HM TREASURY

European Union Finances 2010:

statement on the 2010 EU Budget and measures to counter fraud and financial mismanagement

Cm 7978

December 2010

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Contents

1 Introduction

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

1.2 This Statement is the thirtieth in the series. It describes the EU Budget for 2010 as adopted by the European Parliament; and sets out details of the United Kingdom's gross and net contributions to the EU Budget over the financial years 2004-05 to 2009-10, together with estimates for 2010-11 and projections from 2011-12 to 2015-16, and over the calendar years 2004 to 2009, together with an estimate for 2010. It also includes details of recent developments in EU financial management and the fight against fraud.

2 The 2010 EU Budget

The EU Budget process

2.1 The annual EU Budget is established by the budgetary authority, which consists of the Council of Ministers and the European Parliament. The 2010 budget was the last agreed before the Lisbon Treaty entered into force, which introduced some changes to the process (see Box 2.1).

2.2 The annual Budget procedure began in May, when the Commission proposed a Preliminary Draft Budget (PDB) for 2010. On the basis of the PDB, the Council made amendments and established its own Draft Budget in July at its first reading. This was passed to the Parliament for its first reading, which was concluded in October. The Budget then returned to the Council in November for the Council’s second (and final) reading. The Parliament made its second reading in December, after which it adopted the Budget.

2.3 The Council had the final say on the amount and structure of compulsory expenditure, as defined as expenditure necessarily resulting from the Treaty establishing the European Community or from Acts adopted in accordance with it. Compulsory expenditure amounts to approximately 32.0 per cent of commitments in the 2010 budget, of which the Common Agricultural Policy (CAP) is the largest part. The Parliament had the final say on all non-compulsory expenditure (i.e, the remainder of the Budget).

The Financial Perspective 2007-13

2.4 Since 1988, the annual budget has been set within a multi-annual expenditure framework known as the Financial Perspective (FP). The 2007-13 FP sets out annual expenditure ceilings for six broad categories[1]. 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 Council reached agreement on the FP on 17 December 2005, under the UK's presidency of the EU. As part of this agreement, the Council also agreed the following:

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

[1] Sustainable growth; preservation and management of natural resources; citizenship, freedom, security and justice; the EU as a global player; administration and compensations.

- that spending on Freedom, Security and Justice should rise by 15 per cent a year over the period; and
- that 90 per cent of the External Actions budget should be official development assistance, and the European Development Fund (EDF) should remain outside the EU Budget.

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

- an overall increase of €1.9 billion (£1.3 billion)[2] above the December agreement, representing 0.22 per cent of the total budget, divided across headings;
- removal of the Emergency Aid Reserve and certain pensions elements from the budget, worth €2 billion (£1.37 billion) in total, creating additional headroom within the budget for programme spending;
- recognising the need for budget discipline, the Flexibility Instrument remains set at €200 million (£136 million) per annum over the 2007-2013 period; and
- introducing measures aimed at increasing budget discipline, such as the certification of national accounts by Member States.

2.7 The following table shows the breakdown of expenditure by policy heading over the period 2007-13. Following agreement on the IIA, the total budget was set at €864.3 billion (£586.3 billion) in 2004 prices, equivalent to 1.05 per cent of EU Gross National Income (GNI) over the period 2007-13.

Expenditure[1]	**IIA Total 2007-13, € billion[2]**	**Total 2007-13 as share of budget (per cent)**
1a. Competitiveness for Growth and Employment	77.4	9.0
1b. Cohesion for Growth and Employment	308	35.6
2. Preservation and Management of Natural Resources	367.9	42.6
Of which market related agricultural expenditure and direct payments	*293.1*	*33.9*
3a. Freedom, Security and Justice	6.6	0.8
3b. Citizenship	4.1	0.5
4. The EU as a Global Player	49.5	5.7
5. Administration	49.8	5.8
6. Compensations	0.8	0.1
Total	**864.2**	**100.0**

Source: Commission's 2010 Adopted Budget
1 Commitment appropriation
2 In 2004 prices

2 An explanation of the exchange rates used throughout this statement can be found in the glossary on page 39.

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

- the rate at which VAT payments are made is fixed at 0.3 per cent of each Member State's GNI, except for the following countries, for the period 2007-13:

Member State	VAT payment rate (per cent)
Austria	0.225
Germany	0.150
Netherlands	0.100
Sweden	0.100

Source: Council Decision: 2007 / 436 / EC, Euratom

- for the period 2007-2013, Netherlands and Sweden would have their annual GNI contributions reduced by €605 million (£412.4 million) and €150 million (£102.3 million) respectively;
- the UK abatement would remain; and
- by 2013, the UK abatement would be calculated on all allocated expenditure in the EU15[3] and all CAP direct payments, market support and European Agricultural Guidance and Guarantee Fund (EAGGF), and guarantee expenditure in the EU12[4]. Other expenditure in the EU12 would be progressively excluded from the abatement calculation according to the following schedule:

Year	Share of expenditure in EU12 to be excluded (per cent)
2007	0
2008	0
2009	20
2010	70
2011 onwards	100

Note: Budgeted in the year shown but refers to the previous year's abatement calculation as the abatement is paid a year in arrears

Source: Council Decision: 2007 / 436 / EC, Euratom

2.9 During the period 2007-13, the additional contribution from the UK would not, in 2004 prices, be higher than €10.5 billion (£7.2 billion) by comparison with the application of the current Own Resources Decision (ORD)[5]. This amount is subject to adjustment in the case of future enlargement. The following Table details the additional costs to date, in euro, to the UK in both current and 2004 prices:

[3] EU15: Member States as at 30 April 2004

[4] EU12: Member States that joined on 1 May 2004 and those that joined on 1 January 2007

[5] See glossary for further details relating to the ORD of September 2000 which took effect from 1 January 2002

Year	Difference in current prices	Difference in 2004 prices
2008	0.300 billion	0.278 billion
2009	1.350 billion	1.270 billion
2010	2.280 billion	2.107 billion
Total	**3.930 billion**	**3.655 billion**

Source: European Commission

2.10 The European Council also invited the Commission to undertake a comprehensive review of the EU Budget, including both expenditure and financing. A discussion of this review will highlight priorities for the future of the EU budget. The Commission published this document on 19 October 2010 (see Box 2.2).

Box 2.1: The Lisbon Treaty and the EU Budget

Multiannual Financial Framework

The Treaty confirms the practice of using a multiannual financial framework to ensure that, in the medium term, EU expenditure develops in an orderly manner and within the limits of its own resources. The financial framework also imposes budgetary discipline by setting ceilings on the amount of funds available to the EU Budget in broad policy areas for each year it covers.

To date, the EU financial framework has been laid down in IIA. The current IIA on budgetary discipline and sound financial management sets out a financial framework for 2007-2013. The Treaty, however, requires the current IIA to be codified into a Council regulation, thereby strengthening the legal basis of the financial framework.

Own Resources

The EU Budget must be balanced: borrowing cannot finance EU Budget expenditure. Therefore, EU revenue must be sufficient to fund all planned EU spending in a given year. Currently, the principal source of revenue is a levy on Member States GNI, which supplements EU 'Traditional' Own Resources (agricultural duties and customs duties) and a resource based on VAT collected in Member States.

The Council determines EU Budget revenue through the ORD, after ratification by the Member States' parliaments. The Lisbon Treaty provides that the Council adopt this Decision, after consulting the European Parliament. The next ORD will be agreed as part of the next Financial Perspective negotiation.

Annual budgetary process

The Treaty abolishes the former distinction between 'compulsory' expenditure – spending that is required by the Treaties, such as that under the CAP – and 'non-compulsory' expenditure, with the result that the European Parliament and the Council determine all expenditure together. This creates a new balance between the two institutions when determining the EU's Budget.

Annual expenditure is now determined using a new annual budgetary procedure. The Treaty envisages the following key stages in the new annual budgetary procedure:

- The Commission adopts its budget proposal (the 'draft budget');
- The Council completes its reading of the Commission's proposal;
- The European Parliament will consider the Council's position;
- In the event of the European Parliament adopting amendments that the Council does not subsequently approve, a conciliation committee will be convened to agree a joint-text; and
- Once a joint text has been agreed, the Council and the European Parliament will endeavour to approve the outcome of the Conciliation Committee within 14 days.

Implementation of the EU Budget

The Commission implements the budget in cooperation with Member States, in accordance with the Treaties and with the provisions and instructions set out in the Financial Regulation.

The Lisbon Treaty provides for the Financial Regulation to be jointly adopted by co-decision, whereas the Council previously adopted it after consulting the Parliament only. The Treaty provides for the control systems protecting EU finances to be strengthened. It also requires close cooperation between Member States and the Commission to combat fraud and to safeguard the EU's financial interests

Expenditure

As described above, the Council and the European Parliament, which together form the EU budgetary authority, jointly determine how the EU Budget supports EU policy priorities. The Lisbon Treaty may form a guide for reshaping the EU's spending priorities, by extending competence, in areas such as space and energy policy. The Treaty also established new institutions, such as the Council and the European External Action Service.

Box 2.2 EU Budget Review

In December 2005 the Council mandated the Commission to carry out, '*a full, wide ranging review covering all aspects of EU spending, including the CAP, and own resources including the United Kingdom rebate*.' On 19 October this year, the EU Commission published their Budget Review document.

The Budget Review document is intended to provide orientations for the future of the EU Budget. The Commission begin by stating the lessons learned and principles against which the EU Budget should be assessed. The overarching theme of the document is the focus on smart, sustainable, and inclusive growth. The Commission's document proposes a number of options for EU expenditure, including:

- Focusing expenditure, including the CAP and Cohesion Policy, to achieve the objectives of the Europe 2020 strategy for growth.
- Actions in the area of citizenship that support fundamental rights and EU values.
- Focusing the EU external expenditure to promote European interests and exert influence on an international stage.
- A commitment to search rigorously for increased efficiency and performance in administrative resources.

The Commission also focus on financing issues of the EU Budget. Topics of discussion include:

- Using EU funds to increase the leverage of private sector financial investment, including work of the European Investment Bank.
- EU project bonds to support European infrastructure.
- Simplifying a complex and unfair EU Budget financing system through introduction of a new own resource and phasing out of all correction mechanisms.

The Government welcomes the Commission's acknowledgment in the Budget Review document of the need for reform of the EU Budget to support Europe's priorities – in particular economic growth. However, the Government is disappointed that the document does not have a strong focus on prioritisation and identifying where savings can be made. In line with the Government's overriding objective of deficit reduction, its priority when approaching the EU Budget is to reduce budget size. The Government will defend the UK's abatement. It remains fully justified because of distortions to EU spending that cost the UK. All budgetary proposals will be considered in the context of these priorities.

Box 2.3: Own Resources Decision (Council Decision of 7 June 2007: 2007/436/EC, Euratom), amending the arrangements for the financing of the annual EU Budget

The Decision agreed by the Council of Ministers on 7 June 2007 amended the current arrangements for VAT-based contributions by fixing the call-up rate at 0.3 per cent, thereby increasing Member States' residual contributions based on GNI.

For the period 2007 to 2013 only, a reduced maximum rate of call on VAT-based contributions was introduced for Austria, Germany, the Netherlands and Sweden (the Netherlands and Sweden at 0.1 per cent, Germany at 0.15 per cent, Austria at 0.225 per cent compared to the general rate of 0.3 per cent).

For the period 2007 to 2013 only, gross reductions in GNI contributions were introduced for the Netherlands (€605 million per annum) and Sweden (€150 million per annum), both in 2004 prices.

The Decision provided for the retention of the correction mechanism in favour of the UK (the abatement), along with the reduced financing of the correction benefiting Germany, Austria, Sweden and the Netherlands. However, after a phasing-in period between 2009 and 2011, the UK will participate fully in the financing of the costs of enlargement, except for agricultural direct payments and market-related expenditure, and that part of rural development expenditure originating from the EAGGF, Guarantee Section.

The Decision required adoption or ratification by all Member States in accordance with their own Constitutional requirements before it could enter into force.

The final ratification was notified in February 2009, with the Decision coming into force on 1 March 2009. Own Resources Decision (Council Decision of 29 September 2000: 2000/597/EC, Euratom) continued to operate until 1 March 2009.

UK Ratification of the Decision was undertaken by means of the European Communities (Finance) Bill which received Royal Assent, and became the European Communities (Finance) Act on 19 February 2008.

The 2010 EU Budget

2.11 The 2010 EU Budget was negotiated under the Swedish Presidency of the Council of Ministers. Table 2.1 sets out the amounts established at each stage of the budgetary procedure. Figures for previous years' budgets are provided in Tables 1A and 1B (page 46) for comparison.

2.12 The adopted 2010 EU Budget provides for commitment appropriations of €141 billion (£126 billion) (1.20 per cent of EU GNI), an increase of 5.7 per cent compared to the 2009 adopted budget; and payment appropriations of €123 billion (£109 billion) (1.04 per cent of EU GNI), an increase of 5.9 per cent compared to the 2009 adopted budget (see Box 2.4). The commitment and payment appropriations agreed were within the limits provided under the FP and the ORD. The payment appropriations for each of the six categories of the EU Budget are as shown in Chart 2.A (page 14).

Table 2.1: 2010 EU 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 2010	Budget 2009[1]
1 Sustainable growth	63,555	62,152	62,052	64,255	63,734	64,249	62,202
2 Preservation and Management of Natural Resources	59,955	59,004	58,640	59,808	59,450	59,499	56,332
3 Citizenship, Freedom, Security and Justice	1,693	1,629	1,608	1,674	1,608	1,674	2,132
4 The EU as a Global Player	7,893	7,921	7,832	8,141	7,934	8,141	8,104
5 Administration	7,882	7,851	7,812	7,866	7,829	7,889	7,597
6 Compensations	0	0	0	0	0	0	*209*
Total Commitment Appropriations	140,978	138,557	137,944	141,745	140,555	141,453	136,576
Total Payment Appropriations	134,289	122,316	120,770	127,526	121,737	122,937	113,035
Payment Appropriations as a percentage of EU GNI	1.14%	1.03%	1.02%	1.08%	1.04%	1.04%	0.98%

Notes:
[1] 2009 include all Amending Budgets
[2] Because of rounding the columns totals do not necessarily equal the sum of the individual items

Sources: European Commission 'General Budget of the EU for the financial year 2010. Other EU documentation.

2.13 Details of the levels of commitments in the 2010 Budget, compared to the 2009 adopted budget are as follows[6]:

- **Heading 1: Sustainable Growth.** Aimed at building Europe's growth potential and fostering prosperity across EU regions, commitments in this area were set at €64.2 billion (£57.1 billion), a 6.7 per cent increase[7] compared to the 2009 adopted budget. Transforming the EU economy into a knowledge-based economy requires adequate investment in research, learning, and innovation. In 2010, the EU Adopted Budget was set to allocate: €7.5 billion (£6.7 billion) for research, a 11.7 per cent increase; €1.1 billion (£983.4 million) for learning and training, a 4.3 per cent increase; and €525.7 million (£466.9 million) for competitiveness and innovation programmes, a 3.4 per cent increase. There was €49.4 billion (£43.9 billion) in commitments for fostering regional growth and employment, a 2.0 per cent increase, with €39.2 billion (£34.8 billion) made available through Structural Funds and €10.2 billion (£9 billion) through the Cohesion Fund.

- **Heading 2: Preservation and Management of Natural Resources.** Expenditure in this area includes spending on the CAP and Fisheries, Rural Development, and measures aiming to contribute to food quality, and a cleaner environment. Commitments in this area were set at €59.5 billion (£52.8 billion) in the 2010 Budget, leaving a margin of €456.2 million (£405.1 million) under the relevant FP ceiling. Commitments for market related expenditure and direct payments were set at €43.8 billion (£38.9 billion), a 6.5 per cent increase, whereas commitments for Rural Development were set at €14.4 billion (£12.8 billion), a 5.2 per cent increase. Commitments for EU environmental protection, through the LIFE+ programme, were set to decrease by 3.2 per cent to €306.9 million (£272.5 million).

- **Heading 3: Citizenship, Freedom, Security and Justice.** Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Commitments in this area were set at €1.7 billion (£1.5 billion), a 10.5 per cent increase. Commitments in the field of Freedom, Security and Justice (Heading 3a) were set at €1 billion (£893.9 million), a 16.5 per cent increase. Commitments for Citizenship (Heading 3b), which includes spending on culture, youth, and public health, were set at €668 million (£593 million), a 2.6 per cent increase.

- **Heading 4: The EU as a Global Player.** Expenditure in this area includes EU foreign policy and international development expenditure, including assistance to non-EU partners with the exception of some assistance to Africa, the Caribbean, or Pacific countries (which is funded from the off-budget EDF). Commitments for Heading 4 for 2010 were set at €8.1 billion (£7.2 billion), a 0.5 per cent increase. This included €2.5 billion (£2.2 billion) in commitments for the Development Cooperation instrument, a 3.8 per cent increase.

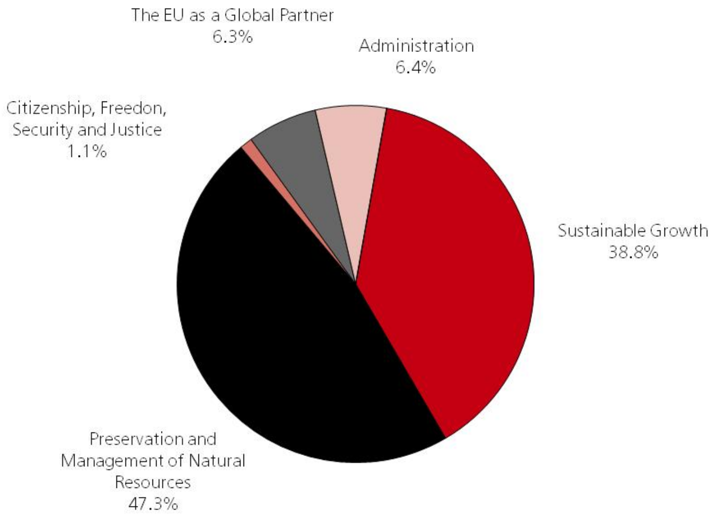
- **Heading 5: Administration.** Expenditure in this area of the budget includes expenditure on the functioning of the EU institutions and includes remuneration and allowances for staff and members, pension costs, and rent and other building costs. Commitments and payments in this area were set at €7.9 billion (£7 billion), a 2.4 per cent increase.

[6] 2009 adopted budget figures used exclude amending budgets.

[7] This and all other changes in this sector are real terms based on current prices.

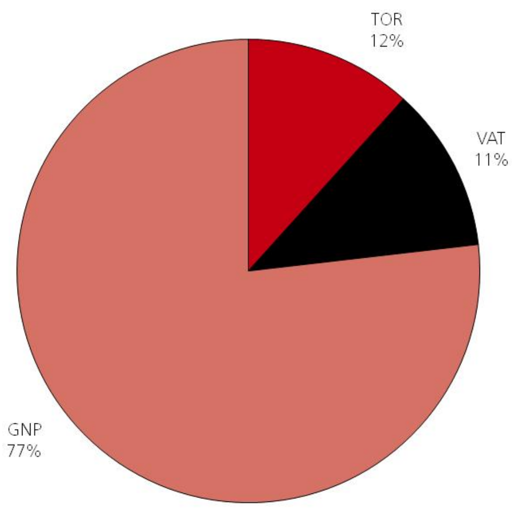
- **Heading 6: Compensations.** Expenditure in this area was intended to ensure that Bulgaria and Romania keep a positive budgetary balance in the years immediately following their accession. Funds were no longer required for this purpose from 2010.

Chart 2.A: 2010 EU Budget - Payment Appropriations by Budget Heading



Source: 2010 Adopted Budget

Chart 2.B: 201 EU Budget Revenue



Source: Source: 2010 Adopted Budget

Box 2.4: European Economic Recovery Plan

In December 2008, the Council agreed on a European Economic Recovery Plan to provide a co-ordinated fiscal stimulus package of around €200 billion representing approximately 1.5 per cent of EU GDP. The recovery plan was designed as a wide-ranging framework, including specific proposals to guide Member States and the EU in making co-ordinated responses to the economic crisis, both to deal with the immediate impact on the real economy and to promote potential growth in the long-term.

The range of EU actions included increased European Investment Bank investments of €30 billion, and the simplification of procedures and faster implementation of Structural and Cohesion funds. The 2009 Spring European Council agreed on financing an additional €5 billion EU Budget contribution to the recovery plan.

Within the €5 billion package, €3.98 billion supports energy infrastructure projects and €1.02 billion helps to provide broadband infrastructure and CAP Health Check measures in rural areas. €2.6 billion of this total amount was financed in the 2009 EU Budget, leaving €2.4 billion to be found through the 2010 budget. This included €1.98 billion for energy infrastructure projects, and €420 million for broadband infrastructure and CAP Health Check measures. Crucially, this financing was secured within the overall amount of the Financial Perspective, through the following steps:

1. **€1,980 million in commitments for energy infrastructure projects:** The 2010 ceiling for commitment appropriations under heading 1a was increased by €1,779 million; €120 million was made available through the Flexibility Instrument; and €81 million was made available from the heading margins for 2009-2011. The rest of the increase was fully offset by lowering the commitment appropriations ceilings across headings 1b, 2 and 5 in 2009 and 2010, and heading 3a in 2009.

2. **€420 million** was made available within the 2010 budget for broadband internet in rural areas as well as activities related to 'new challenges'.

EU Revenue

2.14 The ORD provides for four sources of EU 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 can be found in the glossary.

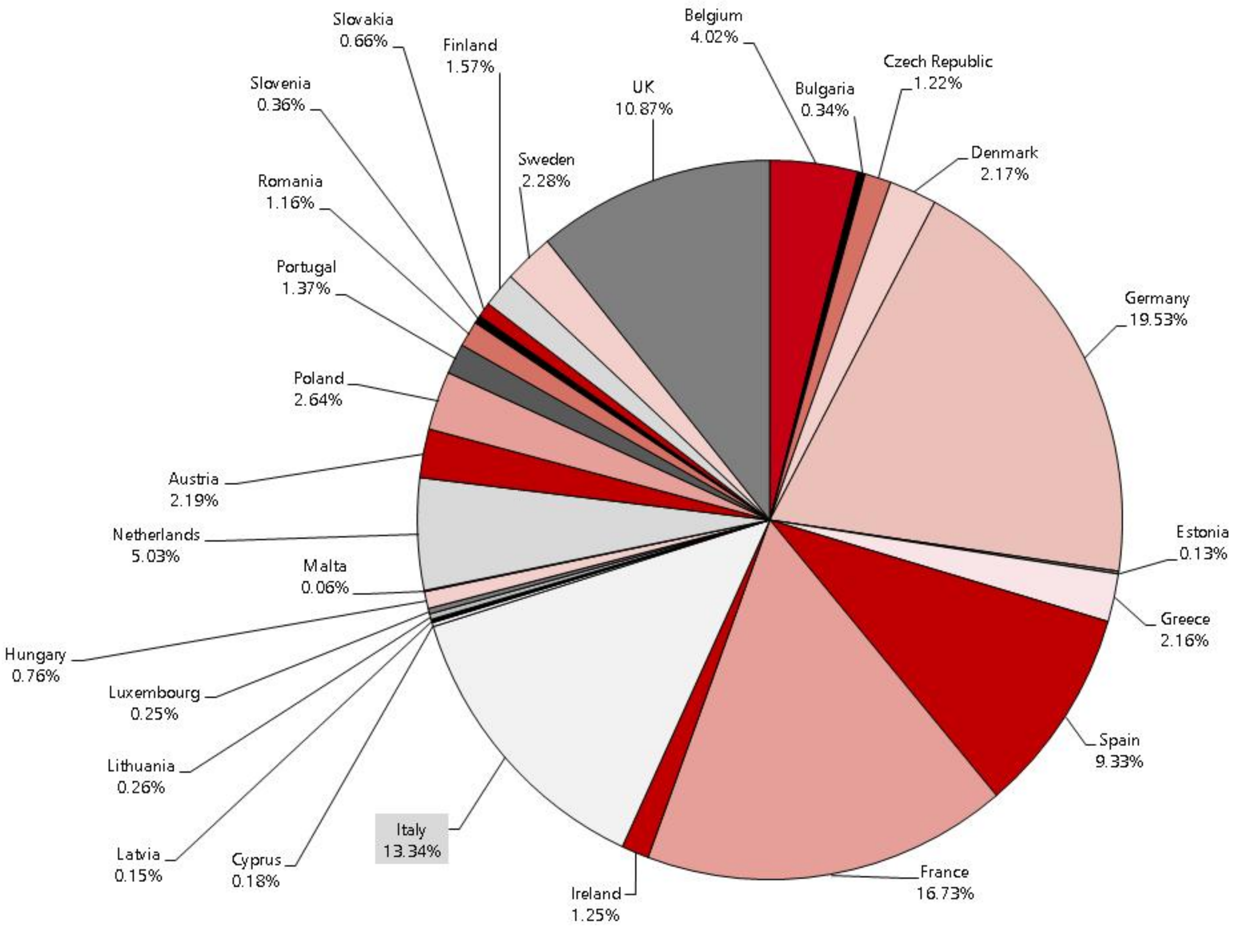
2.15 Chart 2.B shows a breakdown of the estimates of how the 2010 EU Budget is financed. Tables 2A and 2B (pages 47-48) show the gross contributions by Member State, after taking account of the UK abatement, between 2004 and 2010. The key points to note in terms of the UK's contribution are:

- TOR in 2010 are estimated to be around €14.2 billion (£12.6 billion), with the UK's share estimated at 14.4 per cent. In 2009, revenue from this source was estimated to be €14.6 billion (£13.9 billion), of which the UK's share was 14.3 per cent;
- VAT-based contributions in the 2010 EU Budget are shown as €13.9 billion (£12.4 billion), with the UK's share estimated as 16.8 per cent. In 2009, total VAT contributions were €13.7 billion (£13.0 billion), of which the UK's share was 15.6 per cent;
- GNI-based contributions in the 2010 EU Budget are shown as €93.4 billion (£82.9 billion), of which the UK's share is 13.6 per cent. In 2009, GNI-based contributions were €82.0 billion (£78.1 billion) with a UK share of 12.7 per cent.; and

- the estimated value of the UK's abatement in 2010 is €4.0 billion (£3.5 billion) compared with €5.3 billion (£5.1 billion) in the 2009 EU Budget. A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

2.16 Chart 2.C shows each Member States' share of financing the 2010 EU Budget, after taking account of the UK abatement.

Chart 2.C: EU Budget Revenue 2010: Percentage Shares after abatement by Member State



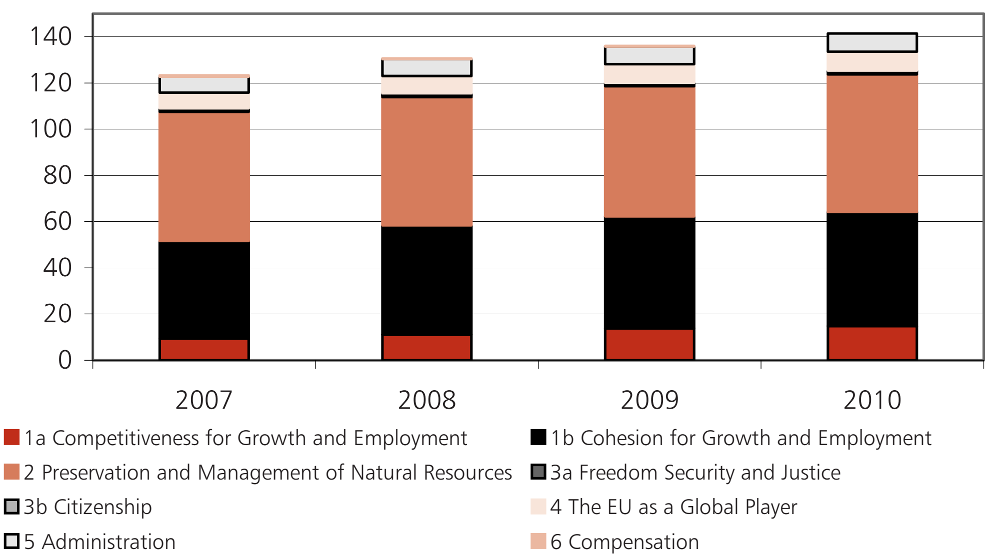
Source: Source: 2009 Adopted Budget

3 Developments in EU Finances

Expenditure

3.1 Chart 3.A shows the development in EU spending commitments from 2007 to 2010. The increase in spending in the Competitiveness for Growth and Employment sub-heading is most noteworthy. It sees an increase of €5.49 billion (£4.89 billion), or 59 per cent, over this period to enhance growth in the EU. In addition, commitments have increased by 19.9 per cent and 19.5 per cent in the Freedom, Security and Justice sub-heading and the EU as a Global Player heading, respectively.

Chart 3.A: Developments in EU Spending (commitments) 2007-2010 (€ billion)



Note: 2009 includes all amending budgets

Source: 2010 Adopted Budget

3.2 Further details on spending in recent years are given in Tables 1A and 1B (page 46). These illustrate commitments and payments for the years 2007-10. They also show the main spending programmes broken down by FP category.

Reform of the CAP

3.3 The October 2002 European Council set annual ceilings on total market-related expenditure and direct payments for the period 2007-13, as shown in the following table:

Ceiling for CAP market-related expenditure and direct payments[1], 2007-13 (€ million at current price)

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

[1]The amounts are before taking account of modulation and other transfers to rural development

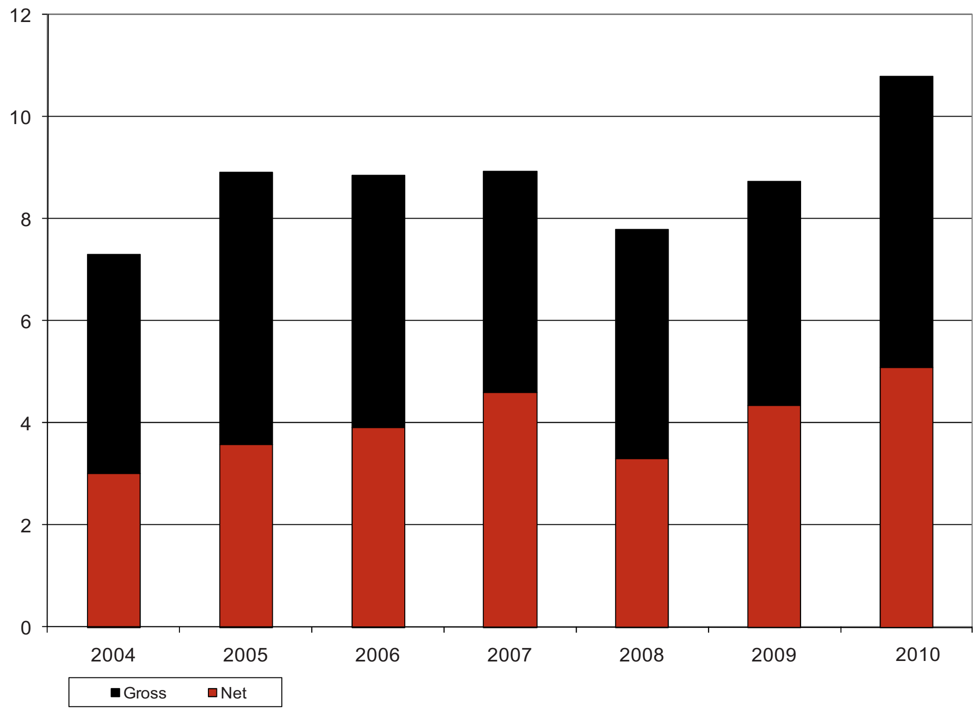
Source: Statement of estimates of the EU for the financial year 2010

3.4 In June 2003, the Agriculture Council agreed a reform package for the CAP. The chief element, primarily coming into force from 2005, was the decoupling of direct payments from production. The 2005 reform package also introduced a financial discipline mechanism, beginning with the 2007 EU Budget, to ensure that the spending ceilings are not exceeded.

The UK's Net Contribution

3.5 Chart 3.B shows the volatility of the UK's net contribution from year to year. This variation is inherent to the ORD, owing to changes in public sector receipts, changes in relation to national incomes, consumption and the exchange rates as well as the abatement. For further details, refer to Technical Annex 1 (pages 41-42) and the glossary. Table 3.1 shows the UK's gross contributions, abatement, public sector receipts, and net contributions to the EU Budget for calendar years 2004 to 2010. The figures for 2010 are estimates; those for earlier years are outturn. Table 3 (page 49) gives a more detailed breakdown.

Chart 3.B: Profile of UK Gross and Net Contributions (€ billion)



Note: 2010 is an estimate

Source: HM Treasury

Table 3.1: Gross Payments, Abatement and Receipts (Calendar Years)

							£ million
	2004 Outturn	**2005 Outturn**	**2006 Outturn**	**2007 Outturn**	**2008 Outturn**	**2009 Outturn**	**2010 Estimated Outturn[1]**
Gross Payments[2]	10,895	12,483	12,426	12,456	12,653	14,129	**14,852**
Less: UK Abatement	-3,593	-3,572	-3,569	-3,523	-4,862	-5,392	**-3,052**
Less: Public sector receipts	-4,294	-5,329	-4,948	-4,332	-4,497	-4,398	**-5,528**
Net contributions to EU Budget[3]	**3,008**	3,581	**3,909**	**4,601**	**3,294**	**4,339**	**6,272**

Notes:
[1] The figures for 2010 are forecasts; those for earlier years are outturn.
[2]Gross payment figures include TOR payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the European Union.
[3]Due to rounding, totals may not exactly correspond to the sum of individual items.

Source: HM Treasury

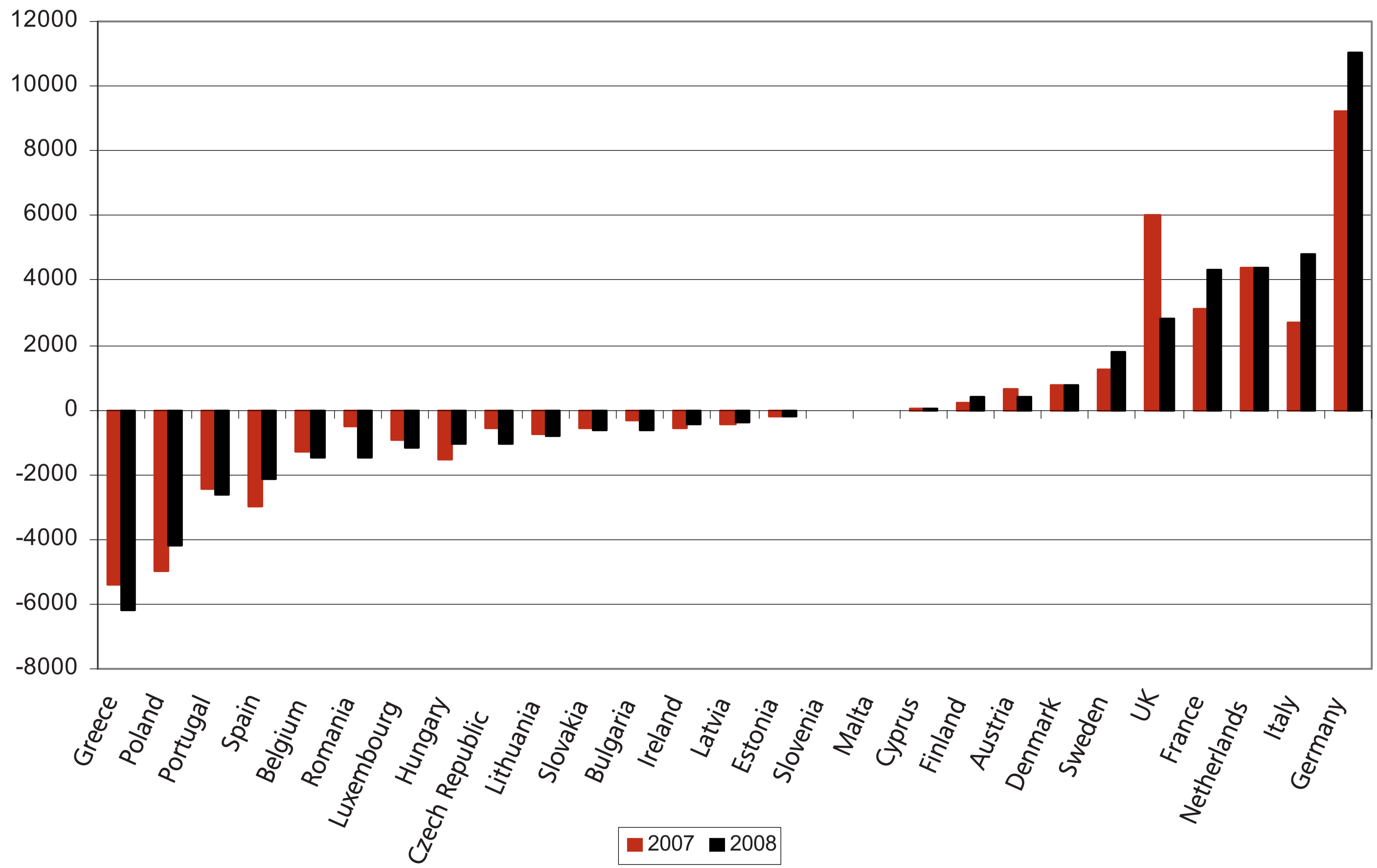
3.6 UK public sector receipts in 2010, mainly from the EAGGF and the Social and Regional Development Funds, are expected to be around £5.5 billion. The majority will either be paid to or used in support of the private sector, but are channelled through Government departments.

3.7 The EU makes some payments direct to the private sector, which do not appear in the public sector accounts. These are therefore not included in Tables 3, 3.1, 3.2 or 3.3. In 2010, these receipts are estimated to be around £850 million.

3.8 The UK's 2010 net contribution is forecast at £6.3 billion; the outturn in 2009 was £4.3 billion. The 2009 outturn figure reflects changes resulting from all Amending EU Budgets implemented during the course of the year whereas the 2010 figure reflects only the 2010 Adopted Budget. Amending EU Budgets in 2009 included the return of the surplus from the 2008 EU Budget, which served to reduce Member States' contributions to the 2009 EU Budget. Any surplus from the 2009 EU Budget will reduce Member States' contributions in 2010 and will impact on the UK's 2010 net contribution forecast.

3.9 Chart 3.C shows how the UK's net position compares with those of the other Member States in 2007 and 2008. In 2008, the UK was one of ten net contributors to the EU Budget. Germany was the highest net contributor, paying more than twice as much as any other Member State. Italy was the next highest net contributor, with other significant net contributions being made by the Netherlands, France, the UK and Sweden.

Chart 3.C: Net Receipts/Contributions of Member States in 2007 and 2008 (£ million)



Source: Based on data published in the European Commission Report: EU Budget 2008 Financial Report published in September 2009

Financial year transactions

3.10 The EU financial year runs from 1 January to 31 December, whereas the UK's runs from 6 April to 5 April.

3.11 Table 3.2A gives a breakdown of the UK's transactions with the EU on a financial year basis between 2004-05 and 2009-10 (estimated outturn). Table 3.2B includes the same breakdown for plans over the period 2010-11 to 2015-16. Tables 3.3A (outturn) and 3.3B (plans) provides a breakdown of UK receipts from the EU Budget over the same period.

Table 3.2A: Gross Payments, Abatement and Receipts (Financial Years – Outturn)

£million

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn
Gross Payments[1]	12,183	11,780	12,245	13,746	13,155	13,733
Less: UK Abatement	-3,722	-3,641	-3,560	-3,960	-5,595	-4,218
Less: Public sector receipts	-4,555	-3,750	-5,164	-5,601	-4,558	-4,789
Net contributions to EU Budget[2]	**3,906**	**4,389**	**3,521**	**4,185**	**3,002**	**4,726**
Payments to EU budget attributed to the aid programme[3]	-697	-704	-709	-715	-751	-830
Net payments to EU institutions (excluding Overseas Aid)[2]	**3,208**	**3,685**	**2,812**	**3,470**	**2,252**	**3,827**

Notes:
[1]Gross payment figures include TOR payments at 75 per cent, 90 per cent prior to March 2002. The remaining 25 per cent, 10 per cent prior to March 2002, is retained by the UK to cover the costs of administering collection on behalf of the EU.
[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 EU Budget is attributed to the overseas aid programme. The aid programme also includes payments to the EDF, not included here.

Source: HM Treasury

Table 3.2B: Gross Payments, Abatement and Receipts (Financial Years – Plans)

						£million
	2010-11 Plans	**2011-12 Plans**	**2012-13 Plans**	**2013-14 Plans**	**2014-15 Plans**	**2015-16 Plans**
Gross Payments[1]	15,403	15,821	16,331	17,736	19,185	17,818
Less: UK Abatement	-2,775	-2,790	-3,564	-4,021	-4,431	-4,630
Less: Public sector receipts	-4,758	-4,856	-5,003	-5,224	-5,483	-5,405
Net contributions to EU Budget[2]	7,870	8,175	7,764	8,491	9,271	7,782
Payments to EU budget attributed to the aid programme[3]	-856	-856	-856	-856	-856	-856
Other attributed costs	-43	-163	-82	-79	0	0
Net payments to EU institutions (excluding Overseas Aid)[2]	6,970	7,156	6,826	7,556	8,415	6,926

Notes:
[1]Gross payment figures include TOR payments at 75 per cent, 90 per cent prior to March 2002. The remaining 25 per cent, 10 per cent prior to March 2002, is retained by the UK to cover the costs of administering collection on behalf of the EU.
[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 EU Budget is attributed to the overseas aid programme. The aid programme also includes payments to the EDF, not included here.

Source: HM Treasury

Table 3.3A: Public Sector Receipts from the EU Budget (Financial years – Outturn)

						£million
	2004-05 Outturn	**2005-06 Outturn**	**2006-07 Outturn**	**2007-08 Outturn**	**2008-09 Outturn**	**2009-10 Estimated Outturn**
Agricultural Guarantee Fund	2,771	1,705	3,312	3,455	3,047	3,038
Agricultural Guidance Fund	30	85	53	265	299	239
Social Fund	692	739	1,324	831	519	571
Regional Development Fund	1,049	1,206	449	1,029	656	919
Other Receipts	12	15	26	21	37	22
Total	**4,555**	**3,750**	**5,164**	**5,601**	**4,558**	**4,789**

Source: HM Treasury

Table 3.3B: Public Sector Receipts from the EU Budget (Financial years - Plans)

						£million
	2010-11 Plans	**2011-12 Plans**	**2012-13 Plans**	**2013-14 Plans**	**2014-15 Plans**	**2015-16 Plans**
Agricultural Guarantee Fund	2,967	3,038	3,128	3,281	3,432	3,342
Agricultural Guidance Fund	663	672	694	720	760	762
Social Fund	441	446	462	477	505	510
Regional Development Fund	607	614	635	658	695	699
Other Receipts	80	87	84	87	92	92
Total	**4,758**	**4,856**	**5,003**	**5,224**	**5,483**	**5,405**

Source: HM Treasury

3.12 Payments to the EU Budget are scheduled on a monthly basis, but the Commission can ask Member States for earlier payments of VAT-based and GNI-based contributions, and the UK abatement, to take account of the high CAP payments, which take place in the first months of the calendar year. At the time of the 2009 Pre-Budget Report (PBR), a draw-forward of 1.65/12ths was estimated for the first quarter of the 2010 EU Budget year. A draw-forward of (2/12ths) was subsequently requested, which meant that a total of (5/12ths) was paid in the first quarter of the 2010 calendar year. As a result, payments for the rest of 2010, which will all fall into the 2010-11 financial year, will be lower.

3.13 The forecast for the UK's net contribution 2010-11 has increased by £1.1 billion compared to the March Budget. This mainly reflects new information from the European Commission regarding the UK's relative economic performance and the value of the UK abatement.

3.14 This White Paper includes, for the first time, estimates of UK contributions to the EU Budget over the period 2011-12 to 2015-16. In the medium term, the size of the UK net contribution is forecast to increase from £7.9 billion in 2010-11 to £8.5 billion in 2013-14. This reflects planned increases in the EU Budget and increases in the size of the UK's contribution, both of which were agreed by the previous Government at the 2007 to 2013 EU Budget negotiations. Forecasts beyond 2013 are particularly uncertain, as negotiation of the budget envelope for 2014 to 2020 has not yet begun.

3.15 The rise in UK contributions is due to increases in the size of the EU Budget and the fact that the UK's abatement has been 'disapplied' over time on non-agriculture spending in the twelve new Member States. This 'disapplication' was agreed by the previous Government. The Government is working hard, both in discussions of the annual EU Budget and elsewhere, to reduce UK contributions from the increased levels the previous Government signed up to.

Measuring Net Contributions

3.16 In accordance with a commitment to the PAC, Technical Annex II (pages 43-44) explains the main differences between the Government's figures and those which can be derived from the Commission's EU Budget 2008 Financial Report.

4 Financial management and anti-fraud issues

European Court of Auditors' annual report on the 2008 EU Budget

4.1 The European Court of Auditors' (ECA) Annual Report and Statement of Assurance on the implementation of the 2008 EU Budget was published on 10 November 2009. The report provides an assessment of each of the EU Budget areas and forms an essential element in the European Parliament's oversight of the Commission's management of the EU Budget.

ECA's general findings

4.2 In keeping with previous years, the ECA emphasised that while the implementation of the budget is the responsibility of the Commission, Member States play a key role. This is evidenced by the importance of National Supreme Audit Institutions and the requirement, since 2007, for each Member State to produce an Annual Summary.

4.3 The ECA also underscored the principal reason for its continuing qualified opinion on the EU accounts: that complicated or unclear legal requirements have a considerable impact on the legality and/or regularity of underlying transactions in key programme areas.

4.4 The ECA pointed to a number of improvements on previous years. In particular, the ECA:

- Recognised the continuing efforts of the Commission in promoting and applying improved control and management procedures. The 2008 annual report identifies areas of improvements, some of which were significant, but also points out the areas of expenditure where the situation remains unsatisfactory.
- Analysed the 2008 Annual Summaries provided by Member States and found that compared to 2007, there was an improvement in the quality of the analysis included in all of the Annual Summaries. That said, some Member States did not follow the Commission's guidelines or comply with the requirements set out in the Financial Regulation.

ECA's Statement of Assurance

4.5 For the second consecutive year, the ECA gave an unqualified positive opinion on the reliability of the EU accounts. This shows that they faithfully reflect the revenue and the expenditure of the EU for the year, and their financial position at the year-end.

4.6 However, for the fifteenth successive year, the ECA was unable to provide a positive Statement of Assurance on the legality and regularity of the majority of EU Budget expenditure. This means underlying transactions across all areas of the budget are not free from material error. An unqualified opinion was received for policy groups making up 47 per cent of the total expenditure, an improvement compared to 40 per cent in both 2006 and 2007.

4.7 In particular, the ECA found:

- Unqualified opinion. The ECA gave a positive opinion on the areas of 'Revenue', 'Agriculture and natural resources' (with the exception of Rural Development), 'Education and Citizenship', 'Economic and Financial Affairs' (with the exception of some research expenditure) and 'Administrative and other expenditure'. The ECA found the underlying transactions in these areas to be free from material error, that is to say that the financial impact of the errors is estimated to be less than 2 per cent of the total expenditure.
- Qualified opinion. In all other expenditure areas ('Cohesion', 'Research, energy and transport' and 'External aid, development and enlargement') the ECA found a material level of error and commented that the Commission and Member States need to make further efforts to implement adequate supervisory and control systems in order to reduce the risk of illegality and irregularity.
- The ECA has identified further progress in the Commission's supervisory and control systems with particular reference to reservations given in the assurance of Directors-General and greater consistency of these with the ECA's findings. However, the ECA notes that the Commission is not yet able to demonstrate that its actions to improve supervisory and control systems have been effective in mitigating the risk of error in areas of the budget cited in the report.

4.8 Narrowing in on specific policy areas, the ECA's main findings were as follows:

- Revenue: Calculation of Member States' contributions based on their GNI and VAT data, and other types of revenue, were free from material error. As in previous years, some problems were detected with the 'B' accounts regarding the delayed establishment and recovery of duties, and the lack of national instructions to estimate the amount of debts whose recovery is unlikely. The ECA recommended that the Commission continue its efforts in the surveillance of the establishment and recovery of duties and find an appropriate balance between physical import checks and the post-clearance audits of operators.
- Agriculture and Natural Resources: For the first time, payments in this sector, taken as a whole, were free from material error. The Integrated Administrative and Control System (IACS) continues to be an effective control system for limiting the risk of errors and irregular expenditure. Eligibility errors were found in payments made under the Single Payment Scheme (SPS) and the Single Area Payment Scheme (SAPS), and the ECA recommended that issues underlying the reliability of payments under the two schemes be improved. The ECA also emphasised that efforts must be increased to ensure that beneficiaries of Rural Development programmes respect their obligations.
- Cohesion: An estimated 11 per cent of the total amount reimbursed in the Cohesion policy sector was affected by error. These errors highlighted the lack of effective control systems; supervision from the Commission failed to mitigate the risks. In most cases the systems used by Member States for correcting errors found by national controls were at least partially effective. However, the reporting of these corrections to the Commission was less effective. The ECA recommended that the Commission a) focus on addressing eligibility issues and increase efforts to ensure the efficient detection and correction of errors at the Member State level, including the recovery procedures and reporting to the Commission, and b) focus on auditing the most error- prone aspects of Operational Programmes and, where problems are detected, ensure the corrective mechanisms are rigorously applied.

- **Research, energy and transport:** Payments affected by an error rate of between 2 and 5 per cent. Supervisory and control systems were only partially effective, with the majority of errors resulting from beneficiaries overstating their costs. This was not prevented, or detected and corrected by the control systems of the Commission. The ECA recommended that the Commission a) further simplify the funding rules for the next research Framework Programme (FP8), b) make the audit certification process more reliable, c) ensure that its ex-post audit strategy is effectively implemented and d) address persistent errors in payments by using the sanction mechanisms at their disposal.

- **External aid, Development and Enlargement:** Payments affected by material error; overall, the supervisory and control systems were only partially effective. The ECA recommended that: a) EuropeAid and DG RELEX employ measures to improve the effectiveness of the Commission's ex-ante control system, b) organisations spending EU funds be given more support and monitored more closely, c) audits and ex-post controls be planned to take into account the resources available, such that the plans are more realistic and achievable and d) the implementation of the audits and ex-post controls planned should be closely followed up, properly recorded and systematically analysed.

- **Education and citizenship:** Payments free from material error, but that the supervisory and control systems were only partially effective. In particular, the ECA's audit found that the approaches used by national authorities to obtain a basis for declarations of assurance were of varying quality. The ECA recommended that the Commission a) introduce a more prescriptive framework of guidance for national authorities and b) supervise the annual ex-post declaration process more closely, with more thorough monitoring visits to ensure that the controls are being adequately applied.

- **Economic and financial affairs:** the ECA found that payments were free from material error, and in general, the supervisory and control systems were effective. The ECA recommended the Commission a) focus on reducing the errors caused by the declaration of ineligible costs in the area of research and technological development, b) increase efforts to raise the awareness of beneficiaries of the eligibility rules and provide certifying auditors with the information regarding the most frequent errors and c) further improve the quality of its ex-ante procedures.

- **Administrative and other expenditure**: All institutions' 'administrative and other expenditure' was free from material error. EU Agencies are also covered under this chapter and the ECA gave unqualified opinions on the reliability of the accounts and the legality and regularity of the underlying transactions for all Agencies[1] except the European Police College.

[1] The ECA's annual reports on the Agencies accounts are presented on its site (http://www.eca.europa.eu) and will be published in the Official Journal, except for the Euratom Supply Agency.

Box 4.A: UK Consolidated Statement and audit opinion on the use of EU funds in the UK: 2008-09

This statement brings together the payments and receipts of co-managed EU-sponsored projects in the UK into a single set of accounts. These accounts are fully audited by the National Audit Office, and the Comptroller and Auditor General's audit opinion and report accompany the Statement.

The production of an annual Consolidated Statement on the use of EU funds demonstrates the Government's commitment to ensuring that EU funds in the UK are spent correctly and that any weaknesses in control and management systems are identified and rectified as quickly as possible. This is leading to improvements in the UK's management of these funds.

The statement also increases audit and scrutiny of EU funds in the UK:

- UK Consolidated Statements are laid before Parliament and therefore provide increased opportunity for Parliament to scrutinise the Government's management of EU funds.
- The National Audit Office audits these Consolidated Statements, increasing their overall audit of EU funds down to the final beneficiary.
- UK Consolidated Statements enhance the information available to the ECA and Commission auditors when they perform their own audits of the UK's use of EU funds.

The published document brings together the figures currently published in many different departmental reports. It includes: a statement of purpose; a statement of responsibilities; auditors' report; expenditure account; balance sheet; cash-flow statement; and notes to the statement to aid interpretation. The statement shows, at an aggregate level, the income from each EU fund and the related amounts of expenditure by each main UK public sector entity. The format, content and timing of the statement is under active review, in order to refine the concept and its usefulness for subsequent years.

Although HM Treasury takes responsibility for performing the consolidation of the Statement, the relevant Government departments and devolved administrations remain accountable for the propriety of the reported spending. The Consolidated Statement is not intended to replace the more detailed reporting by departments of how EU funds are used. In preparing its audit opinion, the National Audit Office audits the expenditure of EU funds by Government department and devolved administration, drawing where appropriate on the work of the National Audit Institutions in Scotland, Wales and Northern Ireland.

Council recommendation to the European Parliament

4.9 The Council's recommendation to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2008 EU Budget was discussed by ECOFIN on 16 February 2010. As in previous years, the Council recommended that the Parliament grant discharge. Council's recommendation was accompanied by detailed comments highlighting weaknesses in financial management and providing recommendations to resolve these. The Council remains disappointed that the ECA is still unable to give a positive Statement of Assurance to large areas of the budget. The Council's approach, as in previous years, is to work constructively to bring about improvements. This reflects an awareness that failings and responsibility for action rest with all parties: the Commission, the Council, Member States and the European Parliament.

4.10 The Council's recommendations include:

- recognition of the key role of Member States in improving financial management and accountability of EU funds under shared management, in particular through sufficient and appropriate internal control systems;

- further simplification of eligibility conditions, control structures and procedures. The Council continues to encourage the Commission to make proposals aimed at the simplification of rules and regulations, both at the point of setting up new programmes and when revising existing ones. The Council also notes that too much simplification risks diluting policy objectives and therefore a suitable balance must be struck;
- encouraging further coordination between the ECA and the Commission on audits to prevent unnecessary duplication of work. The Council also invites the ECA and Commission to collaborate more closely with national authorities and notes that, where appropriate, the ECA should rely on the results of their work;
- urging the Commission to intensify its cooperation with the ECA to promote a common understanding of legal provisions and rules in order to prevent differences in interpretation and achieve a common approach for their implementation; and
- recognition of the importance of ensuring that supervisory and control systems are effective in addressing the risks at all levels and that controls are focused on those areas with a high propensity of error.

European Parliament's report on Discharge for 2008

4.11 The European Parliament's Budgetary Control Committee considered the Council's recommendations on discharge and issued its own resolution, including a number of detailed recommendations. The European Parliament voted in favour of granting discharge on 5 May 2010.

4.12 The Parliament's recommendations include:

- Greater responsibility to be taken by Member States for the management of EU funds, in order to reduce error rates;
- Making the voluntary national declarations submitted by the UK, Denmark, Netherlands and Sweden mandatory for all Member States; and
- Increased cooperation between the ECA and national audit authorities to improve the audit of EU funds.

UK Government's response to the ECA

4.13 A copy of the UK's response was sent to both Houses of Parliament on 18 January 2010. The ECA's 2008 report included several specific criticisms of the UK. Remedial action has been implemented where necessary, but not all the ECA's findings were accepted, for example:

Agriculture

4.14 *Audit finding:* The ECA's report stated that Scottish authorities paid beneficiaries for land on which they carried out no agricultural activity nor performed any mowing or grazing. The ECA argues that this does not meet the minimum requirement to maintain land in good agricultural and environmental condition (GAEC) and that farmers were artificially creating conditions to qualify for subsidy in order to obtain payments.

4.15 *Response:* The UK did not agree with the ECA's findings and feels that the approach adopted in the UK is consistent with the regulations; a view shared by the European Commission. Member States are required to define their own criteria in regards to GAEC and the criteria set by the UK does not include any obligation to graze or mow. The UK is committed to ensuring that all payments are valid and has fully co-operated, and will continue to do so, with the ECA and Commission on follow up audits.

National Audit Office report on the Court's report

4.16 The National Audit Office published its report on "Financial Management in the European Union" on 11 June 2010. The report explains the findings in the ECA's Annual Report and Statement of Assurance, and considers other relevant financial management issues.

Fight against Fraud Report 2008

4.17 In accordance with Article 325 of the Treaty of the functioning of the EU (TFEU) (ex Article 280 (5) of the EC Treaty), the Commission, on 22 July 2009, published its annual report on the protection of the EU's financial interests and the fight against fraud. The report examined the most significant steps taken by Member States and the Commission to protect the EU's financial interests in areas of shared responsibility.

4.18 The report gives a statistical overview of all irregularities and suspected cases of fraud and indicates those cases where fraud is suspected. The report looks at irregularities in those areas where Member States implement the budget (TOR, Agricultural policy, Structural Actions and Pre-accession funds); irregularities that occurred in the field of direct expenditure; an overview of the operational activities of the European Anti-Fraud Office (OLAF); main legislative measures taken to protect the EU's financial interests; administrative measures adopted by the Commission in the areas of transparency and fraud prevention; analysis of cooperation with the Member States in the fight against fraud and irregularities; and details of recoveries made in all budget areas in 2008.

4.19 The report shows an increase in the number of cases of irregularities in 2008 (6,595) compared to 2007 (6,047) with the exception of Agriculture and TOR. The estimated total financial impact of the irregularities however decreased to €783 million (£695 million) in 2008 from €1,024 million (£909 million) in 2007, for every sector except for Direct Expenditure and the Pre-Accession Funds.

Table 4.1: Number of irregularities and estimated financial impacts

	2007[1] No. of cases	Amounts (€ millions)	2008 No. of cases	Amounts (€ millions)
Agricultural (EAGF and EAFRD)	1,548	155	1,133	102
Structural Funds and Cohesion Funds	3,756	804	4,007	585
Direct Expenditure	411	33	932	35
Pre-Accession Funds	322	32	523	61
Total expenditure	**6,047**	**1,024**	**6,595**	**783**
TOR	6,097	401	5,344	351

[1] Figures shown for 2007 may differ from those published in last year's report as OLAF constantly updates its databases

Source: The Commission's 2008 Fight Against Fraud Report

4.20 These statistics must, however, be interpreted with caution, as a reported irregularity is in most cases not a fraud (a deliberate act). In addition, reported suspicion of fraud is not classified as a fraud until confirmed as such by a court judgment. A sharp rise may simply reflect the inclusion of figures for one or more longer running cases, which have only just been resolved.

4.21 The report breaks these figures down by revenue and by individual areas of expenditure as follows:

Revenue

TOR

- Reported irregularities decreased from 2007 levels by 12.5 per cent (5,344 cases in 2008 compared with 6,097 in 2007). The estimated financial impact reduced from €401 million (£357 million) in 2007 to €351 million (£312 million) in 2008.
- Suspected fraud accounted for nearly 20 per cent of cases with an estimated financial impact of €75 million (£67 million) (approximately 0.46 per cent of total own resources in 2008), compared with €130.78 million (£116 million) in 2007.
- The goods most affected were, as in previous years, TVs, monitors and tobacco.
- The most frequent irregularities related to false declarations (misdescription, incorrect value, origin and preferential arrangements) and formal shortcomings (failure to fulfil obligations or commitments).

Expenditure

Agriculture (European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development)

- Reported irregularities fell to 27 per cent (1,133 cases in 2008 compared to 1,548 in 2007).
- Suspected fraud accounted for around 7 per cent of reported cases of irregularities, with an estimated financial impact of €102 million (£91 million) in 2008 compared to €155 million (£138 million) in 2007.
- The highest amounts related to fruit and vegetables, rural development (2000-2006 programming period) and the wine sector, which together accounted for more than 70 per cent of the amount affected by irregularities.

Structural Measures

- Reported irregularities concerning the Structural Funds and the Cohesion Funds increased by 6.7 per cent in 2008 (4,007 cases, compared with 3,756 in 2007) with an estimated financial impact of €585 million (£520 million), or around 1.25 per cent of commitment appropriations (down by 27 per cent).
- Suspected fraud accounted for approximately 7.4 per cent of cases of irregularities reported, with a financial impact estimated at €585 million (£520 million) in 2008, an increase compared to €804 million (£714 million) in 2007.
- As in previous years, the European Regional Development Fund (ERDF) and the European Social Fund (ESF) accounted for most irregularities (around 88 per cent). The number of irregularities reported for the guidance section of the EAGGF and for the Financial Instrument for Fisheries Guidance fell by 17 per cent; the number of irregularities affecting the ESF also decreased, by 4 per cent. The number of irregularities reported for the ERDF increased by 18.7 per cent and, for the Cohesion Fund, by 63 per cent.

Pre-Accession Funds

- The number of irregularities reported in this area[1] increased by 58 per cent (523 cases compared with 332 in 2007).
- The presumed financial impact increased from €32 million (£28 million) in 2007 to €61 million (£54 million) in 2008 (5.4 per cent of total committed amount).
- Suspected fraud accounted for 21.7 per cent of the irregular amounts reported in 2008, with a financial impact estimated at €13 million (£12 million), or around 0.9 per cent of the total annual budget.
- The increase reported for the Pre-Accession Fund area (the highest in terms of number and financial impact) is mostly attributable to: enhanced controls, the growing number of reporting countries and the wide variety of pre-accession assistance programmes being granted.

Statistics on expenditure directly managed by the Commission

- Reported cases of irregularities and suspected fraud in this area came to 932, with a presumed financial impact of €27.5 million (£25 million), a decrease from 2007 (€35 million ((£31 million)).
- Irregularities in external actions accounted for €6.8 million (£6 million) and in internal policies for €28 million (£25 million). The estimated financial impact of possible cases of fraud amounted to 0.03 per cent of the total annual value of commitments directly managed by the Commission.

Recovery

4.22 When an irregularity is detected, administrative and financial follow-up actions are initiated by the national competent authorities in Member States (for agriculture, cohesion and pre-accession funds), or by the European Commission (for direct centralised management). The amounts recovered are used to finance other projects.

4.23 In cases where OLAF's final report recommends recovery, especially where payment rules have not been adhered to or in situations where repayments have not been pursued, the relevant authorities (mainly Member States or third countries concerned) must recover the amounts in question. The following recoveries were recorded in 2008:

- Own Resources: €132 million (£117 million)
- Agriculture: €108 million (£96 million)
- Structural Measures: €109 million (£97 million)
- Pre Accession Funds: €29 million (£26 million)
- Direct expenditure: €22 million (£20 million).

[1] These concerned the Pre-accession Instruments financed by the European Union to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union, Sustainable Agricultural and Rural Development in the Central and Eastern European applicant countries and Instrument for Structural Policies for Pre-Accession funds, and including from 2008, Community Assistance for Reconstruction, Development and Stability in the Balkans, Transition Facility, and the Pre-accession assistance for Turkey

OLAF's 9th Activity Report (1 January to 31 December 2008)

4.24 OLAF is an administrative investigative service of the EU, with the mission of combating fraud, corruption and other illegal activities affecting the EU, including serious misconduct within the EU Institutions that have financial consequences. It aims to ensure that EU taxpayers' money is spent appropriately, that the EU is not being deprived of its due revenue, and that EU staff behave according to rules and regulations.

4.25 Its operational activities are independent from the Commission and its internal and external investigations are conducted in full independence. OLAF also assists the Commission and national authorities in combating fraud and contributes to strengthening of anti-fraud measures. It works closely with national authorities' investigation services, police, legal and administrative authorities to counter fraud.

4.26 Every year, its Director publishes an annual report on the activities of the Office over the previous year. The ninth report issued on 9 July 2009, gave details and statistics of the Office's work inside and outside the EU in 2008 in form of case studies and statistical tables.

4.27 Three areas of the work of the Office were highlighted in the report as areas to which particular attention was paid in the effort to improve the effectiveness and efficiency of activities: the judicial follow-up of investigations by the Office; activities in the area of External Aid investigations; and analysis of the consequences of recent European case law on OLAF's investigative ability, where some judgements by the European Court of Justice have had a direct bearing on everyday work of the Office - necessitating changes to the way in which operational activities are carried out.

4.28 The following statistical trends were revealed:

- OLAF received 1035 items of incoming information in 2008.
- Of the 645 decisions (up 18 per cent compared to 2007) taken on the basis of new information received, 204 (31 per cent) resulted in the opening of a case, a slight decrease compared to 210 cases in 2007.
- Most of the information received mainly concerned allegations related to the EU Institutions and bodies (nearly 30 per cent) and agriculture (20 per cent), followed by external aid (17 per cent), internal EU policies (15 per cent) and structural measures (13 per cent);
- The number of active cases increased (425 at the end of 2008, compared with 408 at the end of 2007), owing in large measure to efforts by OLAF to deal with the backlog of the oldest cases;
- The average length of standard evaluations, which had fallen from 10.6 months in 2002 to 5.2 months in 2006, was stable in 2008 at 6.3 months;
- The average duration of the "active stage" of a case remains over 24 months;
- The financial impact of cases the Office investigated in 2008 was €1,362 million (£1,210 million);

- Over €462 million[2] (£410 million) was recovered from its cases; which stemmed from closed follow-up paths (€147 million, £131 million), and from follow-up actions that were still ongoing (€315 million (£280 million) at the end of 2008; and
- Over 83 million cigarettes were seized in 2008 which represented prevented losses in taxes and duties of over €20 million (£18 million).

Budget

4.29 OLAF's administrative budget was €53 million (£47 million) with the heading 'Personnel' accounting for over 60 per cent of total expenditure. Its operational budget, which funds anti-fraud activities, increased in 2008 to €21 million (£17 million) as a result of the entry into force of the Hercule II Programme, which was set up to promote activities to protect the EU's financial interests.

[2] This amount represents only a fraction of the total recovery following fraud or other irregularities in the year as Member States conclude actions on recovery for cases with no direct link to OLAF cases.

A Glossary

Commitment and payment appropriations

A.1 The Budget distinguishes between appropriations for commitments and appropriations for payments. Commitment appropriations are the total cost of legal obligations that can be entered into during the current year, for activities that, in turn, will lead to payments in the current and future years. Payment appropriations are the amounts of money that are available to be spent during the year, arising from commitments in the Budgets for the current or preceding years. Unused payment appropriations may, in exceptional circumstances, be carried forward into the following year.

Discharge procedure

A.2 The ECA's annual report is subject to consideration by the budgetary authority (Council and European Parliament) under the "discharge procedure" set out in Article 319 of the TFEU (ex Article 276 of the EC Treaty). In particular, it considers how the Budget for the year in question was implemented. The European Parliament, acting on a recommendation from the Council, considers whether to grant the Commission a discharge in respect of the Budget in question, thus bringing the budgetary process for that year to a formal close. The Commission is obliged under Article 319 of the TFEU to take "all appropriate steps" to act on comments made by the European Parliament and by the Council during the discharge process. If so asked, it must also report back on its actions, with such reports going to the Court.

Flexibility Instrument

A.3 The Flexibility Instrument was established under paragraph 24 of the 1999 IIA, which allows for expenditure in any given Budget year of up to €200 million above the FP ceilings established for one or more Budget headings. Any portion of the Flexibility Instrument unused at the end of one year may be carried over for up to two subsequent years, but the Flexibility Instrument should not, as a rule, be used to cover the same needs two years running. The Flexibility Instrument is intended for extraordinary expenditure and may only be used after all possibilities for reallocating existing appropriations have been exhausted. Both arms of the budgetary authority must agree to a mobilisation of the Flexibility Instrument following a proposal from the Commission.

Fraud and irregularity

A.4 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.

A.5 Irregularity (as defined by Council Regulation 2988/95) covers both simple omissions due to errors or negligence, which undermine the EU and are intentional and deliberate acts. For example, a genuine payment made after the closing date for claims represents an irregularity; but import of goods under false papers is fraud. Member States are required by regulations to report irregularities in the three main Budget sectors (Own Resources, agriculture and structural funds) on a quarterly basis.

Inter Institutional Agreement (IIA)

A.6 The IIA is a politically and legally binding agreement that clarifies the EU's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the EU 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.

Own Resources

A.7 The ORD lays down four sources of EU 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 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 EU sugar onto the world market.
- Contributions based on VAT: Essentially, the VAT resource is the amount yielded by applying a notional rate of 1 per cent to a VAT base, assuming an identical range of goods and services in each Member State. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The method for calculating the VAT-based resource is set out in the ORD.
    - the starting point is the total amount of net VAT collected in each Member State;
    - a weighted average of the rates at which VAT is charged in the Member State is then applied to the net total to produce the Member State's intermediate national base;
    - the intermediate base is then adjusted for derogations operated under the Principal VAT Directive to produce the harmonised base;
    - a notional rate of 1 per cent is then applied to this base. The base is, where necessary, then capped at 50 per cent of 1 per cent of the Member State's GNI; and
    - a call-up rate (currently a maximum of 0.3 per cent) is applied to produce a Member States' VAT-based contribution.
- GNI-based contributions: The amount due is calculated by taking the same proportion of each Member State's GNI. Because the EU is not allowed to borrow, revenue must equal expenditure. The GNI-based resource is the budget-balancing item; it covers the difference between total expenditure in the Budget and the revenue from the other three resources, subject to the overall Own Resources ceiling.

A.7.1 The first two Own Resources are known collectively as "Traditional Own Resources" (TOR). The VAT and GNI-based contributions are often referred to as the 'third' and 'fourth' resources respectively.

Sterling figures

A.8 The Sterling figures for 2004 to 2010 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.[1] Generally, the 2010 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31 December 2009, namely £1=€1.125999 (regulations state that VAT-based and GNI-based payments will be made using the exchange rate on the last working day of the preceding year). However, there may be some exceptions, for example where figures have previously been published at a different exchange rate, but these are noted where necessary.

Structural Funds

A.9 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;
- the Financial Instrument for Fisheries Guidance (FIFG), the specific fund for the structural reform of the fisheries sector: and
- In addition, the EU supports Member States whose GDP is less than 90 per cent of the European average through the Cohesion Fund, which finances projects linked to the environment and trans-European transport systems.

UK abatement

A.10 The UK's VAT-based contributions are abated (reduced) according to a formula set out in the ORD. Broadly, this is equal to 66 per cent of the difference between what the UK contributes to the EU 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), 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 2010 relates to UK payments and receipts in 2009.

[1] The annual average rate for 2004 is £1 = €1.4742
The annual average rate for 2005 is £1 = €1.4629
The annual average rate for 2006 is £1 = €1.4669
The annual average rate for 2007 is £1 = €1.4615
The annual average rate for 2008 is £1 = €1.257509
The annual average rate for 2009 is £1 = €1.123291

A.10.1 The formula for the calculation of the abatement is set out in the ORD and in a Working Methods Paper first published in 1988 and revised in 1994, 2000 and again in 2007.

A.10.2 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 EU Budget and of receipts from it. This is subsequently corrected in the light of outturn figures.

A.10.3 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 2009 will take place in 2013.

A.10.4 The effect of the abatement is to reduce the amount of the UK's VAT-based and GNI-based payments to the EU Budget. It does not involve any transfer of money from the Commission or other Member States to the Exchequer.

B Technical annexes

Technical Annex I

Determining the value of the Own Resources Elements

B.1 The budgetary process relating to revenue has to respect the rules governing the size and structure of Own Resources. It involves a chain of inter-related calculations. These can be summarised as follows:

- at the beginning of the budgetary process, which occurs in the year prior to the Budget in question, the amounts due from each Member State are assessed in that Member State's national currency, i.e. Sterling for the UK;
- the initial process involves estimating the amounts due to be received in respect of TOR, the amount relating to VAT if it were applied at 1 per cent across the EU, and the amount of 1 per cent of each Member State's GNI. These estimates rely on the Member States' estimates of their economic activity during the Budget year;
- the Member States' national currency estimates are, where necessary, then converted into Euro at a rate known as the "Budget exchange rate". This is the exchange rate at the time the estimates are being drawn up – nowadays this is usually an early May exchange rate;
- the amount of VAT and GNI each Member State has to pay to the EU 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 per cent in 2010);
- the sum produced (in Euro) is entered into the PDB, in the year preceding the budgetary year;
- the sum entered in the PDB is adjusted as necessary during the remainder of the Budget process, essentially to reflect changes on the expenditure side of the Budget, but still on the basis of the Budget exchange rate and still respecting the Own Resources ceiling;
- the Sterling/Euro exchange rate on the last working day prior to the start of the Budget year is established as the rate by which UK VAT-based and GNI-based contributions will be converted for the whole Budget year. The Sterling amount which the UK has to pay in respect of these two resources will be different from its original estimates, if the rate on the last working day is different from the Budget exchange rate;

- during the course of the Budget year, the UK pays its VAT and GNI contributions to meet its obligations as denominated in Euro in the adopted Budget, or subsequent Amending Budgets. These payments are made at the Sterling/Euro rate on the last working day prior to the Budget year. As Member States pay only what they collect, their TOR payments are not determined by the Euro amounts in the Budget;

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

- since there are generally differences between the Sterling/Euro exchange rates (a) used to set the Budget and (b) to make VAT-based and GNI-based contributions, the UK would generally have paid more or less in Sterling compared with the amount established for them for the budgetary year in question. These exchange variations are accounted for in-year under arrangements in place since 1998. Member States re-estimate their 1 per cent VAT and GNI bases during the course of the budgetary year and the conversion of their national currency estimates is carried out using the exchange rate on the last working day prior to the start of the Budget year. The revised figures are then included in an Amending Budget to the budgetary year to which they relate. In practice, converting the revised figures using the exchange rate on the last working day means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1 per cent base using much later information means that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. In the year following the budgetary year, any adjustments to correct for any under or overpayment should be relatively small, compared to the adjustments made in years prior to 1998; and

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

Technical Annex II

Explanation of the difference between the Government's cash flow outturn for the UK's net contribution for 2008 and the figures in the Commission's EU budget 2008 Financial Report

B.2 When converted at the average exchange rate for 2008 of £1= €1.257509, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	16,365.9	13,014.5
UK abatement	-6,252.0	-4,971.7
UK receipts	-7,309.9	-5,813.0
UK net contribution	**2,804.0**	**2,229.8**
Source: HM Treasury		

B.3 The Government's figure for the UK's net contribution in 2008 is £3,294 million.

B.4 A number of factors contribute to the difference between the two net contribution figures. The probable main causes for the difference are as follows:

- the UK figure includes only transactions between the EU Budget and the UK public sector, whereas the Commission's figures include receipts paid direct to the UK private sector. It is estimated that this accounted for around £975 million of the difference in 2008;
- the late adoption of Amending Budget No. 7/2007 meant that associated changes were not implemented until January 2008. The result of which leads to the Government's figures for 2008 being some £686 million lower than if the Amending Budget changes had been implemented in 2007;
- the late adoption of Amending Budgets No. 8/2008 and 9/2008 meant that associated changes were not implemented until January and February 2009. The result of which leads to the Government's figures for 2008 being around £805 million higher than if the Amending Budget changes had been implemented in 2008; and
- the UK's outturn figure is based on cash flow within a calendar year, whereas Commission figures attempt to match transactions to a particular EU Budget. Some receipts from an EU 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 Commission, to the Budget for the previous year. Up to £87 million of Structural Funds payments to the UK in 2008 may have been in respect of the 2007 EU Budget, and up to £54 million of Structural Funds payments in 2009 may have been in respect of the 2008 Budget.

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

	(£ million)
UK Government cash-flow outturn for 2008	3,294
Private sector receipts	-975
Late implementation, in January 2008, of Amending Budget No. 7/2007	686
Late implementation, in January and February 2009, of Amending Budgets No.8 /2008 and 9/2008	-805
Structural Fund receipts paid in 2008, which may have been from the 2007 Budget	87
Structural Fund receipts paid in 2009, which may have been from the 2008 Budget	-54
UK Cash-flow figure adjusted to reflect main differences compared to European Commission's figure	**2,233**
European Commission figure for 2008 outturn	**2,230**
Net difference due to other factors (such as exchange rate)	3

Source: HM Treasury

C Tables

Tables below.

Table 1A: Expenditure on the EU Budget Commitments and Payments by Heading in years 2007-2010 (€ million)

Appropriations	Commitments				Payments			
	2007	**2008**	**2009**	**2010**	**2007**	**2008**	**2009**	**2010**
1 Sustainable Growth	54,854	58,338	62,202	64,249	43,590	45,731	45,332	47,727
1a Competitiveness for Growth and Employment	*9,368*	11,082	13,775	14,862	*6,545*	9,715	10,368	11,342
1b Cohesion for Growth and Management	45,487	47,256	48,427	49,388	37,045	36,016	34,963	36,385
2 Preservation and Management of Natural Resources	55,850	55,560	56,332	59,499	54,210	53,217	49,906	58,136
3 Citizenship, Freedon, Security and Justice	1,444	1,635	2,132	1,674	1,270	1,489	1,911	1,398
3a Freedom Security and Justice	624	732	886	1,006	370	534	617	739
3b Citizenship	820	903	1,266	668	900	955	1,294	659
4 The EU as a Global Partner	6,812	7,551	8,104	8,141	7,353	7,847	8,080	7,788
5 Administration	6,978	7,279	7,597	7,889	6,978	7,280	7,597	7,889
6 Compensations	445	207	209	0	445	207	209	0
TOTAL	**126,383**	**130,570**	**136,576**	**141,453**	**113,846**	**115,771**	**113,035**	**122,937**

Notes:

[1] 2007-09 includes all Amending Budgets

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

Sources: European Commission: 'General Budget of the European Union for the financial year' 2008 - 10. Other EU documentation.

Table 1B: Expenditure on the EU Budget Commitments and Payments by Heading in years 2007-2010 (£ million)

Appropriations	Commitments				Payments			
	2007	**2008**	**2009**	**2010**	**2007**	**2008**	**2009**	**2010**
1 Sustainable Growth	37,533	46,392	59,247	57,060	29,826	36,366	43,178	42,386
1a Competitiveness for Growth and Employment	6,410	8,813	13,120	13,199	4,478	7,726	9,876	10,073
1b Cohesion for Growth and Management	31,123	37,579	46,127	43,861	25,347	28,641	33,303	32,313
2 Preservation and Management of Natural Resources	38,214	44,182	53,656	52,841	37,092	42,319	47,535	51,630
3 Citizenship, Freedon, Security and Justice	988	1,300	2,031	1,487	869	1,184	1,821	1,242
3a Freedom Security and Justice	427	582	844	894	253	425	588	656
3b Citizenship	561	718	1,206	593	616	759	1,232	586
4 The EU as a Global Partner (includes £169m emergen	4,661	6,005	7,719	7,230	5,031	6,240	7,697	6,916
5 Administration	4,774	5,789	7,237	7,006	4,775	5,789	7,237	7,006
6 Compensations	304	164	199	0	304	165	199	0
TOTAL	**86,475**	**103,832**	**130,089**	**125,624**	**77,897**	**92,064**	**107,666**	**109,180**

Note:

[1] 2007-09 includes all Amending Budgets

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

[3] Sterling figures are derived from corresponding euro amounts in Table 1B converted at the appropriate exchange rate (see glossary)

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

	Agricultural and Sugar Levies							Customs Duties							VAT Contributions						
	2004	2005	2006	2007	2008	2009	2010	2004	2005	2006	2007	2008	2009	2010	2004	2005	2006	2007	2008	2009	2010
Belgium	48	55	24	12	61	7	7	1,231	1,318	1,497	1,673	1,759	1,620	1,554	595	650	703	701	769	675	617
Bulgaria	-	-	-	14	23	0	0	-	-	-	47	63	72	74	-	-	-	67	81	76	70
Czech Republic	2	15	8	11	12	3	3	58	131	141	167	195	195	197	132	229	254	284	345	284	261
Denmark	44	60	37	32	50	3	3	214	238	287	298	294	294	288	371	402	470	496	537	466	432
Germany	319	426	210	151	323	26	26	2,088	2,298	2,718	2,976	3,014	2,834	2,710	2,985	3,258	3,677	3,929	3,738	1,893	1,833
Estonia	0	1	1	18	10	9	-	7	15	19	25	24	32	23	13	23	31	38	38	32	27
Greece	15	12	11	8	7	1	1	181	187	194	222	224	202	195	397	428	467	844	615	537	495
Spain	82	85	52	37	28	6	5	873	1,013	1,146	1,253	1,161	1,058	1,042	1,918	2,302	2,474	2,475	2,587	2,305	2,102
France	232	300	134	94	365	31	31	903	1,037	1,148	1,238	1,204	1,079	1,010	3,729	4,085	4,327	4,441	4,714	4,115	3,791
Ireland	5	6	2	0	1	-	-	124	176	200	218	200	170	173	288	337	366	396	401	316	276
Italy	113	114	150	145	119	5	5	1,124	1,228	1,423	1,543	1,530	1,340	1,323	3,292	3,112	2,686	3,193	4,310	3,083	2,853
Cyprus	2	5	3	12	9	4	-	17	30	29	35	36	42	38	20	31	34	36	40	38	36
Latvia	0	2	1	3	2	1	-	8	18	21	28	27	15	12	15	27	37	50	55	37	31
Lithuania	1	3	2	3	9	1	1	13	31	36	42	51	46	47	26	46	51	67	79	61	54
Luxembourg	0	0	1	1	1	-	-	12	15	18	19	14	12	12	57	58	56	74	73	64	59
Hungary	3	11	6	5	9	2	2	52	103	98	106	104	96	94	126	179	177	213	242	181	160
Malta	1	2	1	2	2	0	-	4	10	10	10	11	12	11	7	11	11	13	14	12	12
Netherlands	330	300	244	252	271	7	7	1,047	1,184	1,401	1,621	1,762	1,815	1,798	713	813	990	1,029	993	375	339
Austria	20	24	7	0	16	3	3	156	165	188	201	185	179	174	274	367	457	452	425	305	309
Poland	18	82	47	39	123	13	13	94	190	225	300	328	339	343	313	560	611	725	864	666	585
Portugal	37	22	23	21	15	0	0	85	86	95	116	119	114	113	309	394	351	383	392	345	317
Romania	-	-	-	29	42	1	1	-	-	-	130	158	157	153	-	-	-	249	277	242	219
Slovenia	0	1	1	0	1	-	-	12	28	35	82	89	82	80	41	67	69	79	92	80	74
Slovakia	1	9	3	4	6	2	1	19	35	52	87	105	126	130	50	76	92	126	123	130	125
Finland	8	11	7	8	5	1	1	86	102	123	141	161	137	137	337	341	359	393	417	371	339
Sweden	23	28	18	22	31	3	3	292	323	382	417	424	426	434	406	378	485	528	500	170	157
United Kingdom	410	473	451	450	444	10	10	1,893	2,054	2,100	2,207	2,056	2,086	2,040	-2,648	-2,285	-2,043	-1,779	-3,312	-3,191	-1,621
Total	**1,715**	**2,046**	**1,444**	**1,373**	**1,985**	**139**	**123**	**10,592**	**12,017**	**13,585**	**15,200**	**15,297**	**14,581**	**14,203**	**13,765**	**15,888**	**17,191**	**19,500**	**19,408**	**13,668**	**13,951**

	Fourth Resource Contributions							TOTALS						
	2004	2005	2006	2007	2008	2009	2010	2004	2005	2006	2007	2008	2009	2010
Belgium	1,975	2,000	1,933	1,986	2,041	2,405	2,707	3,849	4,024	4,156	4,372	4,631	4,707	4,885
Bulgaria	-	-	-	163	196	241	272	-	-	-	291	364	388	417
Czech Republic	373	615	633	704	844	897	1,019	565	990	1,035	1,167	1,396	1,380	1,481
Denmark	1,311	1,289	1,399	1,394	1,421	1,687	1,920	1,940	1,989	2,193	2,219	2,301	2,451	2,643
Germany	14,838	14,154	13,896	14,654	15,140	17,056	19,183	20,230	20,136	20,501	21,710	22,215	21,809	23,752
Estonia	36	61	80	96	89	98	106	55	100	130	177	161	171	156
Greece	1,148	1,174	1,163	1,947	1,482	1,681	1,928	1,742	1,802	1,834	3,020	2,328	2,422	2,620
Spain	5,511	6,075	6,128	6,073	6,190	7,346	8,196	8,384	9,475	9,800	9,838	9,966	10,715	11,345
France	11,150	11,431	11,026	11,216	11,742	13,727	15,528	16,013	16,854	16,636	16,989	18,025	18,952	20,359
Ireland	834	924	914	972	974	995	1,075	1,251	1,442	1,482	1,586	1,577	1,481	1,524
Italy	9,258	9,093	9,247	9,144	9,186	10,617	12,032	13,786	13,547	13,507	14,024	15,144	15,045	16,212
Cyprus	56	83	87	88	95	120	140	95	150	153	170	180	204	215
Latvia	45	82	96	118	132	140	144	68	130	155	199	216	193	186
Lithuania	79	127	145	158	190	202	210	119	207	234	271	329	309	311
Luxembourg	162	154	143	202	172	200	228	231	227	217	296	259	276	299
Hungary	357	541	501	547	592	638	671	537	833	783	870	947	918	927
Malta	21	28	28	33	34	39	46	33	50	50	57	60	64	69
Netherlands	3,179	3,650	3,497	3,401	3,643	3,466	3,971	5,269	5,947	6,131	6,303	6,669	5,663	6,115
Austria	1,597	1,589	1,557	1,565	1,568	1,931	2,179	2,047	2,144	2,209	2,218	2,195	2,417	2,665
Poland	885	1,496	1,563	1,746	2,158	2,122	2,282	1,311	2,327	2,447	2,809	3,473	3,140	3,223
Portugal	902	1,025	909	940	940	1,102	1,234	1,332	1,527	1,378	1,460	1,466	1,561	1,664
Romania	-	-	-	682	741	904	1,036	-	-	-	1,089	1,218	1,304	1,409
Slovenia	117	180	175	198	227	253	288	170	275	279	359	408	415	442
Slovakia	150	239	255	303	361	470	551	220	359	402	519	595	728	807
Finland	1,012	1,011	1,071	1,088	1,126	1,273	1,430	1,443	1,465	1,560	1,629	1,709	1,783	1,906
Sweden	1,960	1,925	1,813	1,949	2,269	1,872	2,181	2,681	2,654	2,698	2,915	3,223	2,471	2,774
United Kingdom	12,027	11,915	11,873	12,551	10,925	10,505	12,795	11,682	12,157	12,381	13,429	10,114	9,410	13,223
Total	**68,982**	**70,861**	**70,132**	**73,915**	**74,478**	**81,989**	**93,353**	**95,054**	**100,811**	**102,351**	**109,987**	**111,168**	**110,377**	**121,630**

Notes:

1. 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.

2. With effect from 2009 the agricultural and sugar levies column contains just sugar levies. From 2009 onwards agricultural levies are incorporated in custom duties figures.

3. The figures for agricultural and sugar levies and customs duties are after the deduction of 25% collection costs.

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

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

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

Sources: Figures for 2004 to 2008 are taken from the European Commission's report: EU Budget 2008 Financial Report. Figures for 2009 taken from Amending Budget 10/2009. Figures for 2010 taken from 2010 Adopted Budget.

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

	Agricultural and Sugar Levies						
	2004	2005	2006	2007	2008	2009	2010
Belgium	33	33	16	8	49	6	6
Bulgaria	-	-	-	10	19	0	0
Czech Republic	2	2	5	8	10	3	3
Denmark	30	30	25	22	39	3	3
Germany	216	218	143	103	257	25	23
Estonia	0	0	0	12	8	8	-
Greece	10	11	7	5	5	1	1
Spain	56	56	36	25	23	6	4
France	157	159	92	64	290	29	28
Ireland	3	3	1	0	1	-	-
Italy	77	77	102	99	95	4	4
Cyprus	1	1	2	8	7	4	-
Latvia	0	0	1	2	2	1	-
Lithuania	1	1	2	2	7	1	1
Luxembourg	0	0	0	0	1	-	-
Hungary	2	2	4	3	8	2	2
Malta	1	1	1	1	1	0	-
Netherlands	224	226	166	173	215	7	6
Austria	14	14	5	0	13	3	3
Poland	12	13	32	26	98	12	11
Portugal	25	25	15	14	12	0	0
Romania	-	-	-	20	33	1	1
Slovenia	0	0	0	0	1	-	-
Slovakia	0	0	2	3	5	2	1
Finland	6	6	5	6	4	1	1
Sweden	16	16	12	15	24	2	2
United Kingdom	278	280	307	308	353	9	8
Total	**1,163**	**1,399**	**984**	**940**	**1,579**	**133**	**110**

	Customs Duties						
	2004	2005	2006	2007	2008	2009	2010
Belgium	835	901	1,021	1,145	1,399	1,543	1,384
Bulgaria	-	-	-	32	50	68	66
Czech Republic	39	90	96	114	155	185	175
Denmark	145	163	196	204	234	280	256
Germany	1,416	1,571	1,853	2,036	2,397	2,700	2,412
Estonia	5	10	13	17	19	31	20
Greece	123	128	132	152	178	193	174
Spain	592	693	781	858	923	1,008	927
France	613	709	783	847	957	1,027	899
Ireland	84	120	137	149	159	162	154
Italy	762	839	970	1,055	1,216	1,276	1,178
Cyprus	12	21	20	24	29	40	34
Latvia	5	12	14	19	21	14	10
Lithuania	9	21	24	29	41	43	41
Luxembourg	8	11	13	13	11	12	11
Hungary	35	70	67	73	83	92	84
Malta	3	7	7	7	9	11	9
Netherlands	710	809	955	1,109	1,401	1,729	1,600
Austria	106	113	128	137	147	170	155
Poland	64	130	153	205	261	323	305
Portugal	58	59	65	79	95	109	101
Romania	-	-	-	89	126	149	137
Slovenia	8	19	24	56	71	78	71
Slovakia	13	24	36	59	84	120	115
Finland	59	70	84	96	128	131	122
Sweden	198	221	260	285	337	406	386
United Kingdom	1,284	1,404	1,431	1,510	1,635	1,986	1,816
Total	**7,185**	**8,215**	**9,261**	**10,400**	**12,165**	**13,888**	**12,644**

	VAT Contributions						
	2004	2005	2006	2007	2008	2009	2009
Belgium	403	445	479	480	612	643	550
Bulgaria	-	-	-	46	64	72	62
Czech Republic	89	157	173	195	274	271	233
Denmark	252	275	321	339	427	444	385
Germany	2,025	2,227	2,507	2,689	2,973	1,803	1,632
Estonia	9	15	21	26	31	30	24
Greece	270	293	318	577	489	512	440
Spain	1,301	1,573	1,687	1,693	2,057	2,195	1,872
France	2,529	2,793	2,950	3,038	3,749	3,920	3,375
Ireland	196	230	249	271	319	301	245
Italy	2,233	2,127	1,831	2,185	3,427	2,936	2,540
Cyprus	13	21	23	24	32	36	32
Latvia	10	19	25	34	43	35	27
Lithuania	18	31	35	46	63	58	48
Luxembourg	38	39	38	51	58	61	52
Hungary	85	122	121	146	193	173	143
Malta	5	7	8	9	11	12	11
Netherlands	484	556	675	704	789	357	302
Austria	186	251	311	309	338	290	275
Poland	212	382	417	496	687	635	521
Portugal	209	269	239	262	311	328	282
Romania	-	-	-	170	220	231	195
Slovenia	28	46	47	54	73	77	66
Slovakia	34	52	63	86	97	124	111
Finland	228	233	244	269	331	354	302
Sweden	275	258	331	361	397	162	140
United Kingdom	- 1,796	- 1,562	- 1,392	- 1,217	- 2,633	- 3,039	- 1,443
Total	**9,337**	**10,860**	**11,719**	**13,342**	**15,433**	**13,019**	**12,420**

	Fourth Resource Contributions							TOTALS						
	2004	2005	2006	2007	2008	2009	2010	2003	2004	2005	2006	2007	2008	2009
Belgium	1,340	1,367	1,317	1,359	1,623	2,291	2,410	2,611	2,750	2,833	2,991	3,683	4,484	4,349
Bulgaria	0	0	0	112	156	229	242	0	0	0	199	289	370	371
Czech Republic	253	420	431	482	671	855	907	383	677	706	798	1,110	1,314	1,318
Denmark	889	881	954	954	1,130	1,607	1,709	1,316	1,360	1,495	1,518	1,830	2,335	2,353
Germany	10,065	9,675	9,473	10,027	12,040	16,245	17,077	13,723	13,765	13,976	14,855	17,666	20,773	21,145
Estonia	24	42	55	66	71	94	95	38	68	89	121	128	162	139
Greece	779	802	793	1,332	1,178	1,601	1,717	1,182	1,232	1,250	2,066	1,851	2,307	2,332
Spain	3,738	4,153	4,177	4,156	4,922	6,997	7,297	5,687	6,477	6,681	6,731	7,925	10,206	10,100
France	7,563	7,814	7,517	7,674	9,338	13,075	13,823	10,862	11,521	11,341	11,624	14,334	18,052	18,124
Ireland	566	631	623	665	775	948	957	848	986	1,010	1,085	1,254	1,411	1,357
Italy	6,280	6,216	6,304	6,256	7,305	10,113	10,711	9,352	9,260	9,208	9,596	12,043	14,330	14,432
Cyprus	38	57	59	60	76	115	125	64	103	105	116	143	195	191
Latvia	31	56	65	81	105	133	128	46	89	106	136	171	183	166
Lithuania	53	87	99	108	151	192	187	81	142	159	185	262	295	277
Luxembourg	110	105	97	138	137	191	203	157	155	148	202	206	263	266
Hungary	242	370	342	374	471	608	597	364	570	533	595	753	874	825
Malta	14	19	19	22	27	37	41	22	34	34	39	48	61	61
Netherlands	2,156	2,495	2,384	2,327	2,897	3,301	3,535	3,574	4,065	4,180	4,313	5,303	5,394	5,444
Austria	1,083	1,086	1,062	1,071	1,247	1,839	1,940	1,388	1,466	1,506	1,518	1,745	2,302	2,373
Poland	600	1,022	1,066	1,194	1,716	2,021	2,031	889	1,591	1,668	1,922	2,761	2,991	2,869
Portugal	612	701	620	643	748	1,050	1,099	904	1,044	940	999	1,166	1,487	1,482
Romania	0	0	0	466	589	861	922	0	0	0	745	968	1,242	1,255
Slovenia	79	123	119	136	180	241	257	116	188	190	246	325	396	394
Slovakia	102	163	174	207	287	448	490	149	245	274	355	473	693	718
Finland	687	691	730	744	896	1,213	1,273	979	1,001	1,063	1,115	1,359	1,698	1,697
Sweden	1,329	1,316	1,236	1,334	1,804	1,783	1,941	1,818	1,814	1,839	1,995	2,563	2,353	2,470
United Kingdom	8,158	8,145	8,094	8,588	8,688	10,006	11,391	7,925	8,310	8,440	9,188	8,043	8,963	11,772
Total	**46,793**	**48,438**	**47,810**	**50,575**	**59,227**	**78,095**	**83,106**	**64,478**	**68,912**	**69,774**	**75,256**	**88,404**	**105,134**	**108,280**

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 EU Budget

	€ million 2004	€ million 2005	€ million 2006	€ million 2007	€ million 2008	€ million 2009	€ million 2010	£million 2004	£million 2005	£million 2006	£million 2007	£million 2008	£million 2009	£million 2010
GROSS CONTRIBUTIONS														
Sugar Levies	411	474	451	448	439	225	10	279	324	308	307	349	200	9
Customs Duties	1,899	2,089	2,102	2,204	2,031	2,024	2,101	1,288	1,428	1,433	1,508	1,615	1,802	1,866
VAT Own Resources	2,601	2,896	3,174	3,352	2,835	1,947	2,496	1,764	1,980	2,164	2,293	2,254	1,733	2,217
Fourth Resource payments	11,137	12,699	12,258	11,684	10,845	11,986	11,911	7,555	8,681	8,357	7,994	8,624	10,670	10,579
VAT & Fourth Resource adjustments	14	226	242	517	-238	-311	204	9	154	165	354	-189	-277	181
United Kingdom Abatement	-5,296	-5,349	-5,236	-5,149	-6,114	-6,057	-3,436	-3,593	-3,656	-3,569	-3,523	-4,862	-5,392	-3,052
Total Contributions	**10,765**	**13,035**	**12,993**	**13,056**	**9,798**	**9,814**	**13,287**	**7,302**	**8,911**	**8,857**	**8,933**	**7,791**	**8,737**	**11,800**
PUBLIC SECTOR RECEIPTS														
EAGGF Guarantee	4,035	4,294	4,323	4,079	3,099	3,349	4,141	2,737	2,935	2,947	2,791	2,465	2,981	3,678
EAGGF Guidance	:	117	75	33	523	162	634	50	80	51	23	416	144	563
European Regional Development Fund	1,566	2,052	867	1,033	1,221	717	977	1,062	1,403	591	707	971	639	867
European Social Fund	638	1,315	1,953	1,163	765	684	399	433	899	1,331	795	608	609	355
Other Receipts	18	19	40	24	47	28	74	12	13	27	16	37	25	65
Total Receipts	**6,330**	**7,796**	**7,258**	**6,331**	**5,655**	**4,941**	**6,225**	**4,294**	**5,329**	**4,948**	**4,332**	**4,497**	**4,398**	**5,528**
NET CONTRIBUTIONS	**4,435**	**5,239**	**5,735**	**6,725**	**4,143**	**4,873**	**7,062**	**3,008**	**3,581**	**3,909**	**4,601**	**3,294**	**4,339**	**6,272**

Notes:

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 EU 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 EU Budgets.

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

3. The figures for 2010 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.

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

Source: HM Treasury

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