Briefing

European Parliament

MID-TERM REVIEW/REVISION OF THE MFF 2014-2020:

State of play

This briefing has been prepared in view of the European Parliamentary Week's Interparliamentary committee meeting on 16 February organised by the Committee on Budgets (BUDG): *EU and national expectations, and how to increase the democratic accountability of the next MFF negotiations.* The note gives background information on the Multiannual Financial Framework (MFF) and presents the state of play of the preparations in the European Parliament's (EP) Committee on Budgets and the planned actions for the coming months in relation to the Mid-term Review/Revision of the MFF 2014-2020.

The aim of the note is to briefly present the state of play with the MFF Review/Revision and the key issues being discussed in the EP Committee on Budgets, and to highlight questions, which could be of interest for the national parliamentarians and subject to debate also in the Member States.[1]

History

Following difficulties to agree on the annual Community budgets in the 1980s – both between the Member States and by the two arms of the Budgetary Authority (Council and European Parliament), the concept of a multiannual financial framework was developed as an attempt to lessen conflict, enhance budgetary discipline and improve implementation through better planning. The first multiannual financial perspective came into force in 1988.

Multiannual financial frameworks so far:

- 1988-1992: Delors I (5 years)
- 1993-1999: Delors II (7 years)
- 2000-2006: Agenda 2000 (7 years)
- 2007-2013: Building our common future (7 years)
- 2014-2020: A budget for Europe 2020 – Investing in Europe's future (7 years)

[1] See also briefing by EPRS *'Mid-term review/revision of the MFF – Key issues at the outset of the debate'*, which includes i.a. an overview of the previous attempts for an MFF Review.

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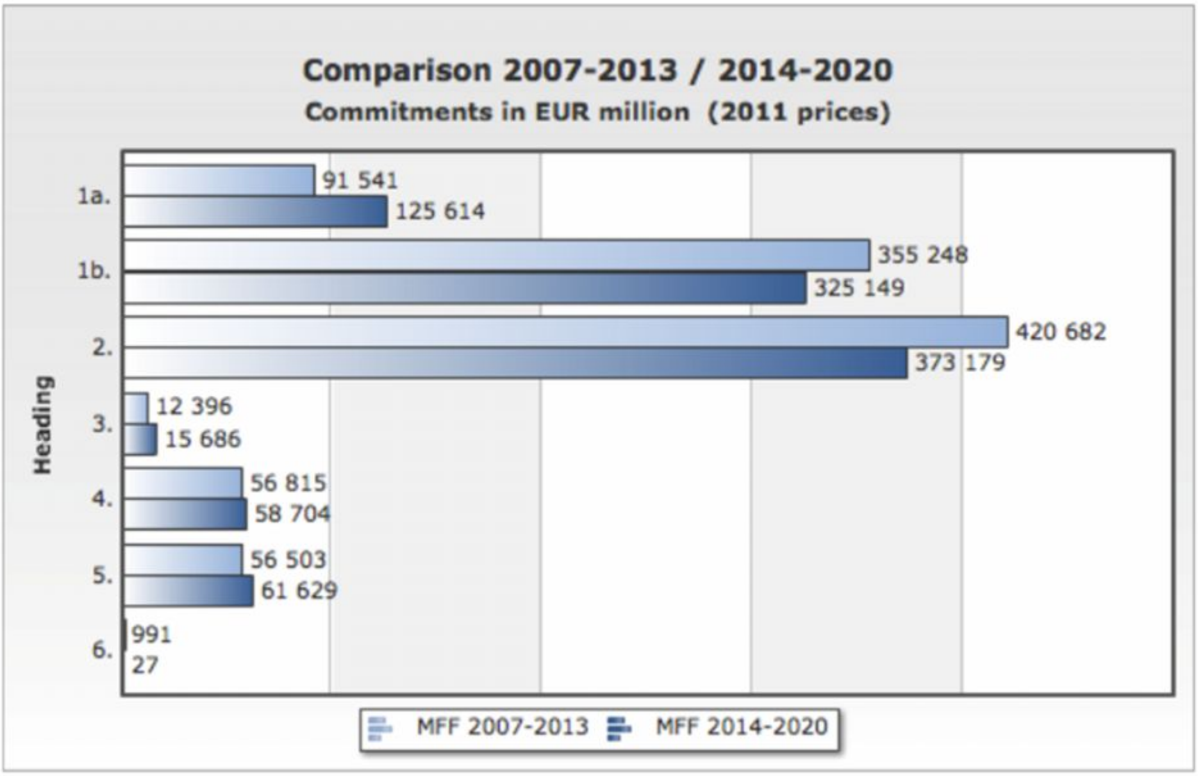
The MFF is a multiannual spending plan, which lays down the maximum annual amounts ('ceilings') which the EU may spend in different political fields ('headings') during the duration of the MFF.

The Treaty of Lisbon transformed the multiannual financial framework from an interinstitutional agreement into a regulation, a legally binding act. The European Commission makes the proposal for a regulation laying down the MFF, which will be adopted by the Council by unanimity after obtaining the consent of the European Parliament.

MFF for 2014-2020

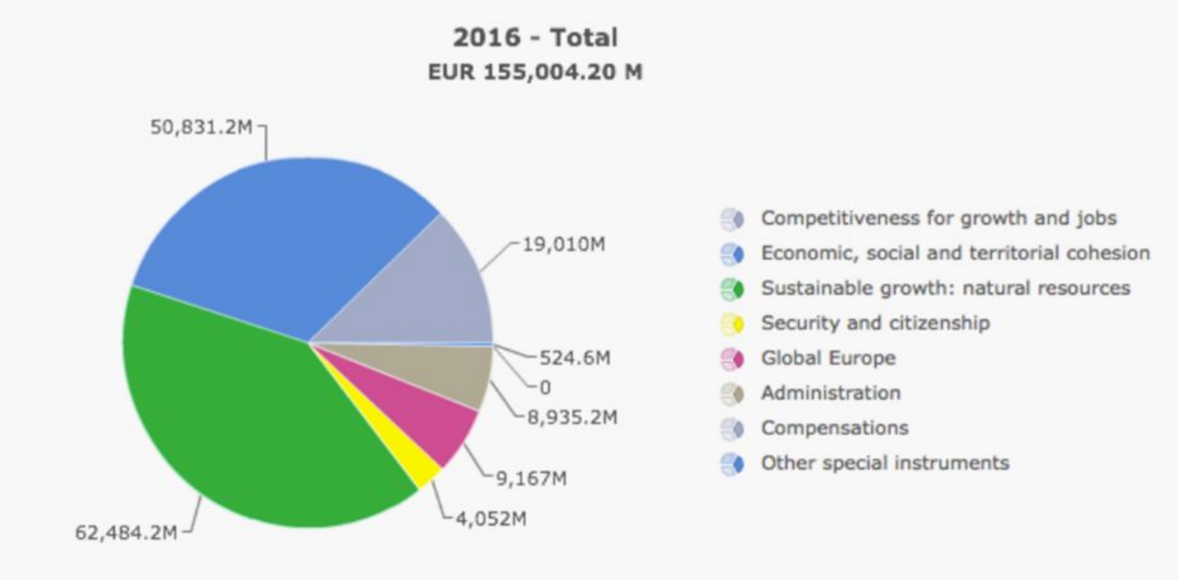
For the period 2014-2020, the MFF sets a maximum amount of **EUR 960 billion** for commitment appropriations and **EUR 908 billion** for payment appropriations.

For the first time in the history of EU's multiannual financial perspectives, the MFF for 2014-2020 is smaller than the MFF 2007-2013.



Source: Commission

The MFF 2014-2020 and the annual budgets are divided into six categories of expense ('headings') corresponding to different areas of EU activities:



Source: Commission

Ceilings

The MFF lays down the maximum annual amounts ('ceilings') which the EU may spend in these six policy areas and overall over the 2014-20 period. There are two types of expenditure ceilings:

- **An annual ceiling for each heading**, expressed in commitment appropriations (legally binding engagements to spend money which may be disbursed over several financial years);
- **An overall annual ceiling** both **for commitment appropriations** and **for payment appropriations** (the actual amounts authorized for disbursement in a given year). This overall annual ceiling corresponds to the sum of each heading ceilings.

The overall ceiling is also expressed as a percentage of the EU's estimated GNI to ensure that EU's total estimated level of payments does not exceed the maximum amount of own resources (1.23 % of the EU's GNI).

The difference ('margin') between budgeted appropriations and the ceiling provide room for manoeuvre in case of unforeseen needs and emergencies.

Flexibility and Special instruments

Flexibility mechanisms are foreseen to enable the EU to mobilise the necessary funds to react to unforeseen events such as crisis and emergency situations. The increased flexibility was the main achievement of the European Parliament during the negotiations with the Council on the current MFF. In the current context of reduced expenditure, the flexibility mechanisms are used to respond to evolving priorities and crises. Most of the flexibility mechanisms are kept outside the MFF and the funding can be mobilised above the expenditure ceilings. The Council has adopted a more restrictive interpretation and considers that only the commitments of the special instruments can be entered in the budget over and above the ceilings, while payments have to be budgeted within the ceilings. Due to the pressures on the EU budget e.g. due to the migration situation, a significant amount of the flexibility has already been exhausted during the two first years of the MFF.

MFF Review/Revision

As part of the agreement on MFF 2014-2020, the Article 2 of the MFF Regulation states that by the end of 2016 at the latest, the Commission shall present a review of the functioning of the MFF taking full account of the economic situation at that time as well as the latest macroeconomic projections. This compulsory review shall, as appropriate, be accompanied by a legislative proposal for the revision of this Regulation. According to Recital 2, the purpose of this review is to enable the institutions "to reassess the priorities". Furthermore, Article 17 of the MFF regulation provides that in the event of unforeseen circumstances the MFF may be revised.

As the Commission has to present its legislative proposal for the post-2020 MFF before 1 January 2018, this provides a logical end date for the mid-term review process.

Pre-allocated national envelopes may nevertheless not be reduced by the mid-term revision.

In addition, the Commission will present mid-term evaluation reports for many sectoral funding programmes during the course of 2017 and, in some cases, mid-term revisions of the sectoral legislation may follow, as provided in the respective legal bases.

The preparations for the Mid-term revision of the MFF in the European Parliament

During the negotiations on the current MFF, the introduction of a compulsory and significant mid-term revision of the MFF was one of the key demands by the European Parliament. In preparation for the MFF Review/Revision, the EP's Committee on Budgets has nominated MEPs Jan Olbrycht (EPP, PL) and Isabelle Thomas (S&D, FR) as Co-Rapporteurs in charge of a strategic own initiative report preparing the ground of the EP negotiation mandate. The Co-Rapporteurs presented their first Working document in December 2015 and the preparations for the MFF revision take place during the Committee on Budgets meetings in the thematic MFF Monitoring Groups, separate hearings as well as in interparliamentary meetings.

Key questions in view of the mid-term MFF Review/Revision

The following issues will need to be taken into account in the MFF revision:

- Recent crises and evolving priorities already pushed the MFF to its limits. The recent migration and refugee situation has put both national and EU budgets under considerable pressure. Ways to insure sufficient flexibility and additional budgetary means during the remaining MFF period should be found.
- The recent terrorist attacks in France and the raise of the terrorist threat in other European countries call for a coordinated and reinforced action at EU level.
- External crisis have direct consequences within the EU (Ukraine and Russian ban on agricultural products for instance).
- Financing of EFSI - an Investment Plan for Europe and its effects on EU budget should be considered. Should a compensation of the EFSI-related cuts for Horizon 2020 and CEF be examined in the mid-term review/revision, increasing both programmes' envelopes as to keep up with the original engagement taken in 2013?
- The continuation of the Youth Employment Initiative after 2015
- Dealing with payment backlog from the previous MFF period and avoiding a similar build-up of backlog in the future.

One of the key objectives is to prepare for **MFF post 2020**, including re-assessing the duration of the MFF cycle after 2020, working towards a reform of own resources system, introducing performance-based budgeting, improving unity of the budget (to ensure that all expenditure and revenue resulting from decisions taken by, or in the name of, the EU institutions should be included in the EU Budget), re-evaluation of financial instruments in the EU budget, and improving the modalities of the inter-institutional negotiations on the next MFF.

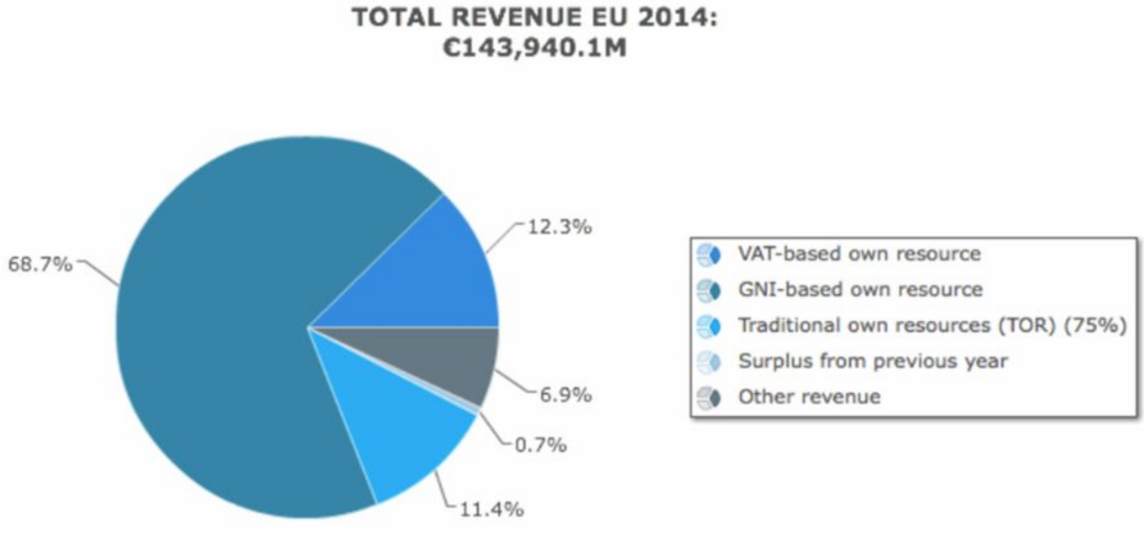
Budget revenue: Towards genuine own resources

Own resources are the EU's revenue. Annual expenditure of the EU budget must be completely covered by annual revenue.

The EU's current own resources system suffers from important shortcomings: the majority of the revenue comes from national contributions, the system is overly complicated and non-transparent. In addition, the own resources system is not subject to parliamentary control either at national or European level. The European Parliament has repeatedly called for putting an end to the existing rebates and corrections mechanisms. The own resources system is thus in need of an in-depth, comprehensive reform and the introduction of new and genuine own resources, which can significantly reduce the share of GNI contributions to the EU budget. The European Parliament has also called for a system of genuine co-decision between the Council and Parliament on the adoption of the MFF and own resources decisions to be introduced at the time of the next Treaty change.

Following the proposal by the European Parliament during the MFF negotiations, the high-level group on own resources, chaired by former Italian Prime Minister and EU Commissioner Mario Monti, was established in February 2014 to reflect on finding more transparent, simple, fair and democratically accountable ways to finance the EU. The group will deliver its final recommendations at the end of 2016, based on which the Commission is going to assess whether new legislative initiatives to amend the own resources system are appropriate.

The reform of EU's own resources and the work of the high-level group will be discussed in an interinstitutional conference with national parliaments organized by HLGOR on 13-14 June 2016 in the premises of the European Parliament in Brussels.



Source: Commission

Case example: Youth Employment Initiative (YEI)[2]

The Youth Employment Initiative provides **extra support** to **young people** aged below 25 and living in regions where youth unemployment was higher than 25% in 2012. It supports particularly young people who are **not in education**, **employment** or **training** (NEETs), including long-term unemployed youngsters or those not registered as job-seekers.

As part of the agreement on MFF 2014-2020, the European Parliament requested specific flexibility to tackle youth employment to bring forward spending on youth employment. In addition, there was a need to compensate for the reduction of the programme envelope compared to the level of 2013. The unused margins for commitments will be available for spending on growth and employment in later years.

A frontloaded budget for the years 2014-2015 was set aside for the YEI worth **EUR 3.2 billion**, which requires no co-financing at national level. An additional **EUR 3.2 billion** originates from the European Social Fund (ESF) allocations to the Member States for the 2014-2020 programming period.

In addition, a higher pre-financing rate was set out in 2015 for the 3.2 billion YEI-specific allocation in order to ensure quick mobilisation of the funds. The increased pre-financing amounted to around 1 billion euros (30% of the specific allocation) instead of the original 1-1.5% of the specific allocation.

The implementation level of commitments of the YEI programme at the end of 2014 was 87.3% and 100% on 31 December 2015. The implementation of payments at the end of 2014 was 100% and 100% on 31 December 2015. The frontloading and accelerated pre-financing have thus lead to excellent implementation levels. Perhaps with more financing available an even higher level of absorption and more impact could have been reached.

Following the agreement on 2016 EU budget, the Commission will in the framework of the MFF mid-term review/revision draw lessons from the results of the YEI evaluation, accompanied, as appropriate, by proposals for the continuation of the initiative until 2020.

[2] See also External briefing note: Assessment of Youth Employment Initiative.

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