

Position paper Netherlands – Mid term review MFF

Dutch non-paper on the mid-term review of the Multiannual Financial Framework 2014-2020

The Hague, the Netherlands – July 2016

Introduction

- In 2016 the functioning of the Multiannual Financial Framework (MFF) 2014-2020 will be assessed in the mid-term review. During the first two and a half year of this MFF, some unforeseen challenges have occurred. To name the most important: an ambitious fund to stimulate investments (EFSI) was established and large budgetary increases were agreed to in order to deal with the large and unprecedented influx of refugees. The current MFF proved to be able to successfully incorporate these changes. However, looking ahead, challenges remain.
- The mid-term review of the MFF should – as is stated in the Council Regulation laying down the MFF – review the functioning of the MFF taking full account of the economic situation at that time.¹ In this sense, the mid-term review should be used to examine the main challenges for the remaining years of this MFF.
- According to the Netherlands the following challenges should be addressed within the mid-term review:
 1. Sufficient flexibility to respond to unforeseen expenditures and changing priorities while respecting the MFF-ceilings.
 2. Preventing disproportional pressures on the later years of the MFF.
 3. Ensure effective and efficient spending.
 4. Ensuring a predictable and transparent budget process.
- This mid-term review takes place three years after a long-debated compromise was reached, which created certainty about long-term investments within the EU and the financing of policy priorities. The Netherlands believes that this certainty should be upheld by fully respecting the agreed MFF-ceilings, the principle of budgetary unity and respecting legal commitments already made. With a total volume of approximately 1.1 trillion euros, the current MFF has sufficient budgetary space/scope to implement EU policies effectively. The Netherlands remains committed to a modern and future proof MFF, while maintaining budgetary discipline at all levels.

Challenges for the MFF

1. Sufficient flexibility for unforeseen expenditures while respecting the MFF-ceilings

- MFF-ceilings must be respected. The MFF provides for sufficient financial resources to cope with unforeseen events and for investment in growth and jobs. This has been shown in the previous two and a half years, during which large, unforeseen expenditures have been successfully incorporated in the MFF, as described above.

¹ COUNCIL REGULATION (EU, EURATOM) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020

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- However, to our view, this comes at a cost. Firstly, future possibilities for incorporating unforeseen expenditures have been reduced, while at the same time the large influx of refugees / migration crisis will continue to put pressure on the MFF-ceilings. In 2016, the flexibility instrument has been fully deployed and margins under the relevant expenditure headings have been exhausted. Moreover, ceilings for future years have been lowered to offset the deployment of the contingency margin in 2014.
- Secondly, the current way to encompass unforeseen expenditures places a disproportional burden on budgetary categories where expenditures are not fully pre-allocated. The possibilities for reprioritization are inherently limited to specific budgetary categories.
- To address these challenges, the Netherlands identifies the following options:
 - Firstly, it is vital to use existing flexibilities within the current MFF. However, the effects of the deployment of flexibility instruments should be limited to the same year as much as possible, to prevent a disproportional burden on later years. The Netherlands welcomes the proposal of the Commission for the draft budget of 2017, in which the Contingency Margin is immediately offset.
 - Secondly, the European Commission is invited to present concrete proposals on how the annual budgets of the remaining years of this MFF can be made more flexible, while respecting the MFF-ceilings. Some options are:
 - Sufficient margins in both commitments as well payments in its annual budget proposal, by setting negative priorities and/or agreeing to sunset clauses in new legislation.
 - Exploring possibilities for greater flexibility in reallocating resources within and between headings in the same year.

2. *Preventing disproportional pressures on the later years of the MFF*

- In the previous programming period, significant delays have occurred in the execution of ESI-funds, which resulted in pressure on the payment ceilings of the last years of the previous MFF and the first years of the current MFF. Although the level of outstanding commitments (RAL) has significantly decreased, the European Court of Auditors forecasts that this is temporary.
- The Netherlands expects a high level of outstanding commitments and pressures on the payment ceilings towards the end of the current MFF and the first years of the next MFF. This effect might be stronger than in previous periods due to the previously mentioned lowered MFF-ceilings to offset the contingency margin and the significant delays in the execution of ESI-funds, due to late adoption of the relevant regulations.
- To prevent payment problems in the later years of the MFF and in the first years of the next MFF, the Netherlands is of the opinion that we should strive to:
 - Budget prudently by allowing for larger margins in commitments, to prevent the buildup of payment claims.
 - Settle or decommit outstanding commitments in a timely manner by enhancing timely implementation of programs. When appropriations are transferred to later years, for example via the Global Margin for Payments, there should be incentives to implement programs as soon as possible taking into account their policy objectives.

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3. Ensuring effective and efficient spending

- EU funds should be spent in the most effective and efficient way, to ensure the maximization of the effect of the EU budget. The Netherlands welcomes the Commission's commitment to a budget focused on results and has the following suggestions as means to improve the efficiency and effectiveness of the EU budget:
 - EU spending should be assessed on the basis of objective indicators that measure outcome, effects and performance. This should entail a closer link between political goals, (ex ante) conditionality and the actual, measurable outcome/effect of EU funding. Cost-effective delivery on political objectives and results indicators should be clearly incentivised. This should not add to, and preferably ease, control mechanisms.
 - Simplify the administration and control of EU resources, particularly in the area of shared funding administration.
 - The European Commission is invited to explore a more effective link between EU resources and economic policy coordination in the EU in order to align investments more closely with economic, employment and fiscal policy requirements. The foundations for this were laid in the field of EU structural policy.

4. Ensuring a predictable and transparent budget process

- The decisions about and the support for the allocation from the EU budget can be clouded by unclear technicalities. For example, in the previous years a lot of attention was drawn to the debate about the rebalancing of GNI-contributions and differences in opinion about the scope for reprioritizing within budgetary categories.
- The Netherlands believes that especially in the light of the challenges that the EU currently faces, more focus on the essentials is needed. Creating more predictability within the budget cycle can help ensure the necessary clarity.
 - Introduce a budgetary calendar with a predictable timeline for presenting draft amending budgets and budgetary information.
 - Reduce the number of amending budgets (DAB) where possible. The Commission could look into required revenue DABs. The Netherlands also welcomes the inclusion of a reserve for deployments from the EU solidarity fund in the draft budget for 2017, which would make several amending budgets each year redundant. The size of this reserve should be limited, since for massive natural disasters a DAB could be presented.
 - Improve the provision of information on forecasted payments, such as a Medium Term Payment Outlook for the remaining years of the MFF.

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Conclusion: looking ahead

The Netherlands calls upon the Commission to explore ways to increase the flexibility, budgetary prudence, performance and transparency within the scope of the current MFF regulation. This position paper has focused mainly on options to enhance the functioning of the current MFF. However, the Netherlands would also welcome exploring possibilities to structurally enhance/improve the setup of future MFFs. In this regard, the Netherlands believes that we should strive for a more simple and just way of financing the EU-budget; for a more agile budget that is able to react to unforeseen circumstances in a balanced and budgetary prudent manner; and for enhancing the effectiveness of EU-spending in generating European Added Value in line with the strategic priorities of the EU. The Netherlands calls for alignment of and synergy between measures on European, national and regional levels targeting EU strategic goals. The Netherlands therefore calls upon the Commission, as well as current and future EU-presidencies to continue to facilitate the debate about a better future MFF, including by creating space to explore possibilities for reforms and other improvements.