European Community Finances

Statement on the 2008 EC Budget and measures to counter fraud and financial mismanagement

September 2008

HM TREASURY

Cm 7462

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by the Economic Secretary to the Treasury
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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 Communities (EC Budget).

1.2 This Statement is the twenty-eighth in the series. It describes the EC Budget for 2008 as adopted by the European Parliament; and sets out details of the United Kingdom's gross and net contributions to the EC Budget over the financial years 2002-2003 to 2007-2008, together with estimates for 2008-2009 to 2010-2011, and over the calendar years 2002 to 2007, together with an estimate for 2008. It also includes details of recent developments in EC financial management and the fight against fraud.

2 The 2008 EC Budget

The Budget Process

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

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

2.3 The Council has the final say on the amount and structure of compulsory expenditure, which is defined as expenditure necessarily resulting from the Treaty establishing the European Community or from Acts adopted in accordance with it. Compulsory expenditure amounts to approximately 35.2% (payment appropriations) of the Budget, of which the Common Agricultural Policy (CAP) is the largest part. The European Parliament has the final say on all other non-compulsory expenditure (i.e. the remainder of the Budget).

The Financial Perspective 2007-2013

2.4 Since 1988, the annual Budget has been set within a multi-annual expenditure framework known as the Financial Perspective (FP). The 2007-2013 FP sets out annual expenditure ceilings for six broad categories[1], which the budgetary authority must respect when it determines the Budget. The expenditure ceilings are set in terms of *maximum commitments*, i.e. legal expenditure obligations entered into during the year, which will lead to *payments* either that year or in future years.

2.5 The European Council reached agreement on the FP on 17 December 2005, under the UK's presidency of the EU. As part of this agreement, the European Council also agreed the following:

- to increase expenditure on research and development by at least 75% by 2013;
- a number of technical changes to simplify the management of the Structural and Cohesion Funds in the poorer Member States;
- to reduce ceilings for commitments for CAP pillar one (market support and direct payments) by 5.7%, as agreed at October 2002 European Council;
- to stabilise expenditure on CAP pillar two (rural development) at current levels, but allow Member States to transfer up to a further 20% of their CAP pillar one allocations without the need for co-financing or minimum spending requirements;
- that spending on freedom, security and justice should rise by 15% a year over the period; and

[1] Sustainable Growth; Preservation and Management of Natural Resources; Citizenship, Freedom, Security and Justice; External Actions; Administration; and Compensations.

- that 90% of the overall external assistance budget should be official development assistance, and the European Development Fund (EDF) should remain outside the EC 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 some changes to the agreement reached in December 2005, including[2]:

- an overall increase of €1.9 billion (£1.3 billion) above the December agreement, representing 0.22% of the total budget. This increase is divided between headings;
- recognising the need for budget discipline, the Flexibility Instrument remains set at €200 million (£147 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.

Following agreement on the IIA, the total budget was set at €864.3 billion (£586.3 billion) in 2004 prices, equivalent to 1.05% of EU Gross National Income over the period 2007-2013. The following table shows the breakdown of commitments by policy heading over the period 2007-2013, as agreed in the IIA.

Commitments	IIA Total 2007-2013, € billion[1]	Total 2007-2013 As share of budget
1a. Competitiveness for Growth and Employment	74.1	8.6%
1b. Cohesion for Growth and Employment	308.0	35.6%
2. Preservation and Management of Natural Resources	371.3	43.0%
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 Partner	49.5	5.7%
5. Administration	49.8	5.8%
6. Compensation	0.8	0.1%
Total	**864.3**	**100.0%**

[1]In 2004 prices

[2] An explanation of the exchange rates used throughout this statement can be found in the glossary on pages 35-39

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

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

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

- for the period 2007-2013, Netherlands and Sweden would have their annual GNI 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), Guarantee section 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
2007	0%
2008	0%
2009	20%
2010	70%
2011	100%
2012	100%
2013	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.*

2.8 During the period 2007-2013, 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.

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

[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

Box 2.1: EC Budget Review

The December 2005 European Council invited the Commission to undertake a comprehensive review of the EC Budget, both of expenditure (including the CAP) and of resources (including the UK abatement), to report in 2008-2009. The Commission launched a public consultation on the EC Budget in September 2007 with its publication, 'Reforming the Budget, Changing Europe'.[1]

The UK strongly welcomes the budget review. It is an important opportunity to reform the EC Budget so that the EU is better equipped to meet the challenges of the 21st century. The UK's response to the consultation is set out in the publication 'Global Europe: vision for a 21st century budget'.[2]

The EC Budget has an important role in supporting a number of collective EU priorities, but it is essential that resources are used more effectively. Three principles can help guide us towards a modern EC Budget:

- **EU value-added** – the EU should only act where there are clear additional benefits from collective efforts, or 'EU added value', compared with action by individual Member States, either individually or in co-operation;
- **Proportionality** – where EU-level action is appropriate, it should be proportionate and flexible. We must recognise the limits of budgetary intervention. EC budget expenditure is just one of a number of policy levers, alongside coordination, sharing best practice, and legislation or regulation. In addition, the full range of financing options should be considered, including both grant and loan finance;
- There must be **sound financial management** at all times, including the highest standards of financial control and independent audit, and greater focus on delivery of outcomes in programme design and evaluation. It will be important to maintain budget discipline.

In the UK's view, the EC Budget needs fundamental reform to address the key challenges that matter to EU citizens.

According to the UK's budgetary principles EU funds should be reoriented to three priority areas:

1. **Building a prosperous Europe within a strong global economy**

- Supporting EU Member States' efforts to make the transition to high value added economies, with resources focused on those with the greatest transition to make, thereby helping to create jobs and prosperity.
- Making future enlargements a success by helping candidate countries to prepare for accession and further supporting their economic transition following accession.
- Complementing Member States' efforts to strengthen knowledge, research and innovation, to ensure the EU has the skills and expertise to compete in a low carbon global economy.

[1] http://ec.europa.eu/budget/reform/index_en.htm

[2] http://www.hm-treasury.gov.uk/documents/international_issues/global_challenges/int_global_vision.cfm

- Building the capacity of developing countries to respond to new market opportunities.

2. **Addressing the challenges of climate change**

- Supporting well-targeted research, development, demonstration and deployment of low carbon technologies, adding value to national programmes to help enable the EU to lead in the technologies of the future, maximising the opportunities for jobs and growth and avoiding the worst impacts of climate change in a cost-effective way.
- Supporting EU Member States in honouring their commitments on climate change.
- Supporting investment in research and monitoring, to help EU Member States to adapt to the unavoidable impacts of climate change.
- Helping developing countries to reduce their greenhouse gas emissions and assisting the most vulnerable communities to adapt to the unavoidable impacts of climate change.

3. **Ensuring security, stability and poverty reduction**

- Supporting the building of strong, effective relations with all neighbouring countries and promoting reform, stability and growth in those countries.
- Enabling the EU to develop greater capability to deliver civilian assistance to conflict zones at every stage, ranging from the threat of instability, to potential conflict itself, through to post-conflict stabilisation, recovery and reconstruction.
- Helping to ensure that EU borders are safe and effective and that migration flows are managed efficiently and fairly both within the EU and beyond.
- Supporting joint working to confront terrorism and cross-border crime.
- Facilitating ever-greater dialogue and cooperation between Member States on common challenges.
- Showing global leadership in efforts to reduce poverty across the world, in particular in low-income countries, and with a renewed focus on realising the Millennium Development Goals, tackling climate change and protecting natural resources.

Spending on Pillar 1 of the CAP should be phased out. And against the backdrop of climate change, payments under a reshaped Pillar 2 of the CAP should be focused on delivering environmental benefits to society that would not otherwise be secured from the market.

Structural and Cohesion Funds will continue to be an important mechanism for targeted redistribution towards less prosperous Member States. Consequently Structural Funds in the richer Member States should be phased out. Given that aim, the priority should be that standard 'cohesion for growth' funding is no longer available to richer Member States.

> Consistent with the budgetary principles, EU policies in the fields of transport, natural resource protection, civil justice and citizenship should continue to receive targeted EU budget support.
>
> Improvements to the design and administration of spending programmes should be considered to ensure that outcomes are achieved effectively and efficiently. The highest standards of financial control and independent audit are necessary, alongside continuing budget discipline.
>
> The Budget Review must be genuinely fundamental, strategic and ambitious – and should be conducted openly, creatively and from first principles, with the aim of helping achieve the outward-facing, flexible EU we need to meet the challenges and opportunities of globalisation.

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

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

2.11 The revenue side will be taken forward through a new ORD, which was agreed at the ECOFIN Council of 7 June 2007. The ORD now has to be ratified by all Member States. Ratification in the UK was undertaken by means of primary legislation (European Communities (Finance) Bill), amending the 1972 European Communities Act, which received Royal Assent on 19 February 2008 (Box 2.2 provides more details). All Member States are required to complete ratification by 31 December 2008, with the changes having retrospective effect from 1 January 2007.

Box 2.2: Own Resources Decision (ORD) (Council Decision of 7 June 2007: 2007/436/EC, Euratom), amending the arrangements for the financing of the annual budget of the European Communities (EC Budget)

The new ORD agreed by the Council of Ministers on 7 June 2007 amends the current arrangements for VAT-based contributions by reducing the maximum call-up rate to 0.3%, 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 is introduced for Austria, Germany, the Netherlands and Sweden (the Netherlands and Sweden at 0.1%, Germany at 0.15%, Austria at 0.225% compared to the general rate of 0.3%).

For the period 2007 to 2013 only, gross reductions in GNI contributions are introduced for the Netherlands (€605m per annum) and Sweden (€150m per annum).

The new ORD provides 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 new ORD will need to be adopted or ratified by all Member States in accordance with their own constitutional requirements before it can enter into force. It will take effect from 1 January 2009 retrospective to 1 January 2007.

If any Member State fails to ratify the new ORD by 31 December 2008 then the current ORD (Council Decision of 29 September 2000: 2000/597/EC, Euratom) continues to operate until such time as the adoption process is completed, with the new ORD then coming into force on the first working day of the month following the date of notification of the final adoption or ratification, retrospective to 1 January 2007.

UK ratification of the ORD 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 Act has two sections as follows:

Section 1

Section 1 provides that the new Own Resources Decision shall be added to the list of Community Treaties in section 1(2) of the European Communities Act 1972, thus allowing payments made by the United Kingdom pursuant to the Decision to be charged directly on the Consolidated Fund under section 2(3) of that Act.

Section 2

Section 2 repeals the European Communities (Finance) Act 2001 since the wording of section 1(2)(e) of the European Communities Act 1972 substituted by section 1 of the Act supersedes that substituted by the 2001 Act.

The various Parliamentary Stages of the European Communities (Finance) Bill were as follows:

House	Stage	Date
Commons	Introduction	7 November 2007
	Second Reading	19 November 2007
	Committee	15 January 2008
	Report and Third Reading	15 January 2008
Lords	Introduction	16 January 2008
	Second Reading	4 February 2008
	Committee	4 February 2008
	Third Reading	18 February 2008

Royal Assent 19 February 2008

The 2008 Budget

2.12 The 2008 Budget was negotiated under the Portuguese EU Presidency. Table 2.1 sets out the amounts established at each stage of the budgetary procedure, which ran from May to December 2007, and relates these to the new FP ceilings. Figures for previous years' Budgets are provided in Tables 1A and 1B (page 45).

Table 2.1: 2008 EC Budget

€ million[1]

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 2008	Budget 2007[1]
1. Sustainable Growth	57,275	57,148	56,822	57,224	56,882	57,964	54,854
2. Preservation and Management of Natural Resources	58,800	56,276	55,723	56,387	55,002	55,041	55,850
3. Citizenship, Freedom, Security and Justice	1,362	1,290	1,271	1,343	1,302	1,343	1,444
4. The EU as a Global Partner	7,002	6,911	7,129	7,241	7,216	7,311	6,812
5. Administration	7,380	7,336	7,190	7,286	7,207	7,284	6,978
6. Compensations	207	207	207	207	207	207	445
Total Commitment Appropriations	**132,026**	**129,167**	**128,401**	**129,688**	**127,816**	**129,150**	**126,383**
Total Payment Appropriations	**129,681**	**121,582**	**119,410**	**124,196**	**118,562**	**120,347**	**113,846**
Payment Appropriations as a percentage of Community GNI	**1.03%**	**0.97%**	**0.95%**	**0.99%**	**0.94%**	**0.96%**	**0.95%**

Notes:

[1] *2007 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. Other EU documentation.

2.13 The adopted 2008 EC Budget provides for commitment appropriations of €129.2 billion (1.03% of EU GNI) (£94.6 billion), an increase of 2.2% compared to 2007; and payment appropriations of €120.3 billion (0.96% of EU GNI) (£88.2 billion), an increase of 5.7% compared to 2007. 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 EC Budget are as shown in chart 2.1 (page 16).

2.14 The key changes in the 2008 Budget compared with previous years are as follows:

- **Heading 1: Sustainable Growth**. Expenditure in this area is aimed at building Europe's growth potential and fostering prosperity across EU regions. Overall commitments have been set at €58.0 billion (£42.5 billion), around 5.7% more than in 2007. Transforming the EU economy into a knowledge-based economy requires extensive investment in education, research, as well as transport and energy networks. The 2008 Budget sees commitments of: €6.1 billion (£4.5 billion) for research (up 11.0% from 2007); €997.3 million (£731.4 million) for education and training (up 9.3% from 2007); €992.9 million (£728.2 million) for energy and transport networks (up 16.4% from 2007); and €411.8 million (£302.0 million) for innovation and competitiveness (up 6.2% from 2007 levels). The 2008 Budget also provides for €46.9 billion (£34.4 billion) in commitments for fostering convergence and regional competitiveness and employment (up 3.1% from 2007), with €38.7 billion (£28.4 billion) made available through Structural Funds and €8.2 billion (£6.0 billion) through the Cohesion Fund.

- **Heading 2: Preservation and Management of Natural Resources.** Expenditure in this area includes the CAP and fisheries spending, rural development, as well as measures aiming to contribute to food quality, and a cleaner environment. Commitments were set at €55.0 billion (£40.3 billion), leaving a margin of €3.8 billion (£2.8 billion) under the FP ceiling. Payments were set at €53.2 billion (£39.0 billion). Total commitments for direct aids and market measures will reduce by 3.4% in 2008 to €40.9 billion (£30.0 billion), whilst commitments for rural development will increase by 4.5% to €12.9 billion (£9.5 billion). Commitments for the environmental protection programme, LIFE+, are set to increase by 10.9% to €266.9 million (£195.8 million) with a 31.3% increase in payments to €155.7 million (£114.1 million).

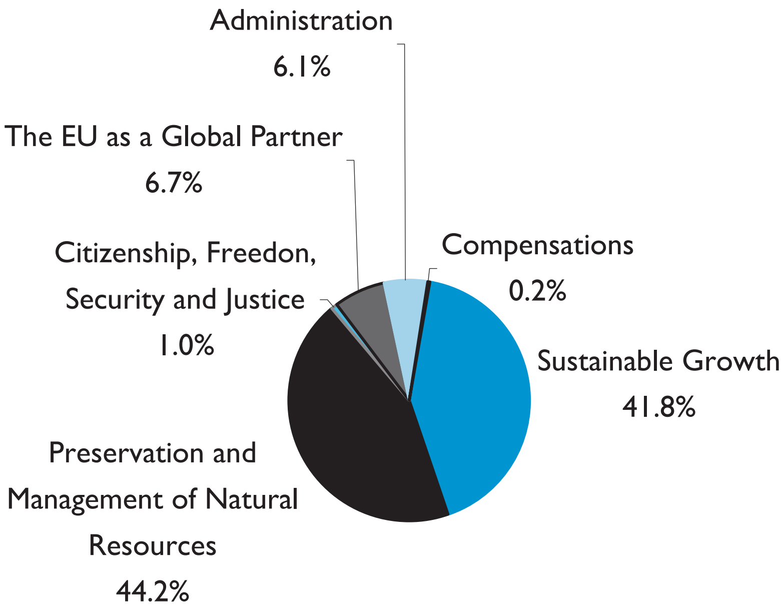
- **Heading 3: Citizenship, Freedom, Security and Justice**. This area of the budget includes migration, security, and fundamental rights and justice expenditure. Commitments in this area of the 2008 budget are 7.0% lower at €1.3 billion (£1.0 billion), and payments 2.3% lower at €1.2 billion (£0.9 billion), compared to 2007. Commitments for Freedom, Security and Justice (Heading 3a) will grow by 16.7% to reach a total of €728.0 million (£533.9 million) in 2008. Commitments and payments for Citizenship (Heading 3b), including culture, youth and public health, will reduce by 25.0% to €614.8 million (£450.9 million) and by 21.3% to €708.3 million (£519.4 million) respectively.

- **Heading 4: The EU as a Global Partner**. Expenditure in this area includes EC foreign policy and international development expenditure, including assistance to non-EU partners (apart from Africa, the Caribbean, and Pacific countries which are funded from the off-budget EDF). Commitments are increased by 7.3% to €7.3 billion (£5.4 billion), while payments are increased by 10.3% to €8.1 billion (£5.9 billion), compared to 2007. The 2008 budget sees a substantial rise in Common and Foreign Security Policy (CFSP) commitments of 79.2% to €285.3 million (£209.2 million).

- **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 totalled €7.3 billion (£5.4 billion), an increase of 4.4% over the 2007 level.

- **Heading 6: Compensation**. Compensation payments are temporary measures foreseen in accession treaties. In the 2008 expenditure in this heading will cover the cash flow and Schengen Facilities agreed during the accession negotiations with Bulgaria and Romania and will no longer include payments to the EU-10. In 2008, commitments and payments will decrease by 53.5% on the previous year to €206.6 million (£151.5 million).

Chart 2.1 2008 EC Budget - Payment Appropriations by Budget Heading



Source: Commission's 2008 Adopted Budget

Activity Based Budgeting

2.15 Activity Based Budgeting (ABB) was introduced in 2002 to improve decision-making by ensuring budget allocations more closely reflect pre-defined political priorities and objectives. Similar to Public Service Agreements in the UK, ABB requires the EC Budget to be based on a clear justification for intervention and an evaluation of past performance. It also requires SMART (Specific, Measurable, Achievable, Relevant and Time-bound) objectives and future performance targets that focus on delivering value for money for the EU taxpayer. The UK will continue to work closely with the Commission and other Member States to improve further the implementation of ABB in preparation for the 2009 EC Budget.

Community Revenue

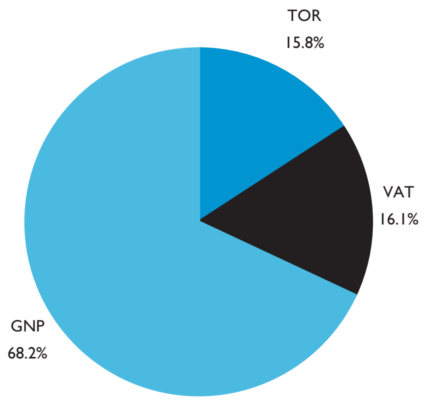
2.16 The ORD provides for four sources of Community revenue: customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as 'Traditional Own Resources' (TOR). The VAT and GNI-based contributions are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

2.17 Chart 2.2 shows a breakdown of the estimates of how the 2008 EC Budget will be financed. Tables 2 and 2A (pages 47 - 48) show the gross contributions by Member

State, after taking account of the UK abatement, between 2002 and 2008. The key points to note in terms of the UK's contribution are:

- TOR in 2008 are estimated to be around €18.7 billion (£13.7 billion), with the UK's share estimated at 16.6%. In 2007, revenue from this source was estimated to be €16.5 billion (£12.1 billion), of which the UK's share was 17.1 %;
- VAT-based contributions in the 2008 EC Budget are shown as €19.1 billion (£14.0 billion), with the UK's share at 18.3%. In 2007, total VAT contributions were €18.5 billion (£13.7 billion), of which the UK's share was 18.4%;
- GNI-based contributions in the 2008 EC Budget are shown as €81.1 billion (£59.5 billion), of which the UK's share is 16.9%. In 2007, GNI-based contributions were €71.2 billion (£52.2 billion) with a UK share of 17.1%; and
- the estimated value of the UK's abatement in 2008 is €5.8.billion (£4.3 billion), compared with a total abatement in the 2007 EC Budget of €5.2 billion (£3.8 billion). A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

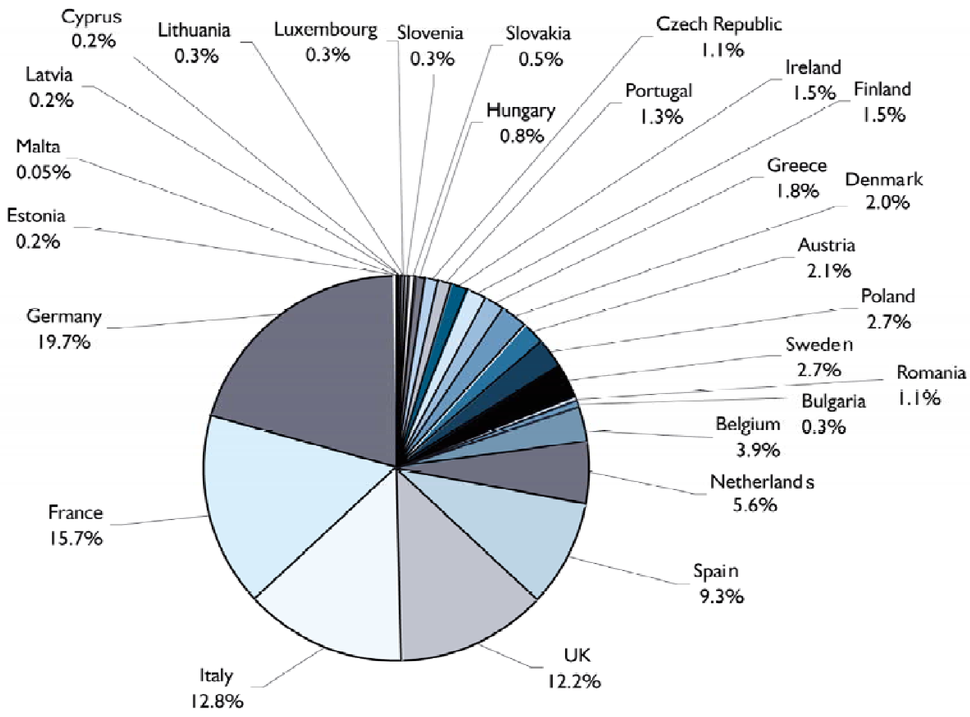
Chart 2.2: 2008 EC Budget Revenue



Source: Commission's 2008 Adopted Budget

2.18 Chart 2.3 shows each Member State's share of financing the 2008 EC Budget, after taking account of the UK abatement.

Chart 2.3: 2008 EC Budget Revenue: Percentage Shares by Member State after abatement

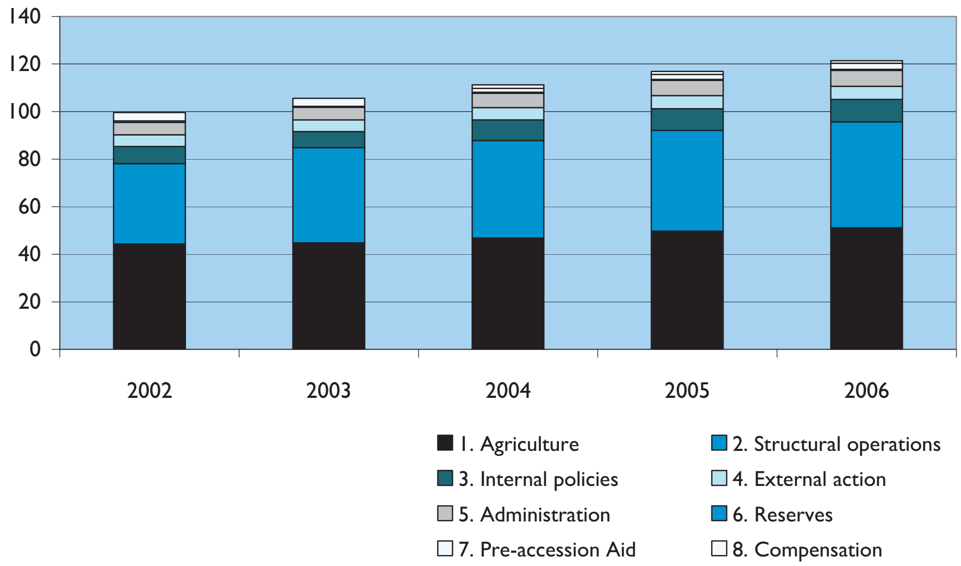


3 DEVELOPMENTS IN COMMUNITY FINANCES

Expenditure

3.1 Chart 3.1 shows the developments in Community spending commitments over 2002-2006. The two most significant trends are the increase in structural operations expenditure, which has been over one-third of the Budget since 1996; and increased spending on internal policies and external actions, which reflects the growing focus on policy areas such as freedom, security & justice, research & development, transport and energy, and international assistance. Additionally, two new Budget categories were created: pre-accession aid, agreed at the 1999 Berlin Council, to help candidate countries prepare for enlargement; and temporary compensations, agreed at the Copenhagen Council in 2002, to help ensure that the ten accession countries were left no worse off financially in the first three years of joining the EU than they would have been as Candidate Countries receiving pre-accession aid. Under the new agreement for 2007-2013 (see Chart 3.1A), Pre-Accession Strategy (Heading 7) is incorporated into Heading 4 (The EU as a Global Partner).

Chart 3.1: Developments in Community Spending (commitments) 2002-06 (€billion)

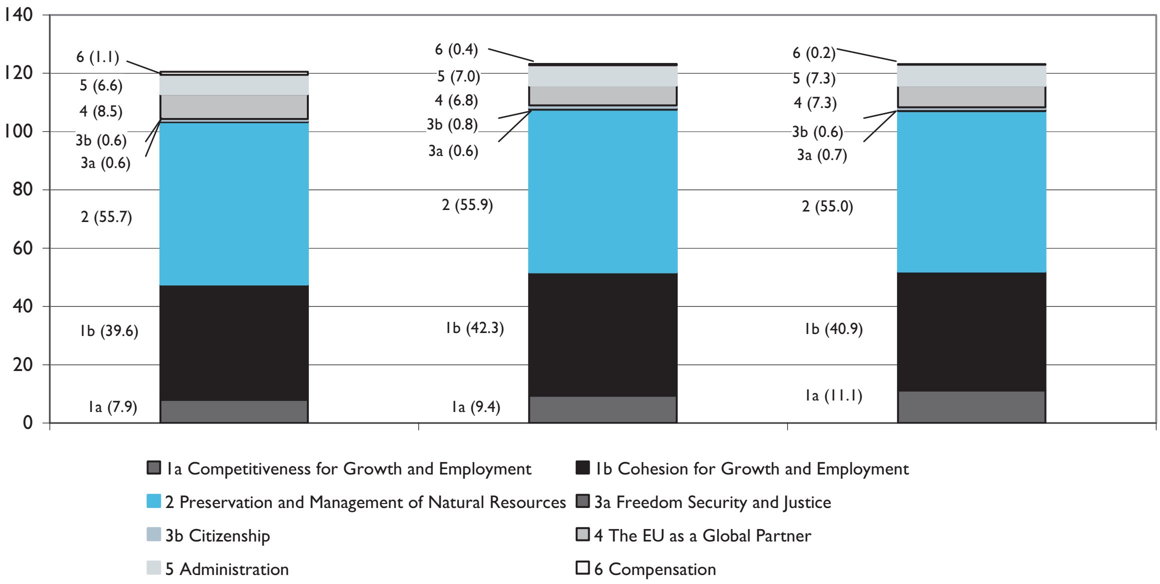


Source:: 2000 European Court of Auditors' Report; Commission's 2001-06 Adopted Budgets

3.2 Chart 3.1A shows the development in Community spending commitments from 2006 to 2008 and, for illustration purposes also includes 2006 commitments under the previous FP converted to the 2007-2013 FP budget headings. The FP for 2007-2013 changed many of the Budget headings. The Agriculture heading became Preservation and Management of Natural Resources. The Structural Operations heading became Sustainable Growth, which itself was split into two subheadings: Competitiveness for Growth and Employment, and Cohesion for Growth and Employment. Internal Policies was split into the Freedom, Security and Justice sub-heading and the Citizenship sub-heading. The External Actions heading was renamed The EU as a Global Partner while also incorporating both the Pre-Accession Strategy and the Reserves headings from the old FP.

3.3 One noteworthy change in spending commitments over the 2006-2008 period has been a €3.2 billion (£2.2 billion), or 40.4% increase in commitments under the Competitiveness for Growth and Employment sub-heading (sub-heading 1a).

Chart 3.1A: Developments in Community Spending (commitments) 2006-2008 (€ billion)



Source: 2008 Adopted Budget

Note: 2007 includes all amending budgets; data for previous years not available according to 2007-2013 Financial Perspective headings

3.4 Further details on spending in recent years are given in tables 1A and 1B (page 45). These illustrate commitments and payments for the years 2001-2006. They also show the main spending programmes broken down by FP category.

Reform of the CAP

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

Ceiling for CAP market-related expenditure and direct payments, 2007-2013 (€ million, in 2004 prices):

2007	2008	2009	2010	2011	2012	2013
43,120	42,697	42,279	41,864	41,453	41,047	40,645

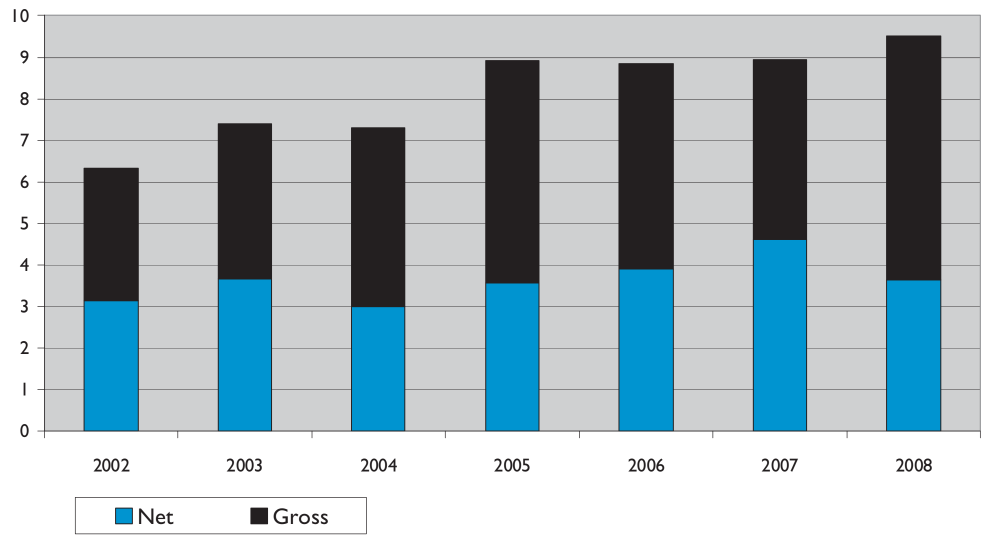
3.6 In June 2003, the Agriculture Council agreed a reform package for the CAP. The chief elements, primarily coming into force from 2005, were to decouple direct payments from production, and to make them conditional on minimum agricultural and environmental standards. The 2005 reform package also introduced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

3.7 The UK remains a leading advocate of further CAP reform, for example through extending decoupling to the remaining sectors and improving market access for developing countries.

The UK's Net Contribution

3.8 Chart 3.2 shows the volatility of the UK's net contribution from year to year. This is because of variations in payments made due to the nature of the ORD; variations in public sector receipts; and, as a result, fluctuations in the UK abatement. For further details, refer to Technical Annex 1 (page 41-42) and the glossary table 3.1 shows the UK's gross contributions, abatement, public sector receipts, and net contributions to the EC Budget for calendar years 2002-2008. The figures for 2008 are estimates; those for earlier years are outturns. Table 3 (page 51) gives a more detailed breakdown.

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



Note: 2008 is an estimate
Source: HM Treasury

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

£ million

	2002 Outturn	2003 Outturn	2004 Outturn	2005 Outturn	2006 Outturn	2007 Outturn	2008 Estimated Outturn
Gross payments	9,438	10,966	10,895	12,483	12,426	12,456	13,733
Less: UK Abatement	-3,099	-3,559	-3,593	-3,572	-3,569	-3,523	-4,223
Less: Public sector receipts	-3,201	-3,728	-4,294	-5,329	-4,948	-4,323	-5,875
Net contributions to EC Budget (2)	**3,138**	**3,679**	**3,008**	**3,581**	**3,909**	**4,610**	**3,636**

Notes:
1. Gross payment figures include TOR payments at 75% (90% prior to March 2002). The remaining 25% (10% prior to March 2002) is retained by the UK to cover the costs of administering collection on behalf of the European Community.
2. Due to rounding, totals may not exactly correspond to the sum of individual items.
Source: HM Treasury

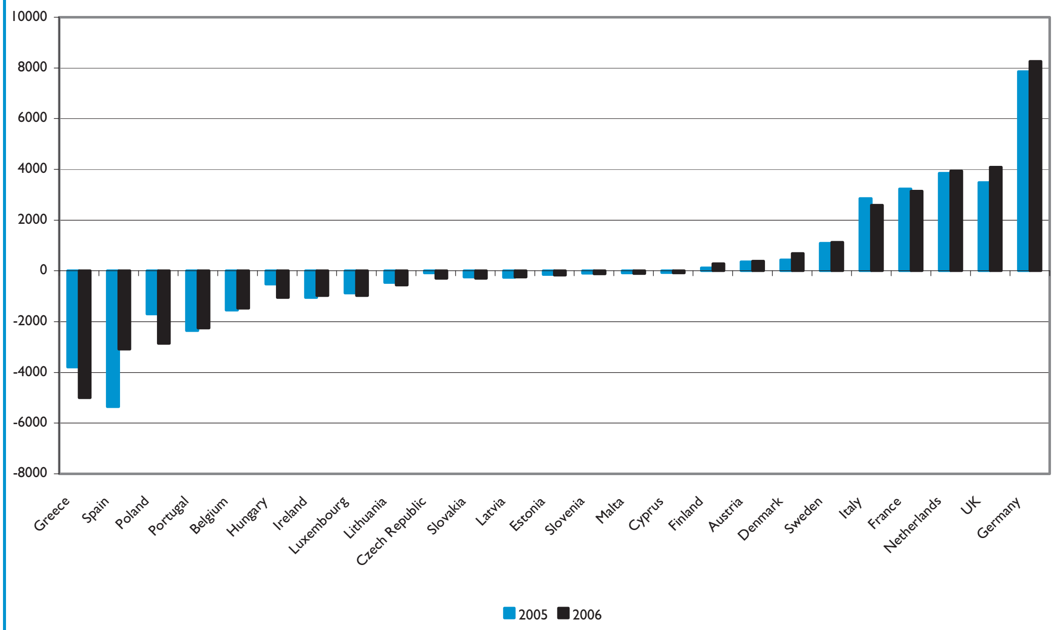
3.9 UK public sector receipts in 2008, mainly from the EAGGF and the Social and Regional Development Funds, are expected to be around £5.9 billion. The majority of these receipts will either be paid to or used in support of the private sector, but are channelled through Government departments.

3.10 The Community makes some payments direct to the private sector, which do not appear in public sector accounts. These are therefore not included in tables 3 (Page 51), 3.1, 3.2 or 3.3. In 2008, these receipts are expected to be around £590 million.

3.11 The UK's 2008 net contribution is forecast at £3.6 billion; the outturn in 2007 was £4.6 billion. The 2007 outturn figure reflects changes resulting from Amending EC Budgets during the course of the year whereas the 2008 figure reflects only the 2008 adopted EC Budget. Amending EC Budgets in 2007 included the return of the surplus from the 2006 EC Budget, which served to reduce Member States contributions to the 2007 EC Budget. Any surplus from the 2007 EC Budget will reduce Member States contributions in 2008 and will impact on the UK's 2008 net contribution forecast. An Amending EC Budget later this year will return any surplus.

3.12 Chart 3.3 shows how the UK's net position compares with those of the other Member States in 2005 and 2006. In 2006, the UK was one of nine net contributors to the EC Budget. Germany was the highest net contributor, paying twice as much as any other Member State. The UK, the Netherlands, France, Italy, and Sweden were the other significant net contributors.

Chart 3.3: Net Receipts/Contributions of Member States in 2005 and 2006 (€million)



Source: Based on data published in the European Commission Report: EU Budget 2006 Financial Report published in September 2007

Financial Year Transactions

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

3.14 Table 3.2 gives a breakdown of the UK's transactions with the European Communities on a financial year basis between 2002-03 and 2007-08 (estimated outturn). This table also includes plans for 2008-09 to 2010-11. Table 3.3 provides a breakdown of UK receipts from the EC Budget over the same period.

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

£ million

	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Estimated Outturn	2008-09 Plans	2009-10 Plans	2010-11 Plans
Gross payments (1)	9,737	11,371	12,183	11,780	12,245	13,763	13,951	15,550	16,256
Less: UK Abatement	-3,233	-3874	-3,722	-3,641	-3,560	-3,960	-4,415	-5,056	-5,021
Less: Public sector receipts	-3,424	-4,235	-4,555	-3,750	-5,164	-5,693	-5,759	-4,429	-4,834
Net contributions to EC Budget (2)	**3,080**	**3,261**	**3,906**	**4,389**	**3,521**	**4,110**	**3,777**	**6,064**	**6,401**
Grants received from European Coal and Steel Community	0	-2	0	0	0	0	0	0	0
Payments to EC budget attributed to the aid programme (3)	-736	-799	-697	-704	-668	-705	-781	-830	-856
Net payments to EC institutions (excluding Overseas Aid) (2)	**2,344**	**2,460**	**3,208**	**3,685**	**2,852**	**3,405**	**2,996**	**5,234**	**5,545**

Notes:

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

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

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

Source: HM Treasury

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

£ million

	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Estimated Outturn	2008-09 Plans	2009-10 Plans	2010-11 Plans
Agricultural Guarantee Fund	2,548	2,837	2,771	1,705	3,312	3,633	3,772	3,325	3,349
Agricultural Guidance Fund	2	22	30	85	53	34	51	7	12
Social Fund	501	345	692	739	449	937	1,060	578	559
Regional Development Fund	359	1,017	1049	1206	1324	1,073	680	472	863
Other Receipts	13	13	12	15	26	15	196	48	52
Total	**3,424**	**4,235**	**4,555**	**3,750**	**5,164**	**5,693**	**5,759**	**4,429**	**4,834**

Notes:

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

Source: HM Treasury

3.15 Payments to the EC Budget are scheduled on a monthly basis, but the Commission can ask Member States for earlier payments of VAT-based and GNI-based contributions, and the UK abatement, to take account of the high CAP payments, which take place in the first months of the calendar year. At the time of the calendar year 2007 Pre-Budget Report (PBR) and Comprehensive Spending Review (CSR), a draw-forward of 1.2/12ths was estimated. A draw-forward of (2/12ths) was subsequently requested, which meant that a total of (5/12ths) was paid in the first quarter of 2008 calendar year. As a result, payments for the rest of 2008, which will all fall into the 2008-09 financial year, will be lower.

3.16 UK net contributions to the EC Budget in 2007-08 are estimated to be £0.9 billion lower than they were in the PBR and CSR, while UK net contributions in 2008-09 are estimated to be £0.3billion lower. The estimates for 2009-10 and 2010-11 are, respectively, £0.4 billion higher and £0.1 billion lower than at the time of the PBR and CSR. These changes are primarily the result of the use of updated information on the size of the final EC Budget for 2007 and the likely pattern of payments to the 2008 EC Budget, e.g. the drawing forward of Member States' 2008 VAT-based and GNI-based contributions into the first quarter of the year. For the UK, this is partially offset by a draw-forward of the abatement into the first quarter of 2008. Other factors include increases in estimates of contributions resulting from changes in exchange rate forecasts.

Measuring Net Contributions

3.17 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 European Commission report on the allocation of 2006 operating expenditure.

4 Financial management and anti-fraud issues

European Court of Auditors' annual report on the 2006 Budget

4.1 The Annual Report and Statement of Assurance from the European Court of Auditors (the Court) on the 2006 EC Budget were published on 13 November 2007. As usual, the report covered the main areas of the EC Budget – own resources, agriculture, structural funds, internal policies, external and pre-accession strategy, administrative expenditure, and financial instruments and banking activities.

4.2 The Court reiterated its previously stated view that the key to adequate management of the EC Budget was through sufficient, appropriate internal control systems operated by the European Commission and Member States. The Court also recognised the continuing efforts of the Commission in promoting and applying improved control and management procedures identified areas of improvement, some of which have been significant, while clearly highlighting areas of expenditure where the situation remains unsatisfactory.

4.3 The Court noted the adoption of a substantially revised Financial Regulation, which came into effect from 1 January 2007, and that strengthened sectoral regulations were approved. These changes are designed to simplify systems and procedures while strengthening controls and therefore have the potential to achieve better implementation of the EC Budget in the coming years.

4.4 The Court also noted the continuing progress made by the Commission in its important and complex task of introducing accruals-based accounting, but pointed out that certain weaknesses persist, notably at the level of recording and processing of information concerning pre-financing and open invoices.

European Court of Auditors' Statement of Assurance (DAS)

4.5 The Court's audit of the EC accounts showed, as in previous years, that they faithfully reflect the revenue and the expenditure of the Communities for the year, and their financial position at the year-end. However, the Court has given a positive opinion on the reliability of the accounts, and on the legality and regularity of most expenditure.

4.6 The Court found that revenue, commitments and payments for administrative expenditure, pre-accession expenditure, with the exception of the SAPARD programme, and external actions, managed and controlled directly by Commission delegations, to be free from material error. For CAP expenditure the Court once again found that where properly applied, the Integrated Administration and Control System (IACS) provided an effective system to limit the risk of irregular expenditure. The Court noted that in the area of pre-accession expenditure, there were still significant risks at the level of implementing organisations in the newly acceded and candidate countries for all programmes and instruments. In other areas, payments were still materially affected by errors and the Court felt that the Commission and Member States needed to make greater effort to implement adequate supervisory and control systems in order to address this.

4.7 The Court gave an assessment for each EC Budget sector:

- **Own resources (revenue):** The Court found that overall the underlying transactions were free from material error and that the overall functioning of supervisory and control systems audited were satisfactory. As in previous years, the Court's audit and the Commission's inspections found recurrent problems affecting the B accounts[3] in some Member States. The Court also noted that the Commission has no effective means of ensuring that Member States provide adequate and timely information on the calculation of the VAT resource and should examine what can be done to remedy this. In respect of the GNI-based resource, the Court recommended that the Commission: a) set rules on the communication of GNI revisions, so that the Commission and the GNI Committee are forewarned of major revisions; b) implements a co-ordinated policy for national accounts data revisions, including the requirements for regular benchmarking; and c) ensures that the conclusions from control of the inventory are available early enough, to allow the inclusion of corrected data in accounts for the financial year 2007.

- **CAP:** The Court found CAP expenditure to be affected by errors, which, although decreasing, remain material. Where properly applied, IACS was an effective control system for limiting the risk of error or irregular expenditure. The Court noted that some elements of the Single Payment Scheme (SPS) had not been properly applied by Member States and recommended that the Commission take this into account when performing its 'Health Check'.
- **Structural measures:** The Court noted that there was a high risk that the declared costs of Structural Policy projects are misstated or ineligible for reimbursement and that mitigation of these risks requires effective control systems in Member States and effective supervision by the Commission. Control systems in Member States were generally deemed ineffective or of only limited effectiveness and that the Commission maintained only moderately effective supervision to mitigate the risks.
- **Internal policies:** The Court's audit revealed a material level of error in payments to beneficiaries and that the Commission's supervisory and control systems were insufficient in mitigating inherent risks. The Court also noted that improving the financial management of Internal Policies poses considerable challenge with a need to both ensure that systems are in place to satisfactorily protect the Community's financial interests, and that these control arrangements are proportionate and realistically designed.
- **External actions:** The Court's audit revealed a low level of error affecting transactions checked at the level of the Delegations. It found a material incidence of error in the sample tested at the level of project implementation.
- **Pre-accession strategy:** The Court found that transactions audited were not affected by significant errors, except for the transactions financed under the SAPARD programme. The Court recommended that the Commission monitor closely the effective functioning of national supervisory and control systems.
- **Administrative expenditure:** The Court's audit did not reveal material errors affecting the legality and regularity of administrative expenditure. However, the Court's audit of specific risk areas in some institutions showed

[3] Traditional own resources are collected by the Member States who enter them in the accounting system kept by the national Treasury ('the A accounts'). Where duties or levies remain unpaid and no security has been provided, or they are covered by securities but have been challenged, it is possible for Member States to suspend making these resources available by entering them in a separate account ('the B account').

weaknesses in the supervisory and control systems relating to the payment of assistance allowance to Members of the European Parliament.

- **EU agencies:** The Court audited 24 agencies with budgets totalling €1 billion (£0.7 billion) compared with €0.9 billion (£0.7 billion) in 2005 and found that the Commission did not always comply with the rules and procedures which stipulate that fund transfers should be based on regular and justified estimates of the agencies' cash requirements. The Court noted that the gradual introduction of the new Accrual-Based Accounting System (ABAC) system in the agencies would take some time and that the Commission would need to ensure that the current system is adequately maintained until the new system becomes operational.
- **Financial instruments and banking activities:** The Court's audit covered banking measures in the Mediterranean area, the operation of the Guarantee Fund for External Actions and the activities of the European Coal and Steel Community in Liquidation. The audit showed that the management of banking measures under the Mediterranean Regulation, in respect of Technical Assistance and loans with interest rebates were satisfactory. However, weaknesses were found in the area of risk capital operations. The Court found that the Guarantee Fund for External Actions had been managed satisfactorily and that no guarantee calls were made to the fund during 2006. The Court found that the winding-up of the financial operation of the European Coal and Steel Community in Liquidation was proceeding in compliance with the relevant legislation.

Box 4.1: UK CONSOLIDATED STATEMENT AND AUDIT OPINION ON THE UK USE OF EU FUNDS: 2006-07

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

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

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

The Government published the first consolidated statement of the UK's EC financed spending, relating to the financial year 2006-07, on 17 July 2008. The document 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 will show, at an aggregate level, the income from each EC fund and the related amounts of expenditure by each main UK public sector entity. The format, content and timing of the statement will be kept under review in order to refine the concept and its usefulness for subsequent years.

Although HM Treasury has responsibility for performing the consolidation, 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 EC funds are used. In preparing its audit opinion, the National Audit Office audited the expenditure of EC funds by Government departments and devolved administrations, drawing where appropriate on the work of the National Audit Institutions in Scotland, Wales and Northern Ireland.

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

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

Council recommendation to the European Parliament

4.8 The Council's recommendation to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2006 Budget was discussed by ECOFIN on 12 February 2008. As in previous years, the Council recommended that the Parliament grant discharge. However, Council's recommendation was accompanied by detailed comments criticising financial management in some areas and calling for improvements. The Council was disappointed that the Court remained unable to give a positive Statement of Assurance in areas where the supervisory and control systems are not implemented in a manner which provides for adequate risk management. The Council's approach, as in the past, has been to work constructively to bring about improvements reflecting an awareness that failings and hence responsibility for action rest with all parties (i.e. the Commission, the Council, the Member States and the European Parliament). The Council had a number of recommendations for the Commission, for itself, for Member States and for the Court.

4.9 The Council's recommendations included:

- encouraging Member States to continue analysing closely the Court's audit results and to react in sufficient time to the statements of preliminary findings in order to provide a sound basis for the contradictory procedure regarding the finalisation of the Court's annual report;

- encouraging improvement of the day to day management and implementation of sound closure procedures for Structural Policies for the programming period 2000-2006 and by correctly implementing the legal framework relating to the programming period 2007-2013;
- placing emphasis on compliance with the agriculture eligibility conditions in order to reduce errors, particularly in rural development expenditure.
- prioritising the improvement of cost-benefit ratio relating to control structures and promoting simplification; and
- urging the Commission to take action in ensuring that rules are applied in a simplified and operational way through instructions and guidelines which are understandable and adequate to contribute to efficient implementation; avoiding complex rules and regulations as well as unnecessary administrative burdens.

European Court of Auditors' Special Reports

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

European Parliament's report on discharge for 2006

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 26 March 2008.

UK Government response to the European Court of Auditors

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

4.13 The Court's 2006 report included some specific criticisms of the UK. Remedial action has been implemented where necessary, but not all the Court's findings were accepted. Some examples are as follows:

Own Resources

Audit finding: The Court's audit and the Commission's inspections detected recurrent bookkeeping problems affecting B accounts. Late or inaccurate entries, omissions and erroneous cancellations were found in a number of Member States (including the UK). In two of these (including the UK), unchallenged customs debts covered by securities had systematically been recorded in the B accounts, even though the parts covered by the security should have been made available.

Response: The UK will change procedures to ensure that secured debts, which are not contested, are entered in the A Account. The amounts of secured debts, which are not contested, that remain in the B Account at 31 March 2007 were therefore made available without prejudice with the A Account on 21 May 2007.

Structural Funds

Audit finding: Although not mentioning the UK specifically, the Court highlights ERDF and ESF errors, which occurred across the Member States. A table categorising control systems found these to be ineffective in some areas of the UK.

Response: The Managing Authorities in England have worked with the Commission in implementing the joint action plan agreed in order to strengthen the control systems for ERDF.

Annual report on the Fight against Fraud 2006

4.14 The European Anti-Fraud Office (OLAF) compiles the Commission's Annual Report on the Fight against Fraud. The report covering the 2006 calendar year was published on 10 July 2007 and included two supplementary reports: Statistical Evaluation of Irregularities and Implementation of Article 280 of the Treaty by Member States in 2006.

4.15 The report sets out the most significant measures taken in 2006 by the Member States and the Commission to improve prevention and fight against fraud and an analysis of reported irregularities[4]. The report provides a summary of the measures and examines actions taken by the national authorities and the Commission to prevent and fight economic and financial crime.

4.16 Prominence was also given to the issues of risk analysis and risk management, debarment databases and early-warning/whistleblower tools. The report analysed warning systems based on internal informers in the Member States and the European institutions who provide initial information that could trigger further investigations.

4.17 A statistical evaluation of all irregularities communicated to the Commission by Member States showed that the total number of irregularities increased for agriculture, cohesion and pre-accession funds, and decreased for own resources and structural funds. In spite of well over 12.000 irregularities notified, further progress in speed and quality of transmission remains an objective. The table below compares the totals of cases and amounts involved, between 2005 and 2006:

	2005 No. of cases	Amounts (€ millions)	2006 No. of cases	Amounts (€ millions)
Traditional Own Resources	5,943	328	5,243	353
Agricultural	3,193	102	3,249	87
Structural Funds	3,750	601	3,216	703
Pre Accession Funds	338	16.7	384	12.3

Source: Fight against Fraud Report 2006

[4] A definition of fraud and irregularity can be found in the glossary.

4.18 Care must always be taken in interpreting these figures. A sharp rise may simply reflect the inclusion of figures for one or more long-running case, which has only just been resolved. The total number of cases of irregularities and fraud communicated in 2006 increased by 0.1% to 12,092 compared to 2005 in two areas (own resources and structural funds), but reduced in agriculture compared with the previous year; the amounts involved increased in both TOR and agriculture but decreased in structural funds.

4.19 The number of irregularities reported in TOR fell by 12% but the amount affected rose by 10% from €328 million (£224 million) in 2005 to €353 million (£241 million) in 2006. Suspected fraud was approximately 0.94% of the total amount. As in previous years, the goods mostly affected are tobacco products and TVs.

4.20 Regarding agriculture expenditure, irregularities reported rose by 3% whereas the financial impact was down by 15%. Suspected fraud accounted for approximately 0.06% of total appropriations with the highest number of irregularities related to rural development, the bovine sector and fruit and vegetables.

4.21 In Structural Measures, irregularities reported (3,216) fell by 10% in 2006 compared to the previous year (3,750), whereas their financial impact rose by 17% to €703 million (£479 million). The ERDF and ESF accounted for the most irregularities (around 75%).

4.22 In the case of Pre-Accession funds, irregularities reported and related to the PHARE, SAPARD and ISPA funds increased by 14% in 2006 (384 compared to 338 in 2005), with the presumed financial impact of the irregularities increased for PHARE and SAPARD, but decreased for ISPA from €6.9 million (£4.7 million) in 2005 to €1.2 million (£0.8 million) in 2006.

4.23 The number of investigations opened by OLAF following evaluation of information received fell in 2006 (196) compared to 2005 (214).

4.24 Acknowledging the need for a common approach to risk management, the Commission took a number of steps in 2006 to improve the decision making process, increase effectiveness, and strengthen the reliability of management systems. These included the review of the early warning and debarment systems, the adoption of the action plan for an integrated internal control, and the introduction of several improvements that simplify and clarify rules, which better guarantees that money has been well spent. Also, the Hercule action programme aimed at promoting activities in the field of the protection of the Communities financial interests has been extended to the end of 2013.

4.25 In line with the European Transparency initiative and new financial regulation, an annual retrospective publication on beneficiaries of the structural funds will be produced from 2008. The Commission believes this would enable the public exert indirect control on the way funds are spent.

4.26 Following OLAF investigations, nearly €114 million (£78 million) were recovered in 2006 from sums wrongly paid against the rules and the ones that should have been reclaimed back. An overview of Member States' recovery procedures showed that the wide utilisation of recovery by offsetting has been an effective tool in the recovery of public funds.

OLAF 7th Activity Report for the Year 2006

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

4.28 The OLAF Activity Report for 2006 was published in July 2007, and provides a statistical analysis of OLAF's work since 1999 together with activities and progress in 2006.

4.29 OLAF was reorganised in 2006 to place more emphasis on its operational work, improve communication within its office, and to strengthen its management. The report noted that the volume of information received by OLAF has progressively increased from 529 notifications in 2002 to 826 in 2006. The report also noted that the shift of emphasis to targeting more substantial cases has prompted 195 out of 464 decisions resulting in the opening of a case; thus increasing significantly, the proportion of cases closed with follow-up. A significant proportion of the new cases opened related to the direct expenditure area of the EC budget.

4.30 For the first time, the number of cases, which OLAF conducted of its own volition, equalled the number of cases in which OLAF was assisting Member States' authorities. Over €450 million (£307 million) was recovered in the context of OLAF cases with €114 million (£78 million) arising from cases closed in 2005, and around €336 million (£229 million) was recovered in respect of follow up actions, which were still continuing at the end of the year.

4.31 The report showed that OLAF made good progress in working with the new Member States and candidate countries to combat fraud, and that further improvements had been made to its case management system.

4.32 OLAF increased its cooperation with Europol and Eurojust and forged an effective partnership with the United Nations and the World Bank.

A GLOSSARY

Budget Procedure The Community's financial year runs from 1 January to 31 December. The rules governing decisions on the EC Budget are set out in Article 272 of the EC Treaty, June 1997. These rules have been built on by the IIA.

The timetable is as follows:

- establishment of the PDB by the Commission, normally in May;
- establishment of the draft Budget by the Council in late July;
- first reading by the Parliament in late-October;
- second reading by the Council in mid-November; and
- second reading by the Parliament and adoption of the Budget in mid-December.

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

Compulsory and non-compulsory expenditure EC expenditure is regarded as either "compulsory" or "non-compulsory". Compulsory expenditure is expenditure necessarily resulting from the Treaty or from acts adopted in accordance with the Treaty. It mainly includes agricultural guarantee expenditure, including stock depreciation. The Council has the final say in fixing its total.

The Parliament has the final say in determining the amount and pattern of non-compulsory expenditure. The growth of this expenditure is governed by the "maximum rate". Article 272(9) of the EC Treaty provides a formula for determining this rate, unless the budgetary authority agrees an alternative figure. Under the IIA, the Council and Parliament agree to accept the maximum rates implied by the FP ceilings.

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

Flexibility Instrument The Flexibility Instrument was established under paragraph 24 of the 1999 IIA, which allows for expenditure in any given Budget year of up to €200 million above the 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 **Fraud** (as defined by the Penal Convention) covers intentional acts or omissions, in respect of both expenditure and revenue, which involve the use or presentation of false, incorrect or incomplete statements or documents, or specific non-disclosure of information, or misapplication of funds or benefits.

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

Inter Institutional Agreement (IIA) The IIA is a politically and legally binding agreement that clarifies the EC's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the EC Budget on the basis of proposals from the Commission. The IIA sets out the way in which the three institutions will exercise their responsibilities in accordance with the Treaty, and their respect for the revenue ceilings that are laid down in the ORD. In particular, it provides for the annual EC Budget to be set in the context of a multi-annual financial framework.

Own Resources Decision (ORD) The existing arrangements for financing the EC Budget are set out in the Communities' ORD. The current ORD was agreed in September 2000 and took effect from 1 January 2002. The current ORD entered into UK law by virtue of the European Communities (Finance) Act 2001, which received Royal Assent on 4 December 2001. The current ORD sets an Own Resources ceiling on the amount the Communities can raise from Member States in any one year. This ceiling is currently fixed at 1.24% of EU GNI for payments and 1.31% for commitments. As the Communities are not allowed to save or borrow, revenue must equal expenditure. Budget payments are therefore limited by the amount of Own Resources that can be called up from Member States.

A new ORD was agreed at the ECOFIN Council of 7 June 2007. This ORD now has to be ratified by all Member States. Ratification in the UK was undertaken by means of primary legislation (European Communities (Finance) Bill), amending the 1972 European Communities Act, which received Royal Assent on 19 February 2008, (see Box 2.2 (pages 11-12) for a more detailed explanation). All Member States are required to complete Ratification by 31 December 2008, with the changes having retrospective effect from 1 January 2007.

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

- Customs duties, including those on agricultural products. These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT Round, most agriculture duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices.

- Sugar levies. These are charged on the production of sugar to recover part of the cost of subsidising the export of surplus Community sugar onto the world market.

- Contributions based on VAT. Essentially, the VAT resource is the amount yielded by applying a notional rate of 1% to a VAT base, assuming an identical range of goods and services in each Member State. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The method for calculating the VAT-based resource is set out in the ORD:

  - the starting point is the total amount of net VAT collected in each Member State;
  - a weighted average of the rates at which VAT is charged in the Member State is then applied to the net total to produce the Member State's intermediate national base;
  - the intermediate base is then adjusted for derogations operated under the Sixth VAT Directive to produce the harmonised base;
  - a notional rate of 1% is then applied to this base. The base is, where necessary, then capped at 50% of 1% of the Member State's GNI; and
  - a call-up rate (currently a maximum of 0.5%) is applied to produce a Member State's VAT-based contribution.

- GNI-based contributions. The amount due is calculated by taking the same proportion of each Member State's GNI. Because the Community is not allowed to borrow, revenue must equal expenditure. The GNI-based resource is the budget-balancing item; it covers the difference between total expenditure in the Budget and the revenue from the other three resources, subject to the overall Own Resources ceiling.

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

Sterling Figures The Sterling figures for 2002-2008 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[8].

[8]The annual average rate for 2002 is £1 = €1.5903
The annual average rate for 2003 is £1 = €1.4320
The annual average rate for 2004 is £1 = €1.4742
The annual average rate for 2005 is £1 = €1.4629
The annual average rate for 2006 is £1 = €1.4669
The annual average rate for 2007 is £1 = €1.4615

Generally, the 2008 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31 December 2007, namely £1=€1.363605 (regulations state that VAT-based and GNI-based payments will be made using the exchange rate on the last working day of the preceding year). However, there may be some exceptions, for example where figures have previously been published at a different exchange rate, but these are noted where necessary.

Structural Funds and the Cohesion Fund

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

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

Substantive and formal errors

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

UK Abatement

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

- the abatement applies only in respect of spending within the EU. Expenditure outside the EU (mainly aid), 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 2008 relates to UK payments and receipts in 2007.

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 and again in 2000.

The Commission is directly and solely responsible for determining the UK's abatement. It calculates the abatement on the basis of a forecast of contributions to the EC Budget and of receipts from it. This is subsequently corrected in the light of outturn figures.

Corrections may be made for up to three years after the year in respect of which the abatement relates, with a final calculation then being made in the fourth year, e.g. a final calculation of the abatement in respect of 2007 will take place in 2011.

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

B TECHNICAL ANNEXES

TECHNICAL ANNEX I

Determining the value of the Own Resources Elements

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

- at the beginning of the budgetary process, which occurs in the year prior to the Budget in question, the amounts due from each Member State are assessed in that Member State's national currency, i.e. Sterling for the UK;
- the initial process involves estimating the amounts due to be received in respect of the TOR, the amount relating to VAT if it were applied at 1% across the Community, and the amount of 1% of each Member State's GNI. These estimates rely on the Member States' estimates of their economic activity during the Budget year;
- the Member States' national currency estimates are, where necessary, then converted into Euro at a rate known as the "Budget exchange rate". This is the exchange rate at the time the estimates are being drawn up – nowadays this usually an early May exchange rate;
- the amount of VAT and GNI each Member State has to pay to the EC Budget is then determined by the limits described above for these Own Resources, so that when added to the amounts for the TOR the total does not exceed the value of the Own Resources required to fund the proposed Budget for the coming year, subject to ensuring that the value of these Own Resources does not also exceed the Own Resources ceiling for the year in question (e.g. 1.24% in 2008);
- 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. 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% VAT and GNI bases during the course of the budgetary year and the conversion of their national currency estimates is carried out using the exchange rate on the last working day prior to the start of the Budget year. The revised figures are then included in an Amending Budget to the budgetary year to which they relate. In practice, converting the revised figures using the exchange rate on the last working day means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1% base using much later information means that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. In the year following the budgetary year, any adjustments to correct for any under or overpayment should be relatively small, compared to the adjustments made in years prior to 1998; and

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

TECHNICAL ANNEX II

Explanation of the difference between the Government's cash flow outturn for the UK's net contribution for 2006 and the figures in the European Commission's EU budget 2006 Financial Report

When converted at the average exchange rate for 2006 of £1= €1.4669, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	17,602	11,999
UK abatement	-5,221	-3,559
UK receipts	-8,294	-5,654
UK net contribution	**4,086**	**2,786**

The Government's figure for the UK's net contribution in 2006 is £3,909 million.

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

- the UK figure includes only transactions between the EC Budget and the UK public sector, whereas the European Commission's figures include receipts paid direct to the UK private sector. It is estimated that this accounted for around £675 million of the difference in 2006;
- the late adoption of Amending Budget Nos. 8/2005 meant that associated changes were not implemented until January 2006. The result of which leads to the Government's figures for 2006 being some £456 million lower than if the Amending Budget changes had been implemented in 2005;
- the late adoption of Amending Budget 6/2006 meant that associated changes were not implemented until January 2007. The result of which leads to the Government's figures for 2006 being around £855 million lower than if the Amending Budget changes had been implemented in 2007; and
- the UK's outturn figure was based on cash flow within a calendar year, whereas European Commission figures attempt to match transactions to a particular EC Budget. Some receipts from a EC Budget for a given year take place in the early weeks of the subsequent year. These are scored in the UK to the year in which the transactions happened and by the European Commission to the Budget for the previous year. Up to £112 million of Structural Funds payments to the UK in 2006 may have been in respect of the 2005 Budget, and up to £173 million of Structural Funds payments in 2007 may have been in respect of the 2006 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 cashflow outturn for 2006	3,909
Private sector receipts	-675
Late implementation, in January 2006, of Amending Budget No. 8/2005	456
Late implementation, in January 2007, of Amending Budgets No. 6/2006	-855
Structural Fund receipts paid in 2006, which may have been from the 2005 Budget	112
Structural Fund receipts paid in 2007, which may have been from the 2006 Budget	-173
UK Cashflow figure adjusted to reflect main differences compared to European Commission's figure	**2,774**
European Commission figure for 2006 outturn	**2,786**
Net difference due to other factors (such as exchange rate)	**-12**

C TABLES

Table 1A: Expenditure on the EC Budget Commitments and Payments by Heading in years 2002-2006 (€ million)

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

Notes:
[1]2005 and 2006 data include all Amending Budgets
[2] Because of rounding the columns totals do not necessarily equal the sum of the individual items
Sources: European Commission 'General Budget of the European Union for the financial year' 2005, 2006, 2007. Other EU documentation.

Table 1B: Expenditure on the EC Budget Commitments and Payments by Heading in years 2002-2006 (£ million)

	Commitments					Payments				
	2002	2003	2004	2005[1]	2006[1]	2002	2003	2004	2005[1]	2006[1]
1 Agriculture	27,175	31,049	30,580	31,906	34,216	27,367	30,991	29,842	33,574	34,175
2 Structural Operations	21,387	23,734	27,833	28,999	30,374	14,776	19,922	23,417	22,145	22,046
3 Internal Policies	4,788	5,009	5,905	6,188	6,407	4,129	3,961	5,094	5,417	6,075
4 External Action	3,198	3,538	3,512	3,568	3,779	2,782	2,993	3,358	3,743	3,661
5 Administration	3,315	3,872	4,153	4,341	4,538	3,277	3,705	4,153	4,341	4,538
6 Reserves	108	103	300	305	292	107	103	300	305	291
7 Pre-accession Aid	2,203	2,369	1,176	1,423	1,835	1,102	1,564	1,937	2,247	1,662
8 Compensations	n/a	n/a	956	892	732	n/a	n/a	956	892	732
Total[2]	**62,174**	**69,675**	**74,414**	**79,673**	**82,194**	**53,540**	**63,239**	**69,059**	**72,664**	**73,201**

Notes:
[1] 1 Sterling figures are derived from the corresponding euro amounts in Table 1 converted using the exchange rate of the relevant year (see glossary)
[2] 2005 and 2006 include all Amending Budgets
[3] 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' 2007and 2008. Other EU documentation.

Table 1C: Table 1D: Expenditure on the EC Budget Commitments and Payments by Heading in years 2006-2008 (€ million1)

Appropriations	Commitments			Payments		
	2006[1]	2007[1]	2008	2006[1]	2007[1]	2008
1 Sustainable Growth	47,515	54,854	57,964	35,866	43,590	50,324
1a Competitiveness for Growth and Employment	7,898	9,368	11,086	7,434	6,545	9,773
1b Cohesion for Growth and Management	39,618	45,487	46,878	28,432	37,045	40,552
2 Preservation and Management of Natural Resources	55,691	55,850	55,041	54,579	54,210	53,177
3 Citizenship, Freedon, Security and Justice	1,165	1,444	1,343	1,162	1,270	1,241
3a Freedom Security and Justice	553	624	728	537	370	533
3b Citizenship	612	820	615	625	900	708
4 The EU as a Global Partner	8,512	6,813	7,311	8,093	7,353	8,113
5 Administration	6,604	6,978	7,284	6,604	6,978	7,284
6 Compensations	1,074	445	207	1,074	445	207
TOTAL	120,570	126,383	129,150	107,378	113,846	120,347

Notes:

[1] 2006 and 2007 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 European Union for the financial year' 2007and 2008. Other EU documentation.

Table 1D: Expenditure on the EC Budget Commitments and Payments by Heading in years 2006-2008 (£ million1)

Appropriations	Commitments			Payments		
	2006[2]	2007[2]	2008	2006[2]	2007[2]	2008
1 Sustainable Growth	32,391	37,533	42,508	24,450	29,826	36,905
1a Competitiveness for Growth and Employment	5,384	6,410	8,130	5,068	4,478	7,167
1b Cohesion for Growth and Management	27,008	31,123	34,378	19,382	25,347	29,739
2 Preservation and Management of Natural Resources	37,965	38,214	40,364	37,207	37,092	38,998
3 Citizenship, Freedon, Security and Justice	794	988	985	792	869	910
3a Freedom Security and Justice	377	427	534	366	253	391
3b Citizenship	417	561	451	426	616	519
4 The EU as a Global Partner	5,803	4,661	5,362	5,517	5,031	5,949
5 Administration	4,502	4,774	5,342	4,502	4,774	5,342
6 Compensations	732	304	152	732	304	152
TOTAL[3]	82,194	86,475	94,712	73,201	77,897	88,256

Notes:

[1] Sterling figures are derived from the corresponding euro amounts in Table 1 converted using the exchange rate of the relevant year (see glossary)
[2] 2006 and 2007 include all Amending Budgets
[3] 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' 2007and 2008. Other EU documentation.

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

	Agricultural and Sugar Levies						
	2002	2003	2004	2005	2006	2007	2008
Belgium	55	43	48	55	24	11	50
Bulgaria	-	-	-	-	-	9	11
Czech Republic	-	-	2	15	8	14	10
Denmark	28	25	44	60	37	34	45
Germany	342	277	319	426	210	174	385
Estonia	-	-	0	1	1	18	10
Greece	18	17	15	12	11	9	13
Spain	46	43	82	85	52	51	67
France	275	206	232	300	134	91	356
Ireland	6	4	5	6	2	0	1
Italy	99	106	113	114	150	146	181
Cyprus	-	-	2	5	3	11	8
Latvia	-	-	0	2	1	3	2
Lithuania	-	-	1	3	2	2	3
Luxembourg	0	0	0	0	1	1	1
Hungary	-	-	3	11	6	4	11
Malta	-	-	1	2	1	2	2
Netherlands	194	246	330	300	244	259	313
Austria	26	17	20	24	7	2	18
Poland	-	-	18	82	47	39	118
Portugal	16	17	37	22	23	25	28
Romania	-	-	-	-	-	27	31
Slovenia	-	-	0	1	1	0	0
Slovakia	-	-	1	9	3	4	4
Finland	7	5	8	11	7	6	8
Sweden	21	19	23	28	18	17	23
United Kingdom	403	371	410	473	451	494	619
Total	**1,534**	**1,395**	**1,715**	**2,046**	**1,444**	**1,449**	**2,317**

	Customs Duties						
	2002	2003	2004	2005	2006	2007	2008
Belgium	834	1,121	1,231	1,318	1,497	1,581	1,677
Bulgaria	-	-	-	-	-	41	56
Czech Republic	-	-	58	131	141	187	230
Denmark	153	191	214	238	287	287	275
Germany	1,623	2,010	2,088	2,298	2,718	3,035	3,382
Estonia	-	-	7	15	19	23	26
Greece	104	138	181	187	194	221	247
Spain	539	710	873	1,013	1,146	1,247	1,338
France	674	834	903	1,037	1,148	1,270	1,352
Ireland	79	100	124	176	200	217	232
Italy	769	1,013	1,124	1,228	1,423	1,506	1,622
Cyprus	-	-	17	30	29	31	32
Latvia	-	-	8	18	21	24	27
Lithuania	-	-	13	31	36	41	48
Luxembourg	10	12	12	15	18	20	22
Hungary	-	-	52	103	98	115	129
Malta	-	-	4	10	10	10	11
Netherlands	767	1,038	1,047	1,184	1,401	1,507	1,635
Austria	125	150	156	165	188	257	327
Poland	-	-	94	190	225	266	304
Portugal	70	80	85	86	95	96	104
Romania	-	-	-	-	-	134	186
Slovenia	-	-	12	28	35	38	41
Slovakia	-	-	19	35	52	66	76
Finland	57	71	86	102	123	135	150
Sweden	212	262	292	323	382	406	406
United Kingdom	1,664	1,729	1,893	2,054	2,100	2,325	2,498
Total	**7,680**	**9,462**	**10,592**	**12,017**	**13,585**	**15,084**	**16,432**

	VAT Contributions						
	2002	2003	2004	2005	2006	2007	2008
Belgium	794	858	595	650	703	696	742
Bulgaria	-	-	-	-	-	67	73
Czech Republic	-	-	132	229	254	280	296
Denmark	614	573	371	402	470	478	508
Germany	5,113	5,209	2,985	3,258	3,677	3,674	3,786
Estonia	-	-	13	23	31	35	40
Greece	511	549	397	428	467	486	528
Spain	2,535	2,668	1,918	2,302	2,474	2,456	2,628
France	5,518	5,326	3,729	4,085	4,327	4,358	4,594
Ireland	396	419	288	337	366	389	418
Italy	4,021	3,694	3,292	3,112	2,686	3,162	3,259
Cyprus	-	-	20	31	34	36	38
Latvia	-	-	15	27	37	47	53
Lithuania	-	-	26	46	51	61	66
Luxembourg	73	78	57	58	56	71	79
Hungary	-	-	126	179	177	204	211
Malta	-	-	7	11	11	12	13
Netherlands	1,242	1,197	713	813	990	994	1,007
Austria	588	557	274	367	457	437	442
Poland	-	-	313	560	611	690	758
Portugal	466	478	309	394	351	370	388
Romania	-	-	-	-	-	246	285
Slovenia	-	-	41	67	69	75	81
Slovakia	-	-	50	76	92	117	127
Finland	427	474	337	341	359	387	404
Sweden	633	638	406	378	485	523	541
United Kingdom	-395	-1,178	-2,648	-2,285	-2,043	-1,832	-2,271
Total	**22,536**	**21,540**	**13,765**	**15,888**	**17,191**	**18,517**	**19,096**

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

	Fourth Resource Contributions							TOTALS						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Belgium	1,336	1,465	1,975	2,000	1,933	1,939	2,203	3,018	3,486	3,849	4,024	4,156	4,228	4,671
Bulgaria	-	-	-	-	-	163	195	-	-	-	-	-	279	334
Czech Republic	-	-	373	615	633	685	785	-	-	565	990	1,035	1,166	1,322
Denmark	893	989	1,312	1,290	1,400	1,355	1,541	1,688	1,778	1,941	1,990	2,193	2,153	2,369
Germany	10,505	11,706	14,838	14,154	13,896	14,108	15,920	17,582	19,203	20,230	20,136	20,501	20,990	23,474
Estonia	-	-	36	61	80	85	107	-	-	55	100	130	161	183
Greece	705	830	1,148	1,174	1,163	1,197	1,401	1,338	1,534	1,742	1,802	1,834	1,912	2,189
Spain	3,431	4,008	5,511	6,075	6,128	6,002	6,970	6,551	7,429	8,384	9,475	9,800	9,756	11,003
France	7,685	8,787	11,150	11,431	11,026	10,923	12,385	14,152	15,154	16,013	16,854	16,636	16,641	18,687
Ireland	538	604	834	924	914	949	1,108	1,019	1,127	1,251	1,442	1,482	1,555	1,758
Italy	6,390	6,945	9,257	9,093	9,247	8,940	10,116	11,280	11,758	13,786	13,547	13,507	13,754	15,177
Cyprus	-	-	56	83	87	88	101	-	-	95	150	153	165	180
Latvia	-	-	45	82	96	111	141	-	-	68	130	155	185	223
Lithuania	-	-	79	127	145	154	184	-	-	119	207	234	258	302
Luxembourg	101	114	162	154	143	176	209	184	205	231	227	217	268	310
Hungary	-	-	357	541	501	547	641	-	-	537	833	783	870	992
Malta	-	-	21	28	28	30	34	-	-	33	50	50	54	59
Netherlands	2,265	2,439	3,179	3,650	3,497	3,251	3,699	4,467	4,920	5,269	5,947	6,131	6,010	6,655
Austria	1,070	1,212	1,597	1,589	1,557	1,555	1,763	1,809	1,936	2,047	2,144	2,209	2,251	2,550
Poland	-	-	885	1,496	1,563	1,675	2,011	-	-	1,311	2,327	2,447	2,670	3,191
Portugal	636	717	902	1,025	909	903	1,030	1,187	1,293	1,332	1,527	1,378	1,394	1,550
Romania	-	-	-	-	-	671	848	-	-	-	-	-	1,078	1,350
Slovenia	-	-	117	180	175	184	216	-	-	170	275	279	297	339
Slovakia	-	-	150	239	255	301	363	-	-	220	359	402	487	569
Finland	**694**	**788**	**1,012**	**1,011**	**1,071**	**1,037**	**1,178**	**1,184**	**1,338**	**1,443**	**1,465**	**1,560**	**1,565**	**1,740**
Sweden	1,221	1,583	1,960	1,925	1,813	1,963	2,226	2,086	2,501	2,681	2,654	2,698	2,909	3,196
United Kingdom	8,481	9,050	12,027	11,915	11,874	12,160	13,702	10,153	9,971	11,682	12,157	12,381	13,147	14,549
Total	**45,948**	**51,235**	**68,982**	**70,861**	**70,132**	**71,153**	**81,078**	**77,698**	**83,632**	**95,054**	**100,811**	**102,351**	**106,203**	**118,922**

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. The figures for agricultural and sugar levies and customs duties are after the deduction of 25% collection costs.
3. The figures for VAT contributions are after taking account of the UK abatement.
4. The figures for the contributions of the the ten new Member States in 2004 cover the period May to December 2004 only.
5. Because of rounding the column totals do not necessarily equal the sum of the individual items.
Sources: Figures for 2002 to 2006 are taken from the European Commission's report: EU Budget 2006 Financial Report. Figures for 2007 taken from Amending Budget 7/2007. Figures for 2008 taken from 2008 Adopted Budget.

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

	Agricultural and Sugar Levies							Customs Duties							VAT Contributions						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Belgium	35	30	33	38	16	8	37	524	783	835	901	1,021	1,082	1,230	499	599	403	445	479	477	544
Bulgaria	-	-	-	-	-	6	8	-	-	-	-	-	28	41	-	-	-	-	-	46	54
Czech Republic	-	-	2	10	5	10	7	-	-	39	90	96	128	169	-	-	89	157	173	192	217
Denmark	17	17	30	41	25	23	33	96	134	145	163	196	196	202	386	400	252	275	321	327	373
Germany	215	194	216	292	143	119	282	1,020	1,404	1,416	1,571	1,853	2,076	2,480	3,215	3,637	2,025	2,227	2,507	2,514	2,777
Estonia	-	-	0	1	0	12	7	-	-	5	10	13	15	19	-	-	9	15	21	24	29
Greece	11	12	10	8	7	6	9	65	97	123	128	132	151	181	321	383	270	293	318	332	388
Spain	29	30	56	58	36	35	49	339	496	592	693	781	854	981	1,594	1,863	1,301	1,573	1,687	1,680	1,928
France	173	144	157	205	92	62	261	424	583	613	709	783	869	992	3,470	3,720	2,529	2,793	2,950	2,982	3,369
Ireland	4	3	3	4	1	0	1	50	70	84	120	137	148	170	249	292	196	230	249	266	306
Italy	62	74	77	78	102	100	132	484	708	762	839	970	1,030	1,189	2,528	2,580	2,233	2,127	1,831	2,164	2,390
Cyprus	-	-	1	3	2	8	6	-	-	12	21	20	21	24	-	-	13	21	23	24	28
Latvia	-	-	0	1	1	2	1	-	-	5	12	14	17	20	-	-	10	19	25	32	39
Lithuania	-	-	1	2	2	2	2	-	-	9	21	24	28	35	-	-	18	31	35	41	48
Luxembourg	0	0	0	0	0	0	1	6	9	8	11	13	14	16	46	55	38	39	38	49	58
Hungary	-	-	2	7	4	3	8	-	-	35	70	67	79	94	-	-	85	122	121	140	155
Malta	-	-	1	1	1	1	1	-	-	3	7	7	7	8	-	-	5	7	8	8	9
Netherlands	122	172	224	205	166	177	230	482	725	710	809	955	1,031	1,199	781	836	484	556	675	680	739
Austria	16	12	14	16	5	1	13	79	105	106	113	128	176	240	370	389	186	251	311	299	324
Poland	-	-	12	56	32	26	87	-	-	64	130	153	182	223	-	-	212	382	417	472	556
Portugal	10	12	25	15	15	17	21	44	56	58	59	65	66	76	293	334	209	269	239	253	285
Romania	-	-	-	-	-	18	23	-	-	-	-	-	92	137	-	-	-	-	-	169	209
Slovenia	-	-	0	0	0	0	0	-	-	8	19	24	26	30	-	-	28	46	47	51	60
Slovakia	-	-	0	6	2	3	3	-	-	13	24	36	45	56	-	-	34	52	63	80	93
Finland	4	4	6	7	5	4	6	36	50	59	70	84	92	110	268	331	228	233	244	265	296
Sweden	13	13	16	19	12	11	17	133	183	198	221	260	278	298	398	445	275	258	331	358	397
United Kingdom	253	259	278	323	307	338	454	1,046	1,207	1,284	1,404	1,431	1,591	1,832	-248	-823	-1,796	-1,562	-1,392	-1,254	-1,665
Total	**965**	**974**	**1,163**	**1,399**	**984**	**992**	**1,699**	**4,829**	**6,608**	**7,185**	**8,215**	**9,261**	**10,321**	**12,050**	**14,171**	**15,042**	**9,337**	**10,860**	**11,719**	**12,670**	**14,004**

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

	Fourth Resource Contributions							TOTALS						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Belgium	840	1,023	1,340	1,367	1,317	1,327	1,615	1,898	2,434	2,611	2,750	2,833	2,893	3,425
Bulgaria	-	-	-	-	-	111	143	-	-	-	-	-	191	245
Czech Republic	-	-	253	420	431	469	576	-	-	383	677	706	798	969
Denmark	562	690	890	882	954	927	1,130	1,061	1,241	1,316	1,360	1,495	1,473	1,737
Germany	6,605	8,175	10,065	9,675	9,473	9,653	11,675	11,056	13,410	13,722	13,765	13,976	14,362	17,214
Estonia	-	-	24	42	55	58	78	-	-	38	68	89	110	134
Greece	443	579	779	802	793	819	1,028	841	1,071	1,182	1,231	1,250	1,308	1,606
Spain	2,157	2,799	3,738	4,153	4,177	4,107	5,111	4,119	5,188	5,687	6,477	6,680	6,675	8,069
France	4,832	6,136	7,563	7,814	7,517	7,474	9,083	8,899	10,582	10,862	11,521	11,341	11,386	13,704
Ireland	338	422	566	631	623	649	812	641	787	848	986	1,010	1,064	1,289
Italy	4,018	4,850	6,280	6,216	6,304	6,117	7,418	7,093	8,211	9,351	9,260	9,208	9,411	11,130
Cyprus	-	-	38	57	59	60	74	-	-	64	103	105	113	132
Latvia	-	-	31	56	65	76	103	-	-	46	89	106	126	163
Lithuania	-	-	53	87	99	105	135	-	-	81	142	159	177	222
Luxembourg	63	80	110	105	97	121	153	116	143	157	155	148	184	227
Hungary	-	-	242	370	342	374	470	-	-	364	570	533	595	727
Malta	-	-	14	19	19	20	25	-	-	22	34	34	37	44
Netherlands	1,424	1,703	2,156	2,495	2,384	2,224	2,713	2,809	3,435	3,574	4,065	4,180	4,112	4,880
Austria	673	846	1,083	1,086	1,061	1,064	1,293	1,137	1,352	1,388	1,466	1,506	1,540	1,870
Poland	-	-	600	1,022	1,066	1,146	1,475	-	-	889	1,591	1,668	1,827	2,340
Portugal	400	501	612	701	620	618	755	747	903	904	1,044	940	954	1,137
Romania	-	-	-	-	-	459	622	-	-	-	-	-	738	990
Slovenia	-	-	79	123	119	126	158	-	-	116	188	190	203	249
Slovakia	-	-	102	163	174	206	266	-	-	149	245	274	333	418
Finland	436	550	687	691	730	710	864	745	934	979	1,001	1,063	1,071	1,276
Sweden	768	1,105	1,329	1,316	1,236	1,343	1,632	1,312	1,747	1,818	1,814	1,839	1,990	2,344
United Kingdom	5,333	6,320	8,158	8,145	8,094	8,320	10,049	6,384	6,963	7,925	8,310	8,441	8,996	10,669
Total	**28,892**	**35,779**	**46,793**	**48,438**	**47,810**	**48,685**	**59,458**	**48,857**	**58,402**	**64,478**	**68,912**	**69,774**	**72,667**	**87,211**

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

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

	€ million							£ million						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
GROSS CONTRIBUTIONS														
Agriculture & Sugar Levies	415	366	411	474	451	448	458	261	255	279	324	308	307	336
Customs Duties	1,636	1,704	1,899	2,089	2,102	2,204	2,068	1,029	1,190	1,288	1,428	1,433	1,508	1,517
VAT Own Resources	4,326	3,976	2,601	2,896	3,174	3,352	3,269	2,720	2,776	1,764	1,980	2,164	2,293	2,397
Fourth Resource payments	8,373	9,492	11,137	12,699	12,258	11,684	12,931	5,265	6,629	7,555	8,681	8,357	7,994	9,483
VAT & Fourth Resource adjustments	260	166	14	226	242	517	-	164	116	9	154	165	354	-
United Kingdom Abatement	-4,928	-5,097	-5,296	-5,349	-5,236	-5,149	-5,758	-3,099	-3,559	-3,593	-3,656	-3,569	-3,523	-4,223
Total Contributions	**10,082**	**10,606**	**10,765**	**13,035**	**12,993**	**13,056**	**12,968**	**6,340**	**7,407**	**7,302**	**8,911**	**8,857**	**8,933**	**9,510**
PUBLIC SECTOR RECEIPTS														
EAGGF Guarantee	3,946	3,814	4,035	4,294	4,323	4,079	4,899	2,481	2,663	2,737	2,935	2,947	2,791	3,593
EAGGF Guidance	:	3	73	117	75	33	72	:	2	50	80	51	23	53
European Regional Development Fund	470	889	1,566	2,052	867	1,033	1,380	296	621	1,062	1,403	591	707	1,012
European Social Fund	655	611	638	1,315	1,953	1,163	1,403	412	427	433	899	1,331	795	1,029
Other Receipts	20	21	18	19	40	11	257	13	15	12	13	27	7	189
Total Receipts	5,091	5,338	6,330	7,796	7,258	6,319	8,011	3,201	3,728	4,294	5,329	4,948	4,323	5,875
NET CONTRIBUTIONS	**4,991**	**5,268**	**4,435**	**5,239**	**5,735**	**6,737**	**4,958**	**3,138**	**3,679**	**3,008**	**3,581**	**3,909**	**4,610**	**3,636**

Notes:

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

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

in that these figures, drawn from Commission documents, relate to payments to particular EC Budgets.

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

3. The figures for 2008 are forecasts, those for earlier years are outturn.

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

Source: HM Treasury

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