

# **European Community Finances**

## **Statement on the 2003 EC Budget and measures to counter fraud and financial mismanagement**



**HM TREASURY**

Cm 5800



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# European Community Finances

STATEMENT ON THE 2003 EC BUDGET AND MEASURES  
TO COUNTER FRAUD AND FINANCIAL MISMANAGEMENT

APRIL 2003

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Presented to Parliament by the Financial Secretary  
by Command of Her Majesty

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# INTRODUCTION

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**1.1** In 1980, following a recommendation by the Public Accounts Committee, the Government agreed to present an annual Statement to Parliament giving details of the European Community Budget.

**1.2** This Statement is the twenty-third in the series. It describes the Budget for 2003 as adopted by the European Parliament and the United Kingdom's gross and net contributions to the Community Budget over the years 1997 to 2002 together with an estimate for 2003. It also includes details of recent developments in EC financial management and the fight against fraud.

**1.3** From 2002, the Statement has been expanded to include financial year information previously published in the Departmental Report of the Chancellor of the Exchequer's Departments. Detailed information on UK financial transactions with the EC has therefore now been brought together in a single source.

**The Budget Process** **2.1** The annual European Community Budget is established by the budgetary authority, which consists of the Council of Ministers and the European Parliament, through a procedure involving several stages, as follows.

**2.2** The procedure begins, usually in May, with the establishment of a Preliminary Draft Budget for the following year by the Commission. On the basis of the Preliminary Draft Budget, the Council establishes its own Draft Budget in July. This is passed to the European Parliament for its first reading, which takes place 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 the Budget is adopted by the President of the Parliament.

**2.3** The budgeting round for 2003 used Activity Based Budgeting (ABB) alongside the traditional budgeting methodology. ABB provides a new framework for making budget decisions. See Box 3.1 for further details on ABB.

**2.4** 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 – accounting for just under one-half 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** **2.5** Since 1988 the annual budget has been set within a multi-annual expenditure framework known as the Financial Perspective. For the 2003 budget the Financial Perspective sets out annual expenditure ceilings for seven broad expenditure categories (agriculture, structural operations, internal policies, external actions, administrative expenditure, reserves and pre-accession aid), which must be respected by the budgetary authority (Council and European Parliament) when it determines the Budget. The expenditure ceilings are set in terms of expenditure *commitment appropriations*, i.e. legal expenditure obligations entered into during the year which will lead to *payment appropriations*, either that year or in future years.

**2.6** The Financial Perspective covering the budget year 2003 was part of the wider agreement at the March 1999 Berlin European Council covering EU expenditure for the years from 2000 to 2006. This agreement is set out in an Inter Institutional Agreement between the Commission, the Council and the European Parliament.

**The Own Resources Decision** **2.7** The arrangements for financing the Community Budget are set out in the Community's Own Resources Decision (ORD). The ORD sets a ceiling (the Own Resources ceiling) on the amount the Community can raise from Member States in any one year, which from 2002 is fixed in terms of a percentage of overall Community Gross National Income (GNI). It is equivalent to 1.24% of Community GNI which is equivalent to the 1.27% GNP ceiling set in the previously applicable ORD. The ceiling sets the maximum amount of Own Resources (in effect, Member States' contributions to the European Community Budget), which the Commission is allowed to call up each year. Because the Community is not allowed to borrow, revenue must equal expenditure. The Budget is therefore effectively limited by the amount of Own Resources that can be called up from Member States.

**The 2003 Budget** 2.8 Table 2.1 sets out the amounts established for the 2003 Budget at each stage of the budgetary procedure, which ran from May 2002 to December 2002 and relates these to the Financial Perspective ceilings.

**Table 2.1: 2003 EC Budget**

	€ million						
Financial Perspective Ceilings	Preliminary Draft Budget (including Letters of Amendment)	Council's First Reading Draft Budget (including Letters of Amendment)	European Parliament First Reading Draft Budget	Council's Second Reading Draft Budget (including Letters of Amendment)	Adopted Budget 2003	Adopted Budget 2002	
Commitment appropriations							
Common Agricultural Policy	47,378	44,780	44,830	45,174	44,780	44,255	
Structural Operations	33,968	34,027	33,968	33,995	33,980	33,838	
Internal Policies	6,796	6,716	6,674	6,793	6,698	6,558	
External Action	4,972	4,912	4,892	5,047	4,859	4,803	
Administration	5,381	5,436	5,365	5,362	5,381	5,177	
Reserves	434	434	434	434	434	676	
Pre-accession aid	3,386	3,386	3,386	3,386	3,386	3,328	
<b>Total Commitment appropriations</b>	<b>102,315</b>	<b>99,693</b>	<b>99,548</b>	<b>100,192</b>	<b>99,454</b>	<b>98,635</b>	
<b>Total Payment appropriations</b>	<b>102,938</b>	<b>97,880</b>	<b>96,992</b>	<b>99,933</b>	<b>96,896</b>	<b>95,655</b>	
Payment appropriations as a percentage of Community GNI <sup>[1]</sup>	1.1	1.02	1.01	1.04	1.01	1.06	

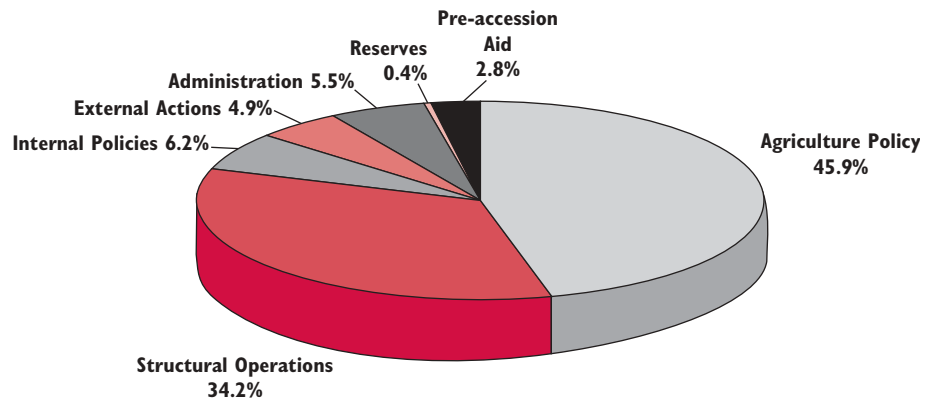
Notes:

<sup>[1]</sup> Based on the GNI basis in Table 1 of the Adopted Budget.

Source: Budget documentation on 2003 budget, adopted budgets 2003 and 2002.

**2.9** The finally adopted 2003 budget provides for commitment appropriations of €99,686 million (1.04% of EU GNI) or £64,794 million, an increase of 1.1 per cent over 2002; and payment appropriations of €97,503 million (1.02% of EU GNI) or £63,375 million, an increase of 1.9 per cent over 2002. The commitment and payment appropriations are within the Financial Perspectives limits. The breakdown of payment appropriations for each of the seven categories of the budget are shown in chart 2.1.

**Chart 2.1: 2003 EC Budget – Payment Appropriations by Budget Category**



Source: EC Adopted Budget 2003

**2.10** The key changes in the 2003 budget compared with the previous year are as follows:

- The budget for **Agriculture** (Category 1) was slightly increased by 1.2% over the 2002 budget, to €44,780 million. For Category 1a (traditional CAP expenditure), a margin of €2.6 billion was established under the Financial Perspective ceiling, whilst appropriations for Category 1b (rural development and accompanying measures) were budgeted up to the Financial Perspective ceiling of €4,698 million.
- The budget for **Structural Operations** (Category 2) included €12 million (financed through the mobilisation of the flexibility instrument) to finance the final tranche of the programme for restructuring the Community fishing fleet after the non-renewal of the fishing treaty with Morocco.
- The **Internal Policies** (Category 3) section of the budget included increases of €27 million for information and communication programmes, €20 million for measures aimed at labour markets and technological innovation and €11 million for education programmes.
- In **External Actions** (Category 4), the budget for the Common Foreign & Security Policy was increased to €47.5 million, and €42 million was allocated for the Global Health Fund (complemented by a similar amount from the European Development Fund), thus securing a seat for the Commission on the board of the Global Health Fund. Additional funds of €36 million were made available for the East Timor, Latin America and Tacis programmes (Technical Assistance to Commonwealth of Independent States (CIS)), as well as €17.5 million for democracy and human rights programmes.
- The €5,360 million budget for **Administration** (Category 5) allowed the Commission to recruit 500 temporary staff from the accession countries, to help prepare the Community institutions for enlargement, whilst avoiding the Commission's proposed use of the flexibility instrument.

- The **Reserves** (Category 6), which is now comprised of the emergency aid reserve and the loan guarantee reserve, remain consistent with the Financial Perspective ceiling. The monetary reserve ceased to exist on 31 December 2002.
- **Pre-Accession Aid** (Category 7) for the applicant countries of central and eastern Europe was budgeted up to the Financial Perspective ceiling. The appropriations for the SAPARD (agricultural policies) and ISPA (structural policies) programmes were increased by €9 million and €20 million respectively to offset the lower spending levels incurred during the preliminary years of these instruments.

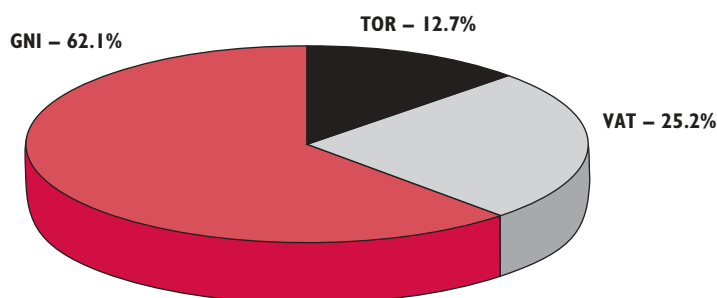
**Multi-annual programmes and new Regulations**

**2.11** During the course of 2002 a number of new multi-annual programmes were adopted. Among these was the Public Health Programme, which runs from 2002-2006 and contains an overall financial envelope of €312 million – the programme will enhance the European network infrastructure in areas such as surveillance of communicable diseases. A new European Union Solidarity Fund was also created to provide assistance to Member States in the event of major natural disasters to Member States and countries involved in accession negotiations. This is accompanied by a new flexibility mechanism allowing an annual maximum of €1 billion to be made available in the event that relief cannot be financed from within the Financial Perspective ceilings. In 2002 the Commission made grants from the Fund of €599 million to four Member States affected by floods earlier in the year which caused total damage estimated at over €15 billion.

**2003 Community Revenue**

**2.12** 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 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. A more detailed explanation of these resources can be found in the glossary.

**Chart 2.2: 2003 Community Revenue**



Source: EC Adopted Budget 2003

**2.13** Chart 2.2 shows a breakdown of how the 2003 budget will be financed. Tables 2 and 2a (p.38 and p.39) show the gross contributions, after taking account of the UK abatement, by Member State, to the 2003 EC Budget along with the years 1997 to 2002. The key points to note in terms of the UK's contribution to the EC budget are as follows:

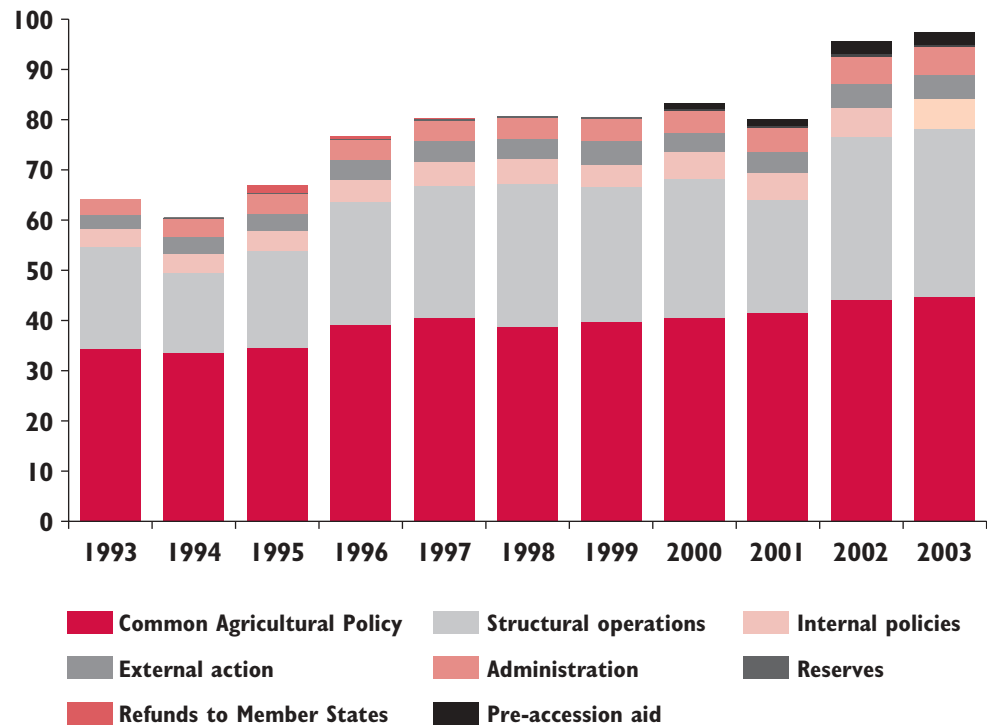
- TOR in 2003 is estimated to be around €12.1 billion (£7.9 billion) with the UK's share estimated as some 21.5%. In 2002 revenue from this source was estimated to be some €11.7 billion (£7.4 billion), of which the UK's share was 21.3%.
- VAT-based contributions in the 2003 EC Budget are shown as €24.1 billion (£15.7 billion) with the UK's share being some 19.9%. In 2002, total VAT contributions were estimated to be €22.6 billion (£14.2 billion), of which the UK's share was 19.8%;
- GNI-based contributions in the 2003 EC Budget, including potential contributions to Community Reserves are shown as €59.4 billion (£38.6 billion) of which the UK's share (including potential contributions to Community reserves) is 18.8%. In 2002 GNI-based contributions were estimated to be €46.6 billion (£29.3 billion) with a UK share of 18.7%;
- the estimate of the UK's abatement in 2003 (in respect of our net contribution in 2002) is €5.0 billion (£3.3 billion), compared with €5.1 billion (£3.2 billion) in 2002 (a detailed explanation of how the UK abatement is calculated can be found in the glossary).

# 3

## DEVELOPMENTS IN COMMUNITY FINANCES

**Expenditure 3.1** Chart 3.1 shows the developments in Community spending over the period 1993-2003. The two most significant trends are the reduction in the proportion of spending on agriculture – which now forms under 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 new Member States in the early years of membership or in connection with the depreciation of agricultural stocks) have been discontinued, and a new budget category of pre-accession aid was created, to help candidate countries prepare for enlargement, following agreement at the 1999 Berlin Council. The other categories of spending have remained fairly constant over the period.

**Chart 3.1: Developments in Community Spending 1993-2003 (€ billion)**



Source: 1993-2001 European Court of Auditors' Annual Reports  
2002-2003 European Community Budgets

**3.2** Further details on spending in recent years are given in Table 1 and 1a (page 37). These tables show commitments and payments for the years 1998-2003, in euros and sterling. These tables also show the main spending programmes broken down by Financial Perspective category.

**3.3** From 2002, the budget has also been presented using the ABB system – a new budget framework, aimed at ensuring that budget allocations more closely reflect political priorities and objectives. Box 3.1 provides an outline of the rationale behind the new ABB methodology.

**Box 3.1: Activity Based Budgeting – An update**

Activity Based Budgeting (ABB) is a new system for making budget decisions. It is a key part of the Commission reform agenda, which will 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 reflect evaluation evidence, it will be linked to measurable outputs and it will focus much more on what can be delivered for EU taxpayers.

ABB aims to provide a common conceptual framework for planning, budgeting and managing resources, but its full potential will only be realised when the Commission and others are able to link programming of work, management information systems, performance indicators and evaluation of results to indicators. To help improve decision-making on resource allocation, information on the full cost of running activities will be linked to the objectives being pursued and results achieved.

The 2002 and 2003 budgeting rounds use ABB alongside the traditional budgeting methodology. This involves:

- fully transformed working documents in ABB format;
- new activity statements; and
- information on outputs.

For 2004 the budget will be presented in ABB format, with the traditional budget operating alongside it. For 2005 the budget will be presented wholly in ABB format.

The Commission first introduced a strategic planning and programming function in 2001. In 2002, a more meaningful Annual Policy Strategy was adopted and the first Annual Activity Reports were produced by each Directorate-General (DG). The Annual Reports evaluate the DGs' achievement of the objectives stated in the Commission policy strategy. The reports also include a declaration of assurance signed by the Director-General – this represents an explicit demonstration of the Director-General's personal responsibility and accountability for the management of the resources at their disposal. The Commission has now analysed the working of the process and produced further guidance on the content of the Annual Management Plan (which replaces the Annual Policy Strategy) and on the content of the Annual Activity Reports.

The adoption of the new Financial Regulation on 25 July 2002 provided the legal base to set the annual budget using Activity-Based Budgeting allowing negotiations in 2003 on the 2004 budget to be conducted within the ABB framework.

**Revenue 3.4** The current Own Resources Decision (ORD) came into effect on 1 March 2002 retrospectively to 1 January 2002. It sets a ceiling on Own Resources of 1.24% of GNI, which is equivalent to the 1.27% GNP ceiling set in the previously applicable ORD.

**Box 3.2: Enlargement**

The Copenhagen European Council on 12-13 December 2002 marked the completion of the enlargement negotiations with 10 candidate countries, paving the way for their accession to the European Union on 1 May 2004. The Council also agreed the terms of the financial package for the new member states, which manages enlargement within the sums provided for at the 1999 Berlin European Council. Key elements of the package, tailored specifically at the candidates economic and development needs, include:

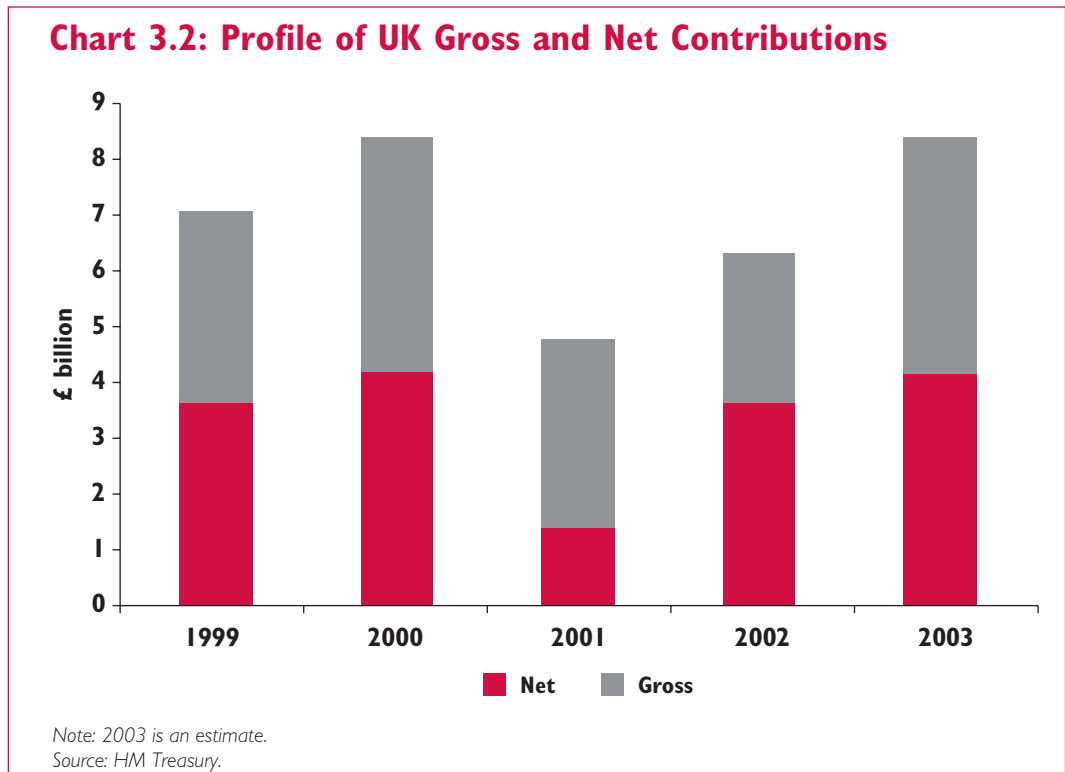
- A Structural and Cohesion Funds package worth a total of €21.7bn (all figures in 1999 prices) tailored towards Cohesion funding – with its emphasis on transport infrastructure and environmental programmes – to help increase the absorbability and effectiveness of EU funding.
- A special Schengen facility worth €860m over 2004-06 to help beneficiary member states finance actions at the new EU external borders for the Schengen acquis.
- A temporary institution building facility worth €380m over 2004-06 to continue progress in this area.
- A transitional cash flow facility and temporary budgetary compensation together worth €3.4bn over 2004-06 which will ensure that no new Member State's net receipts (after their contribution to budget revenues) will be lower in 2004-06 than in 2003 before enlargement.

The total value of the package was €40.9bn, excluding additional money for Cyprus in case of a settlement allowing Cyprus to join as a united island. This left a margin of €1.7bn beneath the 2004-06 ceilings for enlargement related expenditure agreed at the 1999 Berlin European Council.

**The UK's Net Contribution**

**3.5** The UK's net contribution varies considerably from year to year, as illustrated in chart 3.2. This is the result of a number of factors: variation in payments made to the EC budget, due to the nature of the ORD (see Technical Annex I); variations in public sector receipts; and as a result, the fluctuation of the UK abatement (see glossary). Table 3 (page 40) shows the UK's contributions to, abatement, and public sector receipts from, the Community Budget for the years 1997 to 2003. The figures for 2003 are estimates; those for earlier years are outturn.<sup>1</sup>

<sup>1</sup> The amounts for the UK's gross contributions in Table 3 reflect payments made during each calendar year. They differ from the figures for gross contributions in Table 2 in that these figures, drawn from Commission documents, relate to payments to particular Community Budgets.



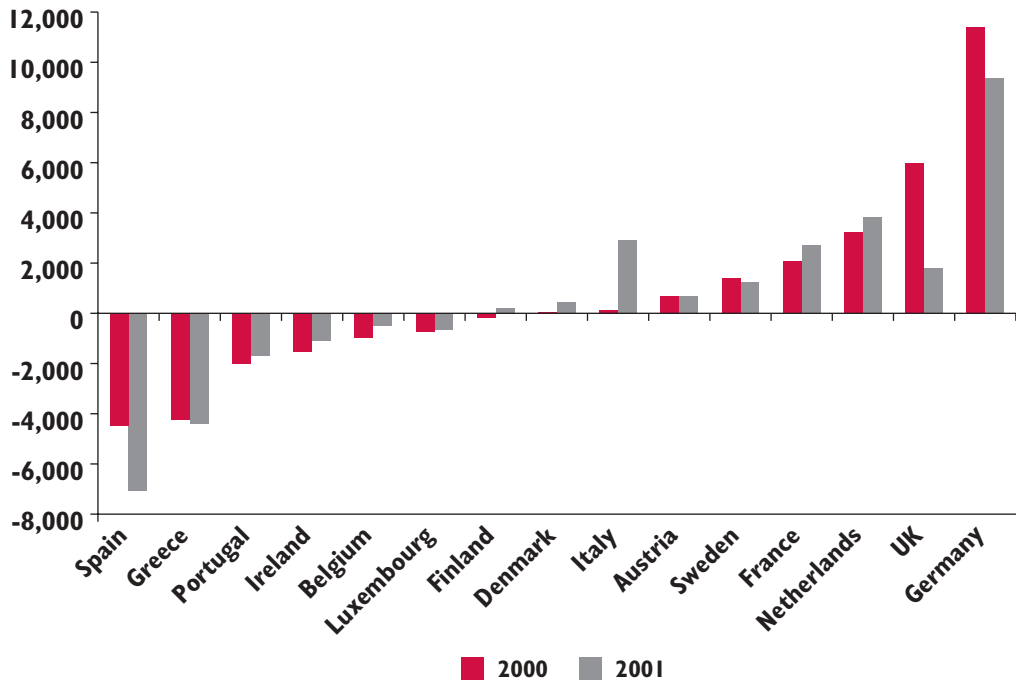
**3.6** UK public sector receipts in 2003, mainly from the Agricultural Guidance and Guarantee Fund (EAGGF) and the Social and Regional Development Funds, are expected to be around £4.3 billion. The majority of these receipts are either paid to the private sector or used in its support.

**3.7** The Community pays some monies direct to the private sector. In 2003 these receipts are expected to be around £390 million. As these payments go direct to the private sector, they do not appear in Public Sector accounts and thus do not appear in Table 3 (page 40).

**3.8** The UK's net contribution in 2003 is forecast to be some £4.1 billion, compared with an outturn of some £3.6 billion in 2002.

**3.9** Chart 3.3 shows how the UK's net contribution compares with net contributions or net receipts of the other Member States in 2000 and 2001. In 2001 the UK was, according to figures released by the European Commission, one of 9 net contributors to the EC budget. Germany was the highest net contributor paying almost 2.5 times as much as any other Member State. The Netherlands, Italy, France, the UK and Sweden were other significant net contributors in 2001.

**Chart 3.3: Net Receipts/Contributions of Member States in 2000 & 2001, € millions**



Source: European Commission Report on the Allocation of 2001 EU Operating Expenditure by Member States.

### Financial Year Transactions

**3.10** The Community financial year runs to 31 December (calendar year) whereas the UK's runs to 5 April. The calendar year equivalent estimate of the UK's net contribution in 2003, shown in Table 3 (page 40), differs from the estimate for the UK financial year 2003-04 contained in Table 3.3 for two main reasons:

- first, the estimates relate to different time periods;
- second, the figure in Table 3 reflects the actual net contribution expected to be paid in 2003, whereas the figure for 2003-04 reflects the trend in the UK's net contribution.

**3.11** Tables 3.1 gives a breakdown of the UK's transactions with the European Communities on a financial year basis between 1997-98 and 2002-03. Table 3.2 provides a breakdown of UK receipts from the EC budget over the same period.

**Table 3.1: Cash payments and receipts**

	£ million					
	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Estimated outturn
Gross payments <sup>(1)</sup>	8,603	10,507	9,207	10,640	9,213	9,737
Public sector receipts	-4,472	-3,950	-3,676	-4,099	-3,298	-3,407
UK Abatement	-1,563	-2,447	-2,206	-2,223	-4,427	-3,234
Net contributions to EC Budget <sup>(2)</sup>	2,567	4,111	3,325	4,318	1,488	3,097
Contributions to reserves and capital of the EIB	0	0	0	0	0	0
Grants received from European Coal and Steel Community	-6,255	-:	-:	-:	-1	0
Payments to EC budget attributed to the aid programme <sup>(3)</sup>	-408	-520	-519	-584	-672	-806
Net payments to EC institutions (excluding Overseas Aid) <sup>(2)</sup>	2,153	3,590	2,807	3,734	816	2,290

Notes:

: Signifies receipts of less than £0.5 million

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

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

<sup>3</sup> 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 3.2: Public Sector Receipts from the Community Budget**

	£ million					
	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Estimated outturn
Agricultural Guarantee Fund	2,904	3,028	2,456	2,647	2,631	2,548
Agricultural Guidance Fund	51	52	103	35	18	:
Social Fund	867	511	698	523	146	501
Regional Development Fund	640	348	411	887	501	358
Other Receipts	11	10	7	7	2	:
<b>Total<sup>(2)</sup></b>	<b>4,472</b>	<b>3,950</b>	<b>3,676</b>	<b>4,099</b>	<b>3,298</b>	<b>3,407</b>

Notes:

: Signifies receipts of less than £0.5 million.

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

Source: HM Treasury.

**3.12** The Community's financing system produces considerable fluctuations in Member States' contributions from year to year. The fluctuations are caused by factors such as adjustments made to Member States' gross contributions in previous years, as later information becomes available, differences in the level and timing of receipts and changes in the size of the UK's abatement. In terms of UK financial year data, the effects are particularly marked as we use a different financial year to that of the Community.

**3.13** In view of these fluctuations and the difficulties of predicting the net position accurately, Government forecasts of the UK's net contributions to the EC budget have since 1996 been made on the basis of the statistical trend in future Community costs. Table 3.3 shows a trended net contributions forecast for the period 2003-04 to 2005-06.

**Table 3.3: Forecast of the trend in the UK's net contribution<sup>1</sup>**

	£ million		
	2003-04 Plans	2004-05 Plans	2005-06 Plans
Trended Net Contributions to European Community budget	3,175	3,650	3,975
Contributions to reserves and capital of the EIB	0	0	0
Grants received from European Coal and Steel Community	0	0	0
Payments to EC budget attributed to the aid programme <sup>(2)</sup>	-868	-608	-608
Net payments to EC institutions (excluding Overseas Aid)	2,307	3,042	3,367

Notes:

<sup>1</sup> An exchange rate of £1 = €1.50 has been assumed.

<sup>2</sup> 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.

**Comparison  
between the  
Government's  
and the  
European  
Commission's  
figures for the  
UK's net  
contribution**

**3.14** In its Tenth Report, of 21 February 1996, the Public Accounts Committee asked the Government to provide each year an explanation for the difference between the Government's own outturn figure for the UK's net contribution and the figure for the UK's net contribution that can be derived from the European Court of Auditors' (ECA) annual report for the same year. As the ECA report no longer includes full details of this information, this statement reports on the likely differences for the 2001 calendar year using data published in the European Commission's report on the allocation of 2001 EU operating expenditure. A full comparison and account of the main factors causing this discrepancy can be found in Technical Annex II.

# 4

## FINANCIAL MANAGEMENT AND ANTI-FRAUD ISSUES

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### European Court of Auditors' annual report on the 2001 budget

**4.1** The latest Annual Report and Statement of Assurance from the Court of Auditors relate to implementation of the budget for the 2001 financial year, and were published in the Official Journal on 28 November 2002. As usual, the report covers the main areas of the budget – Own Resources, agriculture, structural funds, internal policies, external aid and administrative expenditure, and financial instruments and banking activities. For the second time, the Court includes a chapter examining pre-accession aid.

**4.2** Technical Annex III gives details of the European Court of Auditors 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 notes that the implementation of Commission reforms has continued with the adoption of the new Financial Regulation in July 2002 (it entered into force on 1 January 2003) and the publication of the first Annual Activity Reports by the Commission's Directorates General. The Court still considers that the Financial Regulation should have been revised even more radically; however it does acknowledge a number of positive changes, including the requirement to comply with internationally accepted accounting principles and the introduction of activity-based budgeting. The Court criticises some aspects of the Annual Activity Reports – such as inconsistencies in the approaches adopted by the different Directorates General – but recognises that these documents will form a useful source of information in the consideration of future Statements of Assurance.

**4.4** The Court reserves its harshest criticism for the second large budget surplus in succession. The budget surplus of €11.6 billion at the end of the 2000 calendar year was heavily criticised – in 2001 the surplus rose to €15 billion (16% of the final budget for the year). Because of the way in which it is financed some degree of surplus in the EC budget is inevitable and this is returned to Member States in the following year. The Government agrees with the Court's comment that "there is no valid reason to call on own resources which are significantly in excess of the needs for the year". The most significant factor contributing to the 2001 surplus was insufficient take-up of Structural Funds. Since the level of the Structural Funds budget is based on Member States' forecasts of the amount of funds they will need, the Government has called for the accuracy of the forecasts to be examined and improved, and has taken action to revise its own forecasts to a more appropriate level. The Government also shares the Court's disappointment that the Commission did not take its advice and issue a Supplementary and Amending Budget for the year to reduce the surplus and will continue to press for this action to be taken in future if necessary.

**European Court  
of Auditors'  
Statement of  
Assurance**

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

**4.6** The Court has again given an assessment for each budget sector in the context of the Statement of Assurance:

- **own resources:** the Court was unable to obtain assurance, that all own resources had been correctly made available to the Commission (mainly because of shortcomings in the computer system and internal control procedures), and also considered that the negative expenditure shown in the agriculture budget should instead be entered in the general statement of revenue;
- **common agricultural policy:** the Court considered that off-balance sheet commitments have been overstated in the accounts by 149 million euro, and did not agree with the Commission's application of a second depreciation of agricultural stocks;
- **structural measures:** the Court criticised errors in the entering of commitments applicable to 2000-2006 programmes on the accounts;
- **external aid:** the Court's audit revealed that legal commitments exceeded the appropriations available, by 239 million euro and that old protocols (including some which were concluded more than 20 years ago) should now be wound up; and
- **accounting principles and practices:** the Court has repeatedly criticised the Commission's failure to remedy weaknesses in its accounting systems. While the Commission has now begun to implement reforms, the Court pointed out that these will not be fully implemented until 2005.

During its presentation of the Annual Report to the Council's Budget Committee, in response to an enquiry from the UK, the Court explained that it was working on developing indicators, which could provide a better assessment of level of assurance and would enable progress to be measured year-on-year. These indicators would be developed from four main sources:

- appraisal of internal control systems eg Integrated Administrative and Control System (IACS);
- evaluation of other audit results (Commission, Member States etc);
- examination of declarations (eg in Annual Activity Reports from DGs); and
- substantive tests on transactions.

**Box 4.1: Accounting Reform**

For a number of years, and particularly since the fall of the Santer Commission, the EU institutions have been under pressure from the ECA and Member States to improve the quality and reliability of the accounts. For eight years running the ECA has felt unable to give a positive Statement of Assurance on the accounts, citing among other reasons, weaknesses in the Commission's accounting system, including low levels of awareness in the operational DGs about record keeping and control.

The newly adopted Financial Regulation requires the General budget of the European Communities to be produced on an accruals basis by 2005. To address this the Commission has undertaken two related pieces of work:

- a modernisation of the accounting framework, introducing elements of accrual accounting and improving financial statements so they give an accurate picture of assets and liabilities, budget implementation, outturn and cash flow; and
- the implementation of a new integrated IT system for handling the accounts. The Commission's current financial management IT system – SINCOM2, will be replaced with SAP Enterprise 4.7 which offers the possibility of accessing the system using a web-based approach. The migration will begin during 2003 and be completed by August 2004.

This is an ambitious project to a tight timetable, but when fully implemented should deliver substantial improvements in the quality and reliability of the EU's accounts.

**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 2000 budget was discussed by ECOFIN on 7 March 2003. As in previous years, the Council recommended that the Parliament grant discharge, but its recommendation was accompanied by detailed comments, which 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 therefore makes a number of recommendations – not just for the Commission, but also for itself, the Member States and for the Court of Auditors.

**4.8** The Council's recommendations included:

- the Commission should examine Member States' budget forecasts, identify best practice and draw lessons in order to provide better support to Member States;
- support for the Court's commitment to develop measurable indicators to allow progress in financial management to be measured from year to year;
- structural fund legislation should be implemented and interpreted in a more consistent manner; and
- calls for payments for external aid measures should be spread more evenly through the year.

**Box 4.2: Update on Commission Reform**

Progress was made in 2002-03 on three major strands of the Commission Reforms:

- the first Annual Activity Reports were published – an important step in the cultural change which requires the Commission to set objectives and evaluate achievement against them;
- the new Financial Regulation came into force on 1 January 2003. This is one of the major elements of the reforms which will improve accountability, by making authorising officials responsible for their financial decisions. It also provides for modernisation of the Commission's accounting systems, the introduction of objective-setting and evaluation into the budgeting process, and backs up all budgetary rules with clear and prudent financial principles; and
- work began on the revision of the Staff Regulation. This will overhaul the complex systems of pay and allowances for European Civil Servants, as well as revising career structures and disciplinary codes, helping to reinforce the radical management change agenda that is underway in the Commission and other institutions.

**European Court  
of Auditors'  
special reports**

**4.9** During the process of considering its discharge recommendation, the Council also considered the Court of Auditors' Special Reports 1/2002, 2/2002, 5/2002, 6/2002 and 7/2002 (NB – not all ECA special reports have financial implications). A full list of all the Special Reports published in 2002 can be found in the Bibliography section of this Statement.

**European  
Parliament's  
report on  
discharge  
for 2001**

**4.10** The European Parliament's Budgetary Control Committee will consider the Council's recommendations on discharge and make its own report consisting of many detailed recommendations. The European Parliament voted in favour of giving discharge on 8 April 2003.

**UK Government's  
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 Court of Auditors 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 Court of Auditors' report on 2000. Remedial action has been implemented where necessary, but not all the Court's findings are accepted. Some examples are as follows:

**Own resources**

**4.13** Audit finding: in the United Kingdom, following reorganisation of customs offices, one of the largest warehouses has had no routine physical controls for more than a year.

**4.14** Response: because of departmental reorganisation, responsibility for the sector including this particular warehouse had changed and the planned checks were not completed. Nevertheless, checks were carried out at another warehouse belonging to the same trader – and these gave a good indication that no serious problems would be encountered – a fact that was confirmed when the delayed check was carried out.

**Agriculture 4.15** Audit finding: in Northern Ireland (during the outbreak of foot-and-mouth disease), cross checks revealed that 103 farmers had claims for more sheep than were culled and that 17 of them had no sheep on the farm when the cull took place.

**4.16** Response: the UK authorities detected the erroneous nature of these claims before payment was made. The claims were therefore rejected.

**Structural Funds 4.17** Audit finding: errors discovered in the audit of an Objective 2 programme in South Wales included possible ineligible expenditure and expenditure without supporting documents.

**4.18** Response: the UK continues to correspond with the Court of Auditors on this case, as it has not yet been established that these errors exist.

**NAO report on the Court of Auditors' report 4.19** The National Audit Office produces an annual report to Parliament explaining the findings in the Court of Auditors' Annual Report and Statement of Assurance, and considering other relevant financial management issues.

#### **Box 4.3: Anti-Fraud Measures in the Accession and Candidate Countries**

- **OLAF has worked closely with the accession and candidate countries to help them develop acceptable anti-fraud structures and organisations.**
- **Twinning arrangements have enabled accession and candidate countries to take advantage of existing Member States' experience in fighting fraud.**
- **The Contact Group for European Financial Control organisations meets annually to enable Member States to share experience and knowledge of public internal financial control and anti-fraud measures with the accession and candidate countries, and to develop informal networks and contacts.**
- **The European Court of Auditors and OLAF have already begun to carry out audits and investigations in the accession and candidate countries.**

**The European Anti-Fraud Office (OLAF) 4.20** The European Anti-Fraud Office (known by its French acronym, OLAF) was set up on 1 June 1999 to replace the Commission's Unité de coordination de la lutte anti-fraude (UCLAF). (Technical Annex IV describes OLAF)

**Annual Report on the Fight against Fraud 4.21** OLAF compiles the Commission's Annual Report on the Fight against Fraud. The report covering the 2001 calendar year (the 13th annual report) was published on 6 August 2002. The report includes 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 2000 and 2001:

	2000		2001	
	No of cases	Amounts (€ million)	No of cases	Amounts (€ million)
<b>Traditional Own Resources</b>	2,450	527	1,846	256
<b>Agriculture</b>	2,967	475	2,607	231
<b>Structural Funds</b>	1,217	114	1,194	201

The table shows that the number of cases detected and the amounts involved fell between 2000 and 2001 in all sectors except Structural Funds. 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 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 second time, a summary of measures taken by Member States as required by Article 280 of the Treaty.

**OLAF's third report on operational activities**

**4.22** The Director of OLAF published a report on OLAF's third full year of existence, covering the period to June 2002. The report gives details and statistics of OLAF's work – for example, as at 1 June 2000, OLAF was investigating a total of 2900 cases. 552 new cases were considered during this reporting period – and of these, 174 had been closed by the end of the period, 263 were still being investigated and 115 were still being evaluated (i.e. assessing whether a case should be opened). The report gives a detailed analysis of these cases – including the sector in which they fall, the type of investigation and the source of information. A sample case study from each budget sector is also included. During this period, OLAF's Directorate of Intelligence, Operational Strategy and Information Technology was set up. Its major functions will be:

- improving the accuracy of OLAF's annual statistics on irregularity and fraud affecting the Community budget drawing on information on irregularities which Member States transmitted to the Commission;
- monitoring trade patterns in sensitive goods; and
- studying in depth the patterns of irregularity concerning the main areas of the budget.

Most of the detailed analysis, which has since been published, has derived from the work of this Directorate, and the Government believes this work is an important contribution to the identification of the extent of fraud against the Community budget. OLAF has also continued to update its IT systems – in particular AFIS (the anti-fraud information system), which is the main method of providing communication of data between Member States and OLAF.

An Annex to the report gives further details on how OLAF carried out its investigations.

**Third report from OLAF's Supervisory Committee**

**4.23** In order to ensure OLAF's independence, the Regulation, which set up the new Anti-Fraud Office, also set up a Supervisory Committee, to monitor regularly its investigative function. The Supervisory Committee comprises 5 independent Members, is required to meet at least ten times a year, provides opinions on OLAF's activities and is required to make at least one report each year to the other institutions.

**4.24** On 18 June 2002 the Committee published its third report, covering the period September 2001 to June 2002. This year the Committee has not formulated any new proposals or recommendations, as it did in its first two reports, but has concentrated on presenting an assessment of progress in achieving the objectives of the Regulation (1073/99) and of OLAF's status. On the basis of this stock-taking exercise, the Committee feels that OLAF's tasks must now be consolidated. Since the report was published, the current Committee's mandate has expired and negotiations on its renewal are in progress.

**Ratification of the Convention on the protection of the European Community's financial interests (the "Fraud Convention")**

**4.25** The 1995 Fraud Convention specifies minimum rules, which Member States should adopt through their criminal law to deal with fraud against the Community Budget. It also requires all Member States to ensure that frauds are punishable with imprisonment and are extraditable. The UK completed the formal process to ratify the Fraud Convention and its three protocols on 11 October 1999. All other Member States have now notified the Commission of the completion of the ratification process for the Convention, and it entered into force on 17 October 2002.

**4.26** Of the three Protocols to the Convention, only the second Protocol remains to be ratified. This protocol sets out the requirement to make laundering the proceeds of fraud against the EU's finances a criminal offence. Five Member States (Germany, Finland, Italy, Luxembourg and Italy) have yet to ratify this protocol.

**European Public Prosecutor and Eurojust**

**4.27** The Commission outlined proposals for the establishment of a European Public Prosecutor (EPP) at the Nice Inter-Governmental Conference of December 2000. The proposal was for an EPP to have responsibility for prosecuting offences, deciding whether to prosecute, bringing and closing prosecutions and executing sentences where the offences concerned two or more Member States. However, a majority of Member States opposed this proposal.

**4.28** In the light of this the Commission launched a wider consultation on the issue, and published a Green Paper, titled "Criminal Law protection of the financial interests of the Community and the establishment of a European Public Prosecutor" in December 2001. Member States were asked to provide responses to the paper by 1 June 2002. The Home Office after wide consultation with HM Treasury, other governmental departments and a wide range of NGOs, responded for the UK.<sup>1</sup>

**4.29** The Commission held a public hearing for interested parties later in September 2002. At the hearing there was very little support for the EPP from most Member States, including the UK, but strong support from Community institutions, NGOs, candidate countries and the Commission's own network of anti-fraud practitioners. The Commission has set out its proposals for the EPP to the JHA Working Group on the Convention on the Future of Europe. They wish to see an EPP, for the protection of the Communities' budget, incorporated into the new Treaty. The government is opposed to this.

<sup>1</sup> Notes of this public hearing are available on the European Commission's website.

**4.30** The Government has argued that it is unnecessary to create a new EU body to prosecute criminal offences against the EC budget. Member States can and should do this themselves because they are responsible under Article 280 of the Treaty to treat fraud against the EC budget as they would fraud against their own budget. Moreover the Government has argued that the EPP would be expensive, would generate an extra layer of bureaucracy and there was no evidence to suggest it would be effective at solving the problem.

**4.31** The Government believes that Eurojust<sup>2</sup> has the potential to make a significant contribution to the fight against cross-border fraud and officials are examining ways in which Eurojust's role can be developed. The post of President of Eurojust, elected by the other national members, is currently held by the UK National Member, Michael Kennedy, a former Chief Crown Prosecutor. In addition to enforcing severe penalties for convicted fraudsters, the Government has also been arguing in favour of enhancing the EU's fraud prevention strategy, encouraging greater mutual cooperation between Member States, and better fraud proofing of regulations.

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<sup>2</sup> In December 2000, a Council decision established a provisional unit made up of a magistrate, prosecutor or police officer of equivalent competence from each Member State to reinforce the fight against serious organised crime. On 28 February 2002, the Council decision for the final Eurojust body was adopted. Full implementation of Eurojust took approximately 18 months from adoption of the Council decision.

# GLOSSARY

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**Agenda 2000** The Agenda 2000 package included the new Inter-Institutional Agreement 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 GNP.

**Budget Procedure** The Community's financial year runs from 1 January to 31 December. The rules governing decisions on the Community Budget are set out in Article 272 of the Amsterdam Treaty. These rules have been built on by the Inter-Institutional Agreement.

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;
- 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, which can be entered into during the current financial year for activities, which will lead to payments in the current, and future financial years. Payment appropriations are the amount of money, which is 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** Community 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 and the monetary reserve. 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 agreed by the budgetary authority. Under the Inter-Institutional Agreement the Council and Parliament agree to accept the maximum rates implied by the financial perspective ceilings.

**Discharge Procedure** The European Court of Auditors' 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, they consider 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 European Court of Auditors.

**Flexibility Instrument** A financial mechanism which provides €200m of additional financing within one or more EC budget categories, for expenditure which cannot be financed within the Financial Perspective ceilings due to unforeseen circumstances. The decision to use the Flexibility Instrument is taken jointly by the Council and European Parliament.

**Fontainebleau abatement** The UK's VAT contributions are abated 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 Community budget and the UK's receipts, subject to the following points:

- the abatement applies only in respect of spending within the Community. Expenditure outside the Community (mainly aid), amounting to some 8 per cent of total expenditure in 2003, 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 again in 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.

**Fraud and Irregularity** **Fraud** (as defined by the penal convention) covers intentional acts or omissions, in respect of both expenditure and revenue – which involves 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 Community budget, and also intentional and deliberate acts. Member States are required by Regulations to report irregularities on a quarterly basis, in the three main budget sectors (own resources, agriculture and structural funds) e.g. a genuine payment made after the closing date for claims represents an **irregularity**, but import of goods under false papers is definitely **fraud**.

**Inter-Institutional Agreement and Financial Perspective** The Inter-Institutional Agreement (IIA) is a political and legally binding, agreement, which clarifies the Community's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the Community 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 respecting the revenue ceilings, which are laid down in the Own Resources Decision. In particular, it provides for the annual Community budget to be set in the context of a multi-annual financial framework.

**Own Resources Decision** The Own Resources Decision 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, however, subject to a cap of, 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' Gross National Income. Because the Community is not allowed to borrow, revenue must equal expenditure. The GNI-based 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 1998-2002 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<sup>3</sup>. Generally the 2003 euro figures have been converted into sterling using the sterling/euro exchange rate on 30 December 2002, when the rate was £1= €1.5385 (regulations state that VAT and GNP 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. Note too that 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 European Union grants financial assistance to resolve structural economic and social problems: the European Regional Development Funds (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 Court of Auditors 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.

**Tacis** Technical Assistance to Commonwealth of Independent States (CIS). An EU regional programme which provides financial assistance to promote the transition of the CIS countries to a market economy and to reinforce democracy and the rule of law.

<sup>3</sup> The annual average rate for 1997 is £1 = €1.4510

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

# TECHNICAL ANNEX I

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## **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 the Traditional Own Resources (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% of Community GNI in 2003);
- the sum, in euro, produced is entered into the Preliminary Draft Budget (PDB) for the Community, in June usually, 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 fourth resource 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 installments (VAT and GNI-based contributions on the first working day of each calendar 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, (a Supplementary and Amending Budget (S&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 fourth resource contributions to it, the UK will generally have paid either 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 European Commission proposal that effectively led to their making the adjustments during the course of the budgetary year to which their contributions relate. 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 then carried out at the last day of quotation rate. The revised figures are then included in a S&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 means 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. Thus in the year following the budgetary year, any adjustments to correct for any under or overpayment should, from 1998, be relatively small compared to the adjustments made in years prior to 1998;
- 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 2001 and the figures in European Commission's allocation of 2001 operating expenditure**

- When converted at the average exchange rate for 2001 of £1 = €1.6082, the figures in the European Commission break down as follows:

	€ million	£ million
UK gross contribution before abatement	15,086	9,381
UK abatement	-7,343	-4,566
UK receipts	-5,938	-3,692
UK net contribution	1,805	1,123

- The Government's figure for the UK's net contribution in 2001 is £1,396 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 accounts for around £350 million of the difference in 2001;
  - 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 2001 being £3 million lower; and
  - The UK's outturn figure is 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 £96 million of Structural Funds payments to the UK in 2001 may have been in respect of the 2000 Budget and up to £12 million of Structural Funds payments in 2002 may have been in respect of the 2001 Budget.

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

## TECHNICAL ANNEX II

The table below reconciles the two figures:

	£ million
UK Government cashflow outturn for 2001	1,396
Private sector receipts	-350
Loan Guarantee Fund payments:	
2001 in respect of 2000 Budget	-4
2002 in respect of 2001 Budget	+4
Late implementation, in January 2002, of S&AB No. 4/2001	+3
Structural Fund receipts paid in 2001 which may have been from the 2000 Budget	+96
Structural Fund receipts paid in 2002 which may have been from the 2001 Budget	-12
UK cash flow figure adjusted to reflect main differences compared to European Commission figure	1,133
European Commission figure for 2001 outturn	1,123
Net difference due to other factors (such as exchange rate)	10

# TECHNICAL ANNEX III

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## **The European Court of Auditors and the Discharge Process**

The European Court of Auditors (ECA) is the institution of the Community, which is responsible for the external audit of the other Community institutions. In November 2002, the Court celebrated its 25th anniversary. Article 248 of the Treaty requires the Court of Auditors to make an Annual Report to the European Parliament and the Council on the implementation of the Community 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 Court of Auditors also looks at whether the amounts of Own Resources, which are due, have been calculated and paid over correctly. The Court of Auditors scrutinises the expenses of the Community institutions and the direct expenditure on the Community's interventions, which is managed by the Commission (e.g. humanitarian aid, research and development). Expenditure managed by Member States (some 85% of the Community budget, mainly on agricultural and structural policies) is also scrutinised. The Court of Auditors is also required to look at the "soundness" of the Community's financial management.

The Court of Auditors 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 Sixth and Seventh European Development Funds and a statement of assurance on these. The Court of Auditors 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 introduced a requirement for the Court of Auditors to supplement its annual reports with annual Statement of Assurance as to the reliability of the accounts and the legality and regularity of underlying transactions. To do this, the Court of Auditors 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 Court of Auditors' 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

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## **The European Anti-Fraud Office (OLAF)**

The European Anti-Fraud Office (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 also based in Brussels, but has strong safeguards for its independence. OLAF will eventually have 350 staff (around twice that of its predecessor), and although recruitment of the right staff has been a slow process, OLAF had 300 staff on its books in March 2003.

OLAF is organized into three main Directorates:

- Policy, Legislation and Legal Affairs
- Investigations and Operations
- 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 fraud, which takes 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 European Court of Auditors, which attaches understandable importance to its 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, which is sent to the relevant Member State 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, bi-lateral or multi-lateral 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
- Monitoring information received and operational results.

OLAF gathers information from various sources: irregularities reported by Member States or the European Court of Auditors, from the Commission, from members of the public via a telephone hotline, professional contacts, press, media etc. Information received prompts the opening of an initial file, and OLAF is building up a risk-analysis system.

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

€ million

	Commitments					Payments						
	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
1 Agriculture	38,748	39,876	40,467	42,083	44,255	44,780	38,810	39,780	40,506	41,534	44,255	44,780
2 Structural Operations	33,366	36,821	20,090	41,166	33,838	33,980	28,366	26,664	27,591	22,456	32,129	33,173
3 Internal policies	5,917	5,891	6,008	6,703	7,157	6,795	4,879	4,473	5,361	5,303	6,157	6,204
4 External Action	5,671	6,156	4,987	4,859	4,873	4,949	4,068	4,586	3,841	4,231	4,665	4,843
5 Administration	4,267	4,576	4,686	5,002	5,178	5,360	4,219	4,507	4,643	4,855	5,177	5,360
6 Reserves and repayment	272	300	186	207	676	434	272	300	186	207	676	434
7 Pre-accession aid <sup>4</sup>	99	0	3,112	3,312	3,457	3,386	0	0	1,203	1,402	2,595	2,707
<b>Total</b>	<b>88,340</b>	<b>93,620</b>	<b>79,536</b>	<b>103,332</b>	<b>99,434</b>	<b>99,684</b>	<b>80,614</b>	<b>80,310</b>	<b>83,331</b>	<b>79,988</b>	<b>95,654</b>	<b>97,501</b>

Notes:

1. Because of rounding the column totals do not necessarily equal the sum of the individual items.
2. Sources: 1998-2001: European Court of Auditors – Annual Reports; 2002, 2003 EU documents.
3. Years 1998-2001 represent outturn figures, Year 2002 represents Adopted Budget + Supplementary and Amending Budgets 1, 2, 3, 4 & 5; Year 2003 represents Adopted Budget.
4. Figures prior to 2000 relate to budgetary compensation for the new Member States.

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

£ million

	Commitments					Payments						
	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
1 Agriculture	26,012	26,248	24,660	26,168	27,828	29,106	26,054	26,185	24,684	25,826	27,828	29,106
2 Structural Operations	22,399	24,237	12,243	25,598	21,278	22,086	19,043	17,551	16,814	13,963	20,203	21,562
3 Internal policies	3,972	3,878	3,661	4,168	4,500	4,417	3,275	2,944	3,267	3,297	3,872	4,032
4 External Action	3,807	4,052	3,039	3,021	3,064	3,217	2,731	3,019	2,341	2,631	2,933	3,148
5 Administration	2,865	3,012	2,856	3,110	3,256	3,484	2,832	2,967	2,829	3,019	3,255	3,484
6 Reserves and repayment	183	197	113	129	425	282	183	197	113	129	425	282
7 Pre-accession aid	66	0	1,896	2,059	2,174	2,201	0	0	733	872	1,632	1,760
<b>Total</b>	<b>59,305</b>	<b>61,625</b>	<b>48,468</b>	<b>64,253</b>	<b>62,525</b>	<b>64,793</b>	<b>54,118</b>	<b>52,863</b>	<b>50,781</b>	<b>49,738</b>	<b>60,148</b>	<b>63,374</b>

Notes:

1. Because of rounding the column totals do not necessarily equal the sum of the individual items.
2. Sources: 1998-2001: European Court of Auditors – Annual Reports; 2002, 2003 EU documents.
3. Years 1998-2001 represent outturn figures, Year 2002 represents Adopted Budget + Supplementary and Amending Budgets 1, 2, 3, 4 & 5; Year 2003 represents Adopted Budget.

Table 2: Community Budget Own Resources

€ million

	Agricultural and Sugar Levies						Customs Duties						VAT Contributions									
	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003	
Belgium	86	94	99	94	67	56	52	963	1,047	1,004	1,133	1,180	949	987	1,005	978	969	1,061	1,167	842	874	
Denmark	40	41	45	47	29	27	22	248	254	251	270	262	210	219	679	654	636	648	767	559	580	
Germany	430	421	464	486	334	302	261	3,002	2,840	2,724	2,866	2,814	2,262	2,353	10,504	8,590	8,552	9,459	8,541	5,596	5,885	
Greece	19	19	21	18	21	12	17	145	145	167	184	161	129	134	598	621	594	597	646	515	552	
Spain	68	69	94	81	65	53	52	563	667	725	836	839	675	702	2,796	2,686	2,783	2,910	3,118	2,480	2,615	
France	333	325	356	362	287	207	220	1,218	1,177	1,130	1,283	1,223	983	1,022	6,842	6,297	6,258	6,857	7,275	5,348	5,597	
Ireland	11	11	13	12	9	7	6	214	186	162	187	151	122	127	272	445	450	454	569	389	415	
Italy	131	166	187	192	123	122	97	989	1,102	1,092	1,292	1,275	1,025	1,066	3,880	4,512	4,340	4,473	5,290	4,061	4,225	
Luxembourg	1	1	1	0	0	0	0	21	21	20	24	20	16	17	89	107	87	85	127	74	80	
Netherlands	230	223	234	242	265	179	217	1,498	1,467	1,378	1,505	1,481	1,190	1,238	1,826	1,825	1,779	1,961	2,080	1,252	1,338	
Austria	38	40	43	43	28	26	22	216	201	201	228	200	161	168	1,118	977	895	930	1,014	579	615	
Portugal	37	43	42	30	31	23	27	118	135	143	153	134	108	113	570	496	531	565	603	459	478	
Finland	13	15	14	15	12	10	9	131	124	114	111	107	86	89	515	501	518	544	580	438	459	
Sweden	33	41	38	37	30	24	24	330	343	318	353	330	265	276	1,170	1,066	952	1,099	1,051	622	651	
United Kingdom	456	447	501	498	473	373	401	2,588	2,445	2,278	2,687	2,636	2,119	2,204	2,367	3,394	1,821	3,478	-1,579	-613	-243	
<b>Total</b>	<b>1,925</b>	<b>1,955</b>	<b>2,152</b>	<b>2,156</b>	<b>1,776</b>	<b>1,419</b>	<b>1,427</b>	<b>12,247</b>	<b>12,156</b>	<b>11,706</b>	<b>13,112</b>	<b>12,814</b>	<b>10,301</b>	<b>10,714</b>	<b>34,230</b>	<b>33,148</b>	<b>31,164</b>	<b>35,121</b>	<b>31,250</b>	<b>22,601</b>	<b>24,121</b>	
	<b>TOTALS</b>																					
	<b>Fourth Resource Contributions</b>						<b>TOTALS</b>						<b>TOTALS</b>									
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>			
Belgium	918	1,012	1,124	1,101	1,118	1,381	1,754	2,972	3,131	3,196	3,389	3,532	3,667	2,972	3,131	3,196	3,389	3,532	3,228	3,667		
Denmark	538	745	724	720	720	938	1,197	1,506	1,695	1,656	1,685	1,778	2,017	1,506	1,695	1,656	1,685	1,778	1,735	2,017		
Germany	7,281	8,783	9,329	8,964	8,037	10,700	13,512	21,217	20,633	21,069	21,775	19,727	22,010	21,217	20,633	21,069	21,775	19,727	18,860	22,010		
Greece	416	525	567	535	522	716	936	1,178	1,310	1,349	1,334	1,350	1,639	1,178	1,310	1,349	1,334	1,350	1,371	1,639		
Spain	1,940	2,330	2,630	2,617	2,569	3,443	4,432	5,368	5,752	6,231	6,445	6,592	7,800	5,368	5,752	6,231	6,445	6,592	6,650	7,800		
France	4,793	5,785	6,249	6,009	5,687	7,690	9,737	13,186	13,584	13,994	14,511	14,471	16,577	13,186	13,584	13,994	14,511	14,471	14,228	16,577		
Ireland	190	343	435	422	482	532	704	687	985	1,060	1,074	1,211	1,252	687	985	1,060	1,074	1,211	1,049	1,252		
Italy	3,666	4,802	5,148	5,043	4,924	6,445	8,218	8,667	10,582	10,766	11,000	11,612	13,606	8,667	10,582	10,766	11,000	11,612	11,653	13,606		
Luxembourg	60	88	87	76	109	103	135	171	217	194	185	256	232	171	217	194	185	256	193	232		
Netherlands	1,283	1,589	1,700	1,788	1,691	2,293	2,948	4,838	5,105	5,091	5,497	5,517	5,742	4,838	5,105	5,091	5,497	5,517	4,914	5,742		
Austria	738	868	915	893	848	1,087	1,374	2,110	2,086	2,054	2,094	2,091	2,178	2,110	2,086	2,054	2,094	2,091	1,853	2,178		
Portugal	353	431	512	507	498	637	811	1,078	1,104	1,228	1,255	1,266	1,428	1,078	1,104	1,228	1,255	1,266	1,227	1,428		
Finland	403	505	565	556	535	698	892	1,062	1,146	1,211	1,226	1,233	1,449	1,062	1,146	1,211	1,226	1,233	1,231	1,449		
Sweden	793	934	1,042	1,144	926	1,214	1,600	2,326	2,383	2,349	2,633	2,338	2,551	2,326	2,383	2,349	2,633	2,338	2,126	2,551		
United Kingdom	3,518	6,252	6,484	7,204	6,214	8,728	11,156	8,928	12,537	11,084	13,867	7,743	13,518	8,928	12,537	11,084	13,867	7,743	10,607	13,518		
<b>Total</b>	<b>26,891</b>	<b>34,991</b>	<b>37,510</b>	<b>37,580</b>	<b>34,879</b>	<b>46,604</b>	<b>59,404</b>	<b>75,293</b>	<b>82,249</b>	<b>82,531</b>	<b>87,969</b>	<b>80,718</b>	<b>80,925</b>	<b>75,293</b>	<b>82,249</b>	<b>82,531</b>	<b>87,969</b>	<b>80,718</b>	<b>80,925</b>	<b>95,666</b>		

Notes:

1. Source figures for 1997 to 2001 are taken from the European Commission: Allocation of 2001 EU Operating Expenditure by Member State. Figures for 2002 are taken from Supplementary & Amending Budget (S&AB) No.3/2002. Figures for 2003 are taken from the 2003 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 and 2003.
4. The figures for VAT contributions are after abatement.
5. Because of rounding the column totals do not necessarily equal the sum of the individual items.

Table 2A: Community Budget Own Resources (continued)

£ million

	Agricultural and Sugar Levies					Customs Duties					VAT Contributions										
	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
Belgium	59	63	65	57	41	36	34	664	703	661	691	734	597	642	692	656	638	646	726	529	568
Denmark	28	28	30	28	18	17	14	171	170	165	165	163	132	142	468	439	419	395	477	352	377
Germany	297	282	306	296	208	190	170	2,069	1,906	1,793	1,746	1,750	1,423	1,529	7,239	5,766	5,629	5,764	5,311	3,519	3,825
Greece	13	13	14	11	13	7	11	100	97	110	112	100	81	87	412	417	391	364	402	324	359
Spain	47	47	62	50	41	33	34	388	448	477	510	522	424	456	1,927	1,803	1,832	1,773	1,939	1,559	1,699
France	229	218	234	220	178	130	143	839	790	744	782	760	618	665	4,715	4,227	4,120	4,178	4,524	3,363	3,638
Ireland	8	7	8	7	5	4	4	147	125	107	114	94	76	82	187	299	296	276	354	244	270
Italy	90	111	123	117	77	77	63	682	740	719	788	793	645	693	2,674	3,029	2,857	2,726	3,289	2,554	2,747
Luxembourg	0	0	0	0	0	0	0	15	14	13	14	12	10	11	61	72	57	52	79	47	52
Netherlands	159	150	154	148	165	112	141	1,032	985	907	917	921	748	805	1,259	1,225	1,171	1,195	1,294	787	870
Austria	26	27	28	26	18	16	14	149	135	133	139	125	101	109	771	656	589	567	630	364	399
Portugal	25	29	28	18	19	14	17	82	91	94	93	84	68	73	393	333	350	344	375	289	311
Finland	9	10	9	9	7	6	6	91	83	75	67	66	54	58	355	336	341	331	361	275	298
Sweden	23	27	25	22	19	15	16	227	230	209	215	205	167	179	806	715	626	670	654	391	423
United Kingdom	314	300	330	303	294	234	261	1,784	1,641	1,499	1,637	1,639	1,332	1,433	1,631	2,279	1,199	2,120	-982	-385	-158
<b>Total</b>	<b>1,327</b>	<b>1,312</b>	<b>1,416</b>	<b>1,314</b>	<b>1,104</b>	<b>893</b>	<b>927</b>	<b>8,440</b>	<b>8,160</b>	<b>7,705</b>	<b>7,990</b>	<b>7,968</b>	<b>6,477</b>	<b>6,964</b>	<b>23,591</b>	<b>22,253</b>	<b>20,513</b>	<b>21,402</b>	<b>19,432</b>	<b>14,212</b>	<b>15,679</b>
<b>Fourth Resource Contributions</b>																					
<b>TOTALS</b>																					
	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
Belgium	633	679	740	671	695	868	1,140	2,048	2,102	2,104	2,065	2,196	2,030	2,384	2,048	2,102	2,104	2,065	2,196	2,030	2,384
Denmark	371	500	476	439	447	590	778	1,038	1,138	1,090	1,027	1,105	1,091	1,311	1,038	1,138	1,090	1,027	1,105	1,091	1,311
Germany	5,018	5,896	6,141	5,462	4,998	6,728	8,783	14,623	13,851	13,868	13,269	12,267	11,859	14,307	14,623	13,851	13,868	13,269	12,267	11,859	14,307
Greece	287	352	373	326	324	450	608	812	880	888	813	840	862	1,066	812	880	888	813	840	862	1,066
Spain	1,337	1,564	1,731	1,595	1,597	2,165	2,881	3,699	3,862	4,102	3,928	4,099	4,181	5,070	3,699	3,862	4,102	3,928	4,099	4,181	5,070
France	3,303	3,884	4,113	3,662	3,536	4,836	6,329	9,087	9,119	9,211	8,843	8,998	8,947	10,775	9,087	9,119	9,211	8,843	8,998	8,947	10,775
Ireland	131	230	286	257	300	334	458	473	661	698	655	753	660	814	473	661	698	655	753	660	814
Italy	2,527	3,223	3,388	3,073	3,062	4,053	5,342	5,973	7,104	7,086	6,703	7,221	7,328	8,844	5,973	7,104	7,086	6,703	7,221	7,328	8,844
Luxembourg	41	59	57	47	68	65	88	118	146	128	113	159	122	151	118	146	128	113	159	122	151
Netherlands	884	1,067	1,119	1,090	1,051	1,442	1,916	3,334	3,427	3,351	3,350	3,430	3,090	3,732	3,334	3,427	3,351	3,350	3,430	3,090	3,732
Austria	509	583	602	544	528	684	893	1,454	1,400	1,352	1,276	1,300	1,165	1,416	1,454	1,400	1,352	1,276	1,300	1,165	1,416
Portugal	243	289	337	309	309	401	527	743	741	808	765	787	772	928	743	741	808	765	787	772	928
Finland	278	339	372	339	332	439	579	732	769	797	747	767	774	942	732	769	797	747	767	774	942
Sweden	547	627	686	697	576	764	1,040	1,603	1,600	1,546	1,604	1,454	1,337	1,658	1,603	1,600	1,546	1,604	1,454	1,337	1,658
United Kingdom	2,424	4,197	4,268	4,390	3,864	5,488	7,251	6,153	8,417	7,296	8,450	4,815	6,670	8,786	6,153	8,417	7,296	8,450	4,815	6,670	8,786
<b>Total</b>	<b>18,532</b>	<b>23,490</b>	<b>24,690</b>	<b>22,901</b>	<b>6,465</b>	<b>8,637</b>	<b>27,223</b>	<b>41,173</b>	<b>46,170</b>	<b>49,822</b>	<b>50,983</b>	<b>50,769</b>	<b>53,437</b>	<b>54,382</b>	<b>41,173</b>	<b>46,170</b>	<b>49,822</b>	<b>50,983</b>	<b>50,769</b>	<b>53,437</b>	<b>54,382</b>

Notes:

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

Source: 1997 to 2001 taken from the European Commission: Allocation of 2001 EU Operating Expenditure by Member State. Figures for 2002 are taken from Supplementary and Amending Budget (S&amp;AB) No. 3/2002. Figures for 2003 are taken from the 2003 Adopted Budget.

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

	€ million							£ million						
	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
<b>Gross Contributions</b>														
Agriculture & Sugar Levies	459	448	502	497	471	415	333	316	301	331	303	293	261	216
Customs Duties	2,612	2,445	2,290	2,676	2,633	1,636	1,886	1,800	1,641	1,507	1,630	1,637	1,029	1,226
VAT Own Resources	5,292	5,597	5,956	6,734	5,827	4,326	4,790	3,647	3,758	3,921	4,104	3,624	2,720	3,113
Fourth Resource payments	3,880	5,238	6,698	6,966	6,230	8,373	10,895	2,674	3,516	4,409	4,245	3,874	5,265	7,082
VAT & Fourth Resource adjustments	-647	1,302	183	388	-79	260	87	-446	874	120	236	-49	164	57
United Kingdom Abatement	-2,515	-2,052	-4,817	-3,421	-7,333	-4,928	-5,033	-1,733	-1,378	-3,171	-2,085	-4,560	-3,099	-3,272
<b>Total Contributions</b>	<b>9,080</b>	<b>12,978</b>	<b>10,812</b>	<b>13,839</b>	<b>7,750</b>	<b>10,082</b>	<b>12,958</b>	<b>6,258</b>	<b>8,712</b>	<b>7,117</b>	<b>8,433</b>	<b>4,819</b>	<b>6,340</b>	<b>8,423</b>
<b>Public Sector Receipts</b>														
EAGGF Guarantee	4,598	4,332	4,101	4,105	3,992	3,863	4,078	3,169	2,908	2,700	2,502	2,482	2,429	2,651
EAGGF Guidance	83	83	73	135	41	:	78	57	56	48	82	25	:	51
European Regional Development Fund	1,178	531	434	1,622	873	246	1,421	812	357	286	989	543	155	924
European Social Fund	893	1,167	660	1,081	595	189	985	616	783	434	659	370	119	640
Other Receipts	11	16	17	16	4	1	12	7	11	11	10	2	:	8
<b>Total Receipts</b>	<b>6,763</b>	<b>6,130</b>	<b>5,285</b>	<b>6,959</b>	<b>5,505</b>	<b>4,298</b>	<b>6,575</b>	<b>4,661</b>	<b>4,115</b>	<b>3,479</b>	<b>4,241</b>	<b>3,423</b>	<b>2,703</b>	<b>4,274</b>
<b>Net Contributions</b>	<b>2,317</b>	<b>6,848</b>	<b>5,526</b>	<b>6,880</b>	<b>2,245</b>	<b>5,784</b>	<b>6,383</b>	<b>1,597</b>	<b>4,597</b>	<b>3,638</b>	<b>4,192</b>	<b>1,396</b>	<b>3,637</b>	<b>4,149</b>

Notes:

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

1. For all years sterling figures reflect payments made during the year, not payments in respect of particular budgets. The corresponding euro figures have been converted from sterling at the appropriate annual exchange rate (see glossary).

2. The figures for contributions of customs duties, including those on agricultural products, and sugar levies in 2003 are based on UK projections of our sterling payments to be made during the year.

3. The figures for 2003 are forecasts, those for earlier years are outturn.

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

Source: HM Treasury.

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