European Community Finances

Statement on the 2004 EC Budget and measures to counter fraud and financial mismanagement

April 2004

HM TREASURY

Cm 6134

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by the Financial Secretary to the Treasury
by Command of Her Majesty

April 2004

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The Licensing Division
HMSO
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

E-mail: licensing@cabinet-office.x.gsi.gov.uk

HM Treasury contacts

This document can be accessed from the Treasury Internet site at:

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For further information on the Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4574

E-mail: public.enquiries@hm-treasury.gov.uk

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Introduction

1.1 In 1980, following a recommendation by the Public Accounts Committee (PAC), the Government agreed to present an annual statement to Parliament giving details of the Budget of the European Communities (EC Budget).

1.2 This Statement is the twenty-fourth in the series. It describes the EC Budget for 2004 as adopted by the European Parliament; and sets out the United Kingdom's gross and net contributions to the EC Budget over the years 1998 to 2003, together with an estimate for 2004. It also includes details of recent developments in EC financial management and the fight against fraud.

1.3 This is the third White Paper to include financial year information previously published in the Departmental Report of the Chancellor of the Exchequer's Departments.

2 THE 2004 BUDGET

The Budget Process

2.1 The annual budget of the European Communities is established by the budgetary authority, which consists of the Council of Ministers and the European Parliament.

2.2 The annual budget procedure begins, usually in May, when the Commission proposes a Preliminary Draft Budget (PDB) for the following year. On the basis of the PDB, the Council makes any necessary amendments and establishes its own Draft Budget in July. This is passed to the European Parliament for its first reading amendments, which are concluded in October. The Budget then returns to the Council in November for the Council's second (and final) reading. The European Parliament makes its second reading in December, after which time the Budget is adopted by the President of the Parliament.

2.3 The Council has the final say on the amount and structure of *compulsory* expenditure, which is defined as expenditure necessarily resulting from the Treaty or from Acts adopted in accordance with it. Spending carried out under the Common Agricultural Policy (CAP) – accounting for 46% of the Budget – and certain small items in other sections of the Budget, including the Loan Guarantee Reserve, is classed as compulsory. The European Parliament has the final say on all other, *non-compulsory*, expenditure.

The Financial Perspective

2.4 Since 1988 the annual budget has been set within a multi-annual expenditure framework known as the Financial Perspective. The Financial Perspective currently sets out annual expenditure ceilings for eight broad categories[1], which must be respected by the budgetary authority when it determines the Budget. The expenditure ceilings are set in terms of maximum *commitments*, i.e. legal expenditure obligations entered into during the year which will lead to *payments* either that year or in future years.

2.5 Then Financial Perspective covering Budget year 2004 results from decisions at the March 1999 Berlin European Council covering EU expenditure from 2000 to 2006, amended at the Copenhagen European Council in December 2002 to take account of the accession of ten new Member States in May 2004. The Financial Perspective is set out in an Inter-Institutional Agreement (IIA) between the Commission, the Council and the European Parliament. A new Financial Perspective will apply from 2007 onwards, on which negotiations will begin this year. See Box 2.1 on Future Financing for further details.

Box 2.1: Future Financing for 2007–2013

On 10 February 2004, the Commission outlined its proposed priorities for the Financial Perspective for the period 2007-2013 in a Communication entitled "Building Our Common Future". The Communication sets out the Commission's thinking for the political priorities of the enlarged EU, the framework and instruments for EC Budget expenditure, and how that expenditure should be financed over the period 2007-2013.

The Irish Presidency discussion of the Commission Communication is being handled in the General Affairs and External Relations Council, with the close involvement of Finance Ministers. The Irish Presidency aims to discuss the Communication at the June 2004 European Council. The Commission is expected to produce legislative proposals in the summer. The Dutch Presidency then hopes to agree "guidelines" for the negotiation by the end of 2004, with a view to political agreement on the package by June 2005.

[1] Agriculture; structural operations; internal policies; external actions; administrative expenditure; reserves; pre-accession aid; and compensations.

Box 2.1: Future Financing for 2007–2013 *(continued)*

The Commission identifies its three priorities for the next Financial Perspective as:

- completion of the internal market so that it can play its full part in achieving the broader objective of sustainable development;
- the political concept of European Citizenship based on the completion of an area of freedom, justice, security and access to basic goods; and
- a Europe that plays a coherent role as a global partner.

The Commission argues that the significance of the challenges identified in its Communication would require substantially increased financing at the EU level. However, it argues that a credible, if not ideal, plan to meet the Union's needs could be drawn up with limited increases in the Budget, within the 1.30% EU Gross National Income (GNI) ceiling for commitments, allowing:

- a phasing-in of spending for the new Member States for agriculture, fisheries and management of other environmental resources and the implementation of CAP and Common Fisheries Policy reform;
- a boost to competitiveness for growth and employment, covering research, education and training, and EU networks;
- the resources required to meet solidarity commitments and focus further on growth and employment post-enlargement;
- fresh action in the area of citizenship, freedom, security and justice; and
- the EU to become an effective neighbour and a stronger global partner in support of the Millennium Development Goals.

The Commission's proposals for spending for 2007-2013: €478bn on sustainable growth; €405bn on preservation and management of natural resources; €19bn on citizenship, freedom, security and justice; €96bn on the EU as a global partner; and €29bn on administration expenditure that is not allocated to policy headings.

The Government does not share the Commission's view. It believes the next Financial Perspective represents a unique opportunity to increase both the effectiveness and transparency of expenditure and to consider how allocations within a limited Budget can best be refocused in support of the Union's Lisbon strategy.

The Government considers that the Commission's Communication has failed to respond adequately to these challenges, and that its proposals are neither realistic nor acceptable. The Government believes that the needs of an enlarged Union can be met by a Budget of 1% EU GNI, as set out in the Prime Minister's joint letter (with the Heads of Austria, France, Germany, Sweden, and the Netherlands) to Commission President Prodi on 15 December 2003.

Since 1984, the UK has had an **abatement**, or refund from the EC Budget, of broadly two-thirds of the difference between its gross contribution to the EC Budget (excluding the money spent outside the EU) and its receipts. It has protected this ever since, for good reason. Over 1995-2002, the UK paid two and a half times more than both France and Italy, even with the abatement. Without it, it would have paid a net amount around 14 times more per capita than France and 10 times more than Italy. The Commission has proposed in its Communication on the next Financial Perspective (2007-2013), a generalised rebate that would apply to all net contributors. The paper does not describe how this would work. However, it is unlikely that this would give a fair result for the UK. The Government believes that the current UK abatement remains justified and necessary to correct for the UK's disproportionate budgetary imbalance, because of fundamental inequities on the expenditure side.

The Own Resources Decision

2.6 The arrangements for financing the EC Budget are set out in the Communities' Own Resources Decision (ORD). The current ORD was agreed in September 2000 and took effect (retrospectively) from 1 January 2002, following ratification by all Member States in accordance with their own constitutional requirements. The ORD sets a ceiling (the Own Resources ceiling), on the amount the Communities can raise from Member States in any one year. This ceiling is currently fixed at 1.24% of EU GNI. Because the Communities are not allowed to save or borrow, revenue must equal expenditure. Budget payments are therefore limited by the amount of Own Resources that can be called up from Member States.

The 2004 Budget

2.7 The 2004 Budget is the first agreed for an enlarged Union of 25 Member States. The Copenhagen European Council in December 2002 marked the completion of enlargement negotiations for the ten acceding countries, paving the way for their accession to the European Union on 1 May 2004. Box 2.2 provides further details on Enlargement and the 2004 EC Budget.

2.8 The 2004 Budget is the first to be presented and negotiated in an Activity-Based Budgeting (ABB) format. This is an important reform, which provides a new framework for making budget decisions that will significantly improve the transparency and effectiveness of Community expenditure. Box 2.3 provides further details on ABB.

2.9 Table 2.1 sets out the amounts established for the 2004 Budget at each stage of the budgetary procedure, which ran from May 2003 to December 2003, and relates these to the Financial Perspective ceilings. (Figures quoted refer to the EU-25 Budget. Tables 1 and 1A of the annex provide figures for previous years' Adopted Budgets and for the 2004 EU-15 Adopted Budget).

Table 2.1: 2004 EC Budget (EU-25 figures)

€ million

Commitment Appropriations	Financial Perspective Ceilings	Preliminary Draft Budget	Council's First Reading Draft Budget	European Parliament First Reading Draft Budget	Council's Second Reading Draft Budget	Adopted Budget 2004	Adopted Budget 2003[1]
1 Agriculture	49,305	46,781	46,621	46,815	46,781	46,781	44,780
2 Structural Operations	41,035	41,035	41,035	41,035	41,035	41,035	33,980
3 Internal Policies	8,722	8,614	8,584	8,674	8,587	8,684	6,901
4 External Action	5,177	5,156	5,096	5,218	5,072	5,177	4,949
5 Administration	6,157	6,086	6,031	6,070	6,039	6,040	5,382
6 Reserves	442	442	442	442	442	442	434
7 Pre-accession Aid	3,455	1,732	1,732	1,732	1,732	1,732	3,386
8 Compensations	1,410	1,410	1,410	1,410	1,410	1,410	n/a
Total Commitment appropriations	**115,703**	**111,256**	**110,951**	**111,396**	**111,098**	**111,301**	**99,812**
Total Payment appropriations	**111,554**	**99,660**	**99,176**	**102,579**	**99,307**	**99,724**	**92,524**
Payment appropriations as a percentage of Community GNI	**1.10**	**0.98**	**0.97**	**1.01**	**0.98**	**0.98**	**1.02**

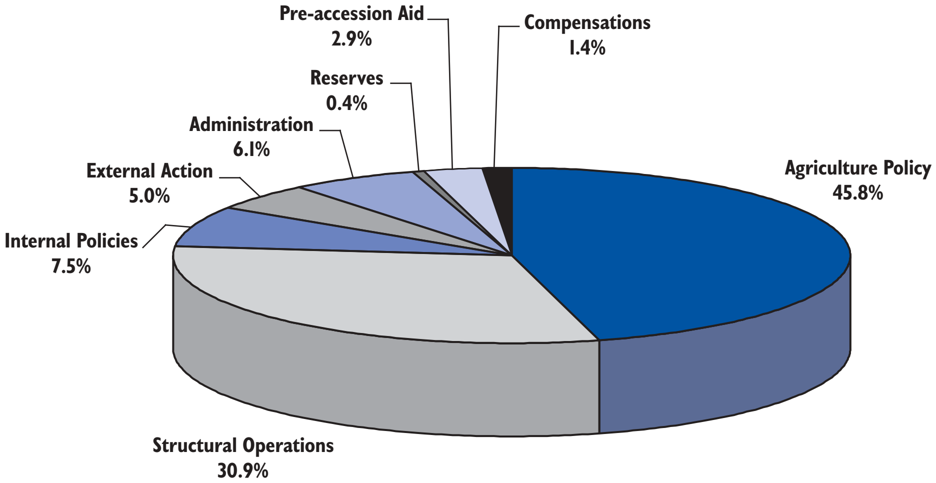
Notes:

[1] Includes affect of Amending Budgets 1, 2, 3, 4, 5, 6 & 7.

Sources: Budget documentation on 2004 Budget for EU-25, but excluding amending Budgets, and 2003 Adopted Budgets.

2.10 The 2004 Adopted Budget provides for commitment appropriations of €111.3 billion (1.09% of EU GNI) or £78.4[2] billion, an increase of 11.5 per cent over 2003 (reflecting the impact of enlargement); and payment appropriations of €99.7 billion (0.98% of EU GNI) or £70.2 billion, an increase of 7.8 per cent over 2003 (again reflecting enlargement). The commitment and payment appropriations are within the limits provided under the Financial Perspective and the ORD respectively. The payment appropriations for each of the seven categories of the budget are shown in chart 2.1.

Chart 2.1: 2004 EC Budget – Payment Appropriations by Budget Category



Source: EC Preliminary Adopted Budget for 2004

2.11 The key changes in the 2004 Budget compared with the previous years are as follows:

- The total budget for **Agriculture** (Heading 1) was set at €46.7 billion, a rise of 4.5% over 2003 (reflecting increases due to enlargement). For Heading 1a (traditional CAP expenditure), a margin of €2.5 billion was established under the Financial Perspective ceiling. Appropriations for Heading 1b (rural development and accompanying measures) were budgeted up to the Financial Perspective ceiling of €6.5 billion.
- As usual, commitments for **Structural Operations** (Heading 2) were budgeted up to the Financial Perspective ceiling (€41.0 billion). This represented an increase of 20% over 2003, of which 19% is due to enlargement. Payments were set at €30.8 billion, 9.3% less than in 2003, reflecting the closure of programmes launched prior to 1999.
- Commitments for **Internal Policies** (Heading 3) were set at €8.6 billion, an increase of (€1.7 billion, or 26%) over 2003. The majority of this increase (€1.6 billion, or 24%) caters for enlargement.

[2] An explanation of the exchange rates used throughout this Statement can be found in the glossary, page 28.

- Expenditure for **External Action** (Heading 4) will not expand due to enlargement. Commitments were set at €5.2 billion, €95 million higher than the Financial Perspective ceiling for this heading, with the shortfall financed by a mobilisation of the *flexibility instrument*. This additional expenditure was largely a result of the need to find €160 million for Iraq reconstruction, which was not allowed for in the Commission's Preliminary Draft Budget. The Budget for the Common Foreign and Security Policy (CFSP) was increased by 21% to €62.5 million. There were significant increases for a number of geographical programmes, notably MEDA (Mediterranean/Middle East) and CARDS (Western Balkans), which received €66 million and €78 million respectively above the original programming for 2004. There were also modest increases above programme for Asia and Humanitarian Assistance.
- The budget for **Administration** (Heading 5) totalled €6.0 billion, an increase of 12.2% over 2003. This included funding for 780 new enlargement-related administrative posts in the Commission. Uniquely, for this heading, the higher EU-25 figures will be in force from 1 January 2004, to allow time for the Community institutions to prepare for the formal accession of the new Member States in May 2004.
- Commitments and payments for **Reserves** (Heading 6) remained unchanged from the PDB at €442 million. This was split equally between the emergency aid reserve and the loan guarantee reserve.
- Expenditure for **Pre-Accession Aid** (Heading 7) was set at €1.732 billion, a reduction of 49% compared to 2003. This reflects the fact that no new commitments could be made to the ten countries joining the EU in 2004, leaving Bulgaria, Romania and Turkey as the remaining recipients of financial assistance from this heading. Payment appropriations were €2.9 billion, to allow for the execution of existing commitments to the new Member States.
- Finally, the 2004 Budget contained a new heading for **Compensations** (Heading 8), with total commitments of €1.4 billion. This was a temporary measure created as part of the financial settlement for enlargement agreed at Copenhagen in December 2002. It was designed to help ensure that no new Member State's net receipts from the EC Budget (after their contribution to budget revenues) would be lower in 2004-06 than in 2003, prior to accession.

Box 2.2: Enlargement and the 2004 EC Budget

Adjustment of the Financial Perspective to cater for Enlargement

On the basis of a Commission proposal, the financial perspective ceilings for the 2004 Budget were adjusted to take account of the financial package agreed for Enlargement at the Copenhagen European Council in December 2002. This adjustment called for agreement with the European Parliament in its role as an arm of the budgetary authority who required that the EU-25 ceiling for Heading 3 (Internal Policies) was increased by a further €480 million (1999 prices) over the period 2004-06. The increase to the Heading 3 ceiling had no immediate policy implications – decisions on Heading 3 spending continue to be taken as part of the annual Budget process. Additionally, even if the additional Heading 3 increase was fully utilised, expenditure in an EU of 25 Member States would remain well below that envisaged at the 1999 Berlin European Council.

2004 Budget

The 2004 Budget process was unique in that two Budgets were negotiated in parallel: a Budget for the existing EU of 15 Member States commencing on 1 January 2004, and a Budget for an enlarged EU of 25 Member States in preparation for the accession of ten new Member States on 1 May 2004. At each stage of the 2004 Budget negotiation, the Commission, Council and Parliament accordingly presented and discussed proposals for both EU-15 and EU-25. (All Budget figures in this White Paper relate to the EU-25, unless otherwise stated).

The final Budget adopted in December 2003 was for the EU-15, pending conclusion of the enlargement process. However, political agreement on the EU-25 figures was reached at the same time. The EU-25 figures will be formally adopted as an Amending Budget by the budgetary authority before the end of April 2004. Following the formal conclusion of the accession process, the EU-25 Budget will then come into force on 1 May 2004.

The total appropriations for enlargement in the 2004 Budget were €11.8 billion for commitments and €5.1 billion for payments representing 10.5% and 5.1% of the total Budget respectively. These figures are fully in line with the settlement on financing for enlargement reached at Copenhagen in December 2002.

New Regulations in 2003

2.12 A number of new or replacement multi-annual programmes came into effect following the passage of relevant legislation (EU Regulations). Such Regulations included indicative multi-annual spending volumes, which were taken into account by the budgetary authority in setting the annual EC Budget. Among the multi-annual programmes introduced in 2003 were:

- a programme for financial and technical assistance to third countries in the area of migration and asylum, running from 2004-2008 with a budget of €250 million;
- the Erasmus Mundus programme running from 2004-2008 with a budget of €230 million, to enhance the quality of higher education and promote intercultural understanding with third countries; and
- a programme for the effective integration of information and communication technologies in education and training systems (known as 'eLearning'), with a budget of €44 million from 2004-2006.

2.13 Additionally, the financial envelopes for existing programmes adopted under co-decision were revisited to ensure sufficient commitments were available to expand the programmes to the 10 states joining the EU in 2004. In total, this added €2.5 billion over the life of the affected programmes.

Box 2.3: Activity Based Budgeting

Activity Based Budgeting (ABB) was introduced in 2002. It was intended to improve the decision making process by ensuring budget allocations more closely reflect pre-defined political priorities and objectives. Just as in the UK – where Public Service Agreements have replaced the old input driven approach – the setting of the EC Budget will be based on clear justification for intervention and evaluation of past performance. It will be linked to SMART (Specific, Measurable, Achievable, Relevant and Time-based) objectives and future performance objectives focussed much more on what can be delivered for EU taxpayers.

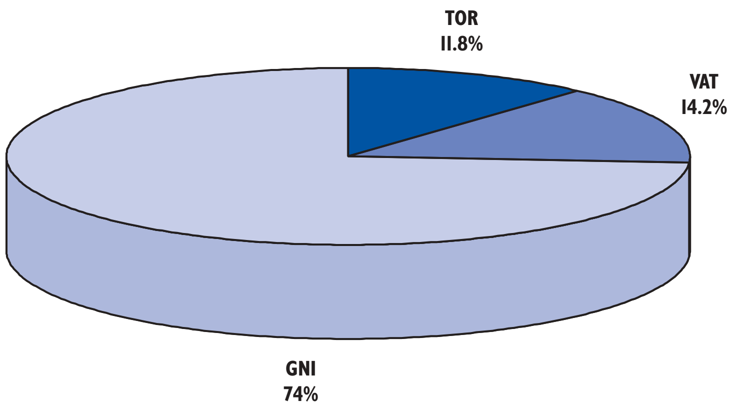
For the 2002 and 2003 Budgets, ABB shadowed the traditional budgeting methodology. The 2004 Budget was presented principally in ABB format, with spending linked to 32 defined policy areas and the traditional format running alongside. As the Commission itself acknowledged, the ABB information provided for the 2004 Budget process was of a mixed standard due to the novelty of the ABB methodology.

The UK will continue to work closely with the Commission and other Member States on improving the implementation of ABB looking towards the 2005 Budget, which will be presented solely in ABB format.

2004 Community Revenue

2.14 The Own Resources Decision allows for four sources of Community revenue, or "Own Resources": customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as 'Traditional Own Resources' (TOR). The VAT and GNI-based contributions are often referred to as the third and fourth resources. A more detailed explanation of these resources can be found in the glossary.

Chart 2.2: 2004 Community Revenue



Source: EC Preliminary Draft Amending Budget for 2004

2.15 Chart 2.2 shows a breakdown of how the 2004 Budget will be financed. Tables 2 and 2a (pages 36 and 37) show the gross contributions, by Member States, after taking account of the UK abatement for 1998 to 2004 inclusive. The key points to note in terms of the UK's contribution are:

- TOR in 2004 is estimated to be around €11 billion (£7.7 billion), with the UK's share estimated as some 22.4%. In 2003, revenue from this source was estimated to be some €10.9 billion (£7.6 billion), of which the UK's share was 22.3%;

- VAT-based contributions in the 2004 EC Budget are shown as €13.3 billion (£9.3 billion), with the UK's share some 16.3%. In 2003, total VAT-based contributions were estimated to be €21.7 billion (£15.2 billion), of which the UK's share was 19.6%;
- GNI-based contributions in the 2004 EC Budget, including potential contributions to Community Reserves is shown as €69.4 billion (£49 billion) of which the UK's share (including potential contributions to Community Reserves) is 17.4%. In 2003, GNI-based contributions were estimated to be €51.3 billion (£36 billion) with a UK share of 18.1%;
- The reduction in VAT-based contributions and increase in GNI-based contributions between 2003 and 2004 reflects the reduction in the maximum call-up rate for the VAT-based resource from 0.75 to 0.50. This reduction was included in the current ORD, see paragraph 2.6, and reflects a move to financing more of the budget from GNI which is considered to better reflect Member States' ability to pay; and
- the estimated value of the UK's abatement in 2004[3] is €4.7 billion (£3.3 billion, compared with €5.5 billion (£3.8 billion) in 2003. A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

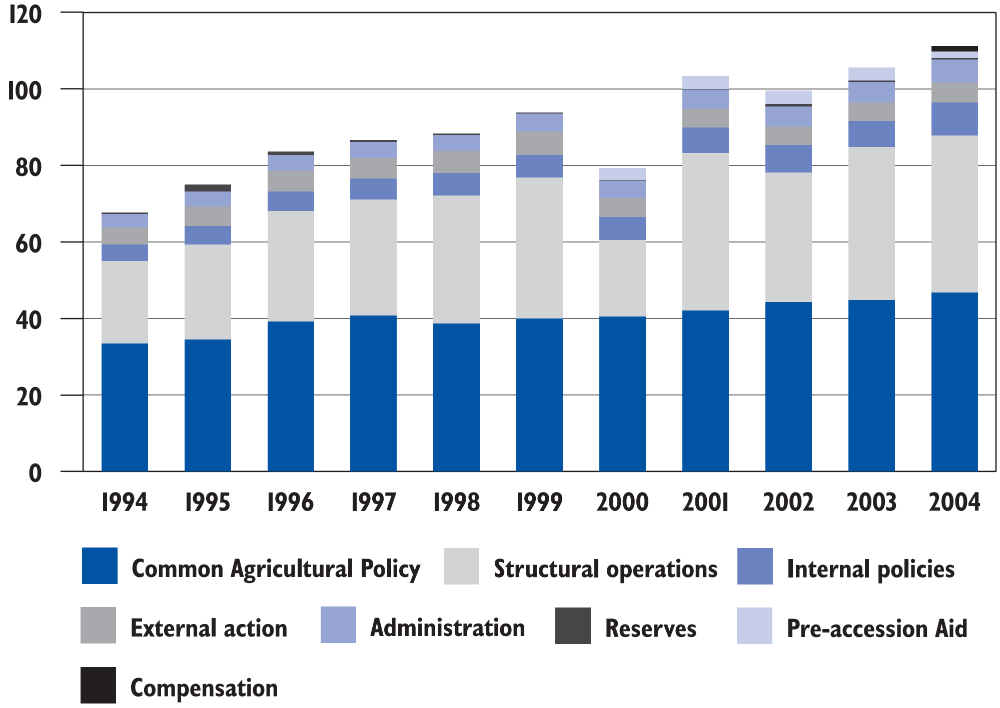
[3] The value of the UK abatement is calculated on the basis of actual spending in the previous year.

3 DEVELOPMENTS IN COMMUNITY FINANCES

Expenditure

3.1 Chart 3.1 shows the developments in Community spending (commitments) over the period 1994-2004. The two most significant trends are the reduction in the proportion of spending on agriculture – which now forms less than half of the total budget – and the simultaneous increase in structural operations expenditure, which has increased to over one-third of the budget since 1996. Certain repayments to Member States (to Spain and Portugal in the early years of membership, or in connection with the depreciation of agricultural stocks) have been discontinued. And two new Budget categories have been created, a category for pre-accession aid agreed at the 1999 Berlin Council, to help candidate countries prepare for enlargement; and a category for temporary compensations agreed at the Copenhagen Council in 2002, designed to help to ensure that the ten accession countries are left no worse off financially in the first three years of joining the EU, than they would have been as candidate countries receiving pre-accession aid.

Chart 3.1: Developments in Community Spending (commitments) 1994-2004 (€ billion)



Source: 1994 – 2000 European Court of Auditor's Report
2001 – 2004 European Community Annual Budgets

3.2 Further details on spending in recent years are given in Tables 1 and 1a (page 35). These show commitments and payments for the years 1999-2004. They also show the main spending programmes broken down by Financial Perspective category.

3.3 In June 2003, the Agriculture Council agreed a reform package for the CAP covering the period 2007 to 2013. The main elements are decoupling payments from production and making subsidies contingent upon compliance with environment standards. Box 3.1 provides further details on this new reform.

Box 3.1: 2003 Reform of the Common Agricultural Policy

In June 2003, the EU Council of Agriculture Ministers agreed a reform package for the CAP. The package covered many of the principal sectors, and its main elements, which mostly take effect from 2005, include:

- decoupling – breaking the link between subsidies and production in order to reconnect farmers to their markets and reduce damaging environmental impacts; and
- cross-compliance – to make subsidies dependent on meeting minimum environmental standards.

The Brussels European Council of 24-25 October 2002 set annual ceilings on the total market-related expenditure and direct payments in an EU of 25 for the period 2007-13. The 2003 CAP reform package introduced a financial discipline mechanism, to apply starting with the 2007 EC Budget, whereby direct payments to farmers will be cut, if necessary, to ensure that these spending ceilings are not exceeded. The ceilings are:

(€ million, current prices)

2007	2008	2009	2010	2011	2012	2013
45,759	46,217	46,679	47,146	47,617	48,093	48,574

The Government continues to be a leading advocate of further CAP reform, in particular to extend decoupling to the remaining sectors and to improve market access for developing countries.

3.4 The Inter Governmental Conference (IGC) will consider possible changes to the EU Budgeting process. The Government's position on the IGC is set out in "A Constitutional Treaty for the EU", a White Paper, published in September 2003. Box 3.2 provides summary details concerning the EU Budget.

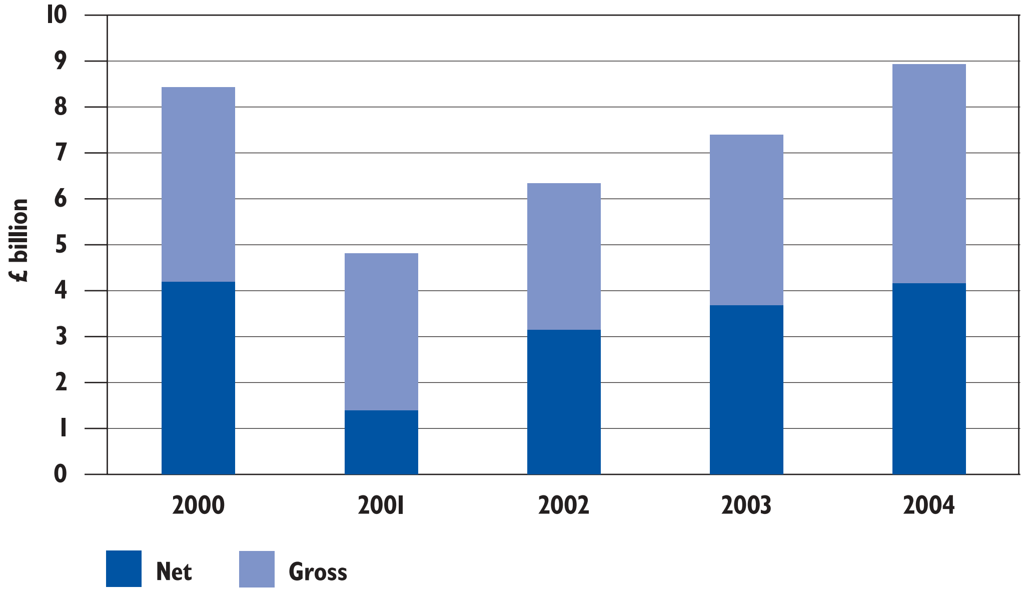
Box 3.2: Inter Governmental Conference

The IGC will consider changes to the EU's budgeting process. The draft Constitution contains a number of improvements in the Budget process. The UK argued for these changes during the Convention. For example, providing a legally binding basis for Multi-annual Financial Framework (the new term for the Financial Perspective) should help to enhance budget discipline. There are also articles requiring the Commission to produce an annual performance report, alongside the annual financial accounts. This should allow the budgetary authority to assess value for money of new proposals against evaluation evidence of past programmes.

However, as set out in the Government's White Paper on the IGC, the Government will not accept other changes to the budget process. It will insist on preserving arrangements which ensure that revenues remain a matter for Member States and decisions on them subject to unanimity and national ratification.

The UK's Net Contribution

Chart 3.2: Profile of UK Gross and Net Contributions



Note: 2004 is an estimate
Source: HM Treasury

3.5 The UK's net contribution can vary considerably from year to year (see chart 3.2) as the result of a number of factors: variation in payments made due to the nature of the ORD (see Technical Annex I); variations in public sector receipts; and as a result, fluctuations in the UK abatement (see glossary). Table 3.1 gives a breakdown of the UK's contributions to, abatement value, and public sector receipts from, the EC Budget for calendar years 1998 to 2004. The figures for 2004 are estimates; those for earlier years are outturn. Table 3 (page 38) annexed gives a more detailed breakdown.

Table 3.1: Gross payments, abatement and receipts (Calendar Years)

£ million

	1998 Outturn	1999 Outturn	2000 Outturn	2001 Outturn	2002 Outturn	2003 Outturn	2004 Estimated outturn
Gross payments[1]	10,090	10,287	10,517	9,379	9,438	10,966	11,687
Less: UK Abatement	–1,378	–3,171	–2,085	–4,560	–3,099	–3,559	–2,756
Less: Public sector receipts	–4,115	–3,479	–4,241	–3,430	–3,201	–3,725	–4,766
Net contributions to EC Budget[2]	**4,597**	**3,638**	**4,192**	**1,389**	**3,138**	**3,682**	**4,165**

Notes:

1. Gross payment figures include Traditional Own Resources payments at 75%, 90% prior to March 2002. The remaining 25%, 10% prior to March 2002, is retained by the UK to cover the costs of administering collection on behalf of the European Community.

2. Due to rounding, totals may not exactly correspond to the sum of individual items.

Source: HM Treasury

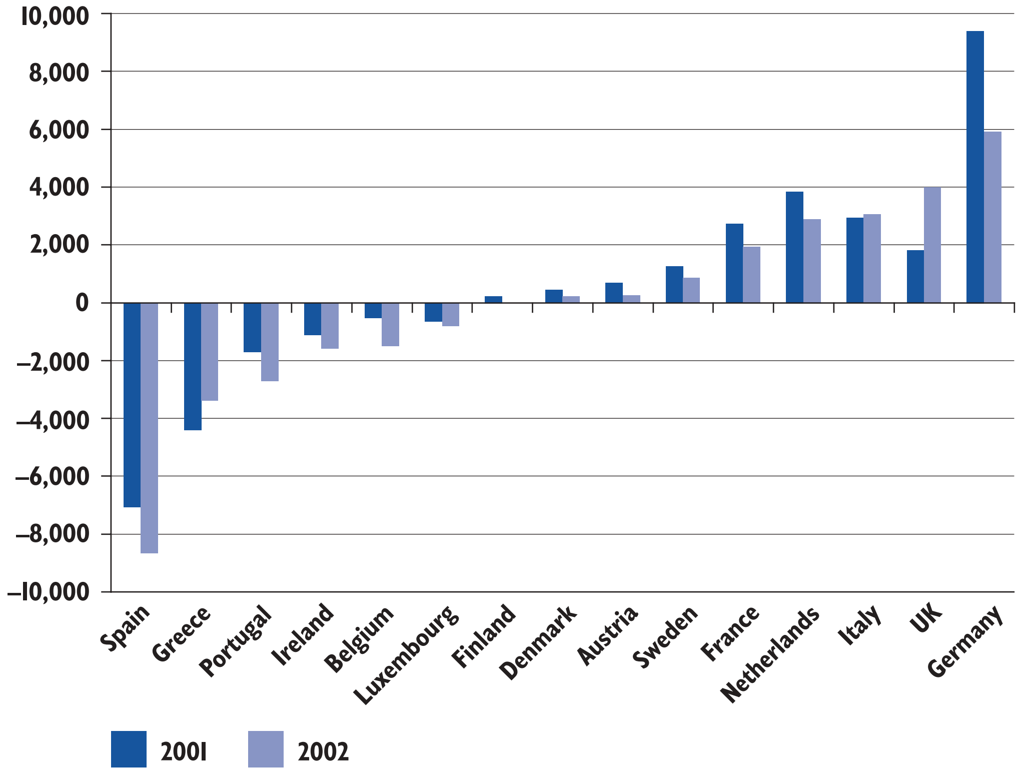
3.6 UK public sector receipts in 2004, mainly from the Agricultural Guidance and Guarantee Fund (EAGGF) and the Social and Regional Development Funds, are expected to be around £4.8 billion. The majority of these receipts will either be paid to the private sector or used in its support.

3.7 The Community pays some monies direct to the private sector. In 2004 these receipts are expected to be around £425 million. As these payments go direct to the private sector, they do not appear in Public Sector accounts and thus do not appear in Tables 3.1, 3.2 and 3.3 or in Table 3 (page 38).

3.8 The UK's net contribution in 2004 is forecast to be some £4.1 billion, compared with an outturn of some £3.6 billion in 2003.

3.9 Chart 3.3 shows how the UK's net position compares with that of the other Member States in 2001 and 2002. In 2002, the UK was one of nine net contributors to the EC Budget. Germany was the highest net contributor, paying almost 1.5 times as much as any other Member State. The UK, Italy, the Netherlands, France, and Sweden were other significant net contributors in 2002.

Chart 3.3: Net Receipts/Contributions of Member States in 2001 and 2002 € millions



Source: Based on data published in the European Commission Report on the Allocation of 2002 EU Operating Expenditure by Member State

Financial Year Transactions

3.10 The Community financial year runs to 31 December (calendar year) whereas the UK's runs to 5 April.

3.11 Table 3.2 gives a breakdown of the UK's transactions with the European Communities on a financial year basis, between 1998-1999 and 2003-2004 (estimated outturn). This table also includes future plans for 2004-2005 and 2005-2006. Table 3.3 provides a breakdown of UK receipts from the EC Budget over the same period.

Table 3.2: Gross payments, abatement and receipts (Financial Years)

£ million

	1998-99 Outturn	1999-2000 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Estimated outturn	2004-05 Plans	2005-06 Plans
Gross payments[1]	10,507	9,207	10,640	9,213	9,737	11,372	11,345	14,238
Less: UK Abatement	–2,447	–2,206	–2,223	–4,427	–3,233	–3,874	–3,283	–5,651
Less: Public sector receipts	–3,950	–3,676	–4,099	–3,309	–3,424	–4,203	–4,756	–4,293
Net contributions to EC Budget[2]	**4,111**	**3,325**	**4,318**	**1,477**	**3,080**	**3,295**	**3,306**	**4,294**
Contributions to reserves and capital of the EIB	—	—	—	—	—	—	—	—
Grants received from European Coal and Steel Community	:	:	:	–1	—	—	—	—
Payments to EC budget attributed to the aid programme[3]	–520	–519	–584	–635	–806	–868	–603	–607
Net payments to EC institutions (excluding Overseas Aid)[2]	**3,590**	**2,807**	**3,734**	**841**	**2,274**	**2,427**	**2,703**	**3,687**

Notes:

: This signifies receipts of less than £0.5 million

1. Gross payment figures include Traditional Own Resources payments at 75%, 90% prior to March 2002. The remaining 25%, 10% prior to March 2002, is retained by the UK to cover the costs of administering collection on behalf of the European Community.

2. Due to rounding, totals may not exactly correspond to the sum of individual items.

3. For domestic/public expenditure planning purposes, part of the UK's contribution to the Community Budget is attributed to the overseas aid programme. The aid programme also includes payments to the European Development Fund, not included here.

Source: HM Treasury

Table 3.3: Public Sector Receipts from the EC Budget (Financial years)

£ million

	1998-99 Outturn	1999-2000 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Estimated outturn	2004-05 Plans	2005-06 Plans
Agricultural Guarantee Fund	3,028	2,456	2,647	2,631	2,548	2,518	2,806	2,682
Agricultural Guidance Fund	52	103	35	18	2	33	75	54
Social Fund	511	698	523	146	501	537	711	647
Regional Development Fund	348	411	887	501	359	1,059	1,081	839
Other Receipts	10	7	7	14	13	56	83	71
Total	**3,950**	**3,676**	**4,099**	**3,309**	**3,424**	**4,203**	**4,756**	**4,293**

Notes:

Due to rounding, totals may not exactly correspond to the sum of individual items.

Source: HM Treasury

3.12 Net payments to EC institutions in 2003-04 are estimated to be £0.9 billion higher than in the Pre-Budget Report, largely because of changes in the timing of payments. The payments for the Commission's calendar year budget period are scheduled on a monthly basis, but the Commission can ask for earlier payments and this accounts for about £0.7 billion of the higher estimated payments in 2003-04. Payments for the rest of 2004, which will all fall into 2004-05, will be lower by the same amount. In order to improve the clarity of the forecasts, all the forecasts for net payments are now on a 'spot' basis. Previously, forecasts beyond the current year were on a 'trended' basis, which was designed to smooth out fluctuations over the forecast period. 'Spot' forecasts should give a much better indication of actual payments within a year, especially when there are timing and other factors affecting particular years.

Comparison Between The Government's and the European Commission's Figures for the UK's Net Contribution

3.13 In accordance with a commitment to the PAC, Technical Annex II gives an account of the main factors for the differences between the Government's own figures and those which can be derived from the European Commission Report on the Allocation of 2002 Operating Expenditure.

4 FINANCIAL MANAGEMENT AND ANTI-FRAUD ISSUES

European Court of Auditors' annual report on the 2002 Budget

4.1 The Latest Annual Report and Statement of Assurance from the Court of Auditors related to implementation of the Budget for the financial year 2002, and was published in the Official Journal on 28 November 2003. As usual, the report covered the main areas of the Budget – own resources, agriculture, structural funds, internal policies, external and pre-accession aid, administrative expenditure, and financial instruments and banking activities. The Court also included a new chapter which gathered together comments on budgetary management throughout all sectors.

4.2 Technical Annex III gives details of the European Court of Auditors (ECA) and its requirement to publish an annual report on the Commission's implementation of the general Budget, as part of the discharge process.

4.3 The Court noted that progress continued to be made with the implementation of Commission reform, in particular with the putting into place of procedures and mechanisms required by the new Financial Regulation, which entered into force on 1 January 2003. These included:

- the increased delegation of the responsibility of authorising officers;
- the introduction of a central internal audit service;
- establishment and application of internal control standards (although the Court noted that these had still to be applied successfully in all Commission Directorate-Generals);
- establishment of key performance indicators; and
- introduction of activity-based management.

4.4 The Court also commented on the issues raised by the impending enlargement of the European Union. It considered that the Commission's policy of decentralisation (delegation of the management of funds to accession and candidate countries) provided a good basis for the new Member States' administration of shared management of agriculture and structural funds, once they become members. However, setting up the required financial management and control structures has taken longer than expected and had led to delays in the approval of projects and the payment of funds.

Box 4.1: Commission Reform

Progress was made in 2003 on three major strands of the Commission Reforms:

- the publication of the second set of Annual Activity Reports – an important part of the cultural change, which required the Commission to set objectives and evaluate achievements against them;
- the new Financial Regulation which came into force on 1 January 2003 which will improve accountability by making authorising officials responsible for their financial decisions. It also provides for modernisation of the Commission's accounting systems (see box 4.2), the introduction of objective-setting and evaluation into the budgeting process, and backs up all budgetary rules with clear and prudent financial principles; and
- the completion of negotiations on the new terms and conditions for EU civil servants. This will overhaul the complex systems of pay and allowances, as well as modernising the career structures and disciplinary codes, thereby helping to reinforce the radical management change agenda that is underway in the Commission and other institutions. It also includes a significant reform of the pension system, in line with the Lisbon agenda on active ageing: this involves increasing the pension age from 60 to 63, increasing the length of service needed before the full pension can be gained, and increasing employee contributions to the pension in line with regularly updated actuarial assessments.

European Court of Auditors' Statement of Assurance

4.5 As in previous years, the ECA has given a positive opinion on the reliability of the accounts and on the legality and regularity of revenue, commitments, pre-accession aid and administrative payments. But, for the ninth successive year, it declined to give a positive opinion on the legality and regularity of other payments, because of the persistence of errors affecting their amount, reality or eligibility (see Technical Annex III).

4.6 The Court again gave an assessment for each Budget sector in the context of the Statement of Assurance:

- **Own resources (revenue):** the Court had some doubts on the reliability of the VAT statements produced by the Commission and provided to the Commission, and disagreed with the Commission's and some Member States' interpretation of the procedures for maintaining the "B" accounts (which record amounts of customs duties which are not secured, or which may be under dispute). However, the Court concluded that transactions were on the whole legal and regular;
- **CAP:** the Court considered that payments had been materially affected by errors, although arable crops were less exposed to risk than animal premiums. Payments subject to the Integrated Administration and Control System (IACS) were also less prone to error;
- **Structural measures:** in spite of improvements in supervisory systems and controls, especially at Commission level, the same types of errors occurred in Member States at much the same frequency of previous years;
- **Internal policies:** transactions were still affected by significant errors, which were likely to persist in the research framework programmes, unless the rules were revised;
- **External action and pre-accession aid:** irregularities still persisted and the Court believed that the supervisory systems and controls in the accession, candidate and third countries were not yet sufficient;

- Administrative expenditure: the Court found some weaknesses in the operation of supervisory systems and controls in the institutions audited, but concluded that transactions were not affected by material errors; and

- Accounting principles and practices: the Court made the same criticisms as in previous years about the Commission's failure to remedy weaknesses in its accounting systems, but noted that the Commission had now adopted an action plan to modernise the European Communities' accounting system.

Box 4.2: Accounting Reform

The ECA has voiced concerns repeatedly about the Commission's accounting system, in particular the reliability of the balance sheet. The project to modernise the accounting system was set up in response to these concerns and has two main objectives:

- compliance with internationally accepted accounting principles for the public sector, in particular the introduction of accrual accounting by 2005; and
- integration of financial and accounting systems, currently held on different software platforms.

The modernisation project is on track and the Commission believes that the 2005 objective remains feasible, though very challenging. Specifically:

- the preparation of the accounting standards and principles is well advanced, not least because the Commission has learned from comparable public sector entities that have gone through the process before. The Commission also found that the task of valuing their assets and liabilities proved relatively straightforward; and
- the successful integration of the accounting system by 2005 depends critically on the successful testing of the software. The SAP software, already used by the central accounting function, will be extended to and integrated with other current systems. The minimal, evolutionary approach is expected to minimise risks.

As part of their management of the project, the Commission provides the budgetary authority with quarterly updates on progress. This is a significant project, which, if successful, will address many of the ECA concerns. It will also introduce an accounting system that is more up to date than those in most EU Member States.

Council recommendation to the European Parliament

4.7 The Council's recommendation to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2002 Budget was discussed by ECOFIN on 9 March 2004. As in previous years, the Council recommended that the Parliament grant discharge. But its recommendation was accompanied by detailed comments that criticised financial management in some of the areas discussed and called for improvements. The Council's approach, as in the past, has been to work constructively to bring about improvements reflecting an awareness that failings lay not only with the Commission, but also with all those who have a part in the administration of the Budget (i.e. including the Council, the Member States and the European Parliament). The Council had a number of recommendations for the Commission, for itself, for the Member States and for the ECA.

4.8 The Council's recommendations included that:

- the process of implementing internal control standards in all Directorate-Generals should be speeded up;
- the Commission should continue its co-operation with Member States to promote good practice, as regards recovery procedures in own resources and to improve control systems on the collection of VAT;
- an appropriate balance should be achieved between improving supervisory checks in agriculture and the need for continued simplification and streamlining of procedures;
- the Commission should improve the co-ordination of the management of the structural funds and ensure consistent interpretation of legislation; and
- lessons learned from the closure of the 1994-99 structural fund programmes should be taken into account when preparing the closure of the current programming period.

European Court of Auditors' Special Reports

4.9 A full list of all the Special Reports published in 2003 can be found in the Bibliography section of this White Paper.

European Parliament's report on discharge for 2002

4.10 The European Parliament's Budgetary Control Committee considered the Council's recommendations on discharge and issued its own report, including a number of detailed recommendations. The European Parliament is due to vote on discharge before the end of April 2004.

UK Government response to the European Court of Auditors

4.11 The UK Government argued in 1995 in favour of a procedure for Member States to make responses to the ECA on the observations about them in its reports. This has become established procedure, and the Commission now requests Member States to comment also on general issues in the report. A copy of the UK response is always sent to both Houses of Parliament.

4.12 As usual, there were some specific criticisms of the UK in the ECA report on 2002. Remedial action has been implemented where necessary, but not all the Court's findings are accepted. Some examples are as follows:

Own resources

Audit finding: in the United Kingdom, the 20-day temporary storage period for cargo arriving by air, before it is assigned to a customs-approved treatment or use, was sometimes exceeded.

Response: the Court's auditors identified a number of consignments over a number of years that had exceeded the 20-day limit. Significant effort has since been made by staff at Heathrow and most examples cited in the ECA report were found to be errors or not to have been shipped. Some consignments remained unaccounted for, and the UK is negotiating an average amount of revenue due per consignment. Training efforts have ensured that staff are now aware of the need to notify Customs when the 20-day limit is about to expire.

Agriculture

Audit finding: a judgement of the European Court of Justice in December 2000 found that the UK had not designated sufficient Nitrate Vulnerable Zones under the 1991 Nitrates Directive.

Response: in October 2002 the Department for Environment, Food and Rural Affairs (Defra) designated additional Nitrate Vulnerable Zones aimed at complying with the judgement. Additional zones have also been designated by the devolved administrations.

Structural Funds

Audit finding: four Member States (including the UK) had failed to send an annual report to the Commission on the application of Regulation 438/01 (covering financial controls in the structural funds for the programming period 2000-2006).

Response: the UK had informed the Commission that no expenditure had been incurred in 2002 and that no financial controls had therefore been carried out.

National Audit Office report on the Court of Auditors' report

4.13 The National Audit Office produces an annual report to Parliament (which in 2004 is expected to be published in May), explaining the findings in the ECA Annual Report and Statement of Assurance and considering other relevant financial management issues.

Annual report on the Fight against Fraud

4.14 The European Anti-Fraud Office (OLAF) (see Technical Annex IV) compiles the Commission's Annual Report on the Fight against Fraud. The report covering the 2002 calendar year was published on 6 August 2003. It included an analysis of irregularities reported by Member States (See glossary, which defines irregularity, and explains how it differs from fraud). The following table compares the totals of cases and amounts involved between 2001 and 2002:

	2001* No. of cases	Amounts (€ million)	2002 No. of cases	Amounts (€ million)
Traditional Own Resources	1,873	239	2,119	325
Agriculture	2,415	140	3,285	198
Structural Funds	1,194	201	4,656	614

** NB Figures shown for 2001 may differ from those published in the 2003 White Paper, as they have since been updated by the European Commission.*

4.15 Care must always be taken in interpreting these figures. A sharp rise may simply reflect the inclusion of figures for one or more long-running cases, which have only just been resolved. For example: the inclusion of figures in the own resources sector from just two cases – the New Zealand butter case in the UK and an Italian butter fraud – caused the figures for 2000 to double. The large increase in Structural Funds amounts reflects the intense audit activity carried out throughout 2002, as the 1994-99 programmes approached final closure. As this activity continued in 2003 (the final deadline for claims was 31 March 2003 and Commission auditors then began a programme of on-the-spot checks), we expect that the figures for 2003 will also be high.

4.16 The report includes a description of developments in anti-fraud policy; reports of certain cases investigated by OLAF; and an update on progress with the Commission's Action Plan for the protection of the financial interests of the Communities and the fight against fraud, 2001-2003. The report also includes, for the third time, a summary of measures taken by Member States, as required by Article 280 of the Treaty.

Box 4.3: Anti-fraud measures in the new Member States and Candidate Countries

In order for the new Member States to make the best use of EU funding and to ensure the protection of the EU's financial interests, effective financial control needs to be in place. But concerns have been raised about the financial control capacity in the new Member States, particularly in those countries where budget control institutions were set up relatively recently.

The new Member States have gone through a concerted programme of institution building over the last decade, learning from the experience of existing Member States. OLAF and the ECA will focus a lot of their attention on these states in the coming years to make sure effective controls are in place. The Commission and OLAF will also play an active role in preparing the new members and candidates for their responsibilities. Examples of progress over the last 12 months include:

- OLAF held a training seminar in Bucharest, Romania for Anti-Fraud Communicators in the Candidate Countries in October 2003 to get the message across that fraud will be treated seriously, will be detected and those committing frauds will be prosecuted;
- Slovenia signed a co-operation agreement covering the prevention of illegal trafficking of cigarettes, sugar, butter, textiles, olive oil and pirated trademark goods, which provides for mutual assistance in the exchange of all important information and documents;
- Estonia's Customs Board has successfully investigated several export frauds involving butter and milk powder exports to EU Member States; and
- Bulgaria set up a Council, chaired by the Minister of the Interior, to co-ordinate the fight against fraud affecting EU financial interests, and to act as a contact point for OLAF.

But where any Member State, new or existing, fails to fulfil its obligations and apply the relevant sectoral rules, the Commission confirmed that it would not hesitate to withhold or revoke funding in that policy area.

OLAF's Fourth report on Operational Activities

4.17 This was published in June 2003, and provides a statistical analysis of OLAF's work. As at 1 June 2003, OLAF had 3,440 cases on its books of which 563 were new cases. The report provides details on each sector, the type of investigation, and the source of information. The total financial impact for all completed investigations amounted to more than 850 million. OLAF's staffing levels increased by 46 to 262 in this reporting period.

European Anti-Fraud Office – Evaluation Report

4.18 When OLAF was set up in 1999, its founding Regulations (1073/99 and 1074/99) required that the Commission submit a progress report after three years. The Commission produced a lengthy report which reviewed OLAF's activities, considered its status as an "independent" service which was nevertheless part of the Commission, and concluded that what was really needed was a European Public Prosecutor. The UK rejects this logic. OLAF's plan for a centralised EU prosecutor would not only be incompatible with UK legal traditions, but is unlikely to be a cost-effective solution.

4.19 The evaluation report made a series of recommendations, mostly with the intention of improving co-operation between OLAF and other Commission bodies, but failed to provide any proper analysis or evaluation of OLAF's performance, compared with its predecessor. Council agreed that the report should be rewritten, to examine the actual results achieved since OLAF's creation, in addition to the aspects linked to the legislative and statutory framework, which the Commission has already considered.

Box 4.4: Eurostat

The fraud allegations concerning Eurostat centre on a bank account in Luxembourg, which was set up in the mid 1990s to hold receipts generated by the sale of Eurostat publications and data.

Eurostat's own internal auditors discovered that at least one datashop (Planistat) had paid its receipts into the suspect "Eurodiff" account rather than to the central Commission accounts. As yet, there is no evidence that these funds were used fraudulently. Eurostat's Director-General, Yves Franchet,was transferred on 21 May 2003 to another position within the Commission at his own request, pending an OLAF investigation.

The Commission stepped in over the heads of OLAF, whose investigation into Eurostat had been criticised for moving too slowly. It announced a series of measures including:

- opening disciplinary proceedings against the three senior Eurostat officials and the replacement of almost all of the senior managers, to help restore confidence;
- all contracts with Planistat were suspended pending ongoing inquiries. Planistat, founded in 1991 in France, is an economic and statistics consultancy that has been contracted by Eurostat;
- Michel Vanden Abeele was appointed on a permanent basis as Eurostat Director-General. Mr Vanden Abeele has acted under the direct authority of Commissioner Solbes; and,
- a multi-disciplinary Task Force was set up to take forward the internal and external sides of the enquiries previously managed by OLAF alone. The Task Force was also charged with carrying out a full-scale administrative enquiry to assess the personal responsibilities of other staff involved with any financial irregularities.

The Task Force concluded that most of the alleged irregularities had their origins before 1999, whilst the period from 1999 to 2003 had been marked by progressive improvements in the management environment at Eurostat. These improvements were closely linked to Neil Kinnock's Commission reform agenda, but also predate it. Indeed, it was the former DG – Yves Franchet – who set up an internal audit unit in Eurostat in the first place, and it was this audit function which identified problems in financial management. The Task Force stressed that they believe there were "genuine efforts" by Eurostat's managers to improve financial management.

This was backed up by the findings of the internal audit service (IAS), which concluded that corrective action had been taken by Eurostat senior management in 1999 and that no evidence could be found of any of the past practices after 1999. But it also concluded that "the lack of control with which [the irregular funds] were managed created an unacceptably high exposure to the risk of fraud and irregularity". The IAS felt that the Commission was ill-equipped to protect itself against the risk of collusion by third parties. It also noted that "there is little evidence of adequate transparency and communication between the former DG of Eurostat and both Eurostat's Commissioner and his management team".

Further measures taken since 1999, such as the adoption of the new Financial Regulation and the introduction of Annual Activity Reports, have enhanced overall protection. But improvements in the financial framework do not in themselves guarantee sound financial management. The other key ingredient is a change of culture, but that takes longer to achieve: it requires some change of staff; the lessons learned from training to take hold; and a realisation that embracing new methods of working is the key to career progression.

The Task Force's main criticism for the period after 1999 was that little use was made of the audit work: in particular that audits were poorly disseminated, and while action was proposed, no formal action plans or timetables were drawn up. It concluded that a full audit of Eurostat would be required to judge whether the current systems and procedures were now sufficient. The IAS also noted that the Commission needed to address why crucial audit reports were not shared in their entirety with the whole of the management, nor with the political authorities.

The Commission has also introduced proposals for the reform of OLAF. These are intended to ensure that communication is improved between OLAF and the Commission, and that OLAF resources are targeted at the highest priority investigations.

GLOSSARY

Agenda 2000 The Agenda 2000 package included the new IIA and financial perspective, together with reforms to the CAP and structural and cohesion funds, and new pre-accession aid programmes. The main lines of the package were agreed at the Berlin European Council in March 1999. Agreement on the implementing legislation was reached between Council and Parliament in May 1999.

Agricultural Guideline The agricultural guideline is a legally binding limit under which spending on agricultural market support can grow each year by no more than 74 per cent of the change in Community GNI.

Budget Procedure The Community's financial year runs from 1 January to 31 December. The rules governing decisions on the EC Budget are set out in Article 272 of the Amsterdam Treaty, June 1997. These rules have been built on by the IIA.

The timetable is as follows:

- establishment of the preliminary draft Budget by the Commission, normally by end-April;
- establishment of the draft Budget by the Council in late-July;
- first reading by the Parliament in late-October;
- second reading by the Council in mid-November; and
- second reading by the Parliament and adoption of the Budget in mid-December.

Commitment and payment appropriations The Budget distinguishes between appropriations for commitments and appropriations for payments. **Commitment appropriations** are the total cost of legal obligations that can be entered into during the current financial year, for activities that, in turn, will lead to payments in the current and future financial years. **Payment appropriations** are the amounts of money that are available to be spent during the year arising from commitments in the Budgets for the current or preceding years. Unused payment appropriations may, in exceptional circumstances, be carried forward into the following year.

Compulsory and non-compulsory expenditure EC expenditure is regarded as either "compulsory" or "non-compulsory". Compulsory expenditure is expenditure necessarily resulting from the Treaty or from Acts adopted in accordance with the Treaty. It mainly includes agricultural guarantee expenditure, including stock depreciation. The Council has the last say in fixing its total.

The Parliament has the last say in determining the amount and pattern of non-compulsory expenditure. The growth of this expenditure is governed by the "maximum rate". Article 272(9) of the Amsterdam Treaty provides a formula for determining this rate, unless an alternative figure is then agreed by the budgetary authority. Under the IIA, the Council and Parliament agree to accept the maximum rates implied by the financial perspective ceilings.

Discharge Procedure The ECA annual report is subject to consideration by the budgetary authority (Council and European Parliament) under the "discharge procedure" set out in Article 276 of the Treaty. In particular, it considers how the Budget for the year in question was implemented. The European Parliament, acting on a recommendation from the Council, considers whether to grant the Commission a discharge in respect of the Budget in question, thus bringing the budgetary process for that year to a formal close. The Commission is obliged under Article 276 of the Treaty to take "all appropriate steps" to act on comments made by the European Parliament and by the Council during the discharge process. If so asked, it must also report back on its actions, with such reports going to the ECA.

Flexibility Instrument The flexibility instrument was established under paragraph 24 of the IIA, which allows for expenditure in any given budget year of up to €200 million above the Financial Perspective ceilings established for one or more Budget headings. Any portion of the flexibility instrument unused at the end of one year may be carried over for up to two subsequent years, but the flexibility instrument should not, as a rule, be used to cover the same needs two years' running. The flexibility instrument is intended for extraordinary expenditure and may only be used after all possibilities for reallocating existing appropriations have been exhausted. Both arms of the budgetary authority must agree to a mobilisation of the flexibility instrument on a proposal from the Commission.

Fontainebleau Abatement The UK's VAT contributions are abated (reduced) according to a formula set out in the Own Resources Decision. Broadly, this is equal to 66 per cent of the difference between what the UK contributes to the EC Budget and the UK's receipts, subject to the following points:

- the abatement applies only in respect of spending within the EU. Expenditure outside the EU (mainly aid), amounting to some 9 per cent of total estimated expenditure in 2004, is excluded;
- the UK's contribution is calculated as if the budget were entirely financed by VAT; and
- the abatement is deducted from the UK's VAT contribution a year in arrears.

The formula for the calculation of the abatement is set out in the ORD and in a Working Document first published in 1988 and revised in 1994 and 2000.

The Commission is directly and solely responsible for determining the UK's abatement. It calculates the abatement on the basis of a forecast of payments from the Budget to Member States and of Member States' contributions to the Budget. This is subsequently corrected in the light of outturn figures. Corrections may be made up to three years after the year in respect of which the abatement relates, after which a final reckoning is made in the fourth year.

The effect of the abatement is to reduce the amount of the UK's payment into the EC Budget. It does not involve any transfers from the Commission or other Member States to the Exchequer.

Fraud and Irregularity **Fraud** (as defined by the penal convention) covers intentional acts or omissions, in respect of both expenditure and revenue, which involve the use or presentation of false, incorrect or incomplete statements or documents, or specific non-disclosure of information, or misapplication of funds or benefits.

Irregularity (as defined by Council Regulation 2988/95) covers both simple omissions due to errors, or negligence, which undermine the EC Budget; and intentional and deliberate acts. Member States are required by regulations to report irregularities in the three main Budget sectors (own resources, agriculture and structural funds) on a quarterly basis; For example, a genuine payment made after the closing date for claims represents an **irregularity**; but import of goods under false papers is **fraud**.

Inter-Institutional Agreement and Financial Perspective The IIA is a politically and legally binding agreement that clarifies the Community's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the EC Budget on the basis of proposals from the Commission. The IIA sets out the way the three institutions will exercise their responsibilities in accordance with the Treaty, and their respect for the revenue ceilings that are laid down in the ORD. In particular, it provides for the annual EC Budget to be set in the context of a multi-annual financial framework.

Own Resources The ORD lays down four sources of Community revenue, or 'Own Resources':

- **Customs duties, including those on agricultural products.** These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT Round, most agriculture duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices;

- **Sugar levies.** These are charged on the production of sugar to recover part of the cost of subsidising the export of surplus Community sugar onto the world market;

- **Contributions based on VAT.** Essentially, the VAT resource is the amount yielded by applying a notional rate of 1% to a VAT base, assuming an identical range of goods and services in each Member State. Each Member State's VAT base is then subject to a cap, currently 50% of 1% of its GNI; and

- **GNI-based contributions.** The amount due is calculated by taking the same proportion of each Member States' GNI. Because the Community is not allowed to borrow, revenue must equal expenditure. The GNI resource is the budget-balancing item; it covers the difference between total expenditure in the Budget and the revenue from the other three resources, subject to the overall Own Resources ceiling.

The first two Own Resources are known collectively as "Traditional Own Resources" (TOR). The VAT and GNI-based contributions are often referred to as the 'third' and 'fourth' resources.

Sterling Figures

The sterling figures for 1998-2004 in this White Paper are based on actual sterling cash receipts, or payments where these took place and are known. Elsewhere, the appropriate average annual sterling/euro exchange rate has been used to convert euro figures into sterling[4]. Generally, the 2004 euro figures have been converted into sterling using the sterling/euro exchange rate on 31 December 2003, namely £1 = €1.418842 (regulations state that VAT and GNI payments will be made using the exchange rate on the last working day of the preceding year). However, there may be some exceptions, for example, where figures have previously been published at a different exchange rate, but these are noted where necessary. Also note that the euro has been used for consistency throughout the publication, rather than ecu.

Structural Funds, the Cohesion Fund and ISPA

At present, there are four Structural Funds through which the EU grants financial assistance to resolve structural economic and social problems:

- the European Regional Development Fund (ERDF), which promotes economic and social cohesion within the Union through the reduction of imbalances between regions or social groups;
- the European Social Fund (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- the European Agricultural Guidance and Guarantee Fund (EAGGF – Guidance Section), which contributes to the structural reform of the agriculture sector and to the development of rural areas; and
- the Financial Instrument for Fisheries Guidance (FIFG), the specific fund for the structural reform of the fisheries sector.

In addition, the EU supports Member States, whose GDP is less than 90% of the European average, through the Cohesion Fund, which finances projects linked to the environment and trans-European transport systems. The Instrument for Structural Policies for Pre-Accession (ISPA) supports development of infrastructure in the candidate countries.

Substantive and formal errors

The ECA has always distinguished between 'substantive errors' and 'formal errors' in its audit reports. A 'substantive error' is a quantifiable error directly affecting the amount of the transactions underlying the payments made from Community funds. A 'formal error' is an infringement of regulatory or control mechanisms, such as an overdue, but otherwise eligible payment. For both types, some of the errors may represent deliberate fraud, but most will represent genuine misunderstandings made in good faith, perhaps because of ambiguously drafted and complex regulations.

[4] The annual average rate for 1998 is £1 = €1.4896
The annual average rate for 1999 is £1 = €1.5192
The annual average rate for 2000 is £1 = €1.6410
The annual average rate for 2001 is £1 = €1.6082
The annual average rate for 2002 is £1 = €1.5903
The annual average rate for 2003 is £1 = €1.4320

TECHNICAL ANNEXES

TECHNICAL ANNEX I

Determining the value of the Own Resources Elements

The budgetary process relating to revenue has to respect the rules governing the size and structure of Own Resources. It involves a chain of inter-related calculations. These can be summarised as follows:

- at the beginning of the budgetary process, which occurs in the year prior to the Budget in question, the amounts due from each Member State are assessed in that Member State's national currency, i.e. sterling for the UK;
- the initial process involves estimating the amounts due to be received in respect of TOR, the amount relating to VAT if it were applied at 1 per cent across the Community, and the amount of 1 per cent of each Member State's GNI. These estimates rely on the Member States' estimates of their economic activity during the Budget year;
- the Member States' national currency estimates are then converted into euro at a rate known as the "budget exchange rate". This is the exchange rate at the time the estimates are being drawn up – in recent years an early April exchange rate has been used;
- the amount of VAT and GNI each Member State has to pay to the Community Budget is then determined by the limits described above for these Own Resources, so that when added to the amounts for the TOR, the total does not exceed the value of the Own Resources required to fund the proposed Budget for the coming year, subject to ensuring that the value of these Own Resources does not also exceed the Own Resources ceiling for the year in question (e.g. 1.24% in 2004);
- the sum, produced (in €) is entered into the Preliminary Draft Budget (PDB) for the Community, usually by the end of April, of the year preceding the budgetary year;
- the sum entered in the PDB is adjusted as necessary during the remainder of the Budget process, essentially to reflect changes on the expenditure side of the Budget, but still on the basis of the Budget exchange rate and still respecting the Own Resources ceiling;
- the sterling/euro exchange rate on the last day of quotation before the start of the Budget year is established as the rate by reference to which VAT and GNI-based Own Resources contributions will be paid in the Budget year. The amount which a Member State has to pay over in respect of the third and fourth resources in the Budget year will be different from its original estimates, if the last-day of quotation rate is different from the budget exchange rate;
- during the course of the Budget year, the UK pays its VAT and GNI-based contributions to meet its obligations as denominated in euro in the adopted Budget. These payments are made at the sterling/euro rate described above (because Member States hand over only what they collect, their TOR payments are not determined by the euro amounts in the Budget);

- Member States pay their contributions for a given Budget year in monthly instalments (VAT and GNI-based contributions on the first working day of each month, TOR on the first working day following the 19th of each month). The VAT and GNI-based contributions are subsequently adjusted in the light of a number of factors, such as outturn figures for GNI. If outturn expenditure is below the amount raised from Member States, excess contributions are refunded in a subsequent Budget, an Amending Budget, (AB) for the year;

- because there are generally differences between the sterling/euro exchange rates (a) used to set up the Budget and (b) to make VAT and GNI-based contributions to it, the UK will generally have paid more or less in sterling than the amount established for them for the budgetary year in question. These differences were, up until 1998, adjusted in December of the year after the Budget year. That is, an adjustment had either to be paid by or to the Member States to reflect any over or under payment in the Budget year as described above. Thus, the UK's gross contribution in the year after the Budget year were affected by these adjustments;

- because the system led to large variations in the Member States' gross contributions between EC budgetary years, the Member States accepted a Commission proposal that effectively led to their making the adjustments during the course of the budgetary year to which their contributions related. Under the new arrangements, in place since 1998, Member States re-estimate their 1% VAT and GNI bases during the course of the budgetary year and the conversion of their national currency estimates is carried out at the last day of quotation rate. The revised figures are then included in an AB to the budgetary year to which they relate. In practice, converting the revised figures to euro at the last day of quotation rate means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1% bases using much later information, mean that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. In the year following the budgetary year, any adjustments to correct for any under or overpayment should be relatively small, compared to the adjustments made in years prior to 1998; and

- numerous small further adjustments are, however, required to be made over several years following the Budget year, for example, to reflect later adjustments in the amount of GNI statistics.

TECHNICAL ANNEX II

Explanation of the difference between The Government's cashflow outturn for the UK for 2002 and the figures in the European Commission's Allocation of 2002 Operating Expenditure Report

- When converted at the average exchange rate for 2002 of £1= €1.5903, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	15,086	9,486
UK abatement	–4,934	–3,102
UK receipts	–6,168	–3,878
UK net contribution	3,985	2,506

- The Government's figure for the UK's net contribution in 2002 is £3,138 million.
- There could be a number of factors that, to a greater or lesser extent, contribute to the difference between these two figures. The probable main causes for the difference are as follows:
- The UK figure includes only transactions between the Community Budget and the UK public sector, whereas the European Commission's figures include private sector receipts. It is estimated that this accounted for around £475 million of the difference in 2002;
- Payment, in February 2003, to the Loan Guarantee Fund in respect of the 2002 Budget. This led to the Government's figures for 2002 being some £4 million higher than they would otherwise have been;
- The late adoption of Supplementary & Amending Budget (S&AB) No. 4/2001 meant that associated changes were not implemented until January 2002. The result of which leads to the Government's figures for 2002 being £3 million higher; and
- The UK's outturn figure was based on cashflow within a calendar year, whereas European Commission figures attempt to match transactions to a particular Community Budget. Some payments to and receipts from a Community Budget for a given year take place in the early weeks of the subsequent year. These are scored in the UK to the year in which the transactions happened and by the European Commission to the Budget for the previous year. Up to £12 million of Structural Funds payments to the UK in 2002 may have been in respect of the 2001 Budget and up to £148 million of Structural Funds payments in 2003 may have been in respect of the 2002 Budget.

There may be other factors, which cause the two sets of figures to differ.

The table below reconciles the two figures:

	(£ million)
UK Government cashflow outturn for 2002	3,138
Private sector receipts	–475
Loan Guarantee Fund payments:	
2002 in respect of 2001 Budget	–4
2003 in respect of 2002 Budget	0
Late implementation, in January 2002, of S&AB No. 4/2001	–3
Structural Fund receipts paid in 2002 which may have been from the 2001 Budget	+12
Structural Fund receipts paid in 2003 which may have been from the 2002 Budget	–148
UK Cashflow figure adjusted to reflect main differences compared to European Commission's figure	2,520
European Commission figure for 2002 outturn	2,506
Net difference due to other factors (such as exchange rate)	14

TECHNICAL ANNEX III

The European Court of Auditors and the Discharge Process

The ECA is the institution of the Community responsible for the external audit of the other Community institutions. Article 248 of the Treaty requires the ECA to make an Annual Report to the European Parliament and the Council on the implementation of the EC Budget, together with a Statement of Assurance as to the reliability of the Community's financial accounts and the legality and regularity of the transactions underlying them. The ECA also looks at whether the amounts of Own Resources, which are due have been calculated and paid over correctly. The ECA scrutinises the expenses of the Community institutions and the direct expenditure on the Community's interventions that is managed by the Commission (e.g. humanitarian aid, research and development). Expenditure managed by Member States (some 80% of the Community Budget, mainly on agricultural and structural policies) is also scrutinised. The ECA is also required to look at the "soundness" of the Community's financial management.

The ECA sets out its findings in the Annual Report, which is specifically required by the Treaty, and in special reports on specific areas, which it may produce from time to time. The Annual Report includes a separate report on the management of the Seventh European Development Funds and a statement of assurance on these. The ECA also produces separate observations on the accounts of various "satellite bodies" set up by the Community, which are subject to separate discharge procedures under the financial regulations governing them.

The Maastricht Treaty in February 1992 introduced a requirement for the ECA to supplement its annual reports with an annual Statement of Assurance as to the reliability of the accounts and the legality and regularity of underlying transactions. To do this, the ECA examines a sample of transactions selected from the whole Budget, using statistical sampling techniques, such that the results from the audit of the sample can be used, with a good level of confidence, to form conclusions about the level of errors, and their likely value, in the whole Budget. The first annual Statement of Assurance was produced in respect of the 1994 financial year.

The ECA findings inform the Council and the European Parliament (the two arms of the Community's budgetary authority) when they come to consider, under Article 276 of the Treaty, whether to "discharge" the Commission from its responsibilities for execution of the Budget for the year in question. The discharge granted to the Commission usually includes comments and requests for further action, on which the Commission has to report back.

TECHNICAL ANNEX IV

The European Anti-Fraud Office (OLAF)

The European Anti-Fraud Office (known by its French acronym, OLAF) succeeded the Commission's Task Force for the Co-ordination of Fraud Prevention (UCLAF) on 1 June 1999. The Director of OLAF, Franz-Hermann Bruener, took up his post on 1 March 2000. OLAF is a service of the Commission and is based in Brussels, but has strong safeguards to preserve its independence. OLAF has about 300 staff (around twice that of its predecessor).

OLAF is organised into three main Directorates:

- Policy, Legislation and Legal Affairs;
- Investigations and Operations; and
- Intelligence, Operational Strategy and Information Technology.

It was a key aim in establishing OLAF that it should have access to other institutions and bodies of the EU, rather than be limited to investigating fraud which took place in the Commission. Because of its position as part of the Commission, this required the other institutions and bodies to implement decisions allowing OLAF such access. Most of them have done so, including the ECA, which attaches understandable importance to OLAF's independence.

OLAF's procedures are governed by Regulations 1073/9 and 1074/99. All investigations, both external (in Member States) or internal (in EC institutions), are now opened by a decision of the OLAF Director, either on his own initiative, or following a request from the Member State or the institution concerned. When external investigations are concluded, OLAF draws up a report under the Director's authority that is sent to the relevant Member State's administrative or judicial authorities. If an external investigation is still in progress after nine months, the Director has to inform OLAF's Supervisory Committee of the reasons why it has not been wound up, and the expected completion date. Reports on concluded internal investigations are sent to the institution concerned, which must then inform the OLAF Director of action taken.

OLAF's activities in the field of co-ordination include supply of information to Member States, direction or co-ordination of operations in transnational cases, bilateral or multilateral assistance and the provision of forums (Working Parties inherited from UCLAF) for monitoring and co-ordination of investigations in the most sensitive sectors (alcohol, cigarettes and olive oil).

OLAF carries out four principal operational activities:

- gathering and processing operational data;
- administrative investigations;
- co-ordination/assistance for operational actions by Member States; and
- monitoring information received and operational results.

OLAF gathers information from various sources: irregularities reported by Member States or the ECA; from the Commission; from members of the public via a telephone hotline; professional contacts; and the press. OLAF is now building up a risk-analysis system to help prioritise its workload.

Table 1: Expenditure on the Community Budget Commitments and Payments by Type of Expenditure

€ million

		Commitments							Payments						
		1999	2000	2001	2002	2003	2004 EU-15	2004 EU-25	1999	2000	2001	2002	2003	2004 EU-15	2004 EU-25
1	Agriculuture	39,876	40,467	42,083	43,217	44,780	44,761	46,781	39,780	40,506	41,534	43,521	44,780	44,761	45,693
2	Structural Operations	36,821	20,090	41,166	34,012	33,980	34,326	41,035	26,664	27,591	22,456	23,499	28,173	28,962	30,822
3	Internal Policies	5,891	6,008	6,703	7,614	6,901	7,051	8,684	4,473	5,361	5,303	6,567	6,204	6,606	7,510
4	External Action	6,156	4,987	4,859	5,085	4,949	5,177	5,177	4,586	3,841	4,231	4,424	4,844	4,951	4,951
5	Administration	4,576	4,686	5,002	5,272	5,382	6,040	6,040	4,507	4,643	4,855	5,212	5,382	6,040	6,040
6	Reserves	300	186	207	171	434	442	442	300	186	207	170	434	442	442
7	Pre-accession Aid	—	3,112	3,312	3,504	3,386	1,732	1,732	—	1,203	1,402	1,752	2,707	2,856	2,856
8	Compensations	n/a	n/a	n/a	n/a	n/a	n/a	1,410	n/a	n/a	n/a	n/a	n/a	n/a	1,410
Total[2]		**93,620**	**79,536**	**103,332**	**98,875**	**99,812**	**99,529**	**111,300**	**80,310**	**83,331**	**79,988**	**85,145**	**92,524**	**94,619**	**99,724**

Notes:
1. Includes effect of Amending Budgets 1, 2, 3, 4, 5, 6 & 7.
2. Because of rounding the columns totals do not necessarily equal the sum of the individual items.
Sources: 1999-2002: European Court of Auditors – Annual Reports; 2003, 2004 EU documents.

Table 1A: Expenditure on the Community Budget Commitments and Payments by Type of Expenditure

£ million

		Commitments							Payments						
		1999	2000	2001	2002	2003	2004 EU-15	2004 EU-25	1999	2000	2001	2002	2003	2004 EU-15	2004 EU-25
1	Agriculuture	26,248	24,660	26,168	27,175	31,271	31,548	32,971	26,185	24,684	25,827	27,366	31,271	31,548	32,204
2	Structural Operations	24,237	12,243	25,598	21,387	23,729	24,193	28,921	17,551	16,814	13,964	14,776	19,674	20,412	21,723
3	Internal Policies	3,878	3,661	4,168	4,788	4,819	4,970	6,120	2,944	3,267	3,298	4,129	4,332	4,656	5,293
4	External Action	4,052	3,039	3,021	3,198	3,456	3,649	3,649	3,019	2,341	2,631	2,782	3,383	3,489	3,489
5	Administration	3,012	2,856	3,110	3,315	3,758	4,257	4,257	2,967	2,829	3,019	3,277	3,758	4,257	4,257
6	Reserves	197	113	129	108	303	312	312	197	113	129	107	303	312	312
7	Pre-accession Aid	—	1,896	2,059	2,203	2,365	1,221	1,221	—	733	872	1,102	1,890	2,013	2,013
8	Compensations	n/a	n/a	n/a	n/a	n/a	n/a	994	n/a	n/a	n/a	n/a	n/a	n/a	994
Total[2]		**61,625**	**48,468**	**64,254**	**62,174**	**69,701**	**70,148**	**78,445**	**52,863**	**50,781**	**49,738**	**53,540**	**64,612**	**66,687**	**70,285**

Notes:
1. Includes affect of Amending Budgets 1, 2, 3, 4, 5, 6 & 7.
2. Because of rounding the columns totals do not necessarily equal the sum of the individual items.
Sources: 1999-2002: European Court of Auditors – Annual Reports; 2003, 2004 EU documents.

Table 2: Community Budget Own Resources

€ million

	Agricultural and Sugar Levies							Customs Duties							VAT Contributions						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Belgium	94	99	94	67	55	52	37	1,047	1,004	1,133	1,180	834	988	1,026	978	969	1,061	1,167	794	853	592
Denmark	41	45	47	29	28	22	17	254	251	270	262	153	190	197	654	636	648	767	614	569	404
Germany	421	464	486	334	342	261	232	2,840	2,724	2,866	2,814	1,623	2,013	2,091	8,590	8,552	9,459	8,541	5,113	5,342	3,309
Greece	19	21	18	21	18	17	13	145	167	184	161	104	127	132	621	594	597	646	511	547	390
Spain	69	94	81	65	46	52	37	667	725	836	839	539	651	677	2,686	2,783	2,910	3,118	2,535	2,629	1,835
France	325	356	362	287	275	220	192	1,177	1,130	1,283	1,223	674	864	898	6,297	6,258	6,857	7,275	5,518	5,381	3,722
Ireland	11	13	12	9	6	6	3	186	162	187	151	79	99	103	445	450	454	569	396	412	284
Italy	166	187	192	123	99	97	76	1,102	1,092	1,292	1,275	769	947	984	4,512	4,340	4,473	5,290	4,021	3,801	2,723
Luxembourg	1	1	—	—	—	—	—	21	20	24	20	10	12	13	107	87	85	127	73	74	50
Netherlands	223	234	242	265	194	217	167	1,467	1,378	1,505	1,481	767	983	1,022	1,825	1,779	1,961	2,080	1,242	1,214	761
Austria	40	43	43	28	26	22	17	201	201	228	200	125	153	159	977	895	930	1,014	588	576	360
Portugal	43	42	30	31	16	27	15	135	143	153	134	70	90	94	496	531	565	603	466	476	326
Finland	15	14	15	12	7	9	5	124	114	111	107	57	72	75	501	518	544	580	427	458	315
Sweden	41	38	37	30	21	24	16	343	318	353	330	211	255	265	1,066	952	1,099	1,051	633	608	388
United Kingdom	447	501	498	473	403	401	371	2,445	2,278	2,687	2,636	1,664	2,033	2,112	3,394	1,821	3,478	–1579	–395	–1193	–2,141
Total	**1,955**	**2,152**	**2,156**	**1,776**	**1,534**	**1,427**	**1,199**	**12,156**	**11,706**	**13,112**	**12,814**	**7,680**	**9,480**	**9,850**	**33,148**	**31,164**	**35,121**	**31,250**	**22,536**	**21,748**	**13,319**

	Fourth Resource Contributions							TOTALS						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Belgium	1,012	1,124	1,101	1,118	1,336	1,498	2,044	3,131	3,196	3,389	3,532	3,018	3,391	3,700
Denmark	745	724	720	720	893	1,030	1,409	1,695	1,656	1,685	1,778	1,688	1,810	2,028
Germany	8,783	9,329	8,964	8,037	10,505	11,679	15,765	20,633	21,069	21,775	19,727	17,582	19,296	21,398
Greece	525	567	535	522	705	831	1,173	1,310	1,349	1,334	1,350	1,338	1,522	1,709
Spain	2,330	2,630	2,617	2,569	3,431	3,959	5,514	5,752	6,231	6,445	6,592	6,551	7,292	8,062
France	5,785	6,249	6,009	5,687	7,685	8,602	11,699	13,584	13,994	14,511	14,471	14,152	15,067	16,511
Ireland	343	435	422	482	538	609	854	985	1,060	1,074	1,211	1,019	1,126	1,245
Italy	4,802	5,148	5,043	4,924	6,390	7,059	9,665	10,582	10,766	11,000	11,612	11,279	11,903	13,448
Luxembourg	88	87	76	109	101	110	151	217	194	185	256	184	196	214
Netherlands	1,589	1,700	1,788	1,691	2,265	2,490	3,404	5,105	5,091	5,497	5,517	4,467	4,905	5,354
Austria	868	915	893	848	1,070	1,199	1,628	2,086	2,054	2,094	2,091	1,809	1,950	2,165
Portugal	431	512	507	498	636	715	980	1,104	1,228	1,255	1,266	1,187	1,308	1,415
Finland	505	565	556	535	694	787	1,069	1,146	1,211	1,226	1,233	1,185	1,327	1,464
Sweden	934	1,042	1,144	926	1,221	1,439	1,958	2,383	2,349	2,633	2,338	2,086	2,326	2,627
United Kingdom	6,252	6,484	7,204	6,214	8,481	9,330	12,131	12,537	11,084	13,867	7,743	10,153	10,571	12,473
Total	**34,991**	**37,510**	**37,580**	**34,879**	**45,948**	**51,335**	**69,445**	**82,249**	**82,531**	**87,969**	**80,718**	**77,698**	**83,989**	**93,813**

Notes:

1. Figures for 2003 taken from Amending Budget 7/2003. Figures for 2004 taken from 2004 Adopted Budget.

2. Miscellaneous items of revenue and carry forwards of surpluses and deficits from previous years account for the differences between total budget expenditure given in Table 1 and the own resources figures in Table 2.

3. The figures for agricultural and sugar levies and customs duties are after the deduction of 10% collection costs, for the years 1997 to 2001, and 25% for 2002, 2003 and 2004.

4. The figures for VAT contributions are after taking account of the UK abatement.

5. Because of rounding the column totals do not necessarily equal the sum of the individual items.

Source: Figures for 1998 to 2002 are taken from the European Commission: Allocation of 2002 EU Operating Expenditure by Member State.

Table 2A: Community Budget Own Resources

£ million

	Agricultural and Sugar Levies						
	1998	1999	2000	2001	2002	2003	2004
Belgium	63	65	57	41	35	36	26
Denmark	28	30	28	18	17	15	12
Germany	282	306	296	208	215	182	164
Greece	13	14	11	13	11	12	9
Spain	47	62	50	41	29	36	26
France	218	234	220	178	173	154	135
Ireland	7	8	7	5	4	5	2
Italy	111	123	117	77	62	67	54
Luxembourg	—	—	—	—	—	—	—
Netherlands	150	154	148	165	122	152	118
Austria	27	28	26	18	16	15	12
Portugal	29	28	18	19	10	19	10
Finland	10	9	9	7	4	6	3
Sweden	27	25	22	19	13	17	11
United Kingdom	300	330	303	294	253	280	261
Total	**1,312**	**1,416**	**1,314**	**1,104**	**965**	**996**	**845**

	Customs Duties						
	1998	1999	2000	2001	2002	2003	2004
Belgium	703	661	691	734	524	690	723
Denmark	170	165	165	163	96	132	139
Germany	1,906	1,793	1,746	1,750	1,020	1,406	1,474
Greece	97	110	112	100	65	89	93
Spain	448	477	510	522	339	455	477
France	790	744	782	760	424	604	633
Ireland	125	107	114	94	50	69	73
Italy	740	719	788	793	484	661	694
Luxembourg	14	13	14	12	6	9	9
Netherlands	985	907	917	921	482	687	720
Austria	135	133	139	125	79	107	112
Portugal	91	94	93	84	44	63	66
Finland	83	75	67	66	36	51	53
Sweden	230	209	215	205	133	178	187
United Kingdom	1,641	1,499	1,637	1,639	1,046	1,420	1,489
Total	**8,160**	**7,705**	**7,990**	**7,968**	**4,829**	**6,620**	**6,942**

	VAT Contributions						
	1998	1999	2000	2001	2002	2003	2004
Belgium	656	638	646	726	499	596	418
Denmark	439	419	395	477	386	397	285
Germany	5,766	5,629	5,764	5,311	3,215	3,731	2,332
Greece	417	391	364	402	321	382	275
Spain	1,803	1,832	1,773	1,939	1,594	1,836	1,293
France	4,227	4,120	4,178	4,524	3,470	3,758	2,623
Ireland	299	296	276	354	249	288	200
Italy	3,029	2,857	2,726	3,289	2,528	2,654	1,919
Luxembourg	72	57	52	79	46	52	35
Netherlands	1,225	1,171	1,195	1,294	781	848	537
Austria	656	589	567	630	370	402	254
Portugal	333	350	344	375	293	333	230
Finland	336	341	331	361	268	320	222
Sweden	715	626	670	654	398	425	273
United Kingdom	2,279	1,199	2,120	–982	–248	–833	–1,509
Total	**22,253**	**20,513**	**21,402**	**19,432**	**14,171**	**15,187**	**9,301**

	Fourth Resource Contributions						
	1998	1999	2000	2001	2002	2003	2004
Belgium	679	740	671	695	840	1,046	1,441
Denmark	500	476	439	447	562	719	993
Germany	5,896	6,141	5,462	4,998	6,605	8,156	11,111
Greece	352	373	326	324	443	580	827
Spain	1,564	1,731	1,595	1,597	2,157	2,765	3,886
France	3,884	4,113	3,662	3,536	4,832	6,007	8,245
Ireland	230	286	257	300	338	425	602
Italy	3,223	3,388	3,073	3,062	4,018	4,929	6,812
Luxembourg	59	57	47	68	63	77	107
Netherlands	1,067	1,119	1,090	1,051	1,424	1,739	2,399
Austria	583	602	544	528	673	837	1,148
Portugal	289	337	309	309	400	499	691
Finland	339	372	339	332	436	550	754
Sweden	627	686	697	576	768	1,005	1,380
United Kingdom	4,197	4,268	4,390	3,864	5,333	6,515	8,550
Total	**23,490**	**24,690**	**22,901**	**21,688**	**28,892**	**35,848**	**48,945**

	TOTALS						
	1998	1999	2000	2001	2002	2003	2004
Belgium	2,102	2,104	2,065	2,196	1,898	2,368	2,608
Denmark	1,138	1,090	1,027	1,105	1,061	1,264	1,429
Germany	13,851	13,868	13,269	12,267	11,056	13,475	15,081
Greece	880	888	813	840	841	1,063	1,204
Spain	3,862	4,102	3,928	4,099	4,119	5,092	5,682
France	9,119	9,211	8,843	8,998	8,899	10,522	11,637
Ireland	661	698	655	753	641	787	877
Italy	7,104	7,086	6,703	7,221	7,093	8,312	9,478
Luxembourg	146	128	113	159	116	137	151
Netherlands	3,427	3,351	3,350	3,430	2,809	3,425	3,774
Austria	1,400	1,352	1,276	1,300	1,137	1,362	1,526
Portugal	741	808	765	787	747	913	998
Finland	769	797	747	767	745	926	1,032
Sweden	1,600	1,546	1,604	1,454	1,312	1,625	1,852
United Kingdom	8,417	7,296	8,450	4,815	6,384	7,382	8,791
Total	**55,216**	**54,325**	**53,607**	**50,191**	**48,857**	**58,652**	**66,119**

Source: Sterling figures are derived from the corresponding euro amounts in Table 2 converted at the appropriate annual exchange rate (see glossary).

Table 3: United Kingdom contributions to abatement and public sector receipts from the Community Budget

	€ million							£ million						
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
GROSS CONTRIBUTIONS														
Agriculture & Sugar Levies	448	502	497	471	415	366	366	301	331	303	293	261	255	258
Customs Duties	2,445	2,290	2,676	2,633	1,636	1,704	1,710	1,641	1,507	1,630	1,637	1,029	1,190	1,205
VAT Own Resources	5,597	5,956	6,734	5,827	4,326	3,976	2,647	3,758	3,921	4,104	3,624	2,720	2,776	1,866
Fourth Resource payments	5,238	6,698	6,966	6,230	8,373	9,492	11,858	3,516	4,409	4,245	3,874	5,265	6,629	8,358
VAT & Fourth Resource adjustments	1,302	183	388	–79	260	166	–	874	120	236	–49	164	116	–
United Kingdom Abatement	–2,052	–4,817	–3,421	–7,333	–4,928	–5,097	–3,910	–1,378	–3,171	–2,085	–4,560	–3,099	–3,559	–2,756
Total Contributions	**12,978**	**10,812**	**13,839**	**7,750**	**10,082**	**10,606**	**12,672**	**8,712**	**7,117**	**8,433**	**4,819**	**6,340**	**7,407**	**8,931**
PUBLIC SECTOR RECEIPTS														
EAGGF Guarantee	4,332	4,101	4,105	3,992	3,946	3,814	4,028	2,908	2,700	2,502	2,482	2,481	2,663	2,839
EAGGF Guidance	83	73	135	41	:	3	96	56	48	82	25	:	2	68
European Regional Development Fund	531	434	1,622	873	470	889	1,572	357	286	989	543	296	621	1,108
European Social Fund	1,167	660	1,081	595	655	611	964	783	434	659	370	412	427	679
Other Receipts	16	17	16	16	20	16	104	11	11	10	10	13	11	73
Total Receipts	6,130	5,285	6,959	5,517	5,091	5,333	6,763	4,115	3,479	4,241	3,430	3,201	3,725	4,766
NET CONTRIBUTIONS	**6,848**	**5,526**	**6,880**	**2,233**	**4,991**	**5,273**	**5,909**	**4,597**	**3,638**	**4,192**	**1,389**	**3,139**	**3,682**	**4,165**

Notes:

: This signifies receipts of less than €0.5 million or less than £0.5 million.

1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EC Budgets. They differ from the figures for gross xcontributions in Table 2 in that these figures, drawn from Commission documents, relate to payments to particular EC Budgets. Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary).

2. The figures for 2004 are forecasts, those for earlier years are outturn.

3. Because of rounding, the column totals do not necessarily equal the sum of the individual items.

Source: HM Treasury

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