Chapter 5

Budget and institutions

The summary

- The EU Budget is negotiated both in a "multi-annual financial framework" (MFF), which covers a seven year period, and annually within that framework.

- In April 2012, the Commission tabled its proposal for the 2013 annual budget, asking for a 6.8% increase in "payments". The UK Government, with France, Germany and others proposed a freeze at 2012 levels.

- Negotiations have started over the next MFF, which will cover the annual budgets from 2014 to 2020. The European Commission's total proposed budget for this period is around €1 trillion (€1,025bn in "commitments" (funds promised) and €972bn in "payments" (funds actually paid out)). The Commission is asking for approximately a 5% increase based on the current MFF, or 3.2% in real terms.

- This money comes from Member States in three main ways:

    - A direct payment from national governments based on each country's Gross National Income.
    - A levy on national governments taking a slice of each country's VAT income.
    - Customs duties on various imports from outside the EU, and levies on sugar production.

- This accounts for about 99% of the budgeted income, with the remainder coming from contributions from non-EU countries to certain programmes, as well as fines (normally on companies that break EU law).

- The UK's gross contribution to the EU Budget in 2010 was €14.66bn and it received €6.75bn, equating to a net contribution of €7.91bn. It is the second-largest net contributor after Germany (€11.95bn), and ahead of France (€6.48bn) and Italy (€5.84bn). The largest net recipients were Poland (€8.17bn), Greece (€3.44bn) and Spain (€3.10bn).

- Member state payments to the budget are described as "own resources", but the European Commission has long sought direct EU-wide taxes to provide budget revenue. In the past it has floated an EU Income Tax and has now proposed that the budget be funded from a European-wide "financial transaction tax" and a new system of EU-wide VAT. This is being resisted by the UK Government and others.

- There can be additional costs to the UK in converting its contributions from sterling to euro and then back to sterling. Converting the contributions from euro to sterling is complicated and exchange rate fluctuations can work for or against the UK.

- The Commission's budget expenditure is divided into five "headings". Sustainable Growth (mainly the EU's Structural Funds) and Preservation and Management of Natural Resources (agriculture and the environment) are the biggest items and will account for 87% of EU spending in 2012. Citizenship, Freedom, Security and Justice (social policy, crime and policing) and the EU as a Global Player (foreign policy) are the smaller items. The Administration heading finances the staff of the European Commission and other institutional expenditure such as that of the European Parliament, the Committee of the Regions, the Economic and Social Committee and various EU agencies and quangos.

- Each year the European Court of Auditors checks on the legality of EU spending and for the last 17 years has refused to give EU spending a "positive statement of assurance" – or sign it off.

- We do have the power to veto the MFF, but doing this comes with risks attached. Indeed, in the absence of new ceilings being set under a new MFF, this could result in the 2013 budget being used as a basis for future budgets with each year's budget from 2014 being decided by QMV.

- The European Parliament also has a veto over a new MFF and has consistently argued for more spending at the EU level. Given the Commission's agenda-setting powers and the Parliament's veto powers, the EU institutions themselves are an obstacle to reforming the budget.

- Other obstacles to reform come in the form of Member States who are net recipients of EU monies. Whilst more Member States are actually net contributors following the 2004 accession of ten extra countries to the EU, this "net recipients bloc" includes Greece, Portugal and the new Central and Eastern EU Member States.

- Other "blocs" also exist that are reluctant to accept reform. For example the vast majority of Member States form a bloc that protects the Common Agricultural Policy from any major changes. With all these vested interests, reform of the EU budget is much easier said than done.

The options for change

➔ The UK could use its rebate to negotiate a reduction in the budget overall.

➔ Currently the UK Government's position is a non-combative one, building consensus around a budget freeze (although allowing for inflation). The UK could be more ambitious and push for more radical reforms.

There are a number of important factors that should give the UK cards to play in these negotiations: We are one of the largest net contributors to the EU budget, even after the rebate is taken into account; the EU accounts have not been signed off for 17 years; and we could veto any proposals for the 2014-2020 multi-annual financial framework.

➔ Other Fresh Start Paper Green Chapters have suggested ways in which individual sectors of the EU budget can be reformed. If suggested Fresh Start reforms were bought in for just the Common Agricultural Policy and Structural Funds segments of the budget, the UK could roughly reduce by half the fiscal cost of our membership of the EU.

➔ The UK could negotiate changes to rid the budget of funds for NGOs, pressure groups and taxpayer funded lobbying.

➔ The UK could negotiate to stop using the Strasbourg seat of the European Parliament or to remove a number of quangos, such as the Committee of the Regions and the Economic and Social Committee.

➔ The UK could repatriate EU international development monies to DFID.

➔ The UK could refuse to pay any contributions until significant progress towards reform is achieved.

The introduction

In June 2011, the Commission tabled its proposal for the shape and size of the 2014 – 2020 long-term EU budget. Overall, this represents a 5% increase, or 3.2% in real terms.[156]

In April 2012, the Commission tabled its proposal for the 2013 annual EU budget, which will increase payments by 6.8% compared to 2012. This is at a time when some UK departmental budgets are facing cuts of up to 20%.

The negotiations over both are due to be completed later this year, although in the absence of an agreement, those concerning the long-term EU budget could drag into next year. Whatever happens, there is not much time for the UK and other reform-minded Member States to push through an alternative to the status quo.

Each year the European Court of Auditors checks the legality of EU spending, and for the last 17 years has refused to give it a "positive statement of assurance" – or sign it off.

The detail

The EU budget finances the EU institutions and provides funding for the execution of EU policies across a range of areas, from foreign policy to farming. The budget is primarily funded through what is called 'own resources'. These funds from Member States can be broken down into three sources: payments from national governments based roughly on each Member State's Gross National Income (GNI); a levy on national governments on their income from VAT; and customs duties on imports from outside the EU, as well as levies on sugar production. These account for around 99% of EU budget revenue. Contributions from non-EU states to certain programmes, and fines on companies for breaching EU law, account for the rest.

Each annual EU budget is based on spending rules which apply across a seven year framework period, known as a multi-annual financial framework (MFF). The budget is divided into commitments and payments; commitments are funds earmarked in the relevant year for certain purposes, while payments are funds actually meant to be paid out that year.

The budget is broadly divided up into five headings:
Sustainable Growth (mainly the EU's Structural Funds) and Preservation and Management of Natural Resources (agriculture and the environment) are the big two areas of spending. Citizenship, Freedom, Security and Justice (social policy, crime and policing), EU as a Global Player (foreign policy) and Administration are smaller areas of spending.

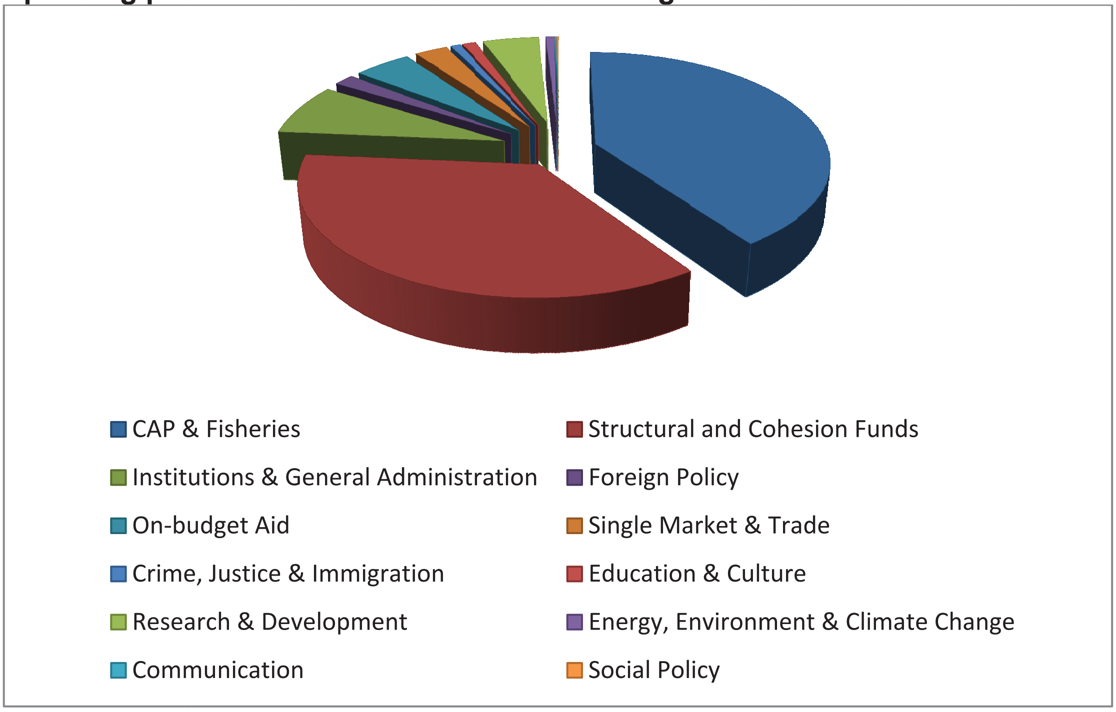
These are then split across a range of more specific budget lines and/or policy objectives such as research and development, education, media, culture, and transport.
Between them, the Sustainable Growth and Preservation and management of natural resources account for the overwhelming bulk of EU spending - 87% in 2012.

Throughout this year, the EU will be negotiating both the annual budget for 2013 and, more importantly, the next seven-year financial framework, which will run from 2014 to 2020 and will essentially dictate the funding ceiling over this period.

[156] When additional spending the Commission has moved outside the MFF is included, total EU spending is set to increase by just over 5% in real terms. HM Treasury has suggested that the Commission's proposal amounts to an increase of over 10% if 2011's annual budget is taken as a reference year. See 'UK Government position on the Commission's financial perspective proposal', Letter from Justine Greening MP to the Chairman of the House of Lords European Union Select Committee, 25 July 2011; http://www.parliament.uk/documents/lords-committees/eu-select/cwm/CwMSelectJun11-Nov11.pdf.

The EU budget funds sectors of the economy that reflect a 1970s legacy rather than the globalised world of 2012. These sectors continue to be funded due to the large number of vested interests there are in them, meaning that massive agricultural payments outweigh the demands of measures design to boost growth and research and development.

Spending priorities under current EU 2012 Budget



Where We Are

In June 2011, the Commission tabled its proposal for the shape and size of the 2014 – 2020 MFF. The Commission's total proposed budget amounts to €1,025bn in commitments and €972.2bn in payments.

In April 2012, the Commission tabled its proposal for the 2013 annual budget, which will freeze commitments at the level of inflation (2%), but increase payments by 6.8% on this year. The UK's gross contribution to the EU Budget in 2010 was €14.66bn and it received €6.75bn, equating to a net contribution of €7.91bn. It is the second-largest net contributor after Germany (€11.95bn), and ahead of France (€6.48bn) and Italy (€5.84bn). The largest net recipients were Poland (€8.17bn), Greece (€3.44bn) and Spain (€3.10bn).

There can be additional costs in converting the UK's contributions from sterling to euro and then back to sterling. Converting the contributions from euro to sterling is complicated and can therefore work for or against the UK because payments are made in sterling in monthly instalments based on a fixed exchange rate, while the receipts are paid in euro at irregular intervals subject to a market exchange rate. The Government does not have a central exchange rate risk mitigation mechanism, but Government departments and agencies may make individual arrangements to mitigate this risk.[157]

The negotiations over both are due to be completed later this year, although in the absence of an agreement, those concerning the MFF could drag into next year. Whatever happens, there is not much time for the UK and other reform-minded Member States to push through an alternative to the status quo.

[157] See Mark Hoban MPs Written Parliamentary Answer, 14 June 2012, Hansard Column 558W; http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120614/text/120614w0002.htm#12061456000025.

Currently the UK Government has three stated objectives for the 2014-2020 MFF:

- Protecting the UK rebate from further reduction,
- Freezing the overall size of the budget,
- Achieving reform through ‘downward pressure’. The argument goes that with less money available, the cash raised must be spent better and show better value for money.

There are signs that this strategy is producing some positive results, as other net contributors have joined the UK in calling for an inflation-linked freeze to the EU’s long-term budget. However, the Coalition Government has softened the UK position compared to its predecessor. It has backtracked on Labour’s pledge to focus the Structural Funds exclusively on the EU’s poorest Member States, and it appears to have abandoned ambitions of reforming the Common Agricultural Policy, in favour of the objectives listed above.

Previous unsuccessful attempts at change may have given rise to ‘reform fatigue’. However, the danger is that the current narrow focus of the UK’s negotiating team will squander a unique opportunity for EU budgetary reform.

What If Nothing Is Agreed?

According to the EU treaties, if no agreement on the next MFF has been reached by the end of the current long-term budgetary period (in this case, by the end of 2013), “the ceilings and other provisions corresponding to the last year of [the current] framework shall be extended until such time as [the next framework] is adopted.” This means that the spending limits agreed for 2013 would continue to apply in 2014, albeit with an adjustment to maintain “constant prices”, which amounts to a fixed 2% increase every year, as set out in an agreement between the Commission, the Council and the European Parliament (EP).

Interestingly, this agreement also states that the current MFF can be “expressly terminated” by either the Council, the EP or the Commission, meaning it would no longer be carried forward in the absence of a new framework being agreed. Instead, the Commission would propose annual budgets as now, but without the ceilings imposed by the MFF. These budgets would be decided according to the annual budget procedure – that is, by Qualified Majority Voting (QMV) in the Council and by majority vote in the EP.

This obviously has massive implications for the negotiations, since it effectively decides how much leverage a reform-minded country has through the *threat* of vetoing a budget deal, as it means that a country might veto negotiations on the MFF, only to find a more expensive path is taken via annual budgets.

The exact procedure for terminating the current MFF is uncertain; indeed, this would be completely new territory for all involved and it would be a huge, possibly reckless, political gamble on the part of the European Parliament, the Commission or other Member States. Given that the vast majority of Member States would not welcome such a scenario, it is not something that should be perceived as an obstacle to the UK adopting a robust negotiating position. Thus, there is a great opportunity for the UK in these negotiations.

As QMV applies to the adoption of annual budgets, proposals for such budgets can be halted if a ‘blocking minority’ of Member States is opposed. Different Member States have different voting weights under QMV[158], but numerous Member States are usually required to form a blocking minority. If a proposed annual budget is blocked and a new budget for the relevant year is not adopted, the EU treaties provide that the EU can spend the same amount that year as was permitted under the previous year’s budget. In other words, there would be a cash freeze, but EU spending would continue.

[158] The system of QMV will alter from November 2014. Currently it is only loosely based on population size; from November 2014, it will be based predominantly on each Member State’s population.

If the 2013 annual budget is not agreed, the 2012 budget is divided by twelve and as each month goes past without agreement, a twelfth of the 2012 amount is paid to the Commission.

Savings To Be Made

As the Fresh Start Green Paper has already suggested various ways of reforming the budgets for the bigger ticket items of the Common Agricultural Policy and Structural Funds, they will not be repeated here.
Other areas of spending which could be reformed include the amount of money spent on the EU institutions and within general administration. These areas have a budget in 2012 of €11bn and include:

The EU Commission / General Administration *(Total EU Spending in 2012: €5.78bn)*

By far the biggest of the EU institutions is the European Commission, the EU's executive, which puts forward legislative proposals for consideration by the Council and EP. Its other responsibilities include implementing policies, managing the day-to-day running of the EU, and representing the EU abroad (along with the European External Action Service). For this reason, the Commission's activities carry a heavy administrative burden.

The Commission employs over 33,000 staff in total. In light of the economic climate, the Commission has announced it will cut 5% of its staff over five years, but following Croatia's accession to the EU, its overall cut proposed for 2013 amounts to just 0.5%, or 121 posts. This is despite the fact that Member States are making considerable reductions in public sector posts. Greece is removing a total of 150,000 public sector jobs over the next three years, and according to figures from the ONS, between March 2010 and March 2011 UK civil service employment fell by 6%, or 29,051 posts.

European Commission staff enjoy high salaries and generous pension schemes. The starting salary for a permanent Commission official is €31,850, reaching €220,450 for the highest paid officials. New employees are entitled to a 16% share of their annual salary to account for the costs of moving to Brussels. Between 2005 and 2012, spending on salaries rose from €1.7bn to €2.1bn, a 17.5% increase. Although overall spending fell in 2010, this is most likely due to the disbanding of the Commission's DG for External Relations in order to set up the European External Action Service, which is accounted for as a separate institution.

Commission staff are eligible to receive their pensions, which are capped at 70% of final salary, from the age of 63. Officials contribute 1.9% of their salary to their pension scheme every year. Commission spending on pensions increased by 33% over the past six years, and currently totals €1.3bn.

In 2012 the European Commission is set to spend €169m on so-called 'European Schools', a network of 14 institutions teaching around 22,500 children, mostly those of EU employees. Access for non-EU employee children is conditional on paying average annual fees of €13,045, and sufficient availability of school places. EU officials, who receive household and child allowances, do not pay fees.

The Commission spending cuts should at least reflect the savings that are taking place in the UK and government departments across Europe. Allowances and benefits should be scaled back. For example, EU staff wishing to send their children to European schools should be made to pay at least 50% of the fees, which it is estimated could save over €235m.

European Parliament *(Total EU Spending in 2012: €1.7bn)*

Directly elected by citizens of the Member States, the European Parliament's 754 MEPs have the right to amend, pass or veto legislative proposals (together with the Council) in areas where so-called ‘co-decision’ applies. The EP’s powers and competencies have steadily grown, and since the Lisbon Treaty, which entered force in 2009, it has powers of co-decision in most EU policy areas, including the budget. This means that both MEPs and national ministers must reach an agreement before a proposal from the Commission can become law. This applies in crucial areas such as social policy, and environmental and financial regulation.

The EP conducts its operations in three different cities; it has seats in both Brussels and Strasbourg, and a separate office in Luxembourg which houses its Secretariat, responsible for handling its administrative and legal affairs. The majority of MEPs’ time is spent in Brussels, with a monthly commute to the EP building in Strasbourg, which in 2012 will stand empty for a total of 317 days.

The annual cost of maintaining the additional Strasbourg seat is estimated at around €180m. In 2011, the Parliament issued tenders with a combined value of over €62.4m related to the maintenance and upkeep of its Strasbourg base.

MEPs themselves recently voted in favour of a single seat in Brussels by 429 votes to 184. Alas, as the Strasbourg seat is enshrined in the EU treaties, scrapping it would require amendment of those treaties, which would in turn need the unanimous agreement of Member States, which is currently being blocked by France.

Reforms of the EP should include scrapping the second seat in Strasbourg in favour of a single seat in Brussels, and cutting all MEPs’ salaries and allowances, bringing them more in line with the salaries of German and UK MPs. In addition, there would be greater oversight of MEP expenses, with the production of receipts for all expenses becoming mandatory, which is currently the system used by most UK MEPs.

It is a little known fact, but “European Political Parties”, such as the federalist European People’s Party, are funded by the EU taxpayer. If this funding was cut by just 15% it would save €13.2m. At the same time there is funding for “political foundations”, which should be scrapped altogether. The funding rules for parties should also be amended; at present, parties vie for common funds, meaning there is no incentive to cut back on spending, as any left-over money will go to political opponents. Under an individual allocation scheme, parties would not lose out if they chose to refuse some share of taxpayers’ money.

Finally, the European Parliament should eliminate expenditure completely unrelated to the performance of its duties, such as the “House of European History”, a new museum and exhibition centre designed to show post-WWII European history and promote awareness of “European identity”, which is reported to be costing over €100m.

Quangos and Agencies *(Total EU Spending in 2012: €2.48bn, €2.38bn of which from the EU budget)*

EU agencies are distinct from the main EU institutions, and handle specific tasks given to them. They operate across a range of policy areas, from the single market, crime and policing, to areas of scientific research, and their tasks range from information gathering to making key decisions over how EU law should be implemented. There are currently 52 EU quangos. Prior to 1990, there were only three.

The total cost of the whole EU quangos system to European taxpayers now stands at €2.64bn, up a massive 33.2% on 2010. Over 90% (€2.48bn) of this comes from EU Member States, the remainder coming from non-EU countries such as Norway. This year, the UK will pay around €362m, Germany €490m and France €386m.

Some agencies help to facilitate trade in the single market or pool expertise. However, many agencies add little or no value, and duplicate the work of each other, of the core EU institutions, and of national organisations and civil society. For example, there are currently two EU agencies specifically dedicated to human rights, in addition to similar bodies in Member States, the Council of Europe, a specific EU Commissioner for “fundamental rights” and a range of NGOs.

Others have no impact on policy whatsoever. For example, there is no evidence that the €129m a year Economic and Social Committee, an “advisory” body that has existed since the 1950s, has actually altered the outcome of a single EU proposal in recent years.

As an evaluation for the European Commission concluded, the system of EU agencies also “creates an indirect but powerful incentive” to spend taxpayers’ cash. As a result, much of this money is wasted, a great deal on self-promotion activities.

There are a number of agencies which serve no unique purpose and/or duplicate the work of other organisations and institutions at both the EU and Member State level. These could be abolished with virtually no adverse impact on the overall functioning of the EU. These include:

The Economic and Social Committee and the Committee of the Regions[159]*, saving €215.3m,*
The two human rights agencies, saving €27.9m,
The four agencies involved with workplace and employment issues, saving €72.5m,
The European Food Safety Agency, saving €78.1m, and
The Education, Audiovisual and Culture Executive Agency, saving €46.7m

Other agencies should have strict efficiency requirements placed upon them to ensure money is saved.

Other Institutions (*Total EU Spending in 2012: €1bn)*

In addition to the European Parliament, the Commission and its quangos, the EU also has a number of other institutions. The most significant of these is the European Council, which comprises the heads of state or government of Member States and is chaired by an internally appointed President (currently Herman Van Rompuy), and the Council, which consists of Member State ministers and which plays an important role in the EU legislative process. Other notable institutions are the Court of Justice of the EU (ECJ), which rules on EU law, and the European Court of Auditors (ECA), which scrutinises EU expenditure.

The cost of running the office of European Council President Herman Van Rompuy in 2010 amounted to around €6m, including staff, travel expenses and salary. The European Council’s budget overwhelmingly goes towards staff and ‘back office’ functions.

Under the 2010 Comprehensive Spending Review, the UK Government’s Cabinet Office, which is responsible for supporting the Prime Minister and the Cabinet, had its budget cut by 35% in real terms, while support for the office of the PM was slashed by 25%. Savings included *“reducing use of consultants and other external support… a significant rationalisation of its estate and back office services…wider renegotiation of major contracts with leading suppliers to Government…reducing travel costs through the use of more scheduled flights where possible rather than charters…energy efficiency and wider efficiencies.”* This efficiency drive proved hugely successful. Cabinet Office Minister Francis Maude announced that his department had managed to find £3.75 billion of cash savings in just ten months, between May 2010 and March 2011.

Applying just a 25% efficiency target in 2012 to the European Council and all other remaining EU institutions (with the exception of the ECA) would save just under €225m per year.

[159] Though this would require EU treaty change.

The European External Action Service (EEAS) *(Total EU Spending in 2012: €489m)*

The EEAS is the EU's diplomatic body, set up under the Lisbon Treaty to coordinate the EU's foreign policy. It is headed by Baroness Ashton, the EU's High Representative for Foreign Affairs and Security Policy. Under the auspices of the EEAS, there are currently 140 "EU delegations" around the world, in addition to another six permanent delegations to other international organisations such as the UN in New York and the Council of Europe in Strasbourg. Many of these delegations were formed out of delegations the European Commission had itself set up over the years. In the words of the EEAS, the role of these delegations has been to work as the "eyes, ears and mouthpiece of the European Commission vis-à-vis the authorities and population in their host countries".

The EEAS currently has 3,611 staff, of which 1,551 work in Brussels and 2,060 across the global delegations.

When the EEAS was set up it was supposed to be "budget neutral", meaning it would be funded by money taken from other areas of the EU budget. However, in 2010, the EEAS was allocated an extra €9.4m, while another €34.4m was proposed in the first draft of the 2011 budget, although this was later rejected by Member States.

For 2012, the EEAS will be given an extra €26.9m (£22m), although the money has come from the Commission's administrative budget, making it budget neutral. In the Commission's proposed budget for 2013, the budget of the EEAS would increase by 5.7% (€28m).
The EEAS was set up under the assumption that a new institution could override the strongly divergent foreign policies of Member States. The record of the EEAS has in fact been patchy and its impact on foreign policy issues where 'hard power' is required, such as Libya, has been minimal. In foreign policy, the EEAS is limited to action on which all EU leaders can agree. While the EEAS has had some welcome recent successes, such as in Serbia's extradition of Radko Mladic and effectively co-ordinating EU sanctions on Iran, this does not mean that these would not have been achieved through intergovernmental co-operation by the Member States.

EU Aid *(Total EU Spending in 2012: €10.6bn, €6.8bn of which from the EU budget)*

The EU, in its own right, is the world's second largest aid donor behind the US. It spends money on: pre-accession funds for EU enlargement; the European Neighbourhood Policy Instrument (ENPI) for countries in Eastern Europe, the South Caucasus, the near Middle East and North Africa; and the Development Cooperation Instrument (DCI) for countries in Asia, South America, the Middle East and South Africa. The EU also provides humanitarian aid through the European Commission's Humanitarian Aid & Civil Protection Directorate General (ECHO).

The European Development Fund (EDF) is a separate fund outside the EU budget managed by the European Commission. The UK currently funds more or less the same percentage of the EDP as the EU budget. The EDF provides support to African, Caribbean and Pacific (ACP) countries, as well as the EU-designated Overseas Countries and Territories of Member States. The EU is the UK's largest multilateral aid partner, with approximately 18% of the UK's total aid budget spent by the EU each year.

Only 46% of EU aid reached lower income countries in 2009, compared with 74% of UK aid and 58% of EU Member State governments' aid.

In its 2011 multilateral aid review, the UK's Department for International Development (DfID) noted that, while the EDF (€3.8bn a year) has a strong poverty focus (85% of funds are spent in low income countries), more than 85% of the EU's other development aid budgets (€6.8bn a year) are spent in middle income countries. The EDF is rated "strong" on both its contribution to the UK's "development objectives" and on its "organisational strengths", but the rest of the Commission's aid budget is rated "weak" and "satisfactory" respectively on these measures.

The EDF relies on voluntary funding from national governments, which gives Member States much greater power to push for reform and a greater focus on poverty (a key objective of UK aid spending). Contributions to the EU budget's development aid programmes could also be made voluntary. In this scenario, the UK could spend its aid budget directly through DfID rather than the EU, unless there is a demonstrable EU 'value added', in which case it could opt into specific programmes. This would not mean a reduction in UK aid spending, but would simply provide the UK with greater choice and accountability over how its taxpayers' money was spent on aid.

The EU's role could be focused on providing a forum for co-ordination between Member State donors, rather than itself being a '28th donor'. It could serve as an intellectual centre in development issues and work to improve the aid effectiveness of the worst EU donors, by encouraging best practices, benchmarking and monitoring progress. There could also be large savings in administration costs.

Development aid aside, the UK could continue to contribute to the ECHO, which has a relatively strong record in providing humanitarian aid in emergency situations.

Education and Culture *(Total EU Spending in 2012: €1.54bn)*

Since 2005, EU spending on Education and Culture has risen by 61%. This does not include spending on the administrative costs of the Commission's Directorate General for Education and Culture, which have increased by 53.8% over the same period.
The DG for Education and Culture employs 484 staff. This is higher than the number of employees at the DG for Internal Market and Services, which is a core EU policy area.

Despite its high staff count, in 2010 alone the DG for Education and Culture issued tenders for contracts worth up to €4.8m for consultancies and surveys to review its performance and policies.

Funding for Education and Culture projects is partly decided by a committee of "experts" acting on behalf of the Education, Audiovisual and Culture Executive Agency. In 2010, over 850 such experts were employed. The Commission publishes the experts' names, but little else (for example their country of origin or profession) is known about them.

The 2012 budget provides just over €1.5bn for expenditure on education and culture, roughly 1% of total EU spending. The bulk of the spending goes on various educational programmes, the most famous being the Erasmus university exchange scheme. The Commission also spends over €300m on culture and sport initiatives, including support for artistic projects, 'endangered languages', the European film industry and actions to "promote sport among young people in Europe".

Erasmus is seemingly a worthwhile and popular programme. However, the value of most other items in the Education and Culture budget is dubious, and there appears to be plenty of savings to be made.

The Treaty on the Functioning of the EU calls for the EU to "contribute to the flowering of the cultures of the Member States." On its website, the Commission also admits that another explicit objective of the culture programme is to improve the "external visibility" of the EU and to help convince citizens "to give their full support to, and participate fully in, European integration." Any such propaganda spending should be terminated.

Communications *(Total EU Spending in 2012: €135.6m)*

In 2012, the Commission's Directorate General for Communications will spend over €135.6m providing information to citizens and promoting EU policies. This does not include the administrative costs of running the DG, nor does it include a range of other activities that could be considered 'communication', including many that fall under education and culture.

The Commission has offices, or 'representations', around Europe, which cost over €25m to maintain each year. The UK has four European Commission offices employing a staff of 45. The work of the Commission outposts is supplemented by the "Information outlets network", which receive a total of €13.7m to respond to citizens' queries in over 480 offices across the EU.

The European Parliament also has "Parliamentary Information Offices" in each Member State. France and the UK have two and there are offices in both Luxembourg and Brussels, even though they are the home of major European Parliament buildings.

The Commission's budget for subsidising various radio and television stations now stands at €47m – a 150% rise since 2005. A further €14.4m is set aside for online and written information "for the purpose of providing all citizens with general information on the work of the Union institutions, the decisions taken and the stages in the building of Europe". This is spent on the Europa website and the "Europe Direct" contact centre, which provides online answers to citizens' queries. In 2011, the Europe Direct contact centre received just 79,683 enquiries, a decrease of 18.6% on the previous year.

Other "off budget" items *(Total EU Spending in 2012: €1.9bn - not including the EDF)*

The EU also has a number of funding instruments and policy areas funded by Member States on an ad hoc basis or separately from the main EU budget. This includes the European Development Fund, the European Globalisation Adjustment Fund (EGF) and the European Union Solidarity Fund (EUSF).

The EGF is used to support redundant workers, mainly in regions and sectors "disadvantaged by exposure to the globalised economy". The objective is to ensure workers' reintegration into the labour market. While this rationale might be sound, it duplicates the activities of the European Social Fund (one of the EU's Structural Funds) and has come under criticism from, amongst others, the Swedish government, which has called for the fund to be scrapped altogether.

The EUSF exists to provide "rapid, efficient and flexible" assistance to Member States experiencing severe natural disasters. However, the Fund cannot always fulfil its purpose. For example, Italy only received €16.9m in compensation for floods in the Veneto region, 13 months after they had occurred.
Member States' contributions to these funds are roughly proportional to their contributions to the EU budget as a whole.

Significantly, in its proposal for the 2014 – 2020 MFF, the Commission has proposed a further €58.3bn of EU spending outside the official EU budget, a 53% increase compared with the current MFF. In addition to an increase in the EDF, the Commission has proposed setting up a new 'Reserve for Crises in the Agricultural sector', and moving large items of expenditure on research and technology, such as the International Thermonuclear Experimental Reactor project, off the budget on the basis that "the costs and/or the cost overruns are too large to be borne only by the EU budget."

While it may be a very good idea for individual countries to work together on research projects, there seems little value in letting the Commission take charge of such collaborations and compulsorily running them at the EU level.

Stopping taxpayer-funded lobbying

Each year the Commission spends millions of Euros on thousands of different projects and groups that are essentially taxpayer-funded political lobbying.

For example, a huge number of environmental groups are funded through the EU's LIFE+ (Financial Instrument for the Environment) programme. In 2009-2010 these groups received £7.6m.

Among the beneficiaries are: Avalon, which co-ordinates activities and lobbies on behalf of sustainable rural development in the Central and Eastern European regions; Birdlife Europe; CEE Bankwatch; Climate Action Network Europe; Coalition Clean Baltic; Danube Environmental Forum, EUCC – The Costal and Marine Union; Eurogroup for Wildlife and Laboratory Animals; EUROPARC; European Environmental Bureau; European Environmental Citizens Organisation for Standardisation; European Federation for Transport and Environment; European Landowners Association; European Water Association; Federation of Associations for Hunting and Conservation of the EU; FERN; Friends of the Earth Europe; Health & Environment Alliance; International Federation of Organic Agriculture Movements EU Group; International Friends of Nature; International Network for Sustainable Energy; Justice & Environment; Mediterranean Information Office for Environment, Culture and Sustainable Development; NGO Platform on Shipbreaking; PAN Parks; Pesticides Action Network Europe; reuse and Recycling European Union Social Enterprises Network; Sea Alarm Foundation; Seas At Risk; Women in Europe for a Common Future; World Development Movement and World Wildlife Fund (European Policy Office).

There are dozens of different budget lines that fund other NGOs and groups. A number of these organisations spend part of this money lobbying for more EU money in the future.

Greenpeace sets a better example. It says:

"Greenpeace does not solicit or accept funding from governments, corporations or political parties. Greenpeace neither seeks nor accepts donations which could compromise our independence, aims, objectives or integrity. Greenpeace relies on the voluntary donations of individual supporters and on grant-support from foundations."

Amendments could be placed in the 2013 EU budget to stop this sort of expenditure, and measures brought in to ensure it is not reintroduced in the next MFF.

The options for change

The colour-coding used below for possible UK action follows the categorisation for all the Fresh Start Project's Green Paper chapters. Green are those measures that can be achieved within the current EU legal framework; Amber are those measures that require negotiated EU treaty change; Red are those steps that the UK could take unilaterally that would involve breaking its treaty obligations.

The UK could agree to the Commission's 2014-2020 MFF proposal, with some tweaks. It would increase funding in real terms and thus most of the EU institutions and some countries (net beneficiaries) favour this scenario.
However, given resistance from many of the net contributor Member States, an increase of the magnitude proposed by the Commission is unlikely to be agreed. Considering the well documented flaws in the EU budget and the current Eurozone economic climate, the UK could easily resist this proposal.

The UK Government's current strategy is to push for a real terms budget freeze (no increase above inflation) and to defend the UK rebate. The idea is that with less cash in the pot, EU Member States, MEPs and the Commission will have no choice but to prioritise their spending better. While this strategy has the potential to gain support amongst a substantial number of Member States – ten countries have already backed a budget freeze – and is therefore clearly achievable, it also comes with drawbacks.

Firstly, it is biased towards the status quo as the evidence does not suggest that the EU budget responds to downward pressure in the same way that national budgets do. For example, while France and the UK agree on a budget freeze, they fundamentally disagree on where potential savings should be made. It is very unlikely that France will agree to reduce substantially CAP spending, meaning the downward pressure will be negated by the realities of EU politics.

Secondly, given that by simply vetoing the new MFF the UK would, almost certainly, end up with a near identical outcome (the previous framework would be carried over with a 2% increase and the rebate would be preserved), this negotiating stance is little better than the UK's fallback position.

The UK could instead adopt a more ambitious negotiating position to start with. The UK could prioritise and target one key area of the EU budget that it identifies as being in its interest to reform. It could put forward a strong economic case and also threaten to veto the new MFF unless this reform goes ahead.

This negotiating position also has the advantage that the UK would be in a 'no-lose' situation, as even if it were unsuccessful in implementing the reforms and had to resort to the veto, it is very unlikely to suffer real financial losses compared with the current MFF.

Other Fresh Start Green Paper chapters have suggested ways in which individual sectors of the EU budget can be reformed. For example, if suggested Fresh Start reforms were brought in for just the Common Agricultural Policy and Structural Funds segments of the budget, the UK could reduce by roughly half the fiscal cost of our membership of the EU.

Alternatively, the UK could go for a more radical option and threaten to veto the new MFF unless the EU budget is subject to a complete overhaul. The same negotiation logic would apply as under the option above, although based on a starting position with even more ambition. Adopting such an approach would also help to offset any losses that would fall disproportionately on a small number of Member States if there was a focus on only one area of the budget. However, overall this would be far more difficult to achieve unless the UK was prepared for a massive political row with its European partners.

The UK could negotiate changes to the EU treaties to streamline the operation of the European Parliament, for example stopping the use of the Strasbourg seat

Treaty changes would also need to be negotiated to remove some of the EU quangos, such as the Committee of the Regions and the Economic and Social Committee.

Lastly, treaty changes would need to be made to repatriate the use of EU international development monies to DFID

The most radical approach of all would be simply to refuse to pay any further monies to the EU, particularly in the absence of necessary reforms to the EU budget. If, for whatever reason, the UK refused to pay into the EU budget, it would receive no money from it either, and HM Treasury would disperse monies the EU would previously have been given. The UK would be in breach of its EU treaty obligations and therefore likely to face infringement proceedings by the Commission. There would also be considerable political fallout with all the other countries of the EU.