

# **European Community Finances**

## **Statement on the 2005 EC Budget and measures to counter fraud and financial mismanagement**

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June 2005



HM TREASURY

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## Statement on the 2005 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

June 2005

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# INTRODUCTION

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**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-fifth in the series. It describes the EC Budget for 2005 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 1999 to 2004, together with an estimate for 2005. It also includes details of recent developments in EC financial management and the fight against fraud.



# 2

## THE 2005 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 39% 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** 2.4 Since 1988 the annual budget has been set within a multi-annual expenditure framework known as the Financial Perspective. The Financial Perspective sets out annual expenditure ceilings for the eight broad categories,<sup>1</sup> 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 2005 results from decisions made in March 1999 at the Berlin European Council covering EU expenditure from 2000–2006, amended at the Copenhagen European Council in December 2002 to take account of the accession of ten new Member States in May 2004. The Financial Perspective is set out in an Inter-Institutional Agreement (IIA) between the Commission, the Council and the European Parliament. Negotiations began last year on a new Financial Perspective to run from 2007. These will be taken forward under the UK Presidency starting on 1 July 2005.

**The Own Resources Decision** 2.6 The arrangements for financing the EC Budget are set out in the Communities' Own Resources Decision (ORD). The current ORD was agreed in September 2000 and took effect (retrospectively) from 1 January 2002, following ratification by all Member States in accordance with their own constitutional requirements. The 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 2005 Budget** 2.7 The 2005 Budget is the first full budget agreed for an enlarged Union of 25 Member States. The Copenhagen European Council in December 2002 marked the completion of enlargement negotiations for the ten acceding countries, paving the way for their accession to the European Union on 1 May 2004.

<sup>1</sup> Agriculture; structural operations; internal policies; external actions; administrative expenditure; reserves; pre-accession aid; and compensations.

**2.8** Table 2.1 sets out the amounts established for the 2005 Budget at each stage of the budgetary procedure, which ran from May 2004 to December 2004, and relates these to the Financial Perspective ceilings. Tables 1A and 1B (page 35) provide figures for previous years' adopted Budgets.

**Table 2.1: 2005 EC Budget**

€ million							
Commitment Appropriations	Financial Perspective Ceilings	Preliminary Draft Budget	Council's First Reading Draft Budget	European Parliament First Reading Draft Budget	Council's Second Reading Draft Budget	Adopted Budget 2005	Adopted Budget 2004 <sup>1</sup>
1 Agriculture	51,439	50,675	49,675	50,722	49,676	49,676	45,081
2 Structural Operations	42,441	42,378	42,378	42,378	42,423	42,423	41,031
3 Internal Policies	9,012	8,959	8,903	9,012	8,921	9,052	8,705
4 External Actions	5,119	5,234	5,105	5,309	5,040	5,219	5,177
5 Administration	6,360	6,389	6,308	6,357	6,301	6,351	6,122
6 Reserves	446	446	446	446	446	446	442
7 Pre-accession Aid	3,472	1,856	1,856	1,856	2,081	2,081	1,733
8 Compensations	1,305	1,305	1,305	1,305	1,305	1,305	1,410
<b>Total Commitment appropriations</b>	<b>119,594</b>	<b>117,242</b>	<b>115,976</b>	<b>117,385</b>	<b>116,193</b>	<b>116,553</b>	<b>109,701</b>
<b>Total Payment appropriations</b>	<b>114,235</b>	<b>109,568</b>	<b>105,221</b>	<b>111,456</b>	<b>105,268</b>	<b>106,300</b>	<b>101,807</b>
<b>Payment appropriations as a percentage of Community GNI</b>	<b>1.08%</b>	<b>1.04%</b>	<b>0.99%</b>	<b>1.05%</b>	<b>0.99%</b>	<b>1.00%</b>	<b>1.01%</b>

Notes:

<sup>1</sup> Includes affect of Amending Budgets 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

Source: Budget documentation on 2005 Budget (excluding amending Budgets) and 2004 adopted Budgets.

**2.9** The adopted 2005 Budget provides for commitment appropriations of €116.6 billion (1.12% of EU GNI) or £80.1 billion<sup>2</sup> an increase of 6.2 per cent over 2004; and payment appropriations of €106.3 billion (1.0% of EU GNI) or £74.9 billion, an increase of 4.4 per cent over 2004. The commitment and payment appropriations are within the limits provided under the Financial Perspective and the ORD respectively. The payment appropriations for each of the eight categories of the Budget are shown in Chart 2.1.

<sup>2</sup> An explanation of the exchange rates used throughout this Statement can be found in the glossary, on Page 28.

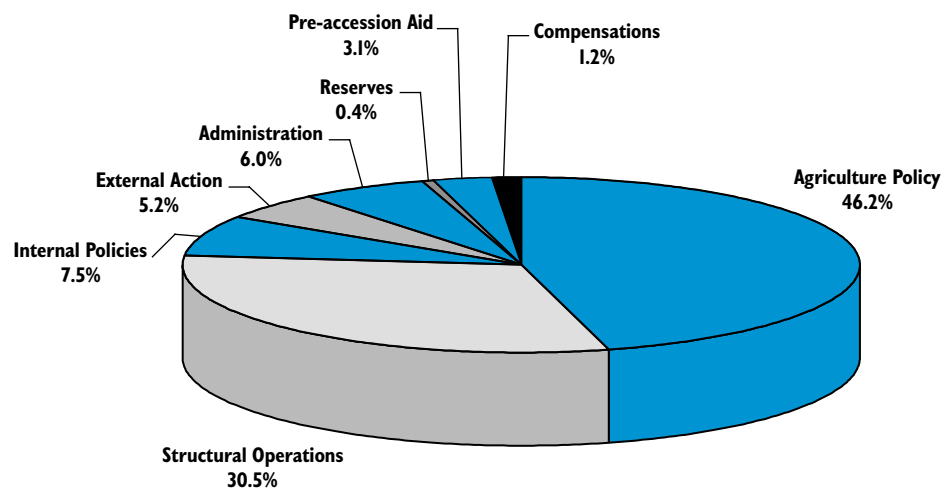
**2.10** The key changes in the 2005 Budget compared with previous years are as follows:

- **Heading 1: Agriculture** – this Heading includes Common Agricultural Policy (CAP) spending and rural development. Total appropriations for commitments for Agriculture were set at €49.7 billion, a rise of 10.2% over 2004; this was largely due to CAP reform and the introduction of direct aids for new Member States. For *Heading 1a* (traditional CAP expenditure), a margin of €1.8 billion under the Financial Perspective ceiling was established, while appropriations for *Heading 1b* (rural development and accompanying measures) were budgeted up to the ceiling of €6.8 billion.
- **Heading 2: Structural Operations** – spending aimed at developing poorer EU regions and member states, for instance via the European Regional Development Fund (ERDF) and European Social Fund (ESF). Although commitments for Structural Operations increased by 3.4% to €42.4 billion, payment appropriations (at €32.4 billion) were 6.2% lower than in 2004. However, the Commission may present an Amending Budget in 2005 if it identifies a shortage in payment appropriations. The amount entered for Heading 2 exceeds the Financial Perspective ceiling by €45 million due to extra expenditure required to finance the PEACE II programme for Northern Ireland. These resources will be financed by use of the flexibility instrument.<sup>3</sup>
- **Heading 3: Internal Policies** – this Heading includes actions to develop EU-wide priorities such as education, trans-European networks and research & development. Commitments for Internal Policies were set at €9.1 billion, an increase of €347 million, (4%) over 2004, and €40 million higher than the Financial Perspective ceiling for Heading 3. This extra expenditure was required to fund the decentralised agencies, and will be financed by a mobilisation of the flexibility instrument.
- **Heading 4: External Actions** – spending under this Heading contributes to the EU's foreign policy priorities, including assistance to non-EU member states such as the Balkan states and Latin America. Payment appropriations for External Actions were set at €5.5 billion, an increase of 11% on 2004 figures. Commitments increased by 0.8%, to €5.2 billion. A total of €200 million was committed for reconstruction in Iraq, by amending the Commission's Preliminary Draft Budget. €100 million of this sum was found within the ceiling of Heading 4, and the rest was financed from the flexibility instrument. Regional programmes, particularly Latin America and Asia, and other priorities such as the fight against poverty related diseases and drugs, received extra funding compared to 2004.
- **Heading 5: Administration** – this part of the budget covers the functioning of EU institutions and agencies, including salaries and infrastructure costs. The Budget for Administration totalled €6.4 billion, an increase of 3.7% over 2004, with payments equalling commitments. This included funding for 1,250 new posts, most of which cater for enlargement-related needs. Appropriations for commitments were €9 million under the ceiling for this Heading.

<sup>3</sup> The Financial Perspective ceiling for Structural Actions is split between Structural Funds and Cohesion Funds; it is the Structural Funds ceiling which is affected.

- **Heading 6: Reserves** – spending under this Heading covers emergency aid and the provision of financial guarantees for external lending. Commitments and payments for Reserves increased by 1%. Appropriations were budgeted up to the Financial Perspective ceiling for both Commitments and Payments of €446 million, and split equally between the emergency aid reserve and the loan guarantee reserve.
- **Heading 7: Pre-Accession Aid** – future and potential EU member states receive funds from this Heading to help prepare them for EU membership. Commitment appropriations for Pre-Accession Aid were set at €2.1 billion, representing an increase of 20.1% compared to 2004. Payment appropriations, which increased by 15.1% to €3.3 billion, include payments to new Member States relating to commitments made during their pre-accession period. Croatia qualifies for €105 million of pre-accession aid for the first time in 2005. Assistance is continuing for Bulgaria, Romania and Turkey in 2005. Heading 7 also takes into account economic development assistance for the Turkish Cypriot community of €120 million, which is currently in reserve pending legal deliberations.
- **Heading 8: Compensations** – this Heading represents a temporary measure, designed to ensure that new Member States should not become net contributors at the start of their membership. Expenditure for Compensations decreased by 7.4% in 2005 in terms of both commitments and payments, from €1.4 billion to €1.3 billion each.

**Chart 2.1: 2005 EC Budget – Payment Appropriations by Budget Category**



Source: 2005 Adopted Budget

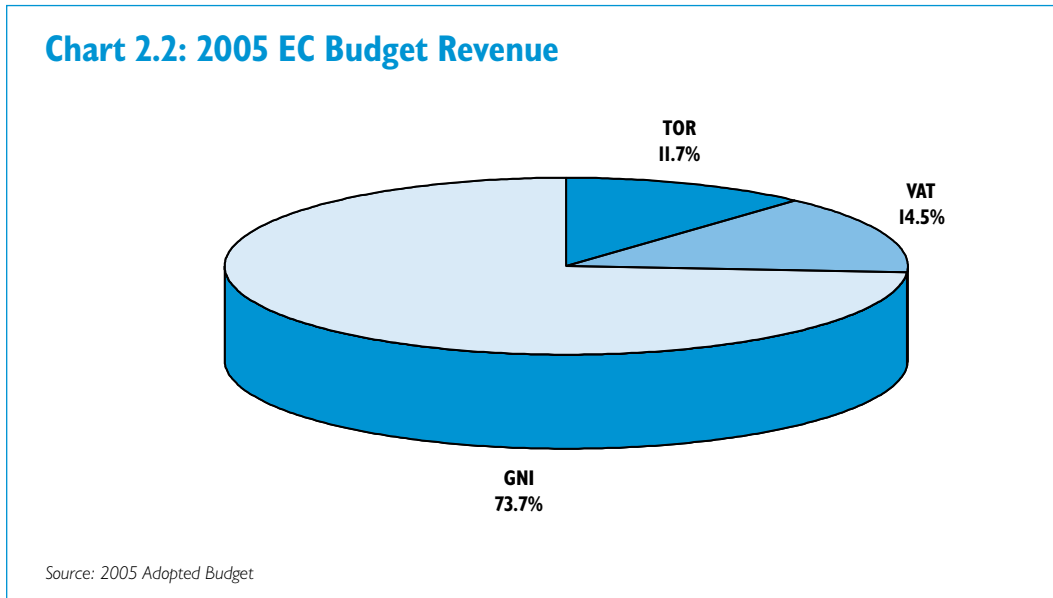
**New Regulations in 2004** 2.11 A number of replacement multi-annual programmes came into effect, following the passage of relevant legislation and EU Regulations. Among the multi-annual programmes extended in 2004 were:

- 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;
- 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;
- 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 for 2005 and 2006;
- LIFE: A programme for environmental protection, extended to run throughout 2005-2006 with a budget of €317 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 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, which also reflects the impact of enlargement in previous years.

**Activity Based Budgeting** 2.12 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. Just as in the UK – where Public Service Agreements replaced the old input driven approach. ABB requires the EC Budget to be based on a clear justification for intervention and an evaluation of past performance. It will be linked to SMART (Specific, Measurable, Achievable, Relevant and Time-bound) objectives and future performance objectives that will focus on delivering value for money for the EU taxpayer.

The UK will continue to work closely with the Commission and other Member States on improving the implementation of ABB in preparation for the 2006 Budget.

**2005 Community Revenue** 2.13 The Own Resources Decision allows for four sources of Community revenue: customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as ‘Traditional Own Resources’ (TOR). The VAT and GNI-based contributions are often referred to as the third and fourth resources. A more detailed explanation of these resources can be found in the glossary.

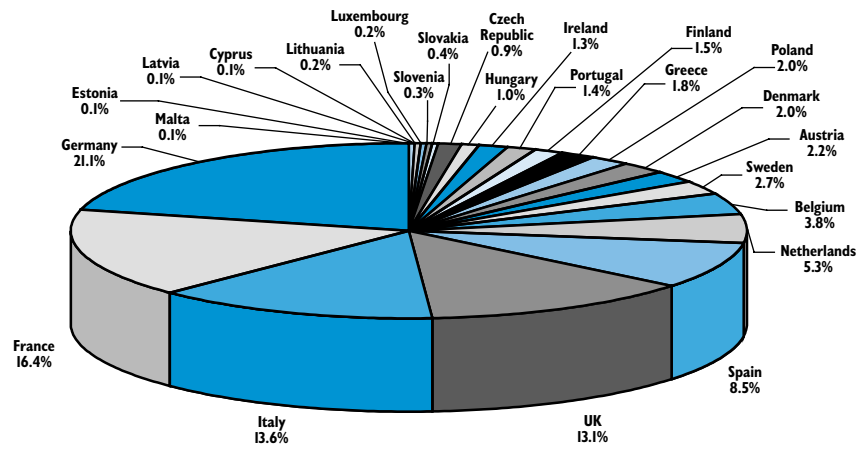


**2.14** Chart 2.2 shows a breakdown of how the 2005 Budget will be financed. Tables 2 and 2a (page 36 to page 39) show the gross contributions by Member States, after taking account of the UK abatement, between 1999 and 2005 inclusive. The key points to note in terms of the UK's contribution are:

- TOR in 2005 is estimated to be around €12.4 billion (£8.7 billion), with the UK's share estimated at 17.5%. In 2004, revenue from this source was estimated to be €12.4 billion (£8.4 billion), of which the UK's share was 19.7%;
- VAT-based contributions in the 2005 EC Budget are shown as €15.3 billion (£10.8 billion), with the UK's share some 19.3%. In 2004, total VAT contributions were estimated to be €13.7 billion (£9.2 billion), of which the UK's share was 18.4%;
- GNI-based contributions in the 2005 EC Budget, including potential contributions to Community Reserves, is shown as €77.6 billion (£54.7 billion), of which the UK's share is 17.7%. In 2004, GNI-based contributions were estimated to be €69.0 billion (£46.8 billion) with a UK share of 16.9%; and
- the estimated value of the UK's abatement in 2005 is €5.1 billion (£3.6 billion), compared with a total abatement in the 2004 EC Budget of €5.1 billion (£3.5 billion). A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

**2.15** Chart 2.3 shows each Member State's share of financing the 2005 EC Budget, after taking account of the UK abatement.

**Chart 2.3: EC Budget Revenue 2005: Percentage Shares by Member State after abatement**



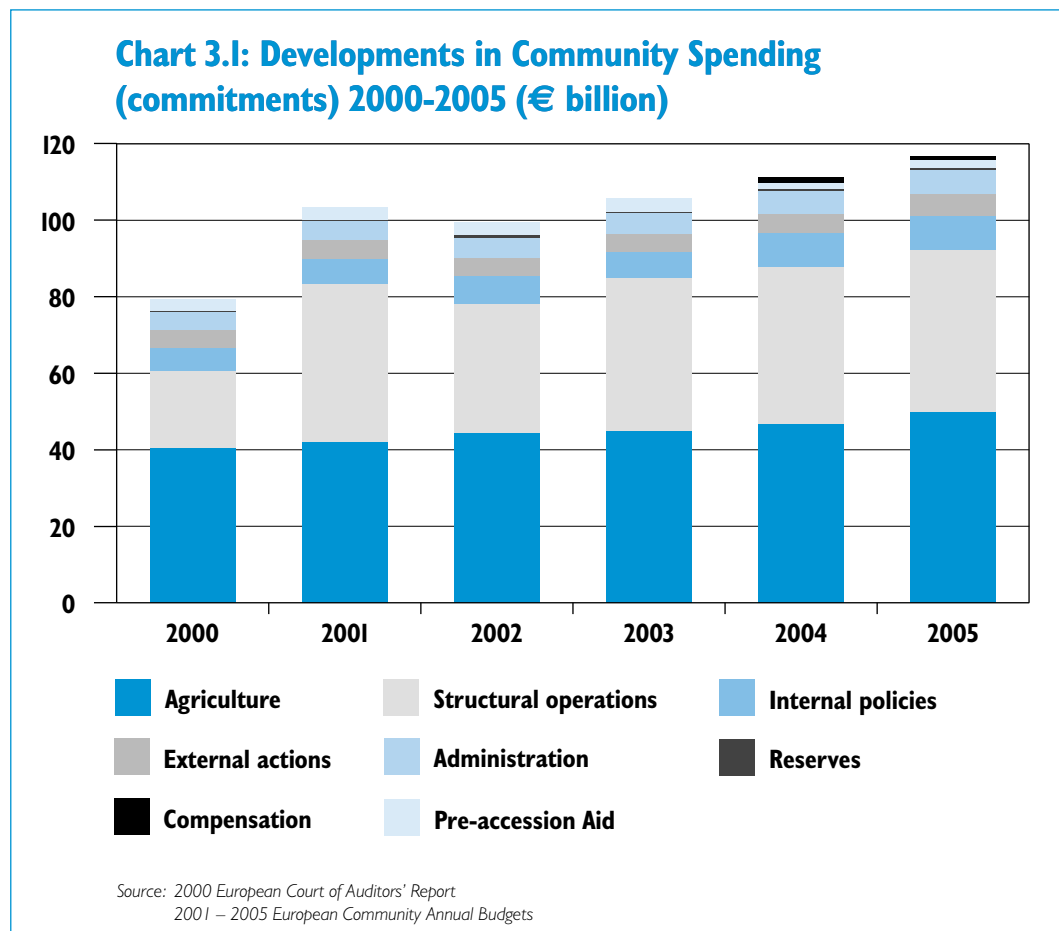
Source: 2005 Adopted Budget



# 3

## DEVELOPMENTS IN COMMUNITY FINANCES

**Expenditure 3.1** Chart 3.1 shows the developments in Community spending commitments between the period 2000-2005. 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 demonstrates the growing importance of policy areas such as freedom, security & justice, research & development, transport & energy, and international assistance at the European level. Certain repayments to Member States (to Spain and Portugal in the early years of membership, or in connection with the depreciation of agricultural stocks) have been discontinued. Additionally, two new Budget categories have been created; a category for pre-accession aid agreed at the 1999 Berlin Council, to help candidate countries prepare for enlargement; and a category for temporary compensations agreed at the Copenhagen Council in 2002, designed to help to ensure that the ten accession countries 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.



**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 2000-2005. They also show the main spending programmes broken down by Financial Perspective category.

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

**3.3** The European Council of 24-25 October 2002 set annual ceilings on the total market-related expenditure and direct payments for the period 2007-2013, as shown in the following table:

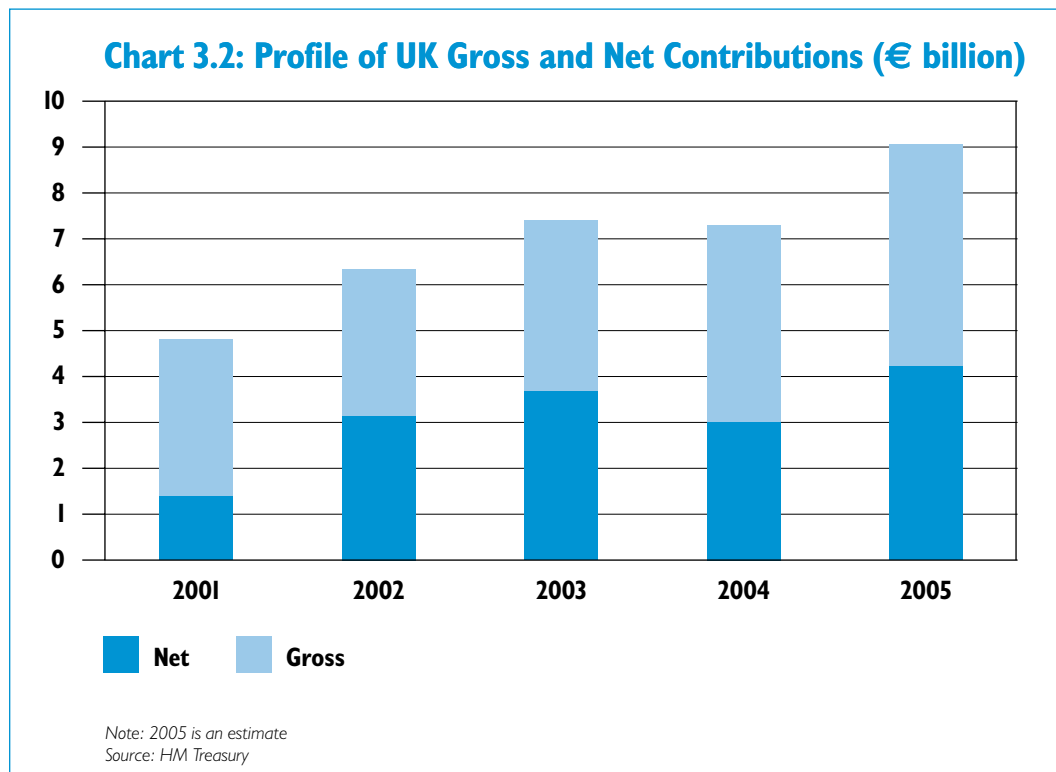
**Ceilings for CAP market-related expenditure and direct payments, 2007-2013, EU25**

(€ 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 largely decoupling direct payments from production, and making these payments contingent upon compliance with minimum agricultural and environmental standards. The reform package also introduced a financial discipline mechanism that will begin with the 2007 EC Budget, whereby direct payments to farmers would be cut, if necessary, to ensure that the spending ceilings are not exceeded.

**3.5** The Government continues to be a leading advocate of further CAP reform, for example through extending decoupling to the remaining sectors and improving market access for developing countries.



**The UK's Net  
Contribution**

**3.6** The UK's net contribution can vary considerably from year to year (see Chart 3.2) because of variations in payments made due to the nature of the ORD (see Technical Annex I); variations in public sector receipts; and as a result, fluctuations in the UK abatement (see glossary). Table 3.1 gives a breakdown of the UK's gross contributions before abatement, abatement, public sector receipts and net contributions to the EC Budget for calendar years 1999-2005. The figures for 2005 are estimates; those for earlier years are outturn. Table 3 (page 40) annexed gives a more detailed breakdown.

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

	£ million						
	1999	2000	2001	2002	2003	2004	2005
	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated outturn
Gross payments <sup>(1)</sup>	10,287	10,517	9,379	9,438	10,966	10,895	12,677
Less: UK Abatement	-3,171	-2,085	-4,560	-3,099	-3,559	-3,593	-3,606
Less: Public sector receipts	-3,479	-4,241	-3,430	-3,201	-3,725	-4,294	-4,850
<b>Net contributions to EC Budget<sup>(2)</sup></b>	<b>3,638</b>	<b>4,192</b>	<b>1,389</b>	<b>3,138</b>	<b>3,682</b>	<b>3,008</b>	<b>4,220</b>

Notes:

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

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

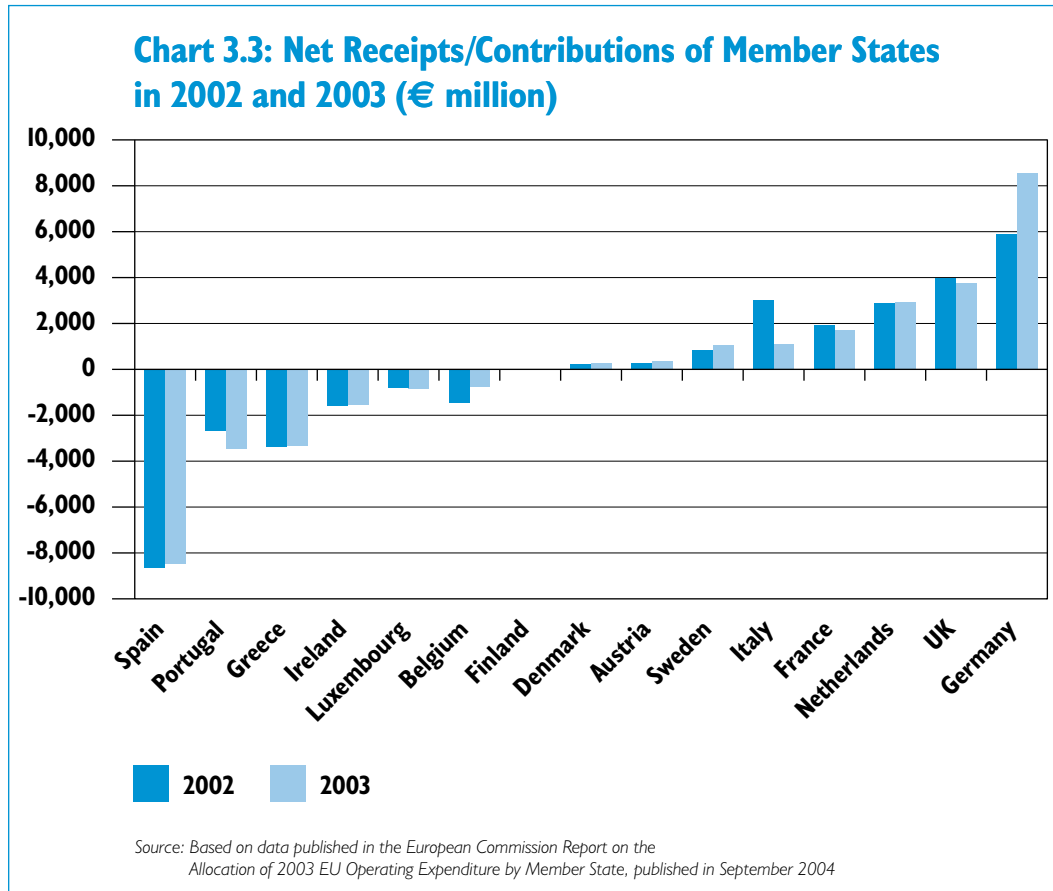
Source: HM Treasury

**3.7** UK public sector receipts in 2005, mainly from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Social and Regional Development Funds, are expected to be around £4.9 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 sectors, which do not appear in public sector accounts and do not, therefore, appear in Tables 3.1, 3.2 or 3.3, or in Table 3 (Page 40). In 2005, these receipts are expected to be around £425 million.

**3.9** The UK's net contribution in 2005 is forecast to be £4.2 billion, compared with £3.0 billion in 2004.

**3.10** Chart 3.3 shows how the UK's net position compares with those of the other Member States in 2002 and 2003. In 2003, the UK was one of eight net contributors to the EC Budget. Germany was the highest net contributor, paying more than twice as much as any other Member State. The UK, Netherlands, Italy, France, and Sweden were other significant net contributors in 2003.



**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 1999-2000 and 2004-2005 (estimated outturn). This Table also includes future plans for the period 2005-2006 to 2007-2008. Table 3.3 provides a breakdown of UK receipts from the EC Budget over the same period.

**3.13** These estimates span the current Financial Perspective, which runs until 2006, and the beginning of the next which will set the EC Budget and policy framework for the period 2007-2013. Negotiations on the next Financial Perspective are ongoing and the estimate for 2007-2008 simply rolls forward the 2006-2007 figures in real terms, in line with Financial Statement and Budget Report conventions.

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

	£ million								
	1999-2000	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	Plans
Gross payments <sup>(1)</sup>	9,207	10,640	9,213	9,737	11,371	12,116	11,416	13,452	14,589
Less: UK Abatement	-2,206	-2,223	-4,427	-3,233	-3,874	-3,722	-3,309	-4,060	-4,581
Less: Public sector receipts	-3,676	-4,099	-3,309	-3,424	-4,232	-4,084	-4,343	-5,994	-4,835
<b>Net contributions to EC Budget<sup>(2)</sup></b>	<b>3,325</b>	<b>4,318</b>	<b>1,477</b>	<b>3,080</b>	<b>3,264</b>	<b>4,310</b>	<b>3,764</b>	<b>3,398</b>	<b>5,173</b>
Contributions to reserves and capital of the EIB	0	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 <sup>(3)</sup>	-519	-584	-635	-736	-868	-603	-618	-628	-655
<b>Net payments to EC institutions (excluding Overseas Aid)<sup>(2)</sup></b>	<b>2,807</b>	<b>3,734</b>	<b>841</b>	<b>2,344</b>	<b>2,394</b>	<b>3,707</b>	<b>3,145</b>	<b>2,770</b>	<b>4,518</b>

Notes:

: This signifies receipts of less than £0.5 million

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

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

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

Source: HM Treasury

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

	£ million								
	1999-2000	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	Plans
Agricultural Guarantee Fund	2,456	2,647	2,631	2,548	2,837	2,807	1,885	4,445	3,327
Agricultural Guidance Fund	103	35	18	2	22	44	68	47	47
Social Fund	698	523	146	501	345	378	1,403	716	707
Regional Development Fund	411	887	501	359	1,017	788	936	732	706
Other Receipts	7	7	14	13	10	67	50	53	48
<b>Total</b>	<b>3,676</b>	<b>4,099</b>	<b>3,309</b>	<b>3,424</b>	<b>4,232</b>	<b>4,084</b>	<b>4,343</b>	<b>5,994</b>	<b>4,835</b>

Notes:

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

Source: HM Treasury

**3.14** Net payments to EC institutions in 2004-2005 are estimated to be £1.7 billion higher than they were in the Pre-Budget Report in November 2004. This is largely the result of a shortfall in the level of receipts expected in 2004 and 2005, but which will now come through in later years.

**3.15** The latest estimate also takes into account a change in the pattern of our VAT-based and GNI-based contributions, together with the UK abatement, in the first quarter of 2005. The payments for the Commission's calendar year Budget period are scheduled on a monthly basis, but the Commission can ask for earlier payments to take account of the high CAP payments which take place in the first months of the year. Although an estimate of this draw-forward (4.14/12ths) was included in the November 2004 Pre-Budget Report Forecast, the eventual draw-forward was a little higher than estimated (4.2/12ths). Payments for the rest of 2005, which will all fall into the 2005-2006 financial year estimate, will be lower as a result.

**3.16** As a result of some CAP receipts which were previously estimated for 2005-2006 now being expected in 2006-2007 the forecast net contribution for 2006-2007 is now £1.4 billion lower than at the time of the Pre-Budget report. The forecast for 2007-2008 is in line with that in the Pre-Budget Report.

**3.17** In order to improve the clarity of forecasts, all forecasts for net payments are now on a 'spot' basis, e.g. estimate of actual payments expected to be made in a given year. Previously, forecasts beyond the current year were on a 'trended' basis, which was designed to smooth out fluctuations over the forecast period. 'Spot' forecasts should give a much better indication of actual payments within a year, especially when there are timing and other factors affecting particular years.

#### **Measuring Net Contributions**

**3.18** In accordance with a commitment to the PAC, technical Annex II gives an account of the main factors for the differences between the Government's own figures and those which can be derived from the European Commission report on the allocation of 2003 operating expenditure.

**4.1** This chapter includes details of reforms in the area of financial management and anti-fraud issues. The European Commission adopted on 15 June 2005 its Communication on a 'Roadmap to an Integrated Internal Control Framework'. The initiative builds on the 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. The background to this is described in Box 4.1 (page 19). Box 4.2 (page 21) summarises progress with the Commission's work to modernise the accounting system.

**European Court of Auditors' annual report on the 2003 Budget**

**4.2** The Annual Report and the Statement of Assurance from the Court of Auditors on the 2003 Budget was published on 16 November 2004. As usual, the report covered the main areas of the Budget – own resources, agriculture, structural funds, internal policies, external and pre-accession aid, administrative expenditure, and financial instruments and banking activities. The 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 over the last year, including enlargement to twenty-five Member States on 1 May 2004; the enlarged and renewed European Parliament; continued negotiation of the EU Constitutional Treaty; the appointment of a new Commission led by Jose Manuel Barroso; ongoing administrative reform aimed at better delivery of EU policies and improved financial management; and the start of negotiations on the 2007-2013 Financial Perspective.

**4.5** The Court noted that progress had been made in the institutions, but found that further improvements were necessary in the management of the EC Budget, in particular the implementation of the Budget, which "satisfies the legitimate expectations of the citizens of the Union".<sup>4</sup>

**4.6** The Court's audit work had shown that irregularities occurred where the bulk of expenditure was managed in a shared or decentralised way. The Court was not satisfied that the supervisory systems and controls of significant areas of the Budget were being effectively implemented, so as to manage the risks concerning the legality and regularity of the underlying operations.

**4.7** One of the challenges the Court noted was the increasing level of outstanding commitments, that is expenditure that is legally committed but has not yet been made. At the end of 2003, these represented five years' worth of payments at the current spending rate, which is considerably worse than during the previous Financial Perspective. The Court notes that a contributing factor is overly ambitious budgeting by Member States combined with an inability to absorb EU funds. This could be partly due to delays in setting up the necessary management and control requirements, and to an insufficient number of projects eligible for Community financing.

<sup>4</sup> European Court of Auditors Annual Report concerning the financial year 2003.

**4.8** The Court concluded that it would be continuing to build and improve its role as the independent auditor of the Institutions of the EU and would take advantage of the expansion of the Union to twenty-five Member States to make further improvements. The measures that the Court identified to take forward include:

- streamlining its decision-making procedures to improve the delivery of its reports and opinions;
- improving its audit methodology and tools; and
- training staff better to fulfil its mission to contribute actively to improve the financial management of the Union at all levels.

**European Court  
of Auditors’  
Statement of  
Assurance**

**4.9** 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. However, for the tenth consecutive year it declined to give a positive opinion on the legality and regularity of other payments, because of the persistence of errors affecting their amount, reality or eligibility (see Technical Annex III).

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

- **Own resources (revenue):** the Court found that, on the whole, this was not affected by material errors. But it identified a number of features in the Member States’ supervisory systems controls, and in their traditional own resources accounts, which would require improvements in order to reduce the risks of incorrect and incomplete sums of Community own resources being made available. But further progress would have to be made to eliminate the risk with regard to the accuracy of the statistical data used to calculate VAT and GNI resources, and to the legality and regularity of certain transactions;
- **CAP:** the Court considered that payments had been significantly affected by errors. However, the Court found that there were different degrees of risk and identified a number of ways for the Commission to remedy the situation;
- **Structural measures:** the audit revealed continuing weaknesses in Member States’ systems for the supervision and control of the implementation of the Community Budget. The Court found that progress in 2003 remained limited, and similar problems to those that it had reported in previous years still persisted;
- **Internal policies:** the audit revealed weaknesses in the management and control systems for the European Refugee Fund. Although some improvements were observed in 2003 in internal control, they were not yet sufficient to avoid numerous errors at the level of final beneficiaries, nor weaknesses in the operation of the Commission’s own systems;
- **External actions:** the audit revealed only a few errors persisted affecting the transactions at the level of the Commission’s central departments and its Delegations. However, the audit revealed weaknesses in internal control systems and a relatively large number of irregularities at the level of the bodies responsible for implementing the final beneficiaries’ projects;
- **Pre-accession aid:** irregularities still persisted and the Court believed that the supervisory and control systems should be strengthened. Both the Commission and the then Candidate Countries had made progress in 2003 in certain areas, but further efforts were required;

- **Administrative expenditure:** the Court noted that considerable effort had been made to bring the supervisory systems and controls in the institutions audited in line with the requirements of the new Financial Regulation. Overall, administrative expenditure was not affected by errors. But the Court concluded that risks to the legality and regularity of the underlying transactions should be minimised by reinforcing supervisory systems and controls;
- **Accounting principles and practices:** the Court repeated its criticisms of financial weaknesses and the Commission's failure to remedy the accounting systems. The Court felt that the Commission's timetable to introduce the new accounting system on a full accrual basis by 1 January 2005 was "very ambitious",<sup>5</sup> as full implementation of all the new rules would take considerable effort by all the bodies whose accounts are subject to consolidation; and
- **Administrative reform:** the Court noted that the Commission had made a concerted effort by improving the design of the new control context in terms of regulations. However, the Court felt that the results in terms of implementation and effective operation were not yet satisfactory.

#### **Box 4.1: DAS reform**

##### **"Auditors fail to sign off EU accounts for 10th year in succession"**

This was the kind of press headline that appeared last November, when the European Court of Auditors' report on 2003 was published. Since 1994, the Court has been required under the Treaty to provide an annual Statement of Assurance on the reliability of the accounts and the legality and regularity of the underlying transactions. Since 1994, each Statement has deemed the accounts to be reliable (although with a greater degree of qualification), and has vouched for the legality and regularity of revenue and commitments. However, it has not been able to give positive assurance on the vast majority of payments, except for the small amount of administrative expenses managed by the Commission.

This means that the Court had to qualify around 94% of the Budget because of an unacceptable number of errors. Most of these relate to agriculture and Structural Fund payments, which are managed by Member States on behalf of the Commission. The nature of the Statement means that the underlying causes of the errors, and especially trends in performance over time, are not discernible. Nevertheless, a series of financial management reforms introduced in recent years have begun to improve the way the EC Budget is managed. Most progress has been on the Commission's management of funds, although there is still a long way to go. However, there is a much bigger challenge to improve the quality of financial management for those funds administered by Member States under a diverse set of systems.

The new Commission is determined to improve the situation. Vice-President Kallas, who is responsible for both financial management and anti-fraud measures, published on 15 June 2005 a "Roadmap to an integrated internal control framework". One of the key elements in this initiative will involve Member States taking responsibility for reporting on the controls and systems which they apply to the EC funds under their respective control.

***The "roadmap" will be discussed under the UK Presidency of the EU this autumn. The Government aims to reach agreement with Member States, the Commission, the European Parliament and the European Court of Auditors on a method and timetable for implementing the roadmap.***

<sup>5</sup> European Court of Auditors Annual Report concerning the financial year 2003.

**Council  
recommendation  
to the European  
Parliament**

**4.11** The Council's recommendation to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2003 Budget was discussed by ECOFIN on 8 March 2005. 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 was still 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 lay not only with the Commission, but also with all those who have a part in the administration of the Budget (i.e. including the Council, the Member States and the European Parliament). The Council had a number of recommendations for the Commission, for itself, for the Member States and for the ECA.

**4.12** The Council's recommendations included that:

- the Commission should pursue the actions of the White paper on "Audit, management and financial control", by fully implementing the control standards, the production of adequate indicators for activity-based management, financial management, and the quality and extent of the reservations contained in the declarations of the Directors-General;
- the Commission should cooperate with Member States to ensure that accurate and updated estimates are provided, so that the budgets for both commitments and payments are realistic;
- the Commission should continue the work initiated in its Green paper on preferential origin rules, in order to review the rules concerning preferential trade arrangements;
- the Commission should be more actively involved with Member States in order to improve the control systems, especially for those categories of CAP spending with higher risk, or those areas subject to recurrent errors; and
- the Commission should take full responsibility for budgetary implementation and take all measures necessary to remedy weaknesses identified by the Court.

**Box 4.2: Commission Accounting Reform**

The ECA report on the 2003 Budget noted again that the Commission's accounting system was not designed to ensure that assets were fully recorded. In its response to these criticisms, the Commission stated that these problems would be resolved by the introduction of its new accruals accounting system. The project to modernise the accounting system was launched in December 2002, in response to these concerns, and had three main objectives:

- compliance with internationally accepted accounting principles for the public sector, in particular the introduction of accrual accounting by 2005;
- integration of financial and accounting systems currently held on different software platforms; and
- improving the performance of the computer system, in particular concerning security and consistency of data from different sources.

The Commission also produced a timetable for the project, leading to a target of introducing full accruals accounting in January 2005, as required by the new Financial Regulation. The ECA considered this timetable to be "ambitious" – but on 10 January 2005 the Commission complied with the Financial Regulation and met its target by opening the new accounting system on a full accruals basis. The project was achieved within its planned cost of €20 million.

For the new system to be implemented, the Commission had to complete:

- the adoption of fifteen sets of accounting rules, a harmonised chart of accounts and a new accounting manual;
- the development, testing and release of the new computer system "ABAC";
- a preparation of the opening balance for the 2005 financial year, which also involved the establishment of an inventory of pre-financing, guarantees, fixed assets and legal entities; and
- a programme of user training.

In the near future, the computer system will continue to be developed and the accruals accounting system will be extended to other institutions and agencies. The Commission acknowledges the commitment and collaboration of all services, without which the project could not have been achieved.

The Commission now has an accounting system that is more up to date than those in most EU Member States. Only three Member States currently have full accruals accounting systems in the public sector – Sweden, the Netherlands and the United Kingdom.

But will the new system mean that the ECA will clear the accounts this year? This is unlikely, as the next ECA annual report due in November 2005 will report on the 2004 accounts – before the new system was introduced. However, we expect the ECA report on 2005, due in November 2006, to be much more positive, with the potential for a clean bill of health for the reliability of the accounts.

**European Court of Auditors' Special Reports 4.13** 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 effects of policies and whether they are effective and give value for money. The reports are discussed by the appropriate Council working group, 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 all the Special Reports published in 2004 can be found in the Bibliography section of this White paper.

**European Parliament's report on discharge for 2003** **4.14** The European Parliament's Budgetary Control Committee considered the Council's recommendations on discharge and issued its own report, including a number of detailed recommendations. The European Parliament voted in favour of giving discharge to the Commission on 12 April 2005.

**UK Government response to the European Court of Auditors** **4.15** The UK Government argued in 1995 in favour of a procedure for Member States to make responses to the ECA on the observations about them in its reports, which has become an established procedure. The Commission now requests Member States to comment also on general issues in the report. For the year 2004, the Commission took the opportunity to ask two general questions, one on the 'single audit' and the other on 'Statement of Assurance'. A copy of the UK response is always sent to both Houses of Parliament.

**4.16** As usual, there were some specific criticisms of the UK in the ECA report on 2003. Remedial action has been implemented where necessary, but not all the Court's findings are accepted. Some examples are as follows:

#### **Own resources**

*Audit finding:* examinations of the management of Agriculture tariff quotas, both in the Commission and in six Member States (including the UK). The most important market sectors were subject to this audit. Remedial action was required from these Member States.

*Response:* the Commission had taken follow-up action in respect of the Court's Sector Letter and the UK's reply to the Court. There were no major issues and several points had already been addressed and closed. The UK authorities were still awaiting notification of interest on some late payments in relation to some points raised by the Court.

#### **Agriculture**

*Audit finding:* the UK certifying body had not tested a sufficiently large sample of transaction managed by the paying agencies.

*Response:* the UK authorities maintain that the UK audit strategy for 2003 was fully compliant with the regulations. Following the disjoining of all the UK Accounts, the UK authorities lodged Article 230 proceedings against the Commission decision. Bilateral discussions reached agreement on an acceptable compromise to enable the UK to withdraw the Article 230 proceedings.

#### **Structural Funds**

*Audit finding:* files at Directorate-General Agriculture revealed that the documents submitted by eight Member States (including the UK) were of variable quality and, for those cases examined, were insufficient to allow the programmes to be closed.

*Response:* although the UK was able to submit all the programme documentation by the Commission deadline, it was not an easy task to do so as there was confusion about the details and depth of information required. Interpretation, lateness and consistency of guidance from the Commission were an issue.

**National Audit Office report on the Court of Auditors' report** **4.17** The National Audit Office published its annual report on 3 March 2005. 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 and the Fight against Fraud action plan for 2004-2005**

**4.18** The European Anti-Fraud Office (OLAF) (see Technical Annex IV) compiles the Commission's Annual Report on the Fight against Fraud. The report covering the 2003 calendar year was released on 30 August 2004. It included an analysis of irregularities reported by Member States (see glossary, which defines irregularity, and explains how it differs from fraud). The Annual Report was accompanied by the release of its second Action Plan for the period 2004-2005. The following table compares the totals of cases, and amounts involved between 2002 and 2003:

	2002*		2003	
	No. of cases	Amounts (€ million)	No. of cases	Amounts (€ million)
Traditional Own Resources	2,335	342	2,453	270
Agriculture	3,285	198	3,237	169
Structural Funds	4,656	614	2,487	482

\* NB Figures shown for 2002 may differ from those published in last years Statement, as OLAF constantly updates its databases.

**4.19** Care must always be taken in interpreting these figures. A sharp rise may simply reflect the inclusion of figures for one or more long-running cases which have only just been resolved. For example; the inclusion of figures in the own resources sector from just two cases – the New Zealand butter case in the UK and an Italian butter fraud – caused the figures for 2000 to double. The total number of fraud and irregularities communicated in 2003 decreased in all sectors, with the exception of the Traditional Own Resources sector where the total number of cases notified rose from the previous year. The overall rise of established amounts of Traditional Own Resources is proportionately lower than the rise in the number of cases. However, the established amount remains below the level reached in 2000.

**4.20** The reason for the large decrease in Structural Funds amounts reflects the closure of the Structural Funds between the period 1994-1999, which led to a rise in the detection and reporting of cases of irregularity in 2002.

**4.21** The report includes a description of developments in anti-fraud policy, reports of certain cases investigated by OLAF, and an update on progress with the Commission's 2001-2003 Action Plan for the protection of the financial interests of the Communities and the fight against fraud. Technical analyses accompany the report. The report also includes, for the fourth time, a summary of measures taken by Member States.

**4.22** The 2004-2005 Action Plan is a continuation of the Commission's ongoing commitment to the fight against fraud, and its response to the new challenges following enlargement. The report identified the following priorities: promote a new culture of cooperation with Member States; encourage inter-institutional measures to prevent and combat corruption; and strengthen the criminal judicial dimension through legislation.

**4.23** The 2004-2005 Action Plan follows up several areas from the previous action plans, and incorporates new initiatives to further improve the Commission and Member States' systems and assist applicant countries in their preparations. The Commission has included in the Action Plan the development of criminal law protection including the provision in readiness for the Constitutional treaty, which would establish the legal basis for creating a European Public Prosecutor with competence for protecting the financial interest of the European Union. When and how this work is taken forward will need to be considered in light of current decisions on the Treaty ratification process.

**OLAF's Fifth report on Operational Activities** **4.24** This was published in November 2004, and provides statistical analysis of OLAF's work. The report marked the fifth anniversary of OLAF's creation and included a chapter summarising the operational activity over the 5-year period, as well as the annual reporting year operational activity for the period July 2003 to June 2004. As at 1 June 2004, OLAF had 3,992 cases on its books, of which 637 were new cases. 1,423 cases were inherited from OLAF's predecessor UCLAF, and the remaining 2,569 records related to cases created following information received by OLAF between 1 July 1999 and 30 June 2004.

**4.25** The report provides details on each sector, the type of investigation, and the source of information. The total financial impact for all completed investigations amounted to more than €1.5 billion (£1 bn). OLAF's staffing levels increased by 25 staff to 287. Public interest in the work of OLAF has increased as measured by the number of website hits, that had increased by 140% to more than 3.6 million during the year.

**European Anti-Fraud Office – Complementary Evaluation Report** **4.26** When OLAF was set up in 1999, its founding Regulations (1073/1999 and 1074/99) required that the Commission submit a progress report after three years. In April 2003, the Commission adopted an initial evaluation report. The report contained very little statistical analysis to give an assessment of OLAF's performance. So in December 2003, the Council, supported by the European Parliament, asked the Commission to produce a complementary evaluation report that would provide more quantitative analysis of OLAF's operational work since it was created.

**4.27** This complementary report was issued on 26 October 2004. It provides a detailed analysis and statistical data of OLAF's achievements since its first year of operation and suggestions for some possible improvements. The report noted that the Commission had already submitted in February 2004 a proposal for a European Parliament and Council regulation aimed at improving the legislative framework concerning OLAF investigations (amendment of regulations (EC) No 1073/1999 and (Euratom) No 1074/1999).

**4.28** The Commission responded to the difficulties experienced in the Eurostat crisis, such as the gaps in circulation of information, the slowness of some investigations and the appropriateness of specifying procedural guarantees. The Commission also proposed to strengthen the operational efficiency of OLAF and emphasised the shared knowledge and cooperation between OLAF and Member States to combat fraud. The report referred to other anti-fraud initiatives, including the proposal to create a European Public Prosecutor (EPP). OLAF's plan for a centralised EU prosecutor would not only be incompatible with UK legal traditions, but was unlikely to be a cost-effective solution. The UK remains unconvinced that creating an EPP would be necessary or desirable.

# GLOSSARY

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**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 Agreement, the Council and Parliament agree to accept the maximum rates implied by the financial perspective ceilings.

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

Parliament and by the Council during the discharge process. If so asked, it must also report back on its actions, with such reports going to the ECA.

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

**Fontainebleu 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 and revised in 1994 and again in 2000.

The Commission is directly and solely responsible for determining the UK's abatement. It calculates the abatement on the basis of a forecast of contributions to the 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** 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 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 Own Resources Decision:
  - 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.

**Sterling Figures** The sterling figures for 1999-2005 in this White Paper are based on actual sterling cash receipts, or payments where these took place and are known. Elsewhere, the appropriate average annual sterling/euro exchange rate has been used to convert euro figures into sterling.<sup>6</sup> Generally, the 2005 euro figures have been converted into sterling using the sterling/euro exchange rate on 31 December 2004, namely £1= €1.418339 (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.

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

<sup>6</sup> The annual average rate for 1999 is £1 = €1.5192

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

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

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

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

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

# 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 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 2005);
- 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 converted 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% bases using much later information means that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. 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 for 2003 and the figures in the European Commission's allocation of 2003 Operating Expenditure Report**

When converted at the average exchange rate for 2003 of £1= €1.4320, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	15,156	10,584
UK abatement	-5,185	-3,621
UK receipts	-6,216	-4,341
UK net contribution	3,755	2,622

The Government's figure for the UK's net contribution in 2003 is £3,682 million.

There could be a number of factors that, to a greater or lesser extent, contribute to the difference between these two figures. The probable main causes for the difference are as follows:

- the UK figure includes only transactions between the 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 £550 million of the difference in 2003;
- 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 2003 being some £588 million higher; 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 £148 million of Structural Funds payments to the UK in 2003 may have been in respect of the 2002 Budget and up to £52 million of Structural Funds payments in 2004 may have been in respect of the 2003 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 2003	3,682
Private sector receipts	-550
Late implementation, in January 2004, of Amending Budgets No. 6/2003 and 7/2003	-588
Structural Fund receipts paid in 2003 which may have been from the 2002 Budget	+ 148
Structural Fund receipts paid in 2004 which may have been from the 2003 Budget	-52
UK Cashflow figure adjusted to reflect main differences compared to European Commission's figure	2,640
European Commission figure for 2002 outturn	2,622
Net difference due to other factors (such as exchange rate)	18

## TECHNICAL ANNEX III

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

The ECA is the institution of the Community responsible for the external audit of the other Community institutions. Article 248 of the Treaty requires the ECA to make an Annual Report to the European Parliament and the Council on the implementation of the EC Budget, together with a Statement of Assurance as to the reliability of the 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 1073/9 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 <sup>1</sup>	2005	2000	2001	2002	2003	2004 <sup>1</sup>	2005
1 Agriculture	40,467	42,083	43,217	44,462	45,081	46,676	40,506	41,534	43,521	44,379	43,993	49,115
2 Structural Operations	20,090	41,166	34,012	33,987	41,031	42,423	27,591	22,456	23,499	28,528	34,522	32,396
3 Internal Policies	6,008	6,703	7,614	7,173	8,705	9,052	5,361	5,303	6,567	5,672	7,510	7,924
4 External Action	4,987	4,859	5,085	5,067	5,177	5,219	3,841	4,231	4,424	4,286	4,951	5,476
5 Administration	4,686	5,002	5,272	5,545	6,122	6,351	4,643	4,855	5,212	5,305	6,122	6,351
6 Reserves	186	207	171	148	442	446	186	207	170	148	442	446
7 Pre-accession Aid	3,112	3,312	3,504	3,393	1,733	2,081	1,203	1,402	1,752	2,240	2,856	3,287
8 Compensations	n/a	n/a	n/a	n/a	1,410	1,305	n/a	n/a	n/a	n/a	1,410	1,305
<b>Total<sup>2</sup></b>	<b>79,536</b>	<b>103,332</b>	<b>98,875</b>	<b>99,775</b>	<b>109,701</b>	<b>116,553</b>	<b>83,331</b>	<b>79,988</b>	<b>85,145</b>	<b>90,558</b>	<b>101,807</b>	<b>106,300</b>

Notes:

1. 2004 data includes effect of Amending Budgets 1, 2, 3, 4, 5, 6, 7, 8, 9 &amp; 10.

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

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

Notes:

1. 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

	Agricultural and Sugar Levies										Customs Duties					VAT Contributions					€ million
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	
Belgium	99	94	67	55	43	52	58	1,004	1,133	1,180	834	1,121	1,226	1,201	969	1,061	1,167	794	858	594	620
Czech Republic	—	—	—	—	—	9	17	—	—	—	—	—	58	108	—	—	—	—	—	129	200
Denmark	45	47	29	28	25	24	33	251	270	262	153	191	209	205	636	648	767	614	573	385	416
Germany	464	486	334	342	277	289	363	2,724	2,866	2,814	1,623	2,010	2,198	2,153	8,552	9,459	8,541	5,113	5,209	3,172	3,371
Estonia	—	—	—	—	—	1	1	—	—	—	—	—	9	17	—	—	—	—	—	13	20
Greece	21	18	21	18	17	15	20	167	184	161	104	138	151	148	594	597	646	511	549	395	425
Spain	94	81	65	46	43	56	49	725	836	839	539	710	777	761	2,783	2,910	3,118	2,535	2,668	1,886	2,021
France	356	362	287	275	206	271	270	1,130	1,283	1,223	674	834	900	881	6,258	6,857	7,275	5,518	5,326	3,756	3,876
Ireland	13	12	9	6	4	5	7	162	187	151	79	101	110	108	450	454	569	396	419	283	304
Italy	187	192	123	99	106	88	119	1,092	1,292	1,275	769	1,013	1,107	1,084	4,340	4,473	5,290	4,021	3,694	2,864	2,985
Cyprus	—	—	—	—	—	1	3	—	—	—	—	—	9	17	—	—	—	—	—	20	31
Latvia	—	—	—	—	—	1	2	—	—	—	—	—	6	11	—	—	—	—	—	14	24
Lithuania	—	—	—	—	—	3	6	—	—	—	—	—	20	38	—	—	—	—	—	26	42
Luxembourg	1	0	0	0	0	0	0	20	24	20	10	12	13	13	87	85	127	73	78	53	57
Hungary	—	—	—	—	—	14	26	—	—	—	—	—	88	165	—	—	—	—	—	120	201
Malta	—	—	—	—	—	1	2	—	—	—	—	—	6	11	—	—	—	—	—	7	11
Netherlands	234	242	265	194	246	249	218	1,378	1,505	1,481	767	1,038	1,134	1,110	1,779	1,961	2,080	1,242	1,197	710	778
Austria	43	43	28	26	17	24	24	201	228	200	125	150	164	161	895	930	1,014	588	557	343	383
Poland	—	—	—	—	—	15	29	—	—	—	—	—	99	186	—	—	—	—	—	297	467
Portugal	42	30	31	16	18	24	15	143	153	134	70	80	88	86	531	565	603	466	478	317	333
Slovenia	—	—	—	—	—	3	5	—	—	—	—	—	16	31	—	—	—	—	—	42	66
Slovakia	—	—	—	—	—	4	8	—	—	—	—	—	28	52	—	—	—	—	—	49	79
Finland	14	15	12	7	5	7	7	114	111	107	57	71	78	76	518	544	580	427	474	324	339
Sweden	38	37	30	21	19	24	22	318	353	330	211	262	285	279	952	1,099	1,051	633	638	392	431
United Kingdom	501	498	473	403	371	562	310	2,278	2,687	2,636	1,664	1,729	1,887	1,848	1,821	3,478	-1,579	-395	-1,178	-2,610	-2,167
<b>Total</b>	<b>2,152</b>	<b>2,156</b>	<b>1,776</b>	<b>1,534</b>	<b>1,395</b>	<b>1,742</b>	<b>1,613</b>	<b>11,706</b>	<b>13,112</b>	<b>12,814</b>	<b>7,680</b>	<b>9,462</b>	<b>10,664</b>	<b>10,750</b>	<b>31,164</b>	<b>35,121</b>	<b>31,250</b>	<b>22,536</b>	<b>21,540</b>	<b>13,580</b>	<b>15,313</b>

Table 2: EC Budget Own Resources (continued)

	Fourth Resource Contributions											TOTALS				
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005		
Belgium	1,124	1,101	1,118	1,336	1,465	1,970	2,156	3,196	3,389	3,532	3,018	3,486	3,842	4,035		
Czech Republic	—	—	—	—	—	367	607	—	—	—	—	—	563	932		
Denmark	724	720	720	893	989	1,345	1,477	1,656	1,685	1,778	1,688	1,778	1,963	2,131		
Germany	9,329	8,964	8,037	10,505	11,706	15,127	16,331	21,069	21,775	19,727	17,582	19,203	20,785	22,218		
Estonia	—	—	—	—	—	36	62	—	—	—	—	—	59	101		
Greece	567	535	522	705	830	1,148	1,289	1,349	1,334	1,350	1,338	1,534	1,710	1,883		
Spain	2,630	2,617	2,569	3,431	4,008	5,467	6,127	6,231	6,445	6,592	6,551	7,429	8,186	8,957		
France	6,249	6,009	5,687	7,685	8,787	11,234	12,276	13,994	14,511	14,471	14,152	15,154	16,161	17,303		
Ireland	435	422	482	538	604	823	922	1,060	1,074	1,211	1,019	1,128	1,220	1,341		
Italy	5,148	5,043	4,924	6,390	6,945	9,300	10,171	10,766	11,000	11,612	11,279	11,758	13,358	14,359		
Cyprus	—	—	—	—	—	56	94	—	—	—	—	—	86	145		
Latvia	—	—	—	—	—	44	78	—	—	—	—	—	66	115		
Lithuania	—	—	—	—	—	79	137	—	—	—	—	—	128	222		
Luxembourg	87	76	109	101	114	154	172	194	185	256	184	205	220	241		
Hungary	—	—	—	—	—	340	610	—	—	—	—	—	562	1,003		
Malta	—	—	—	—	—	20	34	—	—	—	—	—	34	57		
Netherlands	1,700	1,788	1,691	2,265	2,439	3,207	3,446	5,091	5,497	5,517	4,467	4,920	5,299	5,553		
Austria	915	893	848	1,070	1,212	1,596	1,741	2,054	2,094	2,091	1,809	1,936	2,128	2,308		
Poland	—	—	—	—	—	846	1,417	—	—	—	—	—	1,257	2,099		
Portugal	512	507	498	636	717	920	1,009	1,228	1,255	1,266	1,187	1,293	1,348	1,443		
Slovenia	—	—	—	—	—	119	199	—	—	—	—	—	179	300		
Slovakia	—	—	—	—	—	147	254	—	—	—	—	—	228	393		
Finland	565	556	535	694	788	1,026	1,123	1,211	1,226	1,233	1,185	1,338	1,435	1,545		
Sweden	1,042	1,144	926	1,221	1,583	1,944	2,101	2,349	2,633	2,338	2,086	2,501	2,645	2,833		
United Kingdom	6,484	7,204	6,214	8,481	9,050	11,695	13,749	11,084	13,867	7,743	10,153	9,971	11,534	13,740		
<b>Total</b>	<b>37,510</b>	<b>37,580</b>	<b>34,879</b>	<b>45,948</b>	<b>51,235</b>	<b>69,010</b>	<b>77,583</b>	<b>82,531</b>	<b>87,969</b>	<b>80,718</b>	<b>77,698</b>	<b>83,632</b>	<b>94,997</b>	<b>105,259</b>		

Notes:

1. Figures for 2004 taken from Amending Budget 107/2004. Figures for 2005 taken from 2005 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 1999 to 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 then 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 1999 to 2003 are taken from the European Commission; Allocation of 2003 EU Operating Expenditure by Member State.

Table 2A: EC Budget Own Resources

	Agricultural and Sugar Levies												Customs Duties					VAT Contributions					£ million
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005		
Belgium	65	57	41	35	30	35	41	661	746	777	549	738	831	847	638	646	726	499	599	403	437		
Czech Republic	—	—	—	—	—	6	12	—	—	—	—	—	39	76	—	—	—	—	—	88	141		
Denmark	30	28	18	17	17	16	23	165	178	172	101	126	142	144	419	395	477	386	400	261	293		
Germany	306	296	208	215	194	196	256	1,793	1,886	1,852	1,068	1,323	1,491	1,518	5,629	5,764	5,311	3,215	3,637	2,151	2,377		
Estonia	—	—	—	—	—	1	1	—	—	—	—	—	6	12	—	—	—	—	—	9	14		
Greece	14	11	13	11	12	10	14	110	121	106	68	91	103	105	391	364	402	321	383	268	300		
Spain	62	50	41	29	30	38	34	477	551	553	355	468	527	536	1,832	1,773	1,939	1,594	1,863	1,279	1,425		
France	234	220	178	173	144	184	190	744	845	805	444	549	610	621	4,120	4,178	4,524	3,470	3,720	2,548	2,733		
Ireland	8	7	5	4	3	3	5	107	123	100	52	66	75	76	296	276	354	249	292	192	215		
Italy	123	117	77	62	74	59	84	719	851	840	506	667	751	764	2,857	2,726	3,289	2,528	2,580	1,943	2,105		
Cyprus	—	—	—	—	—	1	2	—	—	—	—	—	6	12	—	—	—	—	—	13	22		
Latvia	—	—	—	—	—	1	1	—	—	—	—	—	4	8	—	—	—	—	—	10	17		
Lithuania	—	—	—	—	—	2	4	—	—	—	—	—	14	26	—	—	—	—	—	18	29		
Luxembourg	0	0	0	0	0	0	0	13	16	13	7	8	9	9	57	52	79	46	55	36	40		
Hungary	—	—	—	—	—	9	18	—	—	—	—	—	60	116	—	—	—	—	—	81	142		
Malta	—	—	—	—	—	1	1	—	—	—	—	—	4	8	—	—	—	—	—	5	8		
Netherlands	154	148	165	122	172	169	154	907	991	975	505	683	769	783	1,171	1,195	1,294	781	836	481	549		
Austria	28	26	18	16	12	17	17	133	150	132	82	99	111	113	589	567	630	370	389	233	270		
Poland	—	—	—	—	—	10	21	—	—	—	—	—	67	131	—	—	—	—	—	202	330		
Portugal	28	18	19	10	12	16	11	94	101	89	46	53	60	61	350	344	375	293	334	215	235		
Slovenia	—	—	—	—	—	2	3	—	—	—	—	—	11	22	—	—	—	—	—	28	46		
Slovakia	—	—	—	—	—	3	6	—	—	—	—	—	19	37	—	—	—	—	—	33	56		
Finland	9	9	7	4	4	5	5	75	73	70	38	47	53	54	341	331	361	268	331	220	239		
Sweden	25	22	19	13	13	16	16	209	232	217	139	172	193	197	626	670	654	398	445	266	304		
United Kingdom	330	303	294	253	259	381	218	1,499	1,768	1,735	1,095	1,138	1,280	1,303	1,199	2,120	-982	-248	-823	-1,771	-1,528		
<b>Total</b>	<b>1,416</b>	<b>1,314</b>	<b>1,104</b>	<b>965</b>	<b>974</b>	<b>1,182</b>	<b>1,137</b>	<b>7,705</b>	<b>7,990</b>	<b>7,968</b>	<b>4,829</b>	<b>6,608</b>	<b>7,234</b>	<b>7,579</b>	<b>20,513</b>	<b>21,402</b>	<b>19,432</b>	<b>14,171</b>	<b>15,042</b>	<b>9,212</b>	<b>10,797</b>		

Table 2A: EC Budget Own Resources (continued)

	Fourth Resource Contributions												TOTALS					£ million
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005				
Belgium	740	671	695	840	1,023	1,336	1,520	2,104	2,065	2,196	1,898	2,434	2,606	2,845				
Czech Republic	—	—	—	—	—	249	428	—	—	—	—	—	382	657				
Denmark	476	439	447	562	690	912	1,041	1,090	1,027	1,105	1,061	1,241	1,332	1,502				
Germany	6,141	5,462	4,998	6,605	8,175	10,261	11,514	13,868	13,269	12,267	11,056	13,410	14,100	15,665				
Estonia	—	—	—	—	—	24	44	—	—	—	—	—	40	71				
Greece	373	326	324	443	579	779	909	888	813	840	841	1,071	1,160	1,327				
Spain	1,731	1,595	1,597	2,157	2,799	3,709	4,320	4,102	3,928	4,099	4,119	5,188	5,553	6,315				
France	4,113	3,662	3,536	4,832	6,136	7,620	8,655	9,211	8,843	8,998	8,899	10,582	10,963	12,200				
Ireland	286	257	300	338	422	558	650	698	655	753	641	787	828	946				
Italy	3,388	3,073	3,062	4,018	4,850	6,308	7,171	7,086	6,703	7,221	7,093	8,211	9,061	10,124				
Cyprus	—	—	—	—	—	38	66	—	—	—	—	—	58	102				
Latvia	—	—	—	—	—	30	55	—	—	—	—	—	44	81				
Lithuania	—	—	—	—	—	54	96	—	—	—	—	—	87	157				
Luxembourg	57	47	68	63	80	104	121	128	113	159	116	143	150	170				
Hungary	—	—	—	—	—	231	430	—	—	—	—	—	381	707				
Malta	—	—	—	—	—	14	24	—	—	—	—	—	23	40				
Netherlands	1,119	1,090	1,051	1,424	1,703	2,176	2,430	3,351	3,350	3,430	2,809	3,435	3,595	3,915				
Austria	602	544	528	673	846	1,083	1,227	1,352	1,276	1,300	1,137	1,352	1,444	1,628				
Poland	—	—	—	—	—	574	999	—	—	—	—	—	853	1,480				
Portugal	337	309	309	400	501	624	711	808	765	787	747	903	914	1,017				
Slovenia	—	—	—	—	—	81	140	—	—	—	—	—	122	212				
Slovakia	—	—	—	—	—	100	179	—	—	—	—	—	154	277				
Finland	372	339	332	436	550	696	792	797	747	767	745	934	973	1,089				
Sweden	686	697	576	768	1,105	1,319	1,481	1,546	1,604	1,454	1,312	1,747	1,794	1,997				
United Kingdom	4,268	4,390	3,864	5,333	6,320	7,933	9,694	7,296	8,450	4,815	6,384	6,963	7,824	9,687				
<b>Total</b>	<b>24,690</b>	<b>22,901</b>	<b>21,688</b>	<b>28,892</b>	<b>35,779</b>	<b>46,812</b>	<b>54,700</b>	<b>54,325</b>	<b>53,607</b>	<b>50,191</b>	<b>48,857</b>	<b>58,403</b>	<b>64,440</b>	<b>74,213</b>				

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				
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005	
<b>GROSS CONTRIBUTIONS</b>															
Agriculture & Sugar Levies	502	497	471	415	366	411	384	331	303	293	261	255	279	271	
Customs Duties	2,290	2,676	2,633	1,636	1,704	1,899	1,774	1,507	1,630	1,637	1,029	1,190	1,288	1,251	
VAT Own Resources	5,956	6,734	5,827	4,326	3,976	2,601	2,943	3,921	4,104	3,624	2,720	2,776	1,764	2,075	
Fourth Resource payments	6,698	6,966	6,230	8,373	9,492	11,137	12,879	4,409	4,245	3,874	5,265	6,629	7,555	9,081	
VAT & Fourth Resource adjustments	183	388	-79	260	166	14	—	120	236	-49	164	116	9	—	
United Kingdom Abatement	-4,817	-3,421	-7,333	-4,928	-5,097	-5,296	-5,115	-3,171	-2,085	-4,560	-3,099	-3,559	-3,593	-3,606	
<b>Total Contributions</b>	<b>10,812</b>	<b>13,839</b>	<b>7,750</b>	<b>10,082</b>	<b>10,606</b>	<b>10,765</b>	<b>12,865</b>	<b>7,117</b>	<b>8,433</b>	<b>4,819</b>	<b>6,340</b>	<b>7,407</b>	<b>7,302</b>	<b>9,071</b>	
<b>PUBLIC SECTOR RECEIPTS</b>															
EAGGF Guarantee	4,101	4,105	3,992	3,946	3,814	4,035	3,817	2,700	2,502	2,482	2,481	2,663	2,737	2,691	
EAGGF Guidance	73	135	41	:	3	73	86	48	82	25	:	2	50	61	
European Regional Development Fund	434	1,622	873	470	889	1,566	1,300	286	989	543	296	621	1,062	917	
European Social Fund	660	1,081	595	655	611	638	1,591	434	659	370	412	427	433	1,122	
Other Receipts	17	16	16	20	16	18	85	11	10	10	13	11	12	60	
<b>Total Receipts</b>	<b>5,285</b>	<b>6,959</b>	<b>5,517</b>	<b>5,091</b>	<b>5,333</b>	<b>6,330</b>	<b>6,879</b>	<b>3,479</b>	<b>4,241</b>	<b>3,430</b>	<b>3,201</b>	<b>3,725</b>	<b>4,294</b>	<b>4,850</b>	
<b>NET CONTRIBUTIONS</b>	<b>5,526</b>	<b>6,880</b>	<b>2,233</b>	<b>4,991</b>	<b>5,273</b>	<b>4,435</b>	<b>5,986</b>	<b>3,638</b>	<b>4,192</b>	<b>1,389</b>	<b>3,139</b>	<b>3,682</b>	<b>3,008</b>	<b>4,220</b>	

Notes:

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

1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EC Budgets. They differ from the figures for gross contributions in Table 2 in that these figures, drawn from Commission documents, relate to payments to particular EC Budgets.

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

3. The figures for 2005 are forecasts, those for earlier years are outturn.

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

Source: HM Treasury

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