

# Financial Regulation applicable to the general budget of the European Union

2010/0154(COD) - 28/05/2010 - Legislative proposal

**PURPOSE:** the revision of the Financial Regulation applicable to the general budget of the European Union.

**PROPOSED ACT:** Regulation of the European Parliament and of the Council.

**BACKGROUND:** budget is one of the key instruments to deliver EU policies. In 2011 more than EUR 130 billion is planned for allocation to EU policies benefiting the Union and its citizens.

In the current economic context, it is even more important that the delivery mechanisms of the budget operate in the most efficient way and facilitate the implementation of EU policies, while securing sound treatment of European taxpayers' money. In particular, it is important that these mechanisms are simple and transparent (especially to final recipients of EU funds), provide the possibility for leverage of non-EU budget resources and at the same time strengthen the Commission's accountability for implementation of the budget as set in Article 317 TFEU.

Reform is necessary with a view to adapting the financial rules to the new requirements of budget implementation (co-financing with other donors, specific financial instruments, PPPs) or where the basic principles create disproportionate workload (interests on pre-financing) or may unduly impede efficiency (prohibition of budget implementation through private sector bodies). The award of small grants and contracts also needs to be facilitated.

**BASIS FOR THE REVISION:** in terms of content, the key elements of the financial reforms should be preserved, in particular: i) the role of financial actors, ii) the importance of the financing decision adopted by the College for operational expenditure, iii) the integration of controls with operational services, iv) the internal audit function, activity-based budgeting, and modernisation of accounting principles and vi) basic rules applicable to grants. Procurement rules should be preserved in line with the procurement Directives.

In terms of method, any modification of substance has been assessed against the following benchmarks:

- reduce the administrative burden for beneficiaries, contractors and implementing partners;
- facilitate, whenever possible, the leveraging of budget appropriations;
- facilitate the Commission's obligation under Article 317 of the Treaty to implement the budget and accomplish the policy objectives by improving delivery instruments and simplifying the rules and procedures;
- ensure sound financial management and protect the financial interests of the Union against fraud and other illegal activities.

**LEGAL BASE:** for the first time this triennial revision is handled in accordance with the ordinary legislative procedure foreseen in Article 322 TFEU and is presented as a recast. In order to allow the legislative authority to have a global view of the proposed modifications, the Implementing Rules of the FR (hereinafter IR) are presented, in a Commission Staff working document, together with the FR in a single package. The Implementing Rules, which contain more detailed provisions complementing the FR, will be adopted under the delegated powers of the Commission according to Article 290 TFEU.

**CONTENT:** the FR is subject to revision every three years, or whenever it proves necessary and this proposal represents such a triennial revision. This proposal builds on the results of the public consultation of 19 October 2009, which resulted in a total of 235 contributions of stakeholders who implement or receive Union funds: from citizens to public and private operators, regional and national administrations.

The present revision does not cover the changes stemming from the entry into force of the Lisbon Treaty, except for the obligations of Member States concerning internal control and audit and their resulting responsibilities in shared management which are included in the present revision. The Commission has treated other Lisbon-related changes, due to their very specific nature, in two separate ad hoc proposals: one related to the creation of the [European External Action Service](#), and the other related to the [new budgetary rules](#) (introduction of the multiannual financial framework in the Treaty and new annual budgetary procedure in particular).

The Commission has based its proposal on the following objectives:

- to introduce more flexibility in the application of budgetary principles, which should better suit operational needs and alleviate unnecessary administrative burden for recipients of Union funds;
- to streamline relations with implementing partners to which the Commission entrusts the management of programmes or part of programming actions (projects), in particular taking account of the nature of the implementing partner (Member States, agencies, EIB, public and private operators, etc.) and the financial risks entailed (proportionality);
- to shift the regime of grants from a real-cost based management (inputs) towards a performance-based scheme (outputs), in order to better target policy objectives and achieve significant simplification of procedural and documentary requirements for the benefit of beneficiaries, and facilitate the use of lump sums;
- to ensure sound financial management while leaving significant room for manoeuvre for Authorising Officers so that they can adapt the means to their operational constraints and the financial risks they are faced with;
- to modernise the system of risk management and control measures so as to make them more proportional to the probability of errors and to the cost involved.

The FR revision will be negotiated while preparation for the post-2013 programmes will also be under way, and should be considered in this wider context. For this reason, it is important that all the actors concerned in the legislative process, in particular the European Parliament and the Council, agree on an ambitious timetable for the present revision and on the need to ensure coherence between the financial rules enshrined in the FR and on the content of sectoral basic acts. For this to be effective, they should aim at an agreement on the package (FR + IR) that could enter into application by the end of 2011, which is a very ambitious timetable given the inherent constraints of the ordinary legislative procedure.

**BUDGETARY IMPACT:** the proposal has no impact on the budget of the European Union.

