EUROPEAN UNION

Committee of the Regions

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DRAFT OPINION

Mid-term revision of the Multiannual Financial Framework (MFF)

Rapporteur: **Luc Van den Brande (BE/EPP)**
Chair of the Management Board of the Flanders-Europe Liaison Agency, VLEVA

This document is being sent to members in accordance with Rule 15 (4) of the CoR Rules of Procedure, in order to align the adoption of this opinion to the adoption of the strategic report on the preparation of the post-electoral revision of the MFF 2014-2020 in the European Parliament.

Deadline for tabling amendments:

In accordance with Rule 23 (3), the deadline for submission of amendments is **3 p.m.** (Brussels time) **on Tuesday, 7 June 2016**. Amendments must be submitted using the online tool for tabling amendments (available through the Members' Portal at http://cor.europa.eu/members).

Number of signatures required: 6

The opinion will be discussed and adopted at the Plenary Session on 15 June 2016.

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Reference document

Draft opinion of the European Committee of the Regions –
Mid-term revision of the Multiannual Financial Framework (MFF)

I. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

MFF revision: general comments

1. is of the opinion that the Multiannual Financial Framework (MFF) is first and foremost a policy tool for identifying and addressing European strategic targets and that, since the MFF provides funding for the operation of the European Union, its review is pre-eminently a political and not a technical debate;

2. underlines the importance of the MFF in ensuring that EU long-term spending is predictable and carried out in line with mutually agreed common policies. These overarching principles are crucial for regional and local authorities (RLAs) and other beneficiaries of EU funds;

3. notes that the MFF is of particular importance for regional and local authorities (RLAs), since they play a vital role in the implementation of European policy objectives; points out, in the light of this, that regions and local authorities are involved – directly and/or indirectly – in managing or spending 75% of the EU budget;

4. regrets that the ceilings in the current MFF are for the first time lower than in the previous one, forcing the European Union to assume more responsibilities with fewer financial resources; reiterates its concern about the ceilings of the MFF as expressed in previous opinions[1];

5. reiterates the fact that the effectiveness of European policy depends on proper application of the principle of multilevel governance, which is considered a general principle governing the structural funds[2] and determines that all levels of government – each according to their competences – work together in an efficient manner to achieve the policy objectives; warns in this respect against a reduction in the shared management of programmes and attempts to centralise the funds at European level;

6. observes that the EU faces a continuous lowering of investment levels, leading to an investment gap in the EU, which is estimated by the Commission to be of up to EUR 370 billion below the historical norm. Supports the Commission's endeavour to contribute towards tackling this gap through the Investment Plan for Europe and the European Fund for Strategic Investments

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1 CDR275-2013_00_00_TRA_AC (23-24).

2 Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006 – {SEC(2011) 1141 final} {SEC(2011) 1142 final}.

(EFSI). Stresses therefore the need to anticipate well ahead the report on the future of the EFSI that the Commission is due to submit by July 2018;

7. considers it necessary to investigate whether more investment can be obtained by adapting the investment clause, allowing the Member States to deviate under well-defined conditions from their medium-term objective or the agreed fiscal adjustment path under the Stability and Growth Pact (SGP). Investments could include, inter alia, national expenditure on projects co-financed by the EU under the structural and cohesion policy (including the YEI) and the EFSI;

8. points out that the current MFF has already reached its limits, exhausting ceilings in some areas and using as many flexibility instruments as currently possible;

9. stresses the need for a full-scale mid-term revision of the MFF. A genuine mid-term revision both of the MFF ceilings and the specific provisions of the MFF Regulation is much needed. It must take the findings of the review into account and provide the EU with a viable budgetary framework to address its political priorities and challenges;

10. points out that, should new priorities be identified, the institutions will have to take on responsibility for ensuring the financing of new tasks, either by clearly identifying policy areas that would no longer be among the Union's priorities or by agreeing to an upward revision of the MFF ceilings;

11. reminds the institutions that scarce resources should not result in a reduction of EU common priorities;

12. invites the institutions to conclude the MFF revision as swiftly as possible, in order to allow a sufficient time for preparation of the Commission proposals for the post-2020 MFF, due to be presented by 1 January 2018;

MFF revision: specific recommendations

13. warns in advance, despite its understanding for urgent needs, that the use of some financing mechanisms and Trust Funds cannot be a pretext for keeping Union initiatives (partially) outside the EU budget – and thus escaping the democratic control of the European Parliament – and for bringing them under the management of the Member States;

Political priorities and challenges for the second half of the MFF

14. emphasises that attention should be paid in the second half of the MFF to the following political priorities and challenges that have a direct or indirect impact on the well-being of European citizens:
    - promoting jobs, growth and competitiveness: the EFSI was set up without a revision of the MFF ceilings, but by redeployment of existing programmes (reduction of Horizon 2020 by EUR 2.2 bn and reduction of the Connecting Europe Facility by EUR 2.8 bn); an MMF revision should compensate for these EFSI-related cuts to these programmes;

- achieving greater synergies between EU programmes to promote public and private investment in regions and cities, particularly with regard to the EU Urban Agenda;
- tackling unemployment and youth unemployment in particular: the Youth Employment Initiative needs therefore to be continued at least until 2020, with particular emphasis on the reintegration of young people into the labour market;
- integrating the long-term unemployed into the labour market;
- addressing the causes of destabilisation and external crises;
- addressing the migration and refugee crises: the resources available in the current MFF are insufficient to tackle the problem in the coming years. The relevant MFF ceilings need to be raised to ensure the reception and integration of migrants, for which regional and local authorities are mainly responsible;
- ensuring internal security and the fight against terrorism: an increase of the MFF ceilings of Heading 3 could therefore be envisaged;
- promoting social protection, in conjunction with the objective of implementing the EMU's social dimension. Social protection is a necessary condition for social harmony and for economic growth in the individual countries;
- addressing the demographic challenge, in particular through better tracing of demography-related expenditure notably in ESIF and the EFSI;

Compensation of budgetary cuts related to the EFSI

15. notes that the Horizon 2020 and the Connecting Europe Facility (CEF) are symptomatic of a budgetary malfunctioning: there is a huge gap between the goals and allocation available for the whole programming period 2014-2020, notwithstanding budgetary cuts in favour of the newly established European Fund for Strategic Investments (EFSI);

16. notes, on the other hand, that the projects funded by Horizon 2020 and Connecting Europe Facility have a significant European added value;

17. considers that it is too early to assess whether the creation of the EFSI has led to the possible loss of overall funding for European research and infrastructure projects;

18. reiterates the need to reinforce Horizon 2020 and the CEF through the annual budgetary procedure, in order to compensate as much as possible for the cuts agreed during the EFSI negotiations and to enable them to meet their respective objectives, agreed just over two years ago;

Youth Employment Initiative

19. welcomes the steps taken by the European Commission and the budgetary authority in frontloading the whole financial envelope of the Youth Employment Initiative as early as in 2014 and 2015, since this has sent a clear signal about the crucial importance of the whole initiative for young people in the worse affected regions;

20. calls for the continuation of the Youth Employment Initiative, following a fully fledged assessment of its performance and subsequent adjustments to overcome existing implementation impediments, including the provision of new commitment appropriations as of 2017;

21. calls on the institutions to fulfil their commitments made during the negotiations on the EU budget for 2016 and calls on the European Commission to draw lessons from the results of the YEI evaluation and, as appropriate, advance proposals for the continuation of the initiative until 2020;

22. in connection with the YEI, calls on the Commission, in the context of the MFF review, to adopt a special initiative to promote the integration of the long-term unemployed into the labour market;

Flexibility

23. is in favour of flexibility in the MFF and the annual budgets, in order to provide answers to unexpected events or new challenges, but warns against excessive expectations in this area. More flexibility is not the solution to insufficient financial resources to achieve European objectives;

24. calls on the European Commission to assess all the MFF Regulation's flexibility provisions with a view to removing any constraints that might impede their full use and to improving their performance;

25. again points out to the European Commission and the budgetary authority that several options exist – differing in complexity and feasibility – and that these need to be properly discussed without any bias or suspicion;

26. states that, when the options for greater flexibility and predictability are being assessed, the principle of good faith and stability in the framework conditions for the Member States and economic players must be maintained, while reallocations previously made from individual categories must be taken into account;

27. is of the opinion that the abovementioned options could include:
    - a greater flexibility in reallocating resources, initially between instruments and between headings;
    - simplifying the use of the Flexibility Instrument within the meaning of paragraph 12 of the Interinstitutional Agreement of 2 December 2013, because its use is hindered by the decision procedures;
    - a simplified procedure to adjust and increase the expenditure ceiling to deal with unforeseen circumstances or a change in political priorities;
    - revising upward the MFF ceilings in both payment appropriations and commitment appropriations so that they reflect the EU's political and budgetary priorities;
    - increasing the Contingency Margin, as the last resort, from current 0.03% of GNI to a higher rate;

28. points out to the Council that the payment appropriations for the special instruments (the Flexibility Instrument, the EU Solidarity Fund, the European Globalisation Adjustment Fund and the Emergency Aid Reserve) should be calculated over and above the MFF ceilings, as is the case for commitments;

29. notes that Cohesion Policy envelopes are not suitable for substantially tackling current crises with sufficient flexibility, three of the reasons for this being their long-term planning, their focus on structural investment and the thematic concentration; invites the European Commission to come forward with solutions to resolve this problem outside the Cohesion Policy envelopes;

30. although pre-allocated national envelopes – including those under Cohesion Policy – are not to be reduced through the mid-term revision, invites the European Commission to present, within its proposal, an exact algorithm of how the Cohesion Policy envelopes will be adjusted this year in accordance with Article 7 of the MFF Regulation and how this will affect flexibility mechanisms in place[3];

Payments backlog

31. notes that, if its fears come true, the MFF 2014-2020 will lead to a further shortfall in the European budget;[4] due to the lack of payment appropriations, the Commission will not be able to meet its obligations. This is a particularly worrying trend[5];

32. underlines the fact that the payments backlog has negative effects on the regions and various stakeholders as EU budget beneficiaries – such as a risk of losing investments, a reduction in activities, withdrawal from projects, short-term loans, and delays in the implementation of operational programmes. It also limits the interest of potential beneficiaries due to low stability of funding;

33. warns against the current payments backlog and the overly optimistic assumptions of the European Commission about a decrease in the backlog at the end of 2016;

34. points out that one of the elements contributing to its decrease is the absorption rate of Cohesion Policy programmes in the 2007-2013 programming period. The absorption rate as of today is approximately 88.9% (final payment claims not included) and will certainly not reach 100% after all the final payment claims are really disbursed. An important part of the Cohesion Policy programmes will therefore be de-committed, which will in turn have negative effects on the EU's economic, territorial and social cohesion;

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3 According to Art 90(5) of Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the Commission shall review the eligibility of Member States for support from the Cohesion Fund on the basis of Union GNI figures for the period 2012 2014 for the EU-27 and national envelopes shall be subsequently recalculated, with total net effect of these adjustments not exceeding 4 billion EUR (as set in the MFF Regulation).

4 The current MFF started with "a debt" from the previous framework of EUR 23.4 billion and at the end of 2014 this backlog reached an unprecedented level of EUR 24.7 billion for the 2007-2013 Cohesion programmes.

5 CDR275-2013_00_00_TRA_AC.

35. is afraid that some aspects are likely to contribute to a new payment backlog in the second half of the MFF and therefore jeopardise or delay payments to all stakeholders. These include: the current payment ceiling will be further compressed from 2018 due to the offsetting following the mobilisation of the Contingency Margin in 2014; part of the payment appropriations of 2014 and 2015 are being used to pay the payment backlog from the past; the frontloading of EUR 2 billion in payments from the ESIF to Greece in 2015 and 2016 without an increase in payment appropriations and no reinforcement in payments has been foreseen within the framework of the additional commitments for migration;

36. expresses concern at the late adoption of the ESIF operational programmes and at the risk of the build-up of a new backlog of unpaid bills over the second half – and especially the end – of the MFF; therefore calls on the European Commission to present a payment plan for Cohesion Policy up to the end of the 2014-2020 programming period so as to ensure that sufficient funds are available to make payments to the Member States;

37. calls for abolishing the return of the surplus to the Member States' national budgets and the deduction from the following year's Member State contribution to the EU budget;

Budget focused on results and economic governance

38. notes that, when negotiating the present MFF, the institutions failed to properly assess possible consequences of unforeseen crises and that they should have introduced more flexibility into the MFF. One of the answers to this issue, along with greater flexibility, may be an evidence-based performance budgeting;

39. welcomes the European Commission's initiative to present the "Budget focused on results" (BFOR), aimed at how the budget is spent, in which areas it is spent, how the spending is assessed and how the results are communicated, also in order to establish criteria for rewarding the Member States and regions that manage their resources most effectively;

40. calls for an improved financial reporting by the European Commission. This means in particular up-to-date reporting at regular intervals and in a standardised form on the relevant key figures for all MFF instruments/headings;

41. argues that EU spending should be more closely linked to the economic policy challenges of the Member States and to EU economic policy coordination; asks the European Commission to ensure 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. This approach should be properly analysed in advance and in relation to its achievements in Cohesion Policy, in order to prevent regions and their citizens suffering as a result of the macroeconomic policies of Member States and bearing the consequences of actions at national level;

European added value

42. points out that the concept of European added value still needs to be properly discussed, taking the specific needs and interests of European regions into consideration;

43. suggests that common evaluation standards be developed, to be used for measuring the European added value of operations co-financed from the EU budget, based on outputs. Subsidiarity should be a clear assessment criterion to evaluate such added value, as there are EU investments that due to their scale are better done via EU-wide programmes but others would have a better effect if they are managed locally or regionally. These standards, apart from comparing the additionality of different European programmes, could serve as a basis or a justification for future interventions, allocation of financial resources between programmes and better targeted policies; recommends that the European Commission consult the Committee of the Regions on this concept;

44. notes that the negotiations on the next MFF will see the reappearance of the never-ending battle between the Member States and the European Commission on the direct or shared management of programmes. Whilst the Member States mainly advocate national pre-allocations, since these are simpler to manage, local and regional needs and powers will have to be respected in accordance with the principle of subsidiarity. On the other hand, only the strict application of the principle of additionality will lead to the achievement of European added value; concludes that the programmes under shared management have proved to be the right approach to combine these forces;

45. suggests that the scale of national co-financing rates be not only based on financing capacities of Member States but also on the level of economic development of the region in question and the contribution that EU expenditure makes to the Union's overarching aims or on its European added value: higher EU co-financing rates for European priorities and lower EU co-financing rates for mainly national priorities;

46. calls for better use to be made of macro-regional strategies and of European territorial cooperation, as a tool that enables functionally operational subnational entities to work together across administrative borders, and to meet the practical needs of European citizens and businesses.

The post-2020 MFF

Duration of the subsequent MFF

47. notes, in line with the CoR opinions on the MFF 2014-2020, adopted in 2011[6] and 2012[7], and on the EU Budget 2014[8], the strong preference for a prolonged ten year budgetary period, with a compulsory substantial mid-term revision after the first five years;

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6 CdR 283/2011 fin.

7 CDR1777-2012_00_00_TRA_AC.

48. is of the opinion that this option would fit the best with multiannual programming, since on the one hand it provides more stability and predictability, notably for programmes under shared management in the field of cohesion policy and rural development, while on the other there would be sufficient flexibility in the case of a mid-term revision;

49. notes that the preferred 5+5 years MFF period would fit perfectly into the mandates of the European Parliament, the European Commission and the European Committee of the Regions, leading to an enhanced democratic legitimacy and accountability of the subsequent MFF;

Own resources

50. considers that the reform of own resources is essential for a democratic and accountable management of European funds and regrets that no significant progress has been made in this area;

51. calls for the introduction of new own resources in the next MFF, which would make GNI-based Member States' contributions to the EU budget largely unnecessary. This needs to be thought about as part of the MFF revision, in order to pave the way for the political endorsement of new own resources initiatives, in time for them to be applicable in the next MFF;

52. stresses the key importance of the High Level Group on Own Resources and calls for a proper involvement of national parliaments and local and regional authorities in the forthcoming discussions on new EU own resources;

Unity of the budget

53. calls for the current special instruments – such as the European Development Fund, the Emergency Aid Reserve, the European Globalisation Adjustment Fund, European Union Solidarity Fund and the Flexibility instrument – to be incorporated into the MFF in order to guarantee the democratic legitimacy and accountability of the EU budget;

54. notes that the EU should focus on its real needs and not on the 1% GNI ceiling, which is one of the main reasons why the Member States create satellite instruments outside the EU budget and beyond the democratic control of the European Parliament in order to tackle challenges that are unmanageable with such an under-financed budget;

Financial instruments

55. asks, before the European Commission presents its proposal for the next MFF, for a thorough analysis of the use of financial instruments in the current MFF. Although their unique role in leveraging private investments and creating growth and jobs cannot be denied, there are several areas in which their use is not as efficient because of the sheer lack of market opportunities;

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[8] CDR275-2013_00_00_TRA_AC.

56. underlines the need for striking the right balance between the traditional grants and innovative financial instruments. This means making greater use of financial instruments that prove useful in practice and suggesting alternatives where the opposite is the case. In general, the use of financial instruments should remain optional for the Member States, especially in the case of Cohesion Policy programmes. A suitable combination of grants with lower EU co-financing rates for mainly national priorities and higher EU co-financing rates for European and regional priorities, an enhanced use of efficient financial instruments and a focus on the European added value seem together to be remedies for how to make the EU budget effective, delivering more results with fewer resources;

Simplification of procedures

57. concludes that the crucial challenge for today's EU is not the lack of ideas or solutions, but the slowness and rigidity of decision-making. A simplification of procedures and a greater flexibility must therefore be the first aspect to be decided on when starting negotiations on the forthcoming MFF;

58. welcomes the public consultation on the revision of the Financial Regulation applicable to the general budget of the Union and is willing to cooperate to formulate suggestions for simplification of procedures based on problems identified in the field;

Specific points

59. considers that more attention should go in the next MFF to rural and local development, including the introduction of specific measures for sparsely-populated areas, because investment in local and rural programmes keeps the economic and social fabric alive and creates a proven multiplier effect by giving the regions a fundamental role in the management of investments. EU territorial cooperation programmes should also be put to better use and better integrated into overall cohesion policies because of their recognised added value to the development of a shared European identity;

60. wishes to draw attention to the importance of the LIFE programmes and its adequate funding in the new MFF. The LIFE programme constitutes an important instrument in helping to fund and mobilise local and regional environmental and climate policies and projects with a European added-value. LIFE projects have proven to have an important catalytic value in mobilising other EU funds;

61. considers that more attention needs to be paid to the consequences of demographic change in the European Union. In this regard requests the Commission to take advantage of the post-2020 MFF to tackle demographic challenges, considering the regional and local demographic situation and trends when designing new instruments and making policy decisions;

62. recalls, in that respect that there are no less than 20 separate EU instruments to fund Local Development in the EU Budget. The provisions on integrated Local Development and the Common Strategic Framework of the existing ESIF Regulations are clearly insufficient to avoid

overlap and to really ensure integrated funding between the five ESI funds. Therefore we should explore the case for:

- a simpler and more consolidated EU funding instrument that specifically targets territorial and local development,
- better empowering local communities to develop their own place-based approaches,
- reducing both the vertical layers of fund management and the existing horizontal silos at Commission and ministerial levels,
- moving towards outcome-based performance reporting and lighter audit regime.

Brussels,

II. PROCEDURE

Title	**Mid-term revision of the Multiannual Financial Framework (MFF)**
Reference(s)	N/A
Legal basis	Article 307 TFEU
Procedural basis	Rule 41 b) ii) of the CoR Rules of Procedure
Date of Council/EP referral/Date of Commission letter	N/A
Date of Bureau/President's decision	9 February 2016
Commission responsible	**Commission for Territorial Cohesion Policy and EU Budget (COTER)**
Rapporteur	Luc Van den Brande (BE/EPP) Chair of the Management Board of the Flanders-Europe Liaison Agency, VLEVA
Analysis	11 March 2016
Discussed in commission	2 March 2016
Date adopted by commission	31 May 2016
Result of the vote in commission (majority, unanimity)	Majority
Date adopted in plenary	scheduled for 15-16 June 2016
Previous Committee opinions	• Opinion CdR 283/2011 fin[9] *The New Multiannual Financial Framework Post-2013* • Opinion CdR 1777/2012[10] *New Multiannual Financial Framework Post-2013* • Opinion CoR 2015/02799[11] *Innovation and modernisation of the rural economy* • Opinion CoR 2015/04287[12] *Indicators for territorial development – GDP and beyond*
Date of subsidiarity monitoring consultation	N/A

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9 OJ C 54, 23. 02. 2012, p. 40

10 OJ C 391, 18. 12. 2012, p. 31

11 OJ C 120, 05. 04. 2016, p. 10

12 OJ C 120, 05. 04. 2016, p. 16