



Directorate General Internal Policies of the Union

Policy Department on Budgetary Affairs

BUDGETARY AFFAIRS

Elements for a comparison between EU and national budgets' breakdown from 2002 to 2005

NOTE

Abstract:

The present note aims at identifying the respective levels and evolutions of EU and national budgets by categories. Its main conclusions are as follows:

- EU budget represented in 2005 some 2% of all national government expenditure,
- considering individual expenditure categories, the level of EU budget expenditure as a proportion of all EU-25 national budgets is close to 20% for the "Economic Affairs" category. This demonstrates the large input of EU budget to EU's productive environment. EU expenditure also reaches the significant threshold of 3.5% of national budgets as regards "environment protection",
- EU budget growth (+25%) from 2002 to 2005 has been faster than the consolidated national budgets' (+16%),
- the budget framework used ('Cofog') sheds a new light on the allocation of EU resources, since the respective evolutions of the considered expenditure categories show large shifts in the allocation of EU funds, that are not visible when considering the same expenditure by EU budget policy areas. These shifts result not only from the changes in Community's main policy priorities, but also from the allocation of funds within each individual policy, according to the sectoral legislation and guidelines.

It has finally not proved feasible to identify the part of national budgets that is aimed at fulfilling the cofinancing requirements of EU funding. A further step could be to request the Commission to carry out such an analysis, with a view to determine the leverage effect of EU funds.

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Introduction and sources for the data

This note aims at presenting and analysing, so far as possible, comparable versions of EU and national budgets per main categories

The data have been taken from the more robust and complete sources of information found, namely the Eurostat database on government expenditure per function for Member States data ("Cofog" classification), Commission's documents on annual budget implementation at EU level and more specifically the budget outturn for payments as presented in annual budgets as comparative figures.

Eurostat's figures were selected since, as a comparison, OECD's cover only part of the 27 Member States and provides a less detailed breakdown for each category of government expenditure.

The data presented below concern financial years 2002-2005 and are limited to EU-25 (EU-15 before 2004) since no complete data are available in the database for 2006 and after. It should also be noted that it has not proved possible in this note's context to identify the part of national budgets that is aimed at fulfilling the cofinancing requirements of EU funding, thereby preventing the isolation of the leverage effect of EU funds.

The figures presented are "Total general government expenditure", which is a National accounts indicator defined by the European System of Accounts (ESA95). This overall amount is then broken down according to the following classification of the functions of government (Cofog, see also details in Annex 1):

- General public services,
- Defence,
- Public order and safety,
- Economic affairs,
- Environment protection,
- Housing and community amenities,
- Health,
- Recreation, culture and religion,
- Education,
- Social protection.

This framework is quite different from the ones usually used in the Community context (Financial Perspectives, Policy areas, budget lines...) It is though the only one that presents all 27 Member States budgets in a consistent way, whatever the national budgetary frameworks of reference.

It has therefore been decided not to align national budgets' presentation to EU's but the latter to the former. The reason for that is that this would have required a detailed analysis of every national budget no detailed and standardised breakdown being available in the Cofog framework of reference. As an example, Eurostat's heading "Economic Affairs" is only broken down into "Agriculture", "Energy", "Transport", etc. for Greece, Cyprus, Lithuania, Poland and Portugal. This renders difficult any direct comparison between the EU and national budgets. Another reason for having chosen to align EU classification to Cofog and not the opposite is that national budgets have to cover many types of expenditure that are irrelevant in the EU context.

The sources for the EU data used are the figures presented as outturn for year N-2 for each ABB Title in year N adopted budgets, which present the budgetary implementation per policy area. Except for four main policy areas (Research, Regional Policy, Employment and Social Affairs and Education and culture), the

allocation of EU expenditure to their corresponding Cofog categories proved to be rather straightforward, even if some minor adjustments (deemed not significant) may always refine the breakdown presented below.

For the above-mentioned 4 policy areas, the allocation of which proved not to be straightforward, further breakdowns had to be made to affect the considered EU expenditure in the most correct and reliable way. To that purpose, relevant information was found in the budget chapters and in DG-specific reports on the funds' destination or types of intervention.

Annex 2 provides an overview of the correspondence between EU policy areas and Cofog functions of government.

The tables presented are only indicative and should be considered with care since many functions and horizontal services that are presented as a single category within the EU budget are classified according to their ultimate destination in the Cofog classification. This is the case for R&D (see below) but also for "other general services", "personnel administration and services" and any subitem that can be linked to the specific function it supports.

Tables

In the following tables, the countries included for each year are EU Member States at the end of the year. This renders more relevant any comparison between the evolution of the EU Budget and national Budgets.

Absolute figures

2002-05 levels of EU and MS public spending by types of expenditure (Cofog)

Year / Entity Categories	2002		2003		2004		2005		
	EU	15 MS	EU	15 MS	EU	25 MS	EU	25 MS	As a %
General public services	11.125	636.338	11.411	644.802	14.520	687.657	14.617	714.536	2,05%
Defence	0	155.338	0	157.349	0	167.639	0	173.366	0,00%
Public order and safety	821	163.455	154	169.475	529	186.930	477	195.197	0,24%
Economic affairs	65.320	364.170	69.423	371.858	74.332	403.442	79.317	403.967	19,63%
Environment protection	1.715	63.838	1.797	65.604	3.434	70.985	2.821	79.277	3,56%
Hous. and comm. amen.	0	87.452	176	100.814	148	107.361	159	113.139	0,14%
Health	571	588.277	812	613.446	1.207	671.727	1.096	708.049	0,15%
Recre., culture and rel.	240	96.278	259	97.963	190	108.296	195	112.941	0,17%
Education	2.292	495.019	2.478	508.232	3.138	549.838	3.289	572.666	0,57%
Social protection	1.972	1.756.365	2.174	1.823.451	3.095	1.973.808	2.824	2.045.206	0,14%
Total	84.056	4.406.529	88.684	4.552.993	100.593	4.927.684	104.795	5.118.345	2,05%

As a preliminary comment, it can be seen from the table above that **EU budget represented in 2005 some 2% of all national government expenditure in EU-25**, a figure which is consistent with previous studies from the Policy Department on Budgetary Affairs.

In the framework of Cofog categories however, **the level of EU budget expenditure as a proportion of all national budgets expenditure** is very different depending on the category concerned. It ranges from 0% in the area of Defence to **close to 20% for Economic Affairs**. Even if this latter figure by definition includes all expenditure related to agriculture and a very significant part of the Structural Funds, this shows the very **significant input of EU budget to EU's productive environment**.

Given the much wider scope of national budget expenditure, the low level of other types of expenditure is not surprising, like for instance Public order and Safety (0.25%), Health (0.15%) or Social Protection (0.14%). Even if being in comparison one of the Community's priorities, EU funds affected to education represent 0.57% of national budgets dedicated to education. This is not surprising considering the focus of EU measures in that field compared to the wide range of education related expenditure in the Member States.

Another significant field of EU intervention as compared to national funding is **environment protection, for which EU funding represented more than 3.5% of consolidated EU-25 expenditure in 2005.**

Comparative evolutions

2002-05 comparative evolutions by type of expenditure

Evolutions 2002-05	MS	EU
General public services	12,29%	31,39%
Defence	11,61%	
Public order and safety	19,42%	-41,90%
Economic affairs	10,93%	21,43%
Environment protection	24,18%	64,49%
Housing and community amenities	29,37%	
Health	20,36%	91,94%
Recreation, culture and religion	17,31%	-18,75%
Education	15,69%	43,50%
Social protection	16,45%	43,20%
TOTAL	16,15%	24,67%

Regarding the comparative evolution of EU and national funding, a first finding is that **EU budget growth (+25%) has been faster than the consolidated national budgets' (+16%) from 2002 to 2005** (see table above). These evolutions both take account of the 2004 enlargement to 10 new Member States and could be explained by the redistributive dimension of EU budget, every new Member State being net beneficiary in its first year after accession (compensation mechanism).

This means that the part of EU expenditure in all government expenditure in the EU has increased in the time frame under consideration (from 1.91% in 2002 to 2.05% of MS expenditure in 2005).

The table above shows that the changes in each individual Cofog headings are far more significant for EU budget than for the overall MS public expenditure. This is at least partly due to the fact that individual MS evolutions are compensated against each other and their consolidated evolution consecutively smoothed. For instance - and excluding new MS the budget structure of which has changed a lot since their accession, the 17% increase in "Recreation, culture and religion" for all 25 MS results from individual evolutions ranging from -4% (UK) to +52% (LU). Similarly, the 24% increase in "Environment protection" for all 25 MS comes from very diverging evolutions, from -12% in Belgium to +59% in the UK. **This illustrates the absence of any budgetary coordination between MS at the level of expenditure categories.**

It can be seen **that at EU level, the evolutions for each of the above presented categories are quite significant.** Part of these evolutions can be explained by the general EU budget increase following the 2004 enlargement and indexation. The most remarkable trends above can individually be explained as follows:

- the 42% decrease in "Public order and safety" took place despite the sharp increase of the "Area of security, freedom and justice" budget from EUR 70 in 2002 to 471 Mio in 2005. It is due to the large amount of payments from the Solidarity Fund in year 2002 (EUR 728 Mio to cope with the August and September 2002 floods), compared to always less than 100 Mio in subsequent years, and only 6 Mio in 2005. The reason for the gap between the evolution of this category and the one of Policy area "Area of security, freedom and justice" is that the Solidarity Fund, although being considered here as a civil protection instrument, belongs to Policy area "Regional Policy" in the EU framework;

- the 64% increase for "Environment protection" can be explained by the large increases in funds devoted to environment in the 6th Research Framework Programme compared to the 5th, and the greater funding of environment infrastructure along the years in the context of the EU Regional Policy (+ some 400 Mio for the European Regional development Fund, + 300 Mio for the Cohesion Fund);

- similarly, funds dedicated to Health largely increased (+92%) mainly due to the tighter focus of the 6th FP for Research on Health related matters;

- concerning "Recreation, culture and religion", the 19% decrease results from a shift under the EU "Education and Culture" policy area towards more education- than culture-related activities. This also explains the 43% growth of EU expenditure on education;

- the 43% increase in funds related to Social Protection comes from the increase in the European Social Fund's budget, and from greater budget allocations to ERDF project related to social infrastructure and public health, and to a lesser extent social inclusion.

As showed for each of the above categories, **most of the evolutions result not only from the overall changes in Community's policy priorities, but also from the allocation of funds within each individual Community Policy.** This is especially visible for the Research and Regional Policy activities, for which **the final destination and purpose of the funds also very much depends on the sectoral legislation and guidelines** (see the breakdown of policy areas to Cofog categories in Annex 2). A similar margin also exists in the context of the agricultural expenditure, where the funds can also in part be ultimately devoted to environment protection (even if it has not been deemed useful to isolate such funds in the context of this study, given the low level of these amounts and the technical difficulties to identify them).

As an illustration, these evolutions can be compared to the ones of the EU budget implementation breakdown by policy areas, which present a much more steady evolution along the years, except for a few specific policy areas¹.

¹ Among the policy areas, the funding of which evolved a lot from 2002 to 2005, the following can be mentioned:

- the 20% decrease in economic and financial affairs results from both a decrease in macroeconomic assistance and in the funds allocated to the Economic and Monetary Union,

- the 44% decrease in policy area 29 "audit" results from a cut of more than 50% in its establishment plan from 2002 to 2003. This is due to the disbandment of the DG Financial Control following the entry into force in 2003 of the revised Financial Regulation,

- the sharp increase in the "Justice and Home Affairs" policy area comes from the new activities of the Community in this area, mainly in the field of external borders, visa policy and free movement of people,

- finally, the increase in the Budget policy area is only related to the enlargement and the budget "temporary and lump-sum compensation for the new Member States".

As showed by the table below, payments related to the bulk of policy areas increased by between 10 and 40%.

EU 2002-05 outturns by policy areas

	2002	2003	2004	2005	% 2002-05
Economic and financial Affairs	446	398	356	357	-20%
Enterprise	234	259	305	305	30%
Competition	68	77	85	90	32%
Employment and social affairs	7.119	7.683	9.295	9.736	37%
Agriculture and rural development	44.918	46.977	47.467	52.698	17%
Energy and Transport	854	877	1.028	1.205	41%
Environment	214	213	269	276	29%
Research	2.087	1.876	2.611	3.016	45%
Information Society	952	797	1.355	1.227	29%
Direct Research	253	266	356	356	41%
Fisheries	682	902	846	809	19%
Internal market	50	58	64	67	34%
Regional Policy	15.634	17.135	21.888	19.981	28%
Taxation and Customs Union	70	76	88	94	34%
Education and Culture	737	781	928	989	34%
Press and Communication	120	126	155	159	33%
Health and Consumer protection	371	441	534	499	35%
Area of security, freedom and justice	70	104	448	471	573%
External relations	2.829	2.638	2.873	3.165	12%
Trade	60	67	73	75	25%
Development and relations with ACP	973	1.037	1.016	1.140	17%
Enlargement	1.308	1.810	2.517	1.902	45%
Humanitarian Aid	489	533	519	596	22%
Fight against fraud	37	41	45	53	43%
Policy coordination and legal advice	164	170	196	210	28%
Administration	723	572	658	649	-10%
Budget	50	60	1.472	1.371	2642%
Audit	18	9	9	10	-44%
Statistics	104	106	107	111	7%
Pensions	688	755	842	895	30%
Other Institutions	1.734	1.840	2.188	2.283	32%
TOTAL	84.056	88.684	100.593	104.795	25%

Conclusion

The analysis above showed the following:

- EU budget represented in 2005 some 2% of all national government expenditure in EU-25,
- considering individual expenditure categories, the level of EU budget expenditure as a proportion of all national budgets is close to 20% for Economic Affairs. This shows the significant input of EU budget to EU's productive environment. EU expenditure also reaches 3.5% of national budgets' as regards environment protection,
- EU budget growth (+25%) has been faster than the consolidated national budgets' (+16%) from 2002 to 2005,
- the diverging evolutions in national budget's allocations illustrate the absence of any budgetary coordination between MS by types of expenditure,
- at EU level, the evolutions for each of the above considered categories are significant, more than the same EU budgets by policy areas. Most of the evolutions

result not only from the overall changes in Community's policy priorities, but also from the allocation of funds within each individual Community Policy, which also depend on the sectoral legislation and guidelines.

It has however not proved possible to identify the part of national budgets that is aimed at fulfilling the cofinancing requirements of EU funding. This prevented the isolation of the leverage effect of EU funds through the mobilisation of Member States own expenditure.

Given the amount of work that would require such an analysis for each Member State, a further step could be to request the Commission to carry out such an analysis, with a view to determine the leverage effect of EU funds. This would render possible the identification of how many euros are mobilised for each euro out of the EU budget.

Annex 1: List of Cofog headings and categories

General public services	
	Executive and legislative organs, financial and fiscal affairs, external affairs
	Foreign economic aid
	General services
	Basic research
	R&D General public services
	General public services n.e.c.
	Public debt transactions
	Transfers of a general character between different levels of government
Defence	
	Military defence
	Civil defence
	Foreign military aid
	R&D Defence
	Defence n.e.c.
Public order and safety	
	Police services
	Fire-protection services
	Law courts
	Prisons
	R&D Public order and safety
	Public order and safety n.e.c.
Economic affairs	
	General economic, commercial and labour affairs
	Agriculture, forestry, fishing and hunting
	Fuel and energy
	Mining, manufacturing and construction
	Transport
	Communication
	Other industries
	R&D Economic affairs
	Economic affairs n.e.c.
Environment protection	
	Waste management
	Waste water management
	Pollution abatement
	Protection of biodiversity and landscape
	R&D Environmental protection
	Environmental protection n.e.c.
Housing and community amenities	
	Housing development
	Community development
	Water supply
	Street lighting
	R&D Housing and community amenities
	Housing and community amenities n.e.c.
Health	
	Medical products, appliances and equipment
	Outpatient services
	Hospital services
	Public health services
	R&D Health
	Health n.e.c.
Recreation, culture and religion	
	Recreational and sporting services
	Cultural services
	Broadcasting and publishing services
	Religious and other community services
	R&D Recreation, culture and religion
	Recreation, culture and religion n.e.c.

Education
Pre-primary and primary education
Secondary education
Post-secondary non-tertiary education
Tertiary education
Education not definable by level
Subsidiary services to education
R&D Education
Education n.e.c.
Social protection
Sickness and disability
Old age
Survivors
Family and children
Unemployment
Housing
Social exclusion n.e.c.
R&D Social protection
Social protection n.e.c.

Annex 2 - Correspondance between EU policy areas and Cofog categories

EU policy areas \ Cofog categories	General public services	Defence	Public order and safety	Economic affairs	Environment protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
Economic and financial Affairs	X									
Enterprise				X						
Competition				X						
Employment and social affairs				X					X	X
Agriculture and rural development				X						
Energy and Transport				X						
Environment					X					
Research	X			X	X		X			
Information Society				X						
Direct Research	X									
Fisheries				X						
Internal market				X						
Regional Policy			X	X	X	X			X	X
Taxation and Customs Union	X									
Education and Culture								X	X	
Press and Communication	X									
Health and Consumer protection							X			
Area of security, freedom and justice			X							
External relations	X									
Trade				X						
Development and relations with ACP	X									
Enlargement	X									
Humanitarian Aid	X									
Fight against fraud	X									
Policy coordination and legal advice	X									
Administration	X									
Budget	X									
Audit	X									
Statistics	X									
Pensions	X									
Other Institutions	X									

Annex 3: methodology for affecting EU expenditure to Cofog categories

Concerning the **Research** expenditure in the EU budget and as mentioned above, it has to be noted that the COFOG classification does not group all research expenditure under a single heading but rather allocates it to every main categories of expenditure. Indeed, only basic research and R&D related to general public services is isolated in the horizontal category of "General public services", whereas applied research and experimental development are to be classified by Cofog function.

However, applying the national reference framework to the EU budget, the main COFOG categories concerned by EU expenditure for Research are the following:

- "Basic research" and "R&D General public services", under the heading "General public services",
- "R&D Economic affairs", under the heading "Economic affairs",
- "R&D Environment protection", under the heading "Environment protection",
- "R&D Health", under the heading "Health".

With a view to break down EU Research expenditure in the categories above, it has been assumed that Title 10 "Direct research" should be included in the research activities under the Heading "General Public services". It is indeed presented as aiming at providing "customer-driven scientific and technical support for the conception, development, implementation and monitoring of European Union policies (...)" and can therefore be considered as applied research "related to general public services" or basic research, two subcategories of the "General Public services" Cofog Heading.

Even if title 8 "Research" also includes basic research, this heading has been split according to the different functions to which the funds are ultimately intended, mainly under COFOG "R&D Economic Affairs", "R&D Environment protection" and "R&D Health" categories. The reason for that is that the COFOG "Economic Affairs" heading is quite wide-ranging since it includes for instance "Agriculture, forestry, fishing and hunting", "Fuel and energy", "Mining, manufacturing and construction", "Transport", "Communication", "Other industries".

For **Structural Actions**, the allocation of Funds to Cofog headings proved to be more difficult. On the one hand, ERDF focuses its intervention on modernising and diversifying economic structures as well as safeguarding or creating sustainable jobs, with action in various areas such as research and technological development (RTD); innovation and entrepreneurship; environment; tourism; culture; transport; energy; education; health, i.e. as many Cofog "functions" that deserved a detailed breakdown of the Structural Funds according to the purpose of the funds granted.

For Structural Funds however, even the most detailed traditional budgetary reports do not mention the final destination of the funds, that depends on the specific project supported (even though details are available by funds or objectives). This is the reason why there was a need to have recourse to a DG REGIO internal database (Infoview) that makes it possible to identify the ultimate use of the funds granted. Even if it provides only certified expenditure and not budget expenditure as a whole, it was considered as a good indication of the proportion of budget expenditure according to their final destination.

Structural funds affect the following policy areas of the Community activity:

- Fisheries and Agriculture, for which the breakdown proved to be straightforward, only very marginal amounts being affected in these areas to categories (such as infrastructure or human resources measures) outside the general "Economic Affairs" Cofog Heading.

- Regional policy, which includes both the ERDF and the Cohesion Fund, the allocation of which was much more complicated. According to the Cofog categories, the corresponding funds had to be allocated to the following headings: "Economic affairs", "Environment protection", "Housing and community amenities", "Education", "Social protection" and even "Public order and Safety" through the Solidarity Fund. It should be noted that, while measures linked to water supply could be isolated for Cohesion Fund data (and therefore affected to the "Housing and community amenities" category), this was not possible for ERDF measures aiming at the same purpose because these latter were not distinguished from other environmental measures (they were therefore maintained in the "Environment protection" category).

- Employment and Social Affairs funds and in particular the European Social Fund also had to be retreated since some amounts had to be classified not only in the "Social protection" Cofog category but also in the "Economic affairs" and the "Education" ones.

EU **Education and Culture** expenditure also had to be split between the "Education" and "Recreation, culture and religion" Cofog categories.

For those 4 areas that have been affected to more than one Cofog category (Research, Regional Policy, Employment and Social Affairs and Education and culture), **overheads** (administrative expenditure but also payments devoted to the completion of previous programmes, when no further split was available) have been broken down and affected to Cofog categories pro rata the available breakdown of operational expenditure, according, as an example, to the destination of certified expenditure (and not actual payments) for Regional Policy and Employment and Social Affairs.

In general however, these EU budget expenditure have only been broken down in the relevant Cofog heading when deemed significant, like for instance for Research. A thorough analysis aiming at affecting each EU budget item to the relevant Cofog category was considered neither relevant nor cost-effective, all the more that ABB also strives to allocate horizontal expenditure to the policy area / budget heading to which it is related.

The repartition of **other items of the EU budget** was more straightforward, even if, as described above, the outcoming overall picture is not detailed enough to match the usual EU budget categories.