



**Liberal Democrat**

**European Group**

## THE EUROPEAN COMMUNITY BUDGET

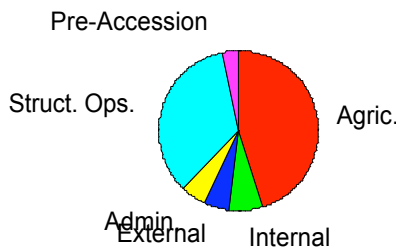
How much does it cost and where does it go ?

Neil Corlett

### Where does the money go ?

The annual European Community budget is established by the budget authority of the EU comprising the two arms of the legislature - Council of Ministers and European Parliament. The Council has the final say over compulsory expenditure, namely CAP spending (46% of the total) whilst the Parliament has the last word over non-compulsory expenditure - virtually everything else. In practice, and to avoid annual squabbling, both institutions are constrained by a 7 year financial framework which serves to provide a degree of certainty for multi-annual planning as well as to fix a maximum ceiling for expenditure. The finally adopted 2003 budget amounted to just under €100 billion (£65bn).

#### Budget 2003 Appropriations



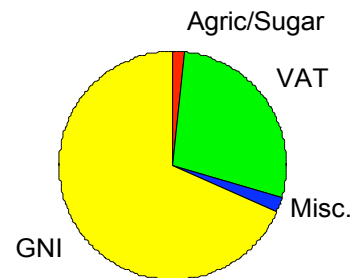
In 2003, 45% of the budget was taken up by agricultural expenditure, 34% by structural support, 6% by various internal policies such as transport, research and education programmes, 8% for external actions and 5% for administration (buildings, staff costs and the expenditure for other institutions like European Parliament, Council of Ministers, Court of Justice and Committee of Regions). Just under 3% has also been allocated for pre-accession aid over the last few years. Since the Copenhagen European Council agreed in December 2002 on enlarging the European Union to 10 new countries, they also approved a global financial package of €41bn (£27bn) for the period 2004-06 to assist in structural and cohesion funding, border policing and macro-financial assistance.

### How is the money raised ?

The revenue (Own Resources) is provided from 4 sources - customs duties on certain agricultural and industrial goods entering the EC, levies on a few agricultural products like sugar, a tiny percentage

(approx. 0.5% in 2004 planned budget) of VAT receipts collected in Member States and a percentage of national GNI. The latter is growing in importance as the other three reduce.

#### Revenue Sources 2003 € m



In the preliminary draft budget for 2004 the "4th resource" makes up nearly 74% of total revenue (compared to 61% in 2003) whilst VAT receipts fall from 24% to 14% of the total. This reliance on flat rate contributions from Member States is fuelling the debate over the need for a more transparent, regular and genuine "own resource" - or direct revenue stream to replace the dwindling customs duties and agriculture levies that traditionally made up the "own resources" of the common customs area.

Total revenue (own resources) may not exceed 1.24% of Community GNI (Gross National Income). In 2003 it was 1.02% and is proposed to fall to 0.99% in the 2004 budget. Any adjustments necessary, either due to different budget outturn figures or unspent EC appropriations are rectified in supplementary and amending budgets periodically during the year. Any surplus is returned to the Member States as the Community budget is established on the principle of annuality and so cannot carry over appropriations.

### The UK contribution

Member States contribute to the EC budget in proportion to their relative wealth. Although the UK is the second largest economy in the EU after Germany with 18% of the total of EU GDP, UK contributed about 13% of the budget €11.5bn (£7bn) in gross terms in 2003 after the British rebate - worth some €4.5bn (£3.25bn) - is taken into account which places UK as the 4th largest contributor after Germany, France and Italy.



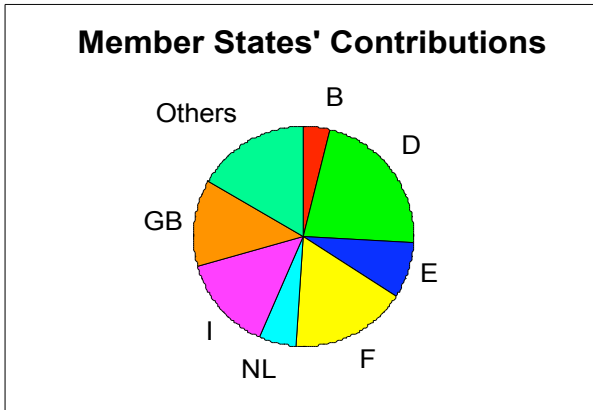
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All the other Member States contribute to the UK rebate with France and Italy both paying over €1bn/year in 2003. The UK net contribution (taking account of receipts from agriculture and structural funds and grants for various programmes which amounted to approximately £3.4 bn in the financial year 2002-03) varies from year to year. In 2001 it was as low as £1.2bn (largely due to revised calculation of earlier rebates on top of the 2001 rebate). This is equivalent to just £20/person/year or 6 pence/day. In 2003 it is estimated it will be about £4.1bn (17 pence/person/day). The calculation does not take account of benefits drawn from membership of the Single Market such as free movement of goods, capital or border free travel and residency rights in other Member States.

### How is the money controlled ?

80% of the Community budget (agriculture & structural funds) is implemented by Member States, 15% are direct Community grants administered by the Commission from Brussels and 5% covers running costs of the institutions. This requires an inevitably complex chain of controls and responsibilities which is unavoidable if management decisions are decentralised and not all taken in Brussels.

The Commission is ultimately responsible for the sound and efficient use of the budget but Member States cannot avoid their own responsibility in ensuring that public money from the European Community budget is fully accounted for.

The European Institutions include an external auditor - the European Court of Auditors - which scrutinises EC expenditure each year and delivers an annual report to the European Parliament. The latter has significant powers through the discharge process under the Treaty (article 276) to hold the Commission (and each of the smaller institutions) accountable for

the money they spend each year.

In addition the European Commission publishes monthly implementation figures to enable trends to be monitored and problems of take-up or overspend to be highlighted early on. As part of the administrative and financial reforms begun in 2000, each Director General of the Commission's policy departments is required to make an annual declaration of assurance on the regularity of transactions approved with his/her authority and reliability of control procedures in their area in the previous year. Any reservations trigger recommendations for action. An independent anti-fraud body (OLAF) was also set up in 1999 and investigates any allegations of fraud either by EU officials or by authorities in Member States responsible for disbursing Community funds. Currently fraud is estimated to affect about 1% of the budget.

### Some issues for the future

1. Need to simplify budget procedure eg. abolish distinction between compulsory and non-compulsory expenditure thus giving Parliament the final say over all items of expenditure, even if the Council keeps the last word on revenue. This is one of the recommendations of the Convention on the future of Europe. Furthermore the complex interplay of interinstitutional agreements should be replaced by a new and consolidated budget procedure.

2. Ensure unity of the budget. In particular the European Development Fund (worth €13bn over 6 year period) should be integrated into EU budget for better coordination and control of development priorities that avoid pandering to national historical legacies. New actions under CFSP should be brought fully within the budget for proper scrutiny.

3. Create a system of own resources that is more transparent and intelligible. This should not mean a European poll tax which would be regressive and unworkable but could eventually take the form of a carbon tax or environmental charge, a modulated VAT rate or a percentage of excise duties representing a genuine new own resource.

4. Financial perspectives (7 year multi-annual frameworks) should be reduced to 5 years in line with parliamentary legislatures and Commission terms of office for better accountability.

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