EUROPEAN UNION
Committee of the Regions

The EU budget 2014-2020 and its programmes

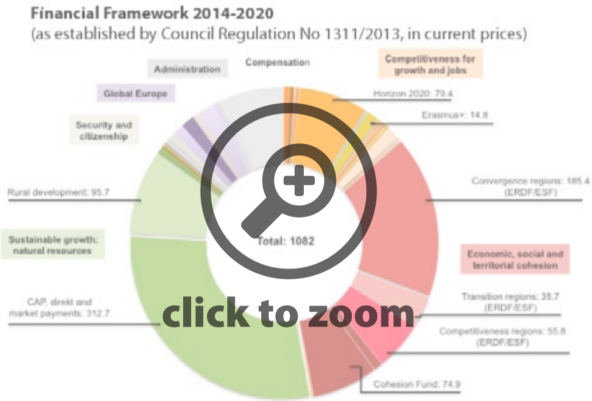
Factsheet

An online course (MOOC) for regional and local authorities

The **EU annual budget** is agreed on by all EU Member States and is adopted in the limits of Multiannual Financial Frameworks (MFF), the most recent of which covers the period 2014-2020. For many Member States, the EU budget is a crucial source of public expenditure at national and regional sub-national level. The EU's **multi-annual financial planning** was first introduced in 1988 with a view to overcoming the EU budget crises of the late 1970s and 1980s. By setting the annual maximum amounts for EU expenditure as a whole as well as under each category of EU spending, the MFF's main objective is to ensure a strong degree of predictability. The resources of EU budget also have agreed limits. The ceiling has been fixed since 1992, when the EU consisted of 12 Member States, at 1.23 % of the EU's Gross National Income (in payments). Historically, adopted annual EU budgets have always been below the overall MFF ceilings. The MFF is to be laid down in a Council Regulation for a period of at least five years (Article 312 TFEU). Following a proposal made by the European Commission, the MFF is adopted by the Council after obtaining the consent of the European Parliament.

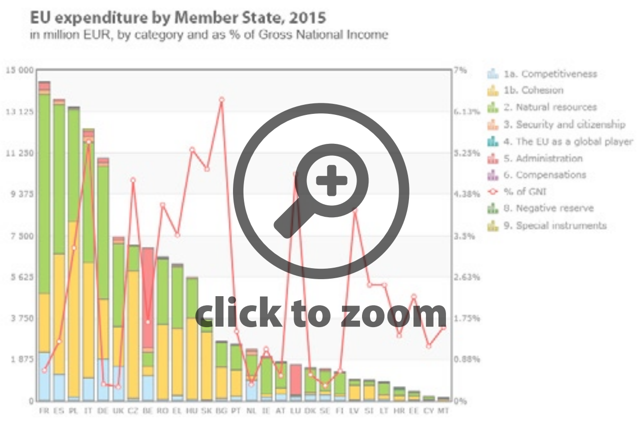
EU budget and programmes 2014-2020

For different policy areas and programmes, the MFF sets out maximum expenditure ceilings for spending categories. These are known as "headings". Between 2014 and 2020, a total of EUR 1 082 billion (in current prices) will be spent under six headings. See details about EU programmes mentioned above.



- **Smart and inclusive growth (EUR 509 billion or 47%):** divided between (a) competitiveness for growth and jobs which accounts for EUR 142 billion or 13% and includes research and innovation (Horizon 2020), education and training (Erasmus+), trans-European networks in energy, transport and telecommunications (Connecting Europe Facility), social policy and development of small and medium-sized enterprises (COSME) and (b) economic, social and territorial cohesion which accounts for EUR 367 billion or 34%, covering EU cohesion policy (European Regional Development Fund, European Social Fund, Cohesion Fund) to help the least developed EU countries and regions to catch up.
- **Sustainable growth: natural resources (EUR 420 billion or 39%):** includes expenditure on the Common Agricultural Policy (CAP), rural development (European Agricultural Fund for Rural Development), common fisheries policy (European Maritime and Fisheries Fund) and environment (Life+).

- **Security and citizenship (EUR 17.7 billion or 2%):** includes a number of programmes in the areas of justice and home affairs, border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information and dialogue with citizens.
- **Global Europe (EUR 66.3 billion or 6%):** covers all external action by the EU such as aid to accession and neighbouring countries (Instrument for Pre-Accession, European Neighbourhood Instrument); development assistance (Development Cooperation Instrument) or humanitarian aid.
- **Administration (EUR 69.6 billion or 6%):** covers the administrative expenditure of all the EU institutions, including, e.g., for the Members of the European Parliament and appointed members of other EU institutions and bodies.
- **Compensation (EUR 29 million):** temporary payments designed to ensure that Croatia, which joined the EU in July 2013, does not contribute more to the EU budget than it benefits from it in the first year following its accession.



Once the MFF has been agreed on, EU legal acts ("regulations") for programmes and funds are adopted. These, together with an overall **EU financial regulation**, define in detail how EU money is spent. As a result of the MFF negotiations, most commitments such as the ones for cohesion policy, Common Agricultural Policy (CAP), rural development and fisheries have been allocated in advance to Member States and certain regions (based on indicators such as GDP, population, unemployment etc.). Others such as Horizon 2020, COSME, Erasmus+ and Life+, are subject to calls for tender and competition among proposals made by, for example, universities, enterprises and other operators. Cohesion and CAP funding come under **shared management** meaning that the Member States, their regions and the EU, represented by the European Commission, are both responsible for implementing the funds. To do so, the European Commission and the relevant Member State or region agree on multiannual operational programmes (OP), which determine in more detail how the funds are to be spent and on what. Such programmes must be mostly co-financed by national, regional or other sources. The EU reimburses Member States once payments are certified at the level of the OPs. For other, "centrally" managed programmes, the European Commission or agencies working on its behalf are in charge of implementation, often supported by expert committees, who specify thematic priorities on an annual basis. Following calls for proposals, the latter are evaluated and the selected operators are contracted. All EU programmes and projects are subject to reporting, evaluation, control and auditing provisions, the results of which are made public, e.g. in the annual report of the EU Court of Auditors.

Every year, the EU budget is executed based on **commitment and payment appropriations** (planned vs. realised expenditure). The latter determine contributions to be made by Member States to the EU budget. For some headings such as direct payments under CAP, this differentiation is of little consequence because payments are mostly made in the same year. For other headings, in particular in the field of cohesion policy, the differentiation is important because of a potential lag between commitments being realised into payments. This can, for example, concern large infrastructure projects, which take years before they are completed and final payments are justified. Consequently, for a significant part of the budget the year of a specific commitment and its final payment often differ.

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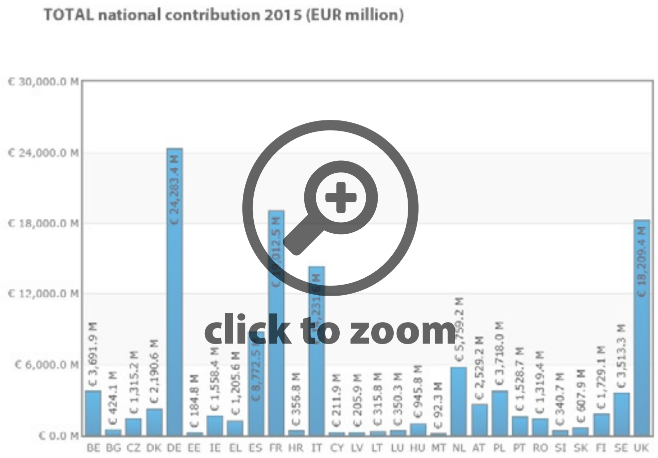

Where does the money come from?

Initially financed by contributions from the Member States, in 1970 the former European Economic Community adopted a decision to cover its budget from "own resources", which are:

- **Traditional own resources,** including customs duties and **sugar levies** (roughly 12.8 % of total revenue in 2015);
- **VAT-based own resource** which consists of the transfer to the EU of a percentage of the estimated value added tax collected by the Member States (12.4% of total revenue in 2015);
- **GNI-based own resource** created in 1988 and consisting of a levy on the Member States' Gross national Income (GNI) of a uniform percentage set in each year's budget procedure (69.14 % of total revenue in 2015).

In addition, a small part of the EU budget stems from taxes paid by EU staff on their salaries, contributions from non-EU countries to certain EU programmes and fines from companies that breach competition or other laws.

On 26 May 2014, the Council adopted a legislative package, including a **new own resources decision**, introducing some changes to the own resources system for the period 2014-20. Following the entry into force of this decision on 1 October 2016, the new rules apply, retroactively as of 1 January 2014.

An EU budget focused on results

At a time of increasing pressure on finances it is more important than ever to get the most out of every euro of taxpayers' money. In September 2015 the Commission launched the 'EU budget focused on results' initiative to ensure that EU resources are put to good use for the benefit of citizens and that all EU-funded projects demonstrate clear benefits and value for money. The goal is to invest the EU budget according to the Union's policy priorities, such as stimulating growth, jobs and competitiveness and responding swiftly and effectively to emergencies.

MFF Mid-term Review

In September 2016, the Commission presented its **mid-term review of the multiannual financial framework (2014-2020)**. Without touching the upper spending limits agreed with the European Parliament and Council, the proposed package will free up an additional EUR 6.3 billion in financing by 2020. The money will go to foster job creation, investment and economic growth and to address migration and its root causes. The mid-term review takes stock of key achievements of the current seven year budget cycle and makes suggestions how to make the EU budget better equipped and quicker to respond to unforeseen circumstances, while financial rules will be simplified and focused on results.

The EU budget has to respect the agreed MFF ceilings. Each year the EU budget for the next year is agreed through the **annual budgetary procedure**. It starts in spring when the Commission presents to the Council and the European Parliament a draft budget based on the input from all EU institutions and bodies. The negotiations usually last till November/December. The Council first adopts its position on the draft budget, including amendments, and passes it to the European Parliament which has 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. 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 of the 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. In case either the Council or the EP rejects the joint draft whilst the other fails to decide, the budget is rejected and the Commission has to submit a new draft budget. Once the budget is adopted, the European Commission is overall responsible for its implementation, namely for all the programmes. The other EU institutions and bodies for their administrative expenditure. On the ground, however, 80% of the budget is managed by Member States.

Control of the EU budget

In the subsequent year, after a positive recommendation from the Council the Parliament decides whether to grant, postpone or refuse to give its final approval, known as "discharge", to the way the Commission implemented the EU budget. The discharge is one of the instruments used by the Parliament and the Council to control the way the EU budget is spent. When granted it leads to the formal closure of the accounts of the institution for a given year.

When deciding on discharge the Parliament takes into consideration the annual report of the European Court of Auditors. In October 2016, the Court presented its annual report on the implementation of the EU budget in 2015. The external auditor of the Commission gave the EU accounts a clean bill of health for the ninth year in a row, and also confirmed that both the revenue side and administrative expenditure were free from significant errors. Moreover, the Court estimated a decreased overall error rate in payments for the third consecutive year.

In July 2016, the Commission presented, for the first time ever, an **Integrated Financial Reporting Package** about the EU budget, putting together all available information on EU revenue, expenditure, management and performance in 2015. The package included four documents: the Annual Management and Performance Report, the Financial Report, the Communication on the Protection of the EU Budget and the EU Annual Accounts. The reports demonstrate that the EU budget is delivering results in line with the Commission's priorities and is implemented properly. They also provide an important input to the annual discharge procedure.

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