



HM TREASURY

European Union Finances 2011:

**statement on the 2011 EU Budget and
measures to counter fraud and financial
mismanagement**



European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement

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

December 2011

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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 (Statement) to Parliament giving details of the Budget of the European Union (EU Budget).

1.2 This Statement is the thirty first in the series and describes the EU Budget for 2011, as adopted by the European Parliament. It also sets out details of the United Kingdom's gross and net contributions to the EU Budget over the financial years 2006-07 to 2011-12 (together with estimates for 2009-10 to 2015-16) and over the calendar years 2004 to 2009 (together with an estimate for 2012). Finally, it includes details of recent developments in EU financial management and the fight against fraud affecting EU funds.

2

The 2011 EU Budget

2.1 The majority of this chapter concerns the 2011 EU Budget, which was negotiated during 2010. This is preceded, however, by a brief summary of the outcome of this year's negotiations on the 2012 EU Budget.

Box 2.A: The 2012 EU Budget

Throughout this year, the Government consistently and successfully pushed to limit spending at EU level. In November 2011, the Council and European Parliament agreed to freeze EU spending in real terms next year, as called for by the Government. This outcome is far below the approximately 5 per cent increase demanded by both the European Parliament and the European Commission. It is also €12.5 billion less than the maximum ceiling agreed in 2005, which demonstrates that we have achieved a significant change to spending plans. Lastly, a real freeze delivers on the Prime Minister's letter of December 2010, signed jointly by France, Germany, Finland and the Netherlands, that called on Council to step up progressively its efforts to curb annual growth in EU spending.

As promised, the Government is imposing real budgetary restraint at EU level in support of ongoing efforts to consolidate public finances at home and in defence of UK taxpayers' interests. And it will continue to argue forcefully to restrain EU spending and to pursue the best possible outcome in future EU budgetary negotiations.

The 2011 EU Budget

2.2 The EU Budget is negotiated beneath the ceilings set in the Multi-Annual Financial Framework (MFF) (2007-13), which was agreed in 2005. Further details on the current MFF are available in last year's Statement¹. Box 2.B provides information about negotiations on the next MFF, which started earlier this year.

2.3 The 2011 EU Budget was agreed under the Belgian Presidency of the EU in the second half of 2010. It was the first EU Budget negotiated and agreed under the Treaty on the Functioning of the EU. Last year's Statement set out the changes to the procedure for agreeing the EU Budget under this new legal base.

2.4 Negotiations began in May 2010, when the Commission proposed a draft EU Budget for 2011. On the basis of this draft budget, the Council made amendments and agreed its position in July 2010, proposing to reduce growth in EU spending from 5.8 per cent to only 2.91 per cent over 2010 levels. The European Parliament then considered the Council's position and agreed on amendments in October, which would have raised the level of EU spending in 2011 by 6.0 per cent.

2.5 At the October 2010 European Council, the UK Prime Minister led twelve other EU leaders in a joint public statement that any increase in EU spending in 2011 above that already agreed by

¹ This document is available at http://www.hm-treasury.gov.uk/int_eu_statefraud.htm

Council (a 2.91 per cent increase on 2010 levels) was unacceptable. A process of conciliation between the Council and European Parliament took place in November 2010. However, conciliation meetings, including at ministerial level, failed to reach agreement within the initial 21-day period.

2.6 Following the expiry of the conciliation period, the Commission proposed a new draft EU Budget for 2011 on 26 November, which reflected the Council's position. Council endorsed the Commission's proposal on 10 December and the European Parliament then adopted the same proposal on 15 December, meaning that the 2011 EU Budget was finally adopted.

2.7 Similar to the outcome of this year's negotiations on the 2012 EU Budget, the Government worked closely with other Member States to secure a deal on the 2011 EU Budget that was far below the level of growth demanded by the European Parliament and Commission and €7.8 billion below the ceiling agreed for EU spending in 2011, as set out in the MFF.

2.8 Table 2.A shows the positions established at each stage of the negotiation during 2010. Figures for previous years' EU Budgets are provided in Annex C (tables C.1 and C.2) for comparison.

2.9 The adopted 2011 EU Budget provides for commitment appropriations of €141.9 billion (£121.5 billion), equivalent to 1.13 per cent of EU Gross National Income (GNI); and payment appropriations of €126.5 billion (£109 billion), equivalent to 1.01 per cent of EU GNI. The payment appropriations for each of the main EU Budget headings are as shown in Chart 2.A.

Box 2.B: The Next Multiannual Financial Framework (2014-2020)

Negotiations have begun on the next EU Multiannual Financial Framework (MFF). The MFF will establish the ceilings on the EU Budget for the years 2014 to 2020. The first step in this process was the Commission's publication of the communication "A Budget for Europe 2020" in June 2011. This set out the Commission's proposal for the next MFF.

The EU Budget is expressed in terms of 'commitments' (earmarked funds) and 'payments' (funds actually spent). In its communication, the Commission proposes:

- commitment appropriations of €1,025,000 million (£882,268 million) in total from 2014 to 2020. This is 1.05 per cent of EU GNI;
- commitment appropriations of €58,316 million (£50,195 million) 'outside the MFF', which would also lead to additional payments (including these, the total commitment appropriations proposed for 2014 to 2020 are €1,083,316 (£932,464 million), or 1.11 per cent of EU GNI); and
- payment appropriations of €972,198 million (£836,819 million) or 1.00 per cent EU GNI.

The Commission also proposes a number of changes to how the EU Budget is financed, known as the 'own resources' system. The key proposals are:

- replacing the current system of corrections, including the UK's permanent abatement, with a system of temporary corrections for the UK, Germany, the Netherlands and Sweden; and
- introducing two new own resources, a Financial Transactions Tax and a revised VAT-based resource, to partially fund the budget.

The UK has made its position on the next MFF extremely clear. The UK's top priority is budgetary restraint, thereby ensuring that the EU Budget contributes to domestic fiscal consolidation. The Prime Minister has stated, jointly with his EU counterparts, that the maximum acceptable expenditure increase through the next MFF is a real freeze in payments. This must be year on year from the actual level of payments in 2013.

At a time of ongoing economic fragility in Europe and tight constraints on domestic public spending, the Commission's proposal for the MFF is unrealistic. It is at least €100 billion (£86 billion) too large; it is not the restrained budget the Commission claims; and it is incompatible with the tough decisions being taken in countries across Europe. The Government considers the Commission's proposals on own resources a distraction from the main issue of controlling the budget size: we will protect the UK abatement and oppose any new taxes to fund the EU Budget.

The Commission's proposal is the first stage in an extended negotiations process. There is no fixed period for negotiation. The eventual MFF must be agreed unanimously by all Member States at Council. It is then approved by the European Parliament.

Table 2.A: 2011 EU Budget

	€ million					
Payment Appropriations	Financial Perspective Ceiling	Commission draft 2011 EU budget	Council position	European Parliament position	Adopted 2011 EU budget	2010 EU Budget ¹
1. Sustainable growth:	-	54,651	52,684	54,679	53,280	47,714
1a. Competitiveness for Growth and Employment	-	12,110	11,219	12,128	11,628	11,343
1b. Cohesion for Growth and Employment	-	42,541	41,466	42,551	41,652	36,371
2. Preservation and Management of Natural Resources	-	58,136	57,315	58,512	56,379	58,136
3. Citizenship, Freedom, Security and Justice	-	1,492	1,423	1,497	1,459	1,411
3a. Freedom, Security and Justice	-	853	803	848	813	739
3b. Citizenship	-	639	620	649	646	672
4. The EU as a Global Player	-	7,602	7,011	7,646	7,238	7,788
5. Administration	-	8,256	8,094	8,224	8,172	7,907
Total Payment Appropriations	134,280	130,136	126,527	130,559	126,527	122,955
As a percentage of EU GNI	1.09%	1.04%	1.01%	1.04%	1.01%	1.02%

¹ Includes amending budgets 1-7
² Because of rounding the column totals do not necessarily equal the sum of individual items

Sources: Various EU documents

2.10 Details of the levels of payments in the adopted 2011 EU budget, compared to the 2010 EU budget, are as follows:

- **Heading 1: Sustainable Growth.** Expenditure in this area is aimed at building Europe's growth potential and fostering prosperity across EU regions. Payments in this area have been set at €53.28 billion (£45.86 billion), an 11.66 per cent increase compared to the 2010 EU budget.

The 2011 EU Budget allocated €11.63 billion (£10.01 billion) under Heading 1a towards transforming the EU economy into a knowledge-based economy, which requires adequate investment in research, learning, and innovation. The 2011 EU Budget allocated under heading 1a: €6.74 billion (£5.8 billion) for research, which is a 5.75 per cent increase compared to the 2010 EU budget; €1.05 billion (£900 million) for learning and training, a 2.83 per cent decrease; and €306 million (£263 million) for competitiveness and innovation programmes, a 15.06 per cent decrease.

The 2011 EU Budget allocated €41.65 billion (£35.85 billion) under Heading 1b for fostering regional growth and employment, with €34 billion (£29.27 billion) made available through Structural Funds, representing an increase of 15.25 per cent over 2010 funding, and €7.63 billion (£6.57 billion) through the Cohesion Fund, an increase of 7.63 per cent over 2010 funding.

- **Heading 2: Preservation and Management of Natural Resources.** Expenditure in this area includes spending on the Common Agricultural Policy (CAP), Fisheries, Rural Development, and measures aiming to contribute to food quality and a cleaner environment.

Payments in this area have been set at €56.38 billion (£48.53 billion) in the 2011 Budget, which is 3.02 per cent lower than 2010 funding. Payments for market related expenditure and direct payments have been set at €42.79 billion (£36.83 billion), which is 2.09 per cent lower than 2010 funding. Payments for Rural Development are set at €12.56 billion (£10.8 billion), which is a 6.26 per cent decrease on 2010 funding. Payments for the European Fisheries Fund are set at €458 million (£394 million), which is a 4.78 per cent decrease on 2010 funding. Payments for EU environmental protection, through the LIFE¹+ programme, are set at €262 million (£226 million), which is a 21.5 per cent increase on 2010 funding.

- **Heading 3: Citizenship, Freedom, Security and Justice.** Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Payments in this area have been set at €1.46 billion (£1.26 billion), which is a 3.42 per cent increase on 2010 funding. Payments in the field of Freedom, Security and Justice (Heading 3a) have been set at €813 million (£700 million), which is a 10.12 per cent increase on 2010 funding.

Payments for Citizenship (Heading 3b), which includes spending on culture, youth, and public health, have been set at €646 million (£556 million), which is a 3.93 per cent decrease on 2010 funding.

- **Heading 4: The EU as a Global Player.** Expenditure in this area includes EU foreign policy and international development expenditure.

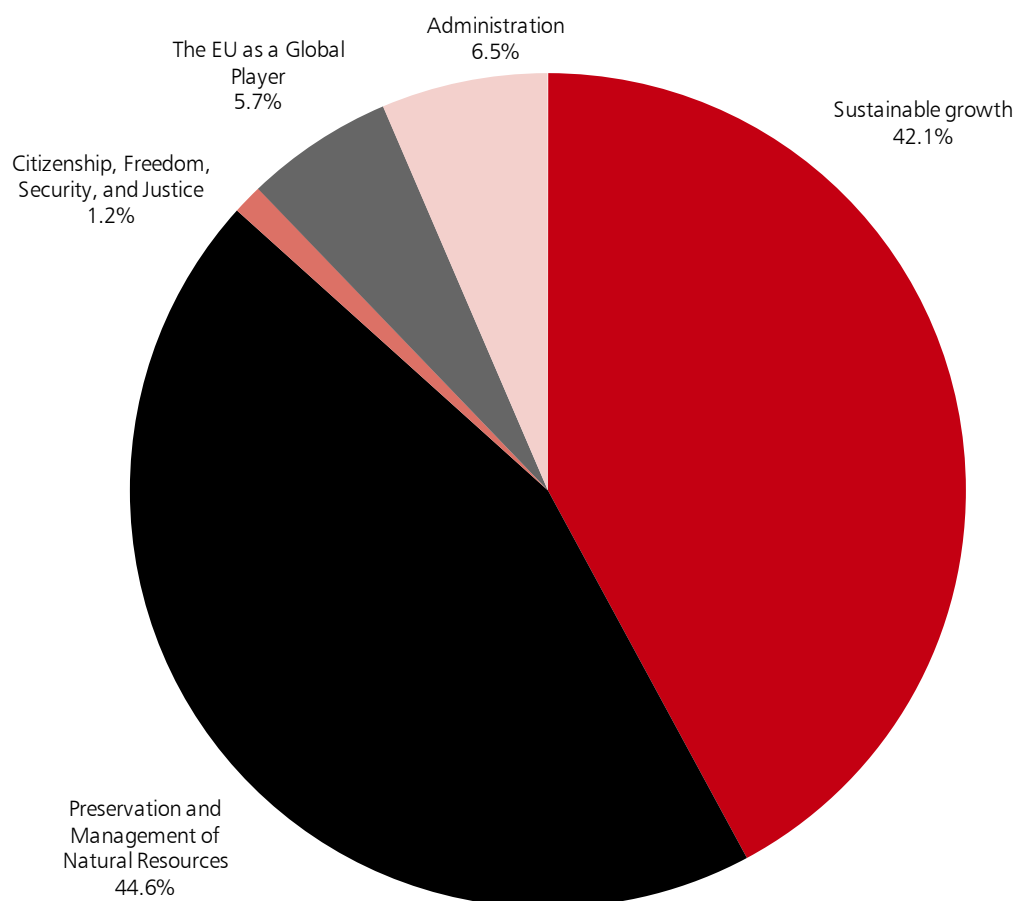
Payments for Heading 4 have been set at €7.24 billion (£6.23 billion), which is a 7.06 per cent decrease on 2010 funding. This includes €1.44 billion (£1.24 billion)

¹ LIFE is the EU's funding instrument for the environment.

for the Instrument for Pre-accession, which is a 18.99 per cent decrease on 2010 funding; and €1.36 billion (£1.17 billion) for the European Neighbourhood and Partnership Instrument, which is a 0.16 per cent increase on 2010 funding.

- **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. Payments in this area (heading 5) have been set at €8.17 billion (£7.03 billion), which is a 3.34 per cent increase on 2010 funding.

Chart 2.A: 2011 EU Budget – Payment Appropriations by Budget Heading



Source: 2011 Adopted EU Budget

EU Revenue

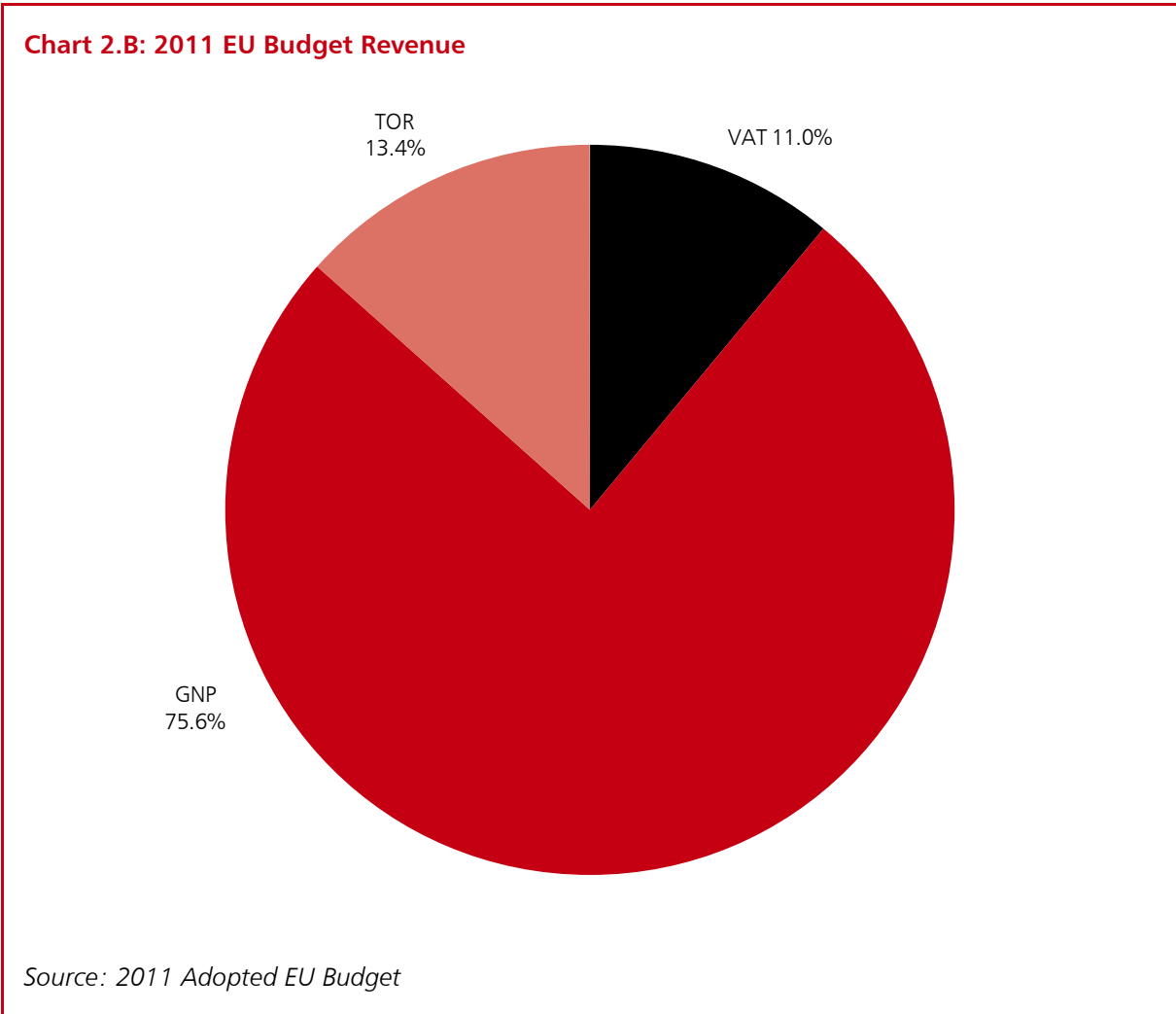
2.11 The Own Resources Decision (ORD) provides for four sources of EU revenue: customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as ‘Traditional Own Resources’ (TOR). The VAT and GNI-based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

2.12 Chart 2.B shows a breakdown of the estimates of how the 2011 EU Budget will be financed. Tables C.3 and C.4 show the gross contributions by Member State, after taking

account of the UK abatement, between 2005 and 2011. The key points to note in terms of the UK's contribution are:

- TOR in 2011 are estimated to be around €16.8 billion (£14.4 billion), with the UK's share estimated at 16.5 per cent. In 2010, final estimates of revenue from this source were €15.7 billion (£13.5 billion), of which the UK's share was 16.2 per cent;
- VAT-based contributions in the 2011 EU Budget are shown as €13.8 billion (£11.9 billion), with the UK's share estimated as 18.6 per cent. In 2010, total VAT-based contributions were €13.3 billion (£11.4 billion), of which the UK's share was 18.4 per cent;
- GNI-based contributions in the 2011 EU Budget are shown as €94.5 billion (£81.4 billion), of which the UK's share is 14.1 per cent. In 2010, GNI-based contributions were €90.3 billion (£77.4 billion) with a UK share of 13.8 per cent; and
- the estimated value of the UK's abatement in 2011 is €3.1 billion (£2.7 billion) compared with €3.4 billion (£3.0 billion) in the 2010 EU Budget. A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

2.13 Chart 2.C shows each Member States' share of financing the 2011 EU Budget, after taking account of the UK abatement.



Box 2.C: EU Staff Regulations

Alongside efforts to counter fraud and financial mismanagement in all EU funds, it is important to modernise and streamline EU institutions. Over the next MFF, the Government seeks very substantial reductions in spending on the administration of the EU. Future reform of the EU Staff Regulations provides an important opportunity to generate such savings.

The Staff Regulations set out the terms and conditions of employment of the major EU institutions' officials, providing the legal base for all aspects of remuneration, including pay levels, annual salary adjustments, retirement pensions and allowances, such as expatriation and family allowances. They also determine several aspects of the career structure for EU officials, such as the grading structures and promotion rates. Further, the teachers and officials in the Secretariat of the European Schools and the network of European Regulatory Agencies set remuneration levels broadly linked to the Staff Regulations.

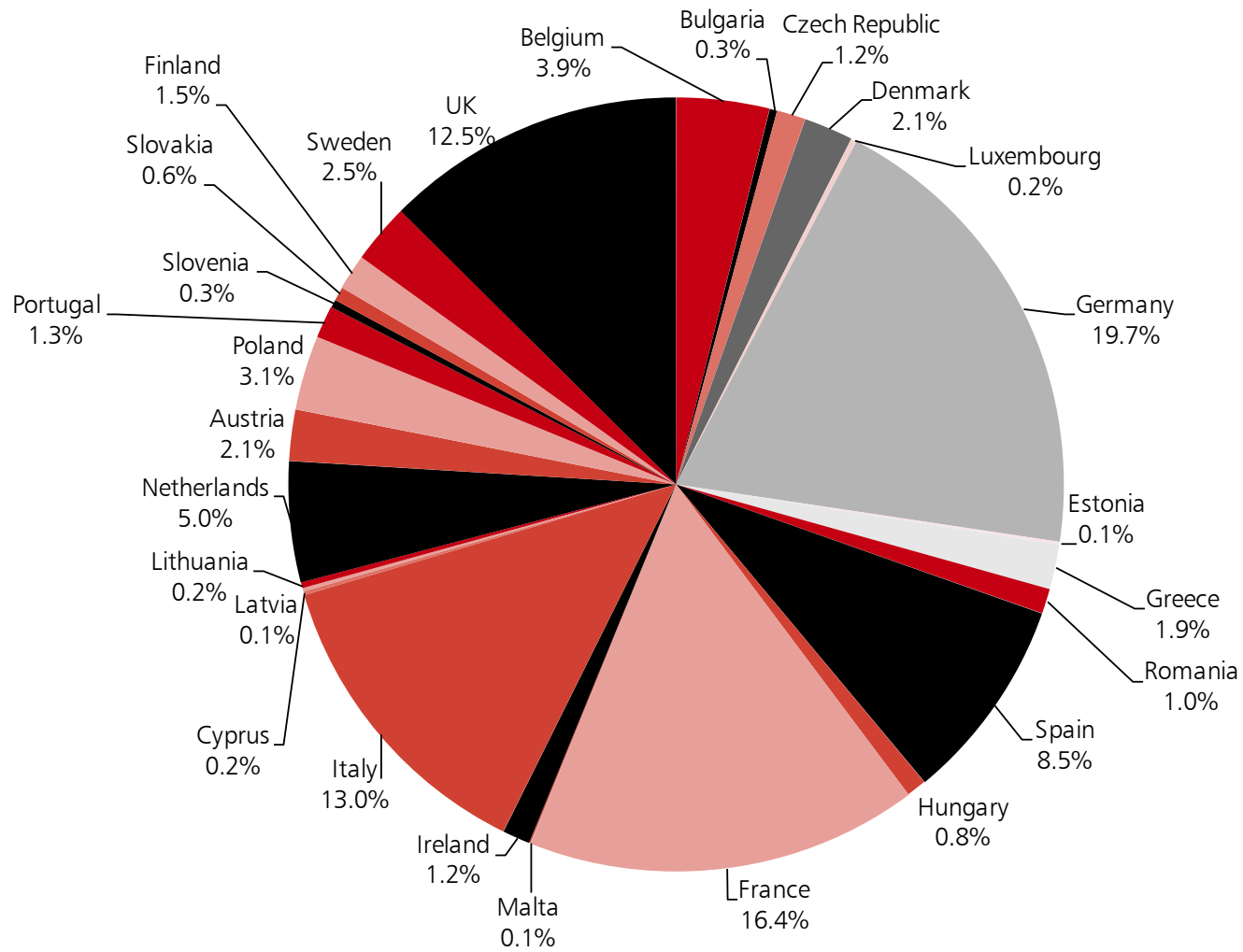
The current process to reform the Staff Regulations draws on Conclusions of the Council in June 2011, which called for a review and amendments of the career structures for EU officials, and in December 2010, which called for an assessment of pension costs with a view to making wider reforms. The Commission published a draft, informal proposal for amendments to the Staff Regulations in June 2011, which marked the beginning of a period of consultation with EU staff and their trade unions.

The UK has worked closely with its allies to advocate a more ambitious and wide-ranging approach, in order to achieve cost-saving objectives for EU administrative spending, as well as improvements in the EU institutions' efficacy and efficiency. A like-minded group of Member States has now released two joint position papers in June and November 2011; the second joint position paper was supported by 17 Member States, including the UK.

The Government will examine the Commission's formal proposal, expected late this year, on the basis of our objectives for reform common with other Member States and in five key areas:

- **Salary Adjustment Method:** This is the formula used to calculate increases to salaries of staff at the EU Institutions. It will expire at the end of 2012. Member States seek a greater role for Council in decision making on annual salary adjustments.
- **Pensions:** Increasing life expectancy means that the current pensions scheme for EU officials will become increasingly costly in the medium- to long-term. Member States seek measures to make the EU pensions schemes more sustainable and affordable.
- **Special Levy:** This is an additional levy on salaries, which supplements the Community Tax, the equivalent of income tax for EU officials, who are not subject to national taxes. The Special Levy will also expire at the end of 2012. The Special Levy represents revenue to the EU Budget and Member States would, therefore, like this to increase and thereby reduce contributions from national funds.
- **Career Structure:** A review of the system for promotions and salary progression is crucial.
- **Allowances:** More ambitious measures with respect to all allowances leading to financial savings and increased fairness are desirable.

Chart 2.C: EU Budget Revenue 2011 – Percentage Share After abatements by Member State



Source: 2011 Adopted EU Budget

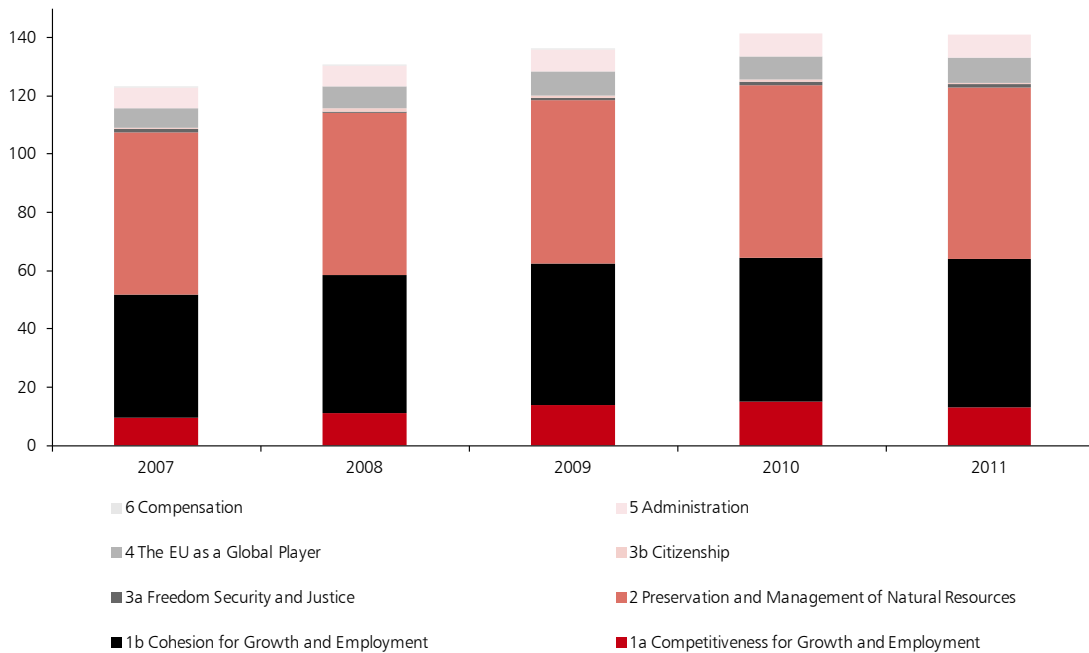
3

Developments in EU Finances

Expenditure

3.1 Chart 3.A shows the development in EU spending commitments from 2007 to 2010. The most noteworthy change in spending commitments over the 2007-10 period has been the increase in the Competitiveness for Growth and Employment sub-heading, which sees an increase of €5.49 billion (£4.89 billion), or 59 per cent, over this period, in order to fuel EU growth. In addition, commitments have increased by 19.9 per cent and 19.5 per cent in the Freedom Security and Justice sub-heading and the EU as a Global Player heading, respectively.

Chart 3.A: Developments in EU spending (commitments) 2007-2011 (€ billion)



Source: 2011 Adopted Budget

3.2 Further details on spending in recent years are given in Tables C.1 and C.2. These illustrate commitments and payments for the years 2007-10. They also show the main spending programmes broken down by categories in the MFF.

Reform of the CAP

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

Table 3.A: Ceiling for CAP market-related expenditure and direct payments¹, 2007-13 (€ million at current prices)

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

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

Source: Statement of estimates of the EU for the financial year 2011

3.4 Pillar 1 of the CAP represents poor value for money, and the UK remains a leading advocate of further CAP reform. Over the course of the next MFF, the UK wants to see a very substantial reduction in the CAP budget, focused on Pillar 1.

The UK's Net Contribution

3.5 Chart 3.B shows the volatility of the UK's net contribution from year to year. This volatility results from variations in payments made due to the nature of the own resources system; variations in public sector receipts; and consequent fluctuations in the UK's abatement. For further details, refer to Technical Annex and the glossary.

3.6 Table 3.B shows the UK's gross contributions, abatement, public sector receipts, and net contributions to the EU Budget for calendar years 2005 to 2011. The figures for 2011 are estimates; those for earlier years are outturn figures. Table C5 gives a more detailed breakdown.

Table 3.B: Gross Payments, Abatement and Receipts (Calendar Years)

	£ million						
	2005 Outturn	2006 Outturn	2007 Outturn	2008 Outturn	2009 Outturn	2010 Outturn	2011 Estimated Outturn ¹
Gross Payments ²	12,483	12,426	12,456	12,653	14,129	15,197	15,289
Less: UK Abatement	-3,572	-3,569	-3,523	-4,862	-5,392	-3,047	-3,141
Less: Public sector receipts	-5,329	-4,948	-4,332	-4,497	-4,401	-4,769	-4,776
Net contributions to EU Budget³	3,581	3,909	4,601	3,294	4,336	7,381	7,372

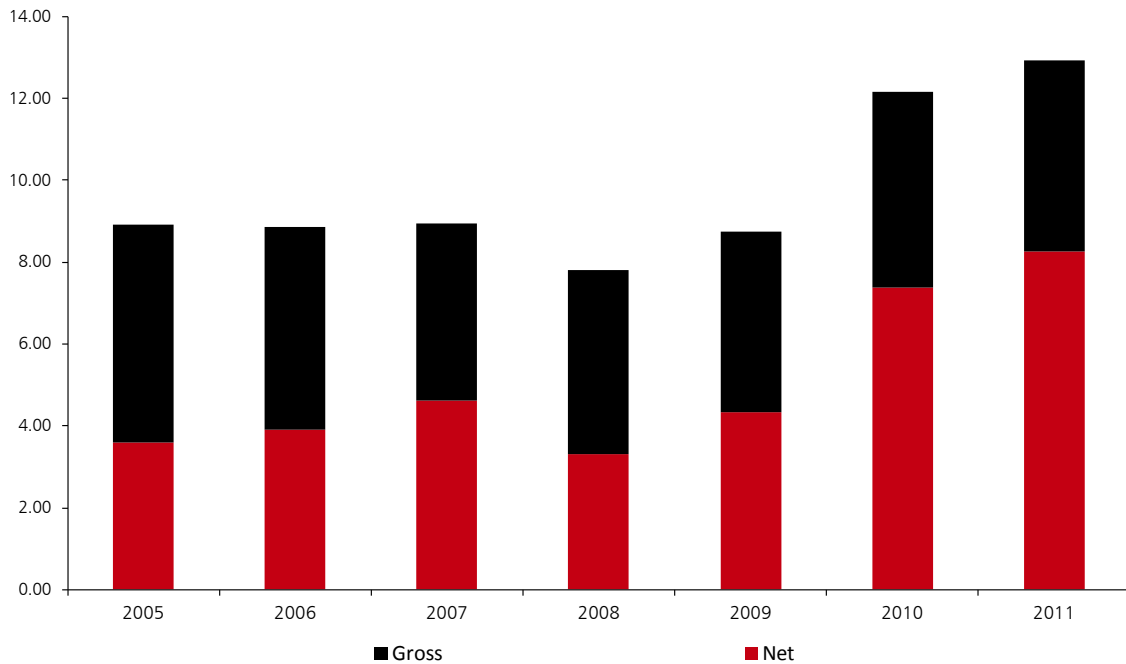
¹The figures for 2011 are forecasts; those for earlier years are outturn.
²Gross payment figures include TOR payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.
³Due to rounding, totals may not exactly correspond to the sum of individual items

Source: HM Treasury

3.7 UK public sector receipts in 2011, mainly from the FEAGA, EAFRD and the Social and Regional Development Funds, are expected to be around £4.8 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.

3.8 The EU makes some payments directly to the private sector, which do not appear in the public sector's accounts. In 2011, these receipts are expected to be around £890 million. These payments are not included in Tables 3C-G, which provide data on public sector receipts only.

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

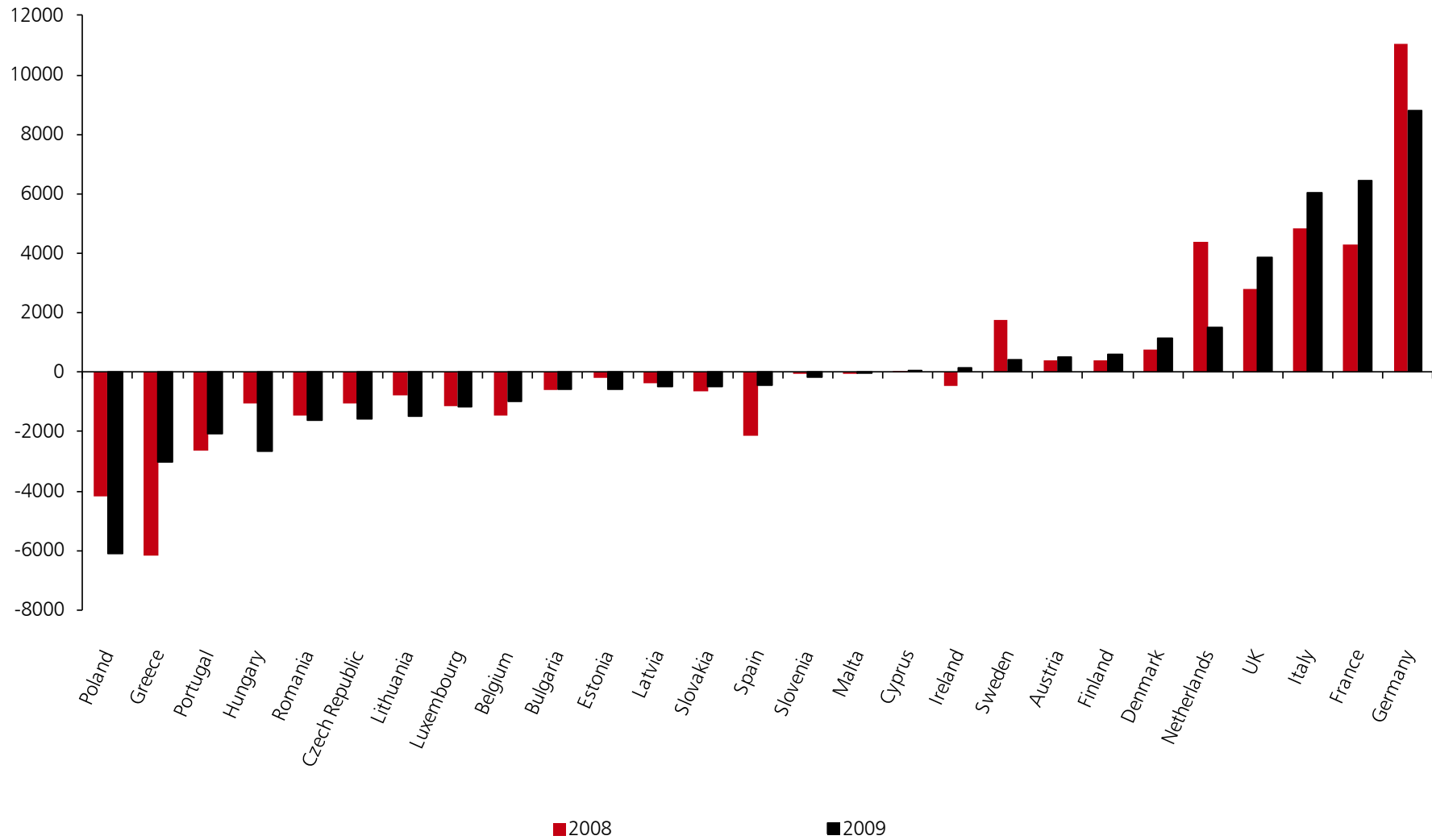


Source: HM Treasury

3.9 The UK's 2011 net contribution is forecast at £7.4 billion; the outturn in 2010 was also £7.4 billion. The large rise in 2010 compared to 2009 is due to planned increases in the EU Budget over the current MFF and to the fact that the UK's abatement has been 'disapplied' over time on non-agriculture spending in the new Member States, both of which were agreed by the previous Government. The 'disapplication' of the UK abatement to non-agricultural expenditure in the new Member States, agreed in 2005, is now fully phased in and is costing the UK around £2 billion per year.

3.10 Chart 3.C shows how the UK's net position compares with those of the other Member States in 2008 and 2009. In 2009, the UK was one of eleven net contributors to the EU Budget. Germany was the highest net contributor, paying almost 1.5 times as much as any other Member State. France was the next highest net contributor, with other significant net contributions being made by Italy, the UK, the Netherlands and Denmark.

Chart 3.C: Net Receipts/Contributions of Member States in 2008 and 2009 (£ million)



Source: Based on data published by the European Commission Report: EU Budget 2009 Financial Report, September 2010

Financial Year transactions

3.11 The EU financial year runs from 1 January to 31 December, whereas the UK's runs from 6 April to 5 April. Table 3.C gives a breakdown of the UK's transactions (estimated outturn) with the EU on a financial year basis between 2005-06 and 2010-11.

Table 3.C: Gross Payments, Abatement and Receipts (Financial Years - Outturn)

	£ million					
	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Estimated Outturn
Gross Payments ¹	11,780	12,245	13,746	13,155	13,733	15,593
Less: UK Abatement	-3,641	-3,560	-3,960	-5,595	-4,218	-2,678
Less: Public sector receipts	-3,750	-5,164	-5,601	-4,558	-4,791	-4,795
Net contributions to EU Budget²	4,389	3,521	4,185	3,002	4,724	8,119
Payments to EU Budget attributed to the aid programme ³	-704	-709	-715	-751	-830	-856
Other attributed costs	0	0	0	0	-69	-43
Net payments to EU institutions (excluding Overseas Aid)²	3,685	2,812	3,470	2,252	3,825	7,220

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

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

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

Source: HM Treasury

3.12 Table 3.D provides a breakdown of estimated UK transactions with the EU over the period 2011-12 to 2016-17. Tables 3.E (outturn figures) and 3.F (plans) provide a more detailed breakdown of UK receipts by major expenditure funds from the EU Budget over the periods 2005-06 to 2010-11 (outturn figures) and 2011-12-2016-17 (estimates).

Table 3.D: Gross Payments, Abatement and Receipts (Financial Years - Plans)

	£ million					
	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans	2015-16 Plans	2016-17 Plans
Gross Payments ¹	15,654	16,294	17,593	18,649	18,145	17,392
Less: UK Abatement	-3,774	-3,212	-3,703	-3,800	-3,861	-3,719
Less: Public sector receipts	-4,964	-5,250	-5,360	-5,486	-5,475	-5,433
Net contributions to EU Budget²	6,915	7,832	8,530	9,363	8,809	8,240
Payments to EU Budget attributed to the aid programme ³	-856	-856	-856	-856	-856	-856
Other attributed costs	-163	-82	-79	0	0	0
Net payments to EU institutions (excluding Overseas Aid)²	5,897	6,893	7,594	8,507	7,953	7,384

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

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

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

Source: Office for Budget Responsibility

Table 3.E: Public Sector Receipts from the EU Budget (Financial years - Outturn)

	£ million					
	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Estimated Outturn
FEAGA	1,705	3,312	3,455	3,047	2,967	2,565
EAFRD	85	53	265	299	310	329
Social Fund	739	1,324	831	519	571	763
Regional Development Fund	1,206	449	1,029	656	919	179
Other Receipts	15	26	21	37	24	11
Total	3,750	5,164	5,601	4,558	4,791	3,848

Source: HM Treasury

Table 3.F: Public Sector Receipts from the EU Budget (Financial years - Plans)

	£ million					
	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans	2015-16 Plans	2016-17 Plans
FEAGA	3,126	3,291	3,349	3,441	3,398	3,404
EAFRD	679	725	744	757	768	751
Social Fund	449	481	495	502	513	499
Regional Development Fund	623	665	682	694	703	689
Other Receipts	87	87	90	91	93	90
Total	4,964	5,250	5,360	5,486	5,475	5,433

Source: HM Treasury

3.13 Payments to the EU Budget are scheduled on a monthly basis, but the Commission can ask Member States for earlier payments of VAT-based and GNI-based contributions and the UK abatement, to take account of the high CAP payments, which take place in the first months of the calendar year. At the time of the 2010 Autumn Forecast, a draw-forward of 1.75 twelfths was estimated for the first quarter of the 2011 EU Budget year. A draw-forward of 1.3 twelfths was subsequently requested, which meant that a total of 4.3 twelfths was paid in the first quarter of the 2011 calendar year. As a result, payments for the rest of 2011, which will all fall into the 2011-12 financial year, are higher than projected at the time of the Autumn Forecast.

3.14 The forecast for the UK's contribution to EU institutions is based on a comprehensive and detailed analysis of the many different factors affecting the different types of contribution the UK makes to the EU.

Table 3.G: Public Sector Receipts from the EU Budget (Financial years - Plans)

	£ million					
	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans	2015-16 Plans	2016-17 Plans
FEAGA	3,126	3,291	3,349	3,441	3,398	3,404
EAFRD	679	725	744	757	768	751
Social Fund	449	481	495	502	513	499
Regional Development Fund	623	665	682	694	703	689
Other Receipts	87	87	90	91	93	90
Total	4,964	5,250	5,360	5,486	5,475	5,433

Source: HM Treasury

3.15 This Statement again includes estimates of UK contributions to the EU Budget over the period 2011-12 to 2015-16 and, in addition, a first estimate for 2016-17. In the medium term, the size of the UK net contribution is forecast to increase from £8.1 billion in 2010-11 to £8.5

billion in 2013-14. Forecasts beyond 2013 are particularly uncertain, as negotiation of the budget envelope for 2014 to 2020 has not formally begun.

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

3.17 In accordance with a commitment to the PAC, the Technical Annex explains the main differences between the Government's figures and those which can be derived from the European Commission's EU Budget 2009 Financial Report.

4

Financial Management and Anti-Fraud Issues

European Court of Auditors' annual report on the 2009 EU Budget

4.1 The European Court of Auditors (ECA) is the independent audit institution of the EU and is responsible for the audit of EU Institutions. The ECA is required to provide the European Parliament and the Council with an Annual Report on the implementation of the EU Budget. Since 1994 the ECA has also been required to include a Statement of Assurance (usually referred to as the 'DAS', from the French 'Déclaration d'Assurance') on whether the EU accounts are complete and accurate, and whether income and expenditure have been managed in accordance with all contractual and legal obligations.

4.2 The ECA's Annual Report and Statement of Assurance on the implementation of the 2009 EU Budget was published on 9 November 2010. The report provides an assessment of each of the EU Budget areas and forms an essential element in the European Parliament's oversight of the Commission's management of the EU Budget. The ECA's assessments are mainly based on testing the regularity of transactions, the effectiveness of the principal supervisory and control systems governing the revenue or expenditure involved, and on a review of the reliability of the Commission's management representations.

4.3 This report launches the annual discharge process, the procedure whereby the European Parliament, acting on a recommendation from the Council, decides whether to release the Commission from its responsibility for the management of the budget for the year in question.

ECA's general findings

4.4 The ECA emphasised that the EU accounts give a fair presentation of the financial position and the results of operations and cash flows. However, payments from the EU Budget continue to be materially affected by error in most areas.

4.5 The estimate for the most likely error rate in Cohesion spending was significantly lower than in previous years; and, for the EU Budget as a whole, the ECA's estimate of error rate has fallen over recent years from over 5 per cent in 2007 to 3.2 per cent in 2009. While this is encouraging, every effort must be made to sustain progress in future years.

4.6 The information provided on the correction of irregularly paid amounts has improved, although this is not yet completely reliable, due to weaknesses identified in the Member States' systems for reporting corrections. The Commission's data cannot therefore be meaningfully compared with the ECA's estimated error rate.

ECA's Statement of Assurance

4.7 For the third year in succession, the ECA found the EU accounts to be free from material misstatements, and hence reliable.

4.8 However, for the sixteenth consecutive year, the ECA did not grant a positive Statement of Assurance on the legality and regularity of expenditure in the areas of Agriculture and natural resources, Cohesion, Research, energy and transport, External Aid, development and enlargement and Education and Citizenship. In these areas, errors rates over the two per cent

threshold were detected. The supervisory and control systems are only partially effective in preventing or detecting and correcting the reimbursement of overstated or ineligible costs. The ECA estimated that overall payments are materially affected by error, with the most likely error rate being between two per cent and five per cent. The ECA concluded that supervisory and control systems for payments are, in general, partially effective. The ECA considers that the most likely error rate for payments continues to fall for the Budget as a whole.

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

- **Revenue:** The ECA found that Member States' payments of TOR, VAT and GNI based resources and other revenue were all free from material error. However, it notes an error detected in December 2009 by the Commission in its calculation of provisional estimates of the UK's abatement for the years 2008 and 2009, which will be corrected through revised estimates in subsequent Budgets. As in previous years, the ECA detected problems in the procedures and systems which affect the amounts included in the B accounts,¹ in particular delayed recovery of duties and late availability of information concerning recovered amounts, and unjustified write-off of customs duties. The ECA recommended that the Commission should continue to press Member States to provide timely and adequate information on VAT-based resources, and that it should complete its verification of GNI inventories in Member States.
- **Agriculture and Natural Resources:** In the area of agriculture and natural resources as a whole, the ECA concluded that the most likely error rate for payments lies between two per cent and five per cent. The ECA assessed the supervisory and control systems as partially effective in ensuring the regularity of payments. The ECA recommended that system weaknesses should be resolved as follows: issues affecting the Single Payments Scheme and Single Area Payments Scheme are the most in need of urgent review, including errors relating to ineligible land or over-declarations of land, ensuring that all Integrated Accounting Control System databases provide a reliable and full audit trail, clarifying and further enforcing rules on EU direct aid payments, and setting minimum EU-level annual maintenance requirements for grassland; further simplification of the rules and conditions relating to Rural Development; reviewing the Commission's guidelines on the work of certification bodies; and taking measures to avoid the payment of ineligible grants for fisheries projects, in cooperation with national authorities.
- **Cohesion:** The ECA noted that audit controls have been strengthened for the 2007-2013 programming period. It concludes that, in common with previous years, a large number of payments in the area of Cohesion were affected by errors and that for Cohesion as a whole; the most likely estimated error rate is above 5 per cent². The ECA concluded that interim and final payments for the Cohesion policy area were materially affected by error, and that many of these errors (at least 30 per cent) could have been avoided. The ECA recommended that the Commission should encourage more rigorous application of corrective mechanisms by national authorities, and to ensure that Member States do not commit further irregularities when substituting ineligible expenditure with new expenditure. The ECA also drew attention to the importance of ensuring effective functioning of the control system

¹ Where duties or levies remain unpaid and no security has been provided, or they are covered by securities but have been challenged, Member States may suspend making these resources available to the Commission by entering them in a "B-account".

² A more precise figure for the error rate in Cohesion is not available, as the ECA's report on the 2009 EU accounts only supplies error rates in three broad categories: below 2 per cent, 2 per cent to 5 per cent, and above 5 per cent.

for the 2007-2013 programming period, and suggested that the Commission should monitor the application of procurement rules in Member States.

- **Research, Energy and Transport:** The most likely error rate for the policy group is between two per cent and five per cent. The ECA found that systems were partially effective in ensuring the regularity of transactions and payments were materially affected by error. In order to make further progress, the ECA recommended that the Commission should take action to improve certification of cost statements, by alerting the independent auditors who have incorrectly certified cost statements, and by reviewing methodological issues. The Commission is also urged to reduce the backlog in recovery of undue amounts paid. The ECA also noted the increasing complexity of rules governing research Framework programmes, and calls on the Commission to further simplify these rules while also ensuring proper accountability.
- **External aid, Development and Enlargement:** The most likely error rate for the policy group is between two per cent and five per cent. The ECA drew attention to the fact that some errors detected in final payments should have been picked up by the Commission's controls but were not. It concludes that the supervisory and control systems in place are partially effective and that payments were materially affected by error. The ECA made a number of recommendations to the Commission, including that: DG RELEX should improve ex-post controls and pro-actively close contracts whose deadlines have expired; DG ENLARG should review its internal controls and address data quality issues; and DG ECHO should improve the documentation of its assessments and improve data collection.
- **Education and citizenship:** The ECA's audit focused on advance payments to EU and national agencies, and transactions underpinning closures (that is to say, the finalisation of projects and the process of beneficiaries settling their accounts with the Commission). The ECA found that advance payments were free from material error and concluded that the most likely error rate for closures, which make up the remainder of expenditure, was between two per cent and five per cent. The ECA's audit of systems was focussed on systems relating to closures made in 2009. The ECA found that although new systems had been put in place for the current programming period (2007-13), and that these systems should have prevented many material errors, a number of errors concerning closures were left undetected and uncorrected. The ECA concluded that closures for the policy group were affected by material error and that the supervisory controls were partially effective, and recommended that the Commission continue to reinforce checks on closures to ensure that errors are identified and corrected.
- **Economic and financial affairs:** The ECA concluded that payments for the policy group were free from material error, but nevertheless draws attention to the type and extent of errors found in research framework expenditure. The ECA concluded that the supervisory and control system for the policy area was only partially effective. The ECA acknowledged that the Commission has taken steps to simplify eligibility and application rules, but nevertheless recommends that it should raise awareness of eligibility issues and encourage ex-ante certification. The ECA recommended that the ECA should improve its ex-ante controls on procurement procedures and interim/final payments.
- **Administrative and other expenditure:** The ECA concluded that payments as a whole for the institutions' administrative expenditure were free from material error, and that the compliance of systems designed to ensure the regularity of transactions displayed no material weakness. This policy area also covers the EU

Agencies and Executive Agencies, and the European Schools. While the ECA concluded that the accounts of the European Schools are not affected by material errors, it noted that separate reports on the EU Agencies and Executive Agencies were scheduled to be published before the end of 2010.

Council recommendation to the European Parliament on Discharge

4.10 On 15 February 2011, the Council welcomed the ECA's Statement of Assurance for the financial year 2009, which showed evidence of improvements in the implementation of the EU Budget as a whole. It regretted, however, that payments from the EU Budget continued to be materially affected by error, that supervisory and control systems for payments remained only partially effective, and that the principal objective of obtaining a positive DAS on the underlying transactions was still not achieved.

4.11 The Netherlands, Sweden, and the UK abstained on the discharge vote, in order to signal frustration at the slow pace of improvement in EU financial management and the importance of redoubling efforts to achieve a positive DAS. The Netherlands, Sweden, and the UK also submitted a joint declaration calling for progress in three key areas, namely: greater Member State responsibility, enhanced transparency and a more risk-based approach to EU-level auditing and controls.

4.12 The Council's recommendations include:

- Necessity for continuous monitoring of the management and control of funds, in particular concerning the policy group Agriculture and Natural Resources, for which the Court's audit results show an increase in the estimate of most likely error, compared to 2008;
- Priority should be given to thorough evaluation of the functioning of the regulatory framework established for the current programming period, with particular focus on risks, benefits and costs of control of the existing systems, before decisions are made on any major modification;
- Stressing the need for efforts to be concentrated on simplification of programme structures and management systems at the level of beneficiaries, while not undermining the assurance provided by a high effectiveness of controls;
- Suggesting that elements for further simplification and more effective delivery mechanisms for EU policies should also be included in the Commission's upcoming proposals for new sectoral legislation relating to the next multiannual programming period;
- Recognition that more coherence and clarity could be achieved in the estimation of the impact of errors in public procurement on the basis of a consistent and transparent method;
- Invitation to the Commission to propose, where appropriate, measures aimed at reducing the complexity of rules, in particular of those governing the practical administration of programmes;
- Encouraging the Commission to continue to contribute to a common understanding of rules and regulations by supporting Member States through better and more targeted guidelines and trainings, if necessary;
- Insisting on the importance of financial corrections which are an indispensable instrument for the protection of the Union's financial interests and also an additional incentive for Member States to improve their systems; and

- Encouraging the Commission to immediately interrupt and suspend payments when it is duly justified, and to strictly follow up all corrective action.

European Parliament decision on Discharge

4.13 On 10 May 2011, the European Parliament adopted by a large majority the 2009 discharge for the bulk of EU institutions and bodies. However, it decided to postpone the discharge for the Council of Ministers, the European Medicine Agency (EMA) and the European Police College (CEPOL).

4.14 The Parliament's recommendations include:

- Completion of the Commission's governance structure by ideally adding the signature of the responsible Commissioner to the Director-General's Annual Activity Report and ideally having the Synthesis Report - which also shall include a "scoreboard" on the quality of controls per Member State and policy area - signed by the President of the European Commission;
- Introduction of automatic interruption and automatic suspension of payments as soon as evidence suggests a significant deficiency in the functioning of management and control systems;
- Improvement of corrective mechanisms aimed at correcting individual payments which have been incorrectly made and ensuring that the financial consequences of incorrectly made payments are borne by the beneficiaries and not the taxpayers;
- Appointment of a "performance evaluator" with responsibility for the preparation of the evaluation report as required in Article 318 of the Treaty on the Functioning of the EU to be endorsed by the College of Commissioners in order to establish a clear "ownership" of this report; and
- The introduction of a new spending logic aimed at improving the quality of spending and ensuring that funds provided by European taxpayers are spent both correctly and wisely.

4.15 The European Parliament granted CEPOL and EMA budget management "discharges" (approvals) on 25 October, following improvements in their procurement procedures and practices. However, the European Parliament continued to refuse to grant Council discharge.

UK Government's response to the ECA

4.16 A copy of the UK's response was sent to both Houses of Parliament on 22 January 2011. The ECA's 2009 report included several specific criticisms of the UK. Remedial actions have been implemented where necessary.

Agriculture

4.17 *Audit finding:* Overpayment due to incorrect value of English Reserve entitlements.

4.18 *UK Response:* Action has been taken. Software errors resulted in the incorrect recalculation of entitlement values following the processing of an entitlement transfer. UK Authorities have completed their analysis of the population affected by the software application problems that presented material errors within the 2009 DAS transaction samples. The UK Authorities have a Clearance Plan for the cases that require corrective action which is scheduled for completion by 31 March 2011. Recoveries of any undue payments will be achieved ordinarily through interception from 2010 Single (Farm) Payment Scheme (SPS) year payments. The UK Authorities withheld payments to all affected cases, which can only be released once entitlement values are

corrected and the value of any incorrect payments is established. This action will fully mitigate any risk to the Fund arising from these errors.

Revenue

4.19 Audit finding: The ECA's report stated its audit found errors in the determination of the exchange rate used to convert to euro amounts of aid paid in national currencies (UK, Czech Republic), and weaknesses in the calculation of aid reductions following on-the-spot checks (Germany (Bavaria)). Weaknesses were also found in the technical checks on reduction of nitrate pollution (Greece) and compliance with a specific eligibility condition such as adequacy of agricultural machinery relative to the land farmed (Bulgaria).

4.20 UK Response: The exchange rate applied to the expenditure for the December 2008 transactions was incorrect because the system picked up the exchange rate from the last working day of the previous month rather than the correct exchange rate of the penultimate day of the month. This occurred because the last day of the month fell at the weekend. The error was identified and a system fix implemented. In order to correct the over-declarations of expenditure, it was agreed that the balance would be netted off a subsequent Annex XI expenditure return. The ledger was corrected in the period 1-15 October 2009.

Fight against Fraud Report 2009

4.21 The protection of the European Union's (EU) financial interests and the fight against fraud are areas of shared responsibility between the Commission and Member States. Each year, the Commission, in cooperation with Member States, reports latest statistics on, and recent measures to reduce irregularities and fraud. This report is required under Article 325 (5) of the Treaty on the Functioning of the European Union (TFEU), and is sent to the Parliament and the Council. Two Commission working papers accompany the report: (i) Implementation of Article 325 TFEU (5) in 2009 by the Member States; and (ii) Statistical Evaluation of Irregularities in 2009.

4.22 The report is in five sections:

- **Results of irregularities** relating to (i) areas where Member States implement the budget (agricultural policy, cohesion policy and pre-accession funds) and in the collection of the EU's Traditional Own Resources (TOR); (ii) expenditure directly managed by the Commission; and (iii) operational activities of the European Anti-Fraud Office (OLAF);
- **International dimension** to protecting the EU's financial interests, including an update on the state of ratification of the Protection of Financial Interests (PFI)³ instruments and international agreements and multilateral conventions;
- **Recent administrative measures** taken by the Commission to fight fraud and irregularities in the customs area;
- **Results of the questionnaire** on cooperation between OLAF and the Member States regarding on-the-spot checks; and
- Details of **recoveries** made in all budget areas in 2009.

4.23 The report includes two special topics relevant to the EU institutions and national competent authorities (contributed by Member States via a questionnaire): (i) cooperation

³ OJ C 316, 27.11.1995.

between the Commission and the Member States concerning on-the-spot checks and (ii) measures taken by the Member States to recover irregular amounts.

4.24 Member States report suspicions of fraud and other detected irregularities affecting the EU's financial interests in the areas where they implement the budget. The report shows an increase in the number of cases of irregularities in 2009 (7,963) compared to 2008 (6,595) with the exception of Direct Expenditure and TOR. The estimated total financial impact of the irregularities also increased considerably to €1,493 million (£623 million) in 2009 from €783 million (£814 million) in 2008, for every sector except for Direct Expenditure and the Pre-Accession Funds.

Table 4.A: Number of irregularities and estimated financial impacts

	2008¹	Amounts	2009	Amounts
	No. of cases	(€ millions)	No. of cases	(€ millions)
Agricultural (EAGF and EAFRD)	1,133	102	1,621	125
Structural Funds and Cohesion Funds	4,007	585	4,931	1,223
Direct Expenditure	932	35	705	27.5
Pre-Accession Funds	523	61	706	117
Total expenditure	6,595	783	7,963	1492.5
TOR	6,075	375	4,648	351

¹ Figures shown for 2008 have since been updated as OLAF constantly update its databases.

Source: *The Commission's 2009 Fight Against Fraud Report*

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

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

Revenue

- Reported irregularities were 23 per cent down on 2008, falling from 6,075 to 4,684. The estimated financial impact was lower at 8.5 per cent, from €375 million (£325 million) to €343 million (£297 million) in 2009.
- Suspected fraud accounted for approximately 19 per cent of reported cases, with an estimated financial impact of €99 million (£86 million). Fraud is therefore suspected for 0.68 per cent of total TOR collection.
- The goods most affected were, as in previous years, TVs, monitors and tobacco.

Expenditure

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

- Reported irregularities increased 43 per cent (1,621 cases in 2009 compared to 1,133 in 2008) with an estimated financial impact of €125 million (£108 million), an increase of 23 per cent.

- The sectors with rather high irregularity rates were sugar, pig meat, eggs and poultry, cereals, rural development, and fruits and vegetables.

Structural Measures

- Reported irregularities increased 23 per cent (4,931 cases in 2009, compared with 4,007 in 2008) with an estimated financial impact of €1,223 million (£1,059 million) (also up about 20 per cent).
- The increase mostly reflects: (i) the result of three different reporting programming periods (1994-99, 2000-6 and 2007-13); (ii) growing influence of irregularities reported in Romania and Bulgaria; and (iii) increased checks and audits linked to the approaching closure of the 2000-06 programming period. As the 2000-06 programming period is being drawn to a close and full review of the programmes is being carried out, this housekeeping exercise will have attributed to the increase in the irregularity rates.
- The highest irregularity rates were found in the European Regional Development Fund (ERDF) and Objective 2 programmes (aimed at revitalising areas facing structural difficulties)

Pre-Accession Funds

- 706 irregularity cases were reported for this sector with a financial impact of €117 million (£101 million), an increase of 35 per cent on last year.
- Five Member States (Bulgaria, Hungary, Poland, Romania and Slovakia) and Turkey reported 262 suspected fraud cases with a financial impact of €57 million (£49 million). The highest number of cases was reported by Bulgaria for its Special Accession Programme for Agriculture and Rural Development (SAPARD) fund (67 per cent of its total allocation, reflecting 92 per cent of all SAPARD suspected fraud cases in 2009).

Expenditure directly managed by the Commission

- Irregularities and suspected fraud cases in this area came to 705 with a presumed financial impact of €27.5 million (£24 million), €1.5 million (£1.3 million) of which related to 15 cases of suspected fraud. Irregularities in the external action sector accounted for €4.4 million (£3.8 million) and €23.1 million (£20 million) was recorded for the internal policies area.

OLAF's activities

- In 2009, OLAF opened 220 cases, compared with 204 in 2008 and 201 in 2007. The number of its active cases increased to 455 at the end of 2009, compared with 425 at the end of 2008.

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

4.28 The following recoveries were recorded in 2009:

- Own Resources: Only 44 per cent (€152 million (£132 million)) of the amount scheduled for recovery was recovered;

- Agriculture: €167.3 million (£145 million) was recovered and €64 million (£55 million) was declared as irrecoverable; €1,136.2 million (£984 million) still remain outstanding at the end of 2009;
- Pre Accession Funds: The amounts to be recovered increased by 135 per cent with the highest reported for SAPARD (€ 61.6 million (£53.0 million)), followed by PHARE⁴ (€7 million (£6 million)) and Instrument for Structural Policies for Pre-Accession (€4 million (£3.4 million)). The recovery rate decreased in comparison to 2008, reaching only 27.2 per cent in 2009; and
- Direct expenditure: Full or partial recovery was announced for 478 reported cases with €15.5 million (£13 million) recovered. Full amount was recovered for 463 cases but €12 million (£10 million) in respect of 242 cases, remains outstanding.

4.29 As Structural Funds are multi-annual in nature and based on interim payments, recovery of unduly paid amounts can take place before or after the conclusion of a programme and can also be deducted from future payment claims.

- For the 1994-99 programming period, €742 million (£643 million) was taken into account during the final payment or de-committed after closure or reimbursed to the EU budget.
- For the 2000-06 programming period, €1.73 billion (£1.5 billion) has been recovered so far, 3 per cent on the 1994 -99 programming period
- At the end of 2009, the total amount of financial corrections concerning the 1994-99 and 2000-06 programming periods was €2,510 million (£2,174 million) (€515 million (£446 million) in 2009) and €5,119 million (£4,433 million) (€1,806 million (£1,564 million) in 2009) respectively. These figures were the results of audits by the Commission, the ECA, OLAF investigations and the closure procedures for the two programming periods.

4.30 In 2009, OLAF formally closed the financial follow-up procedure for cases worth more than €249.2 million (£216 million). In total, €137.2 million (£119 million) was recovered in the agricultural sector and €49.1 million (£43 million) in the field of structural funds.

OLAF's 10th Activity Report (1 January to 31 December 2009)

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

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

4.33 Every year, its Director publishes an annual report on the activities of the Office over the previous year. The ninth report issued on 9 July 2010, gave details and statistics of the Office's work inside and outside the EU in 2009 in form of case studies and statistical tables.

⁴ Poland and Hungary: Assistance for Restructuring their Economies (PHARE)

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

4.35 The following statistical trends were reported in 2009:

- OLAF received 969 items of incoming information;
- Of the 740 decisions taken on the basis of new information received, 220 resulted in the opening of a case and 187 cases were closed;
- Most of the information received mainly concerned allegations related to the EU Institutions and bodies (nearly 31 per cent) and structural Funds (20 per cent) followed by Agriculture (18 per cent) and External Aid (14 per cent);
- At the end of 2009, OLAF had a total of 457 active investigations and 261 monitoring cases, with a further 462 cases under evaluation;
- The average length of standard evaluations, which had fallen from 10.6 months in 2002 to 5.2 months in 2006, was stable in 2009 at 6.5 months;
- The average duration of the "active stage" of cases decreased from 28 months to 25 months;
- 188 cases were closed with only 56 per cent closed with follow-up compared with 66.8 per cent in 2008;
- An individual case can lead to several follow-up actions. For example, the 106 cases closed with follow-up in 2009 triggered 193 follow-up proceedings: 75 financial, 62 judicial, 39 administrative and 17 disciplinary actions. OLAF ensures that competent EU and national authorities carry out the actions; and
- Over €249.2 million (£216 million) was recovered as a result of follow-up actions closed in 2009 (a 69 per cent increase on 2008). The agricultural sector represented more than half of this, followed by Structural Funds €49.1 million (£43 million) and VAT at €33.9 million (£29 million).

4.36 OLAF had a total budget of €78 million (£68 million) in 2009. Of this amount, €58 million (£50 million) was allocated to administration and the rest (€21 million (£18 million)) dedicated to operations, which fund anti-fraud activities such as the Hercule II programme⁵.

⁵ Action programme that promotes activities in the field of the protection of the EU's financial interests.

A Glossary

Commitment and payment appropriations

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

Discharge procedure

A.2 The ECA's annual report is subject to consideration by the budgetary authority (Council and European Parliament) under the "discharge procedure" set out in Article 319 (3) of the Treaty on the functioning of the EU. In particular, it considers how the Budget for the year in question was implemented. The European Parliament, acting on a recommendation from the Council, considers whether to grant the Commission a discharge in respect of the Budget in question, thus bringing the budgetary process for that year to a formal close. The Commission is obliged under Article 319 (3) of the Treaty on the functioning of the EU to take "all appropriate steps" to act on comments made by the European Parliament and by the Council during the discharge process. If so asked, it must also report back on its actions, with such reports going to the ECA.

Flexibility Instrument

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

Fraud and irregularity

A.4 Fraud (as defined by the Penal Convention) covers intentional acts or omissions, in respect of both expenditure and revenue, which involve the use or presentation of false, incorrect or incomplete statements or documents, or specific non-disclosure of information, or misapplication of funds or benefits.

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

Inter Institutional Agreement (IIA)

A.6 The IIA is a politically and legally binding agreement that clarifies the EU's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the EU Budget on the basis of proposals from the Commission. The IIA sets out the way in which the three institutions will exercise their responsibilities in accordance with the Treaty, and their respect for the revenue ceilings that are laid down in the ORD. In particular, it provides for the annual EU Budget to be set in the context of a multi-annual financial framework.

Own Resources

A.7 The ORD lays down four sources of EU revenue, or 'Own Resources':

- Customs duties, including those on agricultural products. These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT round, most duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices.
- Sugar levies: These are charged on the production of sugar to recover part of the cost of subsidising the export of surplus EU sugar onto the world market.
- Contributions based on VAT: Essentially, the VAT resource is the amount yielded by applying a notional rate of 1 per cent to a VAT base, assuming an identical range of goods and services in each Member State. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The method for calculating the VAT-based resource is set out in the ORD.
 - (1) the starting point is the total amount of net VAT collected in each Member State;
 - (2) 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;
 - (3) the intermediate base is then adjusted for derogations operated under the Principal VAT Directive to produce the harmonised base;
 - (4) 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
 - (5) a call-up rate (currently a maximum of 0.3 per cent) is applied to produce a Member States' VAT-based contribution.
- GNI-based contributions: The amount due is calculated by taking the same proportion of each Member State's GNI. Because the EU is not allowed to borrow, revenue must equal expenditure. The GNI-based resource is the budget-balancing item; it covers the difference between total expenditure in the Budget and the revenue from the other three resources, subject to the overall Own Resources ceiling.

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

Sterling figures

A.8 The Sterling figures for 2005 to 2011 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 Sterling¹. Generally, the 2011 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31 December 2010, namely £1 = €1.161778 (regulations state that VAT-based and GNI-based payments will be made using the exchange rate on the last working day of the preceding year). However, there may be some exceptions, for example where figures have previously been published at a different exchange rate, but these are noted where necessary.

Structural Funds

A.9 At present, there are four Structural funds through which the EU grants financial assistance to resolve structural economic and social problems:

- the European Regional Development Fund (ERDF), which promotes economic and social cohesion within the Union through the reduction of imbalances between regions or social groups;
- the European Social Fund (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- the European Agricultural Guidance and Guarantee Fund (EAGGF – Guidance Section), which contributes to the structural reform of the agriculture sector and to the development of rural areas; 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.

UK abatement

A.10 The UK's VAT-based contributions are abated (reduced) according to a formula set out in the ORD. Broadly, this is equal to 66 per cent of the difference between what the UK contributes to the EU Budget and the receipts, which the UK gets back, subject to the following points:

- the abatement applies only in respect of spending within the EU;
- the UK's contribution is calculated as if the Budget were entirely financed by VAT; and
- the abatement is deducted from the UK's VAT contribution a year in arrears, e.g. the abatement in 2010 relates to UK payments and receipts in 2009.

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

¹ The annual average rate for 2005 is £1 = €1.4629
The annual average rate for 2006 is £1 = €1.4669
The annual average rate for 2007 is £1 = €1.4615
The annual average rate for 2008 is £1 = €1.257509
The annual average rate for 2009 is £1 = €1.123291
The annual average rate for 2010 is £1 = €1.166206

A.10.2 The Commission is directly and solely responsible for determining the UK's abatement. It calculates the abatement on the basis of a forecast of contributions to the EU Budget and of receipts from it. This is subsequently corrected in the light of outturn figures.

A.10.3 Corrections may be made for up to three years after the year in respect of which the abatement relates, with a final calculation then being made in the fourth year, e.g. a final calculation of the abatement in respect of 2010 will take place in 2014.

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

B

Technical Annex

Determining the value of the Own Resources Elements

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

- at the beginning of the budgetary process, which occurs in the year prior to the Budget in question, the amounts due from each Member State are assessed in that Member State's national currency, i.e. Sterling for the UK;
- the initial process involves estimating the amounts due to be received in respect of TOR, the amount relating to VAT if it were applied at 1 per cent across the EU, and the amount of 1 per cent of each Member State's GNI. These estimates rely on the Member States' estimates of their economic activity during the Budget year;
- the Member States' national currency estimates are, where necessary, then converted into Euro using an exchange rate at the time the estimates are being drawn up – nowadays this is usually an early May exchange rate;
- the amount of VAT and GNI each Member State has to pay to the EU Budget is then determined by the limits described above for these Own Resources, so that; when added to the amounts for the TOR, the total does not exceed the value of the Own Resources required to fund the proposed Budget for the coming year, subject to ensuring that the value of these Own Resources does not also exceed the Own Resources ceiling for the year in question (e.g. 1.23 per cent in 2011);
- the sum produced (in Euro) is entered into the Draft Budget (DB), in the year preceding the budgetary year;
- the sum entered in the DB is adjusted as necessary during the remainder of the Budget process, essentially to reflect changes on the expenditure side of the Budget, but still on the basis of the Budget exchange rate and still respecting the Own Resources ceiling;
- the Sterling/Euro exchange rate on the last working day prior to the start of the Budget year is established as the rate by which UK VAT-based and GNI-based contributions will be converted for the whole Budget year. The Sterling amount which the UK has to pay in respect of these two resources will be different from its original estimates, if the rate on the last working day is different from the Budget exchange rate;
- during the course of the Budget year, the UK pays its VAT and GNI contributions to meet its obligations as denominated in Euro in the adopted Budget, or subsequent Amending Budgets. These payments are made at the Sterling/Euro rate on the last working day prior to the Budget year. As Member States pay only what they collect, their TOR payments are not determined by the Euro amounts in the Budget;

- Member States pay their contributions for a given Budget year in monthly instalments (VAT and GNI-based contributions on the first working day of each month, TOR on the first working day following the 19th of each month). The VAT and GNI-based contributions are subsequently adjusted in the light of a number of factors, such as outturn figures for VAT. If outturn expenditure is below the amount raised from Member States, excess contributions are refunded in an Amending Budget;
- since there are generally differences between the Sterling/Euro exchange rates (a) used to set the Budget and (b) to make VAT-based and GNI-based contributions, the UK would generally have paid more or less in Sterling compared with the amount established for them for the budgetary year in question. These exchange variations are accounted for in-year under arrangements in place since 1998. Member States re-estimate their 1 per cent VAT and GNI bases during the course of the budgetary year and the conversion of their national currency estimates is carried out using the exchange rate on the last working day prior to the start of the Budget year. The revised figures are then included in an Amending Budget to the budgetary year to which they relate. In practice, converting the revised figures using the exchange rate on the last working day means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1 per cent base using much later information means that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. In the year following the budgetary year, any adjustments to correct for any under or overpayment should be relatively small, compared to the adjustments made in years prior to 1998; and
- Numerous small further adjustments are however, required to be made over several years following the Budget year, for example, to reflect later adjustments in the amount of GNI statistics.

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

B.2 When converted at the average exchange rate for 2009 of £1 = €1.123291, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	13,537.3	12,051.5
UK abatement	-5,657.7	-5,036.7
UK receipts	-6,247.1	-5,561.4
UK net contribution	1,632.5	1,453.3

Source: HM Treasury

B.3 The Government's figure for the UK's net contribution in 2009 is £4,336 million.

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

- the UK figure includes only transactions between the EU Budget and the UK public sector, whereas the European Commission's figures include receipts paid direct to

the UK private sector. It is estimated that this accounted for around £1,100 million of the difference in 2009;

- the late adoption of Amending Budgets Nos. 8/2008 and 9/2008 meant that associated changes were not implemented until January 2009. The result of which leads to the Government's figures for 2009 being some £805 million lower than if the Amending Budget changes had been implemented in 2008;
- the late adoption of Amending Budget No. 10/2009 meant that associated changes were not implemented until January 2010, the result of which leads to the Government's figures for 2008 being around £421 million higher than if the Amending Budget changes had been implemented in 2009; 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 EU Budget. Some receipts from an EU Budget for a given year take place in the early weeks of the subsequent year. These are scored in the UK to the year in which the transactions happened, and by the European Commission, to the Budget for the previous year. Up to £54 million of payments to the UK in 2009 may have been in respect of the 2008 EU Budget, and up to £2,220 million of payments in 2010 may have been in respect of the 2009 Budget.

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

The following table reconciles the two figures.

	(£ million)
UK Government cash-flow outturn for 2009	4,336
Private sector receipts	-1,100
Late implementation, in January and February 2009, of Amending Budgets No. 8/2008 No. 9/2008	805
Late implementation, in January 2010 of Amending Budget No.10/2009	-421
Receipts paid in 2009, which may have been from the 2008 Budget	54
Receipts paid in 2010, which may have been from the 2009 Budget	-2,220
UK Cash-flow figure adjusted to reflect main differences compared to European Commission's figure	1,454
European Commission figure for 2009 outturn	1,453
Net difference due to other factors (such as exchange rate)	1

Source: HM Treasury

C Tables

C.1 This annex includes tables that supplement data presented in the main text.

Table C.1: Expenditure on the EU Budget Commitments and Payments by Heading in years 2007-2011(€ million)

Appropriations	Commitments					Payments				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Sustainable Growth	54,854	58,338	62,202	64,250	64,502	43,590	45,731	45,332	47,714	53,280
<i>1a Competitiveness for Growth and Employment</i>	9,368	11,082	13,775	14,863	13,521	6,545	9,715	10,368	11,343	11,628
1b Cohesion for Growth and Management	45,487	47,256	48,427	49,387	50,981	37,045	36,016	34,963	36,371	41,652
2 Preservation and Management of Natural Resources	55,850	55,560	56,332	59,499	58,659	54,210	53,217	49,906	58,136	56,379
3 Citizenship, Freedom, Security and Justice	1,444	1,635	2,132	1,687	1,822	1,270	1,489	1,911	1,411	1,459
3a Freedom Security and Justice	624	732	886	1,006	1,139	370	534	617	739	813
3b Citizenship	820	903	1,266	681	683	900	955	1,294	672	646
4 The EU as a Global Partner	6,812	7,551	8,104	8,141	8,754	7,353	7,847	8,080	7,788	7,238
5 Administration	6,978	7,279	7,597	7,907	8,173	6,978	7,280	7,597	7,907	8,172
6 Compensations	445	207	209	0	0	445	207	209	0	0
TOTAL	126,383	130,570	136,576	141,484	141,910	113,846	115,771	113,035	122,955	126,527
Notes:										
¹ 2007-09 includes all Amending Budgets and 2010 includes Amending Budgets 1-7. 2011 as adopted on 15 December 2010.										
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' 2008 - 10. Statement of estimates of the European Commission for the financial year 2012. Other EU documentation.										

Table C.2: Expenditure on the EU Budget Commitments and Payments by Heading in years 2007-2011 (£ million)

Appropriations	Commitments					Payments				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Sustainable Growth	37,533	46,392	59,247	57,060	57,284	29,826	36,366	43,178	42,375	47,317
<i>1a Competitiveness for Growth and Employment</i>	6,410	8,813	13,120	13,200	13,120	4,478	7,726	9,876	10,074	10,327
1b Cohesion for Growth and Management	31,123	37,579	46,127	43,861	45,276	25,347	28,641	33,303	32,301	36,991
2 Preservation and Management of Natural Resources	38,214	44,182	53,656	52,841	52,095	37,092	42,319	47,535	51,631	50,070
3 Citizenship, Freedom, Security and Justice	988	1,300	2,031	1,498	1,618	869	1,184	1,821	1,253	1,296
3a Freedom Security and Justice	427	582	844	893	1,012	253	425	588	656	722
3b Citizenship	561	718	1,206	605	607	616	759	1,232	597	574
4 The EU as a Global Partner	4,661	6,005	7,719	7,230	7,774	5,031	6,240	7,697	6,917	6,428
5 Administration	4,774	5,789	7,237	7,022	7,258	4,775	5,789	7,237	7,022	7,258
6 Compensations	304	164	199	0	0	304	165	199	0	0
TOTAL	86,475	103,832	130,089	125,652	126,029	77,897	92,064	107,666	109,196	112,369

Notes:

¹ 2007-09 includes all Amending Budgets and 2010 includes Amending Budgets 1-7. 2011 as adopted on 15 December 2010.

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

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

Source: European Commission: 'General Budget of the European Union for the financial year' 2008 - 10. Statement of estimates of the European Commission for the financial year 2012. Other EU documentation.

Table C.3: EU Budget Own Resources (€ million)

	Agricultural and Sugar Levies							Custom Duties							VAT Contributions						
	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011
Belgium	55	24	12	61	6	7	7	1,318	1,497	1,673	1,759	1,417	1,440	1,512	650	703	701	769	601	600	593
Bulgaria	-	-	14	23	0	0	0	-	-	47	63	53	53	55	-	-	67	81	76	62	64
Czech Republic	15	8	11	12	3	3	3	131	141	167	195	164	177	193	229	254	284	345	265	250	255
Denmark	60	37	32	50	3	3	3	238	287	298	294	280	302	319	402	470	496	537	448	375	386
Germany	426	210	151	323	27	26	26	2,298	2,718	2,976	3,014	2,919	3,155	3,404	3,258	3,677	3,929	3,738	2,017	1,841	1,800
Estonia	1	1	18	10	-	-	-	15	19	25	24	24	16	17	23	31	38	38	31	25	26
Greece	12	11	8	7	1	1	1	187	194	222	224	190	163	155	428	467	844	615	512	493	414
Spain	85	52	37	28	6	5	5	1,013	1,146	1,253	1,161	996	1,037	1,057	2,302	2,474	2,475	2,587	2,290	1,668	1,618
France	300	134	94	365	36	31	31	1,037	1,148	1,238	1,204	1,227	1,281	1,358	4,085	4,327	4,441	4,714	3,967	3,499	3,510
Ireland	6	2	0	1	-	-	-	176	200	218	200	177	172	178	337	366	396	401	308	248	253
Italy	114	150	145	119	5	5	5	1,228	1,423	1,543	1,530	1,500	1,702	1,795	3,112	2,686	3,193	4,310	2,461	2,430	2,501
Cyprus	5	3	12	9	3	-	-	30	29	35	36	31	31	33	31	34	36	40	37	33	33
Latvia	2	1	3	2	1	-	-	18	21	28	27	18	20	21	27	37	50	55	37	30	27
Lithuania	3	2	3	9	2	1	1	31	36	42	51	38	44	48	46	51	67	79	61	50	52
Luxembourg	0	1	1	1	0	-	-	15	18	19	14	11	11	12	58	56	74	73	63	52	56
Hungary	11	6	5	9	1	2	2	103	98	106	104	92	100	112	179	177	213	242	170	158	171
Malta	2	1	2	2	0	-	-	10	10	10	11.0	9	10	10	11	11	13	14	12	11	11
Netherlands	300	244	252	271	7	7	7	1,184	1,401	1,621	1,762	1,714	1,877	2,039	813	990	1,029	993	357	312	340
Austria	24	7	0	16	3	3	3	165	188	201	185	154	160	168	367	457	452	425	298	309	313
Poland	82	47	39	123	3	13	13	190	225	300	328	297	336	380	560	611	725	864	636	663	701
Portugal	22	23	21	15	0	0	0	86	95	116	119	117	128	131	394	351	383	392	341	317	311
Romania	-	-	29	42	1	1	1	-	-	130	158	123	131	142	-	-	249	277	246	186	197
Slovenia	1	1	0	1	-	-	-	28	35	82	89	69	74	79	67	69	79	92	81	68	68
Slovakia	9	3	4	6	2	1	1	35	52	87	105	82	88	93	76	92	126	123	123	108	107
Finland	11	7	8	5	1	1	1	102	123	141	161	114	125	138	341	359	393	417	372	313	315
Sweden	28	18	22	31	2	3	3	323	382	417	424	368	422	450	378	485	528	500	198	173	179
United Kingdom	473	451	450	444	10	10	10	2,054	2,100	2,207	2,056	2,222	2,541	2,753	2,285	2,043	1,779	3,312	3,533	996	512
Total	2,046	1,444	1,373	1,985	124	123	123	12,017	13,585	15,200	15,297	14,404	15,596	16,654	15,888	17,191	19,500	19,408	12,475	13,277	13,787

EU Budget Own Resources (€ million) - continued

	Fourth Resource Contributions							TOTALS						
	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011
Belgium	2,000	1,933	1,986	2,041	2,433	2645	2,750	4,024	4,156	4,372	4,631	4,457	4,692	4,862
Bulgaria	-	-	163	196	243	249	265	-	-	291	364	372	365	385
Czech Republic	615	633	704	844	870	993	1,064	990	1,035	1,167	1,396	1,302	1,424	1,515
Denmark	1,289	1,399	1,394	1,421	1,617	1785	1,861	1,989	2,193	2,219	2,301	2,347	2,465	2,569
Germany	14,154	13,896	14,654	15,140	17,284	18805	19,390	20,136	20,501	21,710	22,215	22,246	23,827	24,620
Estonia	61	80	96	89	95	99	105	100	130	177	161	150	140	147
Greece	1,174	1,163	1,947	1,482	1,595	1748	1,769	1,802	1,834	3,020	2,328	2,299	2,405	2,339
Spain	6,075	6,128	6,073	6,190	7,285	7780	8,008	9,475	9,800	9,838	9,966	10,577	10,489	10,687
France	11,431	11,026	11,216	11,742	13,767	14944	15,565	16,854	16,636	16,989	18,025	18,997	19,755	20,464
Ireland	924	914	972	974	958	968	1,011	1,442	1,482	1,586	1,577	1,442	1,388	1,442
Italy	9,093	9,247	9,144	9,186	10,502	11554	12,017	13,547	13,507	14,024	15,144	14,469	15,690	16,318
Cyprus	83	87	88	95	119	127	132	150	153	170	180	191	191	199
Latvia	82	96	118	132	149	131	130	130	155	199	216	204	181	178
Lithuania	127	145	158	190	205	199	207	207	234	271	329	306	293	308
Luxembourg	154	143	202	172	197	208	222	227	217	296	259	270	271	290
Hungary	541	501	547	592	595	704	752	833	783	870	947	858	964	1,037
Malta	28	28	33	34	39	42	44	50	50	57	60	61	62	65
Netherlands	3,650	3,497	3,401	3,643	3,368	3746	3,923	5,947	6,131	6,303	6,669	5,446	5,943	6,310
Austria	1,589	1,557	1,565	1,568	1,892	2114	2,192	2,144	2,209	2,218	2,195	2,347	2,586	2,677
Poland	1,496	1,563	1,746	2,158	2,052	2509	2,801	2,327	2,447	2,809	3,473	2,988	3,520	3,894
Portugal	1,025	909	940	940	1,089	1208	1,242	1,527	1,378	1,460	1,466	1,548	1,654	1,684
Romania	-	-	682	741	911	886	974	-	-	1,089	1,218	1,282	1,204	1,314
Slovenia	180	175	198	227	259	260	271	275	279	359	408	409	402	417
Slovakia	239	255	303	361	468	490	523	359	402	519	595	675	687	726
Finland	1,011	1,071	1,088	1,127	1,217	1327	1,392	1,465	1,560	1,629	1,710	1,704	1,766	1,846
Sweden	1,925	1,813	1,949	2,269	1,897	2212	2,501	2,654	2,698	2,915	3,223	2,465	2,810	3,133
United Kingdom	11,915	11,873	12,551	10,925	10,889	12543	13,430	12,157	12,381	13,429	10,114	9,588	14,097	15,681
Total	70,861	70,132	73,915	74,479	81,993	90,273	94,542	100,811	102,351	109,987	111,169	108,996	119,270	125,106

Notes:

1. Miscellaneous items of revenue and carry forwards of surpluses and deficits from previous years account for the differences between total budget expenditure given in Table 1 and the own resources figures in Table 2.
2. With effect from 2009 the agricultural and sugar levies column contains just sugar levies. From 2009 onwards agricultural levies are incorporated in custom duties figures.
3. The figures for agricultural and sugar levies and customs duties are after the deduction of 25% collection costs.
4. The figures for VAT contributions are after taking account of the UK abatement.
5. Because of rounding the column totals do not necessarily equal the sum of the individual items.

Source: Figures for 2005 to 2009 are taken from the European Commission's report: EU Budget 2009 Financial Report. Figures for 2010 taken from Amending Budget 6/2010. Figures for 2011 taken from 2011 Adopted Budget.

Table C.4: EU Budget Own Resources (£ million)

	Agricultural and Sugar Levies							Custom Duties							VAT Contributions						
	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011
Belgium	38	16	8	49	5	6	6	901	1,021	1,145	1,399	1,262	1,235	1,302	445	479	480	612	535	515	510
Bulgaria	-	-	10	19	0	0	0	-	-	32	50	47	45	48	-	-	46	64	68	53	55
Czech Republic	10	5	8	10	3	3	3	90	96	114	155	146	152	166	157	173	195	274	236	214	219
Denmark	41	25	22	39	3	3	3	163	196	204	234	249	259	274	275	321	339	427	399	321	333
Germany	292	143	103	257	24	23	23	1,571	1,853	2,036	2,397	2,598	2,705	2,930	2,227	2,507	2,689	2,973	1,795	1,579	1,549
Estonia	1	0	12	8	-	-	-	10	13	17	19	21	14	14	15	21	26	31	27	21	22
Greece	8	7	5	5	1	1	1	128	132	152	178	169	140	133	293	318	577	489	456	423	356
Spain	58	36	25	23	5	4	4	693	781	858	923	887	889	909	1,573	1,687	1,693	2,057	2,039	1,430	1,392
France	205	92	64	290	32	26	27	709	783	847	957	1,092	1,098	1,168	2,793	2,950	3,038	3,749	3,531	3,001	3,022
Ireland	4	1	0	1	-	-	-	120	137	149	159	157	148	153	230	249	271	319	274	213	218
Italy	78	102	99	95	5	4	4	839	970	1,055	1,216	1,335	1,459	1,545	2,127	1,831	2,185	3,427	2,191	2,083	2,152
Cyprus	3	2	8	7	3	-	-	21	20	24	29	28	27	29	21	23	24	32	33	28	28
Latvia	1	1	2	2	1	-	-	12	14	19	21	16	17	18	19	25	34	43	32	26	23
Lithuania	2	2	2	7	2	1	1	21	24	29	41	34	38	41	31	35	46	63	54	43	45
Luxembourg	0	0	0	1	0	-	-	11	13	13	11	10	10	11	39	38	51	58	56	45	48
Hungary	7	4	3	8	1	2	2	70	67	73	83	82	86	97	122	121	146	193	151	136	147
Malta	1	1	1	1	0	-	-	7	7	7	9	8	8	9	7	8	9	11	11	9	9
Netherlands	205	166	173	215	6	6	6	809	955	1,109	1,401	1,526	1,610	1,755	556	675	704	789	318	268	293
Austria	16	5	0	13	2	3	3	113	128	137	147	137	137	145	251	311	309	338	266	265	270
Poland	56	32	26	98	2	11	11	130	153	205	261	264	288	327	382	417	496	687	566	568	603
Portugal	15	15	14	12	0	0	0	59	65	79	95	105	110	113	269	239	262	311	303	272	267
Romania	-	-	20	33	1	1	1	-	-	89	126	110	113	122	-	-	170	220	219	159	169
Slovenia	0	0	0	1	-	-	-	19	24	56	71	61	63	68	46	47	54	73	72	59	58
Slovakia	6	2	3	5	1	1	1	24	36	59	84	73	76	80	52	63	86	97	110	92	92
Finland	7	5	6	4	1	1	1	70	84	96	128	102	107	119	233	244	269	331	331	268	271
Sweden	19	12	15	24	2	2	2	221	260	285	337	327	362	388	258	331	361	397	176	149	154
United Kingdom	323	307	308	353	9	8	8	1,404	1,431	1,510	1,635	1,978	2,179	2,370	1,562	1,392	1,217	2,633	3,145	854	441
Total	1,399	984	940	1,579	110	106	106	8,215	9,261	10,400	12,165	12,823	13,373	14,335	10,860	11,719	13,342	15,433	11,106	11,385	11,867

EU Budget Own Resources (£ million) - continued

	Fourth Resource Contributions							TOTALS						
	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011
Belgium	1,367	1,317	1,359	1,623	2,166	2,268	2,367	2,750	2,833	2,991	3,683	3,968	4,023	4,185
Bulgaria	0	0	112	156	217	214	228	0	0	199	289	331	313	331
Czech Republic	420	431	482	671	774	851	915	677	706	798	1,110	1,159	1,221	1,304
Denmark	881	954	954	1,130	1,439	1,530	1,602	1,360	1,495	1,518	1,830	2,089	2,114	2,212
Germany	9,675	9,473	10,027	12,040	15,387	16,125	16,690	13,765	13,976	14,855	17,666	19,805	20,431	21,192
Estonia	42	55	66	71	84	85	90	68	89	121	128	133	120	127
Greece	802	793	1,332	1,178	1,420	1,498	1,523	1,232	1,250	2,066	1,851	2,046	2,062	2,014
Spain	4,153	4,177	4,156	4,922	6,486	6,671	6,893	6,477	6,681	6,731	7,925	9,416	8,994	9,199
France	7,814	7,517	7,674	9,338	12,256	12,814	13,398	11,521	11,341	11,624	14,334	16,912	16,939	17,614
Ireland	631	623	665	775	852	830	870	986	1,010	1,085	1,254	1,284	1,190	1,241
Italy	6,216	6,304	6,256	7,305	9,349	9,908	10,344	9,260	9,208	9,596	12,043	12,881	13,454	14,045
Cyprus	57	59	60	76	106	109	114	103	105	116	143	170	164	171
Latvia	56	65	81	105	133	113	112	89	106	136	171	182	155	153
Lithuania	87	99	108	151	182	170	178	142	159	185	262	272	251	265
Luxembourg	105	97	138	137	175	178	191	155	148	202	206	240	233	250
Hungary	370	342	374	471	530	603	648	570	533	595	753	764	827	893
Malta	19	19	22	27	35	36	38	34	34	39	48	54	53	56
Netherlands	2,495	2,384	2,327	2,897	2,998	3,212	3,377	4,065	4,180	4,313	5,303	4,848	5,096	5,431
Austria	1,086	1,062	1,071	1,247	1,684	1,813	1,887	1,466	1,506	1,518	1,745	2,089	2,218	2,304
Poland	1,022	1,066	1,194	1,716	1,827	2,151	2,411	1,591	1,668	1,922	2,761	2,660	3,019	3,352
Portugal	701	620	643	748	970	1,036	1,069	1,044	940	999	1,166	1,378	1,418	1,450
Romania	0	0	466	589	811	760	838	0	0	745	968	1,141	1,032	1,131
Slovenia	123	119	136	180	230	223	233	188	190	246	325	364	345	359
Slovakia	163	174	207	287	416	420	450	245	274	355	473	601	589	624
Finland	691	730	744	896	1,083	1,138	1,198	1,001	1,063	1,115	1,360	1,517	1,514	1,589
Sweden	1,316	1,236	1,334	1,804	1,689	1,896	2,153	1,814	1,839	1,995	2,563	2,194	2,410	2,696
United Kingdom	8,145	8,094	8,588	8,688	9,694	10,755	11,560	8,310	8,440	9,188	8,043	8,535	12,088	13,498
Total	48,438	47,810	50,575	59,227	72,993	77,408	81,377	68,912	69,774	75,256	88,404	97,033	102,272	107,685

Source: Sterling figures are derived from the corresponding euro amounts in Table C.3 converted at the appropriate exchange rate (see glossary).

Table C.5: United Kingdom contributions to, abatement, and public sector receipts from the EU Budget

	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011
GROSS CONTRIBUTIONS														
Sugar levies	474	450	449	510	293	12	10	324	308	307	349	200	8	8
Customs Duties	2,089	2,097	2,207	2,363	2,637	3,140	2,613	1,428	1,433	1,508	1,615	1,802	2,146	2,249
VAT Own Resources	2,896	3,166	3,355	3,298	2,536	3,178	2,525	1,980	2,164	2,293	2,254	1,733	2,172	2,174
Fourth Resource payments	12,576	12,225	11,695	12,617	15,609	15,636	12,599	8,597	8,357	7,994	8,624	10,670	10,689	10,845
VAT & Fourth Resource adjustments	226	241	517	277	405	265	15	154	165	354	189	277	181	13
United Kingdom Abatement	5,226	5,221	5,154	7,112	7,888	4,457	3,649	3,572	3,569	3,523	4,862	5,392	3,047	3,141
Total Contributions	13,035	12,993	13,056	9,798	9,814	14,169	14,113	8,911	8,857	8,933	7,791	8,737	12,150	12,148
PUBLIC SECTOR RECEIPTS														
FEAGA	4,294	4,323	4,079	3,099	3,269	3,422	3,463	2,935	2,947	2,791	2,465	2,910	2,934	2,981
EAFRD	117	75	33	523	242	502	772	80	51	23	416	215	431	664
European Regional Development Fund	2,052	867	1,033	1,221	717	710	707	1,403	591	707	971	639	609	608
European Social Fund	1,315	1,953	1,163	765	684	908	514	899	1,331	795	608	609	778	442
Other Receipts	19	40	24	47	31	19	93	13	27	16	37	28	16	80
Total Receipts	7,796	7,258	6,331	5,655	4,943	5,561		5,329	4,948	4,332	4,497	4,401	4,769	4,776
Net Contributions	5,239	5,735	6,725	4,143	4,871	8,608	10,785	3,581	3,909	4,601	3,294	4,336	7,381	7,372

Notes:

1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EU Budgets. They differ from the figures for gross contributions in Table 2
2. Prior to 2010, Sugar Levies row also includes figures for duties on agricultural products.
3. Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary).
4. The figures for 2011 are forecasts, those for earlier years are outturn.
5. Because of rounding, the column totals do not necessarily equal the sum of the individual items.

Source: HM Treasury

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