



**Committee of the Regions**

**BUDG-V-004**

**99th plenary session, 31 January–1 February 2013**

**DRAFT OPINION  
of the  
Committee of the Regions**

**CREATING GREATER SYNERGIES BETWEEN EU, NATIONAL AND  
SUBNATIONAL BUDGETS**

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FIN(4) 02-13 Paper 1

**Deadline for tabling amendments:**

**Midnight on Thursday, 17 January 2013** (Brussels time) to be submitted through the new online tool for tabling amendments (available on the Members' Portal: [www.cor.europa.eu/members](http://www.cor.europa.eu/members)).

Number of signatures required: 6

Reference document

## I. POLICY RECOMMENDATIONS

### THE COMMITTEE OF THE REGIONS

#### *Introduction*

1. underlines that local and regional authorities are responsible for a substantial share of public expenditure in Europe: in 2011 subnational public sector expenditure accounted for 16.7% of GDP and 34% of all public spending in Europe (11.9% (EUR 272.2 billion) and 24.3%, respectively, for the local public sector alone), whilst also accounting for around two thirds of direct investments during 2011 in Europe<sup>1</sup>;
2. notes that subnational public investments tend to be concentrated in a number of key priority sectors that are critical for the success of the Europe 2020 strategy such as economic affairs, education, environment, housing and community amenities, meaning the impact of austerity measures (26% in the UK, over 30% in Spain will have knock-on effects to delivering Europe 2020 goals (for example the capital investment budget has been cut by 42% in Wales);
3. subsequently calls for a stronger political priority to be given to creating synergies between EU, Member State and sub-State (local and regional authority) budgets focused on delivering agreed EU priorities, in particular the Europe 2020 strategy, reiterating the findings of the 2010 European Parliament study into which found that "... the overall synergy between strategic EU policy objectives and budgetary policies is weak ... national budgets seldom refer to their contribution to achieving the objectives of the Lisbon [*Europe 2020*] or other EU strategies ..."<sup>2</sup>;
4. underlines that, in the context of the ongoing crisis, the prevalence of austerity cuts at Member State and sub-State level and enormous pressure these places on public expenditure, makes improving "effectiveness and efficiency" an important political objective;
5. stresses that the "synergies" discussions should in no way be used as a "trojan horse" justification for cutting the proposed Multiannual Financial Framework (MFF) for, nor should it be used as an excuse to "renationalise" the financing of elements of the EU budget (for example, the Structural Funds in so-called "richer" Member States) or to legitimate macro-economic conditionality;

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<sup>1</sup> Dexia Crédit local and CEMR (2012), Subnational public finance in the European Union, July 2012.

<sup>2</sup> European Parliament (2010): Creating greater synergy between European and national budgets (Prepared by Deloitte Consulting at the request of the Committee on Budgets). Quote taken from page 4, Executive Summary.

*Synergies between the EU budget and local/regional budgets*

6. reiterates that the EU budget represents a small share (around 2%) of the overall public expenditure within the EU and in itself is not enough to deliver the EUR 1 800 billion of future-oriented direct investments required by the flagships under Europe 2020 (as identified in the European Parliament's report on the MFF proposals); this means that achieving the overarching objectives of the Europe 2020 strategy requires effective mobilisation of public and private finances at Member State and sub-state level, including through loan finance and promoting public-private partnerships;
7. notes that despite its relatively small scale, the EU Budget and the European Investment Bank (EIB) have a key leverage role to play in stimulating investments across the EU territory, in particular (though not exclusively) through the "Common Strategic Framework" (CSF) Funds that are delivered and implemented at the territorial level (in many cases by local and regional authorities), and which generate an important "multiplier" effect on the economy;
8. highlights that during the economic crisis EU funding, in particular from the CSF Funds, has provided stable and secure finance to local and regional authorities, and in many cases has been "the only money in town" to support public investments and key initiatives, where local, regional and national budgets have been slashed; and stresses the potential negative impact of the proposed macro-economic conditionalities on the perceived stability of CSF funding;
9. underlines the leverage and multiplier-effect that such investments have in terms of direct and indirect benefits to the local and wider economy:
  - European Commission estimates that for 2000-2006 programming period EU Structural Funds had an average leverage-effect of EUR 2.1 for every EUR 1 of EU money contributed;
  - for 2014-2020 the European Commission has set a target of EUR 4.2 per EUR 1 invested through the Cohesion Policy;
  - DG Regional Policy estimates the "multiplier" effect through GDP gains for 2007-2013 will be 1% in Spain, 3% in Poland, Slovakia and Romania, and over 5% in the Baltic States;
  - other estimates put the GDP gain at around 8.5% for Ireland and 19.6% for Spain for the period 1999-2010, although the impact of the crisis will bring these figures down. It should also be noted that there are methodological difficulties in calculating multiplier effects;
10. reiterates that the leverage effects of the CSF Funds are not just financial, but are also seen through a "policy" leverage, through alignment of local and regional strategic priorities around EU level priorities, and other benefits such as strengthening partnership and engaging in trans-national cooperation activities, with a plethora of examples of good practice across Europe;

11. recognises, however, that the low absorption rates in some parts of Europe are evidence of "bottlenecks" in the implementation of the Cohesion and Structural Funds on the ground. Notes in particular the weaknesses identified by a recent OECD study<sup>3</sup> in terms of administrative arrangements, capacity and regulatory frameworks in some Member States and sub-State authorities, and the need for interventions to address these;
12. welcomes the efforts being taken by the European Commission to streamline and simplify the rules for managing, implementing and reporting on projects supported by the CSF funds, which should have some help on absorption rates. Recognises the need to strike a balance between effective controls and sufficient flexibility to remove unnecessary regulatory burdens, and welcomes, therefore, moves towards more risk-based approach to audit;
13. calls for greater transparency in local and regional budgetary processes to recognise explicitly the contribution that CSF funds make to the investment strategies of the region, and demonstrate in draft annual budgets how EU funding is planned into the budgetary cycle. Calls for local and regional authorities to submit examples of good practice of this sort of approach in budgetary planning;
14. highlights concerns from local authorities across the EU about the role Member State (and regional) governments can have, in preventing full use to be made of legal instruments within the Structural Funds regulations that allow for sub-delegation of parts of programme delivery and implementation; calls for this to be redressed in the 2014-2020 programmes, to optimise use of the new instruments (such as Integrated Territorial Investments, Integrated Operations, Joint Action Plans, and Community-Led Local Development) foreseen in the CSF Funds' draft Common Provisions Regulation;
15. welcomes in this respect the own-initiative report by Derek Vaughan MEP for the European Parliament's REGI Committee, on synergies within the EU budget, which focuses in particular on the CSF Funds. Notes with interest the examples of initiatives on the ground that aim to simplify the implementation of funding programmes to beneficiaries;
16. strongly supports the call made by the European Parliament on the Commission in its resolution on "European Semester for economic policy coordination: implementation of 2012 priorities" to "fully address", in its next Annual Growth Survey, "the role of the EU budget in the European Semester process by providing factual and concrete data on its triggering, catalytic, synergetic and complementary effects on overall public expenditure at local, regional and national levels";

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<sup>3</sup> *Regulatory Capacities at Sub-National Level for the Implementation of Public Investment Strategies related to the Absorption of EU Structural Funds* by Allio-Rodrigo Consulting for the OECD, June 2012.

17. welcomes further discussion about the scope within the EU legislative framework to streamline and simplify implementation of programmes on the ground, focusing energies on supporting projects and initiatives that deliver "transformational change". This could include looking at scope for creation of "single territorial investment fund" (bringing together the various EU, Member State and sub-State funds) or creating a "one stop shop" for accessing funds with harmonised rules, comprehensive and clear guidance, and more emphasis placed on achieving sustainable outcomes leading to funds reaching the end user sooner and more strategic delivery on the ground. Such joined-up programming and delivery across all the funds will lead to improved coordination and reduced duplication;
18. argues that a discussion on synergies between EU, Member State and sub-State budgets, must also cover synergies within the EU budget, including thematic programmes such as Horizon 2020, Erasmus for All, the Programme for Social Change and Innovation (PSCI), the Connecting Europe Facility (CEF), COSME etc., which have direct relevance and impact at the "territorial level" and have clear read across to priorities such as R&D and innovation, education and training, and SME competitiveness within the CSF Funds;
19. welcomes, therefore, the efforts undertaken to improve the legislative framework for 2014-2020 to encourage synergies, for example, including Article 55.8 of the CSF Funds Regulation, and calls for wide publicity of projects/initiatives that are developed making use of these new provisions, in order to promote awareness of how such synergies can be achieved in practice;
20. regrets that the current debate around strengthening economic, monetary and political union in the Economic and Monetary Union (EMU) and wider EU, is limited to the main EU institutions and Member State governments, with little or no consideration given to the sub-State level, despite the impact stronger centralisation of controls at EU level could have on the budgetary rights and responsibilities at sub-State level and fiscal decentralisation;
21. regrets also the continuing failure, as evidenced in the Committee of the Regions 3rd Monitoring Report on Europe 2020 published in October, to effectively engage local and regional authorities across the EU in a meaningful way in the European Semester, and reiterates that synergies between budgetary processes cannot be achieved without synergies within the policy-making and monitoring process;

*Towards a fiscal union: a changing economic and political governance*

22. welcomes the ongoing debates at European level on how to complement the existing Economic and Monetary Union (EMU) by a "genuine" fiscal union;
23. notes that this is an evolving discussion, and could have significant implications on how questions of synergies between EU, Member State and sub-State budgets are addressed in the future;

24. expresses concern that there is a drive towards greater centralisation of powers and decision-making without effective engagement of sub-State authorities in this discussion, and notes that the European Commission's 2012 Report on Public Finances in EMU highlights the soundness of a fiscal federalist model that devolves revenue-raising as well as expenditure responsibilities to sub-State authorities;
25. observes that the changes to the EU's economic governance (introduced through the European Semester, the Six-Pack, the Treaty on Stability, Coordination and Governance, and the Two-Pack proposals) have resulted in the development of stricter rules to oversee local and regional public finances at Member State level (through transposition of the so-called "golden rule" from the Member State level to the sub-State level in several Member States);
26. raises concerns that the transposition of rules included in intergovernmental initiatives such as the Treaty on Stability, Coordination and Governance (or Fiscal Compact) into national constitutions or law were done without any proper prior consultation of the Committee of the Regions on the regional and local dimension of the issues at stake, and underlines the importance to stick to the community method in further steps towards a Fiscal Union;
27. calls for, as a matter of some urgency, a more transparent and effective engagement of sub-State authorities with budgetary powers in the ongoing discussions on these issues, as well as for a formal involvement of the Committee of the Regions in the possible subsequent Treaty changes;
28. notes a complete difference of approach between the history of US fiscal federalism and the first steps towards an EU fiscal union. The USA indeed chose a path whereby the federal government neither mandates nor enforces balanced budget rules for the States (as well as State authorities vis-à-vis municipalities): these rules were adopted autonomously by them and implemented independently from the federal government following a clear "no bail out" rule spelled out by the latter. The result is a complete ownership by the level of government concerned given the endogenous aspect of the process. On the contrary, in the EU debt brakes are mandated centrally and enforced by the Court of Justice, whilst the scenario of a Member State (or even municipality within a Member State) going bankrupt seems a priori excluded;
29. considers therefore that the principle of solidarity is at the core of EU's fiscal union;
30. supports the idea of a "flexibility reserve" within the EU budget, that would enable "underspends" under budget headings to be transferred to support other actions rather than automatically being returned to Member States, which is in line with the resolutions adopted by the European Parliament on the MFF in 13 June and 23 October 2012. Such an instrument could provide for greater flexibility in the EU budget to respond to immediate challenges, and could also be used as the basis for a new mechanism for fiscal solidarity as part of the fiscal union;

31. notes however that there cannot be any genuine fiscal union without a definition of the rights and responsibilities of the different levels of government (fiscal federalism), a more explicit link between policy alignment and budgetary decision-making, and an ambitious vision on how to enhance vertical synergies between EU, national and local/regional budgets through proper coordination mechanisms;
32. calls on the European Commission to publish a Green Paper during the first half of 2013 addressing these issues and the further points raised below;

*Outlining some basic principles to be respected in working towards greater synergies*

33. calls for a basic set of principles to be established and respected in working towards greater budgetary synergies, including:
  - **fiscal autonomy**: being clear about the roles and responsibilities of the different budgetary authorities at EU, Member State and sub-State level, including being clear about the role and rationale for EU policy and funding intervention, respecting subsidiarity and the budgetary rights of local and regional authorities (their role in decision making and scrutiny), i.e. their democratic accountability to the communities that elect them, and ensuring the autonomy of each level of governance in determining priorities and spending;
  - **transparency**: ensuring transparency in budgetary processes at all levels of governance (including identifying sources of EU funding explicitly within national and sub-State budgets), as well as ensuring availability of data at EU level on spending profiles of EU funding programmes at regional level (where this is possible);
  - **streamlining of processes**: clarifying how priorities and funding are aligned at EU, Member State and sub-State level towards agreed EU level priorities, making a commitment to work towards overcoming "bottlenecks" (administrative, regulatory, and political streamlining) to achieving greater synergies in budgets/policies, and avoiding the creation of additional administrative burdens;
  - **partnership**: making a commitment to a "partnership based" approach, starting from the premise of equal partnership between different levels of governance (EU, Member State, sub-State), and supported by formal and informal mechanisms that encourage cooperation, including for example extension of the existing dialogue between the European Parliament and Member State Parliaments to include representatives from sub-State legislatures;
34. understands the role of the EU Budget (at present) as being primarily: (i) to finance the core common EU policies, such as agriculture and fisheries (ii) to help support other agreed EU policy objectives and goals under shared competences with Member States, through investments focused on the medium-long term. Such interventions are furthermore underpinned on the basis of established notions of (a) added value of EU intervention,

(b) additionality in the actions supported, (c) and the leverage and multiplier effects from EU intervention;

35. welcomes further discussions and clarification, within the context of developments in the debates on strengthening economic, monetary and fiscal union, of the potential implications such developments may have on the role and rationale for EU interventions, and their relationship with Member State and sub-State budgetary processes;
36. believes that a greater vertical coordination of budgetary policies would lead to greater synergies, where it respects and strengthens subsidiarity, additionality, European value added and the advantages of economies of scale<sup>4</sup>. As such it is therefore totally compatible with the subsidiarity principle enshrined in the EU treaties;

*Bottlenecks to achieving greater vertical synergies*

37. underlines the importance of having accurate and reliable data and analysis available at the EU level on public finances and budgetary processes down to the sub-Member State level;
38. notes the complexity of the challenge in generating synergies due to the "heterogeneity" of sub-State structures across the EU;
39. welcomes the inclusion in the European Commission's 2012 Report on Public Finances in the EMU of a dedicated chapter on Fiscal Decentralisation in the EU for the first time, and calls on the European Commission to include such a chapter on the state of sub-State public finances in further annual releases of this report;
40. welcomes other research studies looking at public finances and public investment capacity, and the impact of the social, economic and fiscal crisis at sub-State level, in particular the DEXIA Crédit Local (DCL)/CEMR report and the studies by the OECD;
41. notes, however, the relative paucity of information on local and regional public finances across the EU, and more generally the paucity of information on synergies between EU, Member State and sub-State finances;
42. calls on the European Commission to undertake further work to address this shortfall and suggests the creation of a European research network of universities, to develop a specialist expertise in this important area of work;
43. recognises that there are a number of other bottlenecks with regard to the budgetary procedures and cycles within the EU, which are exacerbated by the "heterogeneity" of sub-State budgetary processes. Budgetary cycles with Member States and sub-State are not

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<sup>4</sup> European Parliament study (2010): Creating greater synergy between European and national budgets.

harmonised with the EU budgetary cycle (which operates on calendar years), and local and regional budgeting is furthermore based predominantly on annual cycles rather than multiannual planning (which characterises the EU budgetary framework);

44. calls on the European Commission to consider the merits and practicalities (as well as potential administrative challenges/costs) of moving towards greater harmonisation of budgetary cycles within the EU, and promoting and encouraging use of medium-term budgetary frameworks (MTBF) at sub-State level (in line with measures introduced in the "six pack"), including clarification on how this could work within the annual European Semester cycles;
45. notes the ongoing negotiations on the proposals for a European system of national and regional accounts in the EU (COM(2010) 774 final) and regrets the lack of comparability (in terms of the structures, readability and content) of local and regional budgets across the EU as well as the lack of harmonisation at EU level, which makes it difficult to undertake meaningful comparisons and analysis;
46. notes that Article 3 of Directive 2011/85/EU (part of the "six pack") mandates MS to implement the ESA 95 standard to their national systems of public accounting and "ensure timely and regular public availability of fiscal data for all sub-sectors of general government"; seeks clarification as to whether the local/regional dimension of EU investment policy and/or the financial impact on sub-State authorities (e.g. data collection costs) have been sufficiently taken into account in this context;
47. highlights the need for possible improvements of the ESA 95 standard for local and regional authorities regarding the issue of borrowing costs. The ESA 95 accounting method indeed treats financial operations (and thus borrowing) differently and penalises local and regional authorities that wish to carry out investments in their efforts to balance their budgets. Under the ESA 95 framework, only the operations of the financial year in question are considered, which does not allow local and regional authorities to offset a temporary deficit linked to investment by using reserves or surplus brought forward. In order to achieve equivalent results within their accounting framework, these local and regional authorities would have to finance their investments in full using their own funds;
48. notes that Member States which have formally integrated local and regional authorities into the budgetary process (internal stability pact, e.g. in Belgium, Spain or Austria) have generally provided for mechanisms which make the ESA 95 standards more flexible so that they still have scope for investment. These can take the form, for example, of a multiannual adjustment of budgetary objectives or systems for partial exemptions from the investment expenditure objective in order to take account of the investment cycle;

49. calls therefore for this issue to be resolved at EU level by harmonisation of rules to make the ESA 95 standards more flexible to enable local and regional authorities to undertake investments in this way;
50. calls for greater use to be made of new innovative financing mechanisms, such as loans and other "revolving funds", and notes also the opportunities presented by public private partnerships, and the EIB to stimulate creative and innovative investments at the territorial level, and welcomes measures within the 2014-2020 programming period, including the CSF Funds, that promote these activities further;
51. notes that access to financial markets varies widely across the EU and is not very well developed in certain parts of Europe for local and regional authorities, therefore this needs to be addressed at EU level;
52. looks forward to further discussions about the potential for other innovative instruments at EU level to stimulate investment and support solidarity to help move Europe out of crisis, including EU Project Bonds and Eurobonds.

Brussels,

## II. PROCEDURE

<b>Title</b>	Creating Synergies Between EU, National and Subnational Budgets
<b>Legal basis</b>	Art. 307 (4) TFEU
<b>Procedural basis</b>	Rule 42 of Rules of Procedure
<b>Date of Bureau decision</b>	17 July 2012
<b>Commission responsible</b>	Temporary Ad-hoc Commission on the EU Budget
<b>Rapporteur</b>	Rhodri Glyn Thomas (UK/EA) Member of the National Assembly for Wales
<b>Analysis</b>	5 October 2012
<b>Discussed in commission</b>	28 November 2012
<b>Date adopted by commission</b>	28 November 2012
<b>Result of the vote in commission</b>	Majority
<b>Date adopted in plenary</b>	Foreseen on 31 January or 1 February 2013
<b>Previous Committee opinions</b>	<ul style="list-style-type: none"> <li>– CoR Resolution on its Political Priorities for 2013, CdR 1031/2012 fin</li> <li>– CoR Resolution on the Spring European Council and on the Prospective Treaty on Stability, Coordination and Governance in the EMU, CdR 42/2012 fin</li> <li>– CoR Opinion on Building a European Culture of Multilevel Governance, CdR 273/2012 fin</li> <li>– CoR Resolution on its Political Priorities for 2012, CdR 361/2011 fin</li> <li>– CoR Opinion on the Complementarity of National and EU Interventions Aimed at Reducing the Disparities in Economic and Social Growth, CdR 167/2011 fin</li> <li>– CoR Opinion on the Role of Local and Regional Authorities in Achieving the Objectives of the Europe 2020 Strategy, CdR 72/2011 fin</li> </ul>