EUROPEAN COURT OF AUDITORS

EN

2018

The Commission's proposal for the 2021-2027 Multiannual Financial Framework

Briefing Paper

July 2018

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INTRODUCTION

1. On 2 May 2018 the Commission published a package of legal proposals and accompanying explanatory documents for the new Multiannual Financial Framework (MFF) – a seven-year budget for the European Union for the 2021-2027 period. In this briefing paper we focus on the proposed MFF Regulation[1], the MFF Communication[2] and the accompanying Spending Review[3]. Our comments relate to the proposal itself and the process for preparing it. We also highlight the extent to which proposals we made in response to the Commission's Reflection paper on the future of EU finances[4] have been taken into account. ***Figure 1*** recalls those proposals and the Commission's "principles for reform"[5] of the EU budget which we endorsed. This is not an audit report; it is a review mainly based on publicly available information.

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1 Proposal for a Council Regulation laying down the multiannual financial framework for the years 2021 to 2027, COM(2018) 322 final.

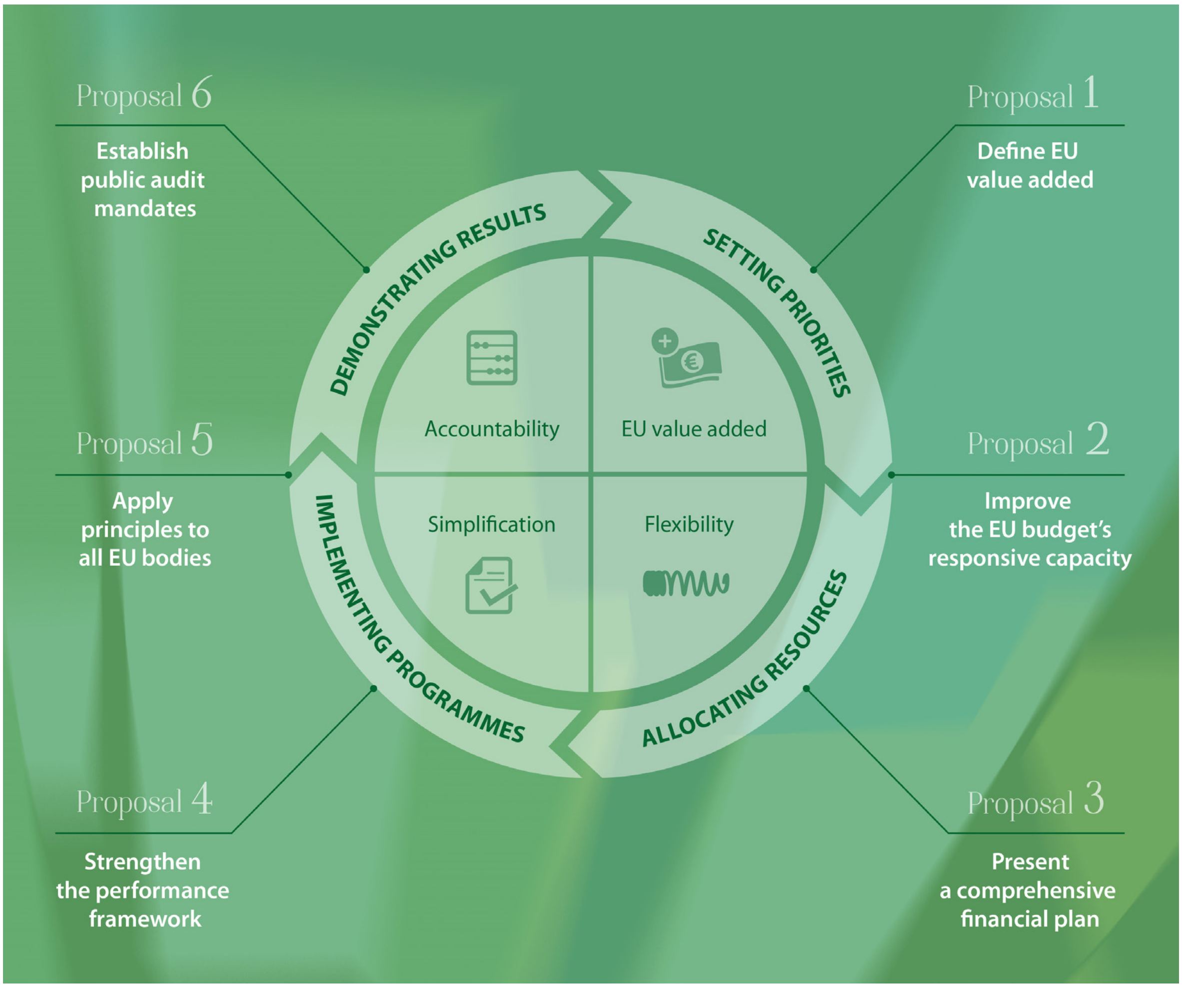
2 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, "A Modern Budget for a Union that Protects, Empowers and Defends, The Multiannual Financial Framework for 2021-2027", COM(2018) 321 final.

3 SWD(2018) 171 final.

4 "Future of EU finances: reforming how the EU budget operates", Briefing Paper, February 2018.

5 Reflection paper on the future of EU finances, COM(2017) 358, p. 25, Box 4.

Figure 1: Key principles and ECA proposals



Source: ECA

2. We will, at a later stage, provide opinions on other elements of the MFF package and on related sectoral regulations, such as:

- the legislative proposals on the EU system of own resources[6];
- the legislative proposal on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States[7];

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[6] COM(2018) 325 final, COM(2018) 326 final, COM(2018) 327 final, COM(2018) 328 final, SWD(2018) 172 final.

[7] COM(2018) 324 final.

- the legislative proposals on the common agricultural policy[8], on common provisions for the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument[9], and the European Monetary Fund.

THE COMMISSION'S PROPOSAL DOES NOT PROVIDE A CLEAR OVERVIEW OF CHANGES IN SPENDING

3. In its MFF Communication, the Commission emphasises proposed increases in funding, compared to the current MFF, for priorities such as youth, security, and migration and borders. However, the Commission's comparison with the current MFF does not cover other areas of spending. A full and clear comparison between the current and new MFFs that would help understanding how EU spending priorities will change is lacking in the published package (see ***paragraph 1***)[10].

4. Making such a comparison is not straightforward because adjustments are needed to take into account four significant factors[11]:

- **Inflation** – The Commission presents monetary amounts for the current and new MFFs with different reference dates[12]. To compare the current and new MFFs,

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8 COM(2018) 392 final and COM(2018) 393 final.

9 COM(2018) 375 final.

10 The Commission has provided the European Parliament and the Council, as well as the ECA, with additional information indicating the changes between the current and the new MFFs.

11 We verified these adjustments with the Commission.

12 The Commission uses the term "current prices" to refer to absolute amounts to be paid or committed in a given year. To account for inflation, the Commission also uses "constant prices" (2011 prices for the current MFF and 2018 prices for the next MFF), calculated using a 2 % "annual deflator", which corresponds to the European Central Bank inflation target. This adjustment is an EU budgetary convention and does not necessarily reflect the actual rate of inflation in the EU.

19.2 billion euros need to be **added** to MFF 2014-2020 amounts[13] to convert them into amounts with a 2018 reference value[14].

- **Brexit** – Without additional contributions from the UK, the EU-27 will not pay grants and subsidies to UK farmers, researchers, businesses, organisations and public institutions. A comparison can be made between the current and new MFFs by **deducting** the **52.8 billion euros**[15] that the Commission estimates is attributable to UK beneficiaries during MFF 2014-2020.

- **Incorporation of the European Development Fund into the budget** – The Commission proposes to incorporate most of the European Development Fund (EDF) into the EU budget. Only the African Peace Facility (2.3 billion euros), which will be absorbed into a new European Peace Facility, will remain outside the EU budget. To compare the current and new MFFs, **28.2 billion euros**[16] in EDF funds need to be **added** to MFF 2014-2020.

- **Change of structure** – the Commission proposes a new structure for MFF 2021-2027. This development does not affect the comparability of the two MFF periods in terms of total budget, but it needs to be taken into account when analysing changes in spending priorities. The change of MFF structure, presented in ***Figure 2***, involves:

    - renaming the current MFF headings (e.g. “Sustainable Growth: Natural Resources” becomes “Natural Resources and Environment”);

    - creating new headings (“Migration and Border Management” and “Security and Defence”);

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[13] Expressed in “current prices”.

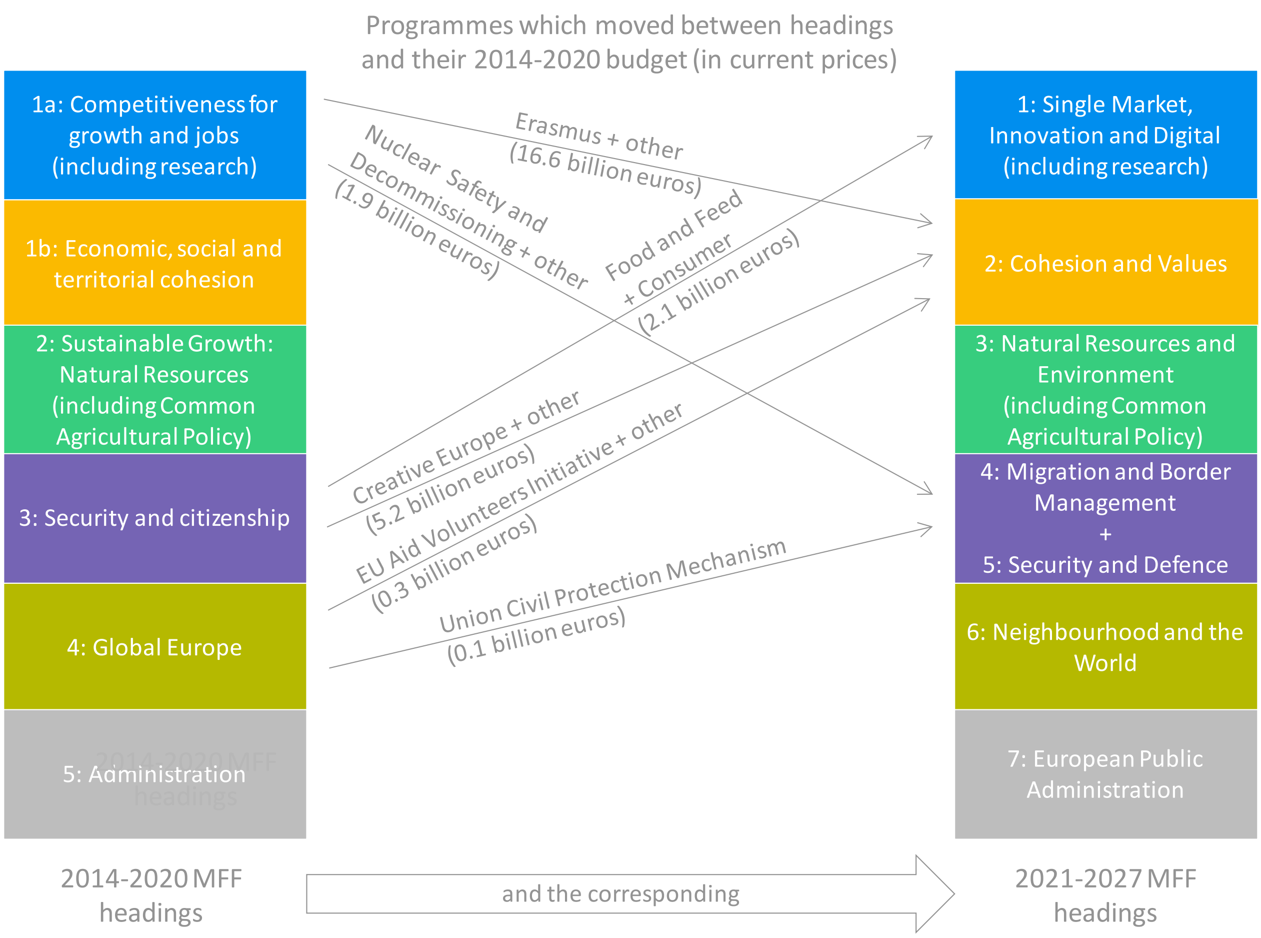
[14] In other words, expressed in 2018 prices. Unless specifically stated otherwise, all subsequent amounts in this paper are expressed in 2018 prices and all percentages are based on 2018 prices.

[15] In “current prices”.

[16] In “current prices”.

- shifting programmes between MFF headings. Only the headings covering agricultural and environmental programmes and administrative expenditure are not affected by any shifts.

<u>Figure 2</u>: Proposed changes to the MFF structure



Source: ECA, based on Commission data

5. Most EU spending is implemented by Member States, under **shared management,** in the areas of agriculture and cohesion policy. These funds are largely pre-allocated to Member States in accordance with a number of criteria and parameters. The MFF proposal does not describe in detail the criteria and parameters to be applied in the 2021-2027 period[17]. They play a crucial role in determining the level of EU funding each Member State receives as well as in directing

[17] The Commission provides more information on the criteria and parameters for allocating funds among Member States in sectoral legislative proposals.

agricultural and cohesion funding towards political priorities, such as economic, social and territorial cohesion, viable farming, youth unemployment, environment, climate action, and migration.

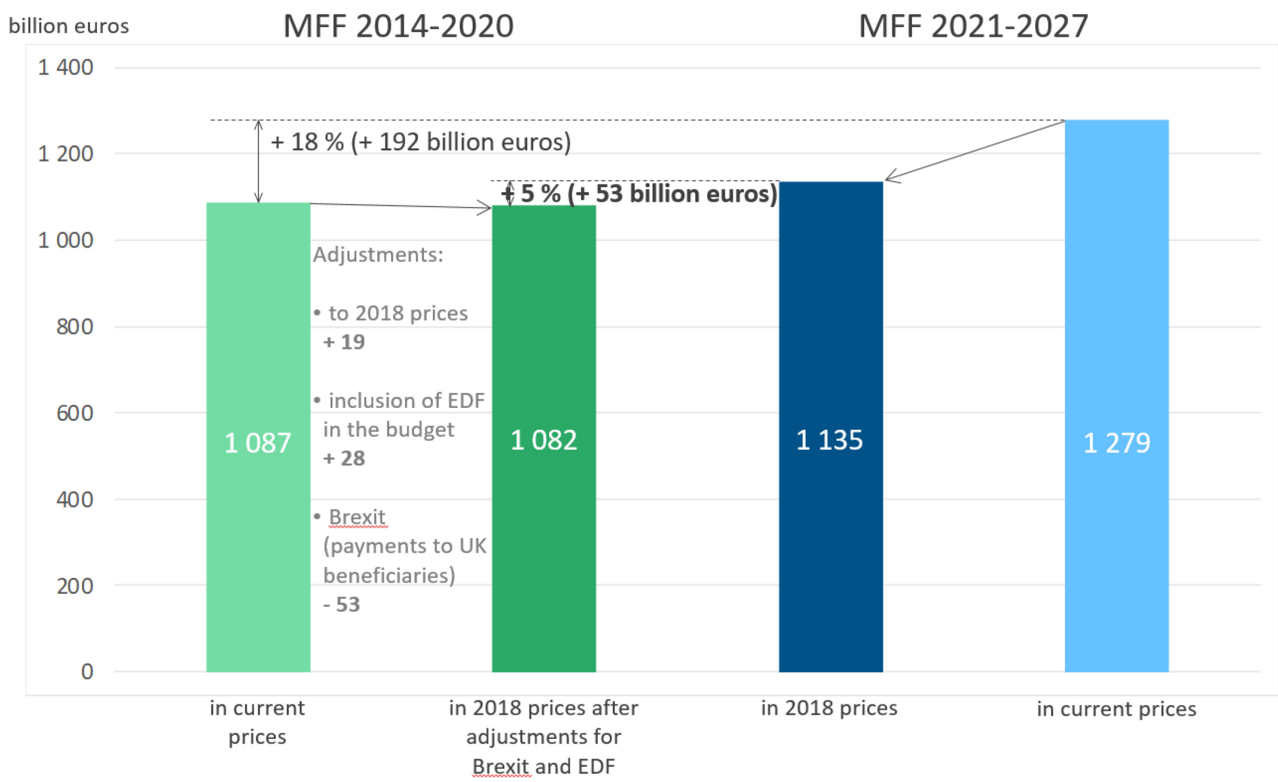
OUR ANALYSIS SHOWS A BIGGER EU-27 BUDGET WITH ADDITIONAL SPENDING IN PRIORITY AREAS

6. In absolute terms[18], the Commission's proposal for MFF 2021-2027 represents an 18 % increase on MFF 2014-2020 (from 1 087 to 1 279 billion euros). However, after putting the figures on a comparable basis[19] (see ***paragraph 4***), the real increase is 5 % (see ***Figure 3***). However, as a proportion of Gross National Income (GNI), the Commission estimates that, when applying the same comparable basis, there is a decrease from 1.16 % to 1.11 %.

[18] In other words, in "current prices".

[19] Different methodologies can be used to compare MFFs. In our analysis we compare the new MFF with the spending for the whole 2014-2020 MFF. The Commission, however, prefers to take the last year of the current MFF, multiplied sevenfold.

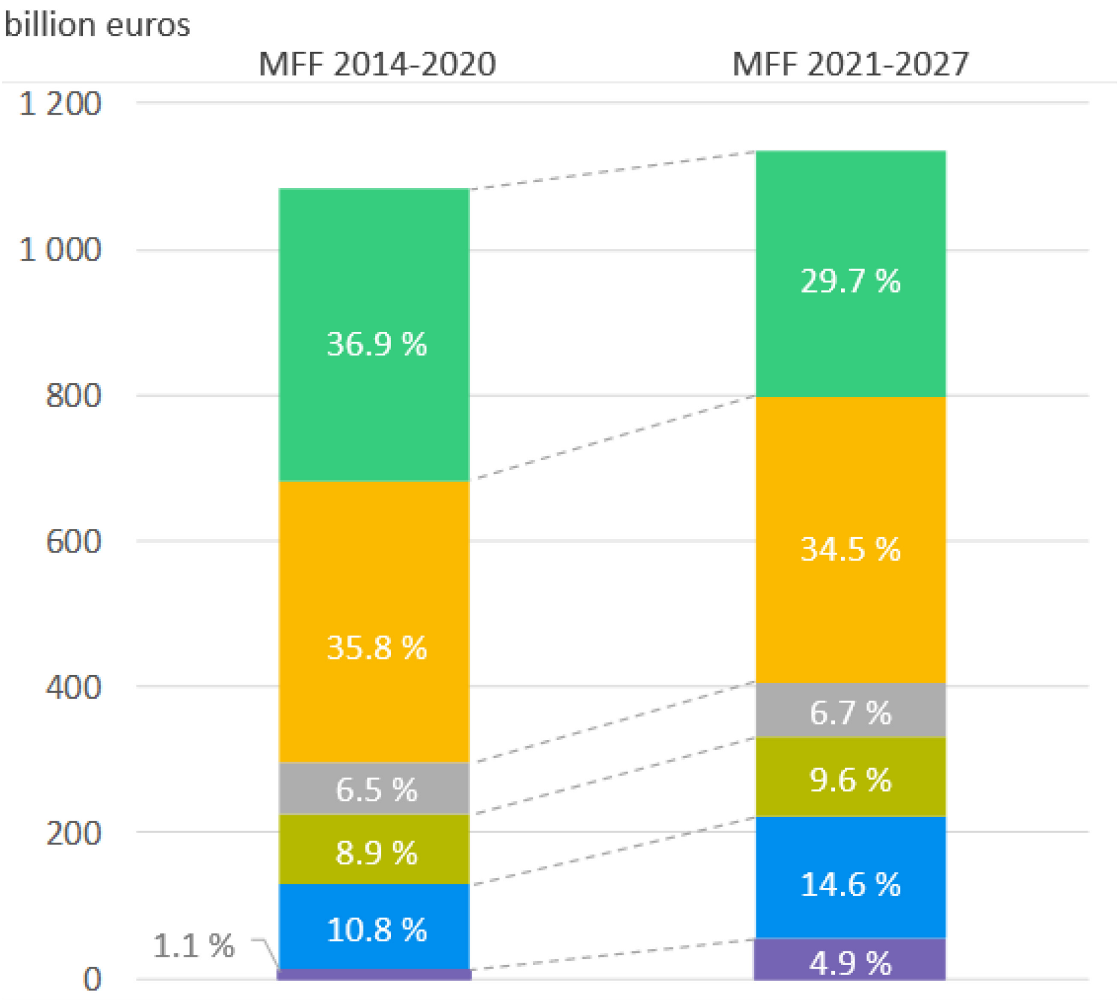
Figure 3: The Commission proposes a 5 % bigger 7-year budget



Source: ECA, based on Commission data

7. The Commission proposes a reprioritisation of EU spending. ***Figure 4*** compares the current and new MFFs by taking account of the changes outlined in ***paragraph 4*** and recasting MFF 2014-2020 under the headings of MFF 2021-2027.

<u>Figure 4</u>: Big increases in smaller programmes and a 16 % decrease in the MFF heading "Natural Resources and Environment"



Change between the current and the new MFFs		In euros	In %
	Natural Resources and Environment	- 63 billion	- 16 %
	Cohesion and Values	+ 4.7 billion	+ 1 %
	European Public Administration	+ 4.8 billion	+ 7 %
	Neighbourhood and the World	+ 12.6 billion	+ 13 %
	Single Market, Innovation and Digital	+ 49.9 billion	+ 43 %
	Migration and Border Management + Security and Defence	+ 43.1 billion	+ 359 %

Source: ECA, based on Commission data

8. As ***<u>Figure 4</u>*** shows, the Commission proposes to reduce funding (by 16 %) for one MFF heading – **"Natural Resources and Environment"**. Given that this heading covers 37 % of EU

spending under MFF 2014-2020, the total saving is considerable – nearly 6 % of the current seven-year budget. As a result, the overall share of spending under the heading "Natural Resources and Environment" will fall from 37 % to 30 %. The proposed decrease in spending does not affect all programmes equally:

- For the **common agricultural policy**, the Commission proposes a **15 % cut**. Within the common agricultural policy, **direct payments to farmers and market measures** (the first pillar) are to **decrease** by **11 %**, and **rural development programmes** (the second pillar) are to be **reduced** by **28 %**. At the same time, the Commission proposes to raise the level of co-financing provided by Member States.

- The Commission proposes a **50 % increase** for the **Programme for Environment and Climate Action (LIFE)**, which will remain a small part of the heading "Natural Resources and Environment" (2 %).

9. Overall, the Commission proposes to increase funding for the other MFF headings by **115 billion euros**[20], which corresponds to **11 % of the current MFF** (see ***Figure 5***):

- 55 % of this amount (63 billion euros, i.e. 6 % of the current MFF) comes from the reduction in the heading covering agricultural spending ("Natural Resources and Environment").

- 45 % of this amount (52 billion euros, i.e. 5 % of the current MFF) corresponds to new funds (see ***paragraph 6*** and ***Figure 3***).

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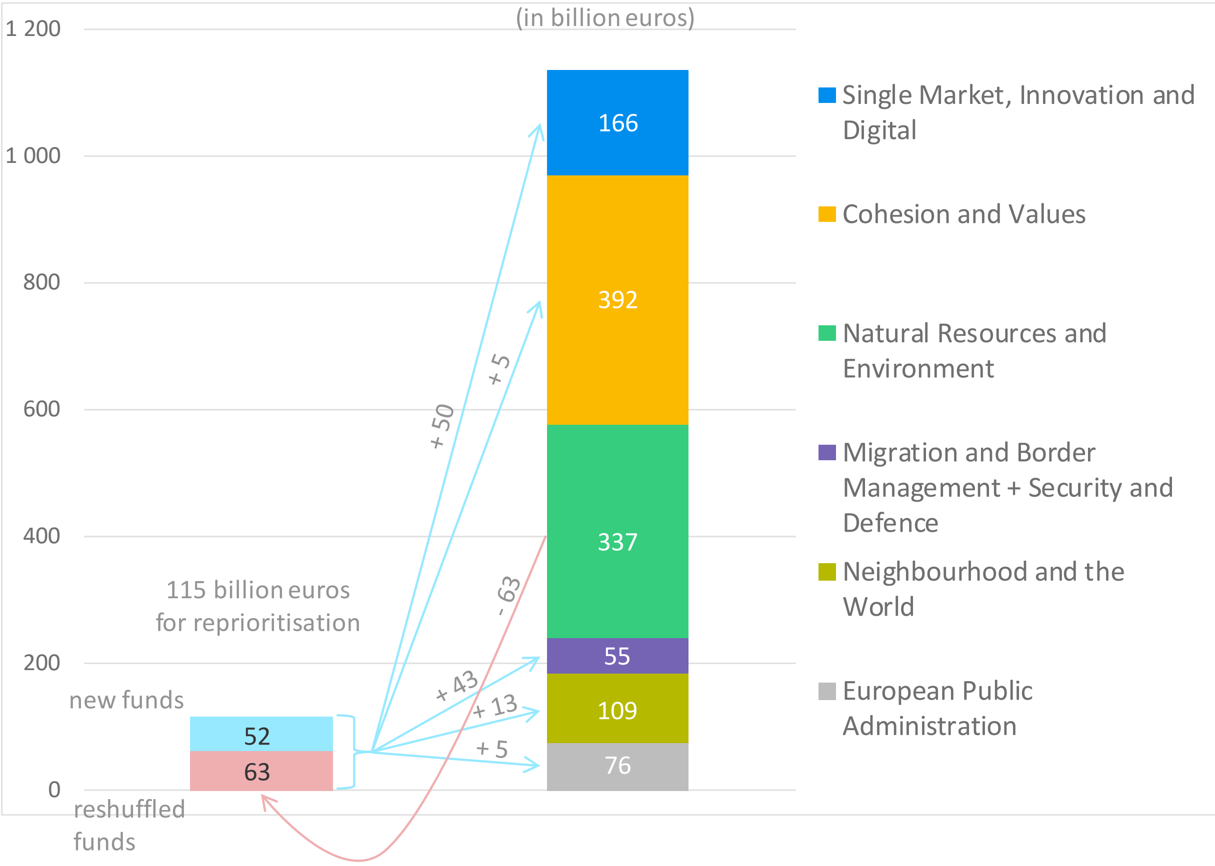
20 This amount refers to reprioritisation at the level of the new MFF headings. More reprioritisation occurs at lower levels of budget classification. For example, within the heading "Cohesion and Values", a decrease in funding for the Cohesion Fund and European Social Fund is offset by proposed increases for Erasmus + and other programmes (see ***paragraph 11***).

Figure 5: The Commission proposes to increase spending in priority areas using a 63 billion reduction in "Natural Resources and Environment" and 52 billion euros of new funds



Source: ECA, based on Commission data

10. The Commission's proposed reprioritisation focuses on policies and programmes that have had smaller financial allocations so far. As shown in ***Figure 4***, increases above 10 % are proposed for "Neighbourhood and the World" (+ 13 %), "Single Market Innovation and Digital" – the heading which covers research spending (+ 43 %), and the two new headings "Migration and Border Management" and "Security and Defence" (which we analyse together here) – replacing the current heading "Security and citizenship" (+ 359 %). As a result, the share of "Migration and Border Management" and "Security and Defence" will rise to nearly 5 % of the whole budget (from 1 % currently), and spending under "Single Market, Innovation and Digital" will rise to 15 % (from 11 % currently).

11. The spending proposed for the heading **“Cohesion and Values”** is to increase by 1 %, although the overall share of the EU budget will fall from 36 % to 35 %. However, there are major changes at programme level:

- Taken together, the **three funds that currently make up “cohesion”** (the European Regional Development Fund, the Cohesion Fund and the European Social Fund) are to be **cut** by **10 %.** However, each fund is affected differently:
    - the **European Regional Development Fund** is to **increase by 2 %**, in line with the evolution of the whole heading.
    - For the **Cohesion Fund**, the Commission proposes a **45 % cut**.
    - The allocation to the **European Social Fund** will be **reduced by 7 %**.
- Other programmes will be included in this heading, such as **Erasmus +** for which the Commission plans a **92 % increase** in funding. As a result, Erasmus + will represent 7 % of the new heading “Cohesion and Values”.

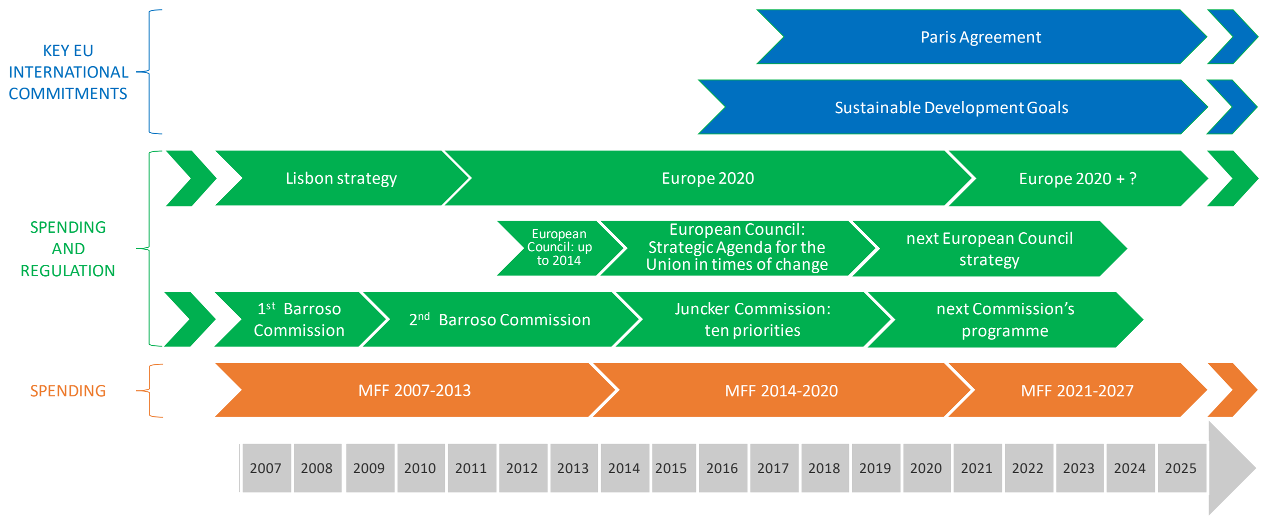
12. The 7 % increase proposed for “European Public Administration” includes administrative expenditure of the institutions (+ 3 %) as well as the cost of European Schools and pensions (+ 21 %). It cannot be viewed in terms of reprioritisation. The EU’s administrative expenditure is an overhead cost that relates to all EU spending programmes, operations and institutions and can be expected to grow in line with the increase in EU responsibilities that has occurred since the start of the current MFF.

THE COMMISSION PREPARED ITS PROPOSAL FOLLOWING A SOUND PROCEDURE, INCLUDING A SPENDING REVIEW FOCUSED MORE ON THE EFFICIENCY OF SPENDING THAN ON REPRIORITISATION

The MFF proposal was developed as part of a wider debate on the future of Europe but presented before the EU defined its new post-2020 strategic goals

13. As ***Figure 6*** illustrates, the future course of EU action is set out in 10-year EU strategies, programmes of the Commission and Council, political declarations[21] and binding international agreements, which are only partly aligned in terms of goals or timing. Against the background of these frameworks, the Commission developed its MFF proposal concurrently with holding a wider debate on the future of Europe and drawing up proposals for spending programmes for the 2021-2027 period.

Figure 6: Overlapping and unsynchronised strategic frameworks and objectives for EU action



Source: ECA

14. The Commission began the debate on the future of Europe after 2020 in spring 2017 with the publication of the White Paper on the future of Europe and a series of reflection papers on the key challenges ahead, including globalisation, defence, migration, social issues, the Economic

[21] Bratislava Declaration of 16 September 2016; Rome Declaration of 25 March 2017.

and Monetary Union, and the future of EU finances (the "Reflection Paper"[22]). The latter was discussed in the European Parliament and the Council, as were our comments on it (see ***Figure 1***).

15. The Commission followed up the Reflection Paper with a contribution[23] to the informal meeting of EU-27 Heads of State or Government in February 2018, which presented options for increasing or decreasing funding for major spending programmes. The MFF proposal remains largely within the scope of the options presented.

16. The Europe 2020 strategy will end before the start of the new MFF period, and no new set of strategic EU goals has been decided yet. In effect, due to the Commission's legal obligation to publish the new MFF proposal at this stage, it has become a vehicle for shaping the EU's political objectives after 2020 rather than simply reflecting them. This is not the customary or logical sequence of events, in which public budgets are determined after the setting of political objectives and designing policies. It means that it will be essential for the EU's legislative authorities, before adopting the new MFF, to take due account of the effect of decisions to come on the EU's political objectives after 2020 and the design of its key policies.

17. The Commission proposes to have the MFF legislation and the sectoral legislation for spending programmes, adopted by spring 2019. This would leave more than half a year for preparing the implementation of spending programmes – an improvement on the current MFF, which was adopted less than a month before its start date. The additional time would help the Commission and Member States to launch new programmes without delays – a problem that affected the start of the current MFF. However, compared to the adoption of MFF 2014-2020, this timetable seems ambitious. The current MFF needed 30 months from publication to adoption.

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[22] Reflection paper on the future of EU finances, COM(2017) 358.

[23] COM(2018) 98 final.

The Spending Review accompanying the MFF proposal has useful elements for improving the efficiency of programmes

18. In line with our proposal[24], the Commission carried out a spending review covering all major programmes under the current MFF. The review aimed to combine a strategic review (focused mostly on prioritising programmes according to their value added and coherence with EU objectives) with an efficiency review (seeking how to improve the delivery of existing programmes by examining opportunities for streamlining and synergies, simplifying rules, improving flexibility, and focusing more on performance).

19. We found that the Commission's analysis was convincing with regard to the efficiency of spending. When we compared the messages in the Spending Review with observations we had made in our reports (to which the Commission's document frequently refers), we found that the Commission's account of the current policies' performance was balanced overall. In some cases, however, the Spending Review does not sufficiently reflect certain key problems that we had identified. For example, it is positive about the effects of climate mainstreaming, which the Commission proposes to increase as a share of EU budget from 20 % to 25 %. But it does not reflect our observation that, in agriculture and rural development, funding for climate action has been overestimated and has not resulted in a significant change in activities.

20. The Spending Review provides strong arguments in favour of measures for simplifying programmes, streamlining the budget, and increasing financial flexibility. It identifies unexploited synergies between different programmes as well as opportunities to merge similar programmes in various policy areas. It also gives examples of unnecessarily complex, inconsistent rules and concludes that the success of simplification efforts so far has been limited. In addition, it explains how flexibility mechanisms proved to be insufficient to cope with emergencies during the current period, so that they had to be increased through an amendment to the MFF Regulation following the mid-term review, while also illustrating how existing flexibility tools helped set up a

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[24] EU budget: time to reform? A briefing paper on the mid-term review of the Multiannual Financial Framework 2014-2020, November 2016.

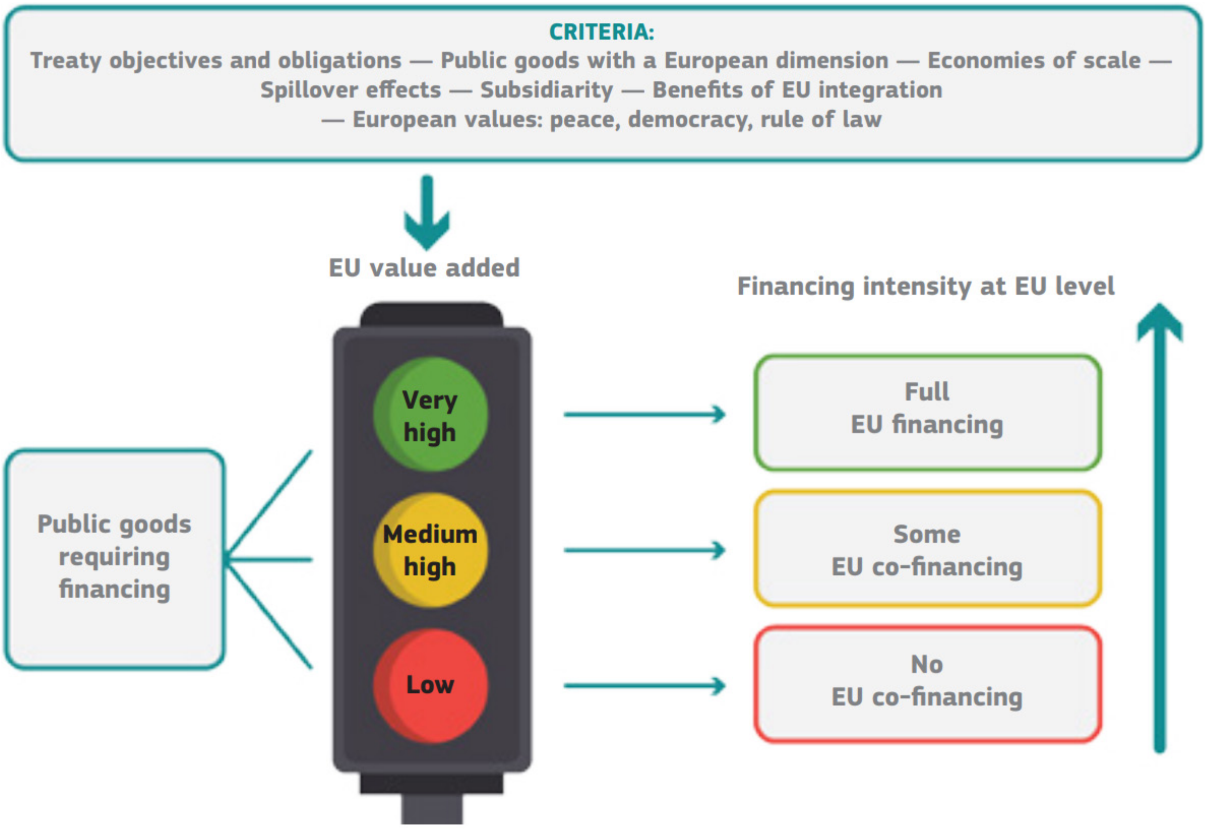
new European Border and Coast Guard and supported urgent research on the Ebola and Zika viruses.

The Spending Review does not support the proposed reprioritisation of EU spending with a systematic assessment of spending programmes' EU value added

21. We found that the published Spending Review was less convincing with regard to strategic aspects, such as spending programmes' EU value added and coherence with EU objectives.

22. In the Reflection Paper, the Commission stated that EU value added should be at the core of any discussion on the future EU budget. The document explained how the concept of EU value added went together with the principles of subsidiarity and proportionality. It proposed a list of seven criteria for the assessment of EU value added and spelled out how EU financial support for programmes should depend on the results of that assessment (see ***Figure 7***).

Figure 7: The Commission proposed criteria for the assessment of EU value added and spelled out how EU financing should depend on the results



Source: Commission Reflection paper on the future of EU finances

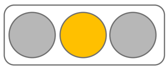
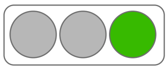
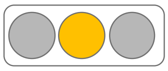
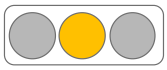
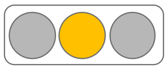
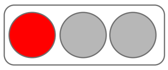
23. According to the Reflection Paper, only programmes with very high EU value added should receive full EU financing. For those with medium-to-high EU value added, the financing should be limited, and there should be none for programmes whose EU value added was low.

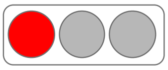
24. The published Spending Review provides neither a systematic assessment of programmes based on the criteria that the Commission defined for EU value added, nor a clear overall conclusion on each programme's EU value added. Readers cannot readily use the information in the Spending Review to compare or rank programmes in terms of the EU value added they generate. Consequently, the information does not provide much insight to guide future funding decisions by the EU legislative authorities.

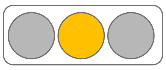
25. Given that the strategic objectives for the period after 2020 have yet to be set, the Commission was not in a position to adequately assess coherence with the EU's objectives for the 2021-2027 period. This is an inevitable weakness of trying to carry out a spending review at this point in the EU's strategic and policy-making cycle (see ***Figure 6*** and ***paragraph 16***).

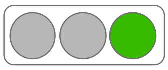
THE COMMISSION HAS PARTIALLY TAKEN ACCOUNT OF OUR PROPOSALS

Figure 8: The Commission has made some progress in implementing our proposals

Progress on the implementation of our proposals	
1. Develop and apply a robust concept of EU value added	
2. Improve the EU budget's capacity to respond to changing circumstances	
3. Complement the next MFF with a comprehensive financial plan	
4. Strengthen the overall performance framework	
5. Develop principles of accountability and transparency for all EU-related bodies	
6. Establish public audit mandates for all EU-related bodies	


Little progress


Some progress


Significant progress

Source: ECA

The EU still lacks a fully defined concept of value added to guide its spending

26. We proposed that the Commission develop and apply a robust concept of EU value added (***Figure 1***). We note that the MFF package, including the Spending Review, does not offer a new definition of EU value added, but refers to the set of criteria presented in the Reflection Paper (see ***Figure 7***). We also note that the Commission identified the concept of EU value added as a guiding principle of the spending review exercise. However, the published results do not include an assessment of the relative EU value added of programmes in the way outlined in the Reflection Paper (see ***paragraphs 21-24***). As we have argued, the concept of EU value added is necessary not only to allocate resources but also to design and evaluate spending programmes.

Flexibility to deal with unforeseen events will increase significantly

27. We proposed improving the EU budget's capacity to respond to changing circumstances by reforming key flexibility mechanisms of MFF 2014-2020. Under the Commission's MFF proposals,

the EU will retain the main features of the current arrangements with some changes to increase overall flexibility and ensure sufficient appropriations to cover unforeseen events. The main changes include:

- **raising the own resources ceiling** from 1.20 % to 1.29 % of GNI to take account of the inclusion of the EDF in the EU budget, increases in budgetary guarantees, and the UK's withdrawal from the EU. The own resources ceiling sets an upper limit on the EU budget payments that can be made in a year. The Commission's MFF proposal assumes that its proposal for an own resource decision, which is the subject of a lengthy adoption procedure, will be adopted before the new MFF enters into force. Until it is adopted, the ceiling will remain at the lower level of 1.20 % of EU-27 GNI. A higher own resources ceiling provides more flexibility to cover potential calls on the EU's budgetary guarantees.

- **reducing the difference between total payment appropriations and total commitment appropriations** compared to the current MFF (2.6 % for MFF 2021-2027; 5.5 % for MFF 2014-2020). Sufficient payment appropriations are needed in the new MFF to honour outstanding commitments from the current MFF[25] and any commitments made under the new MFF falling due before the end of 2027. A smaller gap between total commitment and payment appropriations reduces the risk of payment problems occurring.

- **removing the limits on the Global Margin for Payments**. Under the current MFF, subject to certain limits, the margin between the MFF ceiling for annual payment appropriations and the payments executed in a given year can be carried forward to future years of the MFF. This mechanism helps ensure that sufficient payment appropriations are available if spending programmes are delayed. Removing the limits will simplify the mechanism and increase the EU budget's ability to make payments in a timely manner.

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[25] Outstanding commitments at the end of 2017 were 267 billion euros, Annual Accounts of the European Union 2017, Table 4.4 of the implementing reports.

- **increasing the size and scope of special instruments outside the MFF**[26] by a further 34 %, from 1.8 billion euros per year during the 2014-2020 period[27] to 2.4 billion euros per year during the 2021-2027 period. As a result, the total appropriations potentially available through special instruments under the new MFF will be 16.8 billion euros. In addition, the Commission proposes that amounts spent in any one year from the four special instruments outside the MFF should be counted on top of the annual MFF ceilings for payment appropriations. This would clarify the treatment of special instruments in line with our previous recommendation[28].

- **widening the scope of the Global Margin for Commitments** and renaming it the **"Union Reserve"**. Under MFF 2014-2020, the EU may carry forward unused commitment appropriations to future years only for spending related to growth, employment, migration and security policies. Under the proposal, the budgetary authority could, in future, allocate unused commitment appropriations to any policy area. In addition, the Commission proposes that cancelled commitments in the EU budget ("decommitments") should be added to the Union Reserve. In the last seven years, annual "decommitments" have varied between two and five billion euros a year. These two measures will increase the EU's ability to respond to unforeseen events.

The Commission has not fully disclosed the assumptions behind the MFF proposal

28. We proposed that the Commission should complement its MFF proposal with a medium-to-long term financial plan. The principle purpose of such a plan would be to put the figures in MFF 2021-2027 into their proper economic and financial context for decision-makers and the public. As noted above, the MFF proposal does not sufficiently explain the underlying programming assumptions or provide a payments forecast. The Commission will have an opportunity to

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[26] The European Globalisation Adjustment Fund, the European Union Solidarity Fund, the Emergency Aid Reserve and the Flexibility Instrument.

[27] This figure includes increases already made in annual amounts following the mid-term review of MFF 2014-2020.

[28] Chapter 2 of the 2016 Annual Report, paragraph 2.48, Recommendation 2.

provide such information in line with the new Financial Regulation requirement[29] to produce annual financial and accountability reports, including a five-year forecast of future flows of funds. Information is also missing on the assumptions regarding the financial risks to EU finances for which funds will be kept in reserve, the economic situation during the period, and complementary sources of funding to be used to meet EU objectives.

It is too early to assess progress on simplifying programmes and strengthening performance frameworks

29. The Commission announced that among the principles shaping its MFF proposal were “less red tape for beneficiaries” and “a budget that performs”. This is in line with the Commission’s “principles for reform”, which we endorsed (see ***Figure 1***).

30. For the 2021-2027 period, the Commission proposes to reduce the number of spending programmes by a third and “to make rules more coherent on the basis of a single rulebook”. This, according to the Commission, “will drastically reduce the administrative burden for beneficiaries and managing authorities”. When pursuing this goal, the Commission needs to be alert to key risks:

- To genuinely achieve simplification, the single rulebook should eliminate all unnecessary rules, requirements and procedures. It should not simply be a consolidation of the existing separate rulebooks into a single large volume.
- Simplification is not a goal in itself but a means to increasing the efficiency of EU action. Therefore, when designing rules for EU programmes, the Commission needs to strike a balance between ease of implementation and effectiveness in achieving EU objectives.
- For spending areas under shared management, Member States are largely responsible for setting detailed rules. The Commission will need to ensure that Member States’ rules strike the same balance between ease of implementation and effectiveness.

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[29] Article 247(1) of the new Financial Regulation, see Council document 7847/18 ADD 1 (ongoing legislative procedure 2016/0282/COD).

31. In the MFF Communication, the Commission proposes "to strengthen the focus on performance across all programmes, including by setting clearer objectives and focussing on a smaller number of higher quality performance indicators". The new programmes' objectives defined in the annex to the MFF Communication take the form of narrative mission statements. They are not quantified and lack specificity. We expect comprehensive intervention logic models with specific targets and matching sets of informative output, result and impact indicators to be developed in the relevant sectoral legislation or programming documents (including at Member State or regional level).

Including the EDF will improve the "unity" of the EU budget but overall accountability remains an issue

32. The Commission's plan regarding the EDF is in line with our previous proposals (see ***Figure 1***). Incorporating the EDF – an EU programme pursuing EU objectives – into the EU budget, and subjecting it to the same principles and rules as those applicable to other programmes financed from the EU budget, will improve overall accountability with regard to EU action. However, the Commission's proposals do not explain how a consistent level of accountability and transparency will be ensured between funds spent to achieve EU objectives through the EU budget and those that will continue to be spent outside it. We have previously proposed including six elements in any new arrangements to ensure strong accountability, transparency and audit chains[30]: clear roles and responsibilities, requirements on management to provide assurance, full democratic oversight, a mechanism for improving performance, independent public audit, and follow-up of audit recommendations.

Public audit at EU level is still not assured for all relevant spending

33. As we proposed (see ***Figure 1***), public audit mandates should be established for all types of financing of EU policies at EU and national level. The European Court of Auditors should be appointed as the auditor of bodies set up to implement EU policies, including EU bodies (such as the European Defence Agency and the proposed European Monetary Fund) and bodies created

[30] "Gaps, overlaps and challenges: a landscape review of EU accountability and public audit arrangements" ECA, 2014, paragraph 14 and Table 1.

through agreements outside the EU legal order (such as the European Stability Mechanism and the European Investment Bank in relation to its non-EU budget operations). This change would require amendments to the founding acts of the bodies concerned, and it is not necessarily linked to the transition from one MFF period to another. However, it needs to start from a political commitment, which is not present in the Commission proposals for MFF 2021-2027.

CHALLENGES FOR THE EU BEFORE ADOPTING MFF 2021-2027

34. A number of issues that we raised when the MFF was being developed continue to be relevant. We believe that they can be addressed when the EU tackles the following **challenges** before the start of the new MFF and programming period:

- **Developing a comprehensive financial plan**. Adopting MFF 2021-2027 by spring 2019 will be challenging. However, meeting this deadline would help to ensure spending programmes start on time. We consider that good quality information could contribute to speedier – and better – decision-making. In this context, we maintain our invitation to the Commission to clarify the key assumptions behind the MFF proposal in a comprehensive financial plan.

- **Determining the EU's strategic objectives.** The debate on the MFF proposal has begun before the EU has clearly stated its strategic objectives for the period after 2020. It will be important for EU decision-makers to ensure that the EU's financial planning for the period 2021-2027 adequately reflects any subsequently determined objectives.

- **Strengthening performance frameworks.** It will be essential to equip EU spending programmes with strong and mutually consistent performance frameworks aligned with the EU's strategic objectives and MFF 2021-2027. We will be providing our opinions on legislative proposals for a number of key spending programmes.

- **Ensuring adequate accountability and transparency.** The Commission is currently proposing a range of new and revised funding schemes. These proposals need to ensure that a consistently high level of public accountability and transparency is achieved. We have advocated developing a set of principles based on six elements (see ***paragraph 32***). One option could be to include such a statement of principles in the interinstitutional agreement accompanying the MFF proposal[31].

- **Strengthening public audit at EU level**. We maintain our view that the European Court of Auditors should be mandated to audit all EU bodies, including the European Defence Agency and the proposed European Monetary Fund[32], and invited to audit all bodies created through agreements outside the EU legal order to implement EU policies. This would include the European Stability Mechanism and the European Investment Bank's non-EU budget activities.

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[31] COM(2018) 323 final of 2 May 2018.

[32] As mentioned in ***paragraph 2***, the ECA will issue an opinion on the proposed European Monetary Fund. The opinion will focus on its accountability and audit arrangements.

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