

European Community Finances

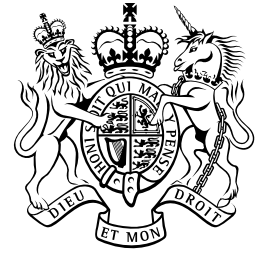
Statement on the 2007 EC Budget and measures to counter fraud and financial mismanagement

May 2007



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European Community Finances

Statement on the 2007 EC Budget and measures to counter fraud and financial mismanagement

Presented to Parliament
by the Economic Secretary to the Treasury
by Command of Her Majesty

May 2007

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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-seventh in the series. It describes the EC Budget for 2007 as adopted by the European Parliament; and sets out details of the United Kingdom's gross and net contributions to the EC Budget over the financial years 2001-2002 to 2006-2007, together with an estimate for 2007-2008, and over the calendar years 2001 to 2006, together with an estimate for 2007. It also includes details of recent developments in EC financial management and the fight against fraud.

The Budget Process **2.1** The annual EC Budget is established by the budgetary authority, which consists of the Council of Ministers and the European Parliament.

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

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 establishing the European Community or from Acts adopted in accordance with it. Compulsory expenditure amounts to approximately 38.5% (payment appropriations¹) of the Budget, of which the Common Agricultural Policy (CAP) is the largest part. The European Parliament has the final say on all other, non-compulsory, expenditure (i.e. the remainder of the Budget).

The Financial Perspective 2007-2013 **2.4** Since 1988, the annual Budget has been set within a multi-annual expenditure framework known as the Financial Perspective. The new 2007-2013 Financial Perspective sets out annual expenditure ceilings for six broad headings², which the budgetary authority must respect when it determines the Budget. These headings differ in some respects from those of the 2000-2006 Financial Perspective (see paragraph 3.2). These 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 The European Council reached agreement on the new Financial Perspective on 17 December 2005, under the UK's presidency of the EU. As part of this agreement, the European Council also agreed the following policy measures:

- to increase expenditure on research and development by at least 75% by 2013;
- a number of technical changes to simplify the management of the Structural and Cohesion Funds in the poorer Member States;
- to respect the October 2002 ceilings for expenditure on CAP pillar one (market support and direct payments);
- to stabilise expenditure on CAP pillar two (rural development) at current levels, but allow Member States to transfer up to a further 20% of their CAP pillar one allocations without the need for co-financing or minimum spending requirements;

¹ Definition of commitment and payment appropriations can be found in the glossary

² Sustainable growth; preservation and management of natural resources; citizenship, freedom, security and justice; the EU as a Global Player; administration; and compensations

- that spending on freedom, security and justice should rise by 15% a year over the period; and
- that 90% of the external actions budget should be official development assistance, and the European Development Fund should remain outside the EC Budget.

2.6 The European Parliament subsequently approved the expenditure side of the Financial Perspective, with some modifications, which was formalised in an Inter-Institutional Agreement (IIA) between the Parliament, the Council and the Commission in April 2006. The IIA made a number of changes to the agreement reached in December 2005 including:

- an overall increase of €1.9 billion (£1.3 billion)³ above the December agreement, representing 0.22% of the total budget. This increase is divided between headings;
- recognising the need for budget discipline, the Flexibility Instrument was set at €200 million (£136 million) per annum over the 2007-2013 period; and
- introducing measures aimed at increasing budget discipline, such as the certification of national accounts by Member States.

The following table shows the breakdown of expenditure by policy heading over the period 2007-2013. Following agreement on the IIA, total commitment appropriations were set at €864.3 billion (£586.2 billion) in 2004 prices, equivalent to 1.05% of EU Gross National Income over the period 2007-2013.

Expenditure	IIA Total 2007-2013, € billion	Total 2007-2013 As share of budget
Ia .Competitiveness for Growth and Employment	74.1	8.6%
Ib. Cohesion for Growth and employment	308.0	35.6%
2. Preservation and management of natural resources:	371.3	43.0%
<i>Of which market related agricultural expenditure and direct payments</i>	<i>293.1</i>	<i>33.9%</i>
3a. Freedom, Security and Justice	6.6	0.8%
3b. Citizenship	4.1	0.5%
4. The EU as a Global Player	49.4	5.7%
5. Administration	49.8	5.8%
6. Compensations	0.8	0.1%
TOTAL	864.3	100%

³ An explanation of the exchange rates used throughout this statement can be found in the glossary

2.7 On the revenue side, the European Council agreed that:

- the rate at which VAT payments are made is fixed at 0.3% of each Member State's GNI, except for the following countries, for the period 2007-2013:

Member State	VAT payment rate
Austria	0.225%
Germany	0.150%
Netherlands	0.100%
Sweden	0.100%

- for the period 2007-2013, Netherlands and Sweden would have their annual GNI-based contributions reduced by €605 million (£412.4 million) and €150 million (£102.3 million) respectively;
- the UK abatement would remain; and
- by 2013, the UK abatement would be calculated on all allocated expenditure in the EU15⁴ and all CAP direct payments, market support and EAGGF guarantee expenditure in the EU12⁵. Other expenditure in the EU12 would be progressively excluded from the abatement calculation according to the following schedule:

Year	Share of expenditure in EU12 to be excluded
2007	0%
2008	0%
2009	20%
2010	70%
2011	100%
2012	100%
2013	100%

- During the period 2007-2013, the additional contribution from the UK would not be higher than €10.5 billion (£7.2 billion) by comparison with the application of the current Own Resources Decision (ORD)⁶. This amount is subject to adjustment in the case of future enlargement.

⁴ EU15: Member States as at 30 April 2004

⁵ EU12: Member States that joined on 1 May 2004 and 1 January 2007.

⁶ ORD of September 2000, which took effect from 1 January 2002, see glossary for further details

2.8 The European Council also invited the Commission to undertake a comprehensive review of the EC Budget, both expenditure (including the CAP) and resources (including the UK abatement), to report in 2008-2009. At that time, the European Council could take decisions on any issue covered by the review, including considering changes to the current Financial Perspective. This Review would also be taken into account in the preparatory work for the next Financial Perspective. (See Box 2.1).

Box 2.1: EC Budget Review

The December 2005 European Council invited the Commission to undertake a comprehensive review of the EC Budget, both of expenditure (including the Common Agricultural Policy (CAP)) and of resources (including the UK abatement), to report in 2008-2009.

The Commission have indicated that they will begin the review later this year by launching a consultation process with all interested stakeholders. In responding to the consultation, the UK will emphasise that the principle of sound financial management must be to the fore in the Commission's approach. But building on a base of financial probity, the review must also ask: what is the role for the EU in any given policy area?; and does it necessarily require spending?.

With 40% of the total EC Budget still being spent on the CAP, and with more than 60% of Structural and Cohesion Fund expenditure still being directed to rich Member States, the UK will continue to argue that this is hardly a Budget designed to meet the challenges of the 21st century. The UK will therefore argue that the following principles should guide the Review:

- First, that the EU should act only where there are clear additional benefits from collective efforts compared to action solely by individual Member States, the aim being to advance the UK's and the EU's public interest together. Applying this principle means that there is a strong case for budgetary assistance to less well-off Member States, helping them make the infrastructure and institutional investments needed to support their economic growth, in turn helping to develop the wider European economy.
- Second, where EU-level action is appropriate, it should be proportionate and flexible. While there is a clear case for European spending on some objectives, it must be recognised that there are very real limits to the case for European budgetary intervention. Expenditure is only one of a range of policy levers alongside: coordination through peer review and shared best-practice, such as in aspects of social policy; competition policy and liberalisation, such as in the Single Market; and legislation or regulation, such as the setting of environmental emission levels. Where expenditure is appropriate, we will also encourage the consideration of a wide range of other sources of financing. The European Investment Bank, for example, is pioneering the use of loan support to aid the development of climate change financial instruments, such as the Climate Change Finance Facility.
- Third, the EU needs the highest standards of financial control and independent audit - alongside continuing budget discipline.

2.9 This is the first Financial Perspective for a European Union that now comprises 27 Member States. It represents a good deal for the European Union and for the UK, not least in its continuing commitment to the principle of the UK abatement:

- in line with principles of sound public expenditure management, expenditure as a share of EU GNI will fall from 1.10% (commitments) in 2007 to 1.00% in 2013, the lowest level in twenty years, and budget growth is limited to 13% in real terms over the period 2007-2013, consistent with the Union's budgetary needs;
- it provides for a fundamental review of all aspects of the Budget, with a Commission report in 2008-2009 on which Council can take immediate decisions;
- the UK abatement remains in full on all expenditure in the EU15, and on CAP market expenditure everywhere in the Union. Expenditure on economic development in the new Member States will gradually be disappplied from the abatement calculation, from 2009, but the abatement will be worth more under this Financial Perspective than between 2000 and 2006;
- it completes the transition to full Structural and Cohesion Fund allocations for the new Member States, resulting in a seven-fold increase in spending compared to 2004-2006;
- it provides for an abatement that rises in value while the size of the budget is declining. This means that for the first time, the UK's net contributions will be in rough parity with those of France and Italy and a process exists to lead to the necessary reform of the CAP; and
- compared to 2006, it provides for at least a 75% real terms increase in expenditure on research and development by 2013.

2.10 The revenue side will be taken forward through a new ORD, which has been agreed by unanimity by Member States. This now has to be ratified by all Member States in accordance with their own constitutional requirements. In the UK, this will involve primary legislation, amending the 1972 European Communities Act. Following ratification, the ORD will come into effect from 1 January 2009 with some aspects of it being retrospective to 1 January 2007.

The 2007 Budget **2.11** The 2007 Budget was negotiated under the Finnish Presidency of the EU. Table 2.1 sets out the amounts established at each stage of the budgetary procedure, which ran from May to December 2006, and relates these to the new Financial Perspective ceilings. Tables 1A to 1D (page 41 to 47) provide figures for previous years' Budgets.

Table 2.1: 2007 EC Budget

Commitment Appropriations	€ million						
	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 2007	Adopted Budget 2006 ¹
1 Sustainable Growth	54,405	54,283	54,269	54,234	54,775	54,855	47,515
2 Preservation and Management of Natural Resources	58,351	57,218	56,472	57,606	56,241	56,250	55,691
3 Citizenship, Freedom Security and Justice	1,273	1,174	1,148	1,234	1,150	1,246	1,165
4 The EU as a Global Player	6,578	6,703	6,593	6,769	6,401	6,578	8,292
5 Administration	7,039	7,002	6,873	6,956	6,5850	6,942	6,604
6 Compensations	445	445	445	445	445	445	1,074
Total Commitment Appropriations	128,091	126,824	125,799	127,335	125,587	126,551	121,190
Total Payment Appropriations		116,418	114,656	122,016	114,329	115,497	111,969
Payment Appropriations as a percentage of Community GNI		0.99%	0.98%	1.04%	0.97%	0.99%	1.01%

Notes:

¹Includes all Amending Budgets

Source: Commission's documentation on 2007 Adopted Budget and 2006 Adopted and Amending Budgets.

2.12 The adopted 2007 EC Budget provides for commitment appropriations of €126.6 billion (£85.0 billion), an increase of 4.4% compared to 2006; and payment appropriations of €115.5 billion (£77.6 billion) (0.99% of EU GNI), an increase of 3.2% over 2006. The commitment and payment appropriations are within the limits provided under the Financial Perspective and the ORD. The payment appropriations for each of the six categories of the EC Budget are as shown in Chart 2.1.

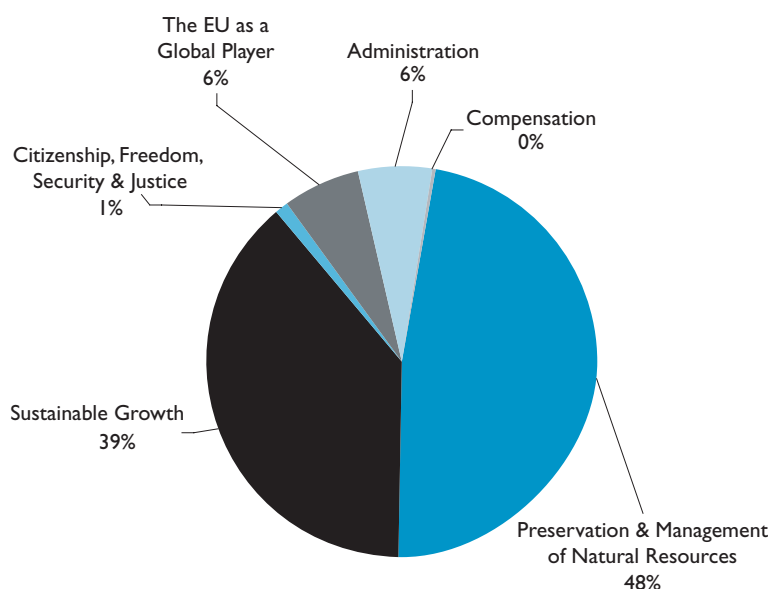
2.13 The key changes in the 2007 Budget compared with previous years are as follows:

- **Heading 1: Sustainable Growth** – this is aimed at building Europe's growth potential and fostering prosperity across EU regions. Overall commitments have been set at €54.9 billion (£36.9 billion), around 15% more than in 2006. Transforming the EU economy into a knowledge-based economy requires extensive investment in education, research, as well as transport and energy networks. In 2007, the EC Budget will allocate €5.5 billion (£3.7 billion) to research (+3.1% from 2006), €1 billion (£0.7 billion) to energy and transport networks (+32.9%) and €0.9 billion (£0.6 billion) to education and training (+31%). Funds for innovation will increase by 53.6% to reach €0.4 billion (£0.3 billion). Nearly €45.5 billion (£30.6 billion) (+14.8%) will be available to foster prosperity across Europe's regions and boost innovation and competitiveness.

- **Heading 2: Preservation and Management of Natural Resources** – this includes the CAP and fisheries spending, rural development, as well as measures aiming to contribute to safer and better food, and a cleaner environment. Commitments were set at €56.3 billion (£37.8 billion). Payments were set at €54.7 billion (£36.7 billion). In accordance with the reform of EU agriculture, the total amount for direct aid and market measures will remain roughly stable (+0.6%) in 2007 at €42.7 billion (£28.7 billion) in commitments. Rural Development expenditure, however, will rise by 3% to reach €12.4 billion (£8.3 billion) in commitments. Budgetary support for environmental policy will also grow considerably, by 17.9% in commitment terms, to more than €40.2 billion (£27.0 billion).
- **Heading 3: Citizenship, Freedom, Security and Justice.** Overall commitments are around 7% more than in 2006 at €1.2 billion (£0.8 billion), and payments around 2% higher at €1.2 billion (£0.8 billion). EU spending in the field of Freedom, Security and Justice (Heading 3a) will grow by 12.8% to reach a total of €0.6 billion (£0.4 billion) in 2007. The allocations for Citizenship (Heading 3b), including culture, youth and public health, will amount to some €0.6 billion (£0.4 billion), a level comparable to 2006.
- **Heading 4: The EU as a Global Player** – this contributes to the EU's foreign policy and international development providing assistance to non-EU partners (apart from Africa, the Caribbean, and Pacific countries which are funded from the off-budget European Development Fund). Payments for 2007 are set at €7.4 billion (£5.0 billion), a decrease of around 15% on 2006, while commitments increased by 4.5% to €6.8 billion (£4.6 billion), including €0.2 billion (£0.1 billion) for the Emergency Aid Reserve (considered outside of the Financial Perspective ceiling). From 2007, aid for the candidate and potential candidate countries will be gathered under one single pre-accession instrument. The total amount available in commitment appropriations will increase by 6.5% to reach €1.3 billion (£0.8 billion). A total of €1.5 billion (£1.0 billion) (+11.1%) will be used in fostering development in the European neighbourhood countries. For all other developing regions, the EC Budget foresees €2.3 billion (£1.6 billion) in commitments. This amount is somewhat lower than in 2006, which was marked by the EU's exceptionally high contributions to reconstruction efforts in the tsunami-hit areas, Iraq and Afghanistan. Long-term support to developing regions is, however, increasing.
- **Heading 5: Administration** – this part finances the EU institutions and agencies, including salaries and infrastructure costs. Commitments and payments totalled €6.9 billion (£4.6 billion), an increase of around 5% over the 2006 level.

- **Heading 6: Compensations** – this is designed to ensure that new Member States should not become net contributors at the start of their membership. In 2007, expenditure will decrease by around 60% compared to the previous year, for both commitments and payments, from €1.1 billion (£0.7 billion) to €0.4 billion (£0.3 billion). Compensation payments are temporary measures foreseen in accession treaties. For 2007, this heading covers Cash-Flow and Schengen Facilities, agreed during the accession negotiations with Bulgaria and Romania. The 10 Member States that joined the EU in 2004 will not benefit from 2007 onwards.

Chart 2.1: 2007 EC Budget – Payment Appropriations by Budget Heading



Source: Commission's 2007 Adopted Budget

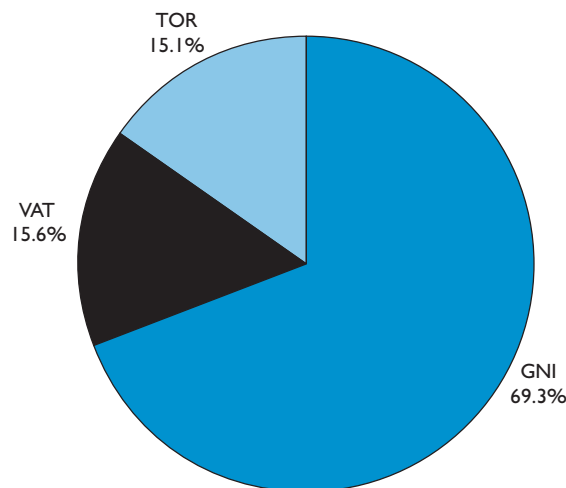
Activity Based Budgeting

2.14 Activity Based Budgeting (ABB) was introduced in 2002 to improve decision-making by ensuring budget allocations more closely reflect pre-defined political priorities and objectives. Similar to Public Service Agreements in the UK, ABB requires the EC Budget to be based on a clear justification for intervention and an evaluation of past performance. It also requires SMART (Specific, Measurable, Achievable, Relevant and Time-bound) objectives and future performance targets that focus on delivering value for money for the EU taxpayer.

2.15 The ABB approach was applied by the Finnish Presidency during the 2007 Budget negotiations, and is becoming increasingly embedded as a planning tool. The UK will continue to work closely with the Commission and other Member States to improve further the implementation of ABB in preparation for the 2008 EC Budget.

Community Revenue 2.16 The ORD provides for four sources of Community revenue: customs duties, including those on agricultural products; sugar levies; VAT- based contributions; 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 can be found in the glossary.

Chart 2.2: 2007 EC Budget Revenue



Source: Commission's 2007 Adopted Budget

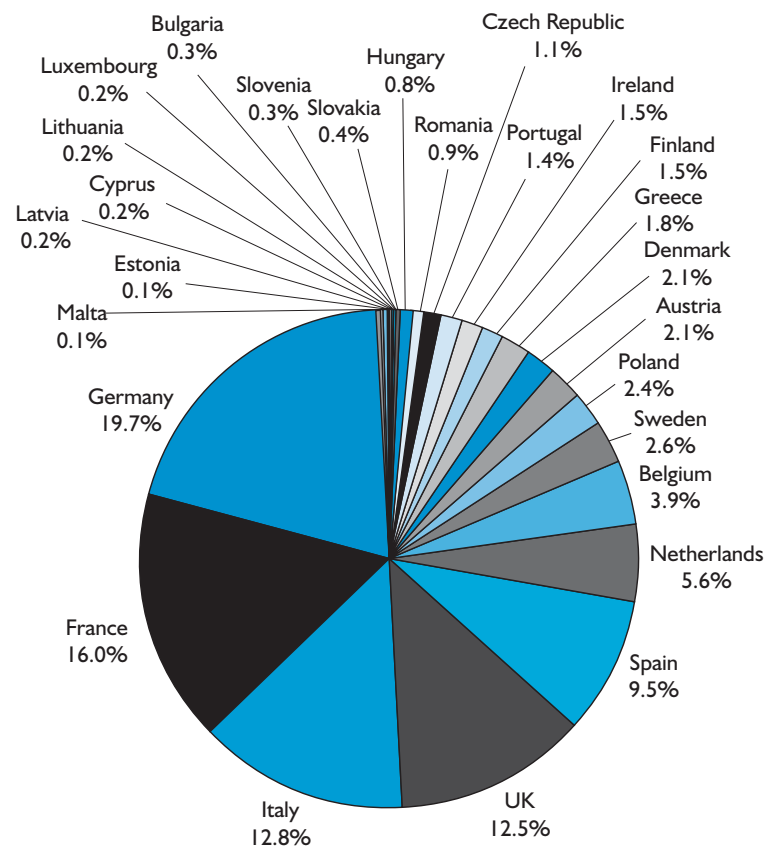
2.17 Chart 2.2 shows a breakdown of the estimates of how the 2007 EC Budget will be financed. Tables 2A and 2B (page 43 to 46) show the gross contributions by Member State, after taking account of the UK abatement, between 2001 and 2007. The key points to note in terms of the UK's contribution are:

- TOR in 2007 are estimated to be around €17.3 billion (£11.6 billion), with the UK's share estimated at 17.8%. In 2006, revenue from this source was estimated to be €14.9 billion (£10.0 billion), of which the UK's share was 17.9%;
- VAT-based contributions in the 2007 EC Budget are shown as €17.8 billion (£12.0 billion), with the UK's share some 18%. In 2006, total VAT contributions were estimated to be €17.2 billion (£11.7 billion), of which the UK's share was 18.4%;
- GNI-based contributions in the 2007 EC Budget are shown as €79.2 billion (£53.2 billion), of which the UK's share is 16.7%. In 2006, GNI-based contributions, including potential contributions to Community Reserves, were estimated to be €68.9 billion (£47.0 billion) with a UK share of 16.9%; and

- the estimated value of the UK's abatement in 2007 is €5.3 billion (£3.5 billion), compared with a total abatement in the 2006 EC Budget of €4.8 billion (£3.3 billion). A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

2.18 Chart 2.3 shows each Member State's share of financing the 2007 EC Budget, after taking account of the UK abatement.

Chart 2.3: 2007 EC Budget Revenue: Percentage Shares by Member State after UK abatement



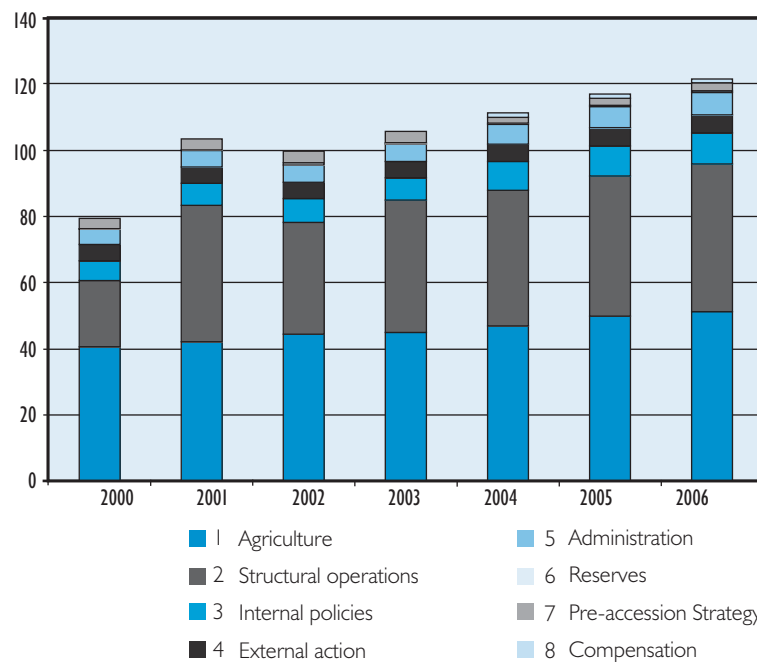
Source: Commission's 2007 Adopted Budget

3

DEVELOPMENTS IN COMMUNITY FINANCES

Expenditure 3.1 Chart 3.1 shows the evolution of Community expenditure during the 2000-2006 Financial Perspective. Over this period, total commitment appropriations rose from €80 billion a year to €121 billion a year, at current prices. Within the total, expenditure on Agriculture has consistently accounted for the largest share of commitment appropriations: around 45% on average, though its share declined towards the end of the period. The other large area of spending was Structural Operations, averaging 35% of commitments, and tending to increase over the period. Of the smaller expenditure headings, Internal Policies accounted for around 7% of commitments, External Actions and Administration around 5% each, and Pre-Accession Aid and Compensations (headings created in 1999 and 2002 respectively to deal with the enlargement of the EU) together around 4%.

Chart 3.1: Developments in Community Spending (commitments) 2007 (€ billion)

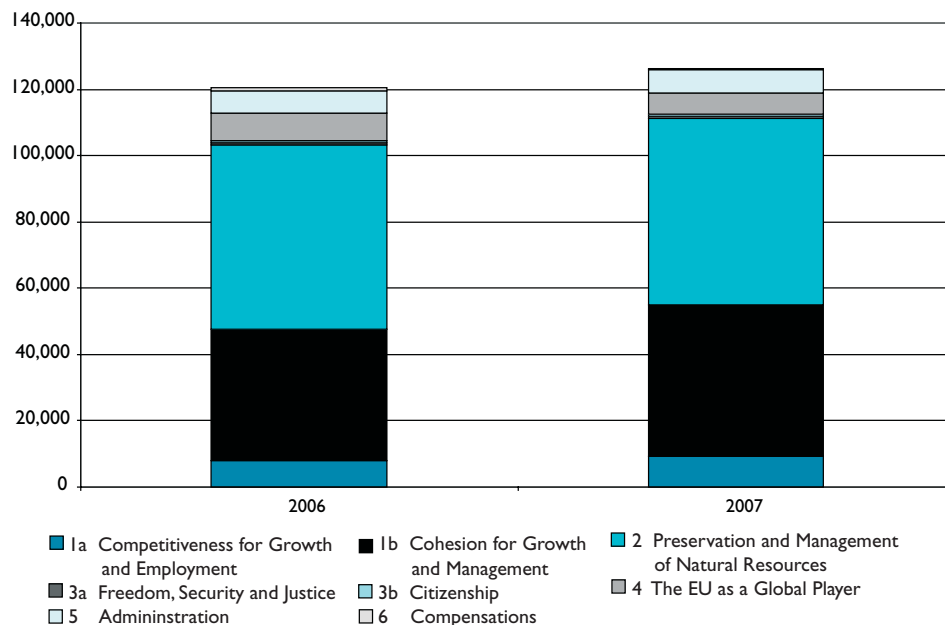


Source: 2000 European Court of Auditors' Report
Commission's 2001-2006 Adopted Budgets

3.2 Chart 3.1A shows the development in Community spending commitments from 2006 to 2007. The Financial Perspective for 2007-13 changed many of the Budget headings. The Agriculture heading became Preservation of Natural Resources. The Structural Operations heading became Sustainable Growth, which is itself split into the two subheadings: Competitiveness for Growth and Employment, and Cohesion for Growth and Management. Internal Policies was split into the Freedom, Security and Justice sub-heading and the Citizenship sub-heading. The External Actions heading was renamed The EU as a Global Player while also incorporating both the Pre-Accession Strategy and the Reserves headings from the old Financial Perspective.

3.3 The most noteworthy difference between the spending commitments for 2006 and those for 2007 is the increase in the following subheadings: Competitiveness for Growth and Employment; and Cohesion for Growth and Employment. Commitments have increased respectively by 18.6% and 14.8% with the aim of transforming the EU into a knowledge based economy, and fostering prosperity across Europe's regions by boosting innovation and competitiveness.

Chart 3.1A: Developments in Community Spending (commitments) 2006-2007 (€ billion)



Source: Commission's 2007 Adopted Budget

NB. Data for previous years is not available broken down into the six new headings of the Financial Perspective 2007-2013

3.4 Further details on spending in recent years are given in Tables 1A to 1D (page 41 to 42). These illustrate commitments and payments for the years 2000-2006 and 2006-2007. They also show the main spending programmes broken down by Financial Perspective category.

Reform of the Common Agricultural Policy (CAP)

3.5 The October 2002 European Council set annual ceilings on the total market-related expenditure and direct payments for the period 2007-2013, as shown in the following table:

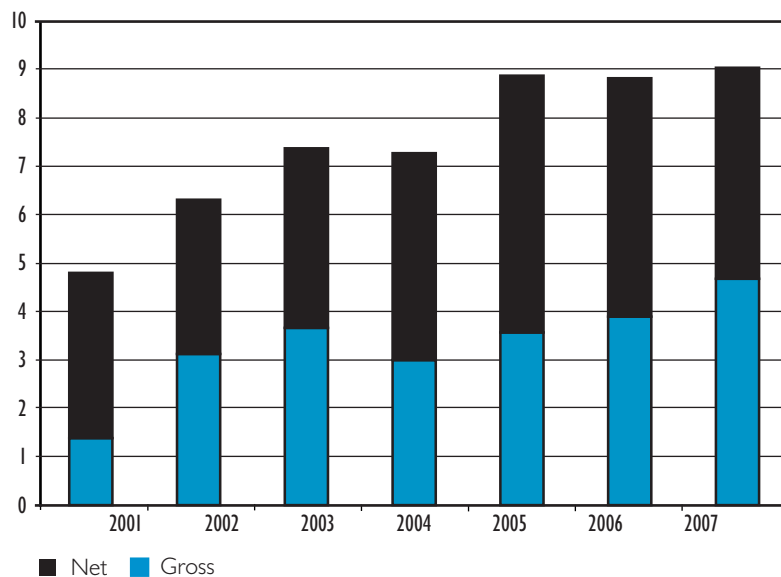
Ceiling for CAP market-related expenditure and direct payments, 2007-2013

(€ million, current prices)						
2007	2008	2009	2010	2011	2012	2013
45,759	46,217	46,679	47,146	47,617	48,093	48,574

3.6 In June 2003, the Agriculture Council agreed a reform package for the CAP. The chief elements, primarily coming into force from 2005, were to decouple direct payments from production, and to make them conditional on minimum agricultural and environmental standards. The 2005 reform package also introduced a financial discipline mechanism, beginning with the 2007 EC Budget, to ensure that the spending ceilings are not exceeded.

3.7 The UK remains a leading advocate of further CAP reform, for example through extending decoupling to the remaining sectors and improving market access for developing countries. The UK set out its vision for the future of the CAP in a White Paper presented to Parliament in December 2005.

Chart 3.2: Profile of UK Gross and Net Contributions (£ billion)



Note: 2007 is an estimate
Source: HM Treasury

The UK's Net Contribution 3.8 Chart 3.2 shows the volatility of the UK's net contribution from year to year. This is because of variations in payments made due to the nature of the ORD; variations in public sector receipts; and, as a result, fluctuations in the UK abatement. For further details, refer to Technical Annex 1 and the glossary. Table 3.1 shows the UK's gross contributions, abatement, public sector receipts, and net contributions to the EC Budget for calendar years 2001-2007. The figures for 2007 are estimates; those for earlier years are outturn. Table 3 (page 47) gives a more detailed breakdown.

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

	£ million						
	2001 Outturn	2002 Outturn	2003 Outturn	2004 Outturn	2005 Outturn	2006 Outturn	2007 Estimated Outturn
Gross payments (1)	9,379	9,438	10,966	10,895	12,483	12,426	12,606
Less: UK Abatement	-4,560	-3,099	-3,559	-3,593	-3,572	-3,569	-3,526
Less: Public sector receipts	-3,430	-3,201	-3,728	-4,294	-5,329	-4,948	-4,380
Net contributions to EC Budget (2)	1,389	3,138	3,679	3,008	3,581	3,909	4,699

Notes:

¹Gross 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.

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

Source: HM Treasury

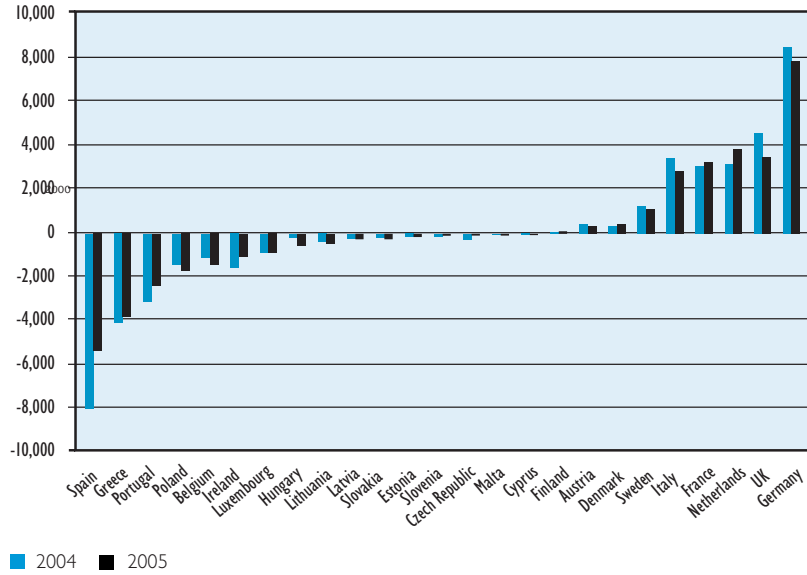
3.9 UK public sector receipts in 2007, mainly from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Social and Regional Development Funds, are expected to be around £4.4 billion. The majority of these receipts will either be paid to or used in support of the private sector, but are channelled through Government departments.

3.10 The Community makes some payments direct to the private sectors, which do not appear in public sector accounts. These are therefore not included in Tables 3 (page 47), 3.1, 3.2 or 3.3. In 2007, these receipts are expected to be around £520 million.

3.11 The UK's 2007 net contribution is forecast at £4.7 billion and the outturn in 2006 was £3.9 billion. The 2006 outturn figure reflects changes resulting from Amending EC Budgets during the course of the year whereas the 2007 figure reflects only the 2007 adopted EC Budget. Amending EC Budgets in 2006 included the return of the surplus from the 2005 EC Budget, which served to reduce Member States contributions to the 2006 EC Budget. Any surplus from the 2006 EC Budget will reduce Member States contributions in 2007 and will impact on the UK's 2007 net contribution forecast. An Amending EC Budget later this year will return any surplus.

3.12 Chart 3.3 shows how the UK's net position compares with those of the other Member States in 2004 and 2005. In 2005, the UK was one of nine net contributors to the EC Budget. Germany was the highest net contributor, paying twice as much as any other Member State. The Netherlands, the UK, France, Italy, and Sweden were the other significant net contributors.

Chart 3.3: Net Receipts/Contributions of Member States in 2004 and 2005 (€ million)



Source: Based on data published in the European Commission Report on the allocation of 2005 EU Operating Expenditure by Member State, published in September 2006.

Note: Chart provides data for the last two years for which information is available and thus a comparison between the two. However, the 2004 data for the ten new Member States cover only the period from 1 May, date of accession, to 31 December 2004 and is not therefore a direct comparison with the data for 2005 which cover the full year.

Financial Year Transactions 3.13 The Community financial year runs from 1 January to 31 December, whereas the UK’s runs from 6 April to 5 April.

3.14 Table 3.2 gives a breakdown of the UK’s transactions with the European Communities on a financial year basis between 2001-2002 and 2006-2007 (estimated outturn). This Table also includes plans for 2007-2008. 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						
	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Estimated Outturn	2007-08 Plans
Gross payments (1)	9,213	9,737	11,371	12,183	11,780	12,245	12,298
Less: UK Abatement	-4,427	-3,233	-3,874	-3,722	-3,641	-3,560	-3,675
Less: Public sector receipts	-3,309	-3,424	-4,235	-4,555	-3,750	-5,439	-5332
Net contributions to EC Budget (2)	1,477	-3080	3,261	3,906	4,389	3,246	3,291
Contributions to reserves and capital of the EIB	0	0	0	0	0	0	0
Grants received from European Coal and Steel Community	-1	0	-2	0	0	0	0
Payments to EC Budget attributed to the aid programme (3)	-635	-736	-799	-697	-704	-668	-705
Net payments to EC institutions (excluding Overseas Aid) (2)	841	2,344	2,460	3,208	3,685	2,577	2,586

Notes:

¹Gross 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.

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

³For 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						
	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Estimated Outturn	2007-08 Plans
Agricultural Guarantee Fund	2,631	2,548	2,837	2,771	1,705	3,308	3,709
Agricultural Guidance Fund	18	2	22	30	85	43	61
Social Fund	146	501	345	692	739	1,279	725
Regional Development Fund	501	359	1,017	1049	1206	734	769
Other Receipts	14	13	13	12	15	75	65
Total	3,309	3,424	4,235	4,555	3,750	5,439	5,332

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

Source: HM Treasury

3.15 The latest estimate of UK net contributions in 2006-2007 takes account of a change in the pattern of the VAT-based and GNI-based contributions together with the UK abatement, in the first quarter of 2007. Payments to the EC Budget are scheduled on a monthly basis, but the Commission can ask Member States for earlier payments of VAT-based and GNI-based contributions, and the UK abatement, to take account of the high CAP payments which take place in the first months of the year. At the time of the 2006 Pre-Budget Report (PBR), no draw-forward was estimated. A draw-forward of (1.5/12ths) was subsequently requested, which meant that a total of (4.5/12ths) was paid in the first quarter of 2007. As a result, payments for the rest of 2007, which will all fall into the 2007-2008 financial year, will be lower.

3.16 The forecast net contribution for 2007-2008 is £1.2 billion lower than at the time of the 2006 PBR. This is primarily the result of using the adopted EC Budget for 2007 and an estimated reduction in the expected size of the 2008 EC Budget.

Measuring Net Contributions

3.17 In accordance with a commitment to the PAC, Technical Annex II explains the main differences between the Government's figures and those which can be derived from the European Commission report on the allocation of 2005 operating expenditure.

4

FINANCIAL MANAGEMENT AND ANTI-FRAUD ISSUES

European Court of Auditors' annual report on the 2005 Budget

4.1 The Annual Report and Statement of Assurance from the European Court of Auditors on the 2005 EC Budget were published on 24 October 2006. As usual, the report covered the main areas of the EC Budget – own resources, agriculture, structural funds, internal policies, external actions, pre-accession strategy, administrative expenditure, and financial instruments and banking activities. The report also included a separate Statement of Assurance on the European Development Funds, which are separate from the EC Budget.

4.2 The Court noted that 2005 was the first full year in which the EU had 25 Member States. It also noted the introduction of accruals-based accounting, and the preparation of consolidated financial statement on this basis. The Court also noted a continued improvement in the Commission's internal control system.

4.3 The year also saw a proposal for modifying the Financial Regulation⁷, which will effectively simplify and improve procedures. However, the Court noted that significant improvement was still required in areas where financial management was shared between the Commission and Member States. It was felt to be of critical importance that the Commission work with Member States to identify weaknesses in the design and operation of schemes, and introduce appropriate remedial action.

European Court of Auditors' Statement of Assurance

4.4 The Court's audit of the EC accounts shows, as in previous years, that they faithfully reflect the revenue and the expenditure of the Communities for the year, and their financial position. However as in previous years, the Court has given only a partially positive opinion on the reliability of the accounts, and on the legality and regularity of revenue, commitments, pre-accession aid and administrative payments.

4.5 The Court found that revenue, commitments, administrative expenditure and pre-accession expenditure, with the exception of the SAPARD programme, were both legal and regular. In addition, for CAP expenditure, the Court's audit once again found that, where properly applied, the Integrated Administration and Control System (IACS) provided an effective system to limit the risk of irregular expenditure. The Court noted that in the area of pre-accession expenditure, there were still significant risks at the level of implementing organisations in the acceding and candidate countries for all programmes and instruments. The Court noted that in other areas, payments were still materially affected by errors and felt that the Commission and Member States needed to make greater effort to implement adequate supervisory and control systems in order to address this.

⁷ Financial Regulation now agreed and due to come into effect in 2007

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

- **Own resources (revenue):** The Court found minor errors in customs declarations but these had no material effect on the accounts. As in previous years, the Court's audit and the Commission's inspections found systematic problems with the B accounts in some Member States. Despite the issues highlighted, the Court still found that in all material respects, the systems for customs supervision were satisfactory, the accounts recording own resources were reliable and the underlying transactions legal and regular. The Court also found that, on the basis of data supplied by Member States, the VAT-based and GNI-based resources in all material respects were correctly calculated, collected and entered in the Community accounts by the Commission but the Court's audit work on GNI identified weaknesses that could impact on the quality of the data used to establish Member States' GNI-based contributions;
- **CAP:** The Court found that, where properly applied, IACS was an effective tool in limiting the risk of irregular expenditure to an acceptable level. However, the Court found evidence that expenditure which is not subject to IACS, or where IACS is not properly applied or has been recently introduced, poses greater risk because control systems are not as effective. The Court concluded that CAP expenditure, viewed as whole, was still materially affected by errors;
- **Structural measures:** The Court again found that the Commission did not maintain effective supervision to mitigate the risk that controls delegated to Member States fail to prevent the reimbursement of overstated or ineligible expenditure. For both the 1994 to 1999 and 2000 to 2006 programming periods, the Court found that expenditure was not free of material irregularities;
- **Internal policies:** Despite progress in certain areas, the Court's audit revealed weaknesses in the supervisory and control systems, which led to a material incidence of errors in payments to beneficiaries. Errors arise mainly from complicated cost reimbursement systems and unclear procedures and instructions governing the different programmes;
- **External actions:** The Court found that the improvements to the Commission's supervisory and control systems had not yet had an impact at the implementing organisation level, where a material level of error still exists. This can be attributed to the lack of a comprehensive approach to supervision, control and audit of these organisations;
- **Pre-accession strategy:** The Court found that, overall, transactions audited were not materially affected by error except for those under the SAPARD programme, where significant errors were found. The Court noted the improvements made in the supervisory and control systems at the level of the Commission, but weaknesses were noted at national level. In the case of the PHARE and Turkey programmes and ISPA projects, the relatively high frequency of these weaknesses were compensated by corrective action resulting from the Commission delegations' *ex-ante* controls;

- **Administrative expenditure:** improvements had been made in the supervisory and control systems in all institutions, as required by the revised (2002) Financial Regulation but some Member States had not fully implemented all of their Internal Control Standards. The Court's audit did not however reveal material errors affecting the legality and regularity of administrative expenditure;
- **EU agencies:** The Court audited 18 agencies with budgets totalling €926.8 million (£619.6 million) compared with €885.3 million (£591.9 million) in 2004 and found that the Commission did not always comply with the rule that fund transfers should be based on regular and justified estimates of the agencies' cash requirements. The Court also found that several agencies had not assessed their operational risk and that, as a general rule, activity-based management had not been introduced within the agencies; and
- **Financial instruments and banking activities:** In respect of the phasing-out of risk capital operations, the Court found persistent monitoring weaknesses and failure to protect the financial interests of the Communities. Regarding the European Coal and Steel Community in liquidation, the Court found that the investment strategy had not yet achieved the proposed maturity distribution target for the portfolio, and a constant excess of liquidity was noted. In particular, they noted a backlog of €7.7 million (£5.1 million) relating to Coal Research projects, which were awaiting processing by the Commission, resulting in a negative impact on liquidity management. The Court however felt that the winding up of the European Coal and Steel Community was proceeding in compliance with the relevant legislation, including the multi-annual financial guidelines, although some operational weaknesses were identified.

Box 4.1: Improving the Management of the EC Budget

A number of measures have been taken in recent years to improve the planning, management and control of the EC Budget. These measures have included the administrative reforms of the European Commission pioneered by Lord Kinnock; the adoption of the new Financial Regulation; the establishment of the European Anti-Fraud Office (OLAF); the obligation on each Commission directorate-general to submit an annual activity report; the use of activity-based budgeting; the extension of the integrated administration and control system for agriculture spending; the introduction by the Commission of accruals accounting; the steps taken to implement the Commission's action plan towards an integrated internal control framework; and the ongoing simplification of the regulations governing the main spending programmes.

These measures, some of which are still bedding down, have led to some improvements in financial management and combating fraud. The European Court of Auditors is now able largely to confirm the reliability of the EC's accounts, and to give a positive statement of assurance in respect of the legality and regularity of around 35 per cent of expenditure. While this represents progress compared with the situation ten years ago, there is clearly a great deal more that must be done to achieve the positive statement of assurance on the entirety of EC expenditure that the Government believes taxpayers deserve.

The Court of Auditors' persistent decision not to grant a positive statement of assurance on the EC Budget, and the underlying causes, were well analysed in a recent report by the House of Lords EU Committee ("Financial Management and Fraud in the European Union: Perceptions, Facts and Proposals", HL 270, November 2006). The report showed that improving the management of the EC Budget will require further action across a broad front by all the parties involved: the Commission, the Council, each Member State working with its national audit institution, and the Court of Auditors itself.

In view of the fact that Member States share with the Commission responsibility for managing around 80% of EC expenditure (essentially agriculture and structural measures), and given that the sheer complexity and number of beneficiaries of these programmes poses particular challenges for correct implementation, the Government believes that Member States themselves need to give priority to reinforcing their own management of EC funds at the national level.

The Government therefore announced in November 2006 that it would take a lead in showing how Member States can improve their management of EC funds and how national parliaments can be more closely involved in the scrutiny of EC spending. The Government intends to present to Parliament every year a consolidated statement of the UK's receipts and use of EC funds that brings together the figures currently published in many different departmental reports. The statement will be accompanied by an audit opinion by the Comptroller and Auditor General. The statement and audit opinion will be made available to the Court of Auditors and the Commission.

The Government plans to publish the first consolidated statement of the UK's EC-financed spending in early 2008, relating to the financial year 2006-07. The format and content of the statement is currently being developed in consultation with the National Audit Office, relevant departments and devolved administrations, and the Commission. A number of technical and logistical issues have still to be resolved. For the first year, the statement is likely to comprise a statement of purpose and responsibilities, a statement of income and expenditure, a balance sheet, and cash-flow statement, accompanied by notes to aid interpretation. The statement will show, at an aggregate level, the income from each EC fund and the related amounts of expenditure by each main UK public sector entity. The format, content and timing of the statement will be kept under review in order to refine the concept and its usefulness for subsequent years.

Although HM Treasury will take responsibility for performing the consolidation, the relevant government departments and devolved administrations will remain accountable for the propriety of the reported spending. The consolidated statement is not intended to replace the more detailed reporting by departments of how EC funds are used. In preparing its audit opinion, the National Audit Office will audit the expenditure of EC funds by government departments and devolved administrations, drawing where appropriate on the work of the National Audit Institutions in Scotland, Wales and Northern Ireland.

These arrangements will strengthen audit and Parliamentary scrutiny of the UK's use of EC funds. The Government expects that this additional scrutiny will help detect any weaknesses in the UK's management of EC funds, which can then be tackled sooner and more effectively. The Court of Auditors and the Commission, with which the Government is discussing the development of the UK's initiative, will be able to take into account the UK's statement and audit opinion when performing their own audit and control work.

The Commission and the European Parliament have welcomed the UK's initiative. The Netherlands and Denmark are already developing similar initiatives, and Sweden has announced that it intends to follow suit. Several other countries have expressed a close interest. Although there is no single model that can be applied across the EU, all Member States should be able to work with their parliaments and national audit institutions to improve their management of EC funds, in ways that respect their own institutional arrangements and practices. By providing an assurance for individual Member States, these initiatives will contribute to the integrated internal control framework towards which the Commission is working.

Council recommendation to the European Parliament

4.7 The Council's recommendations to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2005 Budget was discussed by ECOFIN on 27 February 2007. As in previous years, the Council recommended that the Parliament grant discharge. However, its recommendation was accompanied by detailed comments criticising financial management in some areas and calling for improvements. The Council was disappointed that the Court remained unable to give a positive Statement of Assurance in areas where the supervisory and control systems are not implemented in a manner which provides for adequate risk management. The Council's approach, as in the past, has been to work constructively to bring about improvements reflecting an awareness that failings, and hence responsibility for action, rest with all parties (i.e. the Commission, 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 Court.

4.8 The Council's recommendations included:

- the Commission should improve the use and presentation of indicators, so that there is a better comparability of year on year developments;
- the Commission should continue with the identification of weaknesses in the design and the operation of schemes and introduce appropriate remedial actions in the areas of centralised, shared and joint management;
- to continue working towards the achievement of an effective integrated internal control framework; and

- finally, urge all stakeholders in the budgetary implementation process to continue their work to improve financial management so that reasonable and verifiable assurance that effective controls that work are in place.

European Court of Auditors' Special Reports

4.9 The Court's Annual Report is complemented by a number of 'Special Reports' each year on selected EC Budget sectors or issues. These reports examine the impact and effectiveness of policies, and whether they give value for money. The appropriate Council working group considers the reports. The Commission is required to produce a written response, which is normally published with the Special Report. During the discharge process, the Council may also consider these Special Reports.

European Parliament's report on discharge for 2005

4.10 The European Parliament's Budgetary Control Committee considered the Council's recommendations on discharge and issued its own resolution, including a number of detailed recommendations. The European Parliament voted to grant discharge on 24 April 2007.

UK Government response to the European Court of Auditors

4.11 The UK argued in 1995 for a procedure of Member States' responses to the Court's observations about them in its reports. This has become established practice. The Commission now also invites Member States to comment on general issues in the report. A copy of the UK's response is always sent to both Houses of Parliament.

4.12 The Court's 2005 report included some specific criticisms of the UK. Remedial action has been implemented where necessary, but not all the Court's findings were accepted. Some examples are as follows:

Own Resources

Audit finding: The Court's audit and the Commission's inspections found systematic problems with B accounts, such as delays in making entries, erroneous entries, omissions, and incorrect cancellations, in nine Member States (including the UK). Member States have also not adapted their accounting systems so as to record appeal or recovery accurately.

Response: The UK authorities do not fully agree with the Court. Present legislation permits debts that are not secured or contested to be entered in the B Accounts and does not differentiate between whole or partial debts. The UK authorities sought clarification by intervention on several points in European Court of Justice case C-275/04. The Court of Justice gave its decision on 5 October 2006 but it does not address the points raised by the UK.

Agriculture

Audit finding: The physical presence of customs officials at the point of taking goods under customs control at the customs office of exit from the EU has been replaced by computerised inventory systems in the UK.

Response: The use of computerised inventory systems in the UK has not replaced the physical presence of customs officers, but has allowed them to be deployed more efficiently. The UK is, however, aware of the Court's concerns and is currently considering the necessary steps required to address them.

Structural Funds

Audit finding: The Court found certain types of error appearing systematically in the projects for certain programmes. Such as the case of ERDF Objective 1 in the UK (South Yorkshire): declaration of EU grants exceeding the co-financing rate without proper justification.

Response: The Court visited the South Yorkshire Objective 1 programme during September and October 2005. A number of apparent errors and system weaknesses were discovered which have since been addressed or further clarification sought. For example, further improvements have been made to the management and control system by the preparation of guidance notes (which all Government Offices are now administering).

National Audit Office report on the Court's report **4.13** The National Audit Office published its annual report on "Financial Management in the European Union" on 18 April 2007. The report explains the findings in the Court's Annual Report and Statement of Assurance and considers other relevant financial management issues.

Annual report on the Fight against Fraud 2005 **4.14** The European Anti-Fraud Office (OLAF) compiles the Commission's Annual Report on the Fight against Fraud. The report covering the 2005 calendar year was published on 19 October 2006. It included an analysis of irregularities reported by Member States.

4.15 This year's report details fraud and irregularities⁸ detected during 2005. The report includes a summary of Member States' activities in the fight against fraud and the protection of the Communities' financial interests and national measures, as required under Article 280 of the Treaty. This information is presented in parallel in each area, unlike previous years when the information was treated separately in two different parts. The aim of this new presentation is to give a fuller overview of an area where the Community and national powers complement each other.

4.16 Two supplementary reports accompany the report: *Statistical Evaluation of Irregularities* and *Implementation of Article 280 of the Treaty by the Member States in 2005*. The report examines action taken by the national authorities and the Commission to prevent and fight against economic and financial crime. The table below compares the total cases and amounts involved, between 2004 and 2005:

	2004*	Amounts (€ millions)	2005	Amounts (€ millions)
	No. of cases		No. of cases	
Traditional Own Resources	2,735	206	4,982	322
Agriculture	3,402	82	3,193	102
Structural Funds	3,339	695	3,570	601

*NB: Figures shown for 2004 may differ from those published in last year's Statement, as OLAF constantly updates its databases

⁸ A definition of fraud and irregularities can be found in the glossary

4.17 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 case, which has only just been resolved. The total number of cases of irregularities and fraud communicated in 2005 increased in two areas (own resources and structural funds) but reduced in agriculture compared with the previous year; the amounts involved increased in both traditional own resources and agriculture but decreased in structural funds.

4.18 Own resources recorded a 55% increase in the number of cases of fraud and irregularities (from 3,205 to 4,982) compared to 2004. There was also a notable increase in the number of cases reported by new Member States, which could be attributed to their growing familiarity with the OWNRES database system and improvements in communicating information. During this period, some Member States entered information on the OWNRES system, which related to cases of un-discharged transit operations that were subsequently although belatedly, discharged. Therefore, no firm conclusions can be reached as to the 55% increase in terms of the actual situation of fraud and irregularities at this point.

4.19 In comparison with 2004, the number of irregularities detected in agriculture by Member States decreased but the financial impact increased, representing around 0.21% of the agriculture budget. Suspicions of fraud accounted for approximately 13% of the cases of irregularities notified, amounting to about €21.5 million (£14.7 million), equivalent to 0.05% of the total agriculture appropriations.

4.20 Regarding Structural Measures, the number of irregularities notified (including both the Structural and Cohesion Funds) increased slightly (from 3,339 to 3,570) compared to 2004. The financial impact of the irregularities reported in 2005 decreased and represented 1.56% of the structural and cohesion fund appropriations. Approximately 15% of the irregularities notified and involving an amount of €205 million (£140.1 million) were attributed to fraud and accounted for some 0.53% of the total appropriations for the Structural and Cohesion Funds. There was also a significant increase in cases of irregularities reported relating to the European Social Fund. The ERDF was again the most affected in 2005 in terms of cases reported and the amounts affected.

4.21 The report also gives a summary and overview of the measures taken and the results achieved by the 25 Member States in respect of the protection of the Communities' financial interests (Article 280 Questionnaire). The report sets out the major developments in 2005; results of the fight against fraud; statistical analyses and new measures taken by the Commission and the Member States; co-operation in agriculture and customs matters; and recovery of amounts unduly paid by the Communities as the result of an error, fraud or other irregularities, and the collection of own resources.

4.22 The Commission's intention to be more transparent and informative about the types of fraud and other irregularities that threaten the financial interests of the European Community has prompted it to include in this section of the report two areas of observation not included in the questionnaire: *Operational measures adopted by the Commission to fight fraud (particularly to enhance the operational effectiveness of OLAF)*; and *Complementary measures for the protection of the Communities' financial interests*.

4.23 The report also takes account of the measures taken by Member States to improve recovery of sums not collected or paid unduly in in-direct expenditure in 2005.

OLAF Activity Report **4.24** The Director of OLAF is required to make regular reports to the European Parliament, the Council, the Commission and the Court of Auditors.

4.25 The OLAF Activity Report for 2005 was published in July 2006, and provides a statistical analysis of OLAF's work since 1999 and activities and progress in 2005. The report noted that OLAF investigated 452 cases during 2005, 226 cases of which were in the initial assessment process while 233 were closed during the year. The number of reported cases of suspected fraud increased by 20% compared to the previous year, partly due to the increase in information supplied by Commission staff and informants. The average duration of a case is now under 2 years. The OLAF investigation into fraud allegations concerning Eurostat largely ended in 2005.

4.26 OLAF maintained a policy of "zero tolerance" when assessing an investigation of allegations of corruption within EU Institutions. Further improvements were also made to its case management system. The report shows that OLAF is making good progress working with the new Member States and candidate countries to combat fraud.

GLOSSARY

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 EC Treaty. These rules have been built on by the IIA.

The timetable is as follows:

- establishment of the preliminary draft Budget by the Commission, normally in May;
- 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 year, for activities that, in turn, will lead to payments in the current and future 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 final say in fixing its total.

The Parliament has the final 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 EC Treaty provides a formula for determining this rate, unless the budgetary authority agrees an alternative figure. Under the IIA, 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 EC 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 Court.

Flexibility Instrument The Flexibility Instrument was established under paragraph 24 of the 1999 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 following a proposal from the Commission.

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 and intentional and deliberate acts. For example, a genuine payment made after the closing date for claims represents an irregularity; but import of goods under false papers is fraud. 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.

Inter-Institutional Agreement (IIA) The Inter-Institutional Agreement is a politically and legally binding agreement that clarifies the EC'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 in which 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 Own Resources Decision. In particular, it provides for the annual EC Budget to be set in the context of a multi-annual financial framework.

Own Resources Decision (ORD) The existing 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 from 1 January 2002. The current ORD entered into UK law by virtue of the European Communities (Finance) Act 2001, which received Royal Assent on 4 December 2001. The current ORD sets an 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 for payments and 1.31% for commitments. As 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.

Own Resources 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. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The method for calculating the VAT-based resource is set out in the ORD:
 - the starting point is the total amount of net VAT collected in each Member State;
 - a weighted average of the rates at which VAT is charged in the Member State is then applied to the net total to produce the Member State's intermediate national base;
 - the intermediate base is then adjusted for derogations operated under the Sixth VAT Directive to produce the harmonised base;
 - a notional rate of 1% is then applied to this base. The base is then capped at 50% of 1% of the Member State's GNI; and
 - a call-up rate (currently a maximum of 0.5%) is applied to produce a Member State's VAT-based contribution.
- GNI-based contributions. The amount due is calculated by taking the same proportion of each Member State's GNI. 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 respectively.

Sterling Figures The Sterling figures for 2001-2007 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 Sterling⁹. Generally, the 2007 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 29 December 2006, namely £1=€1.489203 (regulations state that VAT-based and GNI-based 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.

Structural Funds and the Cohesion Fund

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.

Substantive and formal errors

The Court 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 EC 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.

UK Abatement

The UK's VAT-based contributions are abated (reduced) according to a formula set out in the Own Resources Decision (ORD). Broadly, this is equal to 66% of the difference between what the UK contributes to the EC Budget and the receipts which it gets, subject to the following points:

- the abatement applies only in respect of spending within the EU. Expenditure outside the EU (mainly aid), is excluded;

⁹ 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

The annual average rate for 2004 is £1 = €1.4742

The annual average rate for 2005 is £1 = €1.4629

The annual average rate for 2006 is £1 = €1.4669

- 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, e.g. the abatement in 2007 relates to UK payments and receipts in 2006.

The formula for the calculation of the abatement is set out in the ORD and in a European Commission Working Methods Paper 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 contributions to the EC Budget and of receipts from it. This is subsequently corrected in the light of outturn figures. Corrections may be made for up to three years after the year in respect of which the abatement relates, with a final calculation then being made in the fourth year, e.g. a final calculation of the abatement in respect of 2006 will take place in 2010.

The effect of the abatement is to reduce the amount of the UK's VAT-based and GNI-based payments to the EC Budget. It does not involve any transfers of money from the Commission or other Member States to the Exchequer.

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% across the Community, and the amount of 1% 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, where necessary, 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 – usually an early April exchange rate;
- the amount of VAT and GNI each Member State has to pay to the EC Budget is then determined by the limits described above for these Own Resources, so that when added to the amounts for 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 2007);
- the sum produced (in Euro) is entered into the Preliminary Draft Budget (PDB) in 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 working day prior to the start of the Budget year is established as the rate by which UK VAT-based and GNI-based contributions will be converted for the whole Budget year. The Sterling amount which the UK has to pay in respect of these two resources will be different from its original estimates, if the rate on the last working day is different from the Budget exchange rate;
- during the course of the Budget year, the UK pays its VAT and GNI contributions to meet its obligations as denominated in Euro in the adopted Budget. These payments are made at the Sterling/Euro rate described above. As Member States pay 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 an Amending Budget;
- since there are generally differences between the Sterling/Euro exchange rates (a) used to set up the Budget and (b) to make VAT-based and GNI-based contributions, the UK would generally have paid more or less in Sterling compared with the amount established for them for the budgetary year in question. These exchange variations are accounted for in-year under 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 using the exchange rate on the last working day prior to the start of the Budget year. The revised figures are then included in an Amending Budget to the budgetary year to which they relate. In practice, converting the revised figures using the exchange rate on the last working day means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1% base 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. 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 cash flow outturn for the UK's net contribution for 2005 and the figures in the European Commission's Report on the allocation of 2005 Operating Expenditure

When converted at the average exchange rate for 2005 of £1= €1.4629, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	17,343	11,855
UK abatement	-5,186	-3,545
UK receipts	-8,677	-5,931
UK net contribution	3,490	2,386

The Government's figure for the UK's net contribution in 2005 is £3,581 million.

A number of factors contribute to the difference between the two net contribution figures. The probable main causes for the difference are as follows:

- the UK figure includes only transactions between the EC Budget and the UK public sector, whereas the European Commission's figures include receipts paid direct to the UK private sector. It is estimated that this accounted for around £595 million of the difference in 2005;
- the late adoption of Amending Budget Nos. 10/2004 meant that associated changes were not implemented until January 2005. The result of which leads to the Government's figures for 2005 being some £60 million higher, figures for 2004 were correspondingly £60 million lower as a result;
- the late adoption of Amending Budget 8/2005 meant that associated changes were not implemented until January 2006. The result of which leads to the Government's figures for 2005 being around £456 million higher, figures for 2006 are correspondingly £456 million lower as a result; and
- the UK's outturn figure is based on cash flow within a calendar year, whereas European Commission figures attempt to match transactions to a particular Community Budget. Some 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 £48 million of Structural Funds payments to the UK in 2005 may have been in respect of the 2004 Budget, and up to £112 million of Structural Funds payments in 2006 may have been in respect of the 2005 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 2005	3,581
Private sector receipts	-595
Late implementation, in January 2005, of Amending Budgets No. 10/2004	-60
Late implementation, in January 2006, of Amending Budget No. 8/2005	-456
Structural Fund receipts paid in 2005, which may have been from the 2004 Budget	48
Structural Fund receipts paid in 2006, which may have been from the 2005 Budget	-112
UK Cashflow figure adjusted to reflect main differences compared to European Commission's figure	2,406
European Commission figure for 2005 outturn	2,386
Net difference due to other factors (such as exchange rate)	20

Table IA: Expenditure on the EC Budget Commitments and Payments by Heading in years 2001-2006

	Commitments						Payments					
	2001	2002	2003	2004	2005 ¹	2006 ¹	2001	2002	2003	2004	2005 ¹	2006 ¹
1 Agriculture	42,083	43,217	44,462	45,081	46,676	50,191	41,534	43,521	44,379	43,993	49,115	50,131
2 Structural Operations	41,166	34,012	33,987	41,031	42,423	44,555	22,456	23,499	28,528	34,522	32,396	32,340
3 Internal Policies	6,703	7,614	7,173	8,705	9,052	9,399	5,303	6,567	5,672	7,510	7,924	8,912
4 External Actions	4,859	5,085	5,067	5,177	5,219	5,544	4,231	4,424	4,286	4,951	5,476	5,370
5 Administration	5,002	5,272	5,545	6,122	6,351	6,657	4,855	5,212	5,305	6,122	6,351	6,657
6 Reserves	207	171	148	442	446	428	207	170	148	442	446	428
7 Pre-accession Strategy	3,312	3,504	3,393	1,733	2,081	2,692	1,402	1,752	2,240	2,856	3,287	2,439
8 Compensations	n/a	n/a	n/a	1,410	1,305	1,073	n/a	n/a	n/a	1,410	1,305	1,074
Total²	103,332	98,875	99,775	109,701	116,554	120,570	79,988	85,145	90,558	101,807	106,300	107,378

Notes:

¹ 2005 and 2006 data include all Amending Budgets

² Because of rounding the columns totals do not necessarily equal the sum of the individual items

Sources: 2000-2004: European Court of Auditors - Annual Reports; 2005, 2006 EU documents

Table IB: Expenditure on the EC Budget Commitments and Payments by Heading in years 2001-2006

	Commitments						Payments					
	2001	2002	2003	2004	2005 ¹	2006 ¹	2001	2002	2003	2004	2005 ¹	2006 ¹
1 Agriculture	26,168	27,175	31,049	30,580	31,906	34,216	25,826	27,367	30,991	29,842	33,574	34,175
2 Structural Operations	25,598	21,387	23,734	27,833	28,999	30,375	13,963	14,776	19,922	23,417	22,145	22,046
3 Internal Policies	4,168	4,788	5,009	5,905	6,188	6,408	3,297	4,129	3,961	5,094	5,417	6,075
4 External Actions	3,021	3,198	3,538	3,512	3,568	3,660	2,631	2,782	2,993	3,358	3,743	3,661
5 Administration	3,110	3,315	3,872	4,153	4,341	4,538	3,019	3,277	3,705	4,153	4,341	4,538
6 Reserves	129	108	103	300	305	312	129	107	103	300	305	291
7 Pre-accession Strategy	2,059	2,203	2,369	1,176	1,423	1,662	872	1,102	1,564	1,937	2,247	1,662
8 Compensations	n/a	n/a	n/a	956	892	732	n/a	n/a	n/a	956	892	732
Total²	64,253	62,174	69,675	74,414	77,622	82,194	49,738	53,540	63,239	69,058	72,664	73,201

Notes:

¹ 2005 and 2006 data include all Amending Budgets

² Because of rounding the columns totals do not necessarily equal the sum of the individual items

Sources: Sterling figures are derived from the corresponding euro amounts in Table I converted at the appropriate exchange rate (see glossary)

Table IC: Expenditure on the EC Budget Commitments and Payments by Heading in years 2006-2007

Appropriations	2006 ¹		2007		€ million
	Commitments	Payments	Commitments	Payments	
1. Sustainable Growth	47,515	35,866	54,855	44,862	
1a. Competitiveness for Growth and Employment	7,898	7,434	9,368	7,072	
1b. Cohesion for Growth and Management	39,618	28,432	45,487	37,790	
2. Preservation and Management of Natural Resources	55,691	54,579	56,250	54,719	
3. Citizenship, Freedom, Security and Justice	1,165	1,162	1,246	1,177	
3a. Freedom, Security and Justice	553	537	624	474	
3b. Citizenship	612	625	623	703	
4. The EU as a Global Player	8,521	8,093	6,578	7,353	
5. Administration	6,604	6,604	6,942	6,942	
6. Compensations	1,074	1,074	445	44	
TOTAL²	120,570	107,378	126,551	115,497	

¹Data for 2006 includes all Amending Budgets

²Because of rounding the column totals do not necessarily equal the sum of the individual items

Source: 2007 EC Budget document

Data for previous years is only available as classified according to the eight headings of 2000-2006 Financial Perspective

Table ID: Expenditure on the EC Budget Commitments and Payments by Heading in years 2006-2007

Appropriations	2006 ¹		2007		€ million
	Commitments	Payments	Commitments	Payments	
1. Sustainable Growth	32,391	24,450	36,835	30,125	
1a. Competitiveness for Growth and Employment	5,384	4,454	6,291	4,749	
1b. Cohesion for Growth and Management	27,008	19,382	30,544	25,376	
2. Preservation and Management of Natural Resources	37,965	37,207	37,772	36,744	
3. Citizenship, Freedom, Security and Justice	974	792	837	790	
3a. Freedom, Security and Justice	377	366	419	318	
3b. Citizenship	417	426	418	472	
4. The EU as a Global Player	5,809	5,517	4,417	4,937	
5. Administration	4,502	4,502	4,662	4,662	
6. Compensations	732	732	299	299	
TOTAL²	82,194	73,201	84,979	77,556	

¹Data for 2006 includes all Amending Budgets

²Because of rounding the column totals do not necessarily equal the sum of the individual items

Source: 2007 EC Budget document

Data for previous years is only available as classified according to the eight headings of 2000-2006 Financial Perspective

Table 2A: EC Budget Own Resources (€ million)

	Agricultural and Sugar Levies						Customs Duties						VAT Contributions								
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Belgium	67	55	43	48	55	16	44	1,180	834	1,121	1,231	1,318	1,445	1,546	1,167	794	858	595	650	695	706
Bulgaria	-	-	-	-	-	-	9	-	-	-	-	-	-	84	-	-	-	-	-	-	61
Czech Republic	-	-	-	2	15	6	17	-	-	58	131	152	187	187	-	-	-	132	229	249	267
Denmark	29	28	25	44	60	27	54	262	153	191	214	238	266	293	767	614	573	371	402	458	469
Germany	334	342	277	319	426	178	354	2,814	1,623	2,010	2,088	2,298	2,613	2,820	8,541	5,113	5,209	2,985	3,258	3,671	3,619
Estonia	-	-	-	0	1	0	1	-	-	7	15	20	23	23	-	-	-	13	23	28	30
Greece	21	18	17	15	12	8	16	161	104	138	181	187	203	220	646	511	549	397	428	469	493
Spain	65	46	43	82	85	47	79	839	539	710	873	1,013	1,296	1,485	3,118	2,535	2,668	1,918	2,302	2,399	2,444
France	287	275	206	232	300	103	273	1,223	674	834	903	1,038	1,131	1,218	7,275	5,518	5,326	3,729	4,085	4,308	4,367
Ireland	9	6	4	5	6	2	6	151	79	101	124	176	210	233	569	396	419	288	337	365	379
Italy	123	99	106	113	114	78	121	1,275	769	1,013	1,124	1,228	1,438	1,503	5,290	4,021	3,694	3,292	3,112	2,897	3,044
Cyprus	-	-	-	2	5	3	6	-	-	17	30	34	37	37	-	-	-	20	31	34	36
Latvia	-	-	-	0	2	1	6	-	-	8	18	26	32	32	-	-	-	15	27	34	38
Lithuania	-	-	-	1	3	2	7	-	-	13	31	41	46	46	-	-	-	26	46	53	52
Luxembourg	0	0	0	0	0	0	0	20	10	12	12	15	17	19	127	73	78	57	58	60	63
Hungary	-	-	-	3	11	5	11	-	-	52	103	114	129	129	-	-	-	126	179	190	195
Malta	-	-	-	1	2	1	2	-	-	4	10	11	11	11	-	-	-	7	11	11	12
Netherlands	265	194	246	330	300	171	304	1,481	767	1,038	1,047	1,184	1,403	1,530	2,080	1,242	1,197	713	813	939	926
Austria	28	26	17	20	24	7	14	200	125	150	156	165	179	184	1,014	588	557	274	367	442	416
Poland	-	-	-	18	82	35	90	-	-	94	190	219	247	247	-	-	-	313	560	610	625
Portugal	31	16	18	37	22	13	25	134	70	80	85	86	99	107	603	466	478	309	394	374	375
Romania	-	-	-	-	-	-	-	-	-	-	-	-	-	142	-	-	-	-	-	-	206
Slovenia	-	-	-	0	1	0	4	-	-	12	28	34	36	36	-	-	-	41	67	70	74
Slovakia	-	-	-	1	9	2	7	-	-	19	35	47	56	56	-	-	-	50	76	86	91
Finland	12	7	5	8	11	5	12	107	57	71	86	102	119	132	580	427	474	337	341	352	374
Sweden	30	21	19	23	28	13	27	330	211	262	292	323	377	398	1,051	633	638	406	378	457	486
United Kingdom	473	403	371	410	473	288	511	2,636	1,664	1,729	1,893	2,054	2,383	2,570	-1,579	-395	-1,178	-2,648	-2,285	-2,050	-2,020
Total	1,776	1,534	1,395	1,715	2,046	1,014	2,020	12,814	7,680	9,462	10,592	12,017	13,875	15,288	31,250	22,536	21,540	13,764	15,888	17,200	17,827

Table 2A: EC Budget Own Resources (€ million) (continued)

	Fourth Resource Contributions										TOTALS						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007			
Belgium	1,118	1,336	1,465	1,975	2,000	1,937	2,203	3,532	3,018	3,486	3,849	34,024	4,121	4,498			
Bulgaria	-	-	-	-	-	-	170	-	-	-	-	-	-	323			
Czech Republic	-	-	-	373	615	626	746	-	-	-	565	990	1,148	1,217			
Denmark	720	893	989	1,312	1,290	1,341	1,529	1,778	1,688	1,778	1,941	1,990	4,439	2,345			
Germany	8,037	10,505	11,706	14,838	14,154	14,039	15,668	19,727	17,582	19,203	20,230	20,136	17,908	22,462			
Estonia	-	-	-	36	61	69	84	-	-	-	55	100	300	139			
Greece	522	705	830	1,148	1,174	1,177	1,376	1,350	1,338	1,534	1,742	1,802	2,950	2,105			
Spain	2,569	3,431	4,008	5,511	6,075	5,862	6,822	6,592	6,551	7,429	8,384	9,475	9,439	10,829			
France	5,687	7,685	8,787	11,150	11,431	10,976	12,480	14,471	14,152	15,154	16,013	16,854	15,596	18,338			
Ireland	482	538	604	834	924	898	1,058	1,211	1,019	1,128	1,251	1,442	1,474	1,676			
Italy	4,924	6,390	6,945	9,257	9,093	8,800	9,935	11,612	11,279	11,758	13,786	13,547	13,213	14,603			
Cyprus	-	-	-	56	83	86	100	-	-	-	95	150	158	179			
Latvia	-	-	-	45	82	91	113	-	-	-	68	130	152	188			
Lithuania	-	-	-	79	127	139	165	-	-	-	119	207	234	271			
Luxembourg	109	101	114	162	154	150	176	256	184	205	231	227	228	258			
Hungary	-	-	-	357	541	530	594	-	-	-	537	833	840	929			
Malta	-	-	-	21	28	28	33	-	-	-	33	50	51	57			
Netherlands	1,691	2,265	2,439	3,179	3,650	3,187	3,619	5,517	4,467	4,920	5,269	5,947	5,700	6,379			
Austria	848	1,070	1,212	1,597	1,589	1,563	1,776	2,091	1,809	1,936	2,047	2,144	2,190	2,391			
Poland	-	-	-	885	1,496	1,555	1,786	-	-	-	1,311	2,327	2,419	2,747			
Portugal	498	636	717	902	1,025	918	1,045	1,266	1,187	1,293	1,332	1,527	1,404	1,552			
Romania	-	-	-	-	-	-	696	-	-	-	-	-	-	1,068			
Slovenia	-	-	-	117	180	177	206	-	-	-	170	275	281	321			
Slovakia	-	-	-	150	239	256	307	-	-	-	220	359	392	461			
Finland	535	694	788	1,012	1,011	1,008	1,143	1,233	1,185	1,338	1,443	1,465	1,483	1,660			
Sweden	926	1,221	1,583	1,960	1,925	1,840	2,112	2,338	2,086	2,501	2,681	2,654	2,688	3,023			
United Kingdom	6,214	8,481	9,050	12,027	11,915	11,668	13,209	7,743	10,153	9,971	11,682	12,157	12,289	14,270			
Total	34,879	45,948	51,235	68,982	70,861	68,921	79,153	80,718	77,698	83,632	95,054	100,811	101,096	114,288			

Notes:

¹Miscellaneous 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.

²The figures for agricultural and sugar levies and customs duties are after the deduction of 10% collection costs, for 2001, and 25% for the years 2002 onwards.

³The figures for VAT contributions are after taking account of the UK abatement.

⁴The figures for the contributions of the ten new Member States in 2004 cover the period May to December 2004 only.

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

Sources: Figures for 2001 to 2005 are taken from the European Commission's report: Allocation of 2005 EU Operating Expenditure by Member State. Figures for 2006 are taken from Amending Budgets 6/2006. Figures for 2007 are taken from 2007 Adopted Budget.

Table 2B: EC Budget Own Resources (£ million)

	Agricultural and Sugar Levies						Customs Duties						VAT Contributions								
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Belgium	41	35	30	33	38	11	29	734	524	783	835	901	985	1,038	726	499	599	403	445	474	474
Bulgaria	-	-	-	-	-	-	6	-	-	-	-	-	-	-	-	-	-	-	-	-	41
Czech Republic	-	-	-	2	10	4	11	-	-	-	39	90	103	126	-	-	-	89	157	170	179
Denmark	18	17	17	30	41	19	36	163	96	134	145	163	182	197	477	386	400	252	275	312	315
Germany	208	215	194	216	291	121	238	1,750	1,020	1,404	1,416	1,571	1,781	21,894	5,311	3,215	3,637	2,025	2,227	2,503	2,430
Estonia	-	-	-	0	1	0	1	-	-	-	5	10	13	16	-	-	-	9	15	19	20
Greece	13	11	12	10	8	6	11	100	65	97	123	128	138	148	402	321	383	270	293	320	331
Spain	41	29	30	56	58	32	53	522	339	496	592	693	883	997	1,939	1,594	1,863	1,301	1,573	1,635	1,641
France	178	173	144	157	205	70	183	760	424	583	613	709	771	818	4,524	3,470	3,720	2,529	2,793	2,937	2,933
Ireland	5	4	3	3	4	1	4	94	50	70	84	120	143	157	354	249	292	196	230	249	255
Italy	77	62	74	77	78	53	81	793	484	708	762	839	980	1,009	3,289	2,528	2,580	2,233	2,127	1,975	2,044
Cyprus	-	-	-	1	3	2	4	-	-	-	12	21	23	25	-	-	-	13	21	23	24
Latvia	-	-	-	0	1	1	4	-	-	-	5	12	18	21	-	-	-	10	19	23	26
Lithuania	-	-	-	1	2	1	4	-	-	-	9	21	28	31	-	-	-	18	31	36	35
Luxembourg	0	0	0	0	0	0	0	12	6	9	8	11	12	13	79	46	55	38	39	41	42
Hungary	-	-	-	2	7	4	7	-	-	-	35	70	78	86	-	-	-	85	122	130	131
Malta	-	-	-	1	1	1	1	-	-	-	3	7	7	8	-	-	-	5	7	8	8
Netherlands	165	122	172	224	205	116	204	921	482	725	710	809	956	1,028	1,294	781	836	484	556	640	621
Austria	18	16	12	14	16	4	10	125	79	105	106	113	122	123	630	370	389	186	251	301	280
Poland	-	-	-	12	56	24	60	-	-	-	64	130	149	166	-	-	-	212	382	416	420
Portugal	19	10	12	25	15	9	17	84	44	56	58	59	68	72	375	293	334	209	269	255	251
Romania	-	-	-	-	-	-	16	-	-	-	-	-	-	96	-	-	-	-	-	-	138
Slovenia	-	-	-	0	0	0	3	-	-	-	8	19	23	24	-	-	-	28	46	47	50
Slovakia	-	-	-	0	6	2	4	-	-	-	13	24	32	37	-	-	-	34	52	59	61
Finland	7	4	4	6	7	4	8	66	36	50	59	70	81	88	361	268	331	228	233	240	251
Sweden	19	13	13	16	19	9	18	205	133	183	198	221	257	267	654	398	445	275	258	312	326
United Kingdom	294	253	259	278	323	197	343	1,639	1,046	1,207	1,284	1,404	1,625	-1,726	-982	-248	-823	-1,796	-1,562	-1,397	1,356
Total	1,104	965	974	1,164	1,398	691	1,356	7,968	4,829	6,608	7,185	8,215	9,459	10,266	19,432	14,171	15,042	9,337	10,860	11,726	11,971

Table 2B: EC Budget Own Resources (£ million) (continued)

	Fourth Resource Contributions										TOTALS						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007			
Belgium	695	840	1,023	1,340	1,367	1,321	1,479	2,196	1,898	2,434	2,611	2,751	2,809	3,021			
Bulgaria	-	-	-	-	-	-	114	-	-	-	-	-	-	217			
Czech Republic	-	-	-	253	420	427	501	-	-	-	383	677	783	817			
Denmark	447	562	690	890	882	914	1,027	1,105	1,061	1,241	1,317	1,360	3,026	1,574			
Germany	4,998	6,605	8,175	10,065	9,675	9,570	10,521	12,267	11,056	13,410	13,722	13,765	12,208	15,083			
Estonia	-	-	-	24	42	47	57	-	-	-	38	68	205	93			
Greece	324	443	579	779	802	802	924	840	841	1,071	1,182	1,232	2,011	1,413			
Spain	1,597	2,157	2,799	3,738	4,153	3,996	4,581	4,099	4,119	5,188	5,687	6,477	6,434	7,272			
France	3,536	4,832	6,136	7,563	7,814	7,482	8,381	8,998	8,899	10,582	10,862	11,521	10,632	12,314			
Ireland	300	338	422	566	631	612	711	753	641	787	848	986	1,005	1,125			
Italy	3,062	4,018	4,850	6,280	6,216	5,999	6,671	7,221	7,093	8,211	9,351	9,260	9,007	9,806			
Cyprus	-	-	-	38	57	59	67	-	-	-	45	103	108	120			
Latvia	-	-	-	31	56	62	76	-	-	-	46	89	104	127			
Lithuania	-	-	-	53	87	95	111	-	-	-	81	141	160	182			
Luxembourg	68	63	80	110	105	103	118	159	116	143	157	155	155	173			
Hungary	-	-	-	242	370	361	399	-	-	-	364	569	573	624			
Malta	-	-	-	14	19	19	22	-	-	-	22	34	35	39			
Netherlands	1,051	1,424	1,703	2,156	2,495	2,173	2,430	3,430	2,809	3,435	3,574	4,065	3,885	4,283			
Austria	528	673	846	1,083	1,086	1,066	1,193	1,300	1,137	1,352	1,388	1,466	1,493	1,605			
Poland	-	-	-	600	1,022	1,060	1,200	-	-	-	889	1,591	1,649	1,845			
Portugal	309	400	501	612	701	626	702	787	747	903	904	1,044	957	1,042			
Romania	-	-	-	-	-	-	467	-	-	-	116	-	-	717			
Slovenia	-	-	-	79	123	121	139	-	-	-	149	188	191	216			
Slovakia	-	-	-	102	163	174	206	-	-	-	-	245	267	310			
Finland	332	436	550	687	691	687	767	767	745	934	979	1,001	1,011	1,115			
Sweden	576	768	1,105	1,329	1,316	1,254	1,418	1,454	1,312	1,747	1,818	1,814	1,832	2,030			
United Kingdom	3,864	5,333	6,320	8,158	8,145	7,954	8,870	4,815	6,384	6,963	7,925	8,310	8,378	9,582			
Total	21,688	28,892	35,779	46,793	48,438	46,984	53,151	50,191	48,857	58,403	64,478	68,912	68,918	76,744			

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

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

	€ million							£ million						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
GROSS CONTRIBUTIONS														
Agriculture & Sugar Levies	471	415	366	411	474	451	410	293	261	255	279	324	308	275
Customs Duties	2,633	1,636	1,704	1,899	2,089	2,102	1,902	1,637	1,029	1,190	1,288	1,428	1,433	1,277
VAT Own Resources	5,827	4,326	3,976	2,601	2,896	3,174	3,252	3,624	2,720	2,776	1,764	1,980	2,164	2,184
Fourth Resource payments	6,230	8,373	9,492	11,137	12,699	12,258	13,209	3,874	5,265	6,629	7,555	8,681	8,357	8,870
VAT & Fourth Resource adjustments	-79	260	166	14	226	242	-	-49	164	116	9	154	165	-
United Kingdom Abatement	-7,333	-4,928	-5,097	-5,296	-5,349	-5,236	-5,251	-4,560	-3,099	-3,559	-3,593	-3,656	3,569	3,526
Total Contributions	7,750	10,082	10,606	10,765	13,035	12,993	13,520	4,819	6,340	7,407	7,302	8,911	8,857	9,079
PUBLIC SECTOR RECEIPTS														
EAGGF Guarantee	3,992	3,946	3,814	4,035	4,294	4,323	3,912	2,482	2,481	2,663	2,737	2,935	2,947	2,627
EAGGF Guidance	41	:	3	73	117	75	60	25	:	2	50	80	51	40
European Regional Development Fund	873	470	889	1,566	2,052	867	1,474	543	296	621	1,062	1,403	591	990
European Social Fund	595	655	611	638	1,315	1,953	928	370	412	427	433	899	1,331	623
Other Receipts	16	20	21	18	19	40	150	10	13	15	12	13	27	101
Total Receipts	5,517	5,091	5,338	6,330	7,796	7,258	6,523	3,430	3,201	3,728	4,294	5,329	4,948	4,380
NET CONTRIBUTIONS	2,233	4,991	5,268	4,435	5,329	5,735	6,998	1,389	3,138	3,679	3,008	3,581	3,909	4,699

Notes:

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

¹For 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 contributions in Table 2 in that these figures, drawn from Commission documents, relate to payments to particular EC Budgets.

²Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary).

³The figures for 2007 are forecasts, those for earlier years are outturn.

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

Source: HM Treasury



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