

European Community Finances

Statement on the 2006 EC Budget and measures to counter fraud and financial mismanagement

May 2006



HM TREASURY

Cm 6770



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Statement on the 2006 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 2006

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ISBN: 0-10-167702-2

Printed by The Stationery Office 05/06 179960

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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-sixth in the series. It describes the EC Budget for 2006 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 2000 to 2005, together with an estimate for 2006. It also includes details of recent developments in EC financial management and the fight against fraud.

2

THE 2006 BUDGET

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

2.2 The annual budget procedure 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 amendments, which are concluded in October. The Budget then returns to the Council in November for the Council's second (and final) reading. The European Parliament makes its second reading in December, after which the President of the Parliament 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 38% 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 2000-2006 **2.4** Since 1988 the annual budget has been set within a multi-annual expenditure framework known as the Financial Perspective. The current Financial Perspective sets out annual expenditure ceilings for eight broad categories,¹ which the budgetary authority must respect when it determines the Budget. The expenditure ceilings are set in terms of *maximum commitments*, i.e. legal expenditure obligations entered into during the year, which will lead to *payments* either that year or in future years.

2.5 The Financial Perspective covering Budget year 2006 results from decisions made at the March 1999 European Council. These cover EU expenditure from 2000–2006, amended at the December 2002 European Council to take account of the accession of ten Member States in May 2004. The Financial Perspective is set out in an Inter-Institutional Agreement (IIA) between the Commission, the Council and the European Parliament.

The Financial Perspective 2007-2013 **2.6** The European Council reached partial agreement on the next Financial Perspective on 17 December 2005. This was subsequently confirmed in April 2006 by the conclusion of the Inter-Institutional Agreement (IIA) on budgetary discipline and improvement of the budget procedure, agreed by the Council, Commission and the European Parliament. This confirmed the size, composition and funding of the EC budget for the period 2007-13. The table below shows the breakdown by policy heading, following agreement of the IIA, which resulted in a budget of €864.3² billion (£586.2 billion) in 2004 prices, equivalent to 1.0475% of EU Gross National Income over the period.

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

² An explanation of the exchange rates used throughout this Statement can be found in the glossary, on Page 32.

Expenditure	December Total 2007-13, € billion	April IIA Total 2007-13, £ billion	Total 2007-13 13 share of budget
1a. Competitiveness for Growth and Employment	72.1	74.1	8.6%
1b. Cohesion for Growth and employment	307.6	308.0	35.6%
2. Preservation and management of natural resources: Of which market related agricultural expenditure and direct payments	371.2	371.3	43.0%
3a. Freedom, Security and Justice	6.6	6.6	0.8%
3b. Citizenship	3.6	4.1	0.5%
4. EU as a Global Player	50.0	49.4*	5.7%
5. Administration	50.3	49.8**	5.8%
6. Compensations	0.8	0.8	0.1%
TOTAL	862.4	864.3	100%

*Emergency Aid Reserve of €1.5 billion and **€0.5 billion of pensions provisions taken off budget, enabling increased expenditure in other headings

2.7 The December 2005 European Council also agreed the following policy measures:

- to increase expenditure on research and development by at least 75% between 2006 and 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;
- 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.

2.8 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 contributions reduced by €605 million (£414.6 million) and €150 million (£102.7 million) respectively;
- the UK abatement would remain; and
- by 2013, the UK abatement would be calculated on all allocated expenditure in the EU15³ and all CAP direct payments, market support and EAGGF guarantee expenditure in the EU12⁴. Other expenditure in the EU12 would be progressively excluded from the abatement calculation according to the following schedule:

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

2.9 During the period 2007-2013, the additional contribution from the UK would not be higher than €10.5 billion (£7.1 billion) by comparison with the application of the current Own Resources Decision (ORD). This amount is subject to adjustment in the case of future enlargement.

2.10 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), and to report in 2008-2009. At that time, the European Council could take decisions on any issue covered by the review. This Review would also be taken into account in the preparatory work for the following Financial Perspective.

2.11 This is the first agreement of a Financial Perspective for a European Union of 25 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 rebate:

- 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 limits budget growth 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;

³ EU15: Member States as at 30 April 2004.

⁴ EU12: Member States that joined on 1 May 2004, plus Romania and Bulgaria.

- 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 still be worth more in the next 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 is paying roughly the same as France and Italy and a process exist 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.

2.12 The European Parliament has now approved the expenditure side of the Financial Perspective, with some modifications, through the new Inter-Institutional Agreement (IIA). Negotiations between Parliament, Council and Commission were concluded in the April 2006, under the Austrian Presidency. The IIA made the following changes to the agreement reached in December 2005:

- an overall increase of €1.9 billion (£1.3 billion) above the December agreement, representing 0.22% of the total budget. This increase is divided between headings;
- removal of the Emergency Aid Reserve and certain pensions elements from the budget, worth €2 billion (£1.37 billion) in total, creating additional headroom within the budget for programme spending;
- recognising the need for budget discipline, the Flexibility Instrument remains set at €200 million (£137 million) per annum over the 2007-13 period; and
- introducing measures aimed at increasing budget discipline, such as the certification of national accounts by Member States.

2.13 The revenue side will be taken forward through a new ORD, which must be agreed by unanimity in the ECOFIN Council. This is likely to be concluded in the second half of 2006, under the Finnish Presidency. The ORD then has to be ratified in all Member States. In the UK this will involve primary legislation, amending the 1972 Communities Act. Ratification should be completed by the beginning of January 2009, with the changes having retrospective effect from 1 January 2007.

The Own Resources Decision 2.15 The arrangements for financing the EC Budget are set out in the Communities' ORD. The current ORD was agreed in September 2000 and took effect (retrospectively) 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 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.

The 2006 Budget 2.16 The 2006 Budget was negotiated under the UK 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 2005, and relates these to the Financial Perspective ceilings. Tables 1 and 1A (page 41) provide figures for previous years' adopted Budgets.

Table 2.1: 2006 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 2006	Adopted Budget 2005
1 Agriculture	52,618	51,412	51,262	51,450	51,051	51,051	49,026
2 Structural Operations	44,617	44,555	44,555	44,567	44,555	44,555	42,420
3 Internal Policies	9,385	9,218	9,175	9,436	9,184	9,373	9,151
4 External Action	5,269	5,393	5,227	5,684	5,267	5,544	5,234
5 Administration	6,708	6,698	6,578	6,655	6,584	6,656	6,292
6 Reserves	458	458	458	458	458	458	446
7 Pre-accession Strategy	3,566	2,481	2,481	2,481	2,481	2,481	2,081
8 Compensations	1,074	1,074	1,074	1,074	1,074	1,074	1,304
Total Commitment appropriations	123,695	121,289	120,810	121,805	120,654	121,192	115,954
Total Payment appropriations	119,292	112,567	111,421	116,223	111,422	111,970	105,684
Payment appropriations as a percentage of Community GNI	1.08%	1.02%	1.01%	1.05%	1.00%	1.01%	1.01%

Notes:

¹Includes the effect of Amending Budgets 1, 2, 3, 4, 5, 6, 7 & 8.

Source: Budget documentation on 2006 Budget (excluding amending Budgets) and 2005 adopted Budgets.

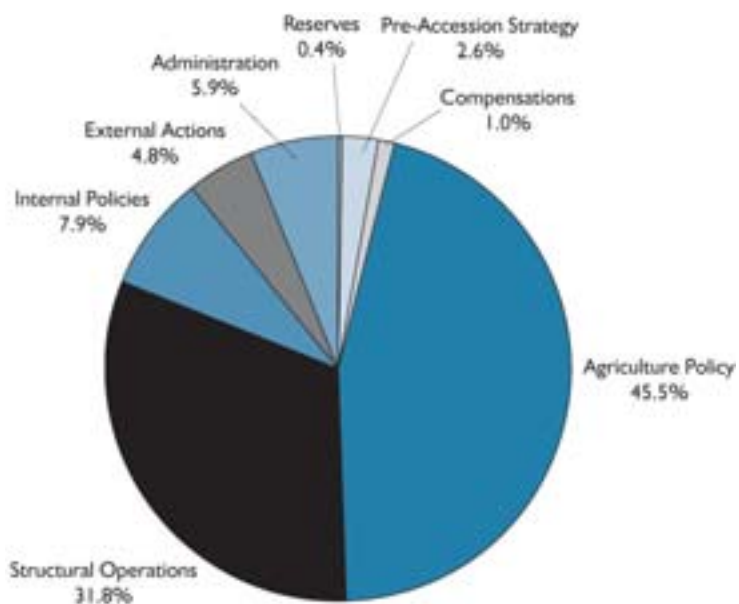
2.17 The adopted 2006 Budget provides for commitment appropriations of €121.2 billion (1.09% of EU GNI) or £83.1 billion, an increase of 4.5% compared to 2005; and payment appropriations of €112.0 billion (1.01% of EU GNI) or £76.7 billion, an increase of 5.9 per cent over 2005. The commitment and payment appropriations are within the limits provided under the Financial Perspective and the ORD. The payment appropriations for each of the eight categories of the Budget are shown in Chart 2.1.

2.18 The key changes in the 2006 Budget compared with previous years are as follows:

- **Heading 1: Agriculture** – this includes under the Common Agricultural Policy (CAP) spending and rural development. Commitments were set at €51.1 billion (£35 billion), an increase of 4.1% compared to 2005, while payments rose by 5.2% to €51.0 billion (£35 billion). For Sub-heading 1a (traditional CAP expenditure), there is an unspent margin of €1.6 billion (£1 billion), under the Financial Perspective ceiling, while appropriations for Sub-heading 1b (rural development and accompanying measures) were budgeted up to the ceiling of €7.8 billion (£5.3 billion). 2006 is the first budget to take account of modulation in Heading 1, which involves the transfer of €655 million (£448 million) from Sub-heading 1a to 1b.
- **Heading 2: Structural Operations** – this is aimed at developing poorer EU regions and member states, for instance via the European Regional Development Fund and the European Social Fund. Commitments increased by 5.0% to €44.6 billion (£30.5 billion), while payment appropriations increased by 10.0% to €35.6 billion (£24.3 billion). The increase to payments is largely due to increases in the expected implementation rates in 2005 compared to 2004 especially in the new Member States. The increase to commitments is in line with existing agreements, and includes €60 million (£41 million) for the extension of the PEACE II programme in Northern Ireland.
- **Heading 3: Internal Policies** – this includes actions to develop EU-wide priorities such as education, trans-European networks and research & development. Commitments were set at €9.4 billion (£6.4 billion), a 2.4% increase compared to 2005, while payments rose by 10.9% to €8.9 billion (£6 billion). A margin of €12 million (£8.2 million) was established under the Financial Perspective ceiling. Around 55% of the total spending commitments under this heading were allocated to Research and Development.
- **Heading 4: External Actions** – 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 were set at €5.4 billion (£3.7 billion), a decrease of 2% compared to 2005, while commitments increased by 5.9% to €5.5 billion (£3.7 billion). Appropriations for commitments exceeded the Financial Perspective ceiling by €275 million (£188 million). This sum was financed by deployment of the budget flexibility instrument: €100 million (£68.5 million) towards Iraq reconstruction; €95 million (£65 million) towards Tsunami reconstruction; €40 million to help address the consequences of sugar reform in sugar protocol countries; and €40 million (£27 million) towards the Common Foreign and Security Policy.
- **Heading 5: Administration** – this part finances the EU institutions and agencies, including salaries and infrastructure costs. Commitments and payments totalled €6.7 billion (£4.6 billion), an increase of 5.8% over 2005. This included funding for 800 new posts, most of which are enlargement-related. An unspent margin of €51.6 million (£35 million) under the ceiling.

- **Heading 6: Reserves** – this covers emergency aid and the provision of financial guarantees for external lending. Commitments and payments increased by 2.7%. Appropriations were budgeted up to the ceiling for both commitments and payments of €458 million (£314 million), and split equally between the two instruments.
- **Heading 7: Pre-Accession Strategy** – EU candidate countries receive funds from this Heading to help prepare them for membership. Commitments were set at €2.5 billion, (£1.7 billion) an increase of 19.2% compared to 2005, while payment appropriations decreased by 12.0% to €2.9 billion (£1.9 billion). The increase in commitments is in line with agreed pre-accession strategies for Romania, Bulgaria, Croatia and Turkey (the latter accounts for half of the overall increase), while the decrease in payments was a consequence of the phasing out of outstanding payments to the new Member States from the 2004 enlargement. There is a margin of €1.1 billion (£0.7 billion) under the ceiling.
- **Heading 8: Compensations** – this is a temporary measure designed to ensure that new Member States should not become net contributors at the start of their membership. Expenditure decreases by 17.7% in 2006 in terms of both commitments and payments (from €1.3 billion to €1.1 billion), in line with the 2002 Copenhagen agreements.

Chart 2.1: 2006 EC Budget – Payment Appropriations by Budget Category



Source: 2006 Adopted Budget

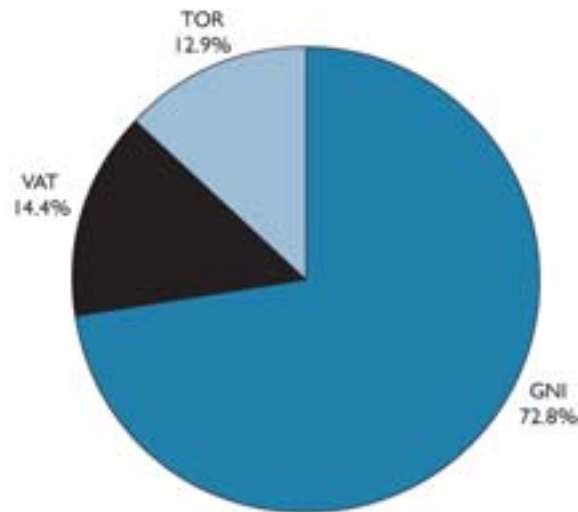
New Regulations in 2004 **2.19** A number of replacement multi-annual programmes came into effect, following the passage of relevant legislation and EU Regulations. These included:

- Culture 2000: a programme supporting cultural cooperation projects in all artistic and cultural fields, extended to run throughout 2005-2006 with a budget of €70 million (£47 million);
- Civil Protection: a programme intended to prevent and prepare for natural and man-made disasters, extended to run throughout 2005-2006 with a budget of €4 million (£2.7 million);
- European Refugee Fund: a programme for helping Member States receive asylum seekers, refugees and displaced persons, extended to run throughout 2005-2010 with a budget of €114 million (£78.1 million) for 2005 and 2006;
- LIFE: a programme for environmental protection, provides financial support for projects that contribute to the development, updating and implementation of Community environmental policy, extended to run throughout 2005-2006 with a budget of €317 million (£217 million);
- MEDIA +: a programme for the development, distribution and promotion of European audiovisual works, extended to run throughout 2006 with a budget of €104 million (£71 million) which also reflects the impact of enlargement in previous years; and
- Media training: a training programme for professionals in the European audiovisual programme industry, extended to run throughout 2006 with a budget of €7 million (£4.7 million), which also reflects the impact of enlargement in previous years.

Activity Based Budgeting **2.20** Activity Based Budgeting (ABB) was introduced in 2002. It is intended 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.

2.21 The ABB approach was reinforced during the 2006 Budget negotiations, and is gradually becoming 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 2007 Budget.

Community Revenue **2.22** The ORD provides for four sources of Community revenue: customs duties, including on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as 'Traditional Own Resources' (TOR). The VAT and GNI-based contributions are often referred to as the third and fourth resources. A more detailed explanation is found in the glossary.

Chart 2.2: 2006 EC Budget Revenue

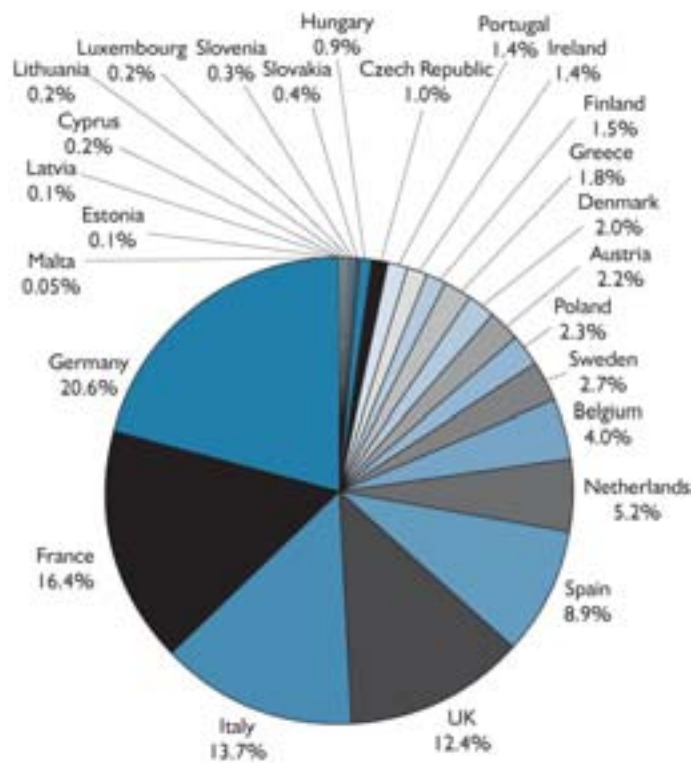
Source: 2006 Adopted Budget

2.23 Chart 2.2 shows a breakdown of how the 2006 Budget will be financed. Tables 2 and 2a (page 42 to page 45) show the gross contributions by Member State, after taking account of the UK abatement, between 2000 and 2006. The key points to note in terms of the UK's contribution are:

- TOR in 2006 is estimated to be around €14.2 billion (£8.8 billion), with the UK's share estimated at 17.9%. In 2005, revenue from this source was estimated to be €13.9 billion (£9.5 billion), of which the UK's share was 18.0%;
- VAT-based contributions in the 2006 EC Budget are shown as €15.9 billion (£10.9 billion), with the UK's share some 18.6%. In 2005, total VAT contributions were estimated to be €15.6 billion (£10.6 billion), of which the UK's share was 18.0%;
- GNI-based contributions in the 2006 EC Budget, including potential contributions to Community Reserves, is shown as €80.6 billion (£55.2 billion), of which the UK's share is 17.2%. In 2005, GNI-based contributions were estimated to be €68.9 billion (£47.1 billion) with a UK share of 16.7%; and
- the estimated value of the UK's abatement in 2006 is €5.7 billion (£3.9 billion), compared with a total abatement in the 2005 EC Budget of €5.1 billion (£3.5 billion). A detailed explanation of how the UK abatement is calculated, and how it operates, is in the glossary.

2.24 Chart 2.3 shows each Member State's share of financing the 2006 EC Budget, after taking account of the UK abatement.

Chart 2.3: 2006 EC Budget Revenue: Percentage Shares by Member State after abatement



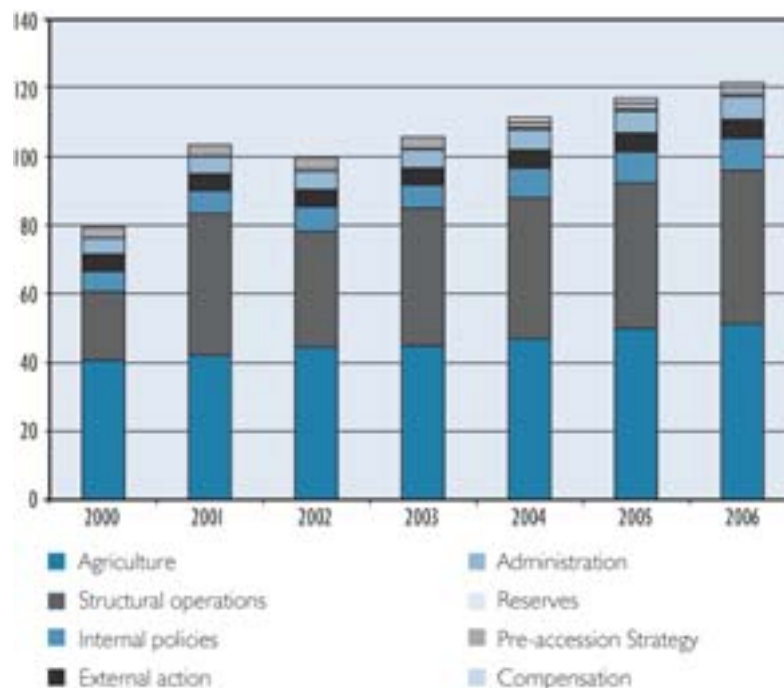
Source: 2006 Adopted Budget

3

DEVELOPMENTS IN COMMUNITY FINANCES

Expenditure 3.1 Chart 3.1 shows the developments in Community spending commitments over 2000-2006. The two most significant trends are the increase in structural operations expenditure, which has been over one-third of the Budget since 1996; and increased spending on internal policies and external actions, which reflects the growing focus on policy areas such as freedom, security & justice, research & development, transport and energy, and international assistance. Certain repayments to Member States⁵ have been discontinued. Additionally, two new Budget categories were created: pre-accession aid, agreed at the 1999 Berlin Council, to help candidate countries prepare for enlargement; and temporary compensations, agreed at the Copenhagen Council in 2002, to help to ensure that the ten accession countries were left no worse off financially in the first three years of joining the EU than they would have been as Candidate Countries receiving pre-accession aid. Under the new Financial Perspective agreement for 2007-13, Pre-Accession Strategy (Heading 7) is incorporated into Heading 4 (External Actions), and Heading 8 (Compensations) is discontinued.

Chart 3.1: Developments in Community Spending (commitments) 2000-2006 (€ billion)



Source: 2000 European Court of Auditors' Report
2001-2006 European Community Annual Budgets

⁵Spain and Portugal in the early years of membership, or in connection with the depreciation of agricultural stocks.

3.2 Further details on spending in recent years are given in Tables 1 and 1a (page 35). These illustrate commitments and payments for the years 2000-2006. They also show the main spending programmes broken down by Financial Perspective category.

**Reform of the
Common
Agricultural
Policy (CAP)**

3.3 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:

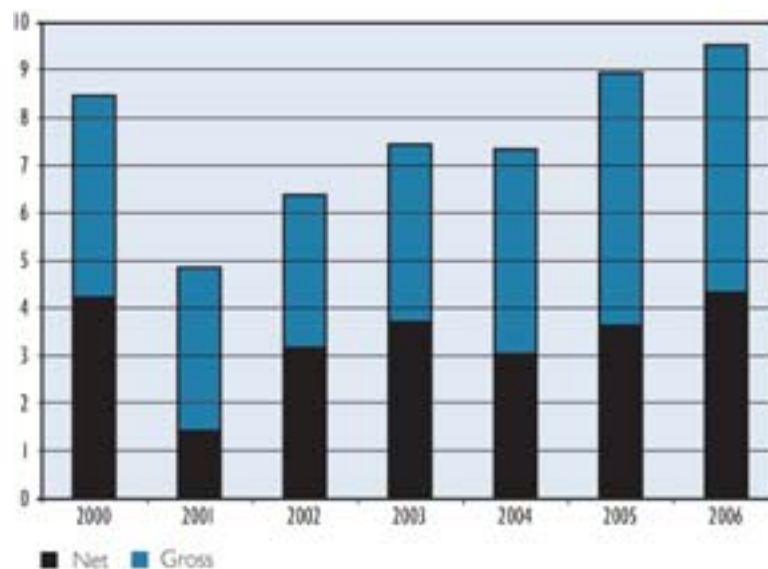
Ceiling for CAP market-related expenditure and direct payments, 2007-2013, EU25

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

3.4 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 that will begin with the 2007 EC Budget to ensure that the spending ceilings are not exceeded.

3.5 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.

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



Note: 2006 is an estimate
Source: HM Treasury

The UK's Net Contribution 3.6 Chart 3.2 shows how volatile the UK's net contribution is 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 on (page 35) and glossary on (page 29). Table 3.1 shows the UK's gross contributions before abatement, public sector receipts, and net contributions to the EC Budget for calendar years 2000-2006. The figures for 2006 are estimates; those for earlier years are outturn. Table 3 (page 46) gives a more detailed breakdown.

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

	2000 Outturn	2001 Outturn	2002 Outturn	2003 Outturn	2004 Outturn	2005 Outturn	2006 Estimated Outturn
Gross payments (1)	10,517	9,379	9,438	10,966	10,895	12,567	12,823
Less: UK Abatement	-2,085	-4,560	-3,099	-3,559	-3,593	-3,656	-3,338
Less: Public sector receipts	-4,241	-3,430	-3,201	-3,728	-4,294	-5,307	-5,188
Net contributions to EC Budget (2)	4,192	1,389	3,138	3,679	3,008	3,604	4,298

Notes:

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

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

Source: HM Treasury

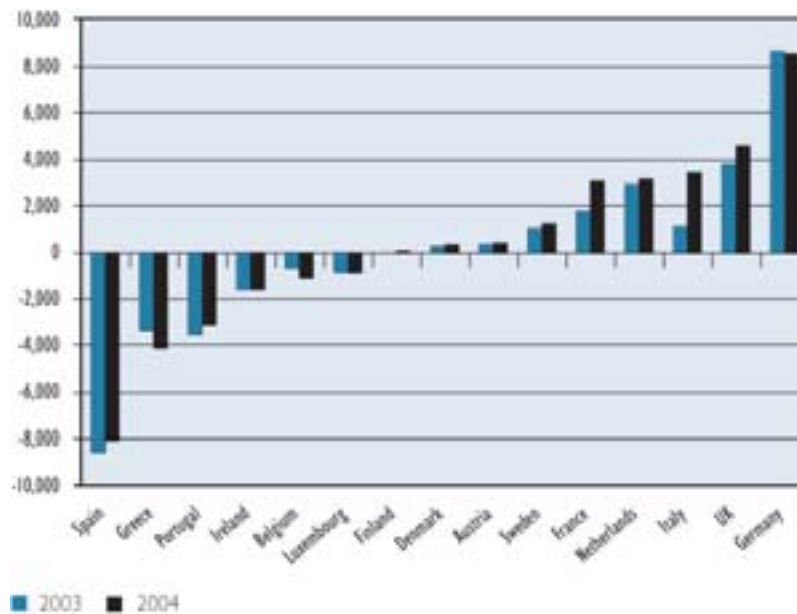
3.7 UK public sector receipts in 2006, mainly from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Social and Regional Development Funds, are expected to be around £5.2 billion. The majority of these receipts will either be paid to or used in its support of the private sector, but are channelled through government departments.

3.8 The Community makes some payments direct to the private sector, which do not appear in public sector accounts. These are therefore not included in Tables 3 (Page 46), 3.1, 3.2 or 3.3. In 2006, these receipts are expected to be around £575 million.

3.9 The UK's 2006 net contribution is forecast at £4.3 billion; outturn in 2005 was £3.6 billion. The 2005 outturn figure reflects changes resulting from Amending Budgets during the course of the year where as the 2006 figure reflects only the 2006 Adopted Budget. Amending Budgets in 2005 included the return of the surplus from the 2004 EC Budget, which served to reduce Member States contributions to the 2005 EC Budget. Any surplus from the 2005 EC Budget will reduce Member States contributions in 2006 and will impact on the UK's 2006 net contribution forecast. This will be returned by an Amending Budget later this year.

3.10 Chart 3.3 shows how the UK's net position compares with those of the other Member States in 2003 and 2004. In 2004, the UK was one of nine net contributors to the EC Budget. Germany was the highest net contributor, paying almost twice as much as any other Member State. The UK, Netherlands, Italy, France, and Sweden were the other significant net contributors.

Chart 3.3: Net Receipts/Contributions of Member States in 2003 and 2004 (€ million)



Source: Based on data published in the European Commission Report on the allocation of 2004 EU Operating Expenditure by Member State, published in September 2005.

Note: Chart provides data for the last two years for which information is available and thus a comparison between the two. It therefore excludes the ten new Member States who acceded on 1 May 2004, where only 2004 data is available covering a eight month period.

Financial Year Transactions 3.11 The Community financial year runs from 1 January to 31 December, whereas the UK's runs from 6 April to 5 April.

3.12 Table 3.2 gives a breakdown of the UK's transactions with the European Communities on a financial year basis between 2000-01 and 2005-2006 (estimated outturn). This Table also includes future plans for the period 2006-2007 and 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							
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans	Plans
Gross payments (1)	10,640	9,213	9,737	11,371	12,183	11,780	11,981	14,247
Less UK Abatement	-2,223	-4,427	-3,233	-3,874	-3,722	-3,641	-2,903	-3,722
Less Public sector receipts	-4,099	-3,309	-3,424	-4,235	-4,552	-3,640	-7,090	-5,023
Net contributions to EC Budget (2)	4,318	1,477	3,080	3,261	3,909	4,499	1,987	5,502
Contributions to reserves and capital of the EB	0	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)	-584	-635	-736	-799	-697	-618	-668	-655
Net payments to EC institutions (excluding Overseas Aid) (2)	3,734	841	2,344	2,460	3,211	3,880	1,319	4,848

Notes:

: This signifies receipts of less than £0.5 million.

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

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

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

Source: HM Treasury

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

	£ million							
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans	Plans
Agricultural Guarantee Fund	2,647	2,631	2,548	2,877	2,771	1,938	4,974	3,259
Agricultural Guidance Fund	35	18	2	22	30	53	45	41
Social Fund	523	146	501	345	692	687	1,285	811
Regional Development Fund	887	501	359	1,017	1,049	902	729	846
Other Receipts	7	14	13	13	9	59	57	66
Total	4,099	3,309	3,424	4,235	4,552	3,640	7,090	5,023

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

Source: HM Treasury

3.13 Net payments to EC institutions in 2005-2006 are estimated to be £0.8 billion higher than they were in the Pre-Budget Report in November 2005. This is largely due to receipts that were forecast for 2006-07 having come through earlier.

3.14 The latest estimate also takes into account a change in the pattern of the UK's VAT-based and GNI-based contributions, together with the UK abatement, in the first quarter of 2006. Payments to the EC Budget are scheduled on a monthly basis, but the Commission can ask Member States for earlier payments to take account of the high CAP payments, which take place in the first months of the year. At the time of the November 2005 pre-Budget Report no draw forward was estimated. A draw-forward of (1.1/12ths) was subsequently requested, which meant that a total of (4.1/12ths) was paid in the first quarter of 2006. As a result, payments for the rest of 2006, which will all fall into the 2006-2007 financial year estimate, will be lower.

3.15 The forecast net contribution for 2006-2007 is £1.4 billion lower than at the time of the 2005 pre-Budget Report. This is because some CAP receipts previously estimated for 2007-2008 are now expected in 2006-2007. The forecast for 2007-2008 is £0.3 billion higher. This reflects the first full financial year impact of the new Financial Perspective, and a lower abatement figure for 2006-07 that stems from the increase in receipts now expected in 2006-07.

Measuring Net Contributions

3.16 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 2004 operating expenditure.

4

FINANCIAL MANAGEMENT AND ANTI-FRAUD ISSUES

4.1 The European Commission adopted on 15 June 2005 its Communication on a 'Roadmap to an Integrated Internal Control Framework'. The initiative builds on the European Court of Auditors' (ECA's) Opinion 2/2004 on the 'single audit' model. This included a proposal for a 'chain-based' model of a Community internal control framework that would apply to all levels of administration in the Institutions and the Member States. The framework would be based on common principles and standards and would enable the ECA to place reliance on well-developed and implemented financial control systems. See Box 4.1 (page 22).

European Court of Auditors' annual report on the 2004 Budget

4.2 The Annual Report and Statement of Assurance from the Court of Auditors on the 2004 Budget was published on 15 November 2005. As usual, the report covered the main areas of the Budget – own resources, agriculture, structural funds, internal policies, external and 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 (EDFs), which are separate from the general Budget.

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

4.4 The Court acknowledged changes to the EU in 2004 in respect of the accession of ten new Member States on 1 May 2004; further reform of the Commission's financial management; and application for the first time of the Activity Based Budgeting (ABB) format. ABB has led to changes in the presentation of financial information, by ABB policy area.

4.5 The Court acknowledged the Commission's continued efforts to prepare for the introduction of full accruals-based accounting – representing a fundamental reform in the way that the accounts are kept and in the financial information that would be presented for the 2005 financial year. The Court's audit work indicated that further efforts were needed if the Commission was to provide accurate accounting information for the 2005-year end.

4.6 The Court noted the improvements that had been made since the reform process was initiated in 2000, particularly in the controls exercised by the Commission. However, the Court noted that significant effort was still required in areas where management was shared with Member States. It was felt to be of critical importance that the Commission work with Member States to identify weakness in the design and operation of schemes, and introduce appropriate remedial action.

European Court of Auditors' Statement of Assurance (DAS)

4.7 The ECA audit of the EC accounts shows, as usual, that they faithfully reflect the revenue and the expenditure of the Communities for the year, and their financial position. As in previous years, the ECA has given a positive opinion on the reliability of the accounts, and on the legality and regularity of revenue, commitments, pre-accession aid and administrative payments.

4.8 The ECA was unable to give a positive Statement of Assurance concerning the reliability of the accounts and the legality and regularity of the other payments for the eleventh year running, because of the level of errors identified in various payment transactions. However around 35% of the 2004 Budget expenditure has, been cleared compared with only around 6% in 2003 (see Technical Annex III).

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

- **Own resources (revenue):** the Commission's review of Member States' supervisory and control systems were soundly based and the documentation was in good order. The recording of own resources was generally satisfactory. The reliability of the accounts and legality and regularity of underlying transactions in the accounts continued to be unreliable in some Member States. Data supplied by Member States on GNI and VAT resources had been correctly calculated, collected and entered in the accounts. But the Court made recommendations on improving the quality of supervisory and control systems. The audit of the GNI own resources identified weaknesses that could impact on the quality of the data on the basis of which Member States' GNI contributions are established, and the Court made a number of recommendations to the Commission;
- **CAP:** expenditure as a whole, drawing on all available sources of evidence, was still affected by significant errors. However, the Integrated Administration and Control System was an effective tool, when properly applied, in limiting the risk of irregular expenditure in CAP for the first time to an acceptable level. The Court made a number of recommendations on how supervisory systems and controls could be improved;
- **Structural measures:** weaknesses were found in management and control systems in all programmes in the Court's sample, as well as numerous errors of legality and regularity. Delays and weakness were found in closing 1994-1999 programmes. Improvements were made in annual activity reports and declarations, although further efforts were required. The Court was generally satisfied with progress, but noted that there were sometimes delays in action to be taken on previous Court observations;
- **Internal policies:** minimum baseline level requirements were complied with; but further improvements were needed, particularly in respect of risk management, management information, internal audit capability and reporting exceptions. Annual Activity reports in 2004 improved in structure, presentation, and content compared to 2003;
- **External actions:** further improvements were made to the Commission's supervisory and control systems, in line with some of the Court's recommendations in the 2003 Annual Report. But the effects have not as yet been completely felt at the implementing organisation level; improvements were needed at both Commission HQ and in Delegations;
- **Pre-accession strategy:** for the first time since 2002, the Court gave a positive assurance on pre-accession expenditure. The supervisory and control systems had improved and provided a reasonable level of assurance on the legality and regularity of underlying transactions, apart from the parallel co-financing requirements;

- **Administrative expenditure:** improvements had been made in the supervisory and control systems in all institutions, as required by the revised (2002) Financial Regulation. However, risks identified in 2003 linked to the implementation of the Financial Regulation and the new staff regulation, and computerised systems for calculating salaries and pensions, had not been adequately addressed by the supervisory and control systems in 2004; and
- **Commission's Internal Control system:** the Commission made progress in reforming its internal control system, with a positive impact on the legality and regularity of the Commission's internal management of expenditure. Further effort was still required in terms of operational effectiveness.

Box 4.1: DAS reform - “roadmap to an integrated internal control framework”

The Commission published a “roadmap to an integrated internal control system” in June 2005. This was based on the framework proposed by the ECA, and responded to calls from Council and the ECA made in relation to the 2003 budget report. The “roadmap” set out a chain of control procedures and proposed action for the Commission, Member States and for the ECA, for example:

- for the Commission, to produce a gap analysis by budget sector of the gaps which exist between the existing control framework and that proposed by the ECA; and to improve the Commission’s annual activity reports so that for 2006 they contain a clear basis for an annual declaration of assurance;
- for Member States, to provide annual *ex ante* disclosure statements and *ex post* declarations of assurance, signed at the highest Member State level, audited by their Supreme Audit Institutions (e.g. National Audit Office) and supported by similar declarations from each paying authority and managing authority; and
- for the ECA, to continue to work on the DAS methodology, to be able to measure progress better and point out more precisely where improvements are needed.

Following discussion by a Panel of Experts in September 2005, co-chaired by the UK Presidency and the Commission, ECOFIN (Economic and Financial Affairs Council) agreed detailed conclusions in November. These included, for the first time, a political commitment to achieve a positive Statement of Assurance.

The conclusions also included many important action points, for example:

- the Commission, working with the Member States, is to provide an assessment of the present controls at sector and regional level and the value of existing statements and declarations. This will allow a realistic evaluation of how the information provided can be made more effective and useful;
- the ECA is invited to report on how the integrated internal control framework would affect its audit approach, taking account of current International Auditing Standards. This will help drive further the changes the Court has already introduced into its methodology and bring it closer into line with the methods used by National Audit Offices; and
- the Council and European Parliament should determine appropriate levels of risk for each policy area. At present the ECA audits against a materiality level of 2% for the whole budget, but acknowledges that the tolerable risk of error may vary.

The Commission’s Action Plan will be discussed at the 5 May ECOFIN meeting, due to be presented by Commissioner Kallas. The UK will continue to work with the Presidency, Commission and Parliament to implement a more effective integrated internal control framework.

Council recommendation to the European Parliament

4.10 The Council's recommendation to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2004 Budget was discussed by ECOFIN on 14 March 2006. As in previous years, the Council recommended that the Parliament grant discharge. However, its recommendation was accompanied by detailed comments that criticised financial management in some areas and called for improvements. The Council was disappointed that the Court remained unable to give a positive Statement of Assurance in relation to most of the expenditure. 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 ECA.

4.11 The Council's recommendations included that:

- the Commission should improve the use and presentation of indicators, so that there is a better comparability of year on year developments;
- the ECA should improve the clarity of the DAS;
- Certifying Bodies' reports on agriculture should cover the legality and regularity of expenditure; and
- the Commission should assess the implementation of the current regulations in the Structural Funds, including sample checks, the role of paying authorities and the activities of winding-up bodies.

European Court of Auditors' Special Reports

4.12 The ECA's Annual Report is complemented by a number of 'Special Reports' each year on selected 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. And 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. A full list of Special Reports published in 2005 is in the Bibliography section on (page 49).

European Parliament's report on discharge for 2004

4.13 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 is due to vote on discharge before the end of April 2006.

UK Government response to the European Court of Auditors

4.14 The UK argued in 1995 for a procedure of Member States' responses to the ECA'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.

4.15 The ECA 2004 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).

Response: the B Accounts have been centralised and significant progress has been made with the transfer of cases from regional offices. The central site will monitor the progress of cases referred to the central Debt Management Unit. A new form has been introduced to support cancellations. Procedures for write-offs will be reviewed to ensure that they are justified in terms of own resources and that accounting action is correct and timely. Systematic checks will be introduced on the aggregation and production of the B statements. The new measures will produce improvements in the accuracy and completeness of the B Accounts.

Agriculture

Audit finding: the Commission approved the accounts of 86 of the 91 paying agencies, and postponed its clearance of the accounts of five paying agencies because of imprecise or insufficient work by the certifying bodies concerned. Financial corrections were being made to a further four paying agencies, two of which were in the UK.

Response: the Commission findings are in line with UK expectations, and related to under-declared interest in the Forestry Commission and unidentified corrections for the Scottish Executive Environment and Rural Affairs Department. These observations relate to findings made by the UK Certifying Body during the 2004 Certification of Accounts.

Structural Funds

Audit finding: weakness found in the management and control systems had given rise to an increased risk on the legality and regularity of underlying expenditure. Problems found were wide ranging and included instances of the declaration of ineligible items of expenditure; declaring expenditure twice and inadequate supporting documentation held at projects.

Response: A new directive on procurement came into effect in January 2006 and will form part of the UK guidance to Government Offices and grant applicants. The UK has also reviewed and issued a guidance note on the method to be used for the calculation of overhead expenditure to projects.

National Audit Office report on the Court of Auditors' report

4.16 The National Audit Office published its annual report on the 'Financial Management in the European Union on the 29th March 2006. The report explains the findings in the ECA Annual Report and Statement of Assurance and considers other relevant financial management issues.

Annual report on the Fight against Fraud 2004

4.17 The European Anti-Fraud Office (OLAF)⁶ compiles the Commission's Annual Report on the Fight against Fraud. The report covering the 2004 calendar year was released on 19 July 2005. It included an analysis of irregularities reported by Member States⁷.

4.18 This year's report details fraud and irregularities detected during 2004. 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.

4.19 Two supplementary reports accompany the report: *Statistical Evaluation of Irregularities and Implementation of Article 280 of the Treaty by the Member States in 2004*. The report examines action taken by the national authorities and the Commission to prevent and fight against economic and financial crime. The following table compares the totals of cases, and amounts involved, between 2003 and 2004:

	2003*	Amounts (€ millions)	2004	Amounts (€ millions)
	No. of cases		No. of cases	
Traditional Own Resources	2,659	276	2,735	206
Agriculture	3,237	170	3,401	82
Structural Funds	2,467	482	3,339	695

*NB: figures shown for 2003 may differ from those published in last years Statement, as OLAF constantly updates its databases

4.20 Care must always be taken in interpreting these figures. A sharp rise may simply reflect the inclusion of figures for one or more long-running cases, which have only just been resolved. The number of cases of fraud and irregularities communicated in 2004 was higher in all sectors compared to 2003. However, the amounts involved decreased in Agriculture and Traditional Own Resources.

4.21 The number of cases of fraud and irregularities reported for Traditional Own Resources increased by 2.9% compared to 2003. The amounts affected have fallen since 2002 and represented 1.5% of own resources collected in 2004. The products most affected by the irregularities were cigarettes, televisions and sugar.

4.22 In agriculture the number of cases of irregularities detected by Member States increased slightly compared with 2003. However the financial impact decreased, and represented around 0.19% of the agriculture budget. This represents a huge improvement compared to the preceding years' figures. The Commission estimates that 11% of total irregularities reported, or 0.0.2% of total agriculture payments, represented cases of suspected fraud.

⁶ An explanation of OLAF can be found in Technical Annex IV

⁷ A definition of irregularities and fraud can be found in the glossary.

4.23 In Structural Funds, both the number of irregularities notified and their financial impact increased compared with 2003. The financial impact represents 2% of the structural and cohesion fund appropriations. The Commission's estimates reveal that 20% of the irregularities notified, or 0.4% of total structural fund payments, can be classified as fraud. The most affected areas appeared to be in the European Social Fund.

4.24 The report gives a summary and overview of the measures taken and the results achieved by the 25 Member States. The report sets out the major developments in 2004; 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 irregularity, and the collection of own resources.

4.25 The report makes reference to the accession of the ten new Member States, and their achievements in preparation to taking on full financial responsibility for the correct implementation of EU funds.

4.26 The Commission intends to be more transparent and informative about the types of frauds and other irregularities that threaten the Community's financial interests, the consequences that may occur and the measures taken to avoid them. The emphasis is on the Commission and Member States working together for the benefit of the Community and country involved, to be transparent and to fight against fraud.

4.27 The Director of the European Anti-Fraud Office (OLAF) is required to make regular reports to the European Parliament, the Council, the Commission and the Court of Auditors.

4.28 This report was published in July 2005, and provides a statistical analysis of OLAF's work since 1999 and activities and progress in 2004. In the past OLAF has produced its annual activity report on the basis of the 12 months ending June each year. The last such report covered the period up to 30 June 2004. OLAF has now accepted a request by the European Parliament, endorsed by the Commission and the Court of Auditors, to publish the Activity Reports on a calendar year basis. This Supplementary Activity Report prepares the way for this new approach. The report covers the activities and progress for the whole of 2004. The statistical data from the last report has been recalculated and revised where more accurate information has become available.

4.29 This report notes that at 31 December 2004, OLAF had 4,366 cases on its books. Over this period the total financial impact is estimated at €5.8 billion (£4.0bn). OLAF created 720 new case records in 2004, a 20% increase compared to 2003. OLAF recovered at least €198.2m (£135.4m), in 2004, a record level.

4.30 OLAF maintained a policy of "zero tolerance" when assessing an investigation of allegations of corruption within European Union Institutions. The third edition of the OLAF manual was concluded at the end of 2004. 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.

European Anti-Fraud Office Supplementary Activity Report for the Year 2004

**European Court
Of Auditors':
Special Report No
I/2005
concerning the
management of
the European
Anti-Fraud Office
(OLAF) (Pursuant
to Article 248
(4), second
subparagraph, of
the EC Treaty)
together with the
Commission's
replies**

4.31 In this special report the ECA presents the findings of its audit of OLAF, and provides recommendations for follow-up by OLAF and the Commission. The report is accompanied by the Commission's response.

4.32 The aim of the report is to audit and appraise the quality of OLAF's investigations management. The ECA assessed how the Office had discharged its investigative duties; the contribution made by each OLAF department to the investigative function; and the effectiveness of the Office's work. The audit was carried out between April and October 2004 and started where previous observations (in Special Report 8/98) by the Court had been made. The report focuses on the systems, structures and staff measures.

4.33 The report is fairly positive and makes some useful recommendations on how OLAF's performance could be better focused. The Court also considers that OLAF's hybrid status, as a semi-independent service of the Commission, has worked well and has even brought some benefits. The report concludes that the right decision was made in 1999 to establish OLAF, as a service of the Commission, and that continued efforts should be made by OLAF to improve the effectiveness of its investigations.

GLOSSARY

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

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

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

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 financial year, for activities that, in turn, will lead to payments in the current and future financial years. Payment appropriations are the amounts of money that are available to be spent during the year, arising from commitments in the Budgets for the current or preceding years. Unused payment appropriations may, in exceptional circumstances, be carried forward into the following year.

Compulsory and non-compulsory expenditure EC expenditure is regarded as either "compulsory" or "non-compulsory". Compulsory expenditure is expenditure necessarily resulting from the Treaty or from acts adopted in accordance with the Treaty. It mainly includes agricultural guarantee expenditure, including stock depreciation. The Council has the 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 Amsterdam 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' (ECA) annual report is subject to consideration by the budgetary authority (Council and European Parliament) under the "discharge procedure" set out in Article 276 of the Treaty. In particular, it considers how the Budget for the year in question was implemented. The European Parliament, acting on a recommendation from the Council, considers whether to grant the Commission a discharge in respect of the Budget in question, thus bringing the budgetary process for that year to a formal close. The Commission is obliged under Article 276 of the Treaty to take "all appropriate steps" to act on comments made by the European Parliament and by the Council during the discharge process. If so asked, it must also report back on its actions, with such reports going to the ECA.

Flexibility Instrument The flexibility instrument was established under paragraph 24 of the 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.

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

- the abatement applies only in respect of spending within the EU. Expenditure outside the EU (mainly aid), amounting to some 9% of total estimated expenditure in 2005, is excluded;
- the UK's contribution is calculated as if the Budget were entirely financed by VAT; and
- the abatement is deducted from the UK's VAT contribution a year in arrears, e.g. the abatement in 2005 relates to UK payments and receipts in 2004.

The formula for the calculation of the abatement is set out in the ORD and in a Working Document first published in 1988, 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 2004 will take place in 2008.

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.

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. Member States are required by regulations to report irregularities in the three main Budget sectors (own resources, agriculture and structural funds) on a quarterly basis. For example, a genuine payment made after the closing date for claims represents an irregularity; but import of goods under false papers is fraud.

Inter-Institutional Agreement (IIA) and Financial Perspective **4.34** The IIA is a politically and legally binding agreement that clarifies the Community's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the Community 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 ORD. In particular, it provides for the annual EC Budget to be set in the context of a multi-annual financial framework.

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

- Customs duties, including those on agricultural products. These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT Round, most agriculture duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices.
- Sugar levies. These are charged on the production of sugar to recover part of the cost of subsidising the export of surplus Community sugar onto the world market.
- Contributions based on VAT. Essentially, the VAT resource is the amount yielded by applying a notional rate of 1% to a VAT base, assuming an identical range of goods and services in each Member State. 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 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 2000-2006 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 Sterling⁸. Generally, the 2006 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 30 December 2005, namely £1=€1.459215 (regulations state that VAT and GNI payments will be made using the exchange rate on the last working day of the preceding year). However, there may be some exceptions, for example where figures have previously been published at a different exchange rate, but these are noted where necessary.

Structural Funds, the Cohesion Fund and ISPA

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

- the European Regional Development Fund (ERDF), which promotes economic and social cohesion within the Union through the reduction of imbalances between regions or social groups;
- the European Social Fund (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- the European Agricultural Guidance and Guarantee Fund (EAGGF – Guidance Section), which contributes to the structural reform of the agriculture sector and to the development of rural areas; and
- the Financial Instrument for Fisheries Guidance (FIFG), the specific fund for the structural reform of the fisheries sector. In addition, the EU supports Member States whose GDP is less than 90% of the European average through the Cohesion Fund, which finances projects linked to the environment and trans-European transport systems. The Instrument for Structural Policies for Pre-Accession (ISPA) supports development of infrastructure in the candidate countries.

⁸The annual average rate for 2000 is £1 = €1.6410

The annual average rate for 2001 is £1 = €1.6082

The annual average rate for 2002 is £1 = €1.5903

The annual average rate for 2003 is £1 = €1.4320

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

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

Substantive and formal errors 4.35 The ECA has always distinguished between ‘substantive errors’ and ‘formal errors’ in its audit reports. A ‘substantive error’ is a quantifiable error directly affecting the amount of the transactions underlying the payments made from Community funds. A ‘formal error’ is an infringement of regulatory or control mechanisms, such as an overdue, but otherwise eligible, payment. For both types, some of the errors may represent deliberate fraud, but most will represent genuine misunderstandings made in good faith, perhaps because of ambiguously drafted and complex regulations.

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 the 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 the TOR the total does not exceed the value of the Own Resources required to fund the proposed Budget for the coming year, subject to ensuring that the value of these Own Resources does not also exceed the Own Resources ceiling for the year in question (e.g. 1.24% in 2006);
- the sum produced (in Euro) is entered into the Preliminary Draft Budget (PDB) for the Community, by the end of April of the year preceding the budgetary year;
- the sum entered in the PDB is adjusted as necessary during the remainder of the Budget process, essentially to reflect changes on the expenditure side of the Budget, but still on the basis of the Budget exchange rate and still respecting the Own Resources ceiling;
- the Sterling/Euro exchange rate on the last day of quotation before the start of the Budget year is established as the rate by reference to which UK VAT and GNI-based Own Resources contributions will be paid in the Budget year. The amount which a Member State has to pay over in respect of the third and fourth resources in the Budget year will be different from its original estimates, if the last day of quotation rate is different from the Budget exchange rate;

- during the course of the Budget year, the UK pays its VAT and GNI contributions to meet its obligations as denominated in Euro in the adopted Budget. These payments are made at the Sterling/Euro rate described above because Member States hand over only what they collect, their TOR payments are not determined by the Euro amounts in the Budget;
- Member States pay their contributions for a given Budget year in monthly instalments (VAT and GNI-based contributions on the first working day of each month, TOR on the first working day following the 19th of each month). The VAT and GNI-based contributions are subsequently adjusted in the light of a number of factors, such as outturn figures for GNI. If outturn expenditure is below the amount raised from Member States, excess contributions are refunded in a subsequent Budget, an Amending Budget (AB) for the year;
- since there are generally differences between the Sterling/Euro exchange rates (a) used to set up the Budget and (b) to make VAT and GNI contributions to it, 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 on the last day of quotation rate. The revised figures are then included in an AB to the budgetary year to which they relate. In practice, converting the revised figures to Euro using the last day of quotation rate means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1% 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 2004 and the figures in the European Commission's Report on the allocation of 2004 Operating Expenditure

When converted at the average exchange rate for 2004 of £1= €1.4742, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	16,955	11,501
UK abatement	-5,272	-3,576
UK receipts	-7,126	-4,834
UK net contribution	4,557	3,091

The Government's figure for the UK's net contribution in 2004 is £3,008 million.

There could be a number of factors that, to a greater or lesser extent, 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 £560 million of the difference in 2004;
- the late adoption of Amending Budget Nos. 6/2003 and 7/2003 meant that associated changes were not implemented until January 2004. The result of which leads to the Government's figures for 2004 being some £588 million lower;
- the late adoption of Amending Budget 10/2004 meant that associated changes were not implemented until January 2005. The result of which leads to the Government's figures for 2004 being around £60 million lower; and
- the UK's outturn figure was based on cash flow within a calendar year, whereas European Commission figures attempt to match transactions to a particular Community Budget. Some payments to and receipts from a Community Budget for a given year take place in the early weeks of the subsequent year. These are scored in the UK to the year in which the transactions happened and by the European Commission to the Budget for the previous year. Up to £52 million of Structural Funds payments to the UK in 2004 may have been in respect of the 2003 Budget, and up to £48 million of Structural Funds payments in 2005 may have been in respect of the 2004 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 2004	3,008
Private sector receipts	-560
Late implementation, in January 2004, of Amending Budgets No. 6/2003 and 7/2003	+588
Late implementation, in January 2005, of Amending Budget No. 10/2004	+60
Structural Fund receipts paid in 2004, which may have been from the 2003 Budget	+52
Structural Fund receipts paid in 2005, which may have been from the 2004 Budget	-48
UK Cashflow figure adjusted to reflect main differences compared to European Commission's figure	3,100
European Commission figure for 2004 outturn	3,091
Net difference due to other factors (such as exchange rate)	9

Technical Annex III

The European Court of Auditors and the Discharge Process

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

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

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

The ECA findings inform the Council and the European Parliament when they come to consider, under Article 276 of the Treaty, whether to "discharge" the Commission from its responsibilities for execution of the Budget for the year in question. The discharge granted to the Commission usually includes comments and requests for further action, on which the Commission is obliged to report back.

Technical Annex IV

The European Anti-Fraud Office (OLAF)

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

OLAF is organised into three main Directorates:

- policy, Legislation and Legal Affairs;
- investigations and Operations; and
- intelligence, Operational Strategy and Information Technology.

It was a key aim in establishing OLAF that it should have access to other institutions and bodies of the EU, rather than be limited to investigating fraud that took place in the Commission. Because of its position as part of the Commission, this required the other institutions and bodies to implement decisions allowing OLAF such access.

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

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

OLAF carries out four principal operational activities:

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

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

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

	€ million													
	Commitments					Payments								
	2000	2001	2002	2003	2004	2005 ¹	2006	2000	2001	2002	2003	2004	2005 ¹	2006
1 Agriculture	40,467	42,083	43,217	44,462	45,081	46,676	51,051	40,506	41,534	43,521	44,379	43,993	49,115	50,991
2 Structural Operations	20,090	41,166	34,012	33,987	41,031	42,423	44,555	27,591	22,456	23,499	28,528	34,522	32,396	35,640
3 Internal Policies	6,008	6,703	7,614	7,173	8,705	9,052	9,373	5,361	5,303	6,567	5,672	7,510	7,924	8,889
4 External Action	4,987	4,859	5,085	5,067	5,177	5,219	5,544	3,841	4,231	4,424	4,286	4,951	5,476	5,369
5 Administration	4,686	5,002	5,272	5,545	6,122	6,351	6,656	4,643	4,855	5,212	5,305	6,122	6,351	6,656
6 Reserves	186	207	171	148	442	446	458	186	207	170	148	442	446	458
7 Pre-accession Strategy	3,112	3,312	3,504	3,393	1,733	2,081	2,481	1,203	1,402	1,752	2,240	2,856	3,287	2,893
8 Compensations	n/a	n/a	n/a	n/a	1,410	1,305	1,074	n/a	n/a	n/a	n/a	1,410	1,305	1,074
Total²	79,536	103,332	98,875	99,775	109,701	116,554	121,191	83,331	79,988	85,145	90,558	101,807	106,300	111,970

Notes:

¹2005 data includes the effect of Amending Budgets 1, 2, 3, 4, 5, 6, 7 & 8.² 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 IA: Expenditure on the EC Budget Commitments and Payments by Type of Expenditure

	£ million													
	Commitments					Payments								
	2000	2001	2002	2003	2004	2005 ¹	2006	2000	2001	2002	2003	2004	2005 ¹	2006
1 Agriculture	24,660	26,168	27,175	31,035	30,592	32,909	34,985	24,684	25,827	27,366	30,976	29,854	34,629	34,985
2 Structural Operations	12,243	25,598	21,387	23,723	27,844	29,910	30,534	16,814	13,964	14,776	19,913	23,427	22,841	24,424
3 Internal Policies	3,661	4,168	4,788	5,007	5,907	6,382	6,423	3,267	3,298	4,129	3,959	5,096	5,587	6,092
4 External Action	3,039	3,021	3,198	3,537	3,513	3,680	3,799	2,341	2,631	2,782	2,992	3,360	3,861	3,679
5 Administration	2,856	3,110	3,315	3,870	4,154	4,478	4,561	2,829	3,019	3,277	3,703	4,154	4,478	4,561
6 Reserves	113	129	108	103	300	314	314	113	129	107	309	300	314	314
7 Pre-accession Strategy	1,896	2,059	2,203	2,368	1,176	1,467	1,700	733	872	1,102	1,993	1,938	2,317	1,983
8 Compensations	n/a	n/a	n/a	n/a	957	920	736	n/a	n/a	n/a	n/a	957	920	736
Total²	48,468	64,254	62,174	69,643	74,443	80,060	83,052	50,781	49,738	53,540	63,845	69,086	74,947	76,733

Notes:

¹2005 data includes the effect of Amending Budgets 1, 2, 3, 4, 5, 6, 7 & 8.² 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 2: EC Budget Own Resources (continued)

	Fourth Resource Contributions										TOTALS	€ million		
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002			2003	2004
Belgium	1,101	1,118	1,336	1,465	1,975	1,955	2,274	3,389	3,532	3,018	3,486	3,849	3,985	4,442
Czech Republic	-	-	-	-	373	597	723	-	-	-	-	565	967	1,133
Denmark	720	720	893	989	1,312	1,318	1,525	1,685	1,778	1,688	1,778	1,941	1,998	2,226
Germany	8,964	8,037	10,505	11,706	14,838	14,457	16,576	21,775	19,727	17,582	19,203	20,230	20,547	22,755
Estonia	-	-	-	-	36	58	72	-	-	-	-	55	96	113
Greece	535	522	705	830	1,148	1,153	1,376	1,334	1,350	1,338	1,534	1,742	1,786	2,039
Spain	2,617	2,569	3,431	4,008	5,511	5,496	6,543	6,445	6,592	6,551	7,429	8,384	8,607	9,888
France	6,009	5,687	7,685	8,787	11,150	11,038	12,799	14,511	14,471	14,152	15,154	16,013	16,291	18,185
Ireland	422	482	538	604	834	861	1,030	1,074	1,211	1,019	1,128	1,251	1,318	1,529
Italy	5,043	4,924	6,390	6,945	9,257	9,044	10,504	11,000	11,612	11,279	11,758	13,786	13,511	15,156
Cyprus	-	-	-	-	56	84	99	-	-	-	-	95	153	172
Latvia	-	-	-	-	45	76	94	-	-	-	-	68	122	144
Lithuania	-	-	-	-	79	125	153	-	-	-	-	119	204	238
Luxembourg	76	109	101	114	162	157	186	185	256	184	205	231	229	263
Hungary	-	-	-	-	357	548	659	-	-	-	-	537	866	1,003
Malta	-	-	-	-	21	29	33	-	-	-	-	33	50	55
Netherlands	1,788	1,691	2,265	2,439	3,179	3,081	3,535	5,497	5,517	4,467	4,920	5,269	5,306	5,758
Austria	893	848	1,070	1,212	1,597	1,558	1,802	2,094	2,091	1,809	1,936	2,047	2,123	2,381
Poland	-	-	-	-	885	1,469	1,743	-	-	-	-	1,311	2,292	2,595
Portugal	507	498	636	717	902	893	1,038	1,255	1,266	1,187	1,293	1,332	1,343	1,502
Slovenia	-	-	-	-	117	179	213	-	-	-	-	170	275	316
Slovakia	-	-	-	-	150	238	286	-	-	-	-	220	369	425
Finland	556	535	694	788	1,012	1,011	1,173	1,226	1,233	1,185	1,338	1,443	1,457	1,638
Sweden	1,144	926	1,221	1,583	1,960	1,945	2,237	2,633	2,338	2,086	2,501	2,681	2,711	3,009
United Kingdom	7,204	6,214	8,481	9,050	12,027	11,513	13,889	13,867	7,743	10,153	9,971	11,682	11,778	13,707
Total	37,580	34,879	45,948	51,235	68,982	68,884	80,562	87,969	80,718	77,698	83,632	95,054	98,384	110,672

Notes:

1 Figures for 2005 taken from Amending Budget 8/2005. Figures for 2006 taken from 2006 Adopted Budget.

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

3 The figures for agricultural and sugar levies and customs duties are after the deduction of 10% collection costs, for the years 2000 and 2001, and 25% for the years 2002 onwards.

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

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

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

Source: Figures for 2000 to 2004 are taken from the European Commission: Allocation of 2004 EU Operating Expenditure by Member State

Table 2A: EC Budget Own Resources

	Agricultural and Sugar Levies										Customs Duties						VAT Contributions						£ million
	2000	2001	2002	2003	2004	2004	2005	2006	2006	2000	2001	2002	2003	2004	2005	2006	2006	2000	2001	2002	2003	2004	
Belgium	57	41	35	30	33	41	30	691	734	524	783	835	918	988	646	726	499	599	403	428	467		
Czech Republic	-	-	-	-	2	8	6	-	-	-	-	39	92	109	-	-	-	-	89	153	166		
Denmark	28	18	17	17	30	33	24	165	163	96	134	145	157	155	395	477	386	400	252	274	301		
Germany	296	208	215	194	216	263	189	1,746	1,750	1,020	1,404	1,416	1,574	1,725	5,764	5,311	3,215	3,637	2,025	2,326	2,321		
Estonia	-	-	-	-	0	0	0	-	-	-	-	5	10	12	-	-	-	-	9	15	16		
Greece	11	13	11	12	10	14	8	112	100	65	97	123	129	131	364	402	321	383	270	290	316		
Spain	50	41	29	30	56	53	37	510	522	339	496	592	689	755	1,773	1,939	1,594	1,863	1,301	1,385	1,500		
France	220	178	173	144	157	199	145	782	760	424	583	613	657	704	4,178	4,524	3,470	3,720	2,529	2,735	2,842		
Ireland	7	5	4	3	3	5	3	114	94	50	70	84	91	103	276	354	249	292	196	217	236		
Italy	117	77	62	74	77	109	55	788	793	484	708	762	869	914	2,726	3,289	2,528	2,580	2,233	2,076	2,220		
Cyprus	-	-	-	-	1	2	1	-	-	-	-	12	24	26	-	-	-	-	13	21	23		
Latvia	-	-	-	-	0	1	1	-	-	-	-	5	12	14	-	-	-	-	10	18	20		
Lithuania	-	-	-	-	1	2	2	-	-	-	-	9	20	22	-	-	-	-	18	32	35		
Luxembourg	0	0	0	0	0	0	0	14	12	6	9	8	9	9	52	79	46	55	38	40	43		
Hungary	-	-	-	-	2	8	6	-	-	-	-	35	80	89	-	-	-	-	85	130	141		
Malta	-	-	-	-	1	1	1	-	-	-	-	3	6	6	-	-	-	-	5	7	8		
Netherlands	148	165	122	172	224	205	142	917	921	482	725	710	777	829	1,195	1,294	781	836	484	539	552		
Austria	26	18	16	12	14	18	13	139	125	79	105	106	113	128	567	630	370	389	186	255	256		
Poland	-	-	-	-	12	49	35	-	-	-	-	64	139	149	-	-	-	-	212	375	400		
Portugal	18	19	10	12	25	22	15	93	84	44	56	58	61	64	344	375	293	334	209	224	238		
Slovenia	-	-	-	-	0	1	0	-	-	-	-	8	20	21	-	-	-	-	28	46	49		
Slovakia	-	-	-	-	0	5	4	-	-	-	-	13	29	32	-	-	-	-	34	55	59		
Finland	9	7	4	4	6	6	5	67	66	36	50	59	66	69	331	361	268	331	228	233	246		
Sweden	22	19	13	13	16	17	12	215	205	133	183	198	211	215	670	654	398	445	275	296	302		
United Kingdom	303	294	253	259	278	245	169	1,637	1,639	1,046	1,207	1,284	1,470	1,575	2,120	-982	-248	-823	-1,796	-1,534	-1,869		
Total	1,314	1,104	965	974	1,164	1,308	904	7,990	7,968	4,829	6,608	7,185	8,224	8,844	21,402	19,432	14,171	15,042	9,337	10,634	10,886		

Table 2A: EC Budget Own Resources (continued)

	Fourth Resource Contributions										TOTALS					£ million
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006		
Belgium	671	695	840	1,023	1,340	1,337	1,558	2,065	2,196	1,898	2,434	2,611	2,724	3,044		
Czech Republic	-	-	-	-	253	408	495	-	-	-	-	383	661	776		
Denmark	439	447	562	690	890	901	1,045	1,027	1,105	1,061	1,241	1,317	1,366	1,525		
Germany	5,462	4,998	6,605	8,175	10,065	9,882	11,360	13,269	12,267	11,056	13,410	13,722	14,045	15,594		
Estonia	-	-	-	-	24	40	49	-	-	-	-	38	66	77		
Greece	326	324	443	579	779	788	943	813	840	841	1,071	1,182	1,221	1,398		
Spain	1,595	1,597	2,157	2,799	3,738	3,757	4,484	3,928	4,099	4,119	5,188	5,687	5,884	6,776		
France	3,662	3,536	4,832	6,136	7,563	7,545	8,771	8,843	8,998	8,899	10,582	10,862	11,136	12,462		
Ireland	257	300	338	422	566	588	706	655	753	641	787	848	901	1,048		
Italy	3,073	3,062	4,018	4,850	6,280	6,182	7,198	6,703	7,221	7,093	8,211	9,351	9,236	10,386		
Cyprus	-	-	-	-	38	57	68	-	-	-	-	65	105	118		
Latvia	-	-	-	-	31	52	65	-	-	-	-	46	83	99		
Lithuania	-	-	-	-	53	85	105	-	-	-	-	81	140	163		
Luxembourg	47	68	63	80	110	108	128	113	159	116	143	157	156	180		
Hungary	-	-	-	-	242	375	451	-	-	-	-	364	592	687		
Malta	-	-	-	-	14	20	23	-	-	-	-	22	34	37		
Netherlands	1,090	1,051	1,424	1,703	2,156	2,106	2,423	3,350	3,430	2,809	3,435	3,574	3,627	3,946		
Austria	544	528	673	846	1,083	1,065	1,235	1,276	1,300	1,137	1,352	1,388	1,451	1,632		
Poland	-	-	-	-	600	1,004	1,194	-	-	-	-	889	1,567	1,778		
Portugal	309	309	400	501	612	611	712	765	787	747	903	904	918	1,029		
Slovenia	-	-	-	-	79	122	146	-	-	-	-	116	188	216		
Slovakia	-	-	-	-	102	163	196	-	-	-	-	149	252	291		
Finland	339	332	436	550	687	691	804	747	767	745	934	979	996	1,123		
Sweden	697	576	768	1,105	1,329	1,329	1,533	1,604	1,454	1,312	1,747	1,818	1,853	2,062		
United Kingdom	4,390	3,864	5,333	6,320	8,158	7,870	9,518	8,450	4,815	6,384	6,963	7,925	8,051	9,393		
Total	22,901	21,688	28,892	35,779	46,793	47,087	55,209	53,607	50,191	48,857	58,403	64,478	67,253	75,843		

Source: Sterling figures are derived from the corresponding euro amounts in Table 2 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							
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
GROSS CONTRIBUTIONS														
Agriculture & Sugar Levies	497	471	415	366	411	474	433	303	293	261	255	279	324	297
Customs Duties	2,676	2,633	1,636	1,704	1,899	2,089	2,113	1,630	1,637	1,029	1,190	1,288	1,428	1,448
VAT Own Resources	6,734	5,827	4,326	3,976	2,601	2,896	2,958	4,104	3,624	2,720	2,776	1,764	1,980	2,027
Fourth Resource payments	6,966	6,230	8,373	9,492	11,137	12,699	13,209	4,245	3,874	5,265	6,629	7,555	8,681	9,052
VAT & Fourth														
Resource adjustments	388	-79	260	166	14	226	-	236	-49	164	116	9	154	-
United Kingdom														
Abatement	-3,421	-7,333	-4,928	-5,097	-5,296	-5,349	-4871	-2,085	-4,560	-3,099	-3,559	-3,593	-3,656	-3,338
Total Contributions	13,839	7,750	10,082	10,606	10,765	13,035	13,842	8,433	4,819	6,340	7,407	7,302	8,911	9,486
PUBLIC SECTOR RECEIPTS														
EAGGF Guarantee	4,105	3,992	3,946	3,814	4,035	4,294	4,668	2,502	2,482	2,481	2,663	2,737	2,935	3,199
EAGGF Guidance	135	41	:	3	73	117	70	82	25	:	2	50	80	48
European Regional														
Development Fund	1,622	873	470	889	1,566	2,038	1,109	989	543	296	621	1,062	1,393	760
European Social Fund	1,081	595	655	611	638	1,315	1,637	659	370	412	427	433	899	1,122
Other Receipts	16	16	20	21	18	-	85	10	10	13	15	12	-	58
Total Receipts	6,959	5,517	5,091	5,338	6,330	7,763	7,570	4,241	3,430	3,201	3,728	4,294	5,307	5,188
NET CONTRIBUTIONS	6,880	2,233	4,991	5,268	4,435	5,272	6,272	4,192	1,389	3,138	3,679	3,008	3,604	4,298

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 2006 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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