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European Community Finances:

statement on the 2009 EC Budget and measures to counter fraud and financial mismanagement

Cm 7640

July 2009

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

July 2009

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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-ninth in the series. It describes the EC Budget for 2009 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 2003-04 to 2008-09, together with estimates for 2009-10 to 2010-11, and over the calendar years 2003 to 2008, together with an estimate for 2009. It also includes details of recent developments in EC financial management and the fight against fraud.

2 The 2009 EC Budget

The EC 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 at its first reading. 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 32.0 per cent of commitments in the 2009 budget, of which the Common Agricultural Policy (CAP) is the largest part. The European Parliament has the final say on all non-compulsory expenditure (i.e. the remainder of the Budget).

The Financial Perspective 2007-13

2.4 Since 1988, the annual budget has been set within a multi-annual expenditure framework known as the Financial Perspective (FP). The 2007-13 FP sets out annual expenditure ceilings for six broad categories[1] 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 per cent by 2013;
- a number of technical changes to simplify the management of the Structural and Cohesion Funds in the poorer Member States;
- CAP pillar one (market support and direct payments) expenditure should be consistent with the October 2002 ceilings;

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

- to stabilise expenditure on CAP pillar two (Rural Development) at current levels, but allow Member States to transfer up to a further 20 per cent of their CAP pillar one allocations without the need for co-financing or minimum spending requirements;
- that spending on Freedom, Security and Justice should rise by 15 per cent a year over the period; and
- that 90 per cent of the External Actions budget should be official development assistance, and the European Development Fund (EDF) should remain outside the 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 the following changes to the agreement reached in December 2005:

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

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

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

[1] Commitment appropriations

[2] In 2004 prices

Source: Commission's 2009 Adopted Budget

[2] An explanation of the exchange rates used throughout this statement can be found in the glossary on page 39-41.

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

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

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

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

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

Year	Share of expenditure in EU12 to be excluded (per cent)
2007	0
2008	0
2009	20
2010	70
2011	100
2012	100

Note: Budgeted in the year shown but refers to the previous year's abatement calculation as the abatement is paid a year in arrears
Source: Council Decision: 2007 / 436 / EC, Euratom

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

2.10 The European Council also invited the Commission to undertake a comprehensive review of the EC Budget, both expenditure (including the CAP) and resources (including the UK abatement), and to report in 2008-09. 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 2008-09. The Commission launched a public consultation on the EC Budget in September 2007 with its publication, 'Reforming the Budget, Changing Europe'.*

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'. **

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. The three principles below provide a framework for designing a future 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 EC Budget expenditure 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.
- Building the capacity of developing countries to respond to new market opportunities.

* http://ec.europa.eu/budget/reform/index_en.htm.
** http://www.hm-treasury.gov.uk/documents/international_issues/global_challenges/int_global_vision.cfm.

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 'competitiveness and employment' 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.

2.11 This FP agreement 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 is expected to fall from 1.10 per cent (commitments) in 2007 to 1.00 per cent in 2013, the lowest level in twenty years, and budget growth is expected to be limited to 13 per cent in real terms over the period 2007-13, consistent with the Union's budgetary needs;
- it provides for a fundamental review of all aspects of the budget, with a Commission report in 2008-09 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 2007-13 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 sevenfold increase in spending compared to 2004-06;
- it provides for an abatement that rises in value while the size of the budget is declining. This means that for the first time, the UK is paying roughly the same as France and Italy; and a process exists to lead to the necessary reform of the CAP; and
- compared to 2006, it provides for at least a 75 per cent real terms increase in expenditure on research and development by 2013.

2.12 Changes to the revenue side were taken forward through a new ORD, which was agreed at the ECOFIN Council of 7 June 2007. All Member States have now ratified the ORD. 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 for a more detailed explanation). The final ratification was notified in February 2009 with the new ORD coming into effect on 1 March 2009, with the changes having retrospective effect from 1 January 2007.

Box 2.2: Own Resources Decision (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 Decision agreed by the Council of Ministers on 7 June 2007 amends the current arrangements for VAT-based contributions by fixing the call-up rate at 0.3 per cent, thereby increasing Member States' residual contributions based on GNI.

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

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

The new Decision 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 Decision required adoption or ratification by all Member States in accordance with their own Constitutional requirements before it could enter into force. Entry into force dates from the first day of the month following notification of the final ratification, retrospective to 1 January 2007.

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

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

The 2009 EC Budget

2.13 The 2009 EC Budget was negotiated under the French Presidency of the Council of Ministers. Table 2.1 sets out the amounts established at each stage of the budgetary procedure, which ran from May to December 2008. Figures for previous years' Budgets are provided in Tables 1A and 1B (pages 50-51) for comparison.

2.14 The adopted 2009 EC Budget provides for commitment appropriations of €134 billion (1.03 per cent of EU GNI) (£127 billion), an increase of 3.6 per cent compared to the 2008 adopted budget; and payment appropriations of €116 billion (0.89 per cent of EU GNI) (£110 billion), a decrease of 3.5 per cent compared to the 2008 adopted budget. 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.A (page 14).

Table 2.1: 2009 EC Budget

€ million

Commitment Appropriations	Financial Perspective Ceilings	Preliminary Draft Budget	Council's First Reading Draft Budget	European Parliament First Reading Draft Budget	Council's Second Reading Draft Budget	Adopted Budget 2009	Budget 2008[1]
1 Sustainable growth	59,700	60,104	60,026	60,192	60,026	60,196	58,338
2 Preservation and Management of Natural Resources	59,639	57,526	57,144	58,728	55,789	56,121	55,560
3 Citizenship, Freedom, Security and Justice	1,523	1,468	1,447	1,515	1,447	1,515	1,635
4 The EU as a Global Player	7,440	7,440	7,554	7,684	7,993	8,104	7,551
5 Administration	7,699	7,655	7,553	7,701	7,552	7,701	7,279
6 Compensations	210	209	209	209	209	209	*207*
Total Commitment Appropriations	136,211	134,402	133,933	136,028	133,016	133,846	130,570
Total Payment Appropriations	129,681	116,744	114,972	124,488	114,364	116,096	115,771
Payment Appropriations as a percentage of Community GNI	1.09	0.90	0.89	0.96	0.88	0.89	0.92

Notes:
[1] 2008 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 2009. Other EU documentation.

2.15 Details of the levels of commitments in the 2009 Budget, compared to the 2008 adopted budget are as follows[6].

- Heading 1: Sustainable Growth. Expenditure in this area is aimed at building Europe's growth potential and fostering prosperity across EU regions. Commitments in this area have been set at €60.2 billion (£57.3 billion), a 3.9 per cent increase[7] compared to the 2008 adopted budget. Transforming the EU economy into a knowledge-based economy requires adequate investment in research, learning, and innovation. In 2009, the EC Budget is set to allocate: €6.8 billion (£6.5 billion) for research, a 10.9 per cent increase; €1.1 billion (£1.0 billion) for learning and training, a 6.5 per cent increase; and €508.2 million (£484.1 million) for competitiveness and innovation programmes, a 22.2 per cent increase. There will also be €48.4 billion (£46.1 billion) in commitments for fostering regional growth and employment, a 3.3 per cent increase, with €39.1 billion (£37.2 billion) made available through Structural Funds and €9.3 billion (£8.9 billion) through the Cohesion Fund.

- Heading 2: Preservation and Management of Natural Resources. Expenditure in this area includes spending on the CAP and Fisheries, Rural Development, and measures aiming to contribute to food quality, and a cleaner environment. Commitments in this area have been set at €56.1 billion (£53.4 billion) in the 2009 Budget, leaving a margin of €3.5 billion (£3.3 billion) under the relevant FP ceiling. Commitments for market related expenditure and direct payments have been set at €41.1 billion (£39.1 billion), a 0.6 per cent increase, whereas commitments for Rural Development are set at €13.7 billion (£13.0 billion), a 2.6 per cent increase. Commitments for EU environmental protection, through the LIFE+ programme, are set to increase by 18.8 per cent to €317.2 million (£302.1 million).

- Heading 3: Citizenship, Freedom, Security and Justice. Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Commitments in this area have been set at €1.5 billion (£1.4 billion), a 12.4 per cent increase. Commitments in the field of Freedom, Security and Justice (Heading 3a) have been set at €863.9 million (£822.9 million), an 18.7 per cent increase. Commitments for Citizenship (Heading 3b), which includes spending on culture, youth, and public health, have been set at €651 million (£620 million), a 5.7 per cent increase.

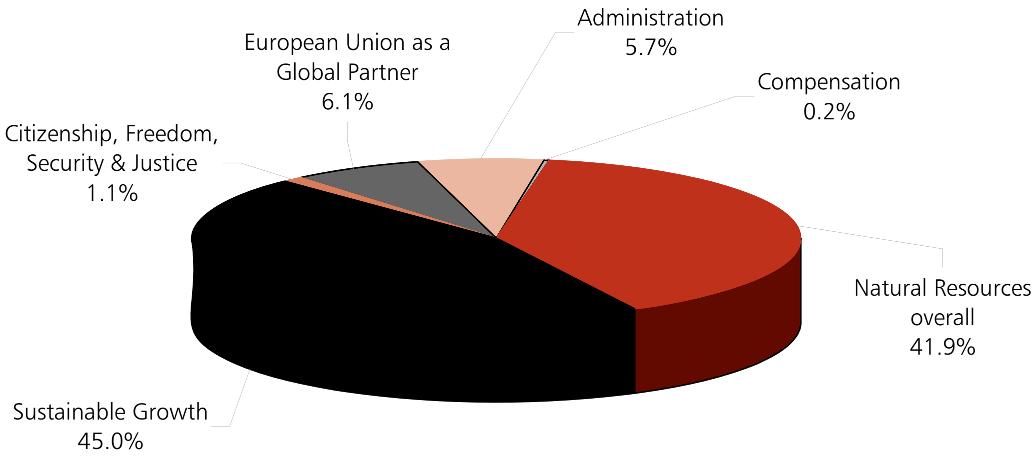
- Heading 4: The EU as a Global Player. Expenditure in this area includes EC foreign policy and international development expenditure, including assistance to non-EU partners with the exception of assistance to Africa, the Caribbean, or Pacific countries (which is funded from the off-budget EDF). Commitments for Heading 4 for 2009 have been set at €8.1 billion (£7.7 billion), a 10.8 per cent increase. This included €2.4 billion (£2.3 billion) in commitments for the Development Cooperation instrument, a 5.5 per cent increase. As part of the 2009 EC Budget negotiation, agreement was also reached on financing a new €1 billion Facility for Rapid Response to Soaring Food Prices in Developing Countries under Heading 4 of the budget, with commitments to be budgeted over 2008 to 2010 and payments from 2009 to 2011.

[6] 2008 adopted budget figures used exclude amending budgets.
[7] This and all other changes in this sector are real terms based on current prices.

- **Heading 5: Administration.** Expenditure in this area of the budget includes expenditure on the functioning of the EU institutions and includes remuneration and allowances for staff and members, pension costs, and rent and other building costs. Commitments and payments in this area have been set at €7.7 billion (£7.3 billion), a 5.7 per cent increase.

- **Heading 6: Compensations.** Expenditure in this area is intended to ensure that Bulgaria and Romania keep a positive budgetary balance in the years immediately following their accession, and no longer includes payments to the EU-10. Commitments and payments in this area were set at €209.1 million (£199.2 million), a 1.2 per cent increase. Compensation payments are temporary measures foreseen in accession treaties.

Chart 2.A: 2009 EC Budget - Payment Appropriations by Budget Heading



Source: Commission's 2009 Adopted Budget:

Box 2:3: European Economic Recovery Plan

In December 2008, the European Council agreed on a European Economic Recovery Plan to provide a co-ordinated fiscal stimulus package of around €200 billion representing approximately 1.5 per cent of EU GDP. The UK Government supports the recovery plan as an appropriate and wide-ranging framework, including specific proposals to guide Member States and the EU in making co-ordinated responses to the economic crisis, both to deal with the immediate impact on the real economy and to promote potential growth in the long-term. This EU fiscal stimulus is also in line with the policies the Government has pursued nationally and internationally to help the global economy recover.

The range of EU actions included increased European Investment Bank investments of €30 billion, and the simplification of procedures and faster implementation of Structural and Cohesion funds. The 2009 Spring European Council agreed on financing an additional €5 billion EC Budget contribution to the recovery plan. The Commission's original financing proposal would have necessitated an increase to the 2007-2013 Financial Framework. Working with other Member States, the UK Government secured agreement on an alternative solution by which financing the whole €5 billion package drew on existing budget resources. At least €2 billion of CAP funds have been reallocated to Competitiveness and Growth spending. This represents a good outcome, consistent with our broader aims for re-shaping the budget and for a fundamental review of EU Budget expenditure.

Within the €5 billion package, €3.98 billion will support energy infrastructure projects and €1.02 billion will help provide broadband infrastructure and CAP Health Check measures in rural areas. These are positive steps, and should help ensure additional investment for UK energy projects - for electricity interconnection, offshore wind and carbon capture and storage (CCS). Guaranteed access to funding across the EU should also leverage additional investment and create jobs, and could make the vital difference between projects going ahead or not. CCS technology development in the EU as a whole will receive over €1 billion as a consequence of this package.

Activity Based Budgeting

2.16 Activity Based Budgeting (ABB) was introduced in 2002 to improve budgetary 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 encourage further improvements in the use of ABB.

Community revenue

2.17 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.

2.18 Chart 2.B shows a breakdown of the estimates of how the 2009 EC Budget will be financed. Tables 2A and 2B (pages 54-61) show the gross contributions by Member State, after taking account of the UK abatement, between 2003 and 2009. The key points to note in terms of the UK's contribution are:

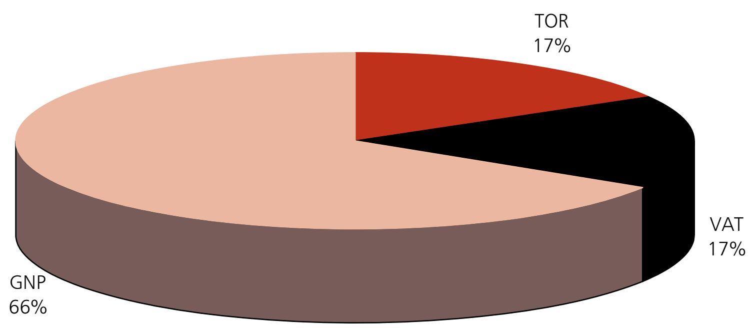
- TOR in 2009 are estimated to be around €19.2 billion (£18.3 billion), with the UK's share estimated at 16.2 per cent. In 2008, revenue from this source was estimated to be €16.9 billion (£13.5 billion), of which the UK's share was 16.0 per cent;

- VAT-based contributions in the 2009 EC Budget are shown as €19.6 billion (£18.7 billion), with the UK's share estimated as 16.1 per cent. In 2008, total VAT contributions were €18.1 billion (£14.4 billion), of which the UK's share was 17.0 per cent;

- GNI-based contributions in the 2009 EC Budget are shown as €75.9 billion (£72.3 billion), of which the UK's share is 15.1 per cent. In 2008, GNI-based contributions were €73.3 billion (£58.3 billion) with a UK share of 15.8 per cent; and

- the estimated value of the UK's abatement in 2009 is €6.3 billion (£6.0 billion) compared with a total abatement in the 2008 EC Budget of €6.6 billion (£5.3 billion). A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

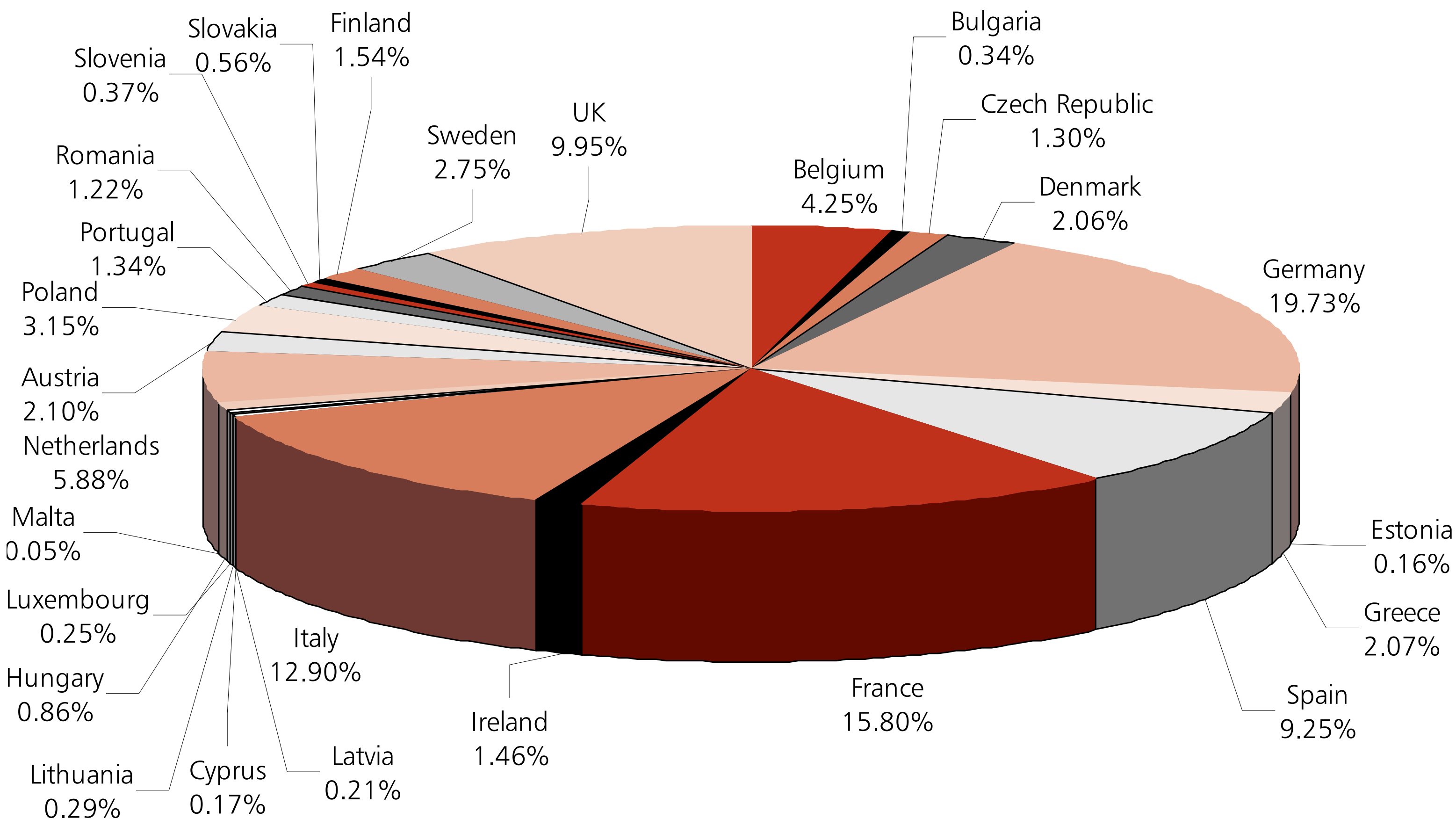
Chart 2.B: 2009 EC Budget revenue



Source: Commission's 2009 Adopted Budget

2.19 Chart 2.C shows each Member States' share of financing the 2009 EC Budget, after taking account of the UK abatement.

Chart 2.C: EC Budget Revenue 2009: Percentage Shares after abatement by Member State



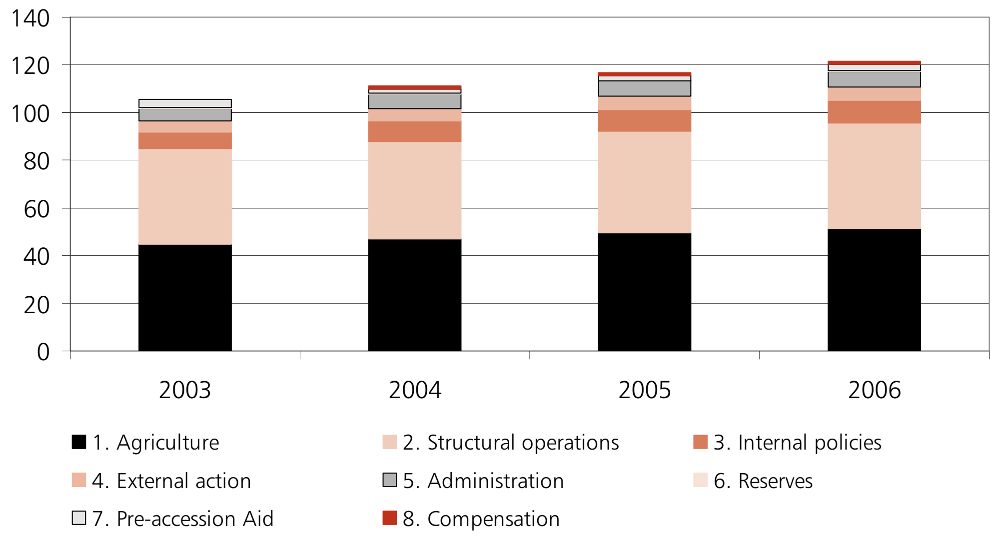
Source: Commission's 2009 Adopted Budget

3 Developments in Community Finances

Expenditure

3.1 Chart 3.A shows the developments in Community spending commitments over 2003 –06. 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 agreement for 2007-13 (see Chart 3.B), Pre-Accession Strategy (Heading 7) is incorporated into Heading 4 (The EU as a Global Player), and Heading 8 (Compensations) is discontinued.

Chart 3.A: Developments in Community Spending (commitments) 2002-2006 Financial Perspective (€ billion)

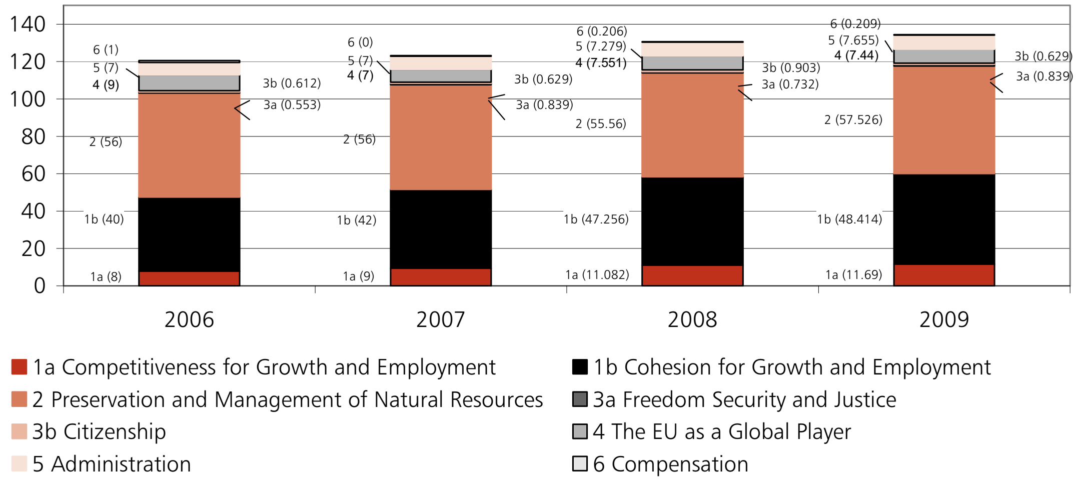


Source: 2000 European Court of Auditors' Report;Commission's 2001-2006 Adopted Budgets

3.2 Chart 3.B shows the development in Community spending commitments from 2006 to 2009, with 2006 commitments under the previous FP converted to the 2007-13 FP budget categories or headings for illustrative purposes. The FP for 2007-13 changed many of the Budget headings. The Agriculture heading became Preservation of Natural Resources. The Structural Operations heading became Sustainable Growth, which is itself split into the two subheadings: Competitiveness for Growth and Employment (Heading 1a), and Cohesion for Growth and Employment (Heading 1b). Internal Policies was split into the Freedom, Security and Justice (Heading 3a) and Citizenship (Heading 3b) sub-headings. 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 The most noteworthy change in spending commitments over the 2006-09 period has been the increase in the Competitiveness for Growth and Employment sub-heading, which sees an increase of €3.68 billion (£2.93 billion), or 49 per cent, over this period to enhance growth in the EU. Commitments have increased respectively by 18.6 per cent and 14.8 per cent with the aim of transforming the EU economy into a knowledge based economy, and fostering prosperity across Europe's regions by boosting innovation and competitiveness.

Chart 3.B: Developments in Community Spending (commitments) 2006-2009 (€ billion)



Source: 2009 Adopted Budget

Note: 2008 includes all amending budgets; data for previous years not available by 2007-2013 FP headings

3.4 Further details on spending in recent years are given in Tables 1A and 1B (pages 50-51). These illustrate commitments and payments for the years 2001-06. 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 total market-related expenditure and direct payments for the period 2007-13, as shown in the following table:

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

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

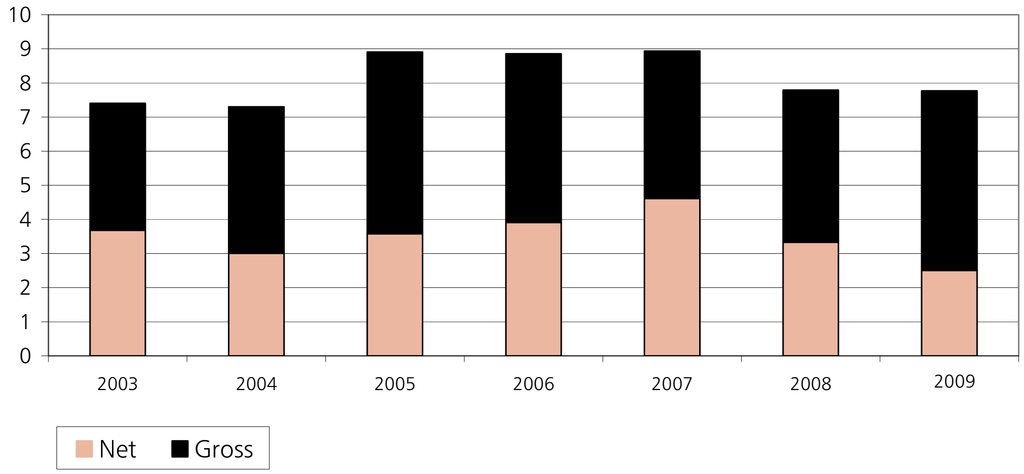
[1]The amounts are before taking account of modulation and other transfers to rural development

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

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.

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



Note: 2009 is an estimate

Source: HM Treasury

The UK's net contribution

3.8 Chart 3.C 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 (pages 45-46) 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 2003-09. The figures for 2009 are estimates; those for earlier years are outturns. Table 3 (page 62) gives a more detailed breakdown.

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

£ million

	2003 Outturn	**2004 Outturn**	**2005 Outturn**	**2006 Outturn**	**2007 Outturn**	**2008 Outturn**	**2009 Estimated Outturn[1]**
Gross Payments[2]	10,966	10,895	12,483	12,426	12,456	12,653	14,106
Less: UK Abatement	-3,559	-3,593	-3,572	-3,569	-3,523	-4,862	-6,336
Less: Public sector receipts	-3,728	-4,294	-5,329	-4,948	-4,323	-4,463	-5,269
Net contributions to EC Budget[3]	**3,679**	**3,008**	3,581	**3,909**	**4,610**	**3,329**	**2,501**

Notes:

[1] The figures for 2009 are forecasts; those for earlier years are outturn.

[2] Gross payment figures include TOR payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the European Community.

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

Source: HM Treasury

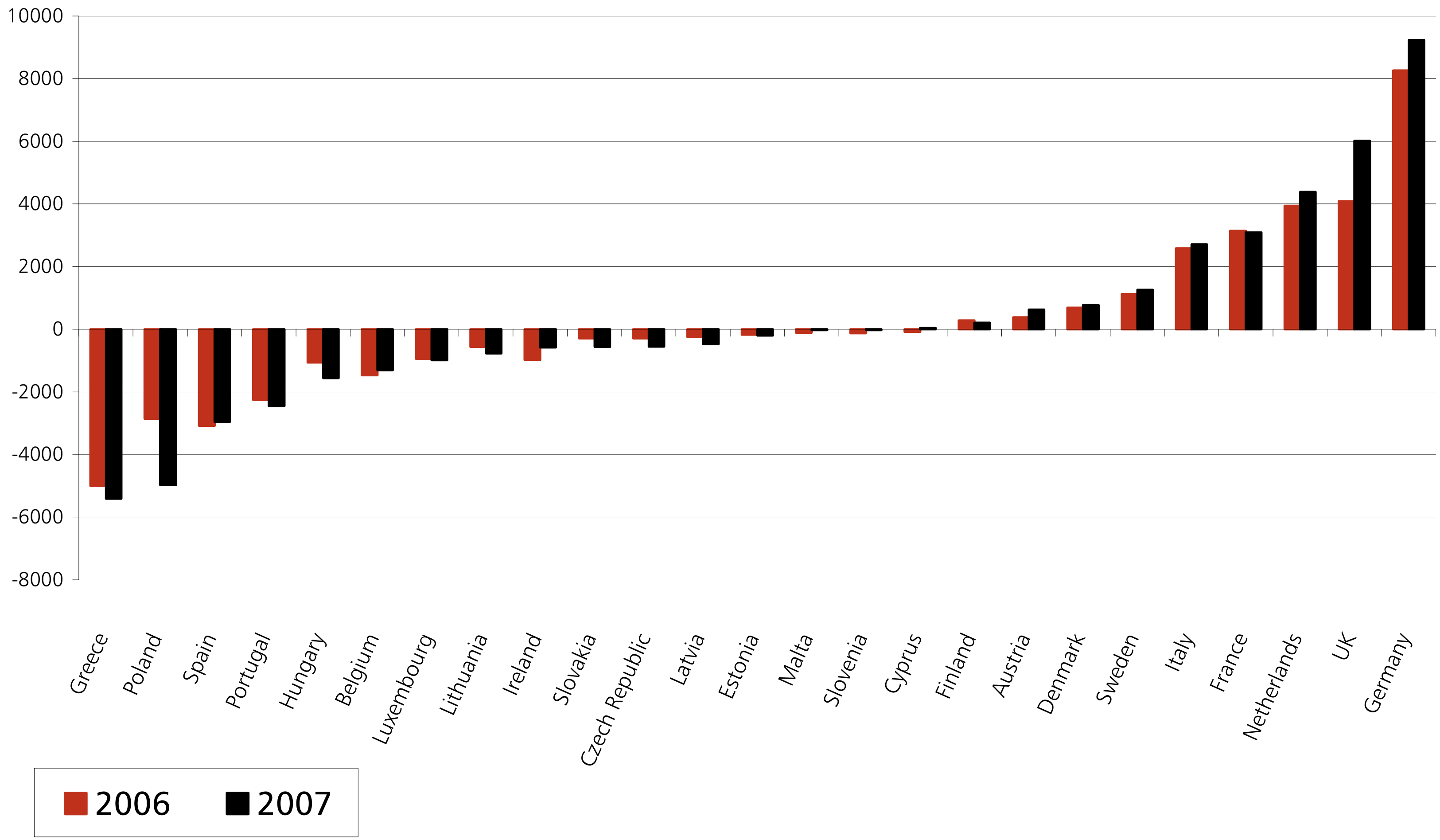
3.9 UK public sector receipts in 2009, mainly from the EAGGF and the Social and Regional Development Funds, are expected to be around £5.3 billion. The majority of these receipts will either be paid to or used in support of the private sector, but are channelled through Government departments.

3.10 The Community makes some payments direct to the private sector which do not appear in the public sector accounts. These are therefore not included in Tables 3, 3.1, 3.2 or 3.3. In 2009, these receipts are expected to be around £715 million.

3.11 The UK's 2009 net contribution is forecast at £2.5 billion; the outturn in 2008 was £3.3 billion. The 2008 outturn figure reflects changes resulting from all Amending EC Budgets implemented during the course of the year whereas the 2009 figure reflects only those which have been adopted up until the time of preparation of this White Paper. Amending EC Budgets in 2008 included the return of the surplus from the 2007 EC Budget, which served to reduce Member States' contributions to the 2008 EC Budget. Any surplus from the 2008 EC Budget will reduce Member States' contributions in 2009 and will impact on the UK's 2009 net contribution forecast. An Amending EC Budget later this year will return any surplus.

3.12 Chart 3.D shows how the UK's net position compares with those of the other Member States in 2006 and 2007. In 2007, the UK was one of ten net contributors to the EC Budget. Germany was the highest net contributor, paying more than one and half times as much as any other Member State. The UK was the next highest net contributor, with other significant net contributions being made by the Netherlands, France, Italy, and Sweden.

Chart 3.D: Net Receipts/Contributions of Member States in 2006 and 2007 (€ 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 2003-04 and 2008-09 (estimated outturn). This Table also includes plans for 2009-10 and 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

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Gross Payments[1]	11,371	12,183	11,780	12,245	13,746	13,155	14,202	15,279
Less: UK Abatement	-3,874	-3,722	-3,641	-3,560	-3,960	-5,595	-5,090	-3,257
Less: Public sector receipts	-4,235	-4,555	-3,750	-5,164	-5,585	-4,524	-5,045	-5,669
Net contributions to EC Budget[2]	3,261	3,906	4,389	3,521	4,200	3,037	4,066	6,352
Contributions to reserves and capital of the EIB	0	0	0	0	0	0	0	0
Grants received from European Coal and Steel Community	-2	0	0	0	0	0	0	0
Payments to EC budget attributed to the aid programme[3]	-799	-697	-704	-709	-705	-781	-830	-856
Other attributed costs	0	0	0	0	0	0	-68.5	-43.2
Net payments to EC institutions (excluding Overseas Aid)[2]	2,460	3,208	3,685	2,812	3,495	2,256	3,168	5,453

Notes:

[1]Gross payment figures include TOR payments at 75 per cent, 90 per cent prior to March 2002. The remaining 25 per cent, 10 per cent prior to March 2002, is retained by the UK to cover the costs of administering collection on behalf of the 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

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Agricultural Guarantee Fund	2,837	2,771	1,705	3,312	3,455	3,047	3,354	3,125
Agricultural Guidance Fund	22	30	85	53	265	299	510	501
Social Fund	345	692	739	449	831	519	560	1,130
Regional Development Fund	1,017	1049	1206	1324	1029	656	539	812
Other Receipts	13	12	15	26	5	3	83	102
Total	**4,235**	**4,555**	**3,750**	**5,164**	**5,585**	**4,524**	**5,045**	**5,669**

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 2008 Pre-Budget Report (PBR) a draw-forward of 1.45/12ths was estimated for the first quarter of the 2009 EC Budget year. A draw-forward of 2/12ths was subsequently requested, which meant that a total of 5/12ths was paid in the first quarter of the 2009 calendar year. As a result, payments for the rest of 2009, which will all fall into the 2009-10 financial year, will be lower.

3.16 UK net contributions to the EC Budget in 2008-09 are estimated to be £1.0 billion higher than they were in the PBR, while UK net contributions in 2009-10 are estimated to be £0.1 billion lower. The estimates for 2010-11 are unchanged from the estimates in the PBR. These changes are primarily the result of the use of later information on the size of the final EC Budget for 2008 and the likely pattern of payments to the 2009 EC Budget, e.g. the drawing forward of Member States' 2009 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 2009. 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 47 and 48) explains the main differences between the Government's figures and those which can be derived from the European Commission's EU Budget 2007 Financial Report.

4 Financial management and anti-fraud issues

European Court of Auditors' Annual Report on the 2007 Budget

4.1 The European Court of Auditors' (The Court) Annual Report and Statement of Assurance on the implementation of the 2007 EC Budget was published on 10 November 2008. The report provides an assessment of each of the EC Budget areas and forms an essential element in the European Parliament's oversight of the Commission's management of the EC Budget.

4.2 The Court reiterated its view that the key to adequate management of the EC Budget was through sufficient, appropriate internal control systems operated by the Commission and Member States. The Court recognises the continuing efforts of the Commission in promoting and applying improved control and management procedures. It notes that the 2007 annual report identifies areas of improvement, some of which have been significant, but also points out the areas of expenditure where the situation remains unsatisfactory.

4.3 In response to the move to ABB, the Court has modified the structure of its report to centre assessment round ABB policy areas. As a result, there are two new assessments: one on Education and Citizenship and the other on Economic and Financial Affairs, and the merging of Pre-Accession Aid and External Actions into one on External Aid, Development and Enlargement.

4.4 The Court makes reference to their contribution to the review of the EC Budget launched by the Commission in 2007. They state that the review should address the quality of budgetary transactions (legality, regularity and value for money), as well as spending priorities and equity. Furthermore, they welcome the Commission's view that EU spending must add value, list key principles to be applied to EU spending; and encourage authorities to consider the outputs of programs, the level of management and the issue of tolerable risk.

4.5 The Court noted that complicated or unclear legal requirements have a considerable impact on the legality and/or regularity of underlying transactions in the areas of: Agriculture and Natural Resources; Cohesion; Research; Energy and Transport; and Education and Citizenship.

4.6 Whilst the implementation of the budget is the responsibility of the Commission, the Court notes that there is a tendency towards an increased role for Member States. This is evidenced by the increase in the role of National Supreme Audit Institutions and the requirement, for the first time in 2007, for each Member State to produce an Annual Summary.

4.7 The Court believes that voluntary initiatives by Member States to issue declarations and have these audited by their national audit body could stimulate improved management of EU funds. The Court hopes to improve cooperation with National Audit Institutions by developing common auditing standards, and to make increasing use of their work.

European Court of Auditors' Statement of Assurance (DAS)

4.8 The Court gave an unqualified positive opinion on the accounts for the first time. This shows that they faithfully reflect the revenue and the expenditure of the Communities for the year, and their financial position at the year-end. This is a significant improvement and the Government welcomes this achievement.

4.9 The Court analysed the Commission's internal control system and commented that the Commission's implementation of internal control standards, which has a direct link to the legality and regularity of the underlying transactions, has not been sufficiently implemented by the Commission in numerous policy areas. The Court also recognised the progress made by the Commission in the implementation of its Action Plan towards an Integrated Internal Control Framework.

4.10 The Court gave a positive opinion on the areas of revenue, administration and other expenditure, and economic and financial affairs. The Court found the underlying transactions in these areas to be free from material error, and estimates that errors have a financial impact of less than 2 per cent. In addition, for CAP expenditure, the Court's audit found that the Integrated Administration and Control System (IACS), where properly applied, provided an effective system to limit the risk of irregular expenditure. In all other expenditure areas, the Court found a material level of error and commented that the Commission and Member States need to make further efforts to implement adequate supervisory and control systems in order to reduce the risk of illegality and irregularity.

4.11 The Court gave an assessment of each of the EC Budget areas:

- Revenue: The Court found that Member States' declarations and payments of TOR, the Commission's calculation of Member States' contributions based on their GNI and VAT data, and other types of revenue, are free from material error. As in previous years, the Court detected problems with the 'B' accounts regarding goods being released without the customs debt being paid. The Court recommends that the Commission strengthen the underlying controls used in TOR, particularly in reference to customs warehouses, and put further pressure on Member States to provide sufficient information to enable them to lift outstanding reservations about the calculation of VAT-based own resources.

- Agriculture and Natural Resources: The Court found a material level of error in agriculture and natural resources, but noted that, once again, IACS was an effective control system for limiting the risk of error and irregular expenditure, where properly applied. The Court also noted that rural development accounts for a disproportionately high percentage of the overall error rate. The Court recommends that issues underlying the reliability of payments under the Single Payment Scheme are improved, and efforts must increase to ensure that beneficiaries of rural development programmes respect their obligations.

- Cohesion: The Court noted that there was a high risk that declared costs of Structural Policies projects are misstated or ineligible for reimbursement. They found that control systems in Member States were generally ineffective or had only limited effectiveness, and that the Commission maintains only moderately effective supervision to mitigate the risks. The Court recommends preventing errors at the early stages of a project by working with program coordinators to familiarise them with the requirements, assist them in setting up their systems and in training staff to detect errors in cost declarations and make them aware of the risk of errors. The Court also recommends that the Commission place more emphasis on supervising the controls within Member States, and on the use of feedback mechanisms (by both the Commission and Member States) to eliminate systemic causes of errors.

- Research, Energy and Transport: The principle risk to legality and regularity in this area is that beneficiaries overstate their costs and this is not prevented, or detected and corrected by the control systems of the Commission. The Court recommends that the Commission ensure rigorous desk checks prior to giving payments, continue to provide support to beneficiaries and auditors in completing the audit certification process, and address the persistent errors in payments, supporting the use of sanction mechanisms at their disposal.

- External Aid, Development and Enlargement: The Court found that the Commission's system of ex-ante checks provided a generally effective check on transactions but found weaknesses in the monitoring of implementing organisations, external audits of project claims and internal audit. The Court recommends that: (a) EuropeAid should provide more training and support to project finance staff and increase the monitoring of their work; (b) budget support programmes managed by the Commission should be based upon measurable, achievable, timely and relevant indicators providing a clear link between funding and performance; and (c) urgent steps should be taken to correct the weaknesses in the management of EU funds in Bulgaria, and the necessary monitoring maintained in Turkey.

- Education and Citizenship: The Court audited the assessment process of the Commission for ex-ante declarations and found that the process provided little assurance. However, the Court does consider that the design of the system, if properly applied, could provide adequate assurance in the future. The Court recommends that the Commission improve its assessment of supervisory and control systems set up by Member States for the Lifelong Learning Programme and European Refugee Fund by increasing monitoring visits and assisting them in improving their declarations of assurance.

- Economic and financial affairs: The Court's audit did not reveal material errors affecting the legality and regularity of administrative expenditure. They did however, recommend that weaknesses found in their audit of payment transactions and in the supervisory and control systems, be carefully analysed and given further attention.

- Administrative and other expenditure: The Court concludes that all institutions' 'administrative and other expenditure' is free from material error. EU Agencies are also covered under this chapter and the Court gave unqualified opinions on the reliability of the accounts and the legality and regularity of the underlying transactions for all Agencies[1] except the European Police College[2] and the European GNSS Supervisory Authority[3].

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

[2] Qualified opinion with regard to the reliability of the accounts and the legality and regularity of the underlying transactions.

[3] Disclaimer of opinion with regard to the reliability of the accounts.

Box 4.A: UK Consolidated Statement and Audit Opinion on the use of EU funds in the UK: 2007-08

The UK's second Consolidated Statement on the use of EU funds in the UK for the financial year ending 31 March 2008, brings together the payments and receipts, of EU-sponsored projects in the UK, into a single set of accounts. These accounts are fully audited by the National Audit Office, and the Comptroller and Auditor General's audit opinion and report accompany the Statement.

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

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

- UK Consolidated Statements are laid before Parliament and therefore provide increased opportunity for Parliament to scrutinise the Government's management of EU funds.
- The National Audit Office audits these Consolidated Statements, increasing their overall audit of EU funds down to the final beneficiary. The Comptroller and Auditor General's audit opinion and report accompany the Statement.
- UK Consolidated Statements provide a greater degree of assurance to the Court and Commission auditors when they perform their own audits of the UK's use of EU funds.

The production of the Consolidated Statements is a response to the repeated inability of the Court to give a positive DAS to the majority of expenditure in the EC Budget. In view of the fact that Member States share (with the Commission) responsibility for managing around 80 per cent of EC expenditure, and given that the number of beneficiaries and complexity of these programmes poses particular challenges for correct implementation, the Government believes that Member States must reinforce their own management and control of EC funds.

In November 2006, the Government therefore announced 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 thus intends to continue to present an annual Consolidated Statement to Parliament of the UK's receipts and use of EC funds.

The published document brings together the figures currently published in many different departmental reports. It includes: a statement of purpose; a statement of responsibilities; auditors' report; expenditure account; balance sheet; cash-flow statement; and notes to the statement to aid interpretation. The statement shows, at an aggregate level, the income from each 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 takes responsibility for performing the consolidation of the Statement, the relevant Government departments and devolved administrations will remain accountable for the propriety of the reported spending. The Consolidated Statement is not intended to replace the more detailed reporting by departments of how EC funds are used. In preparing its audit opinion, the National Audit Office audits the expenditure of EC funds by Government department and devolved administration, drawing where appropriate on the work of the National Audit Institutions in Scotland, Wales and Northern Ireland.

Council recommendation to the European Parliament

4.12 The Council's recommendation to the European Parliament on the terms of the discharge to be granted to the Commission for implementation of the 2007 EC Budget was discussed by ECOFIN on 10 February 2009. As in previous years, the Council recommended that the Parliament grant discharge. Council's recommendation was accompanied by detailed comments highlighting weaknesses in financial management and providing recommendations to resolve these. The Council remains disappointed that the Court is still unable to give a positive Statement of Assurance to large areas of the Budget. The Council's approach, as in previous years, is to work constructively to bring about improvements. This reflects an awareness that failings and responsibility for action rest with all parties: the Commission, the Council, Member States and the European Parliament.

4.13 The Council's recommendations include:

- recognition of the key role of Member States in improving financial management and accountability of EU funds under shared management, in particular through sufficient and appropriate internal control systems;
- further simplification of legislation to contribute to efficient implementation of programmes. The Council invites the Commission to make proposals aimed at the simplification of the procedures and guidelines governing programmes and to avoid complex rules and regulations and administrative burdens;
- inviting continued collaboration between the Court and National Supreme Audit Institutions. The Council considers that the work of independent National Supreme Audit Institutions could, where appropriate, continue to be usefully taken into consideration by the Court;
- urging the Commission to intensify its cooperation with the Court to promote a common understanding of legal provisions and rules in order to prevent differences in interpretation and achieve a common approach for their implementation; and
- recognition that improvement is needed in the cost-benefit ratio of controls and urging the Commission to assess the costs of control by expenditure area.

European Court of Auditors' Special Reports

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

European Parliament's report on Discharge for 2007

4.15 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 22 April 2009.

UK Government's response to the European Court of Auditors

4.16 The UK argued in 1995 for a procedure for Member States to respond to the Court's observations in its annual report. This has now become established practice. The Commission also 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.

4.17 The Court's 2007 report included several specific criticisms of the UK. Remedial action has been implemented where necessary, but not all the Court's findings were accepted, for example:

Agriculture

Audit finding: The Court's report included various references to apparent anomalies in the UK's use of agricultural funds, for example, entitlements allocated under SPS and the aid paid to landlords, not engaged in farming.

Response: The UK did not agree with the Court's findings and feels that the approach adopted is consistent with the regulations. The UK is committed to ensuring that all payments are valid and has fully co-operated, and will continue to do so, with the Court and the Commission in follow-up audits.

National Audit Office report on the Court's report

4.18 The National Audit Office published its annual report on "Financial Management in the European Union" on 27 March 2009. The report explains the findings in the Court's Annual Report and Statement of Assurance, and considers other relevant financial management issues.

2007 Fight against Fraud Report

4.19 Every year, the Commission in collaboration with the Member States publishes an annual report comprised of statistics and the new measures taken to meet their shared obligation of protecting the Communities' financial interests and the fight against fraud in areas where they share responsibility. The report covering the 2007 calendar year was as usual prepared by the European Anti-Fraud Office (OLAF) and published on 22 July 2008. It included two supplementary reports: Statistical Evaluation of Irregularities and Implementation of Article 280 of the Treaty by Member States in 2007.

4.20 The report gives a statistical overview of all irregularities together with those cases where fraud was suspected. The report sets out the existing fraud control measures and highlights the most significant measures taken in 2007 by the Member States and the Commission to improve the prevention of and the fight against fraud.

4.21 The report analyses management checks made to detect fraud and other irregularities in the field of Structural Funds, limitation periods for proceedings and the various recoveries made in all the budget areas.

4.22 The report shows a reduction in the number of irregularities reported for all expenditure areas (6,113 compared to 6,905 in 2006) with the exception of Structural Measures. The estimated financial impact of the irregularities increased for every sector. In the cases of Own Resources and Agriculture, the increases were in part due to irregularities that occurred in the past but were only reported in 2007. In addition, a number of irregularities with a high financial impact were detected during the closure of the programming period concerning Pre-Accession Funds for the 10 new Member States. The table below compares the number of irregularities and the amounts involved between 2006 and 2007.

Table 4.1: Number of irregularities and estimated financial impacts

	2006[1] No. of cases	Amounts (€ millions)	2007 No. of cases	Amounts (€ millions)
TOR	5,705	353	5,321	377
Agricultural	3,294	87	1,548	155
Structural Funds	3,216	703	3,832	828
Direct Expenditure[2]	-	-	411	33
Pre-Accession Funds	395	14	322	32

[1] Figures shown for 2006 may differ from those published in last year's report as OLAF constantly updates its databases
[2] Figures are not available for 2006
Source: 2007 Fight Against Fraud Report

4.23 As always, care should be taken in interpreting these figures, as they are in most cases approximate and preliminary only. Also a sharp rise may simply reflect the inclusion of figures for long-running cases, which may have only just been resolved.

4.24 The number of total irregularities reported in TOR fell from 5,705 in 2006 to 5,321 in 2007. The total estimated financial impact rose from €353 million (£336 million) in 2006 to €377 million (£359 million) in 2007. Suspected fraud decreased to 0.62 per cent of the total amount compared to 0.94 per cent in 2006. As in previous years, the goods mostly affected were tobacco products and TVs.

4.25 Regarding Agriculture expenditure, irregularities reported decreased by 53 per cent to 1,548 compared to 3,294 in 2006. This sharp decrease was anticipated due to the application of a new Regulation that raised the threshold for reporting irregularities from €4,000 to €10,000. The financial impact however increased by 44 per cent to €155 million (£148 million) due in part to cases with high financial impact which were discovered in previous years but were only reported in 2007. Suspected fraud accounted for approximately 10 per cent of reported cases with a financial impact of €45 million (£43 million) compared to €30 million (£29 million) in 2006. The highest number of irregularities related to milk and milk products, fruit and vegetables, sugar and rural development.

4.26 Concerning Structural Measures and the Cohesion Fund, irregularities reported were up by 19.2 per cent to 3,832 compared to 3,216 in 2006. Suspected fraud accounted for 12.4 per cent while the estimated financial impact increased by 17.7 per cent (€828 million, 789 million). As in previous years, the ERDF and ESF accounted for most irregularities (around 83 per cent). In the objective 1 and 2 regions, affected projects and operations accounted for 76 per cent of irregularities reported.

4.27 Regarding Pre-Accession funds, irregularities reported and related to the PHARE, SAPARD and ISPA funds, decreased by 13 per cent to 332 compared with 395 in 2006. The estimated financial impact of the irregularities increased from €14 million (£13 million) in 2006 to €32 million (£31 million) in 2007. Suspected fraud accounted for 15.5 per cent of irregularities reported in 2007 with an estimated financial impact of €5 million (£4.8 million). The most frequently reported type of irregularity related to non-eligible expenditure.

4.28 As a first step towards integrating the areas of the budget directly managed by the Commission into the fight against fraud report, statistics on fraud and other irregularities detected by the Commission departments in the areas of the budget directly managed by the Commission were included. The total value of contracts in which irregularities were detected (411 cases) amounted to €300 million (£286 million) of which €33 million (£31 million) was identified as irregular, €19 million (£18 million) for the External Actions area and €13 million (£12 million) for the Internal Actions area. Of this amount, €18 million (£17 million) (136 cases) was suspected fraud. The financial impact of these irregularities amounted to 0.30 per cent of the total value of contracts managed on a centralised direct basis by the Commission.

4.29 The number of cases opened by OLAF has remained stable (210 in 2007 compared to 194 in 2006 and 216 in 2005). OLAF's own-initiative investigations accounted for 75 per cent of all cases opened since 2005. The number of active cases however fell to 408 cases compared to 431 in 2006.

4.30 Major developments in 2007 include the following:

- progress was made in the customs area to reduce costs and allow easier and quicker access to data that included the adoption of various legislative measures in 2007 and 2008;
- the Hercule II programme, set up to promote activities to protect the financial interests of the Communities, was extended for the programming period 2007-13 with an increased budget;
- in December 2007, the Commission and 26 Member States signed a cooperation agreement with Japan Tobacco International to combat the smuggling and counterfeiting of cigarettes;
- as part of the European Transparency Initiative, Member States were obliged to publish lists of beneficiaries and amounts received from the agricultural funds and of the European fisheries fund;
- the Commission adopted a communication that contained key elements to combat VAT fraud, in particular missing trader fund;
- Slovenia ratified the *Convention on the Protection of the European Communities' Financial Interests* and its protocols in 2007. Romania and Bulgaria automatically acceded to it when they joined the EU;
- the Commission signed an administrative cooperation agreement with the competent authorities in certain third countries in order to combat fraud, corruption and other illegal activity that affects the financial interests of the Community; and
- the Commission introduced a new approach to its fraud-proofing mechanism[4]to help to identify shortcomings not only in legislative proposals but also in the implementation of EU legislation and in the management and controls systems.

Checks to identify fraud and other irregularities

4.31 The legislation on Structural expenditure (applicable since the start of the 2007-13 programming period) simplified and clarified aspects of granting and the payment of funds. It also defined internal control systems more clearly with Member States compelled to designate a managing, certifying and audit authority. They are also now required to produce annual summaries of all declared expenditure and audits carried out. The Commission evaluates the assurance provided by the systems in place in the Member States through its annual activity report of each competent Directorate-General.

4.32 In the agricultural sector where Member States are responsible for paying subsidies to final beneficiaries through their paying agencies, all aid applications are subject to administrative checks before any payment is made. Member States must also send the annual accounts of each

[4] In 2001, the Commission put in place a fraud proofing mechanism to make the legislation and the management of contracts more resistant to fraud.

paying agency accompanied by a statement of assurance. The Commission then verifies the completeness, accuracy and veracity of the paying agencies' accounts as well as their conformance to Community rules.

4.33 The Member States are responsible for recovering TOR, keeping accounts and conducting the necessary checks and investigations. Many debts appearing in the 'B' accounts (register of either unpaid and/or guaranteed debts (or debts guaranteed but contested)) are the result of fraud or detected irregularities. The Commission monitors the correct functioning of the system by ensuring they are made available on time, and charges interest for non-compliance.

4.34 OLAF carried out 74 on-the-spot checks in 2007. With the exception of one that concerned External Aid which was carried out in a third country, these were all within the EU.

Limitation periods

4.35 The responsibility for initiating proceedings against parties culpable for irregularities committed in areas covered by shared management and TOR, including the application of any penalties or administrative measures imposed as a result of such proceedings, rests with the Member States. Although Limitation Periods provide legal certainty, when the period expires the irregularity cannot be proceeded against or the penalty applied.

4.36 In order to identify which national laws make provision for longer periods of limitation than the minimum periods stipulated by Community laws, Member States were asked to state their positions through the Article 280 questionnaire. 21 Member States responded that they provided for longer periods (between 5 and 10 years and, in exceptional cases, 12 or even 20 years) than those set by the Community rules (four years from the time when the irregularity was committed).

Recovery

4.37 For the 2007 financial year, Member States recovered: €154 million (£147 million) for the agriculture sector with €1,438 billion (£1,370 billion) yet to be recovered; €509 million (£485 million) for the structural funds area; €150 million (£143 million) for Own Resources; and €4 million (£3.8 million) for Direct expenditure with €11 million (£10.5 million) still to be recovered.

4.38 OLAF formerly closed the financial follow-up for cases worth €203 million (£193 million) in 2007. However, €198 million (£189 million) was recovered in the field of structural funds following the closure of 53 cases of which 35 were part of the backlog of "old" cases.

OLAF's 8th Activity Report

4.39 OLAF is required to publish annual reports on its independent operational activities during the previous year, which is distinguished from the Commission's "fight against fraud" report. The activity report for 2007 was published on 22 July 2008 and illustrates OLAF's work inside and outside the EU in 15 case studies and many statistical tables.

4.40 The report showed that like last year, OLAF continued its strategy of focusing on bigger and more complex cases in sensitive areas of the EU Budget.

4.41 The volume of information received by OLAF has risen considerably (886 cases) since 2003 (529 cases). The number of decisions taken in the year rose by 17.5 per cent to 543 of which 210 (38.6 per cent) resulted in the opening of a case. This increase is attributable to the increased awareness of OLAF's competence as a trusted office for dealing with new information on potential irregularities, fraud and corruption.

4.42 Direct expenditure and external aid cases represented a significant proportion of new cases opened (75 cases out of 210 or one third of total cases), confirming OLAF's activities are more inclined towards areas in which Member States do not have specific responsibilities.

4.43 The introduction of the 'simplified procedure' in 2004 along with other changes in operational policy in deciding whether or not to open a case according to its seriousness and complexity, has contributed to an increase in the duration of time for completing a case. The number of cases completed has therefore declined over time, reverting to its 2005 levels with the average 'active stage' duration increased slightly from 27 to 28 months in 2007. OLAF however remains committed to tackling the issue in order to bring the average duration down below 24 months.

4.44 The proportion of cases closed with follow-up continued to increase (65 per cent in 2007 compared to 61 per cent in 2006 and 41 per cent in 2003), the majority of which concerned financial recovery and judicial follow-ups (jointly 75 per cent of total follow-up activities). The increase recorded in the disciplinary follow-up paths reflects OLAF's continued determination to support the zero tolerance policy applied within the EU institutions and bodies when serious misconduct arises.

4.45 Over €478 million (£455 million) recovered from OLAF's cases stemmed from closed follow-up paths (€203million (£193 million)), and from follow-up actions that were still ongoing (€275 million (£262 million)) at the end of 2007. These sums however, represented only a fraction of the total amount recovered following fraud or other irregularities in the year, as Member States made most of the recoveries with no direct link to OLAF cases.

4.46 In 2007, the strategic intelligence capability of OLAF continued to strengthen with better facilities to support operational activities, and reinforced its policy role. On request, the Operational Intelligence Unit provide specialist support and assistance to OLAF investigators and Member States. Legal and judicial advice also played a significantly increased role in operational cases.

4.47 The report showed that OLAF made good progress in working with Member States, other institutions and third countries in ensuring the success of investigations to combat fraud, and that further improvements had been made to its case management system.

4.48 OLAF provided assistance to five joint customs operations, during which the customs authorities of the participating Member States discovered a considerable number of serious offences designed to deprive the European Budget of revenue.

4.49 In 2007, OLAF's administrative budget was over €52 million (£49 million), over 60 per cent of which was accounted for by the heading 'Personnel' expenditure. Its operational budget amounted to over €20 million (£19 million) in 2007, mainly due to the entry into force of the Hercule II Programme (extended for the 2007-13 programming period with an increased budget).

A Glossary

Budget Procedure

A.1 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;
- 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

A.2 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

A.3 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.

A.4 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

A.5 The European Court of Auditors' annual report is subject to consideration by the budgetary authority (Council and European Parliament) under "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

A.6 The Flexibility Instrument was established under paragraph 24 of the 1999 IIA, which allows for expenditure in any given Budget year of up to €200 million above the FP ceilings established for one or more Budget headings. Any portion of the Flexibility Instrument unused at the end of one year may be carried over for up to two subsequent years, but the flexibility instrument should not, as a rule, be used to cover the same needs two years running. The Flexibility Instrument is intended for extraordinary expenditure and may only be used after all possibilities for reallocating existing appropriations have been exhausted. Both arms of the budgetary authority must agree to a mobilisation of the Flexibility Instrument following a proposal from the Commission.

Fraud and irregularity

A.7 Fraud (as defined by the Penal Convention) covers intentional acts or omissions, in respect of both expenditure and revenue, which involve the use or presentation of false, incorrect or incomplete statements or documents, or specific non-disclosure of information, or misapplication of funds or benefits.

A.8 Irregularity (as defined by Council Regulation 2988/95) covers both simple omissions due to errors or negligence, which undermine the EC and are intentional and deliberate acts. For example, a genuine payment made after the closing date for claims represents an irregularity; but import of goods under false papers is fraud. Member Sates are required by regulations to report irregularities in the three main Budget sectors (own resources, agriculture and structural funds) on a quarterly basis.

Inter Institutional Agreement (IIA)

A.9 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)

A.10 The existing arrangements for financing the EC Budget are set out in the Communities' ORD. The current ORD was agreed in June 2007 and took effect from 1 March 2009, retrospective to 1 January 2007. The current ORD entered into UK law by virtue of the European Communities (Finance) Act 2008, which received Royal Assent on 19 February 2008. 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 per cent of EU GNI for payments and 1.31 per cent for commitments. As the Communities are not allowed to save or borrow, revenue must equal expenditure. Budget payments are therefore limited by the amount of Own Resources that can be called up from Member States.

Own Resources

A.11 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 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 per cent to a VAT base, assuming an identical range of goods and services in each Member State. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The method for calculating the VAT-based resource is set out in the ORD.
    - the starting point is the total amount of net VAT collected in each Member State;
    - a weighted average of the rates at which VAT is charged in the Member State is then applied to the net total to produce the Member State's intermediate national base;
    - the intermediate base is then adjusted for derogations operated under the Sixth VAT Directive to produce the harmonised base;
    - a notional rate of 1 per cent is then applied to this base. The base is, where necessary, then capped at 50 per cent of 1 per cent of the Member State's GNI; and
    - a call-up rate (currently a maximum of 0.5 per cent) is applied to produce a Member States' VAT-based contribution.
- GNI-based contributions: The amount due is calculated by taking the same proportion of each Member State's GNI. Because the 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

A.12 The Sterling figures for 2003-09 in this White Paper are based on actual Sterling cash receipts, or payments where these took place and are known. Elsewhere, the appropriate average annual Sterling/Euro exchange rate has been used to convert Euro figures into Sterling[1].

[1] The annual average rate for 2003 is £1 = €14320
The annual average rate for 2004 is £1 = €1.4742
The annual average rate for 2005 is £1 = €1.4629
The annual average rate for 2006 is £1 = €1.4669
The annual average rate for 2007 is £1 = €1.4615
The annual average rate for 2008 is £1 = €1.257509

Generally, the 2009 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31 December 2008, namely £1=€1.049869 (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

A.13 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 per cent of the European average through the Cohesion Fund, which finances projects linked to the environment and trans-European transport systems.

Substantive and formal errors

A.14 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

A.15 The UK's VAT-based contributions are abated (reduced) according to a formula set out in the ORD. Broadly, this is equal to 66 per cent of the difference between what the UK contributes to the 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, 2000 and again in 2007.

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 transfer of money from the Commission or other Member States to the Exchequer.

B Technical annexes

Technical annex I

Determining the value of the Own Resources Elements

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

- at the beginning of the budgetary process, which occurs in the year prior to the Budget in question, the amounts due from each Member State are assessed in that Member State's national currency, i.e. Sterling for the UK;
- the initial process involves estimating the amounts due to be received in respect of the TOR, the amount relating to VAT if it were applied at 1 per cent across the Community, and the amount of 1 per cent of each Member State's GNI. These estimates rely on the Member States' estimates of their economic activity during the Budget year;
- the Member States' national currency estimates are, where necessary, then converted into Euro at a rate known as the "Budget exchange rate". This is the exchange rate at the time the estimates are being drawn up – nowadays this is usually an early May exchange rate;
- the amount of VAT and GNI each Member State has to pay to the 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 per cent 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 per cent VAT and GNI bases during the course of the budgetary year and the conversion of their national currency estimates is carried out using the exchange rate on the last working day prior to the start of the Budget year. The revised figures are then included in an Amending Budget to the budgetary year to which they relate. In practice, converting the revised figures using the exchange rate on the last working day means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1 per cent base using much later information means that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. In the year following the budgetary year, any adjustments to correct for any under or overpayment should be relatively small, compared to the adjustments made in years prior to 1998; and
- numerous small further adjustments are however, required to be made over several years following the Budget year, for example, to reflect later adjustments in the amount of GNI statistics.

Technical annex II

Explanation of the difference between the Government's cash flow outturn for the UK's net contribution for 2007 and the figures in the European Commission's EU budget 2007 Financial Report

B.2 When converted at the average exchange rate for 2007 of £1= €1.4615, the figures in the European Commission's report break down as follows:

	(€ million)	**(£ million)**
UK gross contribution before abatement	18,618	12,738
UK abatement	-5,189	-3,550
UK receipts	-7,413	-5,072
UK net contribution	**6,016**	**4,116**

Source: HM Treasury

B.3 The Government's figure for the UK's net contribution in 2007 is £4,610 million.

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

- the UK figure includes only transactions between the 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 £745 million of the difference in 2007;
- the late adoption of Amending Budget No. 6/2006 meant that associated changes were not implemented until January 2007. The result of which leads to the Government's figures for 2007 being some £855 million lower than if the Amending Budget changes had been implemented in 2006;
- the late adoption of Amending Budget No. 7/2007 meant that associated changes were not implemented until January 2008. The result of which leads to the Government's figures for 2007 being around £686 million higher than if the Amending Budget changes had been implemented in 2007; and
- the UK's outturn figure is based on cash flow within a calendar year, whereas European Commission figures attempt to match transactions to a particular Community Budget. Some receipts from a Community Budget for a given year take place in the early weeks of the subsequent year. These are scored in the UK to the year, in which the transactions happened, and by the European Commission, to the Budget for the previous year. Up to £173 million of Structural Funds payments to the UK in 2007 may have been in respect of the 2006 EC Budget, and up to £87 million of Structural Funds payments in 2008 may have been in respect of the 2007 Budget.

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

The table overleaf reconciles the two figures.

	(£ million)
UK Government cash-flow outturn for 2007	4,610
Private sector receipts	-745
Late implementation, in January 2007, of Amending Budget No. 6/2006	855
Late implementation, in January 2008, of Amending Budgets No. 7/2007	-686
Structural Fund receipts paid in 2007, which may have been from the 2006 Budget	173
Structural Fund receipts paid in 2008, which may have been from the 2007 Budget	-87
UK Cash-flow figure adjusted to reflect main differences compared to European Commission's figure	4,120
European Commission figure for 2007 outturn	4,116
Net difference due to other factors (such as exchange rate)	4
Source: HM Treasury	

C Tables

Table 1.A: Expenditure on the EC Budget Commitments and Payments by Heading in years 2001-06 (€ million)

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

Notes:
[1] 2005 and 2006 data include all Amending budgets
[2] Because of rounding the columns totals do not necessarily equal the sum of the individual items

Source: European Commission 'General Budget of the European Union for the financial year' 2005,2006, 2007. Other EU documentation.

Table 1.B: Expenditure on the EC Budget Commitments and Payments by Type of Expenditure in years 2001-06 (£ million)

	Commitments						Payments					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
1 Agriculture	28,794	29,570	30,422	30,846	31,937	34,342	28,419	29,778	30,365	30,101	33,606	**34,301**
2 Structural Operations	28,167	23,272	23,255	28,075	29,027	30,486	15,365	16,079	19,520	23,621	22,166	**22,128**
3 Internal Policies	4,586	5,210	4,908	5,956	6,194	6,431	3,628	4,493	3,881	5,139	5,422	**6,098**
4 External Actions	3,325	3,479	3,467	3,542	3,571	3,793	2,895	3,027	2,933	3,388	3,747	**3,674**
5 Administration	3,423	3,607	3,794	4,189	4,346	4,555	3,322	3,566	3,630	4,189	4,346	**4,555**
6 Reserves	142	117	101	302	305	293	142	116	101	302	305	**293**
7 Pre-accession Strategy	2,266	2,398	2,322	1,186	1,424	1,842	959	1,199	1,533	1,954	2,249	**1,669**
8 Compensations	n/a	n/a	n/a	965	893	734	n/a	n/a	n/a	965	893	**735**
Total[2]	70,703	67,653	68,269	75,061	79,750	82,497	54,730	58,259	61,962	69,659	72,733	**73,471**

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

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

Table 1.C: Expenditure on the EC Budget Commitments and Payments by Heading in years 2006-09 (€million)

Appropriations	Commitments				Payments			
	2006	**2007**	**2008**	**2009**	**2006**	**2007**	**2008**	**2009**
1 Sustainable Growth	47,515	54,854	58,338	60,196	35,866	43,590	45,731	46,000
1a Competitiveness for Growth and Employment	7,898	9,368	11,082	11,769	7,434	*6,545*	9,715	11,024
1b Cohesion for Growth and Management	39,618	45,487	47,256	48,427	28,432	*37,045*	36,016	34,975
2 Preservation and Management of Natural Resources	55,691	55,850	55,560	56,121	54,579	54,210	53,217	52,566
3 Citizenship, Freedom, Security and Justice	1,165	1,444	1,635	1,515	1,162	1,270	1,489	1,296
3a Freedom Security and Justice	*553*	*624*	*732*	*864*	*537*	*370*	*534*	*617*
3b Citizenship	*612*	*820*	*903*	*651*	*625*	*900*	*955*	*679*
4 The EU as a Global Partner	8,512	6,812	7,551	8,104	8,093	7,353	7,847	8,324
5 Administration	6,604	6,978	7,279	7,701	6,604	6,978	7,280	7,701
6 Compensations	1,074	445	207	209	1,074	445	207	209
Total	120,570	126,384	130,570	133,846	107,378	113,846	115,771	116,096

Notes:
[1] 2006-08 includes all Amending Budgets
[2] Because of rounding the columns totals do not necessarily equal the sum of the individual items
Source: European Commission: 'General Budget of the European Union for the financial year' 2007 and 2009. Other EU documentation.

Table 1.D: Expenditure on the EC Budget Commitments and Payments by Heading in years 2006-09 (£million)

Appropriations	Commitments				Payments			
	2006	**2007**	**2008**	**2009**	**2006**	**2007**	**2008**	**2009**
1 Sustainable Growth	32,511	37,533	46,392	47,869	24,541	29,826	36,366	36,580
1a Competitiveness for Growth and Employment	5,404	6,410	8,813	9,359	5,087	4,478	7,726	8,767
1b Cohesion for Growth and Management	27,108	31,123	37,579	38,510	19,454	25,347	28,641	27,813
2 Preservation and Management of Natural Resources	38,105	38,214	44,183	44,629	37,345	37,092	42,319	41,802
3 Citizenship, Freedom, Security and Justice	797	988	1,300	1,205	795	869	1,184	1,031
3a Freedom Security and Justice	378	427	582	687	367	253	425	491
3b Citizenship	419	561	718	518	428	616	759	540
4 The EU as a Global Partner	5,824	4,661	6,005	6,444	5,537	5,031	6,240	6,619
5 Administration	4,519	4,774	5,788	6,124	4,519	4,775	5,789	6,124
6 Compensations	735	304	165	166	735	304	165	166
Total	82,497	86,474	103,832	106,218	73,471	77,897	92,064	92,322

Notes:

[1] 2006-08 includes all Amending Budgets

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

[3] 2008 Sterling figures are derived from corresponding euro amounts in Table 1C converted at the appropriate exchange rate (see glossary)

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

	Agricultural and Sugar Levies							Customs Duties							VAT Contributions						
	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009
Belgium	43	48	55	24	12	58	24	1,121	1,231	1,318	1,497	1,673	1,645	1,966	858	595	650	703	701	765	790
Bulgaria	-	-	-	-	14	16	17	-	-	-	-	47	56	68	-	-	-	-	67	80	89
Czech Republic	-	2	15	8	11	10	7	-	58	131	141	167	180	240	-	132	229	254	284	324	365
Denmark	25	44	60	37	32	53	38	191	214	238	287	298	288	330	573	371	402	470	496	530	542
Germany	277	319	426	210	151	321	201	2,010	2,088	2,298	2,718	2,976	2,875	3,383	5,209	2,985	3,258	3,677	3,929	3,741	3,981
Estonia	-	0	1	1	18	10	10	-	7	15	19	25	23	27	-	13	23	31	38	40	44
Greece	17	15	12	11	8	9	10	138	181	187	194	222	215	260	549	397	428	467	844	591	619
Spain	43	82	85	52	37	43	44	710	873	1,013	1,146	1,253	1,201	1,402	2,668	1,918	2,302	2,474	2,475	2,591	2,697
France	206	232	300	134	94	333	146	834	903	1,037	1,148	1,238	1,141	1,311	5,326	3,729	4,085	4,327	4,441	4,689	4,831
Ireland	4	5	6	2	0	1	1	100	124	176	200	218	223	259	419	288	337	366	396	393	415
Italy	106	113	114	150	145	146	155	1,013	1,124	1,228	1,423	1,543	1,510	1,759	3,694	3,292	3,112	2,686	3,193	3,416	3,469
Cyprus	-	2	5	3	12	8	8	-	17	30	29	35	35	42	-	20	31	34	36	40	42
Latvia	-	0	2	1	3	2	2	-	8	18	21	28	26	32	-	15	27	37	50	55	61
Lithuania	-	1	3	2	3	8	4	-	13	31	36	42	42	50	-	26	46	51	67	74	83
Luxembourg	0	0	0	1	1	1	1	12	12	15	18	19	18	22	78	57	58	56	74	74	76

Hungary	-	3	11	6	5	11	8	-	52	103	98	106	105	131	-	126	179	177	213	228	238
Malta	-	1	2	1	2	2	2	-	4	10	10	10	9	8	-	7	11	11	13	13	14
Netherlands	246	330	300	244	252	266	257	1,038	1,047	1,184	1,401	1,621	1,574	1,860	1,197	713	813	990	1,029	978	1,067
Austria	17	20	24	7	0	16	6	150	156	165	188	201	198	240	557	274	367	457	452	424	464
Poland	-	18	82	47	39	109	55	-	94	190	225	300	335	421	-	313	560	611	725	818	922
Portugal	17	37	22	23	21	20	22	80	85	86	95	116	123	139	478	309	394	351	383	390	405
Romania	-	-	-	-	29	33	36	-	-	-	-	130	165	209	-	-	-	-	249	280	313
Slovenia	-	0	1	1	0	0	1	-	12	28	35	82	85	106	-	41	67	69	79	86	92
Slovakia	-	1	9	3	4	7	4	-	19	35	52	87	92	115	-	50	76	92	126	123	142
Finland	5	8	11	7	8	9	9	71	86	102	123	141	136	158	474	337	341	359	393	419	432
Sweden	19	23	28	18	22	33	25	262	292	323	382	417	397	471	638	406	378	485	528	497	549
United Kingdom	371	410	473	451	450	468	460	1,729	1,893	2,054	2,100	2,207	2,247	2,648	1,178	2,648	2,285	2,043	1,779	3,562	3,128
Total	**1,395**	**1,715**	**2,046**	**1,444**	**1,373**	**1,991**	**1,550**	**9,462**	**10,592**	**12,017**	**13,565**	**15,200**	**14,946**	**17,656**	**21,540**	**13,765**	**15,888**	**17,191**	**19,500**	**18,097**	**19,616**

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

	Fourth Resource Contributions							TOTALS						
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Belgium	1,465	1,975	2,000	1,933	1,986	2,021	2,099	3,486	3,849	4,024	4,156	4,372	4,489	4,879
Bulgaria	-	-	-	-	163	192	214	-	-	-	-	291	344	389
Czech Republic	-	373	615	633	704	776	876	-	565	990	1,035	1,167	1,291	1,488
Denmark	987	1,311	1,289	1,399	1,394	1,402	1,453	1,776	1,940	1,989	2,193	2,219	2,273	2,364
Germany	11,707	14,838	14,154	13,896	14,654	14,636	15,074	19,203	20,230	20,136	20,501	21,710	21,572	22,639
Estonia	-	36	61	80	96	94	105	-	55	100	130	177	166	185
Greece	830	1,148	1,174	1,163	1,947	1,385	1,486	1,534	1,742	1,802	1,834	3,020	2,200	2,374
Spain	4,008	5,511	6,075	6,128	6,073	6,204	6,473	7,430	8,384	9,475	9,800	9,838	10,039	10,617
France	8,787	11,150	11,431	11,026	11,216	11,419	11,837	15,154	16,013	16,854	16,636	16,989	17,583	18,125
Ireland	604	834	924	914	972	943	995	1,127	1,251	1,442	1,482	1,586	1,559	1,670
Italy	6,946	9,258	9,093	9,247	9,144	9,115	9,413	11,759	13,786	13,547	13,507	14,024	14,187	14,796
Cyprus	-	56	83	87	88	95	101	-	95	150	153	170	176	193
Latvia	-	45	82	96	118	132	147	-	68	130	155	199	215	243
Lithuania	-	79	127	145	158	181	200	-	119	207	234	271	304	337
Luxembourg	114	162	154	143	202	5085	183	205	231	227	217	296	265	282

Hungary	-	357	541	501	547	569	613	-	537	833	783	870	912	990
Malta	-	21	28	28	33	32	34	-	33	50	50	57	56	58
Netherlands	2,439	3,179	3,650	3,497	3,401	3,391	3,562	4,920	5,269	5,947	6,131	6,303	6,209	6,745
Austria	1,212	1,597	1,589	1,557	1,565	1,640	1,705	1,936	2,047	2,144	2,209	2,218	2,279	2,414
Poland	-	885	1,496	1,563	1,746	1,962	2,213	-	1,311	2,327	2,447	2,809	3,224	3,611
Portugal	717	902	1,025	909	940	933	972	1,293	1,332	1,527	1,378	1,460	1,466	1,537
Romania	-	-	-	-	682	739	842	-	-	-	-	1,089	1,216	1,400
Slovenia	-	117	180	175	198	205	222	-	170	275	279	359	378	421
Slovakia	-	150	239	255	303	339	385	-	220	359	402	519	560	645
Finland	788	1,012	1,011	1,071	1,088	1,107	1,161	1,338	1,443	1,465	1,560	1,629	1,671	1,761
Sweden	1,583	1,960	1,925	1,813	1,949	2,004	2,107	2,501	2,681	2,654	2,698	2,915	2,932	3,152
United Kingdom	9,050	12,027	11,915	11,873	12,551	11,603	11,442	9,972	11,682	12,157	12,381	13,429	10,756	11,421
Total	**51,235**	**68,982**	**70,861**	**70,132**	**73,915**	**75,914**	**75,914**	**83,632**	**95,054**	**100,811**	**102,351**	**109,987**	**108,323**	**114,736**

Notes:
1. Miscellaneous items of revenue and carry forwards of surpluses and deficits from previous years of account for the differences between total budget expenditure given in Table1 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% collections costs.
3. The figures for VAT contributions are after taking account of the UK abatement.
4. The figures for the contributions of 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 2003 to 2007 are taken from the European Commission's report: EU Budget 2007 Financial Report. Figures for 2008 taken from Amending Budget 9/2008. Figures for 2009 taken from 2009 Adopted Budget.

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

	Agricultural and Sugar Levies							Customs Duties							VAT Contributions						
	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009
Belgium	30	33	38	16	8	46	23	783	835	901	1,021	1,145	1,308	1,873	599	403	445	479	480	608	753
Bulgaria	-	-	-	-	10	13	16	-	-	-	-	32	44	65	-	-	-	-	46	64	85
Czech Republic	-	2	10	5	8	8	7	-	39	90	96	114	143	228	-	89	157	173	195	258	348
Denmark	17	30	41	25	22	42	36	134	145	163	196	204	229	315	400	252	275	321	339	422	516
Germany	194	216	292	143	103	255	191	1,404	1,416	1,571	1,853	2,036	2,286	3,222	3,637	2,025	2,227	2,507	2,689	2,975	3,792
Estonia	-	0	1	0	12	8	9	-	5	10	13	17	18	26	-	9	15	21	26	32	42
Greece	12	10	8	7	5	7	9	97	123	128	132	152	171	247	383	270	293	318	577	470	590
Spain	30	56	58	36	25	34	42	496	592	693	781	858	955	1,335	1,863	1,301	1,573	1,687	1,693	2,060	2,569
France	144	157	205	92	64	265	139	583	613	709	783	847	907	1,249	3,720	2,529	2,793	2,950	3,038	3,729	4,601
Ireland	3	3	4	1	0	1	1	70	84	120	137	149	177	246	292	196	230	249	271	313	395
Italy	74	77	78	102	99	116	148	708	762	839	970	1,055	1,201	1,676	2,580	2,233	2,127	1,831	2,185	2,717	3,304
Cyprus	-	1	3	2	8	6	8	-	12	21	20	24	27	40	-	13	21	23	24	31	40
Latvia	-	0	1	1	2	2	2	-	5	12	14	19	21	30	-	10	19	25	34	44	59
Lithuania	-	1	2	2	2	6	4	-	9	21	24	29	33	48	-	18	31	35	46	59	79
Luxembourg	0	0	0	0	0	0	1	9	8	11	13	13	15	21	55	38	445	38	51	59	73

Hungary	-	2	7	4	3	9	8	-	35	70	67	73	83	124	-	85	122	121	146	181	227
Malta	-	1	1	1	1	1	2	-	3	7	7	7	7	8	-	5	7	8	9	11	13
Netherlands	172	224	205	166	173	212	244	725	710	809	955	1,109	1,252	1,771	836	484	556	675	704	777	1,017
Austria	12	14	16	5	0	13	6	105	106	113	128	137	158	228	389	186	251	311	309	337	442
Poland	-	12	56	32	26	87	53	-	64	130	153	205	267	401	-	212	382	417	496	651	878
Portugal	12	25	15	15	14	16	20	56	58	59	65	79	98	132	334	209	269	239	262	310	386
Romania	-	-	-	-	20	26	34	-	-	-	-	89	131	199	-	-	-	-	170	222	298
Slovenia	-	0	0	0	0	0	0	-	8	19	24	56	68	101	-	28	46	47	54	69	88
Slovakia	-	0	6	2	3	5	3	-	13	24	36	59	73	109	-	34	52	63	86	97	135
Finland	4	6	7	5	6	7	9	50	59	70	84	96	108	151	331	228	233	244	269	334	412
Sweden	13	16	19	12	15	26	24	183	198	221	260	285	316	449	445	275	258	331	361	395	523
United Kingdom	259	278	323	307	308	372	438	1,207	1,284	1,404	1,431	1,510	1,787	2,522	823	1,796	1,562	1,392	1,217	2,833	2,979
Total	**974**	**1,163**	**1,399**	**984**	**940**	**1,583**	**1,477**	**6,608**	**7,185**	**8,215**	**9,261**	**10,400**	**11,885**	**18,817**	**15,042**	**9,337**	**10,860**	**11,719**	**13,342**	**14,391**	**18,684**

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

	Fourth Resource Contributions							TOTALS						
	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009
Belgium	1,023	1,340	1,367	1,317	1,359	1,607	1,999	2,434	2,611	2,750	2,833	2,991	3,570	4,647
Bulgaria	0	0	0	0	112	153	204	0	0	0	0	199	273	370
Czech Republic	0	253	420	431	482	617	834	0	383	677	706	798	1,026	1,417
Denmark	689	889	881	954	954	1,115	1,384	1,240	1,316	1,360	1,495	1,518	1,807	2,252
Germany	8,175	10,065	9,675	9,473	10,027	11,639	14,358	13,410	13,723	13,765	13,976	14,855	17,155	21,563
Estonia	0	24	42	55	66	75	100	0	38	68	89	121	132	176
Greece	579	779	802	793	1,332	1,101	1,415	1,071	1,182	1,232	1,250	2,066	1,750	2,261
Spain	2,799	3,738	4,153	4,177	4,156	4,933	6,165	5,188	5,687	6,477	6,681	6,731	7,983	10,112
France	6,136	7,563	7,814	7,517	7,674	9,081	11,275	10,582	10,862	11,521	11,341	11,624	13,982	17,264
Ireland	422	566	631	623	665	750	948	787	848	986	1,010	1,085	1,240	1,590
Italy	4,850	6,280	6,216	6,304	6,256	7,248	8,965	8,211	9,352	9,260	9,208	9,596	11,282	14,093
Cyprus	0	38	57	59	60	75	96	0	64	103	105	116	140	184
Latvia	0	31	56	65	81	105	140	0	46	89	106	136	171	231
Lithuania	0	53	87	99	108	144	190	0	81	142	159	185	242	321
Luxembourg	80	110	105	97	138	137	174	143	157	155	148	202	211	268
Hungary	0	242	370	342	374	452	584	0	364	570	533	595	725	943
Malta	0	14	19	19	22	25	32	0	22	34	34	39	44	55

Netherlands	1,703	2,156	2,495	2,384	2,327	2,697	3,392	3,435	3,574	4,065	4,180	4,313	4,938	6,424
Austria	846	1,083	1,086	1,062	1,071	1,304	1,624	1,352	1,388	1,466	1,506	1,518	1,812	2,299
Poland	0	600	1,022	1,066	1,194	1,560	2,108	0	889	1,591	1,668	1,922	2,564	3,440
Portugal	501	612	701	620	643	742	926	903	904	1,044	940	999	1,166	1,464
Romania	0	0	0	0	466	588	802	0	0	0	0	745	967	1,334
Slovenia	0	79	123	119	136	163	211	0	116	188	190	246	300	401
Slovakia	0	102	163	174	207	269	367	0	149	245	274	355	445	615
Finland	550	687	691	730	744	880	1,106	934	979	1,001	1,063	1,115	1,329	1,678
Sweden	1,105	1,329	1,316	1,236	1,334	1,594	2,007	1,747	1,818	1,814	1,839	1,995	2,331	3,002
United Kingdom	6,320	8,158	8,145	8,094	8,588	9,227	10,898	6,963	7,925	8,310	8,440	9,188	8,553	10,879
Total	**35,779**	**46,793**	**48,438**	**47,810**	**50,575**	**58,282**	**72,308**	**58,402**	**64,478**	**68,912**	**69,774**	**75,256**	**86,141**	**109,286**

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

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

	€ million							£ million						
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Gross Contributions														
Agriculture & Sugar Levies	366	411	474	451	448	439	402	255	279	324	308	307	349	383
Customs Duties	1,704	1,899	2,089	2,102	2,204	2,031	1,867	1,190	1,288	1,428	1,433	1,508	1,615	1,778
VAT Own Resources	3,976	2,601	2,896	3,174	3,352	2,835	1,860	2,776	1,764	1,980	2,164	2,293	2,254	1,772
Fourth Resource Payments	9,492	11,137	12,699	12,258	11,684	10,845	10,680	6,629	7,555	8,681	8,357	7,994	8,624	10,173
VAT & fourth Resource adjustments	166	14	226	242	517	-238	-	116	9	154	165	354	-189	-
United Kingdom Abatement	-5,097	-5,296	-5,349	-5,236	-5,149	-6,114	-6,652	-3,559	-3,593	-3,656	-3,569	-3,523	-4,862	-6,336
Total Contributions	10,606	**10,765**	**13,035**	**12,993**	**13,056**	**9,798**	**8,157**	**7,407**	**7,302**	**8,911**	**8,857**	**8,933**	**7,791**	**7,770**
Public Sector Receipts														
EAGGF Guarantee	3,814	4,035	4,294	4,323	4,079	3,099	4,049	2,663	2,737	2,935	2,947	2,791	2,465	3,857
EAGGF Guarantee	:	73	117	75	33	523	365	2	50	80	51	23	416	348
European Regional Development Fund	889	1,566	2,052	867	1,033	1,221	562	621	1,062	1,403	591	707	971	535
European Social Fund	611	638	1,315	1,953	1,163	765	499	427	433	899	1,331	795	608	475
Other Receipts	21	18	19	40	11	3	57	15	12	13	27	7	3	54
Total Receipts	5,338	6,330	7,796	7,258	6,319	5,612	5,532	3,728	4,294	5,329	4,948	4,323	4,463	5,269
NET Contributions	5,268	**4,435**	**5,239**	**5,735**	**6,737**	**4,186**	**2,626**	**3,679**	**3,008**	**3,581**	**3,909**	**4,610**	**3,329**	**2,501**

Notes:

1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EC Budgets. They differ from the figures for gross contributions in Table 2
2. Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary).
3. The figures for 2009 are forecast, those for earlier years are outturn.
4. Because of rounding, the column totals do not necessarily equal the sum of the individual items.

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