The European Union budget at a glance

What is the money spent on?
Where does the money come from?
How is the budget decided?
How is the money spent and controlled?
How is the money accounted for?

EUROPEAN COMMISSION

What is the money spent on?

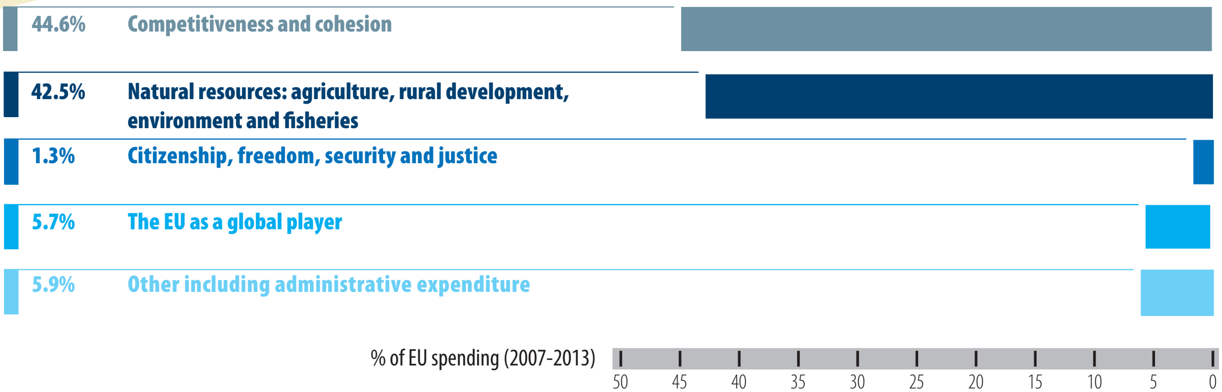
The EU's annual budget is equivalent to around 1% of the Union's national wealth, which is about EUR 244 per EU citizen. This money is used with the aim of improving the everyday lives of people. For students, this could be in the form of opportunities to study abroad. For small businesses, it could imply easier access to larger markets and a fair business environment. For researchers, it could mean more chances to develop their ideas. For jobseekers, it could be new training possibilities.

Directly or indirectly, we all benefit from some activity funded from the EU budget, be it in the form of cleaner beaches, safer food on our plates, better roads or the guaranteeing of our fundamental rights.

Actions and projects funded by the EU budget reflect the priorities set by the EU at a given time. These are grouped under six broad spending categories (known as 'headings') and 31 different policy areas.

The EU budget finances actions and projects in policy domains where all EU countries have agreed to act at Union level. Joining forces in these areas can yield greater results and costs less.

There are other policies, however, where the EU countries decided not to act at Union level. For example, national social security, pension, health or education systems are all paid for by national, regional or local governments. The '**subsidiarity principle**' ensures that the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, and can, for reasons of scale or effects of the proposed action, be better achieved at Union level.



Growth and jobs

For the period 2007-2013, the EU countries have decided to dedicate a considerable part of their joint efforts and of the EU budget to creating more **economic growth and jobs**. Sustainable growth has become one of the main priorities of the Union. The EU economy needs to be more competitive and less prosperous regions need to catch up with the others.

A more **competitive economy** requires more investment in research and education, extended transport and energy networks and better employment conditions, all at the same time. As a result, a simple idea developed in a laboratory could be picked up by a small business across the EU and marketed throughout the Union, with full protection of consumers' rights. In this case, funding a simple idea provides employment to the researcher, the entrepreneur, the distributor and protection to the consumer

Achieving long-term growth also depends on tapping and increasing the EU's growth potential. This priority, known as '**Cohesion**', calls for helping especially less advantaged regions transform their economy to face global competition. Innovation and the knowledge based economy provide an unprecedented window of opportunity to trigger growth in these regions.

The Union's efforts are directed to achieve cohesion focusing on the development of **infrastructures** and on helping the regions to train their **workforce** and adopt the latest technologies in production. The EU budget also supports facilitating economic and social **cooperation** across regional and national borders. The EU action often involves sharing experience and know-how, which can be much more useful for the less prosperous regions.

Our natural resources

Thanks to their geographic and climatic diversity, the EU countries produce a large variety of agricultural products, which European consumers can buy at reasonable prices. The EU efforts in this field have two main goals. First, what is produced must correspond to what consumers want, including **high safety and quality** for agricultural products. Second, on the production side, the farming community should be able to plan and adapt production to consumers' demand while respecting environmental and animal welfare legislation.

In addition, a successful management and protection of our natural resources must also include direct measures to protect the **environment**, restructure and diversify the **rural economy** and promote **sustainable fishing**. After all, animal diseases, oil spills and air pollution do not stop at national borders. Such threats require extensive action on many fronts and in several countries.

Fundamental freedoms, security and justice

Similarly, the fight against **terrorism**, **organised crime** and **illegal immigration** is much more effective when EU countries share information and act together. The EU strives for a better management of migration flows into the Union and extensive cooperation in criminal and judicial matters as well as secure societies based on the rule of law.

Being European: debate, dialogue and culture

Around 500 million of us live in the EU. We speak many different languages and have different cultural backgrounds. Together we form the invaluable wealth of the European Union: cultural diversity built on common values. The EU budget promotes and protects this **cultural heritage** and richness, while encouraging **active participation** in social debates around us. It also aims to protect **public health** and **consumer interests**.

Since its creation in 1987, the Erasmus programme gave more than 2 million European students the opportunity to pursue a part of their higher education in another EU country.

In Thailand, ECHO provided basic food aid and sanitation infrastructures to over 70,000 refugees from Burma/Myanmar.

Global player

The impact of EU funds does not stop at our external borders. For many, the EU budget delivers the most needed emergency aid in the aftermath of a natural disaster. For others, it is a **long-term assistance** for prosperity, stability and security.

Administrative costs

These cover the staff and building costs of all EU institutions, including the European Parliament, Council of Ministers, European Commission, European Court of Justice and European Court of Auditors.

In addition to the EU's long-term assistance, 77 developing countries in Africa, the Caribbean and the Pacific regions can also benefit from the **European Development Fund** (outside the EU budget). The 10th EDF, covering the period 2008-2013, amounts to EUR 22.7 billion. Among the sectors covered by the EDF funding are the support to the general or sector budget of the ACP countries, transport, infrastructure, democratic governance, agriculture and rural development, health and education.

Hundreds of thousand people were left homeless after cyclone Sidr swept through Bangladesh. The EU allocated total of EUR 6.5 million to assist populations in meeting their vital needs for water, food, shelter.

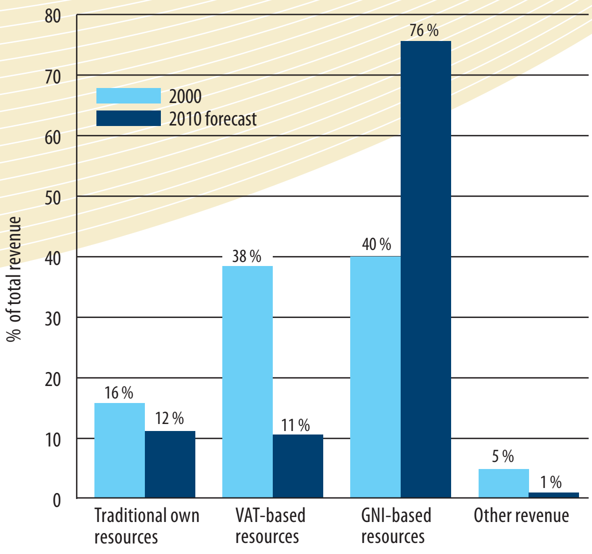
Where does the money come from?

The European Union has its 'own resources' to finance its expenditure. Legally, these resources belong to the Union. Member States collect them on behalf of the EU and transfer them to the EU budget.

Own resources are of three kinds (the figures below refer to the 2010 revenue estimates and are given as an example).

Where does the money come from?

in % of total revenue



Own resources of the EU budget

- **Traditional own resources** (TOR) — these mainly consist of duties that are charged on imports of products coming from a non-EU State. They bring in approximately 12 % of the total revenue.

- The resource based on **value added tax** (VAT) is a uniform percentage rate that is applied to each Member State's harmonised VAT revenue. The VAT-based resource accounts for 11 % of total revenue.

- The resource based on **gross national income** (GNI) is a uniform percentage rate applied to the GNI of each Member State. Although it is a balancing item, it has become the largest source of revenue and today accounts for some 76 % of total revenue.

The budget also receives other revenue, such as taxes paid by EU staff on their salaries, contributions from non-EU countries to certain EU programmes and fines on companies that breach competition or other laws. These miscellaneous resources add up to around 1 % of the budget.

The total EU revenue foreseen for 2010 amounts to some EUR 122.9 billion.

Revenue flows into the budget in a way which is roughly proportionate to the economic prosperity of the Member States. The United Kingdom, Germany, the Netherlands, Austria and Sweden, however, benefit from some adjustments ("corrections") when cal-

culating their contributions to reduce their perceived excessive net contributions to the budget.

On the other hand, EU funds flow out to the recipients within the Member States and in third countries in accordance with the priorities that the Union has identified. Whereas all Member States benefit from the EU budget, less prosperous Member States receive proportionately more than the richer ones as a result of solidarity underpinning EU programmes, not least in the context of cohesion policy.

EU budget revenue and expenditure is limited by…

— The treaties: the Union budget is not allowed to be in deficit, which means that revenue has to cover the entire expenditure.

— A maximum spending limit agreed by the Member States' governments and parliaments. Known as the '**own resources ceiling**', this limit is currently set at 1.24 % of the Union's gross national income (GNI) for payments made from the EU budget. This corresponds to approximately EUR 293 per EU citizen on average.

— A multiannual financial framework agreed by the European Parliament, the Council of Ministers and the European Commission, which controls the evolution of the EU budget by expenditure category over a set period of time.

— A financial regulation adopted by the Council and Parliament that sets out the rules on the establishment, execution, management and audit of the budget.

How is the budget decided?

The Commission, Parliament and Council of Ministers have different roles and powers in deciding the budget.

As a first step, the Council adopts the multiannual financial framework, after obtaining the consent of the European Parliament, given by a majority of its members. The multiannual financial framework with a duration of at least five years establishes annual upper limits (known as 'ceilings') per heading. Annual budgets must respect these ceilings.
Thus it ensures a long-term expenditure planning while at the same time providing budgetary flexibility.

The most recent multiannual financial framework covers the seven-year period from 2007 to 2013.

Commissioner Lewandowski discussing budgetary issues at the European Parliament.

The annual budgetary procedure as established by the Treaty of Lisbon lasts from 1 September to 31 December.

IN FEW WORDS

The EU budget is decided democratically at all stages

In addition to the approval of the annual budget by the European Parliament and the Council, almost all activities require a legal act before they can be carried out. This takes the form of an authorising act or legal base, proposed by the Commission, and approved by the legislative authority — the Council alone or with the Parliament in many cases.

Economic and Financial Affairs Council.

Commission's draft budget

All EU institutions and bodies draw up their estimates for the draft budget according to their internal procedures before 1 July.
The Commission consolidates these estimates and establishes the annual 'draft budget', which is submitted to the Council and the European Parliament by 1 September. In practice, the Commission endeavours to present the draft budget before the end of April/beginning of May.

Council's reading of the budget

The Council adopts its position on the draft budget including amendments, if any, and passes it to the European Parliament before 1 October. The Council also informs the European Parliament of the reasons which led it to adopt its position.

Parliament's reading

The Parliament has then 42 days to either adopt the budget at its reading in October or hand its amendments back to the Council. The Council may accept the amendments within 10 days and adopt the draft budget.

Conciliation Committee

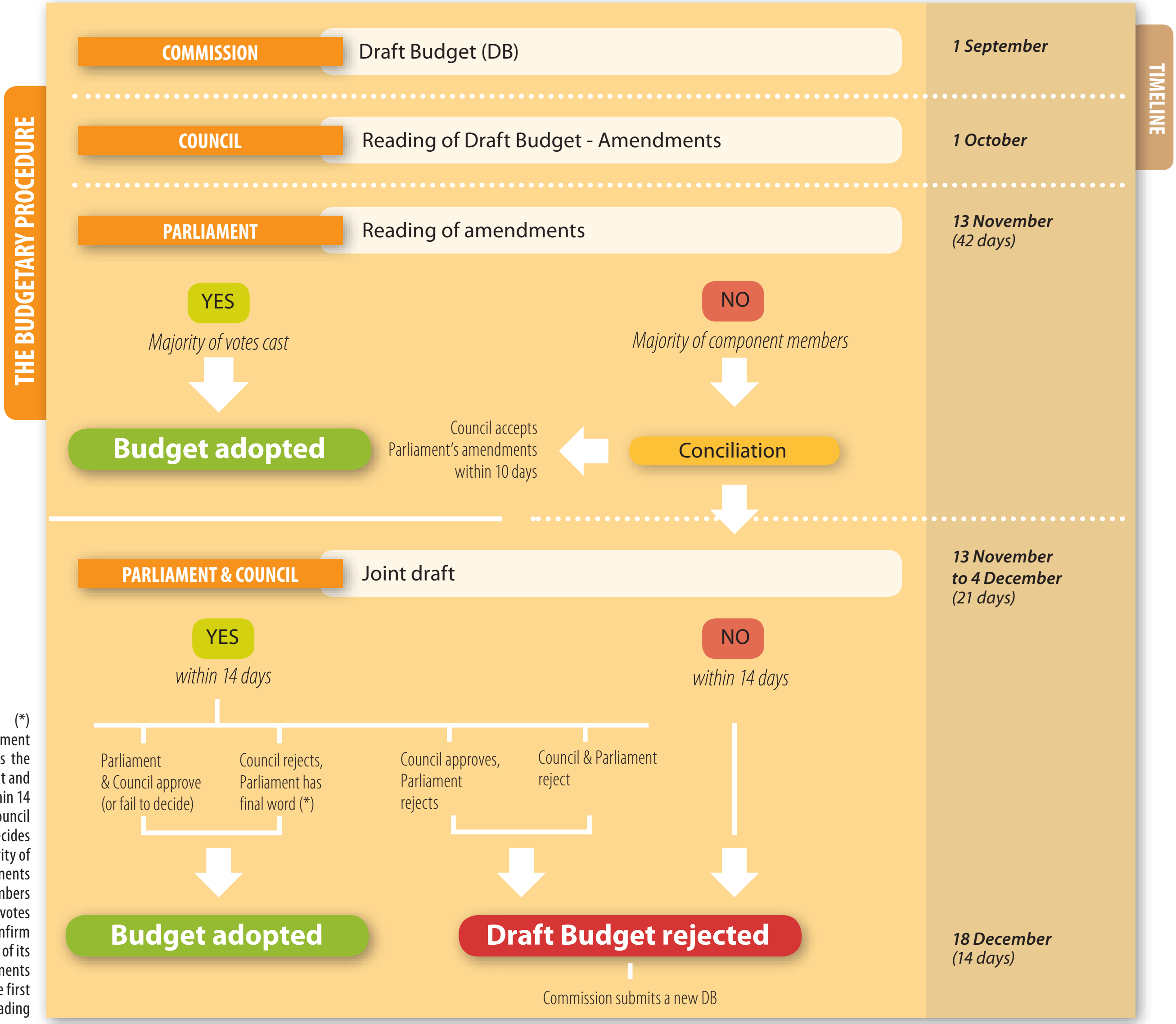
If the Council does not accept the Parliament's amendments, a Conciliation Committee is set up, composed of the members of the Council or their representatives and an equal number of members representing the European Parliament. The Conciliation Committee is assigned to come up with a joint text within 21 days.

Once a joint text is agreed upon by the Conciliation Committee in early November, the Council and the Parliament have 14 days to approve or reject it. The Parliament may adopt the budget even if the Council rejects the joint text.
In case either the Council or the Parliament rejects the joint draft whilst the other fails to decide, the budget is rejected and the Commission has to submit a new draft budget.

Jerzy Buzek, President of the European Parliament (2009-2011).

If, at the beginning of a financial year, the budget has not yet been definitively adopted, a sum equivalent to not more than 1/12 of the budget appropriations for the preceding financial year may be spent each month.

Similar procedures apply to the adoption of letters of amendment to the draft budget (presented when new information comes to light before the adoption of the budget) and of amending budgets (in the case of inevitable, exceptional or unforeseen circumstances occurring after the budget has been adopted).



(*) i. e. Parliament approves the joint text and then, within 14 days of Council rejection, decides (by a majority of its components members & 3/5 of the votes cast) to confirm all or some of its amendments from the first reading

How is the money spent and controlled?

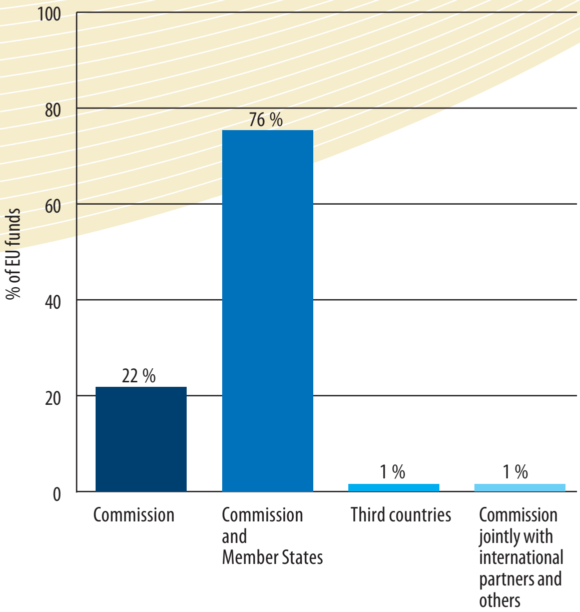
Responsibility for managing the budget

The ultimate responsibility for the implementation of the budget lies with the European Commission. In practice, the lion's share of the EU funds (some 76 %) is spent under what is known as **shared management**. Under these arrangements, it is the authorities in the Member States, rather than the Commission that manage the expenditure. A whole set of checks and balances is put in place to help ensure that the funds in question are managed properly and in accordance with the rules in force.

Key thought

EU funds must be used in accordance with the principle of **sound financial management**. Put simply, this means that those managing the money must make every effort to obtain the best possible value for money spent. This requires strict adherence to all the rules and regulations as well as regular evaluations to verify that this is the case.

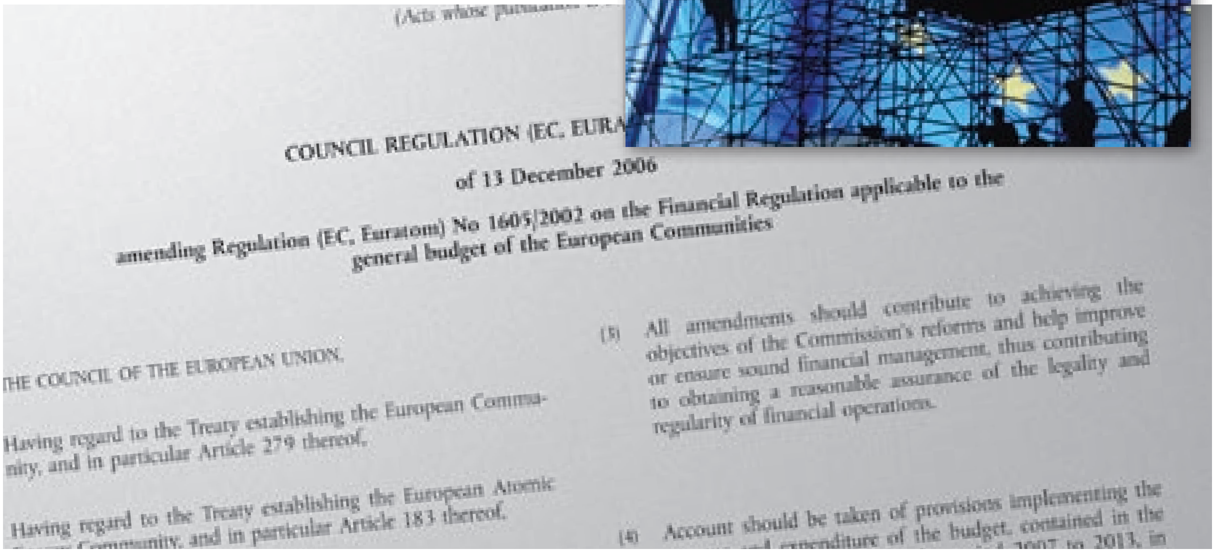
Who manages EU funds?



The Commission must recover amounts unduly paid, whether by error, irregularity or deliberate fraud. The Member States are equally responsible for protecting the EU's financial interests. To this end, they work in cooperation with the Commission and with OLAF — the European Anti-Fraud Office — which carries out investigations into potential cases of fraud and helps 'fraud-proof' EU legislation.

Activity-based budgeting

For greater transparency, i.e. over what policies are pursued, how much money is spent on each of them, and how many people work on them, the EU budget is separated into 31 policy areas. Each of these policy areas is broken down to show the different activities financed under the policy and their total cost in terms of both financial and human resources (for example, the protection of forests activity is financed under the environment policy heading). This way of organising the budget is called activity-based budgeting.



Rules governing expenditure

The main rules governing the actual spending of EU funds are contained in the **financial regulation**. A second set of rules, **implementing rules**, explains in detail how the financial regulation is to be applied.

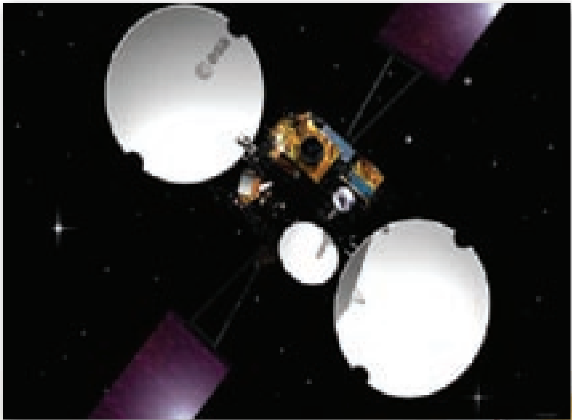
Furthermore, with very few exceptions, each and every programme launched must be covered by a specific authorising act, or legal base, before funds can be released. These legal bases set out the objectives of the activity in question and the cost, and often impose multiannual spending limits.

Management, audit and internal control

On the Commission's side, EU programmes and activities are managed by the staff of the Commission's policy departments (called directorates-general) in liaison with their counterparts in the EU Member States as necessary. In each Commission department, one member of the staff (usually the Director-General) is nominated as 'authorising officer' and has to assume full and final responsibility for operations in his or her field of competence, although all EU staff of course bear disciplinary and pecuniary responsibility for their actions.

Internal controls are enhanced by a set of clear standards, controls by management before and after operations, independent internal auditing on the basis of risk assessments, and regular reporting on activities to the individual Commissioners.

Since 2002, all Commission departments issue an annual activity report to the Members of the Commission setting out their achievements for the year in question and suggestions to remedy any shortcomings. A synthesis report is then sent to the Parliament and Council. This report now constitutes one of the pillars on which the European Court of Auditors bases its annual declaration of assurance on the EU's management of its resources.

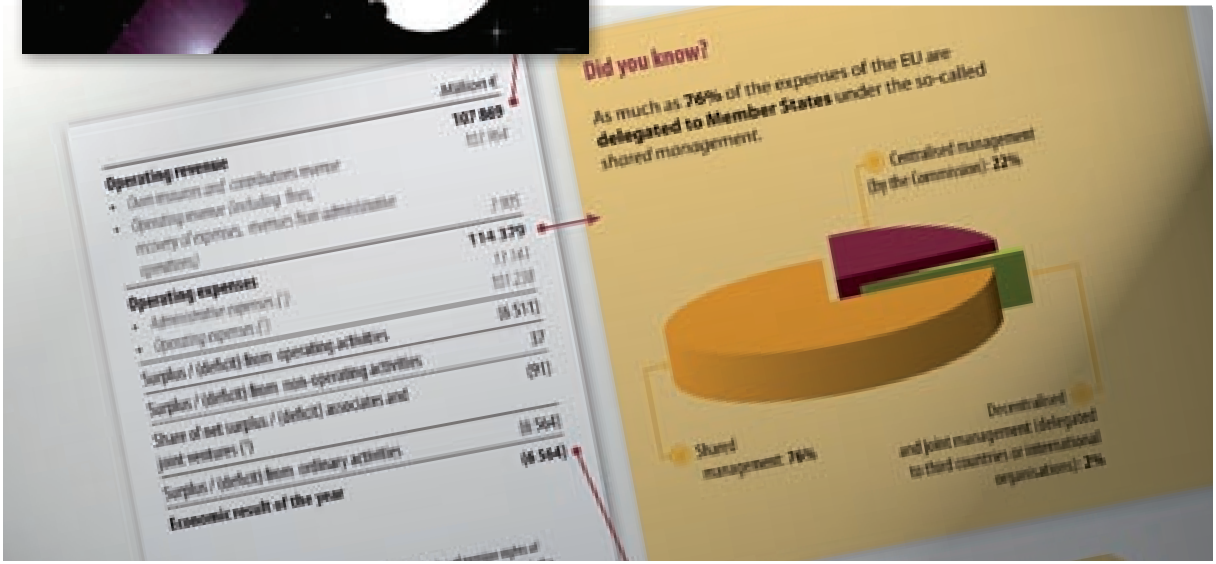


How does the Commission make payments?

The Commission has bank accounts with Member State treasuries, central banks and commercial banks and is a participant in SWIFT (the Society for Worldwide Interbank Financial Telecommunication). All payment instructions and other related messages are sent electronically in encrypted form and with a coded authentification key.

The Commission deals with over 300 000 third parties, mainly beneficiaries of grants and suppliers of goods and services. To handle these transactions, it uses what is known as a computerised legal entity file (LEF) for each third party (which can be an individual or a company). All of these legal entity files have to be authorised and validated before any payment can be made.

The Union monitors its subsidised agricultural activities by remote sensing (Monitoring Agriculture through Remote Sensing - MARS project).



How is the money accounted for and to whom?

The dual nature of EU accounting and reporting

The EU accounts consist of two types: (a) **budgetary accounts** (which provide a detailed record of budget implementation) and (b) **general accounts** (which are used to prepare the balance sheet and economic outturn).

The budgetary accounts are based on the modified cash accounting principle, which means that transactions (expenditure and income) are recorded only when cash is paid out or received.

Vitor Manuel da Silva Caldeira, President of the Court of Auditors and José Manuel Barroso, President of the European Commission.

Key thought

Every year, the EU accounts are published and submitted for external audit by the Court of Auditors. The final assessment, called 'discharge', is given by the Parliament after taking into account the Council's recommendations.

The general accounts (or general ledger) use the double-entry method of bookkeeping to record all revenue and expenditure throughout the financial year. The general accounts are used for establishing the economic outturn and the balance sheet of assets and liabilities, which is drawn up to show the financial position of the EU at 31 December of each year.

Reporting on the implementation of the budget

The Commission publishes the state of budget implementation every month on its website. These monthly reports show how the money is actually being used. The information is given for each chapter of the budget and by policy area. Weekly figures are also kept by the relevant policy departments. An overview of the results of evaluations made during the year and of the planned follow-up is provided in the annual evaluation review.

The Commission also publishes the **annual accounts** of the European Communities, which include consolidated reports on the implementation of the budget and the balance sheet. Prepared in accordance with the **International Public Sector Accounting Standards** (IPSAS), they consolidate the accounts of all the EU institutions and bodies, as well as those of most agencies.

After a preliminary audit of the provisional accounts by the Court of Auditors, the Commission approves the final accounts, which are then sent to the discharge authorities: the European Parliament and the Council.

On 1 January 2005, the Commission took a crucial step in modernising its accounts with the move from cash-based to **accrual accounting**. Accrual accounting recognises transactions when they occur (and not only when cash is paid), and it gives a full view of all the EU's assets and liabilities. As a result, policymakers, budget control authorities, managers of EU funds and EU citizens now have access to more accurate financial information, which is essential to effective management and control of public money.

European Parliament grants discharge for the EU budget.

External audit

In addition to regular internal audits and controls, the EU's annual accounts and resource management are subject to an external and independent audit by the **European Court of Auditors**. Each year the Court of Auditors draws up a report for the Parliament and Council of Ministers. Together with this annual report, it issues an opinion called **statement of assurance** on:

- the reliability of the accounts (i.e. if the books are kept well) and
- the legality and regularity of the underlying transactions (i.e. the revenue collected and payments made).

Accountability to the European Parliament

Following the publication of the Court of Auditors' annual report and the finalisation of the annual accounts, the Council submits its recommendations to the Parliament. Based on these, the European Parliament pronounces on the Commission's management for the financial year in question. If the Parliament considers that the Commission managed the EU budget appropriately, it grants **discharge** to the Commission.

When granting discharge, the Parliament often recommends follow-up action to be taken by the Commission. In response, the Commission identifies the measures it could take and informs the Parliament and the Council.

For more information on the EU budget and financial programming

EU budget:
http://ec.europa.eu/budget/index.htm
(available in English, French and German)

European Commission Directorate-General for Budget:
http://ec.europa.eu/dgs/budget/index_en.htm

Janusz Lewandowski, Commissioner for Budget and Financial Programming:
http://ec.europa.eu/commission_2010-2014/lewandowski/index_en.htm

KV-30-09-259-EN-C

For feedback on the brochure:

budget@ec.europa.eu

Europe Direct is a service to help you find answers to your questions about the European Union

Freephone number (*): 00 800 6 7 8 9 10 11

(*) Certain mobile telephone operators do not allow access to 00 800 numbers or these calls may be billed.

Photo credits

Corbis, cover and pages 3, 9; Ingram publishing, page 3; GettyImage, page 7;
European Union, pages 4, 5 (ECHO/Antoine Lemasson; ECHO/Claire Barrault), 8, 10, 12, 13, 14,15; ESA/J. Huart, page 9.

A great deal of additional information on the European Union is available on the Internet.
It can be accessed through the Europa server (http://europa.eu).

Luxembourg: Publications Office of the European Union, 2010
ISBN 978-92-79-14445-5
doi:10.2761/41478

Printed in Luxembourg
PRINTED ON WHITE CHLORINE-FREE PAPER

Publications Office

ISBN 978-927914445-5
9 789279 144455