



HM TREASURY

European Union Finances 2012:

statement on the 2012 EU Budget
and measures to counter fraud and
financial mismanagement



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and measures to counter fraud and
financial mismanagement

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

July 2012

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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 second in the series and describes the EU Budget for 2012, 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 2012-13 to 2016-17) and over the calendar years 2006 to 2011 (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 2012 EU Budget

2.1 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 previous Statements¹. Box 2.A provides information about negotiations on the next MFF, which are ongoing.

The 2012 EU Budget

2.2 The 2012 EU Budget was agreed under the Polish Presidency of the EU in the second half of 2011. Negotiations began in April 2011, when the Commission proposed a draft EU Budget for 2012. This proposed to increase EU spending (payments appropriations) by 4.9 per cent over 2011 levels. On the basis of this draft budget, the Council made amendments and agreed its position in July 2011, proposing to reduce growth to only 2.02 per cent over 2011 levels. The European Parliament then considered the Council's position and made amendments in October, which would have raised the level of EU spending in 2012 by 5.23 per cent.

2.3 A process of conciliation between the Council and European Parliament then took place in November 2011. The adopted 2012 EU Budget provides for commitment appropriations of €147.2 billion (£123.0 billion), which is an increase of 3.60 per cent over 2011 funding, and equivalent to 1.12 per cent of EU Gross National Income (GNI); and payment appropriations of €129.1 billion (£107.8 billion), which is an increase of 2.02 per cent over 2011 funding (that is, an increase by no more than inflation), and is equivalent to 0.98 per cent of EU GNI. The payment appropriations for each of the main EU Budget headings are shown in Chart 2.A.

2.4 The Government worked closely with other Member States to secure a deal on the 2012 EU Budget that stopped the Commission and European Parliament's inflation-busting proposals, and thereby delivered on its promise to freeze the EU budget in real terms.

2.5 Table 2.A shows the positions established at each stage of the negotiation during 2011.

2.6 Figures for previous years' EU Budgets for comparison are provided in Annex C (tables C.1 and C.2).

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

Box 2.A: The next Multiannual Financial Framework (2014-2020)

Negotiations are well underway on the next EU Multiannual Financial Framework (MFF). The MFF will establish the EU's budget ceilings 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 (£889,376 million) in total from 2014 to 2020. This is 1.05 per cent of EU Gross National Income (GNI);
- Commitment appropriations of €58,316 million (£50,600 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 (£940,000 million), or 1.11 per cent EU GNI); and
- Payment appropriations of €972,198 million (£843,561 million) or 1.01 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 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 consider 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 was the first stage in an extended negotiations process. Under the Danish Presidency progress was made in setting out the perimeters of Member States' positions, in a 'negotiating box' discussed at June European Council. This will provide a basis for the final stage of negotiation. There is no fixed period for negotiation. The eventual MFF must be agreed unanimously by all Member States at Council. It is then agreed by absolute majority in the European Parliament.

Table 2.A: 2012 EU Budget

	€ million					
Payment Appropriations	Financial Perspective Ceiling	Commission draft 2012 EU budget¹	Council position	European Parliament position	Adopted 2012 EU budget	2011 EU Budget²
1. Sustainable growth:	-	57,701	55,270	57,701	55,337	53,280
1a. Competitiveness for Growth and Employment	-	12,566	11,434	12,558	11,501	11,628
1b. Cohesion for Growth and Employment	-	45,135	43,835	45,143	43,836	41,652
2. Preservation and Management of Natural Resources	-	57,865	57,162	58,245	57,034	56,379
3. Citizenship, Freedom, Security and Justice	-	1,513	1,454	1,577	1,484	1,479
3a. Freedom, Security and Justice	-	868	824	916	836	813
3b. Citizenship	-	644	630	661	649	666
4. The EU as a Global Player	-	7,294	6,993	7,360	6,955	7,239
5. Administration	-	8,296	8,209	8,257	8,278	8,170
Total Payment Appropriations	141,360	132,668	129,088	133,139	129,088	126,547
As a percentage of EU GNI	1.07%	1.01%	0.98%	1.01%	0.98%	0.99%

¹ Includes amending budgets 1-3
² includes amending budget 1 and draft amending budget 2 to 3

Note: Because of rounding the column totals do not necessarily equal the sum of individual items

Sources: Various EU documents

2.7 Details of the levels of payments in the adopted 2012 EU budget, compared to the 2011 EU budget¹, 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 €55.34 billion (£46.22 billion), a 3.86 per cent increase compared to the 2011 EU budget.

The 2012 EU budget allocated €11.50 billion (£9.60 billion) under Heading 1a towards transforming the EU economy into a knowledge-based economy, which involves adequate investment in research, learning, and innovation. This is a 1.09 per cent decrease compared to the 2011 EU budget. The 2012 EU Budget allocated under Heading 1a includes: €7.00 billion (£5.85 billion) for research, which is a 3.90 per cent increase compared to 2011 funding; €1.02 billion (£857 million) for learning and training, a 1.82 per cent decrease; and €370 million (£309 million) for competitiveness and innovation programmes, a 20.92 per cent increase.

The 2012 EU Budget allocated €43.84 billion (£36.62 billion) under Heading 1b for fostering regional growth and employment, which is a 5.24 per cent increase compared to 2011 funding. This includes €35.06 billion (£29.29 billion) made available through Structural Funds, representing an increase of 3.09 per cent over 2011 funding, and €8.76 billion (£7.32 billion) through the Cohesion Fund, an increase of 14.84 per cent over 2011 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 €57.03 billion (£47.64 billion) in the 2012 budget, which is 1.16 per cent higher than 2011 funding. Payments for market related expenditure and direct aids have been set at €43.88 billion (£36.65 billion), which is 2.54 per cent higher than 2011 funding. Payments for Rural Development are set at €12.09 billion (£10.10 billion), which is a 3.73 per cent decrease on 2011 funding. Payments for the European Fisheries Fund are set at €488 million (£408 million), which is a 6.55 per cent increase on 2011 funding. Payments for EU environmental protection, through the LIFE+ programme, are set at €254 million (£212 million), which is a 3.05 per cent decrease on 2011 funding.

- **Heading 3: Citizenship, Freedom, Security and Justice.** Expenditure in this area includes for immigration, migration, security, and fundamental rights and justice. Payments for 2012 in this area have been set at €1.48 billion (£1.24 billion), which is a 0.34 per cent increase on 2011 funding. Payments in the field of Freedom, Security and Justice (Heading 3a) have been set at €836 million (£698 million), which is a 2.83 per cent increase on 2011 funding.

Payments in 2012 for Citizenship (Heading 3b), which includes spending on culture, youth, and public health, have been set at €649 million (£542 million), which is a 2.55 per cent decrease on 2011 funding.

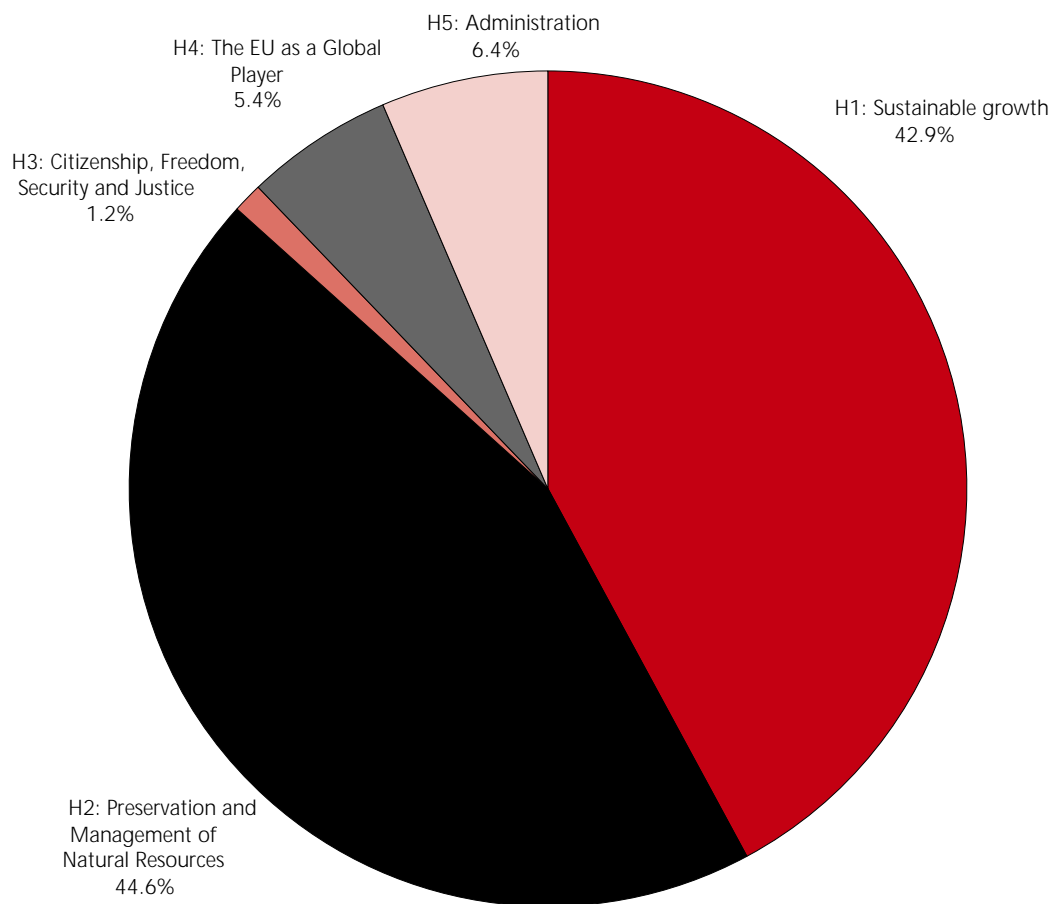
- **Heading 4: The EU as a Global Player.** Expenditure in this area includes EU foreign policy and international development expenditure.

¹ Includes amending budget 1 and draft amending budgets 2 to 3

Payments in 2012 for Heading 4 have been set at €6.96 billion (£5.81 billion), which is a 3.92 per cent decrease on 2011 funding. This includes €1.35 billion (£1.13 billion) for the Instrument for Pre-accession, which is a 6.51 per cent decrease on 2011 funding; and €1.32 billion (£1.10 billion) for the European Neighbourhood and Partnership Instrument, which is a 3.23 per cent decrease on 2011 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 for 2012 have been set at €8.28 billion (£6.92 billion), which is a 1.32 per cent increase on 2011 funding.

Chart 2.A: 2012 EU Budget – payment appropriations by budget heading



Source: 2012 Adopted EU Budget

EU revenue

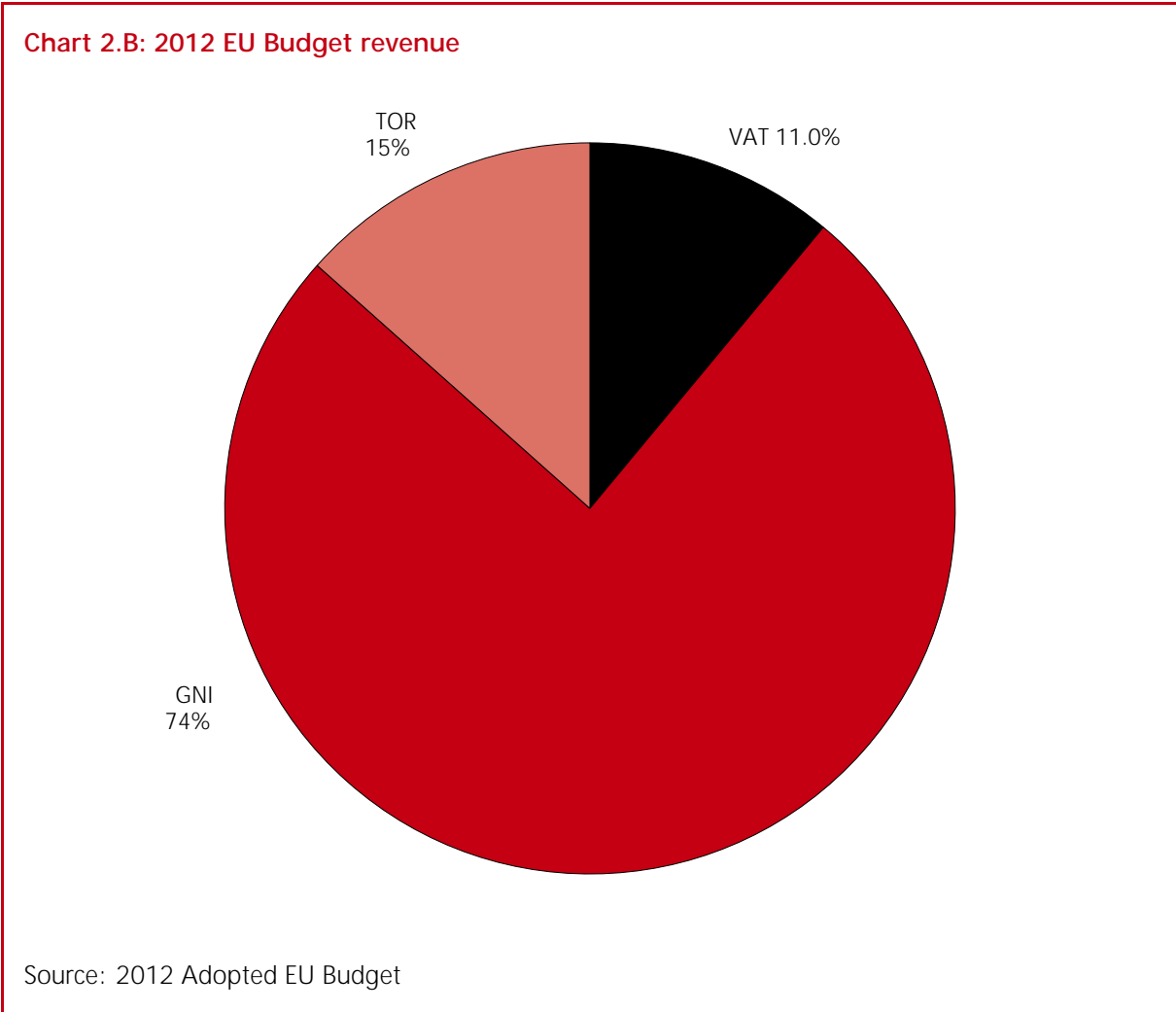
2.8 The Own Resources Decision (ORD) provides for four sources of EU revenue: customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as ‘Traditional Own Resources’ (TOR). The VAT and GNI-based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

2.9 Chart 2.B shows a breakdown of the estimates of how the 2012 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 2006 and 2012. The key points to note in terms of the UK's contribution are:

- TOR in 2012 are estimated to be around €19.3 billion (£16.1 billion), with the UK's share estimated at 15.6 per cent. In 2011, final estimates of revenue from this source were €16.7 billion (£14.5 billion), of which the UK's share was 16.7 per cent;
- VAT-based contributions in the 2012 EU Budget are shown as €14.5 billion (£12.1 billion), with the UK's share estimated as 17.3 per cent. In 2011, total VAT-based contributions were €14.1 billion (£12.3 billion), of which the UK's share was 17.9 per cent;
- GNI-based contributions in the 2012 EU Budget are shown as €93.7 billion (£78.3 billion), of which the UK's share is 13.8 per cent. In 2011, GNI-based contributions were €87.5 billion (£75.9 billion) with a UK share of 14.2 per cent; and
- the estimated value of the UK's abatement in 2012 is €3.8 billion (£3.1 billion) compared with €3.6 billion (£3.1 billion) in the 2011 EU Budget. A detailed explanation of how the UK abatement is calculated, and how it operates, can be found in the glossary.

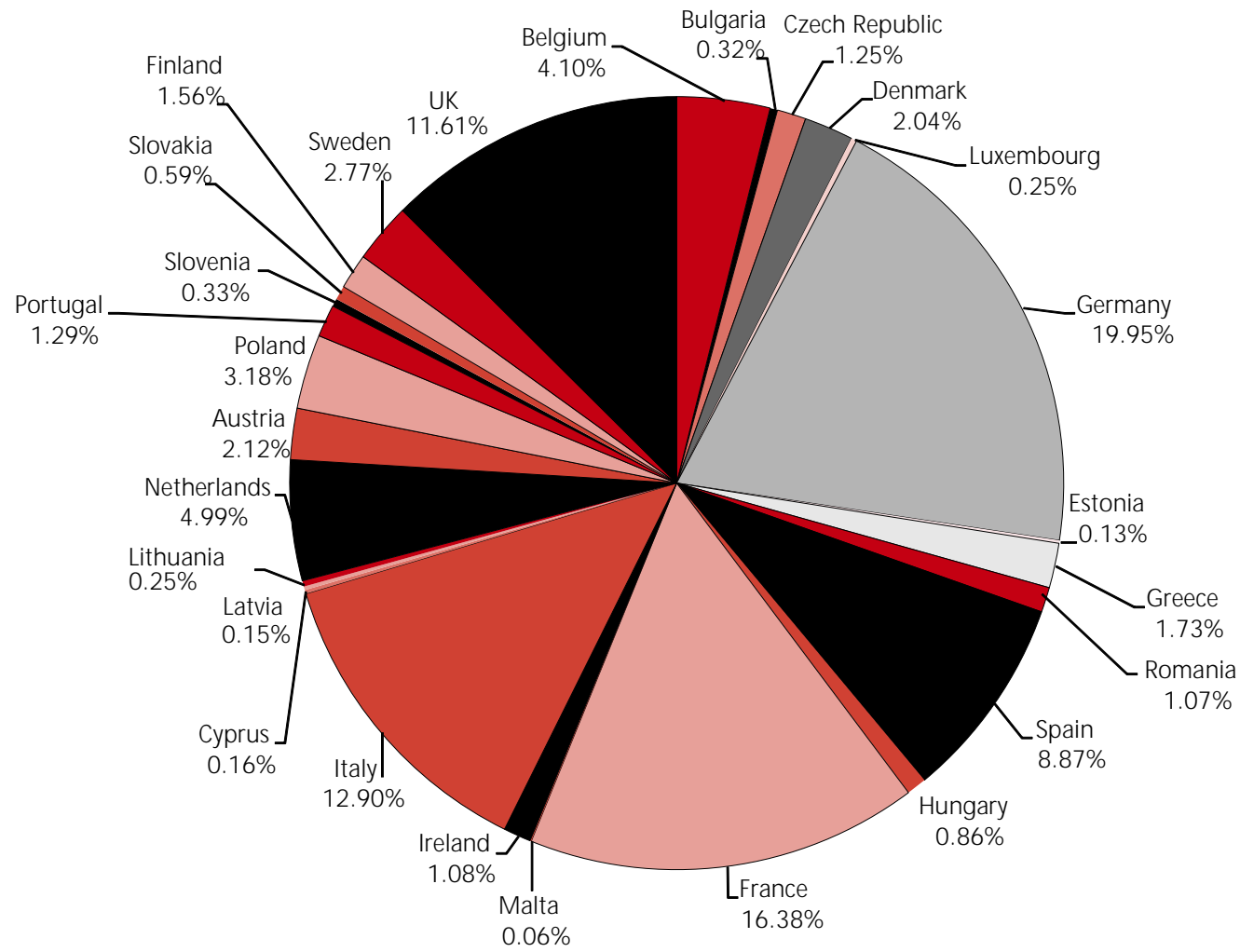
2.10 Chart 2.C shows each Member States' share of financing the 2012 EU Budget, after taking account of the UK abatement.



Box 2.B: EU Staff Regulations

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. Over the next MFF, the Government seeks very substantial reductions in spending on the administration of the EU. The Staff Regulations are currently under reform and the UK is working 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.

Chart 2.C: EU Budget revenue 2012 – percentage share after abatements by Member State



Source: 2012 Adopted EU Budget

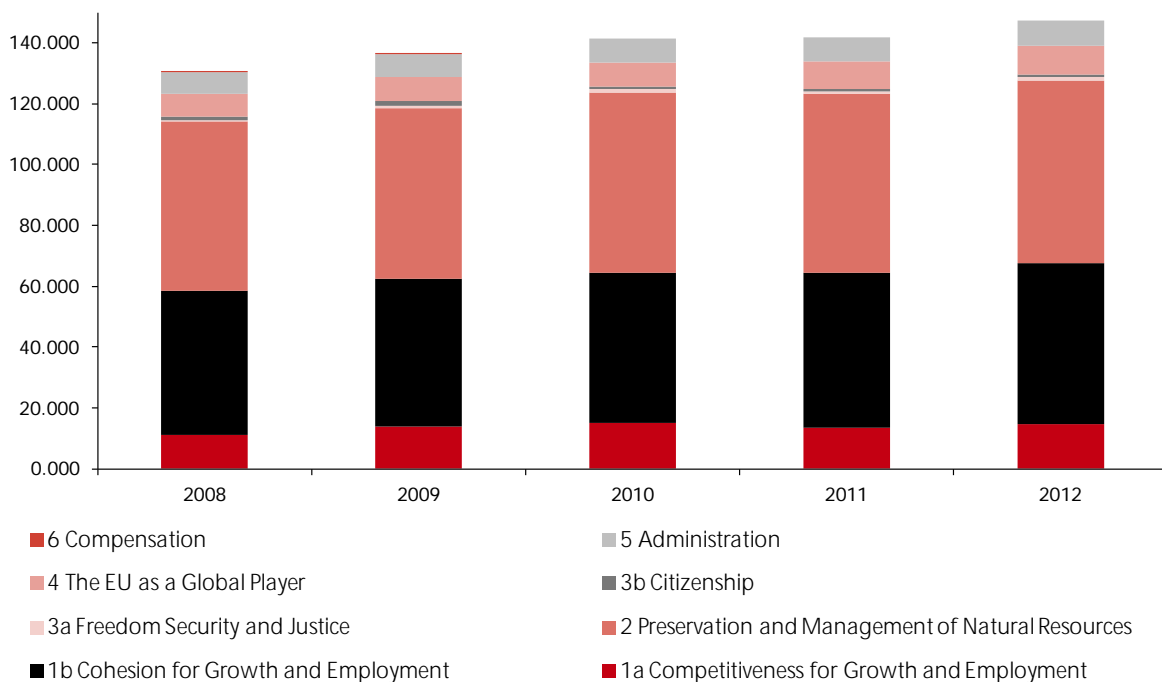
3

Developments in EU Finances

Expenditure

3.1 Chart 3.A shows the development in EU spending commitments between 2008 and 2012. The total level of commitments has increased by €20.85 billion, from €126.38 billion to €147.23 billion. Within this, the Sustainable Growth heading has increased by €12.63 billion, which includes €5.37 billion for the Competitiveness for Growth and Employment sub-heading and €7.27 billion for the Cohesion for Growth and Employment sub-heading. The Preservation and Management of Natural Resources heading has increased by €4.13 billion; and the Administration heading has increased by €1.3 billion.

Chart 3.A: Developments in EU spending (commitments) 2008-2012 (€ billion)



Source: 2012 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 2008-12. 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 2006 to 2012. The figures for 2012 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						
	2006 Outturn	2007 Outturn	2008 Outturn	2009 Outturn	2010 Outturn	2011 Outturn	2012 Estimated Outturn ¹
Gross Payments ²	12,426	12,456	12,653	14,129	15,197	15,357	15,021
Less: UK Abatement	-3,569	-3,523	-4,862	-5,392	-3,047	-3,143	-3,172
Less: Public sector receipts	-4,948	-4,332	-4,497	-4,401	-4,775	-4,112	-4,954
Net contributions to EU Budget³	3,909	4,601	3,294	4,336	7,375	8,102	6,895

¹The figures for 2012 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

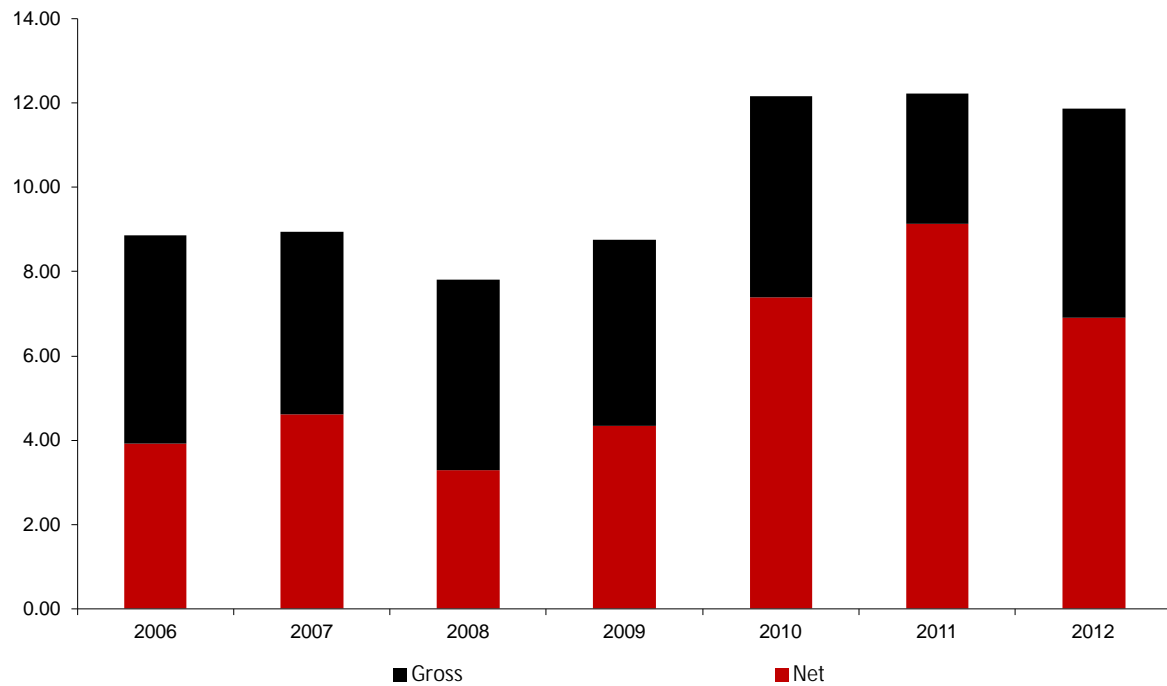
3.7 UK public sector receipts in 2012, mainly from the FEAGA¹, EAFRD² and the Social and Regional Development Funds, are expected to be around £5.0 billion. The majority of these receipts will either be paid to, or used in support of, the private sector but are channelled through Government departments.

3.8 The EU makes some payments directly to the private sector, which do not appear in the public sector's accounts. In 2012, these receipts are expected to be around £890 million. These payments are not included in Tables 3.B or 3.C-F, which provide data on public sector receipts only.

¹ FEAGA from the French word 'Fonds européen agricole de garantie'.

² EAFRD - European Agricultural Fund for Rural Development

Chart 3.B: Profile of UK gross and net contributions (£ billion)

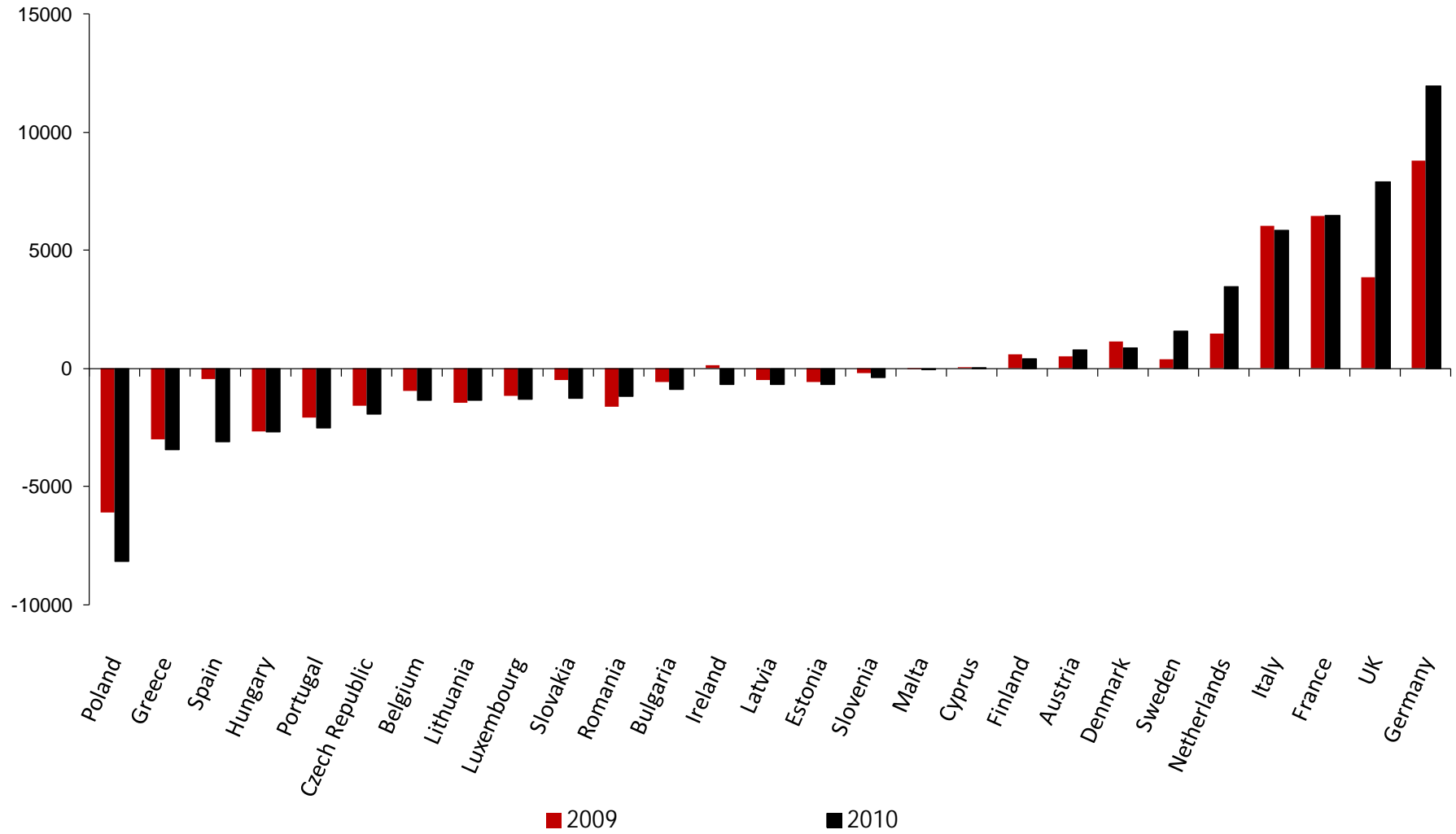


Source: HM Treasury

3.9 The UK's 2012 net contribution is forecast at £6.9 billion; the outturn in 2011 was £8.1 billion. The large reduction in 2012 compared to 2011 is primarily due to a lower than expected level of receipts in 2011.

3.10 Chart 3.C shows how the UK's net position compares with those of the other Member States in 2009 and 2010. In 2010, the UK was one of ten net contributors to the EU Budget. Germany was the highest net contributor, paying almost 1.5 times as much as the next highest net contributor. The UK was the next highest net contributor, with other significant net contributions being made by France, Italy, the Netherlands and Sweden.

Chart 3.C: Net receipts/contributions of Member States in 2009 and 2010 (£ million)



Source: Based on data published by the European Commission Report: EU Budget 2010 Financial Report, September 2011

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 2006-07 and 2011-12.

Table 3.C: Gross payments, abatement and receipts (financial years - outturn)

	£ million					
	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Estimated Outturn
Gross Payments ¹	12,245	13,746	13,155	13,733	15,593	15,700
Less: UK Abatement	-3,560	-3,960	-5,595	-4,218	-2,678	-3,516
Less: Public sector receipts	-5,164	-5,601	-4,558	-4,791	-3,996	-4,755
Net contributions to EU Budget²	3,521	4,185	3,002	4,724	8,918	7,429
Payments to EU Budget attributed to the aid programme ³	-709	-715	-751	-830	-856	-856
Other attributed costs	0	0	0	-69	-43	-163
Net payments to EU institutions (excluding Overseas Aid)²	2,812	3,470	2,252	3,825	8,019	6,410

1. Gross payment figures include Traditional Own Resources 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.

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 2012-13 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 2006-07 to 2011-12 (outturn figures) and 2012-13-2016-17 (estimates).

Table 3.D: Gross payments, abatement and receipts (financial years - plans)

	£ million				
	2012-13 Plans	2013-14 Plans	2014-15 Plans	2015-16 Plans	2016-17 Plans
Gross Payments ¹	15,358	17,122	18,713	18,264	17,560
Less: UK Abatement	-3,334	-3,598	-4,002	-4,095	-3,982
Less: Public sector receipts	-5,065	-5,181	-5,345	-5,317	-5,318
Net contributions to EU Budget²	6,959	8,342	9,366	8,851	8,260
Payments to EU Budget attributed to the aid programme ³	-856	-856	-856	-856	-856
Other attributed costs	-82	-79	0	0	0
Net payments to EU institutions (excluding Overseas Aid)²	6,021	7,406	8,510	7,995	7,403

1. Gross payment figures include Traditional Own Resources 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.
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 of Budget Responsibility

Table 3.E: Public Sector receipts from the EU Budget (financial years - outturn)

	£ million					
	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Estimated Outturn
FEAGA	3,312	3,455	3,047	2,967	2,541	2,973
EAFRD	53	265	299	310	362	462
Social Fund	1,324	831	519	571	687	552
Regional Development Fund	449	1,029	656	919	383	708
Other Receipts	26	21	37	24	25	60
Total	5,164	5,601	4,558	4,791	3,996	4,755

Source: HM Treasury

Table 3.F: Public Sector receipts from the EU Budget (financial years - plans)

	£ million				
	2012-13 Plans	2013-14 Plans	2014-15 Plans	2015-16 Plans	2016-17 Plans
FEAGA	4,374	4,469	4,618	4,573	4,591
EAFRD	323	333	340	347	340
Social Fund	312	322	328	337	328
Regional Development Fund	51	52	54	55	53
Other Receipts	6	6	6	6	6
Total	5,065	5,181	5,345	5,317	5,318

Source: Office of Budget Responsibility

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 2011 Autumn Forecast, a draw-forward of 1.70 twelfths was estimated for the first quarter of the 2012 EU Budget year. A draw-forward of 2 twelfths was subsequently requested, which meant that a total of 5 twelfths was paid in the first quarter of the 2012 calendar year. As a result, payments for the rest of 2012, which will all fall into the 2012-13 financial year, are lower 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.

3.15 This Statement again includes estimates of UK contributions to the EU Budget over the period 2011-12 to 2016-17. In the medium term, the size of the UK net contribution is forecast to increase from £7.4 billion in 2011-12 to £8.3 billion in 2013-14. Forecasts beyond 2013 are particularly uncertain, as negotiation of the budget envelope for 2014 to 2020 has not yet been agreed.

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 in respect of calendar year 2010 between the Government's figures and those which can be derived from the European Commission's EU Budget 2010 Financial Report.

4

Financial management and anti-fraud issues

European Court of Auditors' annual report on the 2010 EU Budget

4.1 The European Court of Auditors (ECA) is the independent audit institution of the EU and is responsible for auditing EU Institutions. It is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget. The report includes 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. The report forms an essential element in the European Parliament's oversight of the Commission's management of the EU Budget.

4.2 The 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.

4.3 The 2010 report published on 10 November 2011 provides an assessment of each of the EU Budget areas and as usual, the conclusions of the report 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. The quality of reporting by the Commission also features in the report.

4.4 The report differs from previous ones in a number of ways:

- The form and content of the DAS reflect revised international audit standards, which give a clear distinction between revenue, commitments and payments;
- The presentation and composition of the policy groups (and related chapters) have been altered to give a more rational and better balanced analysis of EU spending;
- Estimated error rates are given for each policy group and the EU budget as a whole;
- It reports on actions taken by the Commission on previous recommendations for improving financial management; and
- It contains an additional chapter on performance issues.

ECA's Statement of Assurance

4.5 In the ECA's opinion, the 2010 accounts of the EU present fairly the financial position of the EU and the results of its operations and cash flows for the year.

4.6 The ECA found that EU revenue underlying the 2010 accounts is legal and regular in all material aspects and that commitments in all policy groups were also free from material error.

4.7 The ECA also found that EU spending continues to be affected by material error. It estimates the error rate for payments at 3.7 per cent, an increase from the 3.3 per cent in 2009. This implies that €4.6 billion (£4.1 billion) was spent against EU rules governing the spending, such as breaches of public procurement rules, ineligible or incorrect calculation of costs claimed to EU

co-financed projects, or over-declaration of land by farmers. The control systems tested across the EU budget were still only partially effective in ensuring the regularity of payments.

4.8 The ECA raised concern over the lack of supervision of advance payments, which pre-finances costs to be incurred at a later date; increasing the risk of funds being declared as unjustified.

4.9 The ECA provides specific assessments for revenue and expenditure policy groups as follows:

- **Revenue:** The ECA concludes that Member States' payments of TOR, VAT and GNI based resources and other revenue free from material error, and that control systems were, in general, effective in ensuring the regularity of transactions. However, as in previous years, problems were detected in the procedures and systems which affect the amounts included in the B accounts¹, for VAT-based own resources, long standing reservations² still exist but notes progress in the clearing of backlogs. The ECA found that the Commission had not completed its verification of GNI inventories covering Member States' data for the period from 2002 onwards and that certain weaknesses still persist. The ECA notes that while some progress have been made concerning previous recommendations; further work is required in respect of implementing a common revision policy for the GNI-based own resources in the EU and in ensuring customs debts incurred on seized goods are accurately recorded. For 2010, the ECA recommends that the Commission:
 - in respect of TOR, ensure the correct usage and completeness of Member States' account statements, and to further strengthen national customs supervision; and
 - present the GNI Committee with assessment reports on Member States' GNI data in order to replace all long standing general reservations.
- **Agriculture and Natural Resources:** The ECA concludes that payments for this policy group were affected by material error as a whole (at 2.3 per cent). However, direct payments covered by the Integrated Administration and Control System were free from material error. It notes that Rural Development expenditure continues to be particularly prone to error with 50 per cent of payments affected, compared with 27 per cent for EAGF³ payments. The most frequent type of error was over-declaration of land by beneficiaries. The ECA recommends the following to resolve system weaknesses identified:
 - the mandatory use of ortho-photos (uniform-scale aerial photos) and their update in the LPIS⁴ database of agricultural parcels;
 - improvements to on-the-spot inspections within the control systems run by Member States; and
 - adequate checks on the quality of national inspections and for certifying bodies to report on them.
- **Cohesion, Energy and Transport:** The ECA found this policy group to be the most error-prone area of EU expenditure with an error rate of 7.7 per cent, compared to 5.5 per cent in 2009. For Cohesion funds (which represents nearly a third of the EU

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 Reservations are a means of keeping doubtful elements in the VAT statements submitted by Member States open for correction after the statutory time-limit of four years.

³ European Agricultural Guarantee Fund.

⁴ Land Parcel Identification System is a database used to record all agricultural areas of a Member State. It is used as a basis for payments to farmers.

Budget) in particular, 49 per cent of payments to projects were affected by error. The ECA considers that Member States had sufficient information available to have detected and corrected at least some of the errors for 58 per cent of the transactions affected by errors, prior to their certification to the Commission. The ECA also found that Funds implementing the Financial Engineering Instruments (FEI) in Member States did not adhere to key regulatory requirements and that sufficient monitoring information on the actual implementation of FEI operations were not recorded. Common errors centred on the inclusion of ineligible costs and failures to comply with public procurement rules. The ECA concluded that audit authorities (a key element of Member States' control arrangements) were partially effective in ensuring the regularity of Cohesion payments. It recommends that the Commission:

- Continue to monitor compliance with eligibility requirements, including the EU and national procurement rules;
 - Encourage national authorities to rigorously apply corrective mechanisms prior to approving expenditure and forwarding to the Commission for payment;
 - Assesses national eligibility rules for the 2007-13 programming period to identify possible areas for simplification and potential sources of error; and
 - Provide further guidance on sampling, the scope of verifications to be undertaken and the reporting of findings to audit authorities.
- **Research and other Internal Policies:** The ECA concludes that overall, this policy group was free from material error with estimated error rate at 1.4 per cent. However, interim and final payments for research framework programmes (FP) were subject to material error. The ECA found that systems were partially effective in ensuring the regularity of transactions and notes the Commission's efforts to implement its previous recommendations, in particular, to improve control systems. To further make progress, the ECA recommends that the Commission should:
 - in the area of the research FPs – further enhance ex-ante checks in view of identifying high-risk payments, and in order to further improve the reliability of the audit certificates, raise the independent auditors' knowledge of the eligibility rules; and
 - continue to strengthen the implementation of primary controls in Lifelong Learning Programme.
- **Administrative and other expenditure of the Institutions and Bodies:** The ECA concludes that payments as a whole for the institutions' administrative expenditure were free from material error (0.4 per cent was the most likely error rate) and that the compliance of systems designed to ensure the regularity of transactions displayed no material weaknesses. However, a number of errors and weaknesses were found in the implementation of procurement procedures by the EU institutions and bodies. The ECA recommends: a) the establishment of appropriate documentation to justify recruitment decisions and the respect of eligibility criterion as set out in vacancy notices; and b) for authorising officers to have appropriate checks and better guidance in order to improve the design, coordination and performance of procurement procedures.
- **Getting results from the EU Budget:** For the first time, in Chapter 8 of the report, the ECA presents the results of its review of the relevance, comparability and reliability of performance information (activity reports) provided by the Directorates General (DG) for Agriculture and Rural Development, Regional Policy and Research

and Innovation and the main performance audit results for the last financial year as presented in the ECA's Special Reports⁵. Based on these reviews, the ECA recommends that the Commission:

- Increase focus on performance in Annual Activity Reports - including on the economy and efficiency of EU funding;
- Define interim targets related to multi-annual objectives so that progress can be assessed adequately;
- Place greater emphasis to defining SMART objectives during the planning of EU expenditure programmes, as well as in identifying and mitigating the risks that may occur during implementation;
- Agree on consistent performance indicators and ensure the reliability of information on planned targets and achieved results; and
- Design and operate monitoring and control systems that will produce complete and accurate information on results.

Council recommendation to the European Parliament on Discharge

4.10 On 16 February 2012, the Council welcomed the ECA's Statement of Assurance for the financial year 2010, expressing satisfaction that the accounts, in the ECA's opinion, gave a fair presentation of the financial position of the Union. 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 declaration of assurance on the underlying transactions was still not achieved. Despite a slight increase in the overall rate of error, the Council welcomed what it described as a 'stable quality in the implementation of the budget compared to the financial year 2009'.

4.11 The Council's recommendations include:

- A call on the Commission to fully assume its responsibilities for the implementation of the Budget, making greater use of its sanctions powers to ensure legality and regularity of transactions, and that control systems are adequate.
- Calls for further simplicity of rules, including through the new Financial Regulation, and for the Commission to consider carefully the balance between administrative and control burdens, and added value. Policy objectives should also be simplified, to reduce the burden on beneficiaries.
- Inviting the ECA to perform an audit on the EU's systems for procurement, which suffered from high levels of error, to ascertain what modernisation initiatives might be required.
- Reiterating the importance of the Commission's DG annual activity reports for the purposes of accountability, and calls for greater comparability between reports.
- Calling for the Commission to manage the large number of outstanding budgetary commitments under multiannual programmes, through settlement or decommitment.

⁵ The 14 Special Reports adopted by the ECA in 2010 examined whether the EU's intervention was managed in accordance with the principle of sound financial management.

- Noting the ECA's analysis of errors in the Cohesion area of the budget in the years 2006-2009, and suggests that this should be a starting point for reinforced efforts to reduce the errors in the budget.

4.12 The Netherlands, Sweden, and the UK, for the first time, voted against the Council's recommendations on discharge. This important action helped to stress that, in these challenging times, Member States should uphold the same high standards for the EU budget as they would for national budgets. The increase in the rate of error, which halted a downward trend in the error rate over recent years, meant that a strong message was proper. As such, the Netherlands, Sweden, and the UK also submitted a joint declaration calling for:

- The Commission to use negotiations on the next MFF to follow the ECA's recommendations to thoroughly embed SMART objectives in the management of programmes, and to pursue further simplicity of rules;
- The improvement of the quality of EU spending as a higher priority;
- Greater Member State responsibility for improving the management of EU funds at a national level, and for the Commission to drive improvements with greater use of sanctions; and
- For greater transparency of data at Member State level in respect of EU spend.

European Parliament decision on Discharge

4.13 The European Parliament takes a final decision on whether to discharge the EU budget. It does so having considered the ECA's report, the Commission's response, and the recommendation of the Council. The European Parliament made a final decision to discharge the 2010 EU accounts in May this year.

UK Government's response to the ECA

4.14 The ECA report includes several specific criticisms of certain Member States including the UK. A copy of the UK's response was sent to both Houses of Parliament on 1 February 2012. The response contains some general comments, and specific answers to each critical reference to the UK in the report itself. The UK response was either that we accept the fault and have taken remedial action as necessary, or that we differ on the ECA's or Commission's interpretation, and are in discussion with them on it. Some examples are as follows:

Agriculture

4.15 ECA Audit finding: Incorrect entitlement calculation and differences in area.

4.16 UK Response: The correction made to the English Regional boundaries in July 2010 and data input error resulted in an overall underpayment for this claim. The appropriate corrective action has been taken and a top up payment was made to the beneficiary.

Revenue

4.17 Audit finding: As in previous years, the ECA detected problems in the procedures and systems which affect the amounts included in the B accounts' statements. This is particularly so for the UK, where unjustified entries (guaranteed and unchallenged cases) and write-offs occurred.

4.18 UK Response: The UK complies with EU legislation by including all guaranteed and unchallenged post clearance debts in the 'A' Account. However, this particular issue involved two specific debts that the ECA maintained should have been entered in the 'B' Account and not the 'A'. The UK authorities replied by letter dated 12 July 2011 in which they contested the ECA findings and outlined their reasoning.

Fight against Fraud Report 2010

4.19 The protection of the EU's 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, issues a report on details of irregularities and latest statistics on fraud, and recent measures taken 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 Council.

4.20 As in previous years, the report includes both the latest information on irregularities detected by control systems and suspected fraud, and on measures taken to deal with them, and a one-off analysis of a special topic. The 2010 report is in four sections:

- **Results of irregularities** relating to 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); and expenditure directly managed by the Commission;
- **Recovery** of irregular amounts in 2010;
- **Special focus** on the risk of double financing of projects in cohesion policy ; and
- **Overview of anti-fraud policies** implemented in 2010 and of the new initiatives taken to ensure effective protection of the financial interests of the EU.

4.21 Three Commission working papers accompany the report: (i) Implementation of Article 325 TFEU (5) in 2010 by the Member States; (ii) Statistical Evaluation of Irregularities in 2010; and (iii) Follow-up recommendations to the Commission's report on the protection of the EU's financial interests – fight against fraud, 2009.

4.22 Member States are required to report irregularities and suspicions of fraud affecting the EU's financial interests in the areas where they implement the budget. In 2010, there was an overall increase in the figure of reported irregularities for all sectors with the exception of pre-accession funds and TOR.

4.23 The overall financial impact of irregularities detected by control systems for expenditure increased to €1.8 billion (£1.5 billion) (1.27 per cent of total allocations) from €1.4 billion (£1.2 billion) (1.13 per cent of total allocations) in 2009. For Revenue, the financial impact also increased to €393 million (£389 million) (1.88 per cent of total collected TOR) compared to €357 million (£355 million) (1.84 per cent of total collected TOR) in 2009.

4.24 Also, the estimated financial impact of cases of suspected fraud increased from €180 million (£175 million) in 2009 to €478 million (£389 million) (0.34 per cent of allocations) in 2010.

4.25 The report attributes these increases to the cyclical nature of programmes under the Cohesion Funds, particularly the 2000-06 implementing period; an indication that anti-fraud systems are performing effectively; and that reporting obligations are being complied with by Member States.

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

	2009 ¹ No. of cases	Amounts (€ million)	2010 No. of cases	Amounts (€ million)
Agriculture	1,621	12	1,825	131
Cohesion Policy	4,737	1,183	7,062	1,550
Direct Expenditure	705	27.5	1,021	43
Pre-Accession Funds	706	117	424	83
Total expenditure	7,769	1,452.5	10,332	1,807
TOR	5,204	357	4,744	393

¹ Figures for 2009 have since been updated as OLAF constantly update its databases.

Source: The Commission's 2010 Fight Against Fraud Report

4.26 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. Also, a sharp rise may simply reflect the inclusion of figures for one or more longer-running cases, which may have only just been resolved.

4.27 The report breaks the statistics down by revenue and by individual areas of expenditure as follows:

Revenue

- The number of cases of irregularities reported decreased to 4,744 in 2010 compared with 5,204 in 2009. The established amount to be recovered following irregularities detected is €393 million (£337 million) of which €180 million (£154 million) has already been recovered by the Member States. The recovery rate is lower at 46 per cent, compared with 50 per cent in 2009.

Expenditure

The total number of cases of irregularities reported increased to 10,332 in 2010 compared with 7,769 in 2009. Reported irregularities per sector are as follows:

- Agriculture: The number of cases of irregularities reported for this sector increased to 1,825 in 2010, compared with 1,621 in 2009. Their estimated financial impact fell slightly to 0.23 per cent of total allocations in 2010 compared with 0.24 per cent in 2009. In 2010, a total of €175 million (£150 million) was recovered and the recovery rate rose to 42 per cent from 39 per cent in 2009.
- Cohesion Policy: Reported cases of irregularities increased to 7,062 for this sector in 2010, compared with 4,737 in 2009. Their estimated financial impact also rose to 3.15 per cent of total allocations compared with 2.44 per cent in 2009. In 2010, a total of €611 million (£524 million) was recovered – a recovery rate of 67 per cent compared with 53 per cent in 2009.
- Pre-accession funds: Reported cases of irregularities decreased for this sector to 424 in 2010, compared with 706 in 2009. However, their estimated financial impact rose to 5.26 per cent of total allocations in 2010, compared with 3.80 per cent in 2009. The sum of €14 million (£12 million) was recovered and the recovery rate was higher at 3 per cent compared to 2009.

- Direct Expenditure: Reported irregularities increased to 1,021 in 2010, compared with 705 in 2009. Their estimated financial impact also rose to 0.27 per cent of total allocations in 2010, compared with 0.17 per cent in 2009. In 2010, €25 million (£21 million) was recovered (an increase of 3 per cent on 2009).

4.28 In 2010, the Commission circulated a questionnaire to Member States on the risks of double financing of projects in the area of cohesion policy. Member States' responses indicate that measures are in place to prevent double funding. These measures include legal provisions, risk analysis, administrative procedures, and cooperation between national authorities, information exchange and the use of electronic tools. Nevertheless, the Commission concludes that more progress is needed in readily identifying risks.

4.29 The report states that progress has been made in the reporting of irregularities since the last report in 2009, but concludes that more needs to be done to improve the recovery of funds unduly paid out.

Eleventh report of the European Anti-fraud Office (1 January to 31 December 2010)

4.30 The European Anti-fraud Office (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 and that the EU is not being deprived of its due revenue.

4.31 OLAF's operational activities are independent from the Commission, and its internal (within the EU) and external (outside the EU) investigations are conducted in full independence. It investigates cases of fraud, provides assistance to the Commission and EU bodies and national authorities in their fight against fraud. It works closely with national authorities' investigation services, police, legal and administrative authorities to counter fraud. It also supports the Commission in developing anti-fraud measures.

4.32 Every year, its Director publishes a report on the activities of the Office over the previous year. The latest report issued on 19 October 2011, gives a summary of OLAF's achievements in 2010, supported by statistics and case studies.

4.33 The report features a special focus on judicial follow-up actions to OLAF's investigation; providing an overview of progress, at national level, of judicial actions taken in the Member States.

4.34 A number of ongoing developments, including a new proposal to improve the legislative framework of OLAF and an internal review within it, will have an impact on the work of the Office in the years to come.

4.35 The following statistical trends were reported in 2010:

- OLAF completed 691 assessments in 2010 and opened 225 new investigations: 150 (internal and external investigations) and 75 (coordination and assistance cases). A total of 189 investigative and operational cases were closed during the year.
- At the end of 2010, OLAF was handling a total of 493 live investigative and operational cases, of which 139 concerned the EU institutions and bodies and 117 related to expenditure and revenue.
- The average duration of investigations and operations, excluding the assessment phase, was slightly lower than in recent years; below 23 months in 2010 compared with 25 months in 2009.

- An individual case can lead to many follow-up actions: Of the 98 cases closed with follow-up in 2010, 172 triggered follow-up proceedings: financial (62), judicial (67), administrative (33) and disciplinary (10).
- Judicial follow - up on OLAF's findings resulted in national courts sentencing fraudsters to a cumulative 125 years of imprisonment during 2010 and imposed financial penalties of nearly €1.5 billion (£1.3 billion).
- The amount of €68 million (£58 million) was recovered in respect of OLAF's investigative and operational cases as follows: structural funds - €33 million (£28 million), agriculture - €12 million (£10 million) and direct expenditure - €11 million (£9 million). A further €351 million (£349 million) has also been recovered to date in respect of financial follow-up cases that are still ongoing.

4.36 OLAF had a total budget of €78 million (£67 million) in 2010. Of this, €58 million (£50 million) was allocated to administration with the rest (€24 million (£21 million)) dedicated to operations, which fund anti-fraud activities such as the Hercule programme¹.

¹ The Hercule programme promotes activities in the field of the protection of the EU's financial interests. Funding is given to participating authorities within and outside the EU in the form of grants and project funding.

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 2006 to 2012 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 2012 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 30 December 2011, namely £1 = €1.197175 (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 2011 relates to UK payments and receipts in 2010.

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

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

¹ 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
The annual average rate for 2011 is £1 = €1.152493

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 2011 will take place in 2015.

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 2012);
- 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 2010 and the figures in the European Commission's EU budget 2010 Financial Report

B.2 When converted at the average exchange rate for 2010 of £1 = €1.166206, the figures in the European Commission's report break down as follows:

	(€ million)	(£ million)
UK gross contribution before abatement	18,222.1	15,625.1
UK abatement	-3,562.7	-3,054.9
UK receipts	-6,745.6	-5,784.2
UK net contribution	7,913.8	6,785.9

Source: HM Treasury

B.3 The Government's figure for the UK's net contribution in 2010 is £7,375 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 £1,015 million of the difference in 2010;

- the late adoption of Amending Budget No. 10/2009 meant that associated changes were not implemented until 2010. The result of which leads to the Government's figures for 2010 being some £421 million lower than if the Amending Budget changes had been implemented in 2009;

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 2010	7,375
Private sector receipts	-1,015
Late implementation, in February 2010, of Amending Budget No. 10/2009	421
UK Cash-flow figure adjusted to reflect main differences compared to European Commission's figure	6,781
European Commission figure for 2010 outturn	6,786
Net difference due to other factors (such as exchange rate)	-5
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 2008-2012 (€ million)

Appropriations	Commitments					Payments				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Sustainable Growth	58,338	62,202	64,250	64,501	67,486	45,731	45,332	47,714	53,280	55,337
1a Competitiveness for Growth and Employment	11,082	13,775	14,863	13,521	14,734	9,715	10,368	11,343	11,628	11,501
1b Cohesion for Growth and Management	47,256	48,427	49,387	50,981	52,753	36,016	34,963	36,371	41,652	43,836
2 Preservation and Management of Natural Resources	55,560	56,332	59,499	58,659	59,976	53,217	49,906	58,136	56,379	57,034
3 Citizenship, Freedom, Security and Justice	1,635	2,132	1,687	2,020	2,065	1,489	1,911	1,411	1,479	1,484
3a Freedom Security and Justice	732	886	1,006	1,139	1,368	534	617	739	813	836
3b Citizenship	903	1,266	681	881	697	955	1,294	672	666	649
4 The EU as a Global Partner	7,551	8,104	8,141	8,759	9,406	7,847	8,080	7,788	7,239	6,955
5 Administration	7,279	7,597	7,907	8,171	8,280	7,280	7,597	7,907	8,170	8,278
6 Compensations	207	209	0	0	0	207	209	0	0	0
TOTAL	130,570	136,576	141,484	142,111	147,232	115,771	113,035	122,955	126,547	129,088

Notes:

¹.2007-09 includes all Amending Budgets; 2010 includes Amending Budgets 1-7; 2011 includes Amending Budget 1 and Draft Amending Budgets 2-3. 2012 as adopted in 2011 Budget as adopted on 15 December 2010.

²Because 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 2008-2012 (£ million)

Appropriations	Commitments					Payments				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Sustainable Growth	46,392	55,375	55,093	55,967	56,371	36,366	40,356	40,914	46,230	46,223
1a Competitiveness for Growth and Employment	8,813	12,263	12,745	11,732	12,307	7,726	9,230	9,726	10,089	9,607
1b Cohesion for Growth and Management	37,579	43,112	42,348	44,235	44,065	28,641	31,126	31,187	36,141	36,616
2 Preservation and Management of Natural Resources	44,182	50,149	51,019	50,897	50,098	42,319	44,428	49,851	48,919	47,640
3 Citizenship, Freedom, Security and Justice	1,300	1,898	1,447	1,753	1,725	1,184	1,702	1,210	1,283	1,240
3a Freedom Security and Justice	582	789	863	988	1,143	425	550	634	705	698
3b Citizenship	718	1,127	584	764	582	759	1,152	576	578	542
4 The EU as a Global Partner	6,005	7,214	6,981	7,600	7,857	6,240	7,193	6,678	6,281	5,810
5 Administration	5,789	6,764	6,780	7,090	6,916	5,789	6,764	6,780	7,089	6,915
6 Compensations	164	186	0	0	0	165	186	0	0	0
TOTAL	103,832	121,586	121,320	123,307	122,983	92,064	100,629	105,432	109,803	107,827

Notes:

¹ 2007-09 includes all Amending Budgets and 2010 includes Amending Budgets 1-7. 2011 includes Amending Budget 1 and Draft Amending Budgets 2-3. 2012 as adopted in 2011.

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						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Belgium	24	12	61	6	6	7	7	1,497	1,673	1,759	1,417	1,483	1,508	1,754	703	701	769	601	608	666	693
Bulgaria	-	14	23	0	0	0	0	-	47	63	53	42	45	55	-	67	81	76	61	69	73
Czech Republic	8	11	12	3	3	3	3	141	167	195	164	186	191	224	254	284	345	265	248	269	284
Denmark	37	32	50	3	4	3	3	287	298	294	280	303	300	342	470	496	537	448	352	401	419
Germany	210	151	323	27	27	26	26	2,718	2,976	3,014	2,919	3,037	3,329	4,013	3,677	3,929	3,738	2,017	1,837	1,872	1,931
Estonia	1	18	10	-	-	-	-	19	25	24	24	17	20	22	31	38	38	31	25	28	30
Greece	11	8	7	1	1	1	1	194	222	224	190	214	193	208	467	844	615	512	462	399	408
Spain	52	37	28	6	7	5	5	1,146	1,253	1,161	996	1,151	1,182	1,358	2,474	2,475	2,587	2,290	1,257	2,065	2,134
France	134	94	365	36	40	31	31	1,148	1,238	1,204	1,227	1,367	1,450	1,711	4,327	4,441	4,714	3,967	3,278	3,763	3,907
Ireland	2	0	1	-	-	-	-	200	218	200	177	186	176	198	366	396	401	308	250	243	255
Italy	150	145	119	5	6	5	5	1,423	1,543	1,530	1,500	1,662	1,893	2,193	2,686	3,193	4,310	2,461	2,175	2,446	2,545
Cyprus	3	12	9	3	2	-	-	29	35	36	31	24	26	30	34	36	40	37	33	35	37
Latvia	1	3	2	1	1	-	-	21	28	27	18	16	18	21	37	50	55	37	23	27	29
Lithuania	2	3	9	2	2	1	1	36	42	51	38	37	39	45	51	67	79	61	42	49	53
Luxembourg	1	1	1	0	0	-	-	18	19	14	11	13	14	17	56	74	73	63	50	62	66
Hungary	6	5	9	1	1	2	2	98	106	104	92	92	98	119	177	213	242	170	154	174	191
Malta	1	2	2	0	0	-	-	10	10	11.0	9	10	11	12	11	13	14	12	11	12	13
Netherlands	244	252	271	7	7	7	7	1,401	1,621	1,762	1,714	1,742	1,779	2,108	990	1,029	993	357	257	327	338
Austria	7	0	16	3	3	3	3	188	201	185	154	164	160	181	457	452	425	298	310	320	332
Poland	47	39	123	3	3	13	13	225	300	328	297	315	333	407	611	725	864	636	685	734	770

Portugal	23	21	15	0	0	0	0	95	116	119	117	134	129	149	351	383	392	341	354	328	323
Romania	-	29	42	1	1	1	1	-	130	158	123	100	103	121	-	249	277	246	175	205	223
Slovenia	1	0	1	-	-	-	-	35	82	89	69	67	67	77	69	79	92	81	67	72	74
Slovakia	3	4	6	2	2	1	1	52	87	105	82	105	106	122	92	126	123	123	86	101	103
Finland	7	8	5	1	1	1	1	123	141	161	114	126	142	166	359	393	417	372	307	339	360
Sweden	18	22	31	2	3	3	3	382	417	424	368	432	456	527	485	528	500	198	186	201	208
United Kingdom	451	450	444	10	12	10	10	2,100	2,207	2,056	2,222	2,502	2,777	2,992	-2,043	-1,779	-3,312	-3,533	-934	-1,085	-1,299
Total	1,444	1,373	1,985	124	133	123	123	13,585	15,200	15,297	14,404	15,527	16,544	19,171	17,191	19,500	19,408	12,475	12,356	14,126	14,499

EU Budget Own Resources (€ million) - continued

	Fourth Resource Contributions							TOTALS						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Belgium	1,933	1,986	2,041	2,433	2,686	2,575	2,779	4,156	4,372	4,631	4,457	4,783	4,755	5,233
Bulgaria	-	163.00	196	243	249	258	284	-	291	364	372	353	372	412
Czech Republic	633	704	844	870	1,061	969	1,088	1,035	1,167	1,396	1,302	1,498	1,433	1,599
Denmark	1,399	1,394	1,421	1,617	1,722	1,711	1,832	2,193	2,219	2,301	2,347	2,381	2,416	2,596
Germany	13,896	14,654	15,140	17,284	18,872	18,186	19,468	20,501	21,710	22,215	22,246	23,773	23,413	25,439
Estonia	80	96	89	95	100	102	112	130	177	161	150	142	150	164
Greece	1,163	1,947	1,482	1,595	1,633	1,515	1,588	1,834	3,020	2,328	2,299	2,310	2,108	2,206
Spain	6,128	6,073	6,190	7,285	7,681	7,341	7,820	9,800	9,838	9,966	10,577	10,095	10,593	11,316
France	11,026	11,216	11,742	13,767	14,895	14,156	15,232	16,636	16,989	18,025	18,997	19,581	19,401	20,881
Ireland	914	972	974	958	959	882	928	1,482	1,586	1,577	1,442	1,394	1,301	1,381
Italy	9,247	9,144	9,186	10,502	11,490	10,969	11,700	13,507	14,024	15,144	14,469	15,332	15,313	16,443
Cyprus	87	88	95	119	125	125	134	153	170	180	191	184	186	201

Latvia	96	118	132	149	135	130	141	155	199	216	204	175	176	191
Lithuania	145	158	190	205	188	202	225	234	271	329	306	269	291	324
Luxembourg	143	202	172	197	199	220	241	217	296	259	270	261	297	324
Hungary	501	547	592	595	708	681	790	783	870	947	858	955	955	1,101
Malta	28	33	34	39	41	42	46	50	57	60	61	61	65	71
Netherlands	3,497	3,401	3,643	3,368	3,607	3,597	3,906	6,131	6,303	6,669	5,446	5,614	5,711	6,359
Austria	1,557	1,565	1,568	1,892	2,151	2,038	2,191	2,209	2,218	2,195	2,347	2,627	2,522	2,706
Poland	1,563	1,746	2,158	2,052	2,654	2,569	2,872	2,447	2,809	3,473	2,988	3,657	3,649	4,061
Portugal	909	940	940	1,089	1,360	1,145	1,176	1,378	1,460	1,466	1,548	1,848	1,603	1,648
Romania	-	682	741	911	868	869	1,015	-	1,089	1,218	1,282	1,143	1,178	1,360
Slovenia	175	198	227	259	253	252	271	279	359	408	409	387	391	422
Slovakia	255	303	361	468	454	478	529	402	519	595	675	647	687	756
Finland	1,071	1,088	1,127	1,217	1,267	1,344	1,460	1,560	1,629	1,710	1,704	1,702	1,825	1,986
Sweden	1,813	1,949	2,269	1,897	2,623	2,573	2,796	2,698	2,915	3,223	2,465	3,243	3,233	3,534
United Kingdom	11,873	12,551	10,925	10,889	13,080	12,564	13,095	12,381	13,429	10,114	9,588	14,659	14,266	14,798
Total	70,132	73,915	74,479	81,993	91,060	87,497	93,719	102,351	109,987	111,169	108,996	119,074	118,289	127,512

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 2010 are taken from the European Commission's report: EU Budget 2010 Financial Report, those for 2006 to 2009 have been taken from earlier editions of this report. Figures for 2011 are taken from Amending Budget 6/2011. Figures for 2012 taken from 2012 Adopted Budget.

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

	Agricultural and Sugar Levies							Custom Duties							VAT Contributions						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Belgium	16	8	49	5	5	6	6	1,021	1,145	1,399	1,262	1,272	1,308	1,465	479	480	612	535	521	578	579
Bulgaria	-	10	19	0	0	0	0	-	32	50	47	36	39	46	-	46	64	68	52	60	61
Czech Republic	5	8	10	3	3	3	3	96	114	155	146	160	166	187	173	195	274	236	212	234	237
Denmark	25	22	39	3	3	3	3	196	204	234	249	260	260	285	321	339	427	399	302	348	350
Germany	143	103	257	24	23	23	22	1,853	2,036	2,397	2,598	2,604	2,888	3,352	2,507	2,689	2,973	1,795	1,575	1,624	1,613
Estonia	0	12	8	-	-	-	-	13	17	19	21	15	17	19	21	26	31	27	22	24	25
Greece	7	5	5	1	1	1	1	132	152	178	169	183	167	174	318	577	489	456	396	346	341
Spain	36	25	23	5	6	4	4	781	858	923	887	987	1,026	1,134	1,687	1,693	2,057	2,039	1,078	1,792	1,782
France	92	64	290	32	35	27	26	783	847	957	1,092	1,172	1,258	1,429	2,950	3,038	3,749	3,531	2,811	3,265	3,264
Ireland	1	0	1	-	-	-	-	137	149	159	157	159	153	166	249	271	319	274	214	211	213
Italy	102	99	95	5	5	4	4	970	1,055	1,216	1,335	1,425	1,643	1,832	1,831	2,185	3,427	2,191	1,865	2,122	2,126
Cyprus	2	8	7	3	2	-	-	20	24	29	28	21	23	25	23	24	32	33	28	31	31
Latvia	1	2	2	1	1	-	-	14	19	21	16	14	16	18	25	34	43	32	20	24	24
Lithuania	2	2	7	2	2	1	1	24	29	41	34	32	34	38	35	46	63	54	36	43	44
Luxembourg	0	0	1	0	0	-	-	13	13	11	10	11	12	14	38	51	58	56	43	54	55
Hungary	4	3	8	1	1	2	2	67	73	83	82	79	85	99	121	146	193	151	132	151	159
Malta	1	1	1	0	0	-	-	7	7	9	8	8	9	10	8	9	11	11	9	10	11

Netherlands	166	173	215	6	6	6	6	955	1,109	1,401	1,526	1,494	1,544	1,761	675	704	789	318	221	284	283
Austria	5	0	13	2	3	3	3	128	137	147	137	140	139	151	311	309	338	266	266	278	277
Poland	32	26	98	2	2	11	11	153	205	261	264	270	289	340	417	496	687	566	588	637	643
Portugal	15	14	12	0	0	0	0	65	79	95	105	115	112	125	239	262	311	303	303	285	270
Romania	-	20	33	1	1	1	1	-	89	126	110	86	89	101	-	170	220	219	150	178	186
Slovenia	0	0	1	-	-	-	-	24	56	71	61	57	58	64	47	54	73	72	57	63	62
Slovakia	2	3	5	1	2	1	1	36	59	84	73	90	92	102	63	86	97	110	73	88	86
Finland	5	6	4	1	1	1	1	84	96	128	102	108	123	138	244	269	331	331	264	294	301
Sweden	12	15	24	2	2	2	2	260	285	337	327	370	396	440	331	361	397	176	159	174	174
United Kingdom	307	308	353	9	10	8	8	1,431	1,510	1,635	1,978	2,145	2,409	2,500	-1,392	-1,217	-2,633	-3,145	-801	-941	-1,085
Total	984	940	1,579	110	114	107	103	9,261	10,400	12,165	12,823	13,314	14,355	16,014	11,719	13,342	15,433	11,106	10,595	12,257	12,111

EU Budget Own Resources (£ million) - continued

	Fourth Resource Contributions								TOTALS							
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012		
Belgium	1,317	1,359	1,623	2,166	2,303	2,235	2,321	2,833	2,991	3,683	3,968	4,102	4,126	4,371		
Bulgaria	0	112	156	217	214	224	237	0	199	289	331	302	323	344		
Czech Republic	431	482	671	774	909	841	909	706	798	1,110	1,159	1,284	1,243	1,336		
Denmark	954	954	1,130	1,439	1,476	1,485	1,530	1,495	1,518	1,830	2,089	2,041	2,096	2,168		
Germany	9,473	10,027	12,040	15,387	16,182	15,780	16,262	13,976	14,855	17,666	19,805	20,385	20,315	21,249		
Estonia	55	66	71	84	86	89	93	89	121	128	133	122	130	137		
Greece	793	1,332	1,178	1,420	1,400	1,315	1,327	1,250	2,066	1,851	2,046	1,981	1,829	1,843		
Spain	4,177	4,156	4,922	6,486	6,586	6,369	6,532	6,681	6,731	7,925	9,416	8,657	9,191	9,452		
France	7,517	7,674	9,338	12,256	12,773	12,283	12,723	11,341	11,624	14,334	16,912	16,790	16,834	17,442		
Ireland	623	665	775	852	822	765	775	1,010	1,085	1,254	1,284	1,196	1,129	1,154		
Italy	6,304	6,256	7,305	9,349	9,852	9,518	9,773	9,208	9,596	12,043	12,881	13,147	13,287	13,735		

Cyprus	59	60	76	106	108	108	112	105	116	143	170	158	162	168
Latvia	65	81	105	133	116	113	118	106	136	171	182	150	152	160
Lithuania	99	108	151	182	161	175	188	159	185	262	272	231	253	271
Luxembourg	97	138	137	175	170	191	202	148	202	206	240	224	257	271
Hungary	342	374	471	530	607	591	660	533	595	753	764	819	828	920
Malta	19	22	27	35	35	37	38	34	39	48	54	53	56	59
Netherlands	2,384	2,327	2,897	2,998	3,093	3,121	3,262	4,180	4,313	5,303	4,848	4,813	4,956	5,312
Austria	1,062	1,071	1,247	1,684	1,844	1,768	1,830	1,506	1,518	1,745	2,089	2,253	2,188	2,260
Poland	1,066	1,194	1,716	1,827	2,276	2,229	2,399	1,668	1,922	2,761	2,660	3,136	3,167	3,392
Portugal	620	643	748	970	1,166	994	982	940	999	1,166	1,378	1,585	1,391	1,377
Romania	0	466	589	811	744	754	848	0	745	968	1,141	980	1,023	1,136
Slovenia	119	136	180	230	217	219	227	190	246	325	364	331	339	353
Slovakia	174	207	287	416	390	415	442	274	355	473	601	555	596	631
Finland	730	744	896	1,083	1,087	1,166	1,219	1,063	1,115	1,360	1,517	1,459	1,584	1,659
Sweden	1,236	1,334	1,804	1,689	2,249	2,233	2,336	1,839	1,995	2,563	2,194	2,781	2,805	2,952
United Kingdom	8,094	8,588	8,688	9,694	11,215	10,902	10,938	8,440	9,188	8,043	8,535	12,570	12,378	12,361
Total	47,810	50,575	59,227	72,993	78,082	75,919	78,283	69,774	75,256	88,404	97,033	102,104	102,638	106,511

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

	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
GROSS CONTRIBUTIONS														
Sugar levies	451	448	439	225	10	9	11	308	307	349	200	8	8	9
Customs Duties	2,102	2,204	2,031	2,024	3,148	2,554	2,737	1,433	1,508	1,615	1,802	2,146	2,216	2,286
VAT Own Resources	3,174	3,352	2,835	1,947	3,187	2,505	2,502	2,164	2,293	2,254	1,733	2,172	2,174	2,090
Fourth Resource payments	12,258	11,684	10,845	11,986	15,679	12,615	12,734	8,357	7,994	8,624	10,670	10,689	10,922	10,637
VAT & Fourth Resource adjustments	242	517	-238	-311	266	14	-	165	354	-189	-277	181	36	-
United Kingdom Abatement	-5,236	-5,149	-6,114	-6,057	-4,470	-3,623	3,797	-3,569	-3,523	-4,862	-5,392	-3,047	-3,143	-3,172
Total Contributions	12,993	13,056	9,798	9,814	14,169	14,076	14186	8,857	8,933	7,791	8,737	12,150	12,214	11,849
PUBLIC SECTOR RECEIPTS														
FEAGA	4,323	4,079	3,099	3,269	3,393	3,073	5,112	2,947	2,791	2,465	2,910	2,910	2,667	4,270
EAFRD	75	33	523	242	512	483	382	51	23	416	215	439	419	319
European Regional Development Fund	867	1,033	1,221	717	884	696	60	591	707	971	639	758	604	50
European Social Fund	1,953	1,163	765	684	750	448	370	1,331	795	608	609	643	389	309
Other Receipts	40	24	47	31	30	39	7	27	16	37	28	26	34	6
Total Receipts	7,258	6,331	5,655	4,943	5,569	4,739	5,931	4,948	4,332	4,497	4,401	4,775	4,112	4,954
Net Contributions	5,735	6,725	4,143	4,871	8,601	9,337	10,115	3,909	4,601	3,294	4,336	7,375	8,102	6,895

Notes:

1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EU Budgets. They differ from the figures for gross contributions in Table 2 in that these figures, drawn from European Commission documents, relate to payments to particular EU Budgets.
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 2012 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

D

Report on the use of EU Funds in the UK

Background

D.1 As part of ongoing work to improve the accountability for, and transparency of, EU funds, this annex is produced as an interim report that consolidates data on the use of EU funds in the UK.

D.2 HM Treasury has previously produced a Consolidated Statement for each of the financial years 2006-07, 2007-08, and 2008-09, which the Comptroller and Auditor General was invited to audit. The preparation, audit and publication of the Statement was designed to strengthen Parliamentary scrutiny of the UK's management of those funds and assist in the detection of any weaknesses in control systems, which can then be tackled more quickly and effectively.

D.3 Following review, HM Treasury is seeking to further strengthen Parliamentary scrutiny of the financial relationship between the EU and the UK Government by developing a new and improved framework for accounting for the use of EU Funds, which will be launched for the financial year 2013-14. The new framework will draw on well-established data collection and assurance systems and processes to raise the quality of the financial information. It will also utilise established Whole of Government Accounts processes to develop ways of improving the consistency and reliability for reporting on the relationship between the UK Government and the EU.

D.4 During the development phase, the Government is committed to maintaining the greatest possible transparency on the use of EU funds at a consolidated level by publishing interim reports such as this.

Respective responsibilities of the UK Parliament and Devolved Administrations in managing EU funds

D.5 In accordance with the devolution settlement, relations with the EU are the responsibility of the Parliament and Government of the United Kingdom, as a Member State. Responsibility for implementing EU obligations relating to devolved matters lies with the Devolved Administrations. The proper administration of EU Funds in Northern Ireland, Scotland and Wales is a matter for the relevant Devolved Administration. This report is prepared without prejudice to the devolution of responsibilities.

Preparation of the report

D.6 HM Treasury has assumed responsibility for developing the format of this report and for collating the financial data provided by Managing Authorities that it includes.

D.7 Managing Authorities, however, remain accountable for the propriety of the reported spending, which is publicly disclosed in their annual financial statements and is subject to external audit. This report therefore brings together financial information relating to the use of EU funds by the UK but does not replace individual accountabilities. The Comptroller and Auditor General has not been invited to audit this interim report.

D.8 By bringing together this financial information, the report supports greater scrutiny of the UK's management of EU funds and of the financial relationship between the UK and the EU.

Boundary of the report

D.9 The report shows expenditure on co-managed EU schemes in the UK and the corresponding income from the EU. The main schemes for which the EU and UK share management responsibility include the disbursement of Common Agricultural Policy Funds and the Structural Funds, where the UK pays beneficiaries on behalf of the EU.

D.10 The report excludes:

- amounts received from the EU where UK central government is the beneficiary;
- amounts in respect of commercial contracts awarded to UK central government bodies by the EU;
- financial support for twinning projects¹ where EU funding is transferred to other Member States or to mandated bodies for their part in the project. The transactions are not reported as income and expenditure of the relevant Managing Authority; and
- the purchase of Intervention stocks² with UK funds which are accounted for in the financial statements of the Department for Environment, Food and Rural Affairs (DEFRA).

D.11 EU funding of research and innovation, through Framework Programmes for example, is provided directly to civil investees and as such, the UK Government is not a Managing Authority and the funding is not included in the managed scheme information in this Statement.

Management of EU funded schemes

D.12 The Treaty establishing the Union provides the basic framework for the budget of the EU. The budget includes a number of separate funds, including the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

D.13 These schemes are overseen by the Commission, according to eligibility criteria that beneficiaries must meet and the financial reporting responsibility to the Commission that falls to national authorities as part of their co-management.

(a) Agricultural Policy Funds

D.14 The Single Payment Scheme (SPS) is the principal agricultural subsidy scheme in the EU, funded by the EAGF and EAFRD. The European Fisheries Fund operates separately from the CAP.

D.15 Under EU Regulation 885/06, each paying agency must have an internal audit service independent of the other arms of the entity that reports directly to the agency's director. The Internal Audit Services are required to verify that the procedures adopted by the agency are adequate to ensure compliance with Union rules and that accounts are accurate, complete and timely.

D.16 The Certifying Body for the Agricultural Funds reports on whether the annual accounts of the Paying Agencies are in all material respects true, complete and accurate and that internal control procedures have operated satisfactorily. The Certifying Body reports have confirmed that internal audit in all the UK paying agencies is operating to a high standard, although further improvement

¹ Twinning projects are EU funded projects that support the capacity building in new Member States or the Candidate Countries. They are delivered by the public sector, usually by central government. These are funded through pre-accession funds.

² Intervention stocks are stocks held by paying agencies in the European Union as a result of intervention buying of commodities subject to market support. Intervention stocks may be released onto the internal markets if internal prices exceed intervention prices; otherwise, they may be sold on the world market.

is required in respect of the administration of the SPS and compliance with European Regulations where Internal Audit have highlighted issues that risk disallowance penalties.

(b) Structural Funds

D.17 The Structural Funds are the financial tools set up to implement Cohesion policy in the EU, and are made up of the ERDF and the ESF.

D.18 The Managing Authorities responsible for the control of Structural Fund expenditure ensure that all systems are subject to regular examination by internal audit. The Internal Audit results strengthen procedures during the implementation of programmes and provide assurance as to the accuracy, completeness and regularity of expenditure at closure, certified to the Commission.

D.19 Recent internal audit work within Managing Authorities has generally reported a positive picture with most having a satisfactory level of assurance that systems operate adequately. Where this was not the case, action plans were agreed to address weaknesses.

D.20 Recent internal audit work within Managing Authorities has generally reported a positive picture with most having a satisfactory level of assurance that systems operate adequately. Where this was not the case, action plans were agreed to address weaknesses.

Timing of expenditure and the related EU funding

D.21 Managing Authorities are required to account for expenditure on EU-funded schemes and the related funding from the EU on an accruals basis under International Financial Reporting Standards (IFRS) as applied to the public sector context by the Government Financial reporting Manual (FRoM). By contrast, the public sector receipts in table 3.E of the Statement on the 2012 EU Budget are reported on a cash basis.

D.22 There is normally a time lag between payment to beneficiaries and settlement of claims by the EU. The UK Exchequer therefore has to bear the cost of the programme until EU funding is received. Expenditure is recognised as it is incurred, with a matching debtor from the EU. The debtor is extinguished when the EU approves the subsequent claim and the release of funds to the UK.

D.23 The final settlement of claims by the EU may give rise to adjustments following the closure process or disallowances (see paragraphs D.35 to D.37 below). The Commission may make such adjustments several years after funds have been paid out by Managing Authorities to recipients. The Statement includes provision for possible future adjustments.

Management of EU funded schemes

Expenditure on EU funded schemes in 2009-10, 2010-11 and 2011-12

D.24 The Expenditure Statement shows the EU funded element of amounts paid out by UK Central Government bodies on projects supported wholly or partially by the EU on which the UK anticipates EU funding at the point the payment is made.

D.25 Gross expenditure on EU supported projects is recognised in the period in which it becomes payable by UK Central Government to the recipient under the rules of the relevant scheme. The amount shown in the Expenditure Statement represents the amount paid and payable in Sterling during the period to beneficiaries.

D.26 Net expenditure represents the amount receivable from the EU in respect of amounts paid or payable by the UK on EU supported projects, after taking account of provisions for disallowances, foreign exchange gains or losses and withdrawals from claims.

D.27 The Statement of Assets and Liabilities shows those assets and liabilities that stem from cash flows, where e.g. the UK has paid a claim from a beneficiary and is awaiting reimbursement from

the EU. The disallowances provision relates to amounts paid out by the UK for which it believes it probable that the EU will apply financial corrections and not fully reimburse the UK.

D.28 The Statement shows gross expenditure on EU-supported schemes between 2009-10 and 2011-12. The decrease in gross expenditure between 2009-10 and 2011-12 was mainly due to lower expenditure on schemes supported by the ERDF. After allowing for foreign exchange variations and adjustments to claims, the amount reimbursable by the EU in 2009-10 is £4.8 billion, in 2010-11 is £4.3 billion, and in 2011-12 is £4.7 billion, the balance being met by the UK Exchequer.

D.29 A breakdown of expenditure by scheme is provided on pages 54-55.

D.30 In recognition of likely future funding adjustments, Managing Authorities made net new provisions totalling £273 million, £84 million and £97 million in 2009-10, 2010-11 and 2011-12 respectively, against claims for reimbursement from the EU, including substantial provisions against disallowances of payments under the CAP and ERDF. After allowing for the use of provisions following the crystallisation of adjustments, total provisions at 31 March 2012 amounted to £219 million, some £211 million lower than the corresponding figure at the end of the 2009-10 financial year. A breakdown of the movement in provisions by scheme is provided on pages 56-57.

Expenditure Statement

For the years ended 31 March 2010, 2011 and 2012

	2009-10	2010-11	2011-12*
	£000	£000	£000
Gross expenditure on EU supported projects	5,051,379	4,397,505	4,773,977
Provisions created in year	-273,302	-84,347	-96,989
Provisions released in year	46,551	75,754	30,921
Realised forex gain/(loss)	73,441	-35,739	-23,617
Unrealised forex gain/(loss)	-62,535	2,779	51,182
Withdrawn from EU claim	-13,684	-49,743	-18,063
Net expenditure reimbursable by the EU	4,821,850	4,306,209	4,717,411

*2011-12 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts.

Statement of Assets and Liabilities as at 31 March 2010, 2011 and 2012

	2009-10	2010-11	2011-12*
	£000	£000	£000
Assets			
Advances to beneficiaries	272,812	219,642	25,594
EU funds receivable	1,925,110	1,931,886	1,763,336
Other assets	3,189	1,798	254,299
	2,201,111	2,153,326	2,043,229
Liabilities			
EU funds paid on account	-1,520,165	-1,938,419	-1,860,340
Amounts payable to beneficiaries	-466,361	-140,863	-183,401
Repayable to EU	-10,132	-3,525	-2,697
Provision for disallowances	-430,393	-193,286	-219,080
Other liabilities	-53,392	-24,607	-66,734
	-2,480,149	-2,300,700	-2,332,252
Net liabilities	-279,038	-147,374	-289,023

*2011-12 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts.

Accounting policies

Basis of Preparation

D.31 The report has been prepared by consolidating the relevant transactions and balances as recorded by the Managing Authorities in their financial statements prepared in accordance with the FReM. The report is prepared under the historical cost convention.

Expenditure recognition

D.32 Gross expenditure on EU supported projects is recognised in the period in which it becomes payable by UK Central Government to the recipient under the rules of the relevant scheme. The amount shown in these accounts represents the amount paid and payable in sterling during the period to bodies outside the Central Government boundary. Net EU Expenditure represents the amount receivable from the EU (converted into sterling after disallowances and foreign exchange gains or losses) in respect of amounts paid or payable by the UK on EU supported projects.

Foreign currency translation

D.33 The Commission makes payments in Euros, with the Managing Authority recognising the receivable in Sterling in line with the requirements of International Accounting Standard (IAS) 21, The Effects of Changes in Foreign Exchange Rates. Foreign exchange gains and losses are realised where there are variations in exchange rates between the date EU income is recognised by the Managing Authority and the date payment is received from the EU. Such gains and losses are recognised in the Expenditure Statement. Unrealised gains and losses arising from the revaluation of assets and liabilities at the exchange rate current at the balance sheet date, also

reported in the Expenditure Statement, are reported in the Statement of Changes in Taxpayers' Equity in Managing Authority accounts. Any hedging mechanisms used to mitigate the impact of foreign exchange losses are not included in this report as they do not impact on the amounts paid out on EU projects or the funding provided by the EU.

Disallowances provision and contingent liabilities

D.34 Probable disallowances arising from financial corrections are recognised in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. A provision is recognised where there is a past event – for example an ineligible payment or a failure to comply with the regulations governing a scheme – which will probably lead to the EU disallowing expenditure and not reimbursing the UK. Managing Authorities are responsible for estimating the value of any provisions required.

Analysis of Net Expenditure by EU Scheme

2009-10

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,575,764	475,367	939,016	61,232	5,051,379
Total disallowances provided for	-149,567	-20,461	-101,745	-1,529	-273,302
Total disallowances released	0	11,324	35,227	0	46,551
Total foreign exchange gains/(losses)	32,023	9,935	-30,798	-254	10,906
Total withdrawn from EU claim	-2,623	-8,773	-2,288	0	-13,684
Net expenditure reimbursable by EU	3,455,597	467,392	839,412	59,449	4,821,850

2010-11

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,312,286	561,330	484,584	39,305	4,397,505
Total disallowances provided for	-67,419	0	-16,928	0	-84,347
Total disallowances released	11,585	0	64,169	0	75,754
Total foreign exchange gains/(losses)	-22,734	-9,559	-2,476	-970	-35,739
Total withdrawn from EU claim	4,857	2,366	-4,430	-14	2,779
Net expenditure reimbursable by EU	3,238,575	554,137	524,919	38,321	4,355,952

2011-12*

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,695,178	470,955	574,501	33,343	4,773,977
Total disallowances provided for	-90,049	-2,496	-3,994	-450	-96,989
Total disallowances released	1,300	0	29,621	0	30,921
Total foreign exchange gains/(losses)	-4,408	-11,113	-7,921	-175	-23,617
Total withdrawn from EU claim	8,206	15,840	27,136	0	51,182
Net expenditure reimbursable by EU	3,610,227	473,186	619,343	32,718	4,735,474

*2011-12 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts

Provisions for future financial corrections (disallowances)

D.35 Disallowances are financial corrections imposed by the Commission on Managing Authorities for failing to correctly apply EU Regulations in managing and administering EU schemes. In such circumstances the EU reduces the amount paid to the UK.

D.36 The European Commission may identify erroneous payments or deficiencies in the operation of Managing Authority systems, and consequently, they can disallow expenditure. In the case of

deficiencies in systems, the EU normally impose flat-rate disallowances at the rate of 2 per cent, 5 per cent, or 10 per cent of annual expenditure, depending on the severity of the failings. The EU will not reimburse the UK for the expenditure incurred. The costs then fall on the Exchequer, unless the amount can be recovered from the beneficiary. The ultimate financial impact on the UK taxpayer will, however, be less than this, due to the operation of the rebate system.

D.37 By 31 March 2012, provisions have reduced, mainly due to utilisation of the CAP Disallowance provision as amounts in regard to SPS Scheme years 2007, 2008 and 2009 crystallised. Further provisions on agricultural schemes relate to the England and Rural Development Programme and the Fruit and Vegetable scheme.

2009-10

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2009	-246,624	-31,115	-86,471	-1,989	-366,199
Created during the year	-149,567	-20,461	-101,745	-1,529	-273,302
Released in year	0	11,324	35,227	0	46,551
Utilised	137,041	6,457	19,059	0	162,557
As at 31 March 2010	-259,150	-33,795	-133,930	-3,518	-430,393

2010-11

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2010	-259,150	-33,795	-133,930	-3,518	-430,393
Created during the year	-67,419	0	-16,928	0	-84,347
Released in year	11,585	0	64,169	0	75,754
Utilised	180,009	33,795	31,896	0	245,700
As at 31 March 2011	-134,975	0	-54,793	-3,518	-193,286

2011-12*

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2011	-134,975	0	-54,793	-3,518	-193,286
Created during the year	-90,049	-2,496	-3,994	-450	-96,989
Released in year	1,300	0	29,621	0	30,921
Utilised	29,170	1,696	9,408	0	40,274
As at 31 March 2012	-194,554	-800	-19,758	-3,968	-219,080

*2011-12 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts.

Research programme grant receipts

D.38 The Framework Programme (currently FP7) is the EU's primary mechanism for supporting transnational collaborative research and technological development. The current programme runs from 2007-2013 with an overall budget of €50.5 billion (£43.8 billion) (excluding the Euratom programme).

D.39 The UK Government does not manage any of the FP7 EU funding, which is awarded directly to programme participants, although as a representative of EU Comitology Committee, the Government does manage the various parts of FP7.

D.40 FP7 activities are split into four main specific programmes:

- The Cooperation Programme has the largest share of the overall budget (€32 billion (£28 billion));
- The Ideas Programme operates through the European Research Council and is the main instrument promoting excellence, providing grants to individual researchers.
- The People Programme, through the Marie Curie actions, provides grants in support of researcher mobility and training; and
- The Capacities Programme, through a variety of actions, provides support to develop Europe's research capacity.

D.41 The Commission's March 2012 update on signed grant agreement data shows that UK organisations overall have been awarded a maximum of €3.73 billion (£3.23 billion), which accounts for 14.7 per cent of the EU funding so far awarded. These receipts are not included in the above tables, which provide data on public sector receipts only.

Future developments

D.42 The previous Consolidated Statement and this report have focused on expenditure and related income on co-managed EU Schemes. As HM Treasury develops improvements to the Statement, the objective will be to report the UK Government's net funding contribution to (or receipts from) the EU.

D.43 There will be several challenges to overcome to ensure high quality information is consolidated into a financial statement that will meet the reporting objectives of improving the

financial management of the use of EU Funds in the UK and improving the transparency of the financial relationship between the EU and UK Government.

D.44 HM Treasury will work with the NAO and the Managing Authorities to improve the quality of data collection, the consistency of accounting policies applied by Managing Authorities and the scope of reporting on the UK contributions to the EU and other EU transactions.

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