

**Lord Grenfell**

**Speech to the COSAC Chairpersons**

**Lisbon, 10 July 2007**

**National parliamentary scrutiny of EU spending programmes**

Mr Chairman, Minister, Colleagues,

Thank you very much for inviting me to speak on the important subject of national parliamentary scrutiny of EU spending programmes. You have asked me to say something about how we in the House of Lords scrutinise how the EU spends its money, and I'm very happy to do so.

Let me start with a bit of background. Five years ago, the House of Lords EU Committee carried out a major review of how we scrutinised EU affairs generally.

As part of this review, the Economics and Financial Affairs Sub-Committee of our EU Committee examined how we could improve our scrutiny of EU **financial** affairs.<sup>1</sup>

Broadly speaking, decisions on the spending of European funds involve three levels of agreement, set out in three forms of legislation, and the Lords EU Committee concluded that we should scrutinise all three. Having said that, the three forms are not of equal importance and so national parliaments have an opportunity to focus their scrutiny where it matters most.

Our Sub-Committee examined the way in which it scrutinised these three forms of legislation that determine European spending, and I will say a little about all three. First, the multi-annual financial framework that fixes the ceilings for spending in each category; secondly, the key spending programmes that are the subject of our debate this afternoon and which determine **how** the money is spent up to the fixed ceiling in each category; and thirdly, the annual Budget.

The multi-annual financial framework, or **Financial Perspective**, is - or ought to be - of huge significance for national parliaments. It contains the EU's medium-term expenditure plans, fixing the total level of EU expenditure for the period and setting annual ceilings for the major categories of EU expenditure. And, as you know, it is formalised in an inter-institutional agreement between the Commission, the Council and the European Parliament, all of who are bound to respect its principles and ceilings in the other agreements, that is to say, in the spending programmes and when the annual Budget is set year by year.

Changes to this overarching framework are therefore of paramount importance not least to national parliaments, and you will not be surprised to hear that they are the focus of concentrated scrutiny by the House of Lords EU Committee. But timing is everything. We published a report at the beginning of March 1999 before the Berlin European Council which set the Financial Perspective for 2000-2006.<sup>2</sup> But that proved to be not early enough to have the required impact on our government. In our review of our

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<sup>1</sup> *Review of Scrutiny of European Legislation* (Session 2002-03, 1st Report, HL 15, published 3 December 2002) "Appendix 5: Scrutiny of EU Financial Affairs: Memorandum by Sub-Committee A" <http://www.publications.parliament.uk/pa/ld200203/ldselect/ldcom/15/15.pdf>

<sup>2</sup> *Future Financing of the EU: Who pays and how?* (Session 1998-99, 6th Report, HL 36): <http://www.publications.parliament.uk/pa/ld199899/ldselect/ldcom/36/3601.htm>

scrutiny methods we concluded that we had to get to work earlier. Our aim henceforth was to carry out a full inquiry on the Financial Perspective as soon as the Commission had published its proposals. By connecting with this procedure at an early stage, we would be able to publish our report whilst negotiations were still ongoing. We would thus hope to have an influence on the process.

The current financial perspective was agreed at the European Council in December 2005. However, as you will no doubt remember, that agreement was the result of months of negotiations. The Commission published its proposals in July 2004; we started our inquiry in September of that year; and we published our report in March 2005.<sup>3</sup> Did getting in earlier make any difference? Perhaps that's for others to judge, but I'm pleased to say that the report was well received in the European Parliament's temporary committee on the financial perspective.

I come now to the second form of financial agreement we considered in our review of scrutiny: **the spending programmes**. As you know, 94% of EU expenditure is divided amongst four major categories: competitiveness and cohesion; preservation and management of natural resources, which includes spending on agriculture; citizenship, freedom, security and justice; and the EU as a global player, which covers all external actions.<sup>4</sup>

Whilst the ceilings for spending in each category are set in the Financial Perspective, the driver for **how** and **where** the money is spent within each category comes from the spending programmes. For example, the decision to enter billions into an annual Budget on a multi-annual research programme automatically follows from the decision to approve the research programme. The initial policy decision approving the legislation for the spending programme therefore sets the dynamics for the annual Budgets. In this sense, the annual budgetary process simply records budgetary provisions for previously considered and scrutinised spending decisions. This is the case for the two areas that together account for over 70 % the EU Budget: spending on the CAP and cohesion policy. Scrutiny of such decisions might therefore be considered as more important than scrutiny of the annual Budget.

The Common Agricultural Policy (CAP) is historically the most resource-consuming of the Community policies. The EU provides a large proportion of the funding for European agriculture: even leaving to one side spending on rural development, spending on market-related expenditure and direct payments is set to consume over 43 billion euros this year alone, which is more than 35 % of total EU expenditure.

The EU's cohesion policy is implemented through spending programmes encapsulated in legislative texts, all of which can and should be scrutinised by national parliaments. My Committee made it clear in our scrutiny of the current Financial Perspective that we were in favour of shifting the balance of Structural Fund receipts towards the poorest Member States. The Structural Fund Regulations and the Cohesion policy instruments for 2007-13 made far-reaching policy decisions with large budgetary implications. These financial instruments, agreed last year, together make up the second largest

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<sup>3</sup> *Future Financing of the EU* (Session 2004-05, 6th Report, HL 62, published 9 March 2005): <http://www.publications.parliament.uk/pa/ld200405/ldselect/lddeucom/62/62.pdf>

<sup>4</sup> The remaining expenditure is split between administrative expenditure (5.8%); and the temporary heading of compensation (0.1%). For an outline of the breakdown between spending categories, see: [http://ec.europa.eu/budget/prior\\_future/fin\\_framework\\_en.htm](http://ec.europa.eu/budget/prior_future/fin_framework_en.htm)

element of EU expenditure, accounting for over 35% of the 2007-13 Budget. National parliaments therefore have a particular interest in scrutinising them.

In addition to these, a number of new multi-annual programmes, including indicative multi-annual spending volumes, were agreed in codecision between the Council and the European Parliament last year. These include the Seventh Research Framework Programme (€54.6 billion between 2007 and 2013), the Lifelong Learning Programmes (€6.97 billion over the same period), the Trans-European Networks for Transport and Energy (€ 8 billion for transport and € 155 million for energy), and the Life + programme for environmental policy (€2 billion).<sup>5</sup>

So much for the decisions on how the money is spent. What about how we scrutinise them? **All** the legislative packages were scrutinised by the specialised Sub-Committees of our EU Committee.

Each Sub-Committee takes an active role in scrutinising and reporting on the major spending decisions in its policy area. In the context of the previous Financial Perspective, in addition to our routine weekly scrutiny of documents, we produced reports on the financing of enlargement,<sup>6</sup> CAP reform,<sup>7</sup> reform of the Structural funds,<sup>8</sup> and EU Aid to the Balkans,<sup>9</sup> which was a large element of the spending on external relations.

In the context of the current financial framework, we have published reports on the financing of the CAP,<sup>10</sup> the programme for lifelong learning,<sup>11</sup> and the seventh framework programme for research (FP7).<sup>12</sup>

By prioritising these long-term spending decisions, we act upon the strengths of the Sub-Committee structure and working methods. In such considered inquiries we have time to stand back and take a long-term perspective. In so doing, we hope to influence policy makers and those who take decisions in a way which is extremely difficult in the fast-moving process of the annual Budget cycle. Inquiries on the spending programmes, if well timed, can add much value to our scrutiny of the financial framework and the annual EU Budget.

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<sup>5</sup> Q&A on the legislative package of EU programmes for the financial programming period 2007-2013: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/213&format=HTML&aged=0&language=EN&guiLanguage=fr>

<sup>6</sup> *The Financial Consequences of Enlargement* (Session 1997-98, 10th Report, HL 41): <http://www.publications.parliament.uk/pa/ld199798/ldselect/ldcom/041x/ec1001.htm>

<sup>7</sup> *CAP Reform in Agenda 2000: The Transition to competition: Measures for rural development and the rural environment* (Session 1997-98, 18th Report, HL 84): <http://www.publications.parliament.uk/pa/ld199798/ldselect/ldcom/084xviii/ec1801.htm>

<sup>8</sup> *The Reform of the Structural Funds and the Cohesion Fund* (Session 1997-98, 30th Report, HL 138): <http://www.publications.parliament.uk/pa/ld199798/ldselect/ldcom/138/13801.htm>

<sup>9</sup> *Responding to the Balkan Challenge: The role of EU aid* (Session 2001-02, 20th Report, HL 107): <http://www.publications.parliament.uk/pa/ld200102/ldselect/ldcom/107/10701.htm>

<sup>10</sup> *The Future Financing of the Common Agricultural Policy* (Session 2005-06, 2nd Report, HL 7, published 15 June 2005): <http://www.publications.parliament.uk/pa/ld200506/ldselect/ldcom/007/7.pdf>

<sup>11</sup> *Proposed EU Integrated Action Programme for Lifelong Learning* (Session 2004-05, 17th Report, HL 104, published 14 April 2005): <http://www.publications.parliament.uk/pa/ld200405/ldselect/ldcom/104/104i.pdf>

<sup>12</sup> *Seventh Framework Programme for Research* (Session 2005-06, 33rd Report, HL 182, published 9 June 2006): <http://www.publications.parliament.uk/pa/ld200506/ldselect/ldcom/182/182.pdf>

Following our review of scrutiny, we are determined that the major spending decisions will remain a focus of concentrated and rigorous scrutiny for us and will continue to form the basis of inquiries. We will continue to scrutinise in detail proposals for legislation that have budgetary implications and will follow closely negotiations on such proposals at Council meetings.

Finally, and to complete the picture, I must say word about national parliamentary scrutiny of the third form of spending agreement in the EU - **the annual budget**. We, as parliamentarians, need to be assured that funds are going to be spent in an efficient and effective manner with clearly demonstrated value for money. Our experience in the House of Lords has been that if you've already scrutinised the financial framework and the spending programmes, then this makes scrutiny of the annual budget more straightforward and easier to accomplish. Here our focus, once again, is upstream. We want to get in early to let others know our views and to give the Government time to take our views on board. To do this, we pay particular attention to scrutinising the Commission's preliminary draft budget and produce a report before the first reading in the Council.

To conclude, permit me just a cast a quick look to the future, to **the budget review** and what the EU budget will look like beyond the current financial framework and spending programmes, which are set to run until 2013. The Agriculture Sub-Committee of the House of Lords EU Committee is already conducting an inquiry on the CAP 'health check' and in this context will also consider spending on the CAP after 2013. And our Financial Affairs Sub-Committee has begun planning for its scrutiny of the 2008-09 Budget Review. We are expecting the Commission's "issues paper" in September, to be followed by a major political conference around May or June next year. We are determined that national parliaments should be able to contribute their views before the conclusion of the review at the end of 2008 or early in 2009, and we are considering how best to do this and will consult with all of you on it.

Permit me one last point on which I hope we as parliamentarians can all agree. Exactly a year ago today, the House of Lords European Union Committee published its report on the 2007 Budget.<sup>13</sup> That report made clear our view that Europe's leaders must be prepared to accept the costs of programmes and commitments they have already approved, rather than seeking to scale back these promises through budgetary negotiations. With that in mind, it is clear to me that national parliaments must be rigorous in their scrutiny of the budgetary negotiation process at all levels and at all stages.

I look forward to hearing your experience of scrutinising the EU's spending programmes. I'm sure that there is much that we can learn from each other, and the result can only be a positive one: better national parliamentary scrutiny.

Thank you.

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<sup>13</sup> *The 2007 EC Budget* (Session 2005-06, 39th Report, HL 218, published 10 July 2006): <http://www.publications.parliament.uk/pa/ld200506/ldselect/lddeucom/218/218.pdf>