

Information Guide



The EU Budget

A guide to information sources on the European Union's budget, with hyperlinks to further sources of information within European Sources Online and on external websites

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Introduction

This is an innovative budget. I invite you to look beyond the traditional headings and focus on how throughout the budget we will deliver the Europe 2020 goals that we have collectively defined. That is why we break from the culture of entitlement where some public authorities expect to spend funds as they wish. Now every request must be clearly linked to the goals and priorities that we have commonly agreed. That is how every euro spent will be a multi-purpose euro. A euro can strengthen cohesion, boost energy efficiency and the fight against climate change, and promote social targets, increase employment and reduce poverty at the same time. It can have a major leverage effect in many areas.

All across Europe, governments, businesses and families are choosing carefully where to spend their money. It is a time to think carefully about where to cut back and where to invest for the future. We need to be rigorous and, at the same time, we also need investment for growth in Europe.

The European Union must also live within its means while investing for the future. We have a relatively small budget of only around 1% of Europe's wealth (measured by GNI) which represents one fiftieth of the budgets of Member States. But we must make a big impact with it, and use every single euro to its full potential.

Today we are making those choices for the period from 2014 to 2020.

From: A Budget for Europe 2020, [COM\(2011\)500](#), 29 June 2011.

Background

The EU budget is available in two printed volumes and in an electronic version as [Budget online](#). The numbering of sections varies between the two, but for many people the most important section will be the one showing Commission expenditure (e.g. Section 3 in the online version of the 2012 General Budget). An 'activity-based budgeting' (ABB) approach is taken, with appropriations and resources presented under some 30 policy areas, reflecting the Union's political priorities and objectives set out in the Financial Framework. The [Introduction](#) to the 2009 budget summarised the principles on which the budget operates ('unity, budgetary accuracy, annuality, equilibrium ...').

Prior to changes introduced by the Treaty of Lisbon, budget expenditure fell into two categories: compulsory and non-compulsory. Compulsory expenditure was considered to be expenditure necessarily resulting from the Treaties or from acts adopted in accordance with them (in practice, that meant much agricultural and veterinary expenditure, funding of international agreements, and staff pensions). All other expenditure was classified as non-compulsory. Decisions on compulsory expenditure were taken by the Council, and on non-compulsory expenditure by the European Parliament.

The distinction between compulsory and non-compulsory was abolished under the Treaty of Lisbon.

The budget forecasts both commitments and payments. Commitments are legal pledges to provide finance, provided that certain conditions are fulfilled, and payments are cash or bank transfers to the beneficiaries. Appropriations for commitments and payments can differ, because multi annual programmes and projects are usually committed in the year they are decided, with payments taking place over years as the programme and projects progress. In 2009, for example, €133.845 billion in commitment appropriations were

authorised and €116.096 billion in payment appropriations.

The €133 billion in commitment appropriations equates to 1.03% of the Union's Gross National Income (GNI), while the payment appropriations of €116 billion represent 0.89% of EU GNI.

With €1.79bn of a total €115.771bn of the overall budget unspent in 2008 (i.e. 1.5%), Member States' contributions to the EU budget almost exactly matched agreed spending for the year (see Press Release [IP/09/584](#)).

EU budgets for 2008-2012 under the main budget headings of the Financial Framework are (in € billion, figures rounded):

	2008	2009	2010	2011	2012
1. Sustainable growth	45.731	45.999	64.3	64.5	67.5
2. Natural resources	53.217	52.566	59.5	58.7	59.9
3. Citizenship, FSJ	1.488	1.296	1.7	2	2
4. EU as a global player	7.847	8.324	8.1	8.8	9.4
5. Administration	7.279	7.700	7.9	8.2	8.3
Total expenditure	115.771	116.096	141.5	142	147

The funding of its activities has always been a controversial issue for the European Union. Debates have raged over sources of revenue, spending on specific policies, fraud and (mis-)management of funds. Responding to criticism of the EU budget - including concerns over fraud - the Commission has issued a number of communications, including [EU spending - A myth-buster](#), ['EU Budget - facts and myths'](#) (MEMO/07/350) and ['Myths about the EU budget and the Multiannual Financial Framework'](#) (MEMO/11/459).

Speaking to the European Parliament on 21 April 2009, Commission Vice-President Siim Kallas said in [SPEECH/09/183](#):

Today, you are voting on whether to grant discharge for 2007, a year for which the auditors now say that for all budget areas except the structural funds, as much as 95% or more of the payments are free from serious financial error. This is the best [statement of assurance] ever ... Our financial management is steadily improving, and it is certainly good enough to deserve discharge. But it cannot stand the test of perfection.

The EU was created to bring peace and prosperity. It has delivered so far. Obviously, looking at the EU's institutional set-up, it is possible that there wasn't an auditor present at the creation. And so it is not perfect. But audit perfection is a rare phenomenon anywhere in the world.

Legal basis

The [Treaty on European Union](#) (TEU) gives responsibility for exercising budgetary functions to the European Parliament (Article 14) and the Council (Article 16), with the role of the Commission being to execute the budget and manage programmes (Article 17).

In the [Treaty on the Functioning of the European Union](#) (TFEU), Article 287 stipulates that the European Court of Auditors (ECA) will assist the Parliament and the Council in controlling implementation of the budget.

However, it is Title II on Financial provisions (Articles 310-325) which focuses on budgetary matters.

Article 310(1) requires all items of EU revenue and expenditure to be included in annual estimates and to be shown in the budget. It also demands a balance between revenue and expenditure shown in the budget.

Under Article 310(4), the Union:

shall not adopt any act which is likely to have appreciable implications for the budget without providing an assurance that the expenditure arising from such an act is capable of being financed within the limit of the Union's own resources and in compliance with the multiannual financial framework.

Article 310(5) provides for the budget to be implemented in accordance with the principle of sound financial management, and requires Member States to cooperate with the EU to that effect.

Own resources are the subject of Article 311, which requires the Union to:

provide itself with the means necessary to attain its objectives and carry through its policies.

Provisions on the Multiannual Financial Framework are set out in Article 312; the annual budget must comply with the MFF.

The Union's annual budget is dealt with in Articles 313-316 (for details see 'Budgetary procedure' below).

Article 315 concerns provisions for the EU to deal with a situation where the budget has not been adopted at the beginning of the financial year. It allows for a maximum of one twelfth of budget appropriations for the preceding financial year to be spent each month on any budget chapter.

Article 317 charges the Commission with the task of implementing the budget, in cooperation with the Member States. Under Article 319, the European Parliament, acting on a recommendation from the Council, gives a discharge to the Commission in respect of the budget implementation.

According to the Commission's Financial Programming and Budget website:

Discharge is the final approval of the EU budget for a given year (following the audit and finalisation of the annual accounts).

It is granted by Parliament on a recommendation from the Council. Discharge equates to approval of how the Commission implemented the budget in that financial year and the closure of that budget

The Council set out possible options on own resources in a paper (a so-called [Negotiating Box](#)) issued on 24 May 2012.

Own resources

The general budget of the European Union is financed wholly through a system of 'own resources', intended to ensure 'adequate resources for the orderly development of the Communities' policies, subject to the need for strict budgetary discipline.' An 'own resources ceiling' currently limits spending to 1.24% of the Union's gross national income (GNI). The basic rules of the own resources system are laid down in [Council Decision](#)

[2007/436/EC](#) and [Council Regulation 105/2009](#) (which entered into force on 1 March 2009, amending Regulation 1150/2000).

There are three main revenue streams:

- Traditional own resources (TOR), consisting mainly of duties charged on goods imported into the EU (forecast to generate €17.3 billion or approximately 15% of total revenue for 2007).
- Value added tax (VAT), comprising a uniform percentage rate applied to each Member State's harmonised VAT revenue (forecast to generate €17.8 billion or some 15% of total revenue).
- Gross national income, comprising a uniform percentage rate (0.73 %) applied to the GNI of each Member State (accounts for €80 billion or some 69% of total revenue).

(For further details, see [Where does the money come from?](#)).

In July 2004 the Commission published 'Financing the European Union Commission report on the operation of the own resources system' ([COM\(2004\)505](#); see also [Summaries of EU Legislation](#) and [PreLex dossier](#)).

The Commission proposed two main changes to the system: raising up to 50% of the budget through a new taxed-based own resource, and replacing the mechanism for correcting budgetary imbalances with a generalised correction mechanism aimed at reducing both the differences between net contributors and the financial burden on Member States which do not benefit from it.

As part of the June 2011 Communication '[A Budget for 2020](#)' the European Commission proposed new own resources for the multi-annual financial framework for the period 2014-2020.

The Commission suggested that the aim of these proposed new 'own resources' was not to increase the EU budget, but rather to put it on a sounder footing and lower Member States' direct contributions.

The new own resources would be a *financial transaction tax* and a new *modernized VAT*. Simultaneously, the current VAT-based resource (a portion of the national VAT collected by Member States) would be abandoned.

The Commission also proposed to simplify the existing *correction mechanisms* (or 'abatements') that apply to a number of Member States (including the United Kingdom, Austria, Germany, the Netherlands and Sweden).

See also European Parliament: Library Briefing: [Financing of the EU budget: The own resources system](#) and report: [Administrative performance differences between Member States recovering traditional own resources of the European Union](#).

Financial framework

2007-2013

Annual budgets are set in the context of a Multi-annual Financial Framework (MAFF or MFF), agreed between Parliament, Council and Commission. The MAFF (also referred to as the 'financial perspective') was first adopted in the late 1980s, to overcome difficulties associated with the traditional budgetary procedure, which had seen increasing tensions between Parliament and Council, leading to a succession of budget crises during the decade.

Part of an Interinstitutional Agreement between the three institutions (which also sets out the rules and procedures for managing the framework), the MAFF sets out the main budgetary priorities for a specific period, which are then used to establish maximum amounts of expenditure by broad category. The institutions are bound to respect the agreed 'ceilings', but individual amounts within those limits are allocated during the annual budgetary process.

The first Financial Framework, known as 'Delors Package I', covered the years 1988-1992 and focused on establishing the Internal Market and consolidating the multi-annual Framework Programme for research and development. For 1993-1999, the second Financial Framework ('Delors Package II') gave priority to social and cohesion policy and to the introduction of the euro. The third Framework ('Agenda 2000') spanned 2000-2006, and focused on EU enlargement.

Initially introduced on a voluntary basis, the MAFF approach proved so successful as a means of maintaining budgetary discipline and projecting future spending that the concept was introduced into the [Treaty on the Functioning of the European Union](#), where Article 312(1) states:

The multiannual financial framework shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources.

It shall be established for a period of at least five years.

The annual budget of the Union shall comply with the multiannual financial framework.

The Financial Framework covering 2007-2013 was formally adopted on 17 May 2006 and is Annexed to the current (2006) [Interinstitutional Agreement](#). It comprises the following main headings:

1. Sustainable growth (1a. Competitiveness for growth and employment; 1b. Cohesion for growth and employment)
2. Preservation and management of natural resources
3. Citizenship, freedom, security and justice (3a. Freedom, security and justice; 3b. Citizenship)
4. The European Union as a global player
5. Administration
6. Compensations (concerning the latest enlargement of the Union).

These headings reflect the three main priorities agreed by Parliament, Council and Commission:

- integrating the Single Market into the broader objective of sustainable growth, mobilising economic, social, and environmental policies (headings 1 and 2)
- giving substance to the concept of European citizenship by completing the area of freedom, justice, security and enabling access to basic public goods and services (heading 3)
- establishing the EU as a global player (heading 4).

In June 2007, the Council adopted an own resources Decision, with retroactive effect back to 1 January 2007, adapting the financing of the budget to take account of the 2007-2013 Financial Framework ([Decision 2007/436/EC](#); see also [Summaries of EU Legislation](#)). Key elements of the Decision included changes to the correction of budgetary imbalances in favour of the United Kingdom.

(For further information, see [Financial framework](#) pages, [Summaries of EU Legislation](#) and Press Release [MEMO/05/109](#)).

2014-2020

On 29 June 2011, the Commission adopted the draft Multiannual Financial Framework for 2014-2020 ([COM\(2011\)500](#)). Entitled 'A Budget for Europe 2020', it proposed an overall EU budget for 2014-2020 of €1,025 billion in commitments and €972.2 billion in payments. The Commission also proposed ending the VAT-based own resource from 2014, and replacing it with two new own resources: a tax on the financial transactions (FTT) and a new VAT element (see also Press Releases [IP/11/799](#), [MEMO/11/459](#), [MEMO/11/468](#) and [MEMO/11/469](#), [Financial Framework](#) page, ESO record [Barroso tables €1trillion budget for EU until 2020](#) and European Parliament Press Release [20110630IPR23042](#) which shows how much the EU spends in each Member State).

The main elements of the proposed MFF 2014-2020 (in € million) are:

	2014	2015	2016	2017	2018	2019	2020	Total
1. Smart and Inclusive Growth	64.696	66.580	68.133	69.956	71.596	73.768	76.179	490.908
2. Sustainable Growth: Natural Resources	57.386	56.527	55.702	54.861	53.837	52.829	51.784	382.927
3. Security and citizenship	2.532	2.571	2.609	2.648	2.687	2.726	2.763	18.535
4. Global Europe	9.400	9.645	9.845	9.960	10.150	10.380	10.620	70.000
5. Administration	8.542	8.679	8.796	8.943	9.073	9.225	9.371	62.629
Total commitment appropriations	142.556	144.002	145.085	146.368	147.344	148.928	150.718	1.025.000
Total payment appropriations	133.851	141.278	135.516	138.396	142.247	142.916	137.994	972.198

At its meeting on 27 January 2012, the General Affairs Council discussed the 2014-2020 MFF (see Press Release [5807/12](#)). The debate:

enabled a clearer picture to be obtained of the member states' positions on the main issues and of the state of negotiations. It also provided guidance to the presidency and notably indicated the areas where it could face difficulties in finding common ground.

The Danish Presidency announced that - with the exception of February - the MFF would be on the agenda of each meeting of the [General Affairs Council](#) until the end of June, with the aim of enabling a substantial discussion at the 28-29 June meeting of the European Council. The European Council would like the MFF to be adopted by the end of 2012, to enable a smooth transition from the 2007-2013 to the 2014-2020 framework.

Following the 22 April 2013 General Affairs Council (see Press Release [IP/13/350](#)) the Irish Presidency:

expressed the Council's willingness to discuss various issues of crucial importance to the European Parliament such as future flexibility of the EU budget, a mid-term review of the financial framework, the unity of the budget and own resources.

On 6 May 2013, the Presidents of the Parliament and Commission, together with the Irish Taoiseach - representing the Presidency of the Council - agreed to start formal

negotiations on the 2014-2020 MFF and to negotiate a draft amending budget for 2013 (see Press Release [MEMO/13/410](#)). The negotiations started on 13 May (see Irish Presidency [news item](#)).

The proposed 2014-2020 MFF includes a number of innovative financial instruments, such as a Risk-Sharing Finance Facility (RSFF), SME Guarantee Facility (SMEG), and Project bonds. In a 2012 report, the European Parliament looked at the proposals and made a number of recommendations about them (see [The implications for the EU and national budgets of the use of innovative financial instruments for the financing of EU policies and objectives](#)).

Budgetary procedure

The annual budget is drawn up by the European Commission, but the European Parliament and the Council have joint authority for budgetary decisions and their approval is necessary before the Commission can proceed with its proposed budget.

The Union's annual budget is dealt with in Articles 313-316 of the [Treaty on the Functioning of the European Union](#). Article 313 states that the financial year runs from 1 January to 31 December.

Article 314 sets out the procedure for adopting the annual budget, which can be summarised as:

- By 1 July, the EU institutions (other than the European Central Bank) draw up their spending estimates for the following financial year. From those estimates, the Commission produces a draft budget, showing estimated revenue and expenditure.
- By 1 September, the Commission submits a proposal containing the draft budget to the Parliament and the Council.
- By 1 October, the Council adopts its position on the draft budget and forwards it to the Parliament.
- Parliament then has 42 days in which to:
 - approve the Council's position, so that the budget is adopted;
 - take no decision, in which case the budget is deemed to have been adopted;
 - adopt amendments and forward them to the Council and Commission; the Council has 10 days to approve the amendments, otherwise the Conciliation Committee has 21 days in which to agree a joint text
 - if a joint text is agreed, Parliament and Council have 14 days to approve it; during those 14 days:
 - the budget is adopted when Parliament or Council or both approve the joint text or fail to take a decision, or if one approves the text and the other fails to take a decision
 - a new draft budget must be submitted by the Commission when Parliament and Council both reject the text, or if one rejects it and the other fails to take a decision
 - a new draft budget must be submitted by the Commission when Parliament rejects the text, but the Council approves it
 - the budget is adopted when Parliament approves the text and the Council rejects it, and the Parliament then, within 14 days, confirms some or all of the amendments; if an EP amendment is not confirmed, then the relevant Conciliation Committee position is retained

- if the Conciliation Committee fails to agree a joint text within 21 days, the Commission must submit a new draft budget.

Amendments to the budget follow a similar process (for further details see [How is the budget decided?](#) and EP Fact Sheet [The budgetary procedure](#); draft texts are available on the [Budget online](#) page; documents related to the process of adopting, implementing and accounting for the budget are available by year: [2007](#), [2008](#), [2009](#), [2010](#), [2011](#), [2012](#), [2013](#)).

The draft budget for 2012 was adopted by the European Commission on 20 April 2011. With a proposed increase of 4.9% on the 2011 budget, it was described in Press Release [IP/11/499](#) as:

A delicate balancing act combining austerity and growth boosting measures for 500 million Europeans.

On 27 October 2011, the Council confirmed that it had not accepted all the European Parliament's amendments to the draft budget (see Press Release [16017/11](#)). The proposal was therefore subject to the conciliation process between Council and Parliament. A deal was struck on 18 November, limiting the total amount of payments for the 2012 budget to €129.088 billion. That was an increase of 1.86% over 2011, but was said to be effectively a reduction, as it fell below the Commission's 2% inflation forecast. Announcing the agreement, the Council said:

The result of the conciliation reflects the Council's priority to set a realistic level of overall payments and to avoid a situation where the national contributions to the EU budget remain unspent, while the member countries take drastic measures to consolidate their budgets. It also secures an important margin (EUR 12.4 billion) below the payments ceiling of the current multiannual financial framework (MFF) to cope with unforeseen situations. At the same time it allows targeted expenditure to support measures enhancing growth and employment in order to prevent the EU from slipping further into crisis.

Final approval was given by the Council on 30 November and by MEPs on 1 December 2011 (see Press Releases [17016/11](#), [17890/11](#) and [EP news item](#)).

Figures subsequently showed that 99.9% (€144.4bn) of commitments in the 2012 budget were implemented, making the highest ever implementation for an EU budget. Under-implementation (unused funding opportunities) were just 0.05% of the available budget (see Press Release [IP/13/163](#)).

The Commissioner for Financial Programming and Budget, Janusz Lewandowski, claimed that the take-up:

shows that the voted budget was below the needs as some €16bn worth of claims from beneficiaries of EU funds could not be paid in 2012 and were postponed to this year.

The draft budget for 2013 was presented on 25 April 2012. Focusing on the priority areas defined in the Europe 2020 strategy, the draft proposed freezing expenditure, increasing payments by 6.8% (including €62.5 billion for 'job friendly growth'), and reducing staffing levels in the Commission (see Press Releases [IP/12/393](#) and [MEMO/12/278](#)).

On 21 February 2012, the Council adopted [Conclusions on the budget guidelines for 2013](#), which in part stated:

The 2013 budgetary procedure will take place in the context of the current

economic crisis, which will continue to have a negative impact on Member States and their citizens. More than ever, consolidation efforts are requested from Member States, notably by the Union, to tackle deficit and debt. Therefore, when establishing the budget for 2013, it will be essential to take into account the economic and budgetary constraints at national level and the need to maintain budgetary discipline at all levels.

At the same time, the Council is aware that an equilibrium between austerity and necessary investments has to be found: restrictive measures should not hamper the respect of commitments already made and the implementation of Union actions contributing to the fight against the negative effects of the crisis notably by boosting growth and employment at Union level. This balance can notably be reached by prioritisation of objectives, with the allocation of available resources to programmes and actions contributing best to achieve these objectives.

On 24 July 2012, the Council adopted its position on the 2013 EU draft budget, limiting the increase in payments to 2.79% compared to 2012 (see Press Release [PRES/12/347](#)).

On 19 October 2012, the Commission agreed to reduce its draft budget for 2013 by €25.1 million (see Press Release [IP/12/1128](#)). On 23 October, the Council told the European Parliament that it would not approve all of Parliament's amendments to the 2013 draft budget, and a conciliation process was therefore started to bridge the gap between the Council and Parliament positions (see Press Release [PRES/12/441](#)).

Also on 23 October 2012, an amending budget was adopted by the Commission, to enable it to meet its legal obligations towards beneficiaries of EU funds (see Press Release [IP/12/1137](#)). A revised amending budget was presented by the Commission on 27 March 2013, to allow all obligations pending at the end of 2012 and arising before the end of 2013 to be covered (Press Release [IP/13/291](#)).

The Commission announced a new draft budget for 2013 on 26 November 2012. The revised version aimed, in part, to help the Parliament and Council agree a deal (see Press Release [IP/12/1267](#)).

The budgetary impact of Croatia's accession to the EU was acknowledged in an 18 March 2013 Commission proposal to amend the 2013 budget (see Press Release [IP/13/235](#)).

Financial management

There are four main players in the financial management system: the European Commission, the Member States, the European Court of Auditors and the European Parliament.

Under Article 53 of the Financial Regulation ([Regulation \(EU, Euratom\) 966/2012](#)) the European Commission is responsible for implementing the budget (see also [MEMO/12/501](#): Financial Regulation: What's new for beneficiaries of EU funds?).

The role of the Commission's Directorate-General for Budget ([DG Budget](#)) is 'to secure from the budgetary authority - the European Parliament and the Council of Ministers - the resources needed to implement the Union's policies, to encourage sound management of Community funds and to account for the use of appropriations.'

Summaries of DG Budget's activities and main achievements each year are given in the Annual Activity Report (AAR). Reports and annexes since 2004 can be found via the Commission's [AAR pages](#). The Commission also publishes monthly summaries of revenue received and expenditure incurred, showing how actual spending compares to planned

spending, in the form of [Budget Implementation Reports](#)).

Budgetary control within each EU institution is exercised by authorising officers and accountants. The Commission's [Internal Audit Service](#) (IAS, created in 2001 as part of a wide-ranging Commission reform) audits the Commission's internal management and control systems and those of the [Regulatory and Executive Agencies](#).

Although the Commission has overall responsibility for the general budget, a 'shared management' system sees some 80% of resources managed by Member States. Under the Structural Funds, for example, for each operational programme a Member State appoints a managing authority, a certification body, and an auditing body. Managing and certification bodies can be national, regional or local public authorities or public/private bodies. Individual projects are carried out by a range of public bodies and private companies (see also European Commission Regional Policy page [Managing authorities](#)).

The independent [European Court of Auditors](#) issues a Statement of Assurance ('Déclaration d'Assurance' - DAS) for each year's accounts. The DAS is intended to provide stakeholders (notably Parliament and Council) with an audit opinion on whether the Union's income and expenditure 'is completely and accurately recorded in the accounts, and has been raised or spent in accordance with all contractual and legal obligations' (from [Information note](#) for 2007). The Court provides both an overall assessment and assessments covering specific elements of the budget.

The ECA publishes [Annual Reports](#) for each financial year. The Court's [Information note](#) summarising the 2007 Report stated:

significant amounts of EU funds under shared management are irregularly spent. High levels of error in areas such as Cohesion can partly be explained by the fact that EU funds are disbursed to millions of beneficiaries across the Union based on self-declaration of those who receive the funds. The main risk of error - and the majority of errors found - resides at this level.

In an initiative aimed at making it possible 'for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of transactions' a 'roadmap to an integrated internal control framework' was presented by the Commission in June 2005 ([COM\(2005\)252](#)). It was followed in January 2006 by an Action Plan ([COM\(2006\)9](#)). Progress reports on the Action Plan were issued in February 2008 ([COM\(2008\)110](#)) and February 2009 ([COM\(2009\)42](#)), the latter noting that 28 of the 37 action points had been completed as of 31 December 2008. February 2009 also saw release of an Impact Report on the Action Plan ([COM\(2009\)43](#)).

The ECA's 2007 Report also noted that the Court 'identified several weaknesses in the control systems at Member State level', including 'failure to identify expenditure declarations not supported by appropriate evidence'. It also pointed out that the Commission failed to fully ensure 'that Member State control systems are established and operating as required and mitigate the risk of control failures in Member States'.

The ECA made a number of recommendations to improve financial control, including that the Commission should 'make maximum use for the 2007-2013 period of the work of the Audit Authorities in the Member States, but at the same time to monitor this work in order to ensure that it is up to standard'. (The Court also noted that the Commission's assessment of its own progress towards better systems differed from that of the Court, 'mainly because the Court focuses on the effectiveness of the measures rather than the introduction of them.').

The other main player in the management of the budget is the European Parliament, which acts as the 'discharge authority'. Each year, on the basis of the Court of Auditors'

Annual Report, Parliament examines the way in which the Commission has managed and implemented the previous year's budget. If it is satisfied, Parliament grants a 'discharge' (final approval) to the Commission for the implementation of the budget, as set out in Article 319 of the [TFEU](#) and in Articles 164-167 of [Regulation \(EU, Euratom\) 966/2012](#) of 25 October 2012 on the financial rules applicable to the general budget of the Union - the new Financial Regulation). Parliament's [Committee on Budgetary Control](#) has prime responsibility for discussing relevant issues (see also EP [Budget news page](#); there is separate information about [Parliament's own budget](#)).

The Commission's [EU Budget 2007 Financial Report](#), issued in June 2008, looked at the first budget for both the 2007-2013 programming period and for the 27-member Union. The fact that most of the money was used was, said the Commission, confirmation that 'active budget management is bearing fruit.' However, the Commission also pointed out that 'lessons for future spending must be drawn from the unspent funds on which Member States lost out last year. Ensuring the continuous, effective absorption of all funds is vital' (see Press Release [IP/08/1044](#)).

On 29 April 2009, the European Parliament granted discharge to the European Commission for managing the accounts and implementing the EU budget in 2007. Welcoming the decision (see Press Releases [IP/08/1665](#) and [SPEECH/08/594](#)), Siim Kallas, Commission Vice-President responsible for Administrative Affairs, Audit and Anti-fraud, said:

The Parliament's annual scrutiny of the EU budget and today's discharge decision confirm that the EU finances are in good shape: the 2007 accounting books received a completely clean bill of health from the auditors, and for all policy areas except one as much as 95% or more of all payments were free of financial errors. Where things need improvement, as in funds spent in the EU regions, we will closely follow up on all agreed recommendations.

Addressing the European Parliament on 21 April 2009, on the issue of the 2007 budgetary discharge (see Press Release [SPEECH/09/183](#)), Commission Vice-President Siim Kallas identified three main reasons for the Commission failing to achieve a positive statement of assurance: too much reliance on Member States' willingness to address the issue; pursuing an evolutionary rather than a revolutionary approach; lack of time.

Vice-President Kallas also put forward three options for improving the image that politicians and the public have of the management of EU funds:

- changing the wording of Article 248 of the Treaty, so that the ECA is given a more realistic task, 'perhaps covering the budget over a three year cycle, rather than annually, and asking the Court to take into account that most Commission control systems are multi-annual, ensuring that errors are corrected over time.'
- Option 2: simplifying the system; cutting the number of transactions needing to be checked from millions to thousands.
- adopting a 'tolerable risk' approach, with different budget areas being subject to different levels of risk, rather than to the standard 2% currently applied across the board.

This last point was the subject of the Commission's December 2008 Communication 'Towards a common understanding of the concept of tolerable risk of error' ([COM\(2008\)866](#), which pointed out that the ECA's Annual Report on the 2007 financial year, found 'a material level' of errors in areas representing 54% of the EU budget. Error rates above the 2% threshold were found in a number of areas including environment, cohesion (employment), and energy. Consequently, said the Commission, 'the budgetary authority and the general public are left with the impression that the EU is unable to adequately manage a majority of its flagship policies.'

Despite progress over the past four years, the Commission would like to see the legislation simplified, in order to 'address the high proportion of error that can be attributed to final beneficiaries overstating costs, misunderstanding or misapplying the often complex rules and regulations that govern EU funds.' Even so, as the ECA admits, 'the way EU funds are disbursed to millions of beneficiaries across the Union, based on self-declaration of those who receive the funds, is inherently risky'.

Previous discussions of the issue show that 'there is common ground between the Institutions on the need to move towards a tolerable risk approach, which provides transparency on the risks involved in different EU policies and the cost of managing these to a given level.' The Communication defines tolerable risk and - amongst other things - 'proposes a way forward for formally setting tolerable risk levels' (see also the accompanying Staff Working Document [SEC\(2008\)3054](#)).

A note from the Slovenian Presidency in June 2008 stated: 'The Presidency believes ... that a common understanding between the European Parliament and the Council should be reached regarding the residual risk to be tolerated in the underlying transactions, having regard to the costs and benefits of controls for the different policy areas and the value of the expenditure concerned' (from: [An improved sound financial management of EU funds](#); see also European Parliament Committee on Budgetary Control [Working document No 2 on the budget review 'Tolerable risk of error'](#) April 2008).

There are already additional controls in place, although not always applied across the Member States. In Opinion [6/2007](#), the Court of Auditors identified three forms of control:

- annual summaries of audits and opinions required by sectoral regulations (introduced by Council Regulation (EC, Euratom) 1995/2006 amending Regulation (EC, Euratom) 1605/2002) and first submitted by Member States in February 2008 - as mentioned in the [EU Budget 2007 Financial Report](#)
- national declarations by some Member State authorities, launched as voluntary initiatives, and audited by national audit bodies
- voluntary reports and certificates of national audit bodies on management of EU funds within their Member States.

In April 2009, the Commissioner for Financial Programming and Budget, Dalia Grybauskaitė, issued the Communication 'Streamlining financial rules and accelerating budget implementation to help economic recovery' [SEC\(2009\)477](#):

building upon the reforms already introduced in 2007, the Commission believes that certain immediate measures can be taken, without reopening the existing legal texts, in order to generate some additional "quick wins", further enhancing budget execution and speeding the flow of EU resources to beneficiaries, thus contributing to the Commission's strategy to help economic recovery. The measures will focus on the part of the budget that the Commission implements directly (centralised management), so as to maximise the impact of public spending in a minimum time.

In November 2009, the ECA issued its annual report on the 2008 budget, giving a clean opinion on the reliability of the Union's accounts for 2008, and concluding that they gave a fair picture of the EU's financial position and activities. Improvements in 2008 were attributed mainly to better results for the 'agriculture and natural resources' element of the budget, which for the first time received a qualified rather than adverse opinion (see [Report text](#) and [Information Note](#)).

A year later, the ECA published its report for 2009, in which it noted that, apart from the

areas of 'Economic and financial affairs' and 'Administrative expenditure', payments from the budget continue to be affected by errors (see [Report text](#), [Information Note](#), and Press Releases [ECA/10/33](#) and [IP/10/1480](#)).

On 8 September 2011, the ECA adopted its Annual Reports concerning the financial year 2010. Although the Court found that the accounts presented a fair picture of the Union's financial position, it also concluded that underlying payments had an error rate of 3.7% over the €122.2 billion spent by the EU. Estimated error rates for both the EU budget as a whole and for groups of policy areas were published for the first time (see [Report text](#), [Information Note](#) and Press Releases [ECA/11/37](#), [IP/11/1332](#) and [MEMO/11/771](#)).

The ECA's report for the 2011 financial year was issued on 5 November 2012. It showed that the overall error rate for EU spending remained below 4% (see [Report text](#) and Press Release [IP/12/1174](#)).

On 17 February 2012 the Commission adopted a report 'on the evaluation of the Union's finances based on the results achieved' for 2010 ([COM\(2012\)40](#)), as required under Article 318 TFEU. On 21 November 2012, the Commission's second report was adopted as [COM\(2012\)675](#). Covering 2011, it concluded that objectives of various financial programmes had been met and EU value added had been demonstrated. However, it generally pointed:

to the need for a stronger focus, linking results to objectives and for increased attention to coherence and consistency across actions.

Discharge in respect of implementation of the 2011 budget was granted by the European Parliament on 17 April 2013 (see Press Release [IP/13/337](#)).

Accounting system

In 2000, the Commission started work to modernise its accounting system. A new system, requested by the European Court of Auditors and based on accrual rather than cash accounting, was introduced in 2005. Compatible with internationally-accepted accounting standards, the change gives a clearer picture of true assets and liabilities at any given time (see [MEMO/05/27](#), [IP/05/313](#); [MEMO/05/94](#), [IP/06/1247](#) and [Modernising the EU accounts: Enhanced management information and greater transparency](#)).

Fraud

Following the fall of the Santer Commission in 1999 and well-publicised claims of fraud and mismanagement by individuals in the Commission, an independent [European Anti-Fraud Office](#) was established in July 1999 by [Commission Decision 1999/352/EC](#) (see also FAQ on OLAF issued as [OLAF /08/06](#)). The task of OLAF (the acronym from the French 'Office européen de lutte anti-fraude') is to 'protect the financial interests of the European Union, to fight fraud, corruption and any other irregular activity, including misconduct within the European Institutions.' Some 15% of OLAF's investigations 'concern alleged wrongdoings within the European Institutions, agencies and Bodies'. Marking OLAF's 10th anniversary on 1 June 2009, its Director-General, Franz-Hermann Brüner, said: 'Since its foundation, OLAF has investigated hundreds of cases. But it is not only the individuals brought to justice and the funds recovered that mark our success, it is also the deterring effect that an efficient anti-fraud and anti-corruption body like OLAF has on potential perpetrators' (Press Release [OLAF /09/06](#)).

A separate act, [Regulation \(EC\) 1073/1999](#) concerned investigations conducted by OLAF. A proposal to reform the Regulation was put forward in 2006; a revised proposal was

adopted on 17 March 2011 as [COM\(2011\)135](#) (see also Press Releases [IP/11/321](#) and [MEMO/11/176](#); check progress via the [PreLex dossier](#)).

In November 2001, in the context of Commission reforms, the Commission issued a Communication 'concerning the fraud-proofing of legislation and contract management' ([SEC\(2001\)2029](#)). An updated version was published in December 2007 as 'Prevention of fraud by building on operational results: a dynamic approach to fraud-proofing' ([COM\(2007\)806](#)). Noting that 'Fraud, corruption and other illegal activities affecting the European Union's financial interests exploit weaknesses in or circumvent the processes in place for managing and controlling EU funds', it set out a new approach to fraud-proofing 'mainly based on the lessons learnt from OLAF's operational experience. Exploitation of operational results will set up a new link between, experience on the ground and the measures adopted by the different Institutions to avoid fraud and irregularities. OLAF will better exploit the knowledge it has gained from operational and intelligence activities and will make it available to other Commission departments and to EU institutions and bodies' (see also [SEC\(2007\)1676](#)).

Recent Annual Reports on 'Protection of the European Union's financial interests - Fight against fraud' have been issued by the Commission as [COM\(2009\)372](#) (2008) and [COM\(2010\)382](#) (2009; see also Press Releases [IP/10/937](#), [MEMO/10/332](#)).

The Commission's 2010 Annual Report showed that Member States were detecting more irregularities: 10,332 in 2010 compared to 7,769 in 2009 (see [Reports](#) page and Press Release [IP/11/1133](#)).

The report for 2011, adopted on 19 July 2012 as [COM\(2012\)408](#), showed that fraud affecting the EU budget fell overall by 35% in 2011 (including a drop of 66% in agriculture). €295 million in EU funds were affected by fraud - equivalent to 0.2% of the budget (see also Press Release [IP/12/809](#)).

Article 30 of the 2002 Financial Regulation, as amended by Regulation 1995/2006, required the Commission to publish lists of beneficiaries of EU money. Consequently, in October 2008, the Commission launched the [Financial Transparency System website](#), enabling people to identify the recipients of EU funds managed directly by the Commission and its executive agencies. Described as 'one of the building blocks in the Commission's wider European Transparency Initiative', the database was launched with some 28,000 entries covering a range of policy areas (see Press Release [IP/08/1444](#)).

The new Financial Regulation ([Regulation \(EU, Euratom\) 966/2012](#) of 25 October 2012 on the financial rules applicable to the general budget of the Union) sets out provisions on the 'Publication of information on recipients and other information' in Article 35, which includes a requirement to observe confidentiality, security and the protection of personal data.

In an effort to strengthen the use of criminal law against those defrauding the EU budget, the Commission adopted, on 11 July 2012, a proposal for a Directive 'on the fight against fraud to the Union's financial interests by means of criminal law' ([COM\(2012\)363](#); see also Press Release [IP/12/767](#) and OLAF page on [Anti-fraud policy](#); check progress via the [PreLex dossier](#)).

Reform

A public consultation on the budget was launched in September 2007, with a closing date of 15 April 2008. The Communication 'Reforming the Budget, Changing Europe' (issued as [SEC\(2007\)1188](#) highlighted a number of issues:

- Has the EU budget proved sufficiently responsive to changing needs?
- What criteria should be used to ensure that the principle of European value added is applied effectively?
- How should policy objectives be properly reflected in spending priorities? What changes are needed?
- How could the effectiveness and efficiency of budget delivery be improved?
- Could the transparency and accountability of the budget be further enhanced?
- What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?
- Is there any justification for maintaining correction or compensatory mechanisms?
- What should be the relationship between citizens, policy priorities and the financing of the EU budget?

(See Press Releases [IP/07/1302](#) and [MEMO/07/349](#)).

On 19 October 2010, the Commission adopted the Communication 'The EU Budget Review' ([COM\(2010\)700](#)), in which it addressed some of the issues facing the budget, including the impact of the financial crisis, demographic change, and pressure on natural resources. In it, the Commission concluded:

The way in which the EU budget is delivered can be simplified and made more effective. There is a need for greater flexibility so that the budget can respond to changing circumstances, while at the same time supporting long term investments. At a time of fiscal constraint more innovative financial instruments can be used to make the budget go further, and to increase the impact and range of high priority EU projects that can be realised.

The modernisation of the EU budget must therefore be about targeting, about maximising the benefits from every euro spent, and about setting the budget firmly in the context of the other ways in which the European Union, its institutions and its Member States, can put Europe on the path to growth and jobs for the future.

The European Commission presented on 29 June 2011 its long-awaited proposals for the EU's next seven-year budget (2014-2020).

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[4.1 EU Budget: General](#)

[4.2 EU Budget: Annual budget](#)

[4.3 EU Budget: Member State contributions](#)

[4.4 EU Budget: Fraud and mismanagement](#)

Further information sources on the internet

- European Commission: DG Budget
 - [Homepage](#)
 - [Financial programming and budget website](#)
 - [The budget explained](#)
 - [Budgetary system](#)
 - [Adoption and management](#)
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- European Commission: Internal Audit Service
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 - Policy areas: [Budget](#)
 - Summaries of EU legislation
 - [Budget](#) (includes factsheets under the headings 'Own resources', 'The financial perspectives', 'The financial regulation')
- European Commission: DG Communication
 - [RAPID](#) press releases database - [Budget and financial programming](#) (pre-set search)
 - EU news: [Economy, finance and tax](#), [EU explained](#)
- European Union: EUR-Lex

The text of proposed and adopted legislation relating to public health can be found via EUR-Lex

 - [Proposed](#) (01 General, financial and institutional matters - [01.60 Financial and budgetary provisions](#))
 - [Adopted](#) (01 General, financial and institutional matters - 01.60 Financial and budgetary provisions)

- [Treaty on European Union](#) Articles 14, 16-17
- [Treaty on the Functioning of the European Union](#) Articles 287, 310-325
- Court of Justice of the European Union: InfoCuria
[Homepage](#): 'at 'Subject-matter' box, click icon at far right to open list of subjects. Select 'Budget' and click 'Enter' to return to main search page. Select dates if required. Hit 'Search' at top or bottom of page.
- European Parliament: Legislative Observatory (OEIL)
[Homepage](#): Carry out a [Search](#): scroll down right-hand menu and expand 'Subject'; then expand ' State and evolution of the Union' and select appropriate sub-heading.
- European Commission: PreLex
[Homepage](#). In [Standard search](#), use the option 'Search on words from the title of the proposal' with 'budget', 'financial framework' or other appropriate keyword; or in an [Advanced search](#) choose 'field of activity' and select 'Budget'.
- Council of the European Union
 - [General Affairs Council](#)
- European Parliament
 - [Budgets Committee](#)
 - [Budgetary Control Committee](#)
 - [Q&A on future EU budget and own resources](#)
- European Parliament: Fact Sheets
 - Section on [How the European Union works](#) has Fact Sheets on [The budgetary procedure](#), [The Union's revenue and expenditure](#), [Multiannual financial framework](#), [Implementation of the budget](#), [Budgetary control](#)
- European Economic and Social Committee
 - [Economic and Monetary Union, Economic and Social Cohesion](#) (ECO)
- European Court of Auditors (ECA)
 - [Homepage](#)

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