Key Political Messages Regarding the Upcoming EU Multiannual Financial Framework (MFF) post-2013

Comments on the Communication of the European Commission on the budget review and its potential impacts for regional and local authorities

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Executive summary

This note suggests areas of focus for the Committee of the Regions (CoR) in the upcoming negotiations of the next Multi-annual Financial Framework, following on from the publication of the Budget Review in autumn 2010. It has been produced by the European Policy Centre (EPC) under its Framework Contract with the CoR, under which CoR is receiving expert support on issues related to the future budgetary resources of the Union, viewed with a territorial perspective.

The post 2013 MFF is being discussed within a very difficult political and economic context, with the economic crisis and the Euro crisis limiting the ability and willingness of Member States to give the EU budget a greater role. In addition, the Lisbon treaty contains provisions which have strengthened the inherent *status quo* bias in the negotiation process. This would imply that incremental change to the structure and governance of the EU budget is more likely than a 'big bang'. This time around, there is even a real possibility that no agreement is found in the upcoming negotiations, which would further impair the ability of the EU to deliver its objectives.

The CoR's role in this debate needs to be driven by a mixture of realism, recognising where CoR can make an impact, and innovation, highlighting new areas and solutions for the negotiations. Emphasis should be put on a limited number of policy questions where the CoR will be able to elaborate coherent and cohesive messages. These policy areas should be clearly linked to the CoR functions, implying that there is a clear and detectable regional (local) dimension to the issue, with the CoR having the potential to substantially add value to the contributions of other institutions and stakeholders. On the basis of this mixture of realism and ambition we have suggested two main areas of focus for the CoR:

- **Better Spending** – where we see a particular role for the CoR in helping to design the MFF in such a way that future funding delivers effectively and efficiently, especially since much of the management of funds has a regional component. Areas for consideration include defining the nature of EU added value, how the burden of bureaucracy can be limited in future, how absorption capacity can be increased, whether an exclusive focus on Europe 2020 is desirable, how a greater outcome focus can be achieved, the future of match funding, whether funds should increasingly be distributed on the basis of competition and whether more can be done to reflect the changed environment, for example in terms of funding education, health or public sector reform policies.

- **New delivery mechanisms** – such as EIB interventions, PPPs or EU project bonds, which have increased in importance in recent years but where more could be done clarify the role they can and should play in the next MFF. Areas for consideration include how the linkage between traditional EU funding and new delivery mechanisms, as well as the linkage between the new delivery mechanisms themselves, can be improved, more clarity and transparency of how and when to use these mechanisms, how access can be facilitated for all regions, what scope there is for the involvement of regional authorities in the design and implementation of these new mechanisms and clarity on what objectives the new delivery mechanisms aim to deliver.

We believe that the two areas outlined in this note can reinforce the main aims of the CoR of multilevel governance and ensuring territorial cohesion, as well as potentially creating an effective platform from which the CoR will be able to voice its priorities.

Focusing on these areas does, however, not imply that the CoR neglects other important policy areas with a regional dimension. It is necessary for the CoR to highlight regional concerns in, for example, specific sectoral discussion concerning cohesion policy, agriculture and rural development, among other issues. In addition, the regional impact of policy discussions needs to be highlighted, for example in areas such as new own resources or the changes to EU governance.

The next step for the CoR is to decide whether it, indeed, wants to increase its focus on the two areas outlined in this text. If yes, more work will need to be done to both analyse the associated issues in more detail and to come to an unambiguous policy position, before ensuring wide publication of the CoR's positions.

1.Introduction

"Agreeing the way forward will be a major challenge for the European Union, but also a major prize. It would represent a powerful signal that the European Union is equal to the task of harnessing the tools at its disposal to make a real difference for its citizens." (The EU Budget Review, COM(2010)700final)

This note has been produced by the European Policy Centre (EPC) under its Framework Contract with the Committee of the Regions (CoR), under which CoR is receiving expert support on issues related to the future budgetary resources of the Union, viewed with a territorial perspective. It aims to analyse possible policy options for the next Multi-Annual Financial Framework (MFF), highlighting the importance of multilevel governance for the future EU budget. The project, which also foresees a workshop on better spending and multilevel governance, is composed by a series of studies and analysis. The present paper constitutes the first deliverable, aiming to provide a contribution to the CoR debate on the EU budget review, elaborating possible areas for CoR and Regional and Local Authorities (RLAs) to focus on in the coming negotiations.

The debate on the next MFF for the post 2013 period has now started, shaped by the publication of the Budget Review, with the final version out on 19 October 2010 (COM(2010)700final). Launched in May 2006, the Commission had been tasked 'to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate.' 2011 will be a fundamental year for the European budget, with the Commission due to publish its proposals for the next MFF in early summer.

Deciding on the EU's financial resources is one of the necessary steps required to turn EU policy objectives into reality. In particular, in the Budget Review the Commission has emphasised the role of the EU budget to implement the Europe 2020 strategy (COM(2010) 2020), aiming for 'smart, sustainable and inclusive' growth and supporting the recovery of the EU economies from the financial and economic crisis. The next MFF also needs to take into account the implementation of the Lisbon Treaty, including the establishment of a new institutional architecture and the External Action Service.

Many of the questions related to the future MFF clearly have a regional/local dimension. The implications of the economic crisis are having great effect on sub-national governments and will have long-terms impacts for regional policy. Such issues have to be taken into account when deciding on the future financing of European policies, and the CoR can offer concrete perspectives on how to rethink the budget in order to make its implementation effective in respect to territorial growth. Regions and local authorities do have the means to deliver on objectives such as competitiveness and jobs, and the European Commission itself has wished for a growing ownership of EU priorities by territorial entities.

While Member States remain the decisive actors when it comes to negotiations over EU financial issues, with the Commission providing the MFF proposals for discussion, over the years other institutions have become important players, a situation reinforced by the Lisbon Treaty. The European Parliament now has co-decision powers on the MFF and has been actively pushing for a greater role in the negotiations for the post 2013 period. Several other EU institutions have also been putting forward substantial inputs into the debate concerning the future structure and the governance of the budget. The CoR has made the future MFF one of the top priorities of its mandate, given the importance territorial entities have when it comes to efficient and effective implementation of EU resources. The CoR thus aims to ensure the full involvement of local and regional authorities in the EU budgetary reform strategy and in the financing of European policy.

This paper aims to support the development of the CoR's key political messages regarding the upcoming post 2013 MFF negotiations. The first key question to be addressed the focus of CoR work to best define the way ahead, given the wide range of proposals for reform outlined by the Commission in its communication.

The paper should identify the main *contours* of the political discourse of the CoR concerning the MFF post 2013, and offer a set of concrete political messages that the institution could put forward in order to reinforce its position during negotiations. To be effective, the political message has to be defined clearly by the institution, in a coherent and cohesive manner. This is why, despite main issues that could be tackled by the CoR during the negotiations, only a few key points should be concretely addressed. The purpose of the present paper is to indicate the topics and perspectives which would be the most important to consider when elaborating CoR messages.

In order to do that, we will firstly set out the different areas which could be of relevance to the CoR, likely to be central in the upcoming negotiations. Secondly, we will extract from the above our view of the key issues to focus on, aiming to make a maximum impact on the MFF debate.

2. The context of the debate – Where do we stand?

The Budget Review Process

The meeting of the CoR Temporary *ad hoc* Commission on the EU Budget (*ndr* 12 January 2011) comes at an important moment, with EU institutions and stakeholders defining more concretely their strategies for the negotiations on the next MFF, due to start early this summer, when the European Commission will come out with the first proposal. However, in part due to the Budget Review, the question of long term spending priorities of the EU budget seems to have been on the agenda almost constantly since the end of the negotiations of the previous MFF. The Budget Review was, in itself, a very ambitious project, including a public consultation (SEC(2007) 1188 final) and the contribution of many experts, leading to a final (delayed from 2008/09) communication in autumn 2010 (COM(2010)700final).

The Budget Review sets out the main issues which will form the backdrop to the interinstitutional negotiations on the next MFF. It highlights the underlying policy options that decision-makers will have to confront, raising many difficult issues around, for example, the principle of 'Juste Retour', flexibility and the EU's own resources.

In parallel, the main chapters of EU expenditure are currently being discussed, with policy options being put forward in major policy areas such as the future of agriculture and cohesion policy.[i] The Budget Review does not provide a great deal of insight where specific policy areas are concerned. The wording is often vague, leaving many options open. This means that in many cases it is unclear exactly what changes are being considered by the Commission, even though the possibility of significant reform is not excluded.

The Budget Review consultation and the final Communication have triggered reactions from a wide range of stakeholders, including Member State governments. Many see the upcoming negotiations with a degree of trepidation, given the acrimonious nature of the previous MFF negotiations and the unfavourable economic context. Some Member States have already taken the opportunity to express their opposition to an EU tax and to an increase in the overall ceiling for expenditure.

The positions taken by these Member States does not come as a surprise: the opposition to an EU tax, the limitation of the overall budget or the wish of

Member States to maintain control over the process have all been clearly set out before.[ii]

These ‘red lines’ leave little room for negotiation and they have become more entrenched in recent years as a result of the changing political, economic and institutional context, at EU and national level. Even though the European Council had itself asked the EC for a comprehensive budget review, it now seems unlikely that Member States will be open to fundamental changes to the size and structure of the budget. The economic crisis, ultimately resulting in fiscal austerity across the EU, further enhanced the position of the net payers: if at national level public spending is cut and new taxes are imposed, it is politically difficult to justify either an increase in EU budget or the introduction of an EU tax.

The entrenched positions of the Member States contrasts with ambitions at EU level. The EP has been providing its input to the debate, demonstrating a clear desire to become one of the major actors in the negotiations, especially since the Treaty of Lisbon has significantly increased its powers. The EP has constituted an *ad hoc* committee to deal with next MFF: the Policy Challenges Committee (SURE), under the chairmanship of Mrs. Jutta HAUG (DE/S&D). One of the first SURE missions has been to investigate how to ensure coherence between EU2020 and future financial resources allocation.

The SURE committee has noted that to achieve the targets of Europe 2020, the future EU budget should entail a clear and visible commitment to smart, inclusive and sustainable growth. But the EP has also warned against the risk of forgetting the importance of established EU policies, such as cohesion policy. The Parliament has stressed the importance of the regional and local perspectives, arguing that cohesion and agricultural policy do remain essential for the development and sustainability of several European territories. The EP is also clearly emphasising the need to take into account the changed institutional balance in the upcoming negotiations, pushing for more democratic scrutiny of the decisions taken by Member States on the financial means of the EU.

The CoR has been very active in the Budget Review and the ongoing discussion on the next MFF. In 2008, the CoR issued an own initiative opinion, ‘Reforming the budget. Changing Europe’ (CdR 16/2008 fin), in which it called for an exploitation of the full potential of multilevel governance. The CoR has put forward its proposals on the best ways to include a territorial perspective into the EU budget. This is considered a necessity by the CoR, given that RLAs have the means and the responsibilities to deliver on the political objectives of the European Union, such as answering to the challenges of climate change, improving competitiveness and favouring economic growth. Such strategic aims require a coordinated approach of all EU regions, and thus exclude a renationalisation of policies which, in the CoR's view, would undermine effectiveness (for instance regarding cohesion and agricultural policies).

The CoR has aimed to define the basis for discussion on the governance of the EU budget as needing to start from the key challenges and opportunities. First-and-foremost, the question of EU added value has to be central as a prerequisite to determine where local and regional authorities can offer most leverage for EU actions, and vice versa. Equal emphasis has been put by the CoR on the calls for reactivity, predictability and transparency of the EU budget. In this respect, the proposal of a ten year MFF, with a significant mid-term review, appears as a possible compromise between stability and flexibility. RLAs are particularly concerned that the principle of multi-year planning is preserved, in order to provide stability for the implementation of EU spending programmes. The Committee also shares the EP views on the need for more flexibility and for ensuring the financing of experimental actions.

The position elaborated in 2008 has been followed by discussions with the other institutions and a close engagement with the Commission's Budget Review process. With the aim of being fully involved in the incoming negotiations and to elaborate clear and coordinated messages, the CoR has created a 'Temporary *ad hoc* commission on the EU budget', whose main objectives are to ensure the following:

- Full involvement of local and regional authorities in the EU budgetary reform strategy and in the financing of Community policies;
- Effective implementation of the Lisbon Treaty in budgetary terms, notably as regards the new objective of territorial cohesion and multilevel governance;
- Achievement of a socio-economic development model at European level to secure an upturn in the economy and in employment supported by the regions and cities and based on the principles of solidarity, integration, multilevel governance and territorial cooperation. (R/CdR 11/2010 item 6)

This ad hoc commission will be crucial in the implementation of the 2011 work program. The CoR is aiming to deliver its opinion on the EU Budget Review by the end of March 2011. This document, once approved by the plenary, will contain key messages for the inter-institutional discussions which will precede the Commission proposal on the future MFF.

The wider context: public finance turmoil and institutional change

As we have outlined above, several political, economic and institutional developments will have a significant impact on the MFF negotiations. The impact of the economic crisis and the changes introduced by the Lisbon Treaty deserve particular attention and are explored in more detail below.

The financial and economic crisis is impacting on all European countries, altering the context in which budgetary decisions will be taken. The Eurozone crisis and consequent changes to economic governance have not only reshaped the economic European context, but have reframed EU cooperation in this area. Even if no definitive answer has been given on the future of EU '*gouvernement économique*', several measures have been proposed to strengthen the coordination of national economic policies.

The negotiations on the next MFF will need to be seen in the context of the economic crisis and the subsequent public finance crisis. The public finance crisis has revealed an increased need for EU solidarity. In countries such as Greece and Ireland, the imposition of greater fiscal discipline is resulting in dramatic budget cuts. This climate of budgetary austerity is increasingly posing questions regarding economic growth and social cohesion. The discussions of the next MFF has to take into account that these countries are unlikely to be able to provide the public investments needed to return them to a growth path. At the same time, public support for further potential assistance through the EU budget is low in those countries which have already been called upon to contribute in the debt crisis. Member States who are already carrying out public finance reform at home have a hard time justifying any potential increase to the EU budget. It is in this context that some heads of government have argued that austerity at home should be mirrored by austerity at EU level.

At the same time, institutional changes introduced with the Lisbon Treaty also create a new environment for the negotiations. The MFF is now fully integrated in the Treaty. This significant change has been coupled with an increase of the powers of the EP, with co-decision on the MFF. This is likely to have important consequences, as a potentially significant shift in the balance of powers might result.

But the Treaty has also made it more likely that the final outcome will be relatively close to the current MFF. This 'status quo bias' is enshrined in the Lisbon Treaty which contains the provision that specifies that "Where no Council regulation determining a new financial framework has been adopted by the end of the previous financial framework, the ceilings and other provisions corresponding to the last year of the framework shall be extended until such time as that act is adopted" (Para. 4, Art. 312, European Union, 2010).[iii]

The tone of the discussion for the next MFF seems to have already been set in the negotiations for the 2011 annual budget: only after public disagreement, difficult negotiations, including the failure of a conciliation committee, the Member States and the EP managed to agree on a compromise solution. This difficult process of adopting the 2011 budget clearly demonstrates the implications of the implementation of the Treaty of Lisbon on the balance of powers. The entry into force of the new Treaty has changed the negotiation relationship between the Council and the European Parliament, with the latter aiming to exercise its new powers. How will Member States deal with this new role of the EP? Experience has shown that the Parliament has often pushed its newly received powers to the limits, resulting in clashes and institutional impasses that can produce undesirable consequences for the functioning of the European Union. Could this happen for the negotiations on MFF? What would be the consequences of such a clash?

Within the current context, it is possible that there is a chance of breakdown in the negotiations. The institutional, economic and political factors described above contribute to an environment, which could potentially bring about the (unplanned) end of multi-annual planning. Council and Parliament negotiation positions are extremely distant at the moment, with Member States unlikely to accept that the EP decides on where to put the money coming from national treasuries. Many Member State positions are also incompatible with each other, with many unresolved issues not least between net payers and net recipients.

If the breakdown scenario should become reality, the stability of EU resources would come under serious threat. The consequence could be the return to an annual budget, without the possibility of significant reform. Beside the political significance of such a break-down, achieving the strategic objectives of the European Union such as Europe 2020 would become virtually impossible to achieve. The stability provided by the MFFs has facilitated the implementation of European priorities. This has been essential for regions and local authorities: the stability of funding is central to the success of territorial economic development strategies. Core territorial policies, such as cohesion policy, would be disrupted by such an impasse. This argument should kept in mind by all actors involved in the negotiations: a break-down of negotiations would be the worst of all scenarios.

3. Issues and perspectives: the debate on the next MFF

Difficult negotiations ahead

The ongoing Budget Review debate and the experience of the previous MFF negotiations, as well as the economic, political and institutional changes discussed in the previous chapter all point to difficult negotiations ahead. The ongoing debate on the budget itself and on the major EU policy areas will require input from all EU institutions and stakeholders, especially since the EU is setting the basis for its future budget within this very difficult political and economic context.

The nature of the EU budget debate makes it impossible to chart all issues which might be mentioned in the debate in this limited note. We have thus limited ourselves to highlighting a few key issues which seem of particular salience for the consideration of the CoR.

Focus of EU spending

It is almost universally agreed that over time, there is an increasing discrepancy between the direction of EU expenditure and the EU's overarching objectives. One clear thread running through the Budget Review is that all spending should orient itself on the Europe 2020 objectives. However, it is not always clear what this would mean in practice, given that there are many items of budgetary expenditure which will only very indirectly contribute to smart, sustainable and inclusive growth.

There are also other considerations which need to be taken into account in relation to the added value, as can be seen when considering cohesion policy. The Treaties clearly define cohesion as one of the EU's obligations. In addition, cohesion policy might well also pursue other objectives than growth or inclusion, for example by making the benefits of the EU visible on the ground, sharing good practice and by fostering cross-border cooperation. There are similar issues associated with agriculture and rural development policies. It is not entirely clear whether all spending in these areas can be meaningfully linked to the smart, sustainable and inclusive objectives of the Europe 2020 strategy.

Arguably, there is also contradiction between the wish of the Commission to be more focused (for example, in reducing the number of priority areas for regions receiving relatively small amounts of cohesion funding) and the wide array of areas potentially covered by Europe 2020.

Should the main/exclusive aim of EU expenditure be on delivering the Europe 2020 objectives? What about other drivers for spending such as visibility, cross-border cooperation and Treaty-based obligations?

EU added value

Concerning expenditures, the Commission stresses the importance of **EU added value** as the principle to evaluate EU spending. It is presented as the implementation of the principle of subsidiarity within the budget, since evaluating added value ensures that European money is spent where its benefits outweigh the benefits from a similar level of national spending. But what does this principle imply in practice? Would, for example, spending which can derive a higher return be prioritised, even if it implies an uneven distribution of spending between economically stronger and weaker regions? Does the concept of added value with its current focus on financial added value capture the wide range of benefits which can potentially be delivered by the EU level?

Related to the question of added value is the focus of EU spending on delivering trans-European 'public goods'[iv]. The focus on public goods might well imply that money is allocated according to economic efficiency rather than 'need'. Does this run contrary to the European principle of 'solidarity'? On the other hand, arguably those areas with weaker economies also have the opportunity to derive greater returns from public investment, given levels of unmet need.

Structure of the budget

How the budget is structured seems at first glance to be a technical rather than a policy issue. However, given the limited ability to move expenditure between budgetary items, this can have real implications.

It is far from clear what an optimal structure would look like. Some have argued to divide spending between expenditure aimed at producing public goods and funding for redistributive purposes (Micossi *et al*, 2008). However, it is far from clear how this distinction could be made in practice. For example, cohesion policy is discussed for its capacity to both improve inclusion (redistribution) and to bring about growth (public good): "The explicit linkage of cohesion policy and Europe 2020 provides a real opportunity to both continue to help the poorer regions of the EU to catch up, and to develop further cohesion policy into an important enabler of growth for the whole of the EU." (The EU budget review, COM(2010)700final). It is equally difficult to create budget items according to the 'smart, sustainable and inclusive' categories of Europe 2020 as, for example, cohesion policy affects all of these objectives. However, the current broad aggregation also seems unsatisfactory, given the lack of transparency such an aggregation entails.

Budget governance and better spending

Efficient and effective spending has become a leitmotiv of the EU budget, which is often criticized for not being spent well enough. High levels of bureaucracy and administrative/audit requirements are also seen by many as being costly without producing the return of better programmes. Regional and local authorities are clearly central to this issue. On the one hand, better spending entails a precise targeting of the objective, from the strategic direction to the more operational projects, which often has a territorial dimension. On the other side, regional and local entities are often responsible for correct implementation of EU funding. In the end, spending the money well will depend on the capacity of the territories to manage the money they receive and to be accountable to the EU and the citizens, while at the same time ensuring that the resources are spent on achieving outcomes, not administration. But to achieve more focus on outcomes, more will need to be done to support meaningful monitoring and evaluation activity, for example through the construction of counterfactuals at EU level. It is also necessary to reform the requirements at EU level by for example increasing administrative coherence between all the different sources of funding.

Given the wide differences of capacity between regional and local authorities, it is difficult to see how a meaningful reduction in bureaucracy can be made without differentiating systems according to capacity and track record to deliver. This issue relates to the one of '**absorption capacity'**, which is noted in the Commission's Communication. Receiving large levels of EU funding entails the need for strong institutional capacity, which differs between regional and local authorities. However, at the same time, arguably many regions with relatively weak institutions also have a strong need for support, so capacity building is an issue regional and local authorities should be raising. In order to ensure more efficient spending, regions need to be equipped with the necessary means to deliver.

In general, the question of better spending is closely linked to multilevel governance and the need for effective partnerships between the EU and the local level. Regarding budget governance, the European Commission underlines that the nature of **decentralized management** of the funds makes more and more important the need for coordination and partnership with regions and local authorities. More than once in its paper, the Commission stresses the importance of focusing not on the inputs but rather on the results and consequences of the EU actions.

The capacity to deliver more efficiently in an environment of tight resources is one of the key themes of the Budget Review. This will require coherence in objectives alongside the ability to define a smaller set of credible and realistic objectives.

Stability vs. flexibility

The MFF still remains a tool to ensure **stability** in EU spending over time. The concept of multi-annual programming was introduced to avoid annual interinstitutional battles between EP and Member States. Having a budgetary period of 7 years (as is the case now) or running for 5+5 years (as tentatively proposed in the Budget Review) aims to ensure predictability of EU expenditure.

At the same time, the Commission stresses in the Review the need to enhance flexibility instruments, which is also seen by the EP as necessary to the well-functioning of the EU financing. This could entail increasing the flexibility instruments in number and/or in terms of the amount allocated but it could also mean more flexibility in terms of easiness of procedures.

However, there is a potential tension between the objective of stability, which is given by a multi-annual framework, and the one of flexibility, which allows for quick reaction to changing circumstances. The recent economic crisis has clearly shown the need for further flexibility, and this could become increasingly important with regard to regional and local funding.

Reacting to changed circumstances entails flexibility at different levels: ‘upward’ flexibility, at the EU level, providing the EU system with the ability to, for example, reallocate unspent money but also ‘downward’ flexibility, which directly affects the regional and local entities, for example in their ability to change funding priorities and frontload spending.

Regional specificities

There are also a number of areas under discussion where the regional dimension of proposed changes is unclear and insufficiently discussed. This section notes some of these policies where more attention needs to be paid to the regional dimension.

The discussions concerning the next MFF have to be seen in the context of the currently proposed changes to the **economic governance** of the EU. The introduction of the European Semester and the stronger enforcement of the Stability and Growth Pact can potentially put increased pressure on regional and local authorities, without them being directly responsible and accountable for what has been previously decided at national level. For example, the possible withholding of funds for the non-respect of the SGP, which has been suggested by some Member States, could have a devastating impact on regional finances, undermining the management of medium and long term projects and potentially leading to legal disputes with beneficiaries. This is certainly a question where regional impacts and concerns should be considered up front[v] .

The question of a **reform of the financing and own resource system** of the European Union has been on the table for years but the regional dimension has so far not been discussed. The Budget Review has proposed it again with some more concrete options. It is difficult to say whether the proposal will go further in the discussion for the MFF, but there is a clear interest from the regional and local side to understand the possible implication of the different options. Do the alternative of tax proposals include taxes which are being managed by local authorities or provide part of their resources in some parts of Europe? More in general, what would the implications of an EU tax be for different regions? Determining this will require additional analysis, before the CoR can evaluate which option provides a promising route to reform the EU's finances.

In recent years, there has been an increasing use of **new delivery vehicles** to deliver EU policy objectives. These include the activities of the European Investment Bank (EIB), which provides loan funding for private and public investments. These experiences have already proven successful in recent years but there is more scope here, both in terms of reform of existing vehicles and in the design of new ones. The Commission has, for example, proposed the creation of EU project bonds in the Budget Review. There is also increasing consideration of using funding, loans and guarantees to leverage in private investment, for example through the use of Public-Private Partnerships (PPPs). However, this raises a number of questions for regional and local authorities which are often the ones implementing such programmes: How would this impact on available funding for regional territories? How well are the programmes integrated with the wider EU budget and what impact does this have on governance? Are all regional and local authorities equally capable of accessing such programmes?

4. The key issues for CoR and regional and local authorities

Against the background described above, we can now turn to the question of where the Committee of the Regions should put its focus. To ensure maximum impact and effectiveness, emphasis should be put on a limited number of policy questions where the CoR will be able to elaborate coherent and cohesive messages. These policy areas should be clearly linked to the CoR functions, defined by its constituencies and the EU institutional structure, implying that there is a clear and detectable regional (local) dimension to the issue.

Arguably, some sectoral policies, for example the structural funds and agricultural policy, fulfill these conditions. However, a sectoral analysis is not the purpose of this note. Instead, the focus is on developing key messages with regard to the general structure and governance of the budget. The focus of our work is thus on cross-cutting, budget-related areas.

In addition, the CoR needs to have the potential to substantially add value to the contributions of other institutions and stakeholders, for example because there is specific expertise or because of the local and regional aspects linked to the issue. Focusing contributions on areas of added value also implies that the policy questions under consideration should generally be those where there is a realistic possibility for the CoR to have an impact on the negotiations to prevent using up scarce resources in areas where there is unlikely to be significant budgetary reform.

The considerations above should be the basis for any message the CoR wants to elaborate, as they represent necessary conditions to the development of **realistic** and **innovative** proposals. Selecting the issues of focus is inevitably a subjective process. We have identified those issues we think have particular salience for the CoR and where its contribution can, in our view, add significant value. However, the selection of the areas of focus should be considered carefully by the CoR budget committee which needs to come to its own decision.

As already mentioned, the clarity of the message is an essential element: an effective presentation of the issues chosen is as important as the message itself. For this reason, we would suggest that the COR should only focus on a very short list of key issues on which efforts should concentrate. This does not preclude the CoR being engaged in the debate in other areas, but in our view the aim should be that the CoR is recognized as an important voice in a very limited number of areas.[vi] In these areas, the aim should be to develop a coherent policy message which can be easily transmitted to other stakeholders in the negotiation process. Below, we suggest two areas for the CoR's focus alongside noting what associated issues the CoR could investigate.

Better spending

The discussion of better spending is in our view a clear candidate for the attention of the CoR. There is a clear regional dimension to this question, linking closely to the concept of multi-level governance. The concept is strictly related to the consideration of the nature of EU added value and of European public goods.

The following are potential topics the CoR could focus on in this regard:

- EU added value: While it is easy to agree that the EU should on focus on areas where it can add value, defining what this means in practice is a much more difficult exercise. In particular, it has to be made clearer where added value is created beyond a relatively limited financial definition. There is also a need to examine in greater detail what could be seen as constituting 'European public goods' and how the MFF could be designed to contribute to their creation.

- Bureaucracy: Limiting the level of bureaucracy in the way EU funds are spent has been an aim at the European level for a number of years. However, the results of previous reform attempts have been somewhat limited. The difficulty is reconciling the autonomous decisions of the regions/implementers with the need to account for EU public spending. Reforms are clearly necessary to reduce bureaucracy, including, for example, merging of different EU funds or at the very least simplifying and equalizing their procedures, but changes also need to be made on the ground, for example by reducing reporting requirements for administrations with well-functioning systems and good track records. Restricting access to funding for small projects or organizations with limited administrative capacity should also be considered.

- Absorption capacity: Rather than taking a limited absorption capacity in certain countries as a given, the debate should be changed to determining how the budget can do more to increase absorption capacity (for example, through institutional reform) and how upward flexibility in funding can be built in to allow for countries/regions to access more funding if a higher absorption capacity can be demonstrated.

- Outcome focus: While most stakeholders agree that more outcome focus would be desirable, how to achieve this in practice is a major challenge. The key outcomes delivered by EU policies (such as, for example, growth and jobs) are highly dependent on national/regional policies and other factors such as the broader economic climate. In addition, the methodologies of how to determine what outcomes are delivered by EU funding are difficult to apply. Differentiation of how funding is monitored according to expertise and capacity might be a way forward, with the exploration of 'outcome agreements' a possibility for the most advanced. More central guidance is also needed to, for example, underpin target setting with real economic data and to reflect the impact of a changing baseline. This has to be an ongoing dialogue to reflect changing circumstances, for example the degree of unused economic potential in the regional economies.

- Focus on Europe 2020: To spend better pre-supposes have clear objectives for the spending. In the Budget Review, the Commission clearly identifies Europe 2020 as the key area of focus for the next MFF. But what would that mean in practice? What policy areas would be funded less as a consequence and how does this sit with Treaty provisions and other EU objectives?

- Match funding: With the current public finance difficulties in many countries, the requirement to provide match funding for European grants can create difficulties for regional/local authorities and should be re-examined. In addition, the track record of involving the private sector could be improved, so more needs to be done to examine how current barriers to private sector involvement can be overcome.

- Competition vs. need: A potential way to increase the effectiveness of funds is to use competition for grants. However, this can lead to areas with a significant need for funding to miss out and it also makes it difficult to determine a priori what each region/Member State receives. Never-the-less, there seems scope to reevaluate what role competition for funds could have in the next MFF.

- Reflecting the changed environment: In previous spending programmes, there were relatively strict limits on where the money could be spent. In particular, funding rules aimed to prevent spending funding on 'core business' areas, i.e. those areas normally funded by national/regional governments in the absence of EU funding. Funding was not directed into certain areas such as education, health the modernization of social and public services due to limited competencies of the EU in these areas. In future, with more limited public resources available, there should be a reexamination of where EU funding can make the biggest impact.

New delivery mechanisms

At the same time at examining how to spend EU grants better, it is important to recognize that in recent years new delivery mechanisms have become an increasingly important area, supplementing the EU budget. This includes the activities of the EIB but also potentially innovative delivery vehicles such as Public-Private Partnerships (PPPs) and EU project bonds, which were proposed in the Budget Review. The new delivery mechanisms have increased in importance, especially in response to the economic crisis and to the limited flexibility of the traditional budget instruments to react to a changed environment.

The following are potential topics the CoR could focus on in this regard:

- Linkage between traditional EU funding and new delivery mechanisms: With the increasing importance of new delivery mechanisms, it is important to assess how access to these policy instruments is integrated with the overall spending priorities of the EU budget, both in terms of territorial distribution and in terms of the objectives being pursued.

- Linkage within new delivery mechanisms: Equally, it is important to examine whether the different instruments which are existing or are in development complement each other's activities, for example in terms of sectors or target groups, or whether there are unnecessary duplications.

- Clarity and transparency: While the use of new delivery mechanisms is encouraged, guidance is often missing on how they can be applied at the regional level. In cases where there are potential legal queries, for example with regard to competition policy, many regions do not receive a timely and definitive answer.

- Access: In many cases, these new delivery mechanisms require a high level of technical expertise and specialized staff. This is not available in all regional authorities so the question remains how capacity can be built across Europe to take advantage of these new policy instruments.

- <u>Involvement of regional authorities:</u> In many of the new policy instruments which are being developed, it is unclear to what extent regional authorities are involved in the design and delivery. For example, many instruments work directly with the private sector (e.g. banks) or are being discussed as an EU-level instrument (EU project bonds). How does this fit with the concept of multi-level governance and the closeness of regional authorities to understanding the needs of EU citizens?

- <u>Objectives of new delivery mechanisms:</u> In much of the discussion, it is not clear how these new delivery mechanisms can add value. While limited public expenditure requires the exploration of different funding sources for future investments, this seems a somewhat limited perspective. Instead, these new delivery mechanisms potentially promise the possibility to reduce loan financing costs and bring in new expertise from a wide range of stakeholders. They can improve governance and effectiveness and efficiency of delivery, as well as potentially providing repayments and returns which can be recycled to have an even greater impact. It will be important to determine what conditions need to be fulfilled to achieve this.

The issues noted above regarding better spending and new delivery mechanisms can, if the CoR agrees, provide guidance for the activities of the CoR in the coming months. Initially, this would entail both more detailed investigation of the issues concerned and highlighting these issues as being of crucial importance in the current debate, for example in CoR's report. Subsequently, these issues should lead to the development of a clear, concise policy position of the CoR on these issues which would be fed into the ongoing debate.

5.Conclusions

The post 2013 MFF is being discussed within a very difficult political and economic context. This makes it unlikely that radical change will be achieved; indeed, as noted above there is an inherent *status quo* bias in the negotiation process. This would imply that incremental change to the structure and governance of the EU budget is more likely than a 'big bang'. However, this contrasts with the desire, restated several times over the past years, of a thoughtful and meaningful review exercise. All EU institutions now need to strive to ensure that at least some reform is delivered in the next MFF, to ensure that future budgets are better able to deliver the EU's policy objectives.

The CoR's role in this debate needs to be driven by a mixture of realism, recognising where CoR can make an impact, and innovation, highlighting new areas and solutions for the negotiations. On the basis of this mixture of realism and ambition we have suggested two main areas of focus for the CoR:

- **Better Spending** – where we see a particular role for the CoR in helping to design the MFF in such a way that future funding delivers effectively and efficiently, especially since much of the management of funds has a regional component; and

- **New delivery mechanisms** – such as EIB interventions, PPPs or EU project bonds, which have increased in importance in recent years but where more could be done clarify the role they can and should play in the next MFF, particularly since the level of public spending is severely under pressure.

We believe that the areas outlined in this note can reinforce the main aims of the CoR of multilevel governance and ensuring territorial cohesion, as well as potentially creating an effective platform from which the CoR will be able to voice its priorities.

To achieve maximum impact, it will be useful to set the debate into a framework of how better spending and new delivery mechanisms can contribute to the achievement of the Europe 2020 objectives. Smart, sustainable and inclusive growth requires that we do not only examine how much, where and on what to spend but how this is done and what innovative new methods can be used to deliver. Regions and local authorities are in the front line when it comes to the implementation of EU money and have a contribution to make in these areas in the development of the next MFF.

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Endnotes

[i] Please note that the CoR committees dealing with specific policy areas will be engaged directly in the debate in their policy area while this note focuses on cross-cutting issues associated with the budget directly.

[ii] See for example http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?ord516=OrgaGrp&ots591=0c54e3b3-1e9c-be1e-2c24-a6a8c7060233&lng=en&id=48429

[iii] For an in depth exploration, please see Zuleeg, F., (forthcoming 2011), *In danger of breakdown: Is the EU approaching budget stalemate?*, EPC Issue Paper

[iv] The term 'European public good' is used here to denote areas where the European level provides the best opportunity to correct market failures rather than referring to the strict economic definition of public goods. For a discussion of this please see Zuleeg, F., (2009), 'The rationale for EU action: What are the European Public Goods?', Paper prepared for the European Commission BEPA Workshop on 'The political economy of EU public finances: designing governance for change', on 5 February 2009, available at http://ec.europa.eu/dgs/policy_advisers/docs/eu_public_goods_zuleeg.pdf

[v] The President of the Committee of the Regions, Mercedes Bresso, has strongly voiced her opposition to the proposal of funds withholding, see for instance the article Mercedes Bresso : « Le gel des fonds structurels reviendrait à punir les régions plus que les Etats », Euractiv, 16 December 2010

[vi] We suggest a focus on two areas in addition to any sectoral issues raised by the other committees of the CoR in areas such a transport, cohesion funding or agriculture.