before adoption of the post-2020 MFF package by the Council;

6. Asks the Commission, before drafting its proposal for a new MFF, to carry out a thorough and comprehensive spending review that would assess the extent to which:

   – the allocation of resources in the EU budget reflects the EU’s strategic priorities and opportunities to add value, in particular in policies that have been shown to drain a lot of resources while serving merely redistributive functions, such as cohesion policy and the common agricultural policy (CAP), and in recent priority policy fields that have been shown to have insufficient budget measures in times of variable circumstances, such as immigration policy and external action;

   – EU programmes and schemes contribute to the achievement of strategic priorities, provide value for money and control the risk of irregularity, as proposed in the European Court of Auditors briefing paper of 3 November 2016 on the mid-term review of the multiannual financial framework 2014-20201;

   – different EU programmes and schemes work together in a coherent manner, particularly in areas where ambiguous objectives or implementation may lead to contradictory results and inefficient spending;

   – certain programmes have not at all proven to be effective or to have any added value, so that provision can be made for abandoning them in order to promote programmes that have proven to have real added value;

7. Asks the Commission also, before drafting its proposal for a new MFF, to carry out a comparative analysis of the implementation costs of grants and of repayable financial support, mainly through financial instruments, for the 2014-2020 period with a view to establishing the actual level of such costs, as recommended in European Court of Auditors Special Report 19/20162;

8. Calls on the Commission to take the results of the spending review carefully into account when drafting the MFF proposal and drawing up a comprehensive Europe 2030 strategy; insists, in this regard, that the Commission ensure that the administrative and control mechanisms are reliable at all levels and at all phases of the EU budget framework, and that fraud and irregularities can be detected and prevented efficiently; calls on the Commission to move towards a risk-based evaluation whereby control resources could be focused more on those regions and policy fields where the risks of irregularities have proven to be more significant;

Flexibility in terms of objectives and emerging priorities

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1 See point 55.
2 European Court of Auditors Special Report 19/2016 ‘Implementing the EU budget through financial instruments - lessons to be learnt from the 2007-2013 programme period’.
9. Notes that Union policies may have different short-, medium- and long-term objectives, the realisation of which cannot necessarily be determined by a single MFF; believes that consideration needs to be given to a new balance between political agenda setting, policy implementation and financial framework needs;

10. Calls on the Commission to examine the feasibility of introducing a real budget flexibility in terms of political objectives through the setting up, in particular, of a rolling budgeting programme with a five-year planning horizon, revision clause(s) in terms of objectives and policies, and a rolling evaluation programme; envisages more internal flexibility between the headings and years to allow for the maximum utilisation of the new MFF ceilings;

11. Points out that in the course of the MFF period the EU may face many new challenges; calls on the Commission to provide flexibility in the budget planning so that it is able to tackle unexpectedly changing circumstances more efficiently; considers, in this regard, that adequate emergency measures still need to be taken, in coordination with other actions, to alleviate the crises in Europe, especially in the areas of agriculture and migration, along with measures to ensure that Parliament’s role in implementing and adopting the MFF is fully respected and that the Council does not act without Parliament’s consent;

12. Recalls Parliament’s concern that the financial complexity resulting from the interactions of more than a thousand financial engineering instruments and trust funds and from numerous financial mechanisms supporting Union policies that are not recorded in the union balance sheet constitutes a major reason why democratic accountability of the galaxies of budgets may be impossible; calls, in addition to simplifying the galaxy of budgets, for more flexibility in cross-sectoral use of different financial instruments, so as to overcome the restrictive rules preventing recipients from taking advantage of multiple programmes for projects with matching goals;

13. Reiterates its call to integrate the European Development Fund into the EU budget in order to be able to control and tackle the root causes of excessive migration in a better way, and one that is in line with Union policies and strategies, using tools and methods deriving from the Union’s budgetary competence; considers that common European challenges in development policy could be better mastered through common administration from the EU budget;

Well-justified needs and European added value

14. Endorses the suggestion made by the European Court of Auditors in its briefing paper on the mid-term review of the multiannual financial framework 2014-2020 that it is better to determine the duration of programmes and schemes on policy and citizens’ needs, rather than basing it on the length of the financial planning period1;

15. Points out that the Member States and the Commission should be able to present well-justified needs for Union funding, and define the aims and the results to be achieved, before any spending is set, and highlights the importance of respecting the real needs of citizens by means of an integrated, territorial approach; calls on the Commission to

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1 See points 39 and 40.
distinctly define the criteria of EU value added, so as to prevent any possible ambiguities in decisions about EU expenditure; points out, furthermore, that the principles of effectiveness, efficiency and sound financial management should be observed before every budgetary decision;

16. Is of the opinion that EU transparency requirements are met in an ideal manner by regions that draw up their accounts in accordance with European Public Sector Accounting Standards; notes furthermore that double-entry accounting would be an ideal way of easing the reporting obligations vis-à-vis the Commission imposed on the regions and promotional institutions; calls, as a further incentive, for the implementation and ongoing adaptation of public accounting standards to be co-financed by the EU;

17. Encourages the Commission to further enhance and streamline the structure and composition of EU expenditure on cohesion policy in order to successfully tackle the disparities and cleavages between urban and rural areas, and differing Member States, to reverse the processes of deepening divergences, and to overcome fragmentation and ensure the future robust development of the EU as a democratic, strong and cohesive community; reiterates its position that additional political priorities should be coupled with additional financial means and not be financed to the detriment of existing EU policies; is of the opinion that the economic, social and territorial cohesion policies of the Union can still provide support for less developed regions, and for better cross-border cooperation, but encourages the Commission to not only provide mere redistributive financial support but, bearing in mind the real needs of citizens, focus even more on the development and modernisation of growth, innovation, mobility, climate change, making land safe to protect it from man-made and natural disasters, energy and environmental transition, and on the territorial impact of the EU policies, while applying the same criteria to the whole of the EU; points out also that this place-based approach generates European added value as well as value for EU citizens and is vital for achieving the objective of a smart, sustainable and inclusive Europe, as it provides flexibility in formulating integrated responses to diverse territorial needs without losing the thematic focus of the EU policies;

18. Reiterates its call for simplification of the cohesion policy management system at all levels of governance and of the control system, which should be based more on cross-reliance and cooperation between different audit authorities in order to reduce the administrative burden; is of the opinion that the economic, social and territorial cohesion policy of the Union should focus more on the specific needs of the respective regions with a view to addressing their real weaknesses and fostering their strengths;

19. Points out that the past development of cohesion beneficiaries should be better taken into account when distributing EU funds; calls on the Commission to present a revised system for the co-financing rates of cohesion projects which acknowledges past developments and decreases the share of EU funding in areas where progress has already been seen;

20. Points out that a new balance is needed between, on the one hand, the CAP and cohesion policies, and, on the other hand, the other EU internal policies and a reinforced external capacity of the Union, including the elements of security and defence; encourages the Commission to emphasise cooperation in security and defence when preparing its proposal for the post-2020 MFF, and when reforming and implementing EU financial instruments such as the European Fund for Strategic Investments (EFSI); supports the idea
of further European integration and concrete initiatives in the field of security and defence;

21. Recalls its remarks on the unsustainable structure of CAP expenditure: notes with concern that 44.7% of all Union farms had an annual income of less than EUR 4 000; notes with even greater concern that on average 80% of the beneficiaries of CAP direct support received around 20% of the payments and recommends that the Commission mandate a cap on CAP payments to rectify this anomaly; points out that in times of volatility or crisis larger farms do not necessarily need the same degree of support for stabilising farm incomes as smaller farms do, since they often benefit from potential economies of scale that are likely to make them more resilient; considers that the CAP financing schemes could focus more on farmers under special constraints: small farms, climatically and geographically challenging areas and sparsely populated regions;

22. Calls on the Commission, as it reflects on a simplified and modernised CAP, to mandate a different policy design, or a different model of distribution of direct payments, to provide a better means of targeting public funds to agri-environment and climate action objectives; stresses, however, the need to provide balancing financial compensation to cover the costs of maintaining high health and environmental standards in food production, and the high production costs associated with the challenging climate condition in some geographical areas, as the farmers in Europe often struggle with global competition;

How to put an end to outstanding commitments: impact of the lack of a real evaluation and of effective budget capacity

23. Strongly regrets the persisting high levels of outstanding commitments, which is on one hand the result of delays by Member States in submitting payment claims and on the other hand caused by the Commission being considerably late in proposing the programmes; points out that these circumstances make any effective evaluation and review of the budget implementation impossible, whether mid-term or at the end of the programming period; regrets that this handicaps the forecasting capacity of the budgetary authority; regrets, in particular, that the outstanding commitments increased significantly by the end of 2016, to reach EUR 238 billion, and that the increase relative to the figure for 2015 – over EUR 21 billion – was twice as high as initially expected;

24. Points out that this situation is largely the result of the very low level of submission of Member States’ payment claims for 2014-2020, and stresses that this could undermine the effectiveness of the European structural and investment funds; asks the Commission to analyse the root causes of the delays incurred in the submission of Member States’ payment claims and, in particular, to re-examine the global architecture of the structural funds in order to speed up the process involving EU programming, monitoring by the Commission and implementation by Member States’ authorities;

25. Calls on the Commission to question the added value of the n+2 and n+3 rules in the payments of structural funds and to submit a proposal stipulating that, by the end of the programming period, the Member States are obliged to reimburse the dormant structural

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1 See paragraph 207 of its resolution of 27 April 2017 with observations forming an integral part of the decisions on discharge in respect of the implementation of the general budget of the European Union for the financial year 2015, Section III – Commission and executive agencies (Texts adopted, P8_TA(2016)0143).
funds to the EU budget;

**Performance-based budget: framework to determine cut-offs**

26. Asks the Commission and the Member States to significantly modernise and redesign the EU budget along the principles of performance-based budgeting – with the social impact of such budgeting also assessed and always taken into account – in order to fit the new priorities that have been agreed on at the EU-27 level, and to back up a fiscal stabilisation function for the euro area using own resources;

27. Considers that if any possible new budgetary capacity is proposed specifically for Member States in the euro area, it should be developed within the Union framework and subject to proper democratic scrutiny and accountability through the existing institutions, and any financial assistance from this capacity should be made conditional on the implementation of agreed structural reforms;

28. Insists that the aim of the EU budget should be to achieve the political objectives as defined in an EU political strategy and reflected in the headings of the MFF, and that the budget lines should be presented in this framework and regrouped under programme statements pursuing these objectives rather than listed by activities; encourages the Commission to develop a more integrated approach for the use of different budget lines and funds to be able to respond to real-life challenges at regional, national and European level; stresses also that enhanced cooperation expenditures should be included in the EU budget;

29. Recalls that in its resolution accompanying the discharge 2015, Parliament called on the Commission to propose necessary updates to the design and delivery mechanism for the European structural and investment funds, taking into account also the suggestions of the high-level simplification group in order to strengthen the contribution of cohesion policy to tackling disparities in inequalities among Union regions and Member States and to provide for, for the next programming period, more manageable and measurable performance indicators, including the social impact of such programmes; insists that all future expenditure should focus on programmes and instruments with proven EU added value and that performance should be at the centre of the next generation of all programmes and schemes together with better geographical balance, which should ensure a fair distribution of financing across Europe;

30. Points out that EU finances should be able to meet the financing needs of new priorities such as countering terrorism, managing migration by better addressing the root causes, improving integration by means of border controls, among other measures, and minimising the effects of the possible financial gap resulting from Brexit;

31. Calls on the Commission to improve its strategy to communicate to citizens the added value of EU funds;

**How to fill the gap after Brexit: streamlining the budget and introducing new resources**

32. Considers that while the United Kingdom’s decision to withdraw from the Union is an unfortunate event that will have a negative influence on the future of the lives of citizens in the UK and in the remaining Member States, it also creates an opportunity to redefine
and reform the EU-27’s political ambitions and the needed budget tools and methods; considers that the EU-27 should be ambitious in its budget reform and aim to maintain an annual EU budget similar in size to that of the EU-28;

33. Believes that those policy fields likely to suffer most significantly from the budget gap resulting from Brexit should be protected from major setbacks in order to prevent the destabilisation of any current economic, social or administrative framework; points in particular to the need to secure the Union’s resources in the fields of growth, jobs, social cohesion, research, development and innovation in order to enhance the Union’s global leadership; calls on the Commission, in this regard, to examine carefully the consequences of different Brexit scenarios when preparing the MFF proposal and its impact assessment;

34. Points out, however, that when filling the budgetary gap, the main objective should not be to increase the share of public funding, but to provide a more sustainable financial basis for all policy fields and to mobilise the maximum leverage of private resources; calls, in this regard, for a paradigm shift in EU expenditure from grant-based subsidising towards a more financial-instrument-oriented system, which, however, also carefully considers the capacities and financial needs of different beneficiaries; emphasises, however, that this shift should happen in a manner that does not undermine the transparent management of the budget and budget control measures;

35. Recalls that financial instruments are not suited to all kinds of interventions in policy fields such as cohesion policy; points out that loans, equity and guarantees can play a complementary role, but they should be used with caution, based on appropriate ex-ante assessment, and grants should be complemented only where such financial instruments demonstrate an added value and could have a leverage effect by attracting additional financial support;

36. Emphasises, in particular, the need to omit the unnecessary fixation on the 1% ceiling of EU GNI, put in practice for the current 2014-2020 MFF, since expenditure is often constrained by this ceiling and makes the budget significantly harder to balance in times of varying circumstances; encourages the Member States to consider flexibility in their budget discussions;

37. Encourages the Commission to introduce concrete proposals for new resources, which would reduce the share of merely GNI-based national contributions to the EU budget; notes that the new system could end the anti-European accounting view of ‘fair return’, which places disproportionate emphasis on the net balances between Member States and which, regrettably, has dominated the budgetary debates in the Council for many years now;

38. Considers that the possibility to collect a CO₂ levy through carbon pricing (using either taxation or market-based instruments) – as presented by the High Level Group on Own Resources in its report on the future financing of the EU – should be examined by the Commission in the first instance as a way to strengthen the EU-27 budget; believes that such an instrument could also provide extra added value in Europe, as the levy could function as an incentive to change consumer and producer behaviour in favour of a less sustainable use of energy.

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carbon-intensive future; considers, however, that any tax-based EU solution should be as neutral as possible for the total tax ratio of a given Member State, and should instead rely on higher contributions from risk actors; points out that such a CO² levy would have to take into account the current emission trading schemes to avoid overlapping and conflicting means and objectives;

39. Encourages the Commission and the Member States also to consider other tax-based resources available to the EU-27 that could provide for more European added value in certain risk-related policy fields, while at the same time strengthening the EU budget;

40. Calls on the Commission to take advantage of the opportunity to reform the EU budget and to omit all rebate mechanisms, as this would provide for a more just, fair and encouraging structure for all Member States.
### INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION

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| **Result of final vote** | +: 10  
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| **Members present for the final vote** | Nedzhmi Ali, Inés Ayala Sender, Martina Dlabajová, Luke Ming Flanagan, Ingeborg Gräßle, Arndt Kohn, Monica Macovei, Petri Sarvamaa, Bart Staes, Hannu Takkula, Tomáš Zdechovský, Joachim Zeller |
| **Substitutes present for the final vote** | Brian Hayes, Karin Kadenbach, Younous Omarjee, Julia Pitera |
| **Substitutes under Rule 200(2) present for the final vote** | Tiziana Beghin, Tiemo Wölken |
### FINAL VOTE BY ROLL CALL IN COMMITTEE ASKED FOR OPINION

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Key to symbols:

+ : in favour
- : against
0 : abstention