IMPLEMENTATION OF THE BUDGET

The Commission is responsible for implementing the budget in cooperation with the Member States, subject to political scrutiny by the European Parliament.

LEGAL BASIS

— Articles 290, 291, 317, 318, 319, 321, 322 and 323 of the Treaty on the Functioning of the European Union (TFEU) and Article 179 of the Euratom Treaty;

— The Financial Regulation, i.e. Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union;

— The Interinstitutional Agreement (IIA) of 16 December 2020 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources.

OBJECTIVE

The Commission is responsible for implementing the revenue and expenditure of the budget in accordance with the Treaties and the provisions and instructions set out in the Financial Regulation, and within the limit of the appropriations authorised (1.4.3).

The Member States cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management, i.e. economy, efficiency and effectiveness.

DESCRIPTION

A. Basic mechanism

The implementation of the budget involves two main operations: commitments and payments. As regards the commitment of expenditure, a decision is taken to use a particular sum from a specific budgetary line in order to finance a specific activity. Once the corresponding legal commitments (e.g. contracts) have been established, and the relevant services, works or supplies have been performed or provided, the expenditure is authorised and the sums due are paid.

B. Methods of implementation

The Commission may implement the budget in one of the following ways:

— Directly (‘direct management’) by its departments, or through executive agencies;

— Jointly with Member States (‘shared management’);

— Indirectly (‘indirect management’), by entrusting budget implementation tasks to entities and persons, e.g. non-EU countries, international organisations and others.

In practice, some 70% of the budget is spent under ‘shared management’ arrangements (with Member States distributing funds and managing expenditure), around 20% under ‘direct management’ by the Commission or its executive agencies, and the remaining 10% under ‘indirect management’[1].

The Financial Transparency System provides information on the beneficiaries of funds directly managed by the Commission. Each Member State is responsible for publishing data on the beneficiaries of the funds it administers under indirect and shared management.

Article 317 TFEU specifies that the Commission must implement the budget in cooperation with the Member States and that the regulations made pursuant to Article 322 TFEU must lay down the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities.

Furthermore, in the broader context of the implementation of EU legislation, Articles 290 and 291 TFEU set out the provisions governing the delegated and implementing powers conferred on the Commission and, in particular, the control exercised over the Commission in this regard by the Member States, the Council and the European Parliament.

Under Article 290 TFEU, a legislative act may delegate to the Commission the power to adopt non-legislative acts to supplement ‘certain non-essential elements of the legislative act’. Parliament and the Council have the right to revoke such delegation of powers to the Commission, or to object to it, thereby preventing it from entering into force.

Article 291 TFEU governs the implementing powers conferred on the Commission. Whereas Article 291(1) stipulates that Member States are responsible for the adoption of all measures of national law necessary to implement legally binding Union acts, Article 291(2) provides for these acts to confer implementing powers on the Commission or, in the case of Articles 24 and 26 of the Treaty on European Union (TEU), on the Council, where ‘uniform conditions for implementing legally binding Union acts are needed’. Pursuant to Article 291(3) TFEU, Parliament and the Council lay down, by means of regulations, the rules concerning mechanisms for control of the Commission’s exercise of implementing powers.

A new IIA ‘on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards

[1]Data for 2021-2027 provided by the Commission’s Directorate-General for Budget.

the introduction of new own resources' was agreed by the institutions in 2020. Adopted in parallel to the Multiannual Financial Framework (MFF) Regulation for 2021-2027, its aim is not just to ensure the continued cooperation between institutions on budgetary matters, but also to improve the Union's annual budgetary procedure and, through a roadmap set out in an annex, facilitate the introduction of new own resources for the EU under this MFF.

Article 291 TFEU is supplemented by Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers. This control is exercised through committees composed of representatives of the Member States and chaired by a representative of the Commission. The regulation lays down two new types of procedure, applicable depending on the scope of the act in question: under the examination procedure, the Commission cannot adopt the measure if the committee has delivered a negative opinion; under the advisory procedure, the Commission is obliged to take 'utmost account' of the committee's conclusions, but is not bound by the opinion.

Member States which implement the budget incorrectly are penalised under the clearance-of-accounts procedure and in the context of eligibility checks: following audits carried out by the Commission and the Court of Auditors, the revenue that national governments receive from the EU budget is offset by a request for repayment of funds unduly allocated. Decisions concerning such corrections are taken by the Commission in accordance with the aforementioned procedures for the exercise of implementing powers (1.4.5).

The implementation of the budget in particular sectors has repeatedly been the subject of criticism by the Court of Auditors (1.3.12).

C. Implementation rules

The Financial Regulation sets out all the principles and rules governing the implementation of the budget. It is horizontal in scope, being applicable to all areas of expenditure and all revenue. Further rules applicable to the implementation of the budget are to be found in sector-based regulations covering particular EU policies.

The first Financial Regulation was adopted on 21 December 1977. In September 2016, the Commission submitted a proposal for a new Financial Regulation to replace the previous one (together with its rules of application), as well as amend 14 other sectoral regulations and a decision, each of these also containing financial rules. The stated objectives of the proposal were to have a single rule book, to simplify EU financial rules and to make them more flexible. The Committee on Budgets and the Committee on Budgetary Control were to be the committees responsible in Parliament. The legislative process ran until July 2018, when Parliament adopted the agreed text in plenary[2]. The Financial Regulation was then published in the Official Journal on 30 July 2018 and entered into force on 2 August 2018. However, most of the provisions of the

[2]The Council adopted the act that same month.

new Financial Regulation concerning the implementation of the European institutions' administrative appropriations did not enter into force until 1 January 2019[3].

The Commission's main tool for implementing the budget, and for monitoring its execution, is its computerised accounting system ABAC (accruals-based accounting). The Commission has taken action to meet the highest international accounting standards, in particular the International Public Sector Accounting Standards (IPSAS) established by the International Federation of Accountants (IFAC). An important aspect of budgetary implementation is compliance with EU legislation applicable to public procurement contracts (supply, works and services 2.1.10). In addition, the Early Detection and Exclusion System (EDES) enhances the protection of the Union's financial interests. It makes for the early detection of unreliable persons and entities applying for EU funds or having entered into legal commitments with the Commission or other institutions and provides for their exclusion from procedures and the imposition of financial penalties on them[4].

ROLE OF THE EUROPEAN PARLIAMENT

Firstly, as one of the two arms of the budgetary authority, Parliament has 'prior' influence on the implementation of the EU budget by means of amendments made and decisions taken in the context of the budgetary procedure (1.2.5) to allocate funds. Parliament may decide to make use of the budget reserve mechanism, whereby, if it has doubts regarding the justification of expenditure or the Commission's ability to implement it, Parliament may decide to place the funds requested in the reserve until the Commission provides appropriate evidence. The evidence in question is provided as part of a request to transfer funds from the reserve. Both Parliament and the Council are required to approve proposals for transfers. Appropriations cannot be implemented until they have been transferred from the reserve to the relevant budget line.

Secondly, the discharge procedure (1.4.5) enables Parliament to control the implementation of the current budget. Although most questions raised concern the discharge period, many of the questions put to the Commission by Parliament's Committee on Budgetary Control – as part of the discharge procedure – refer to the implementation of the current budget. The discharge resolution, which is an integral part of the discharge decision, sets out requirements and recommendations addressed to the Commission and other bodies involved in the implementation of the budget.

Under the Treaty of Lisbon, Parliament along with the Council, is responsible for establishing 'the financial rules which determine in particular the procedure to be adopted for establishing and implementing the budget and for presenting and auditing accounts' (Article 322(1) TFEU).

Furthermore, in almost all policy areas, Parliament influences the implementation of the budget through its legislative and non-legislative activities, e.g. by reports and resolutions or simply by addressing oral or written questions to the Commission.

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[3]Article 282(3)(c) of the new Financial Regulation.
[4]It is governed by the Financial Regulation and is consistent with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the EU institutions, bodies, offices and agencies and on the free movement of such data.

Over the past few years, Parliament has strengthened its political scrutiny over the Commission by introducing instruments which make for exchanges of information on the implementation of funds and the amount of commitments outstanding (i.e. legal commitments which have not yet been honoured by means of payment). The latter can become a problem if they accumulate over longer periods, and Parliament is therefore pushing the Commission to keep these under control.

New tools are being developed to make for better monitoring of the implementation process and to improve the value for money offered by EU programmes. For this purpose, Parliament calls for high-quality Activity Statements (to be prepared by the Commission in the context of its working documents on the preliminary draft general budget) and the regular submission of cost-effectiveness analyses for EU programmes.

For more information on this topic, please see the website of the Committee on Budgets.

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