Analysis of the Budgetary Process of the European Union

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Abstract

The European Union is one of the most significant economic and politic power of the world. Understanding its model of functioning brings us closer to understanding the current situation and the trends of development of the world. The budgetary process is only one of the interesting aspects of the functioning of the European Union. Also, being given the context of the Budget notion, the European Union budget represents an interesting research topic.
The result of the research revealed information regarding the European Union budgetary process. Following the flow of the research, it offers clues to understanding the effectiveness and the success key of this mechanism.

Key words: budget, EU budget, budgetary system, budgetary process, European Union.

JEL Classification Codes: E62, H11, H50, H61, O52

1. Introduction

The topicality of the subject lays in the fact that the European Union is one of the most significant economic and politic power of the world. Understanding its model of functioning brings us closer to understanding the current situation and the trends of development of the world. The budgetary process is only one of the interesting aspects of the functioning of the European Union. Also, being given the context of the Budget notion, the European Union budget represents an interesting research topic.

The purpose of this research is to gather information about the budget and budgetary process of the European Union and to explain as comprehensive as possible how it functions. Also the research aims to present the financial data of the EU budget and to analyze the necessity and means of its adjustment.

The methodological and scientific support was chosen in accordance with the purpose of the research. That's why the main source of information is the web site of the European Commission since it offers first hands information and financial data regarding the subject.

The result of the research revealed information regarding the European Union budgetary process. Following the flow of the research, it offers clues to understanding the effectiveness and the success key of this mechanism.

The structure of the work is developed in accordance with the objectives of the

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research. The research paper consists of an introduction, three chapters and a conclusion.

The conclusion summarizes the findings about the European Union budget and highlights its' importance.

The bibliography consists mainly of the informative sources of the European Commission website as well as the financial information available online.

1.The Budgetary System of the European Union

The European Union has a budget to pay for policies carried out at European level, such as agriculture, assistance to poorer regions, trans-European networks, research, some overseas development aid, and for its administration, including a parliament, executive branch, and judiciary that are distinct from those of the member states. These arms administer the application of treaties, laws and agreements between the member states and their expenditure on common policies throughout the Union. Basically speaking, 5% of expenditure go on administration, 95% on policies.[1] But in order to understand how the budgetary system of the European Union works, it is appropriate to analyze the whole system step by step. First we will take a look on the structure and the legal framework of the EU budget, after that the sources of budget formation and the directions of spending will be analyzed.

The structure of the European Union budget can be analyzed from the perspective of overall structure of the EU budget and the structure of the Commission budget (Section III), broken down into activity areas.

Overall structure of the EU budget consists of:

- General revenue
- Revenue and expenditure by section:
  - Section I – Parliament
  - Section II – European Council and Council
  - Section III – Commission
  - Section IV – Court of Justice
  - Section V – Court of Auditors
  - Section VI – Economic and Social Committee
  - Section VII – Committee of the Regions
  - Section VIII – European Ombudsman
  - Section IX – European Data Protection Supervisor
  - Section X – European External Action Service

The vast majority – 95% of the EU budget – goes to fund concrete activities on the ground in the many areas of EU policy. This expenditure ("operational appropriations") is paid out by the Commission (Section III). However, section III also includes a small amount of administrative expenditure necessary for the Commission to function. All the other sections of the budget deal solely with the administrative expenditure of the institutions.

The Commission budget is broken down into some 30 policy areas or by activity

[1] Wikipedia. Budget of the European Union. http://en.wikipedia.org/wiki/Budget_of_the_European_Union.

areas, in what is known as 'activity-based budgeting' (ABB). The policy areas (research, employment, etc.) are closely related to the headings in the financial framework (sustainable growth, preservation and management of natural resources etc.).

The budget is divided into:

- titles – one for each policy area
- chapters – one for each activity
- articles – which may be further broken down into items.

Thanks to this nomenclature system of one activity per chapter, the link between policies and the financial resources they require is clear, and the cost of each policy can be estimated from the budget.[2]

The legal framework of the EU budget.

The EU budget is regulated by 3 types of legal acts:

- EU treaties;
- EU legislation (regulations and decisions);
- agreement between the EU institutions.

The agreements are unique to the budget – they have no equivalent in other areas of EU law.

EU Budget as defined in the following EU treaties:

- Treaty on the Functioning of the EU (Treaty of Lisbon)
- Treaty on European Union

The principles set out in the treaties are implemented in practice by the following legislation:

- decision on the system of EU own resources;
- regulation on the new financial framework for 2007-2013;
- Financial Regulation and its implementing rules.

Also, the EU Budget as defined in the interinstitutional agreement. The purpose of the interinstitutional agreement is to implement budgetary discipline, to improve the functioning of the annual budgetary procedure and the cooperation between the institutions on budgetary matters and to ensure sound financial management.

A number of agreements or joint declarations have been concluded since the mid-1970s. They were incorporated, with certain updates or additions, into the Interinstitutional Agreement concluded in 1999, which in some ways constitutes a 'Charter' of agreements reached by the institutions on the budget. The 1999 Interinstitutional Agreement has been replaced by a new one signed on 17 May 2006 which entered into force on 1 January 2007. The Annex of this agreement establishes the Financial Framework for the period of 2007-2013. Before 1 July 2011, the Commission will present proposals for a new medium-term financial framework (Point 30, IIA). The Multifinancial Framework is now specifically mentioned in Article 312 of the Treaty on the Functioning of the EU.[3]

Where does the money come from? The EU budget is funded chiefly (99%) from the EU's own resources, supplemented by other sources of revenue. It is based on the

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[2] European Commission. The Structure of the EU Budget. http://ec.europa.eu/budget/explained/budg_system/structure/struct_en.cfm.

[3] European Commission. The Legal Bases. http://ec.europa.eu/budget/explained/budg_system/legal_bases/legal_en.cfm

principle that expenditure must be matched by revenue and has in-built schemes to compensate certain EU countries. Own resources account for 99% of the budget. According to the rule, they are not allowed to exceed 1.23% of the EU's gross national income (GNI). The remaining 1% of budget revenue comes from other sources of income.

As it was mentioned above, own resources provide the EU's main revenue. There are three kinds of own resources:

1. traditional own resources - mainly customs duties on imports from outside the EU and sugar levies. EU governments keep 25% to cover the cost of collection.
2. own resource from value added tax (VAT) - a standard percentage is levied on the harmonised VAT base of each EU country. The VAT base to be taxed is capped at 50% of GNI for each country. This rule is intended to prevent less prosperous countries having to pay a disproportionate.
3. own resource based on gross national income (GNI) - a standard percentage is levied on the GNI of each EU country. It is used to balance revenue and expenditure, i.e. to fund the part of the budget not covered by other sources of income.

The other revenues that contribute to the formation of the EU budget are revenues such as:

1. taxes on EU staff salaries
2. contributions from non-EU countries to certain programmes
3. fines on companies for breaching competition laws, etc.[4]

When the EU Council and the European Parliament approve the annual EU budget, total revenue must equal total expenditure. In practice, however, actual revenue and expenditure often differ from the estimates. There is usually a surplus, which is used to reduce EU countries' contributions to the budget for the following year.

In the past, some countries felt that they were paying too much towards the budget, compared to other countries. Measures were taken to correct (compensate) these imbalances, including:

- the 'UK rebate' – the UK is reimbursed by 66% of the difference between its contribution and what it receives back from the budget (worth about €4bn in 2010). The calculation is based on its GNI and VAT;
- lump-sum payments to the Netherlands and Sweden;
- reduced VAT call rates for the Netherlands, Sweden, Germany and Austria.

The cost of the UK rebate is divided among EU member countries in proportion to the share they contribute to the EU's GNI. However, since 2002 this has been limited to 25% of its normal value for Germany, the Netherlands, Austria and Sweden, who considered their relative contributions to the budget to be too high. This cost is shared by the other 22 EU members.[5]

Where does the money go? The multiannual financial framework lays down maximum amounts ('ceilings') for each broad category of expenditure. It aims to ensure

[4] European Commission. Where does the Money come from? http://ec.europa.eu/budget/explained/budg_system/financing/fin_en.cfm.
[5] European Commission. Where does the Money come from? http://ec.europa.eu/budget/explained/budg_system/financing/fin_en.cfm.

EU expenditure develops in an orderly manner, within the limit of the EU's own resources.

Usually, there are set financial framework objectives for a certain period of time, such as: harnessing European economic integration (the "single market") to the broader goal of sustainable growth, by mobilising economic, social, and environmental policies; strengthening the concept of European citizenship by creating an area of freedom, justice, security and access to basic public goods and services; establishing a coherent role for Europe on the global stage – inspired by its core values – in the way it assumes its regional responsibilities, promotes sustainable development and contributes to civilian and strategic security, and so on. The objectives are covered by a range of accounts of expenditures:

1. Sustainable growth
   1a. Competitiveness for growth and employment – research and innovation, education and training, trans-European networks, social policy, economic integration and accompanying policies.
   1b. Cohesion for growth and employment – convergence of the least developed EU countries and regions, EU strategy for sustainable development outside the least prosperous regions, inter-regional cooperation.
2. Preservation and management of natural resources includes the common agricultural policy, common fisheries policy, rural development and environmental measures.
3. Citizenship, freedom, security and justice
   3a. Freedom, security and justice – justice and home affairs, border protection, immigration and asylum policy.
   3b. Citizenship – public health, consumer protection, culture, youth, information and dialogue with citizens.
4. EU as global player - covers all external action ("foreign policy") by the EU but it does not include the European Development Fund (the European Council and Parliament rejected a Commission proposal to include it in the EU budget).
5. Administration - covers the administrative expenditure of all the European institutions, pensions and EU-run schools for staff members' children ("European Schools").
6. Compensations – the temporary heading which includes compensatory payments relating to the latest expansion of the EU.[6]

The EU budget has 2 types of amounts:

- commitments – commitments to pay out funds to specific initiatives;
- payments – payments forecast for the period covered by the budget.

There are also 2 types of expenditure ceiling:

- a ceiling for each heading - the financial framework breaks down commitment appropriations (amounts committed but not paid) into broad categories (headings and subheadings), with a ceiling set for each.
- an overall ceiling for all headings:
  - for commitment appropriations – the sum of the individual heading ceilings.

[6] European Commission. Where do the Money go? http://ec.europa.eu/budget/explained/budg_system/fin_fwk0713/fin_fwk0713_en.cfm.

- for payment appropriations (actual amounts to be paid) – the annual ceiling is based on the sum of payments scheduled for each category of commitment appropriations. The ceiling for payment appropriations are also expressed as a percentage of the EU's estimated GNI (based on expected GNI development).[7]

The budget is not allowed to exceed the ceiling of own resources. It means that the total payments ceilings in the financial framework are always lower than the own resources ceiling. The margin between own resources ceiling and the ceiling for payment appropriations allows the financial framework to be tweaked, to cover unforeseen expenses. However, the budget itself must not exceed the limit set by own resources.

Flexibility mechanisms enable the EU to mobilise the necessary funds to react to unforeseen events such as crisis and emergency situations. Their scope, financial allocation and operating modalities are provided in the MFF regulation and the Interinstitutional Agreement. In the current context of reduced expenditure, they also ensure that budgetary resources can respond to evolving priorities, so that every euro is used where it is most needed. Most of the flexibility mechanisms are therefore kept outside the MFF and the funding can be mobilised above the expenditure ceilings.

Emergency Aid Reserve – €221m per year - designed to enable a rapid response to specific aid requirements for non-EU countries that were unforeseeable when the budget was drawn up. Priority is given to humanitarian operations, but the reserve may also be used for civil crisis management and protection if necessary.

EU Solidarity Fund – €1 bn per year - aims to release emergency financial aid following a major disaster in a Member State or aspiring ("candidate") country. Aid is managed by the recipient country, and should be used to rebuild basic infrastructure, fund emergency services, temporary accommodation or clean-up operations, or counter immediate health risks. Max.7.5% of the Fund's annual budget (i.e. €75m) can be used for regional disasters.

Flexibility Instrument – max. €200m per year - provides funding in a given financial year for clearly identified expenses which could not be covered by one or more budget headings without exceeding their expenditure ceilings.

European Globalisation Adjustment Fund – max. €500m per year - aims to help workers reintegrate into the labour market where they have been displaced by major structural changes in world trade.[8]

The European Development Fund (EDF) was created in 1958 to provide aid to certain developing countries/territories that have historical links with certain EU countries. It falls within the broader framework of development cooperation with African, Caribbean and Pacific (ACP) countries. The EDF is not funded from the EU's general budget, but rather from direct contributions from EU countries, the amounts of which are agreed in negotiations. The EDF is generally renewed every 5 years (next renewal in 2013), with a new EDF financial regulation. As the EDF is not included in the EU budget, it is not subject to the principle of annuality (one-year validity). Moreover, since it is a fund there are no time limits for implementing projects (although normally

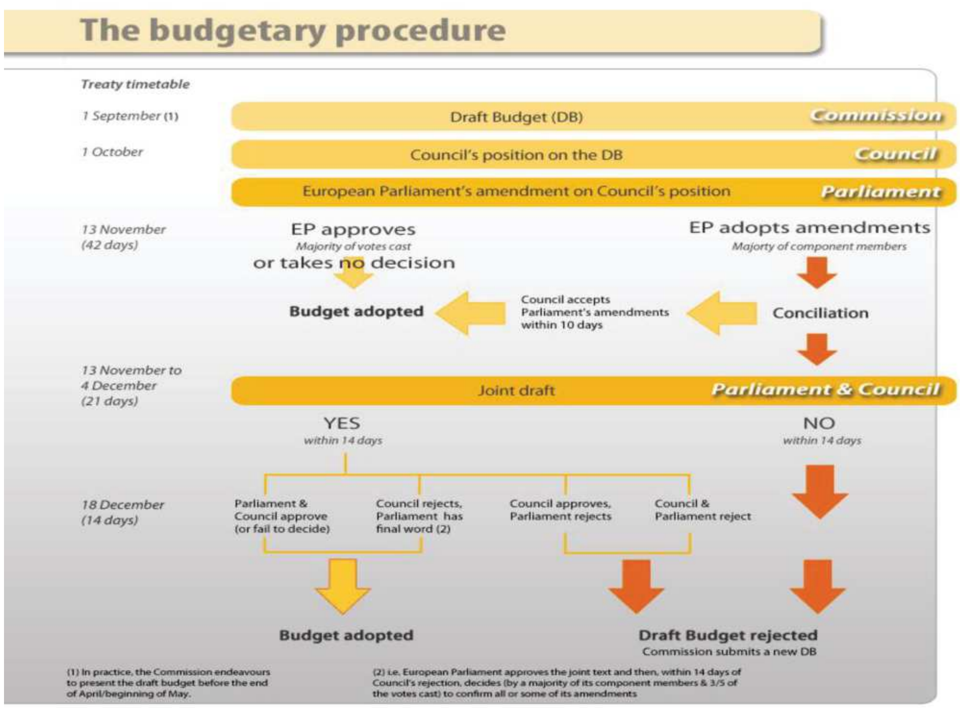
[8] European Commission. Flexibility Instruments. http://ec.europa.eu/budget/explained/budg_system/flex/flex_en.cfm#FS.

this will not take more than 10 years).[9]

3. The Budgetary Process of the European Union

Once we got familiar with the general notion and structure of the budget of European Union, the next step is to analyze the budgetary process as well and the measures of the budgetary control. How and by whom is the budget decided and what are the means of the budget execution and control are the main questions that will be answered in this chapter.

How is the budget decided? Based on the multiannual financial framework in force and the budget guidelines for the coming year, the European Commission prepares the draft budget, and submits it to the Council and Parliament. The budgetary authority, comprised of the Council and the Parliament, amends and adopts the draft budget. In case of disagreement between Parliament and Council a specific Conciliation Committee is convened with the task of reaching agreement on a joint text within a period of 21 days, subject to the approval of both arms of the budgetary authority. If the joint text is rejected by the Council, the European Parliament has the right to ultimately approve the budget. This process is well illustrated in the following scheme.



Source: European Commission "The Budgetary Process"
http://ec.europa.eu/budget/explained/management/deciding/decide_en.cfm

[9] European Commission. The European Development Fund.
http://ec.europa.eu/budget/explained/budg_system/fed/fed_en.cfm.

The annual budgetary procedure as established by article 314 of the Treaty on the Functioning of the European Union lasts from 1 September to 31 December.

All EU institutions 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 endeavors to present the draft budget before the end of April/beginning of May.

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

The Parliament has then 42 days to adopt its amendments on the Council's position. 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 representing the European Parliament. The Conciliation Committee is assigned to come up with a joint text within 21 days. If the conciliatory procedure fails, the Commission has to come up with a new draft budget.

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 the Council and the Parliament both reject the joint draft or fail to decide, the budget is rejected and the Commission has to submit a new draft budget.

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.

In the event of unavoidable, exceptional or unforeseen circumstances, the Commission may propose during the year, that the budget as adopted be amended; it does this by submitting draft amending budgets. Amending budgets are also used to enter the balance from the previous year in the budget for the current year. Similarly, the Commission may, on its own initiative or at the request of the other institutions with their own budget section, present a letter of amendment to the draft budget in the light of information which was not available when the draft was established. Both amending budgets and letters of amendment are subject to the same procedural rules as the general budget.[10]

Who manages the budget? The ultimate responsibility for implementing the budget lies with the European Commission. But in practice, some 76% of the budget is spent under what is known as 'shared management', with individual EU countries actually distributing funds and managing expenditure.

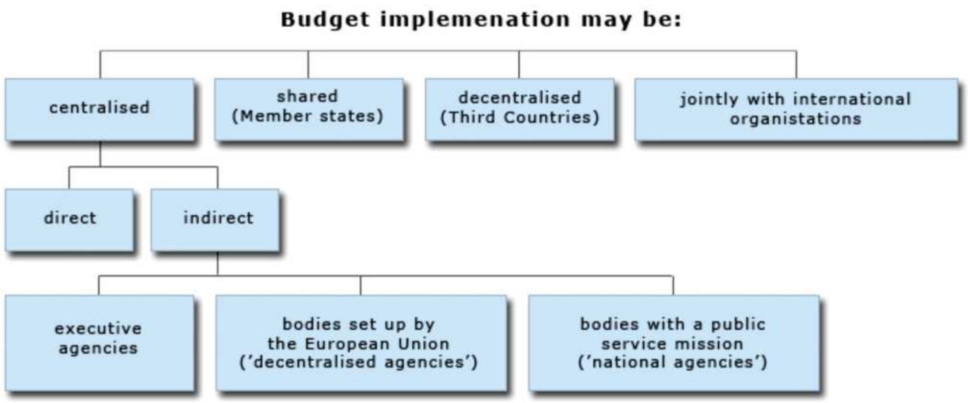
A set of checks and balances is in place to ensure the funds in question are managed properly and in accordance with the rules:

- The Commission must recover all unduly paid funds, whether resulting from error, irregularity or deliberate fraud.

[10] European Commission. How is the Budget Decided? http://ec.europa.eu/budget/explained/management/deciding/deciding_detail/decide_detail_en.cfm.

- National governments are equally responsible for protecting the EU's financial interests. This involves cooperation with the Commission and its Fraud Office (OLAF).

The Commission can manage payments from the budget in 4 ways presented in the scheme 2:



Source: European Commission. "Budget Implementation Ways" http://ec.europa.eu/budget/explained/management/managt_who/who_en.cfm

1.1 Centralised direct management – money is spent directly by Commission staff (selecting contractors and awarding grants, transferring funds, monitoring activities)

1.2 Centralised indirect management – external management, often by agencies – used when the Commission can't implement the budget directly. For example, it wouldn't be practical for the Commission to directly award study grants, due to the large number of beneficiaries. In such cases, executive tasks are delegated to agencies, which have their own legal personality (i.e. different from the EU) and are linked to the Commission by an agreement. The tasks delegated to these agencies must be clearly defined and the Commission must put in place tight supervision and control mechanisms.

2. Shared management – budget implementation is delegated to EU countries.
3. Decentralised management – the same but for non-EU countries. This only happens if the Commission is satisfied the countries will follow the rules and the principles of sound financial management, and a clearance of accounts/financial correction mechanism is in place to correct potential irregularities.
4. Joint management – implementation delegated to intergovernmental/ international organizations which have internationally accepted standards. A real exception, since it involves transferring EU funds to a 'common pot' with money from other donors, meaning that there is no way to trace exactly how the EU contribution has been spent.

In each of these cases, the Commission must keep tight control over the way the EU's budget is spent and take appropriate steps to enforce the principle of sound financial management.

The EU Directorate-General for Budget (DG Budget) has an important role in budget adoption and implementation: it helps define the rules for financial management (Financial Regulation), which are reviewed every 3 years, establishes internal control standards, manages the accounting system and prepares the annual accounts. Its financial activities are closely supervised and monitored.[11]

The EU budget is financed almost entirely through own resources, i.e. funds that belong to the EU but are collected on its behalf by Member States. These funds are credited twice a month to the European Commission accounts opened with Member State treasuries or central banks. From there, the Commission transfers the necessary funds to its accounts with commercial banks, from which payments are made to EU beneficiaries.

The EU's treasury management is based on the just-in-time principle; i.e. the Commission keeps the resources collected from Member States on its accounts held with Member States. It then transfers these funds to the accounts held with commercial banks only to the extent necessary to carry out its daily payments, and so does not 'stock' funds on accounts other than those opened with Member States' institutions.[12]

The Commission uses 2 tools to ensure the sound financial management of EU funds:

- Early Warning System – identifies bodies and individuals representing financial and other risks to the EU, so the Commission can take precautionary measures.
- Central Exclusion Database – database of all bodies and individuals excluded from EU funding for various reasons: insolvent entities, final court judgements for fraud, corruption, decisions of a contracting authority for grave professional misconduct, conflict of interest.

Early Warning System (EWS) was introduced in 1997, at the request of the European Parliament. It covers the contracts and grants managed directly by the Commission and the contracts and grants managed by non-EU countries. But it does not cover the funds managed in partnership with EU member countries (mainly used for the common agricultural policy and the Structural Funds) and the funds managed by international organizations. These funds are monitored through the Central Exclusion Database.

EWS is an operational tool for Commission services, providing them with information on identified risks related to beneficiaries of centrally managed contracts and grants. The system is based on a system of "flags", identifying the level of risk concerned, from "W1" (lowest level of flagging) to "W5" (highest level). A vast majority of EWS flags (W1 to W4) simply serve to stimulate operational and financial managers to reinforce monitoring of the contract or grant in question or the procurement or grant award procedure. These flags provide information on identified risks such as recovery of certain amounts significantly overdue by a beneficiary, judicial proceedings pending for serious administrative errors/fraud, findings of serious administrative errors/fraud. EWS also serves for recording specific situations that need a defined response from the Commission, like setting off reciprocal debts, suspending temporarily payments for the purpose of further verifications, or executing them to a

[11] European Commission. Who Manages the Budget? http://ec.europa.eu/budget/explained/management/managt_who/who_en.cfm.

[12] European Commission. Treasury Management.

third party following attachment orders binding for the Commission. W5 flags ensure that all operational and financial managers are aware of exclusion from EU funding , based on legal criteria listed in the Financial Regulation, and that new dealings with these beneficiaries are no longer possible. An EWS flagging as such is never the cause of the exclusion, it is merely an indication of the legal situation of the beneficiary, and of which the beneficiary is necessarily already aware of. This category also includes terrorist organizations listed under UN Security Council resolutions.

To protect the legitimate interests of the entities concerned, EWS registrations are not publicly disclosed. Yet a natural person may request (under certain conditions) the Commission services to indicate whether he or she has been flagged up in the system under W1 to W4 flags. On such a request the party in question will be provided with the EWS data which concern them.

Only W5 registrations relating to exclusion situations are communicated automatically to the party concerned. This information is also transferred to the Central Exclusion Database, thus ensuring the protection of all EU funds.[13]

Central Exclusion Database (CED). The EU funds humanitarian and development work all over the world. These funds are managed by a number of bodies (EU institutions, national authorities in EU member countries, authorities in non-EU countries and international organizations), who distribute money to hundreds of thousands beneficiaries.

To protect the EU's financial interests (i.e. EU taxpayers' money), all these bodies have access to a central database of companies and organizations excluded from EU funding because they are insolvent or have been convicted of serious professional misconduct or a criminal offence detrimental to EU financial - the Central Exclusion Database (CED). The data in CED are available to all public authorities implementing EU funds, i.e. European institutions, national agencies or authorities in Member States, and, subject to conditions for personal data protection, to third countries and international organizations.

CED lists legal or natural persons benefiting from EU funds and which are personally under an exclusion case strictly defined in the Financial Regulation:

- insolvent entities (bankruptcy, tax or social charges unpaid);
- final court judgments for fraud, corruption, money laundering and involvement in a criminal organization detrimental to EU's financial interests; judgments for offence concerning professional conduct;
- decisions of a contracting authority for grave professional misconduct, conflict of interest, etc.[14]

Once the budgetary process is completed, it is important to analyze the budgetary control system that gives that makes the EU budgetary process efficient.

First of all, here we can talk about the monthly budget implementation reports. Every month the Commission publishes a report online, informing the Parliament and the Council (the budget authority) on revenue received and expenditure incurred – so they can see how the annual budget is being implemented. This information must be available 10 working days before the end of each month. The report contains information on:

[13,14] European Commission. Protecting EU Interests. http://ec.europa.eu/budget/explained/management/protecting/protect_en.cfm.

- revenue received, broken down by type. The figures for 'total revenue' represent actual amounts received by the Commission from the beginning of the financial year to the end of the month in question – prior and future budgets are not taken into account.
- expenditure and budget implementation – comparing projected and actual expenditure. The data is presented in 4 tables, showing commitments and payments by financial framework heading and by policy area.[15]

Another monitoring tool are the annual accounts and reports, these are: annual accounts, annual activity reports and the synthesis report and the financial report.

The Commission uses a dual accounting system that includes:

- budget accounts - giving a detailed record of budget implementation;
- general accounts – used to prepare the balance sheet and economic result (financial statements). The general accounts provide a picture of the EU budget's assets and liabilities because they are maintained using the accrual accounting principle: therefore, transactions are registered when they are incurred, not necessarily when cash is paid out or received.

Every year the Commission's Accounting Officer must produce the annual accounts for the EU and for the Commission. The EU's annual accounts consist of:

- the financial statements (and its notes);
- the consolidated reports on the implementation of the budget - they include the accounts of the European institutions and agencies.

The goal of these accounts is to provide a true and fair view of the financial situation for a given year. The annual accounts must also be clear, comprehensible and allow comparisons to be made between financial years. The time for preparing and publishing the annual accounts is laid down in the Financial Regulation: 1. provisional accounts are prepared and sent to the Court of Auditors for audit by 31 March, 2. the final accounts are then approved by the Commission and sent to the Court of Auditors and the discharge authorities - the Parliament and Council – by 31 July.

Annual activity reports and the synthesis report. By the end of March every year each Commission Directorate-General must produce an activity report for the previous financial year which includes:

- results obtained and the corresponding amounts spent, compared with the intentions announced at the beginning of the year in the DG's annual management plan;
- a report to the Commission on the performance of the Director-General as authorising officer by delegation. Includes a declaration by the authorising officer, which may contain reserves;
- the DG's annual accounts and financial reports.

The annual activity reports are examined by the Commissioners in their assessment of the Commission's financial situation. They also look at the internal auditor's annual report and the documents on the operation of the internal control systems. They then prepare a summary called a 'synthesis report' detailing actions to be taken to correct any weaknesses identified. This report is sent to the Parliament and Council, and is one of the main documents used by the European Court of Auditors to

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[15] European Commission. Monthly Budget Implementation Reports. http://ec.europa.eu/budget/explained/reports_control/monthly_exec/monthly_en.cfm.

prepare its annual statement of assurance, which evaluates the EU's management of its resources.

The annual financial report reviews the way the budget has been spent and the results on the ground.[16]

Another tool of the EU budget control are the internal and external audits.

Every Directorate-General (DG) has an internal audit unit that ensures the DG's procedures comply with the rules. They are free to audit processes, transactions, assets, etc. They report directly to the DG's Director General and also to the Commission's general Internal Audit Service.

Every year there is also an independent external audit of the EU's annual accounts and resource management by the European Court of Auditors, resulting in a report for the Parliament and Council. This report analyses whether individual activities and payments were legal and correct and audits the reliability of the annual accounts themselves, to assess whether they provide a "true and fair" view of the financial situation.

On the basis of this audit, the Court of Auditors issues an opinion – a 'statement of assurance' – on the figures presented and the system and controls in place. The statement marks the beginning of the annual budget discharge procedure.[17]

The discharge is the final approval of the EU budget for a given year (following the audit and finalization 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 decision is based on a review of the annual accounts, the Court of Auditors' annual report (including its official statement of assurance) and the Commission's responses (answering specific questions and providing further information requested). The discharge is the political element of the external control of budget implementation as it represents oversight by the European Parliament and EU Council.

The procedure ends in either the granting, postponement or refusal of the discharge.[18]

4. The Presentation of the Budgetary Process of the European Union in Figures

The theory regarding the budget of the European Union as well as the budgetary process have been presented in the previous chapters. The next step of the analysis is to take a look on the budget of the EU in figures. The following data present details of the financial framework for the period 2007 - 2013 and the latest data of 2014.

Table 1 presents the budget of the European Union for the period 2007 – 2013. The column of the Commitment appropriations shows all the objectives towards which financial resources have been planned to be allocated, and on the vertical column per year we can see the total amount of the planned commitments. The table of payment appropriations shows the total expenditures as well as their share in the Gross National

[16] European Commission. Annual Accounts and Reports. http://ec.europa.eu/budget/explained/reports_control/annual_rep/ann_rep_en.cfm.

[17] European Commission. Audits. http://ec.europa.eu/budget/explained/reports_control/audits/audits_en.cfm.

[18] European Commission. Discharge. http://ec.europa.eu/budget/explained/reports_control/discharge/disch_en.cfm.

Income, the available margin and the Own Resources Ceiling in GNI established by the regulations of each particular year.

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007- 2013
1. Sustainable Growth	**53,979**	**57,653**	**61,696**	**63,555**	**63,974**	**67,614**	**70,644**	**439,115**
1a. Competitiveness for Growth and Employment	8,918	10,386	13,269	14,167	12,987	14,853	15,67	90,250
1b. Cohesion for Growth and Employment	45,061	47,267	48,427	49,388	50,987	52,761	54,974	348,865
2. Preservation and Management of Natural Resources	**55,143**	**59,193**	**56,333**	**59,955**	**59,888**	**60,810**	**61,310**	**412,632**
of which: market related expenditure and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,583	330,094
3. Citizenship, freedom, security and justice	**1,273**	**1,362**	**1,518**	**1,693**	**1,889**	**2,105**	**2,449**	**12,289**
3a. Freedom, Security and Justice	637	747	867	1,025	1,206	1,406	1,703	7,591
3b. Citizenship	636	615	651	668	683	699	746	4,698
4. EU as a global player	**6,578**	**7,002**	**7,44**	**7,893**	**8,43**	**8,997**	**9,595**	**55,935**
5. Administration [1]	**7,039**	**7,38**	**7,525**	**7,882**	**8,091**	**8,523**	**9,095**	**55,535**
6. Compensations	**445**	**207**	**210**	**0**	**0**	**0**	**75**	**937**
Total commitment appropriations	**124,457**	**132,797**	**134,722**	**140,978**	**142,272**	**148,049**	**153,168**	**976,443**
as a percentage of GNI	1,02 %	1,08 %	1,16 %	1,18 %	1,15 %	1,13 %	1,15 %	1,12 %

Payment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007- 2013
Total payment appropriations	122,19	129,681	120,445	134,289	133,7	141,36	144,285	925,95
as a percentage of GNI	1,00 %	1,05 %	1,04 %	1,12 %	1,08 %	1,08 %	1,08 %	1,06 %
Margin available	0,24 %	0,19 %	0,20 %	0,11 %	0,15 %	0,15 %	0,15 %	0,17 %
Own Resources Ceiling as a percentage of GNI	1,24 %	1,24 %	1,24 %	1,23 %	1,23 %	1,23 %	1,23 %	1,23 %

Source: European Commission. "Financial Framework 2007 – 2013"
http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#cf07_13

The procedures for applying the 2007-13 financial framework were set out in the 2006 Interinstitutional Agreement between the European Parliament, the Council and the Commission. This agreement included rules on adjustments (annual or otherwise) to and revision of the financial framework.

At the beginning of every financial year, the Commission makes a technical adjustment to the financial framework for the following year. This is done for 2 reasons:

- As the financial framework is expressed in constant prices, it must be adjusted each year to take account of inflation, so each expenditure heading retains its initial purchasing power.
- The ceiling of payment appropriations is expressed as a percentage of GNI and so must be updated to take account of actual economic activity, since this must always be below the own resources ceiling. Margin between the ceiling for payment appropriations and own resources ceiling is also expressed as a share of GNI and is updated during the technical adjustment exercise.

By adjusting, the Commission can check whether the amount of own resources available is enough to cover total payment appropriations. The technical adjustment is based on the most recent data and economic forecasts available and is always presented in Spring before the draft budget for the following year is adopted by the Commission.[19]

The financial framework and the interinstitutional agreement have been amended several times since they came into force. Each amendment was made to find financial resources to face unforeseen challenges.

Amendment to the interinstitutional agreement

- Adoption 18 December 2009: Additional payment of almost €480m to the 'food facility' to help developing countries deal with increased food prices. This change did not lead to a change of the financial framework itself.

Amendments to the financial framework

- Adoption 18 December 2007: Additional €1.6bn paid out for: creation of European Institute of Innovation and Technology; Galileo satellite navigation programme (after talks with a private consortium failed in early 2007).
- Adoption 29 April 2008: Transfer of €2.034bn not committed in the 2007-08 budget to subsequent budgets for the Structural Fund, Cohesion Fund, rural development and the European Fisheries Fund.
- Adoption 6 May 2009: €2bn added to the budget to fund projects in 2 areas: energy and broadband infrastructure (European economic recovery plan); common agricultural policy (to deal with issues raised by its 'health check').
- Adoption 17 December 2009: €1.78bn added to the budget to fund projects in: energy and broadband infrastructure (European economic recovery plan); common agricultural policy (to deal with issues raised by its 'health check').
- Adoption 16 April 2010: Automatic adjustment to the amounts paid to countries whose GDP varied by more than 5% from the 2005 forecasts (for the 2007-09 financial framework).
- Proposal for a Decision of 20 July 2010: Additional €1.4bn for the ITER project.[20]

Next in line is the presentation of the EU budget for 2014. On 29 June 2011, the European Commission presented the Communication 'A budget for Europe 2020' to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

Due to the tough economic times, seven member states (Austria, Czech Republic, Finland, Germany, the Netherlands, Sweden, and the United Kingdom) argued during the 26 March 2012 General Affairs Council meeting that the EC's proposed overall amount for the seven-year EU budget plan should be reduced by €100 billion, or in the case of Sweden, by more than €100 billion.

On 8 February 2013, European Union leaders agreed to cut the budget by 3.3%; the agreement on the proposed budget by the European Council has yet to be approved by the European Parliament, adopted unanimously by the Council of the European Union and ratified by the national parliaments of all member states; if adopted, it will be the first cut in its 56-year history. The Budget was finally approved by the European Parliament Tuesday 19th November 2013 by overwhelming majority. MEPs voted 537

[19] Financial Framework of the European Commission. 2007 – 2013. http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#cf07_13.

[20] Financial Framework of the European Commission. http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#cf07_13.

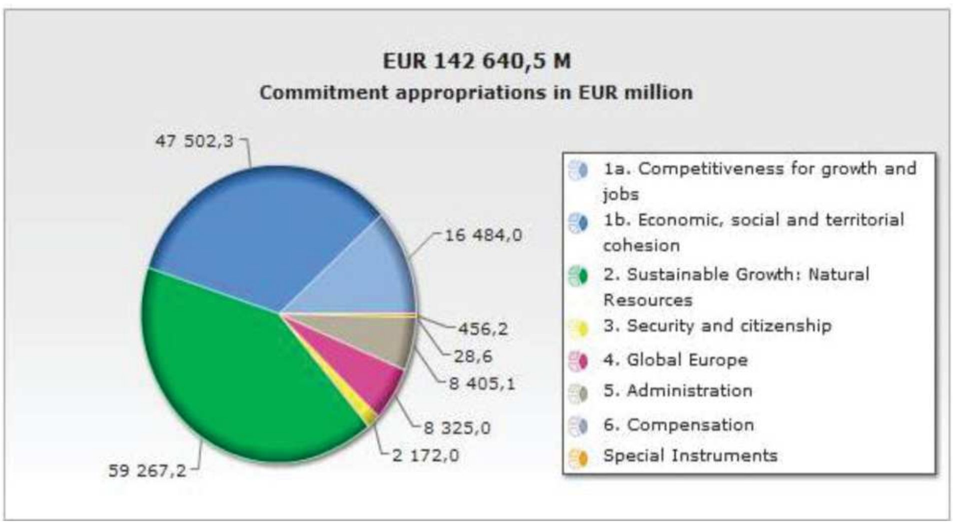
in favor, 126 against and with 19 abstentions.[21]

The table 2 shows the amounts of commitment appropriations and payment appropriations for the current year. No information regarding the adjustments is yet available.

Heading		Million €
	CA	PA
1. SMART AND INCLUSIVE GROWTH	**63 986,3**	**62 392,8**
1a. Competitiveness for growth and jobs	16 484,0	11 441,3
1b. Economic, social and territorial cohesion	47 502,3	50 951,5
2. SUSTAINABLE GROWTH: NATURAL RESOURCES	**59 267,2**	**56 458,9**
3. SECURITY AND CITIZENSHIP	**2 172,0**	**1 677,0**
4. GLOBAL EUROPE	**8 325,0**	**6 191,2**
5. ADMINISTRATION	**8 405,1**	**8 406,0**
6. COMPENSATIONS	**28,6**	**28,6**
SPECIAL INSTRUMENTS	**456,2**	**350,0**
Total	**142 640,5**	**135 504,6**
Appropriations as % of GNI	1,06%	1,00%

Source: European Commission "Annual Budget 2014"
http://ec.europa.eu/budget/figures/2014/2014_en.cfm

The information from table 2 presented in a different form can be found in graph 1 which illustrates the shares of different objectives in the total budget.



Source: European Commission "Annual Budget 2014"
http://ec.europa.eu/budget/figures/2014/2014_en.cfm

[21] Wikipedia. The EU Budget 2014 – 2020. http://en.wikipedia.org/wiki/Budget_of_the_European_Union.

As we can see in graph 1 and table 2, the main focus of the budget of the European Union is to promote Sustainable Growth by spending of Natural Resources, this objective takes a share of almost 42% of the budget. The second major objective is to stimulate the Economic, Social and Territorial Cohesion, being allocated 33,3%. These are followed by spendings on Competitiveness for Growth and Jobs - almost 12%, Administration - 5,89 %, Global Europe - 5,83%, Security and Citizenship – 1,5%, Special Instruments – 0,32%, Compensations – 0,02%.

1.Conclusions:

This research paper managed to cover the theory of the European Union budget and the budgetary process and to analyze the latest figures and mechanisms of budget adjustment.

To sum up the information presented above, the Council of the European Union, with ministers from each Member State; the European Commission, as the EU's day-to-day executive and administration; and the European Parliament directly elected by citizens are the three core European Union institutions that are officially designated with responsibility for setting a budget. Basically speaking, the European Commission prepares the draft budget, and submits it to the Council and Parliament.

The budgetary authority, comprised of the Council and the Parliament, amends and adopts the draft budget.

Nowadays, being given the context when there is less money, the only way to cope is to spend it better and more efficiently. This is the age-old principle behind Brussels' approach to the EU budget for the period 2014 – 2020. That is why, the European Parliament agreed on the reform of cohesion policy, as one introducing elements to make it more effective and oriented towards clear results.

The EU made internal control systems more result-oriented and enhance monitoring and evaluation arrangements. Also, they use a wide range of techniques to increase the impact of funding the objectives of the EU, especially for financing innovations.

So, the conclusion is that the European Union budget targets efficient functioning starting at the initial stage of the budget development, all out through the budget execution, and finally at the stage of budgetary control and quality upgrade. Also, the important focus of the EU is to continuously improve the budgetary tools and mechanisms in order to ensure efficient funds' distribution that will help manage the budget in a modern and progressive way and reach objectives more efficiently.

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