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BRIEFING PAPER

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European Union (Finance) Bill 2015-16 (Bill 5)

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Summary

The European Union (Finance) Bill 2015-16 (the Bill) was introduced to the House of Commons on 3 June 2015. Second reading took place on 11 June 2015 where the Bill was unopposed. The remaining stages in the Commons will take place on 23 June 2015. Explanatory Notes to the Bill were also published on 3 June 2015. Further documents will be made available on the Bill's pages on Parliament's website.

The Bill would, if enacted, allow the United Kingdom to approve the European Union's (EU) latest arrangements for financing the EU budget. These arrangements are laid out in the Own Resources Decision (ORD) of the EU.

The Bill would allow the UK to make necessary payments to the EU and would ensure that the ORD is approved in an Act of Parliament, as required by the European Union Act 2011.

The new ORD, which the Bill seeks to approve, was agreed by Member States' Heads of Government at a European Council meeting of 7/8 February 2013. The new ORD makes minor changes to its predecessor and leaves the rebate the UK receives on its contributions to the EU unchanged.

The revenues raised from Member States by the ORD finance the EU's expenditure. When the European Council agreed the new ORD in February 2013 it also agreed EU expenditure limits for seven years from 2014 to 2020. For the first time these expenditure limits were lower, in real terms, than over the previous seven year period 2007 – 2013.

The agreement on EU expenditure is laid out in the so-called Multiannual Financial Framework Regulation (MFF). The MFF is used as the basis for producing annual budgets which determine the EU's final expenditure.

1. EU expenditure: Multiannual financial framework

The EU's expenditure is organised around a seven year period. The limits and broad categories of expenditure over the seven years are set out in the Multiannual Financial Framework (MFF) Regulation. The MFF is not the EU budget itself, but provides a framework through which annual budgets can be negotiated [see section 8].

The latest MFF covers the period 2014 – 2020. It received political agreement at the European Council meeting of 7/8 February 2013,[1] and was formally adopted by the Council of the European Union [see Box 2] in December 2013.[2]

The MFF 2014-2020 Regulation allows the European Union to spend up to €960 billion in commitments (1.0% of Member States' Gross National Income, GNI) and €908 billion in payments (0.95% of Member States' GNI) over the period 2014 – 2020 [see Box 1]. In real terms these are 3.5% and 3.7% less, respectively, than under the MFF 2007-2013.[3]

The majority of EU expenditure between 2014 and 2020 is allocated to 'smart and inclusive growth' and 'sustainable growth: Natural resources'. These expenditure categories include EU Structural & Investment Funding and Common Agricultural Policy, respectively.

The Library Briefing EU budget 2014 – 2020 includes further discussion of the EU's expenditure.

Box 1: Commitment and payment appropriations definitions

The MFF sets ceilings for both commitment appropriations and payment appropriations.

Commitment appropriations: cover the cost of legal obligations, such as contracts or grants, which the EU may sign in a financial year of the MFF. They are the amounts the EU promise in a given year to spend but which may be spent in that same year or over several years.

Payment appropriations: cover expenditure that is spent in a given year of the MFF. This is expenditure arising from commitments made in the same year or in previous years.

1 European Council, European Council 7/8 February 2013. Conclusions (Multiannual Financial Framework)
2 Council of the European Union, Council Regulation 11791/7/13 REV 7 Laying Down the Multiannual Financial Framework for the Years 2014-2020, 2013
3 Council of the European Union News Release PRESSE 439, Council adopts the multiannual framework 2014-2020, 2 December 2013

Box 2: The EU institutions[4]

European Council

The European Council is the highest-level decision-making forum in the EU, consisting of the heads of state or government of the Member States, together with the Presidents of the European Council and the European Commission. The European Council gives the EU its ultimate political direction, which it does by adopting 'conclusions' at the end of its meetings. The European Council has no powers to pass laws. It adopts conclusions on the Multiannual Financial Framework.

European Commission (the Commission)

The European Commission is the executive of the EU: it proposes legislation and implements policy within the competences laid down by the EU Treaties it. It produces drafts of the MFF and annual budget. There are 28 members, known as Commissioners — one from each Member State. The Commission has the following general functions: policy-making; Treaty guardianship; policy implementation and delegated powers; management of EU funds; representation in trade negotiations and other agreements with third countries.

The Council of the European Union (the Council)

The Council is made up of ministers of the governments of Member States. It is one of the two principal legislative and decision-making bodies of the EU, along with the European Parliament. It also shares responsibility with the Parliament for setting the EU's annual budget. It is headed by a rotation of Member States which act as its President, otherwise known as the Presidency of the Council of the EU.

The composition of the Council varies according to the business under discussion. For example the Economic and Affairs (Ecofin) Council gathers finance ministers to discuss economic policy.

European Parliament

The European Parliament is the assembly of elected representatives of EU citizens. The representatives are known as Members of the European Parliament (MEPs). The European Parliament debates and passes laws; scrutinises other EU institutions; and debates and adopts the EU's budget.

[4] European Scrutiny Committee, European Union Institutions and Legislation, May 2015

2. EU Revenue: Own Resources Decision

The EU's expenditure must be entirely financed by the revenue it raises; the EU cannot borrow. The Own Resources Decision (ORD) says how this revenue is raised. When the new MFF is negotiated an update to the ORD is also agreed to fund the MFF's expenditure.

A new ORD was adopted by the Council in May 2014 which translated the decisions of the European Council meeting of 7/8 February 2013 into legal terms.[5] Once it has been approved by all Member States, the new ORD will apply retrospectively from 1 January 2014. Until this time the ORD agreed in June 2007 applies.[6]

Most Member States require the ORD to be approved by their national parliament. This is the case in the UK where the Bill fulfils that role.

The ORD applies to all Member States, but the UK receives a rebate on its net contributions.

2.1 Own resources

The majority of the EU's revenues comes from Member States' own resource contributions in the form of customs duties, sugar levies, VAT-based contributions and GNI-based contributions:

- **Customs duties, including those on agricultural products (12% of EU revenues in 2014).** These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT round of world trade talks, most duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices.
- **Sugar levies (<1%).** These are charged on the production of sugar in order to recover part of the cost of subsidising the export of surplus EU sugar onto the world market.
- **Contributions based on VAT (13%).** Essentially, the VAT base is the amount yielded by applying a notional rate of 1% to an identical range of goods and services in each Member State. Each Member State's VAT base is currently subject to a cap of 50% of its GNI (Gross National Income). A call-up rate (set at a maximum of 0.3%) is then applied to the capped VAT base.[7]
- **GNI-based contributions (74%).** The amount due is calculated by taking the same proportion of each Member State's Gross National Income (GNI). Because the Community is not allowed to borrow, revenue must equal expenditure. The GNI resource is the budget-balancing item; it covers the difference between total

[5] 2014/335/EU, Euratom: Council Decision of 26 May 2014 on the system of own resources of the European Union

[6] 2007/436/EC, Euratom: Council Decision of 7 June 2007 on the system of the European Communities' own resources

[7] Percentage of the proceeds of nationally collected VAT to go to the EU budget. Some Member States benefits from a "reduced call rate"

expenditure in the budget and the revenue from the other three resources, subject to the overall own resources ceiling.

Total contributions from Member States for payments may not exceed an overall ceiling established in the ORD. The current ceiling is 1.24% of Member States' GNI; once agreed by Member States, the new ORD will lower this to 1.23% of GNI.

The first two resources are known as the 'Traditional Own Resources'. These are considered as coming naturally from the functioning of the customs union and internal market. The VAT and GNI-based elements are sometimes referred to as the 'Third' and 'Fourth' Own Resources respectively.[8]

Member States currently retain 25% of the customs and sugar duties as collection costs, although this will fall to 20% once the new ORD is ratified [see section 2.3]. The UK's rebate [see section 3] is based on its VAT-based contribution.

The EU also receives a small proportion of its revenues outside of own resources. These other revenues, which contributed around 1% of EU revenues in 2014, include taxes on EU staff salaries, contributions from non-EU countries to certain programmes, interest on late payments, and fines on companies breaching competition law etc.

2.2 Monthly payments

Member States make their contributions to the EU on a monthly basis.[9] The VAT and GNI based contributions can be adjusted through 'amending budgets' [see section 8] as new information becomes available, such as outturn figures for GNI.

Amending budgets usually feature relatively small adjustments and pass by with little public comment. However, an amending budget in 2014 was different and received attention in the UK press: on top of the normal revisions, it included payments resulting from upward revisions to all Member States' GNI since 2002, or 1995 in the case of Greece. The result for the UK was an additional payment of around £1,700 million (£1.7 billion), or £850 million once the rebate was taken into account.[10]

2.3 The new ORD

The new ORD sees very little change to the previous ORD which was in place for the 2007 – 2013 MFF; there will be no new own resource, no EU-wide taxes, and no change to the UK's rebate.

The ORD agreed on 26 May 2014 sees little change from its predecessor. There will be no new own resource and no EU-wide taxes.

[8] A history of the own-resources system is available from the European Parliament.

[9] The Commission can request earlier contributions from Member States of VAT-based and GNI-based contributions and the UK rebate, to take account of frontloaded CAP payments, which take place in the first months of the calendar year.

[10] Further details are available in Box 2.C of HM Treasury's *European Union Finances 2014;* Treasury Select Committee's Tenth Report of Session 2014-15 The UK's EU Budget Contributions; Office for National Statistics, Public Sector Finances February 2015, section 8; Second Reading, The House of Commons Library Blog, The UK's EU surcharge, 12 November 2013

The main changes to the ORD are:

- The proportion that Member States can keep of traditional own resources for collection costs will be lowered from 25% to 20%.
- The Netherlands (€695 million), and Sweden (€185 million) will continue to benefit from gross reductions in their annual GNI contribution. Gross reductions will be introduced for Denmark (€130 million) and Austria. Austria will benefit from reductions up to 2016 of €30 million in 2014, €20 million in 2015, and €10 million in 2016.
- Germany, the Netherlands and Sweden are to benefit from reduced call rates for the VAT-based contribution for the period 2014-2020 only. Over the period their rate of call shall be 0.15% compared to 0.3% for all other Member States.

Section 7 of this briefing discusses each article of the new ORD.

Financial implications

Changes to the ORD should have minimal financial impact on the UK.[11]

Reducing the proportion of traditional own resources that can be kept for collection costs will affect the UK's annual contributions, but because of the rebate mechanism it will not affect the overall cost of the 2014 – 2020 MFF to the UK.[12]

However, the Government estimates that the UK's contribution to new lump sum GNI reductions for Austria and Denmark could be around €20 million per year.[13]

As noted in the Bill's Explanatory Notes, the actual financial cost of the 2014 – 2020 MFF depends on various factors including: the size of each year's EU budget; distribution of spending across programmes and Member States, implementation, and other revenues of the EU such as fines. Most importantly it depends on economic factors such relative growth performance and exchange rates. [14]

The Office for Budget Responsibility, the UK's independent fiscal watchdog, has produced forecasts of UK net contributions to the EU, based on assumptions for the above. The forecasts suggest the UK's net contributions to the EU to be similar in 2014/15 and 2019/20 in cash terms, and around 7% lower in real terms. Further figures are provided in section 4.2 of this briefing.

2.4 Future review of own resources system

As part of the agreement reached on the MFF 2014 – 2020, the European Parliament, European Commission and the Council have set-up a group to review the own resources system.[15]

The group produced its first assessment in December 2014. [16] This looked at key features of the system and recent attempts at reform. A

[11] European Union (Finance) Bill, Explanatory Notes
[12] ibid.
[13] ibid.
[14] ibid.
[15] European Commission, Memo Q&A: The EU's high-level group on own resources, 25 February 2014

European Parliament Research Service briefing summarises the first assessment, and reports an intermediary and tentative conclusion that:

> "the financing system of the EU has not experienced any major modifications over the last 25 years, proving difficult to change." [17]

The group will present its final analysis in 2016, which national parliaments will assess at an inter-parliamentary conference. The conference's outcomes will determine whether the Commission will propose changes to the own resources system.

[16] European Commission, High Level Group on Resources: First Assessment Report, 17 December 2015

[17] European Parliament Research Service. 'Monti' Group's first assessment of EU own resources, February 2015

3. UK's rebate

The ORD agreed on 26 May 2014 made no substantive changes to the rebate calculation.

The ORD applies to the UK in the same way as it applies to all other Members States. However since 1985 the UK's contributions have been subject to an adjustment or rebate.[18] The rebate was worth between £3 billion and £5 billion to the UK between 2008 and 2014 [see Table 1].

Calculating the rebate

The rebate is calculated by taking the difference between the UK's percentage share of the VAT contributions and UK's percentage share of expenditure, multiplying this figure by 0.66 and then multiplying it by total expenditure. This calculation is subject to the following points and exclusions:

- the rebate applies only in respect of allocated expenditure within the Union. Expenditure outside the Union (mainly EU overseas aid, which is relatively small) is excluded;
- non-agricultural expenditure in the Member States that have acceded to the EU after April 2004 is excluded;
- the UK's contribution is calculated as if the budget were entirely financed by VAT;
- windfall gains in the rebate calculation caused by the introduction of VAT capping, and the GNI resource and gains made from increased collection costs are excluded;
- the rebate is deducted from the UK's VAT contribution a year in arrears.

The Commission calculates the rebate on the basis of its estimates of the likely outturn for payments from the budget in-year, and of its estimates of Member States' contributions to the budget. These are then corrected in light of actual outturn figures. Corrections may be made up to three years after the year in respect of which the rebate relates, after which a final reckoning is made in the fourth year.

The ORD agreed on 26 May 2014 made no substantive changes to the rebate calculation, but deletes some time-limited transitional provisions from the regulations, which expired at the end of 2013.[19]

Cost of the rebate

The cost of the rebate is borne by all other Member States. The cost of the rebate is based on the GNI resource, but Germany, the Netherlands, Austria and Sweden only pay one quarter of their amount due.

The UK's rebate is not popular with other Member States or the Commission and, formally or informally, it is periodically challenged by them. Any change to the rebate and the ORD requires unanimity in the Council, which means that the UK would have to agree to any changes.

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[18] As a result of the Fontainebleau Agreement in 1984

[19] One phased in the exclusion of non-agricultural expenditure in the Member States that have acceded to the EU after April 2004. The UK's contribution to this was capped at €10.5 billion. The other time-limited provision made an adjustment for non-abatable pre-accession expenditure.

4. The UK's net contribution

4.1 Contributions and receipts

Table 1 below shows UK contributions and public sector receipts to and from the EU budget between 2008 and 2014. In 2014 the UK's estimated net contribution to the EU Budget was £9.8 billion.

Table 1. UK Contributions to and public sector receipts from the EU Budget
£ million

		2008	2009	2010	2011	2012	2013	2014
Contributions								
Sugar Levies		349	200	8	8	10	9	9
Customs Duties		1,615	1,802	2,146	2,216	2,192	2,171	2,242
VAT Own Resources		2,254	1,733	2,172	2,174	2,279	2,344	2,383
Fourth Resource Payments (GNI)		8,624	10,670	10,689	10,922	11,362	13,497	12,918
VAT and Fourth Resource Adjustments		-189	-277	181	36	-98	114	1,682
Gross Contributions		12,653	14,128	15,196	15,356	15,745	18,135	19,234
UK Rebate		*-4,862*	*-5,392*	*-3,047*	*-3,143*	*-3,110*	*-3,674*	*-4,888*
Total Contributions		7,791	8,737	12,150	12,214	12,636	14,461	14,346
Receipts								
FEAGA	(Agriculture)	2,465	2,910	2,910	2,667	2,753	2,747	3,121
EAFRD	(Agriculture)	416	215	439	419	291	619	703
ERDF	(Structural Funds)	971	639	758	605	438	297	337
ESF	(Structural Funds)	608	609	644	389	585	246	280
Other Receipts		37	28	18	52	102	86	98
Total Public Sector Receipts		4,497	4,401	4,768	4,132	4,169	3,996	4,539
Net Contribution		**3,294**	**4,336**	**7,382**	**8,082**	**8,467**	**10,465**	**9,807**

Note: 2014 figures are forecast

Source: HM Treasury, *European Union Finances,* latest edition published December 2014, Cm 8974

Table 2 sets out the UK's overall contributions and receipts to and from the EU budget from 1973 to 2014. Real terms figures, allowing for inflation, are shown in the chart below.

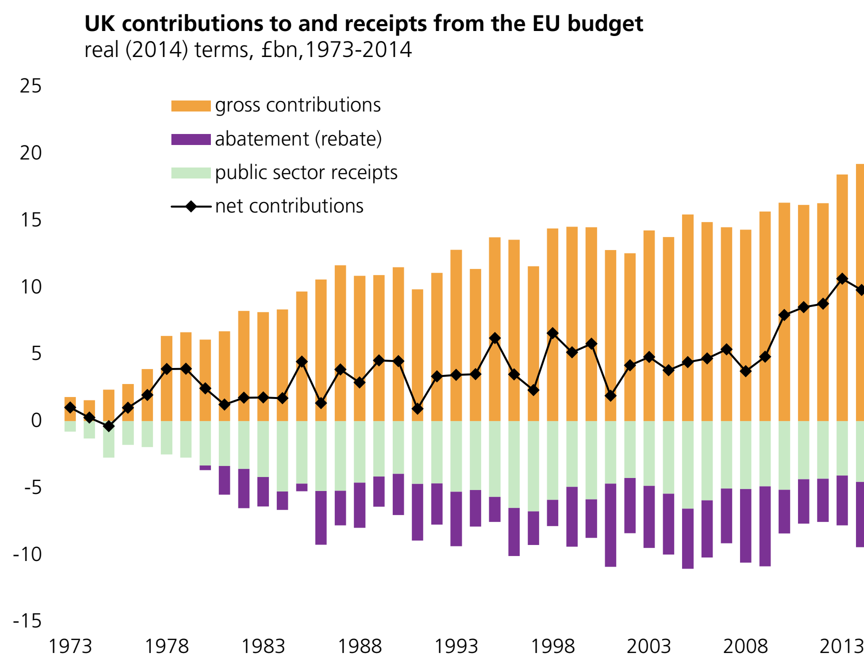

Table 2. UK net contributions to the EU/EC Budget 1973 -2014

£ million

	Gross contribution	Rebate	**Total contribution (after rebate)**	Public sector receipts	**Net Contribution** *(Gross contribution - rebate - public sector receipts)*
1973	181		**181**	79	**102**
1974	181		**181**	150	**31**
1975	342		**342**	398	**-56**
1976	463		**463**	296	**167**
1977	737		**737**	368	**369**
1978	1,348		**1,348**	526	**822**
1979	1,606		**1,606**	659	**947**
1980	1,767		**1,669**	963	**706**
1981	2,174		**1,481**	1,084	**397**
1982	2,863		**1,844**	1,238	**606**
1983	2,976		**2,169**	1,522	**647**
1984	3,204		**2,676**	2,020	**656**
1985	3,940	166	**3,713**	1,905	**1,808**
1986	4,493	1,701	**2,792**	2,220	**572**
1987	5,202	1,153	**4,049**	2,328	**1,721**
1988	5,138	1,594	**3,544**	2,182	**1,362**
1989	5,585	1,154	**4,431**	2,116	**2,315**
1990	6,355	1,697	**4,658**	2,183	**2,475**
1991	5,807	2,497	**3,309**	2,765	**544**
1992	6,738	1,881	**4,857**	2,827	**2,030**
1993	7,985	2,539	**5,446**	3,291	**2,155**
1994	7,189	1,726	**5,463**	3,253	**2,211**
1995	8,889	1,207	**7,682**	3,665	**4,017**
1996	9,133	2,412	**6,721**	4,373	**2,348**
1997	7,991	1,733	**6,258**	4,661	**1,597**
1998	10,090	1,378	**8,712**	4,115	**4,597**
1999	10,287	3,171	**7,117**	3,479	**3,638**
2000	10,517	2,085	**8,433**	4,241	**4,192**
2001	9,379	4,560	**4,819**	3,430	**1,389**
2002	9,439	3,099	**6,340**	3,201	**3,139**
2003	10,966	3,559	**7,407**	3,728	**3,679**
2004	10,895	3,593	**7,302**	4,294	**3,008**
2005	12,567	3,656	**8,911**	5,329	**3,582**
2006	12,426	3,569	**8,857**	4,948	**3,909**
2007	12,456	3,523	**8,933**	4,332	**4,601**
2008	12,653	4,862	**7,791**	4,497	**3,294**
2009	14,129	5,392	**8,737**	4,401	**4,336**
2010	15,197	3,047	**12,150**	4,768	**7,382**
2011	15,357	3,143	**12,214**	4,132	**8,082**
2012	15,746	3,110	**12,636**	4,169	**8,467**
2013	18,135	3,674	**14,461**	3,996	**10,465**
2014[†]	19,234	4,888	**14,346**	4,539	**9,807**

Note:

[†]2014 are forecasts, all other data based on outturn

Sources:

HM Treasury, *European Union Finances*, latest edition published December 2014, Cm 8974

HM Treasury, *European Union Finances*, previous editions

4.2 Forecasts to 2019/20

The Office for Budget Responsibility (OBR), the UK's independent fiscal watchdog, produces forecasts of UK net contributions to the EU. Forecasts through to 2019/20, based on the MFF 2014 – 2020, are shown below. Net contributions are expected to be similar in 2019/20 to 2014/15 in cash terms, and around 7% lower in real terms.

Table 3. OBR forecast of UK net contribution to the EU budget, 2013/14 to 2019/20
£ billion

	Outturn	Forecast					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Cash terms	10.2	9.2	9.9	8.2	8.0	8.8	9.3
Real (2014-15) terms	10.4	9.2	9.8	8.0	7.7	8.3	8.5

Sources:
OBR. Economic and Fiscal Outlook - March 2015, Supplementary Fiscal Tables, Table 2.23
HM Treasury. GDP Deflators - March 2015

OBR data are for financial years as while the EU budget is run on a calendar year basis, UK budgets are based on financial years. The Treasury's European Union Finances 2014 publication includes data for previous financial years. [20]

[20] HM Treasury, European Union Finances 2014, December 2014, Cm 8974

5. The February 2013 European Council

As the 2007-2013 MFF came to an end it was necessary for the European Council to come to an agreement over the shape of the budget for 2014 onwards.

The European Parliament was the first to present its starting position in a non-legislative resolution, challenging Member States who wished to freeze the budget (including the UK) by proposing an increase of at least 5% over the 2013 level making the EU budget roughly 1.11% of Member States' GNI. [21] [22]

The Commission proposed a draft MFF Regulation in June 2011.[23] The proposal froze expenditure ceilings at their 2013 level. Amendments were made in July 2012 to take into account Croatia's accession (scheduled for mid-2013), the Commission's new macroeconomic forecasts, and new regional and national economic data. [24] It proposed commitments of €1,033 billion (1.08% of Member States' GNI) and payments of €988 billion (1.03% of Member States' GNI).

At a European Council meeting on 7-8 February 2013 political agreement was reached on the MFF regulation, as detailed in the meeting's conclusions.[25] A previous meeting, held on 22- 23 November 2012, failed to reach agreement.[26]

The headline conclusion from the February 2013 meeting was that expenditure over the new MFF period would be lower, in real terms, than over the previous MFF. The agreement allows the EU to spend up to €960 billion in commitments; equivalent to 1.0% of Member States' GNI, and 3.5% less than in MFF 2007-2013. Payments of up to €908 billion will be allowed; equivalent to 0.95% of Member States' GNI, and 3.7% less than in the previous MFF.

The agreement breaks the overall total for commitments into six broad categories:

- **Smart and inclusive growth (47% of total commitments).**

Largely covers cohesion policy, including structural funds. Around three quarters of the category's spending is dedicated to these programmes. Other spending areas include research & innovation, infrastructure, education and training and enterprise development.

[21] European Parliament, 2010/2211(INI). Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe, 8 June 2011

[22] European Parliament, Multiannual financial framework 2014-2020

[23] COM(2011) 398 final, 29 June 2011

[24] COM(2012) 388 final, 6 July 2012

[25] European Council, 7/8 February 2013. Conclusions (Multiannual Financial Framework), 8 February 2013

[26] European Council, Statement by the Members of the European Council, 23 November 2012

• **Sustainable growth: natural resources (39%)** This is the main budget line for funding the common agricultural policy (CAP), rural development and fisheries policy.

• **Security and Citizenship (2%)** includes asylum, migration, public health, consumer protection, culture and youth.

• **Global Europe (6%)** includes support to the EU's foreign policies and international development.

• **Administration (6%)** includes expenditure on the salaries, allowances and pension costs for staff and members.

• **Compensations (less than 0.01%)** relates to the latest enlargement of the EU, with €27 million for Croatia, who joined the EU in July 2013.

Table 4 provides an annual breakdown of MFF expenditure commitments.

As discussed in section 2.3 of this briefing, the European Council agreed the Revenue side of the budget, covered by the Own Resources Decision (ORD), to be modified to:

- reduce Member States' collection cost for customs duties to 20%;
- reduce VAT-based contributions for Germany, the Netherlands and Sweden
- re-introduce reduced GNI based contributions of the Netherlands and Sweden and introduce such reductions for Denmark and Austria

UK press reaction to the agreement was broadly positive. The Financial Times thought a real terms decrease in the MFF exceeded expectations of those in Westminster.[27] The Guardian expected the PM, David Cameron, to receive a 'possibly rapturous' reception from Conservative MPs when he next entered the House of Commons.[28] Both the Guardian and Telegraph felt the support of Germany's Angela Merkel was key to reducing the MFF expenditure.[29]

The conclusions of the European Council were translated into a regulation which was adopted by the Council of the European Union on 2 December 2013,[30] following the European Parliament's consent on 19 November 2013.[31]

27 "Cameron wins rare victory in Europe", Front Page, *Financial Times,* 9 February 2013
28 "Has David Cameron's EU budget gamble paid off?", *Guardian*, 8 February 2013
29 ibid. and "Cameron triumphs as European leaders agree on first-ever budget cut; European leaders have agreed to the first-ever reduction in the European Union's budget, in a significant diplomatic victory for David Cameron", *Telegraph,* 8 February 2013
30 Council of the European Union Press Release 15259/1/13 REV 1, Council adopts the multiannual financial framework 2014-2020, 2 December 2013
31 European Parliament, European Parliament legislative resolution of 19 November 2013 on the draft Council regulation laying down the multiannual financial framework for the years 2014–2020

Table 4. Multiannual financial framework 2014 – 2020

(EUR million - 2011 prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
1. Smart and Inclusive Growth	**60 283**	**61 725**	**62 771**	**64 238**	**65 528**	**67 214**	**69 004**	**450 763**
1a: Competitiveness for growth and jobs	15 605	16 321	16 726	17 693	18 490	19 700	21 079	125 614
1b: Economic, social and territorial cohesion	44 678	45 404	46 045	46 545	47 038	47 514	47 925	325 149
2. Sustainable Growth: Natural Resources	**55 883**	**55 060**	**54 261**	**53 448**	**52 466**	**51 503**	**50 558**	**373 179**
of which: Market related expenditure and direct payments	41 585	40 989	40 421	39 837	39 079	38 335	37 605	277 851
3. Security and citizenship	**2 053**	**2 075**	**2 154**	**2 232**	**2 312**	**2 391**	**2 469**	**15 686**
4. Global Europe	**7 854**	**8 083**	**8 281**	**8 375**	**8 553**	**8 764**	**8 794**	**58 704**
5. Administration	**8 218**	**8 385**	**8 589**	**8 807**	**9 007**	**9 206**	**9 417**	**61 629**
of which: Administrative expenditure of the institutions	6 649	6 791	6 955	7 110	7 278	7 425	7 590	49 798
6. Compensations	**27**	**0**	**0**	**0**	**0**	**0**	**0**	**27**
TOTAL COMMITMENT APPROPRIATIONS	**134 318**	**135 328**	**136 056**	**137 100**	**137 866**	**139 078**	**140 242**	**959 988**
as a percentage of GNI	1,03%	1,02%	1,00%	1,00%	0,99%	0,98%	0,98%	1,00%
TOTAL PAYMENT APPROPRIATIONS	**128 030**	**131 095**	**131 046**	**126 777**	**129 778**	**130 893**	**130 781**	**908 400**
as a percentage of GNI	0,98%	0,98%	0,97%	0,92%	0,93%	0,93%	0,91%	0,95%
Margin available	0,25%	0,25%	0,26%	0,31%	0,30%	0,30%	0,32%	0,28%
Own Resources Ceiling as a percentage of GNI	1,23%	1,23%	1,23%	1,23%	1,23%	1,23%	1,23%	1,23%

6. The Bill

6.1 Why is legislation required?

The new ORD must be agreed by Member States: the Bill, if passed, will fulfil that role for the UK.

Member State agreement is part of an EU special legislative procedure for the ORD which also requires unanimity in the Council, and consultation with the Parliament.[32] In effect the ORD requires "double unanimity". This is set out in Article 311 of the Treaty on the Functioning of the European Union:

> The Union shall provide itself with the means necessary to attain its objectives and carry through its policies.
>
> Without prejudice to other revenue, the budget shall be financed wholly from own resources.
>
> The Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament adopt a decision laying down the provisions relating to the system of own resources of the Union. In this context it may establish new categories of own resources or abolish an existing category. That decision shall not enter into force until it is approved by the Member States in accordance with their respective constitutional requirements.
>
> The Council, acting by means of regulations in accordance with a special legislative procedure, shall lay down implementing measures for the Union's own resources system in so far as this is provided for in the decision adopted on the basis of the third paragraph. The Council shall act after obtaining the consent of the European Parliament. [33]

The ORD goes through the EU scrutiny process in both the House of Commons and House of Lords and then requires legislation in the form of a European Communities (Finance) Bill to give it legal effect. The legislation provides for Section 1(2) of the European Communities Act 1972 (ECA) to be amended to add the ORD to the list of European Community treaties and decisions to be enforced in the UK.

The Bill also fulfils the purposes of the European Union Act 2011: the European Act 2011 stipulates that an Act of Parliament is required to agree the ORD.

The Bill applies to the whole of the UK, it does not fall within the legislative competence of the Scottish Parliament, the National Assembly for Wales or the Northern Ireland Assembly.

6.2 What does the Bill do?

The Bill itself has two clauses; **Clause 1** provides that the ORD is approved for purposes of the European Union Act 2011. It also adds the new ORD to the list of Treaties in section 1(2) of the European

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[32] For further information on legislative procedures see European Commission's Summary of Legislative Procedure.

[33] Article 311 Treaty on the Functioning of the European Union (TFEU)

Communities Act 1972 (ECA), allowing payments made by the UK in relation to the ORD to be charged directly on the Consolidated Fund or the National Loans Fund under section 2(3) of the ECA.[34]

Clause 2 repeals the European Communities (Finance) Act 2008 as the wording in clause 1 of the new Bill supersedes the wording added to the 1972 ECA by that act.

These are essentially technical measures, giving legal effect to the ORD. in the UK. The Bill does not replicate the regulation itself, but merely adds it to the list of Community Treaties for the purpose of its enforcement under the ECA. Neither does the bill refer to the MFF Regulation: the MFF does not require Member State agreement and was formally adopted by the Council on 2 December 2013, following the consent of the European Parliament.[35]

The ORD is designed to be legally binding once all the Member States have notified the Council that they have carried out their respective constitutional requirements. In the case of the UK this means the passage of legislation. Failure to adopt the ORD by one or more Member States would delay or prevent its implementation.

6.3 Consequences for non-approval

If any Member State fails to approve the new ORD, the current ORD will continue to operate. Unlike the MFF, the ORD has no end date and can run indefinitely. However, in practice, the agreement over the expenditure and revenue sides of the budget going forward are done together, and are therefore part of an overall political deal. Non-approval of the ORD would be expected to have political costs.

The new ORD also has a provision that it is effective from 1 January 2014 (and is backdated). If approval of the ORD is delayed, any Member State who expected their contributions to rise due to the new ORD would have a larger amount to pay when the ORD was finally approved.

6.4 Second reading, 11 June 2015

Second reading took place on 11 June 2015; the Bill was unopposed. Debate focused mainly on EU expenditure and, to a lesser extent, EU revenue. There was little direct discussion of the Bill's clauses.

The Financial Secretary to the Treasury, Mr David Gauke, said that the agreement reached at the February 2013 European Council ensured no new types of Member State contributions, no new taxes to finance EU spending and protected the UK's rebate. Reductions in GNI-based contributions for Denmark and Austria would add an additional

[34] The Consolidated Fund can be regarded as the UK government's bank account, whereas the National Loans Fund can be regarded as its main borrowing and lending account. Further details are available in HM Treasury's Consolidated Fund Account 2013/14 publication.

[35] Council of the European Union Press Release 15259/1/13 REV 1, Council adopts the multiannual financial framework 2014-2020, 2 December 2013

£16 million in contributions for the UK per year [see section 2.3]. These would be largely offset by changes in other corrections.[36]

Protection of the rebate was contrasted by Mr Gauke, and others, with the deal reached in 2005 where "the then United Kingdom Government gave away part of the UK rebate". This refers to the agreement negotiated in 2005 by the then Labour government, which reduced the UK's rebate to account for EU enlargement expenditure.[37] The then Prime Minister, Tony Blair, said that the change in the rebate ensured that the UK contributes properly to enlargement.[38]

The real terms reduction in MFF expenditure ceilings agreed at the February 2013 European Council received broad approval from across the House. Barbara Keeley, Shadow Treasury Minister, felt that the Prime Minister's negotiating position for the MFF had been strengthened by a debate and vote which took place in the House on 31 October 2012. The vote amended a government motion and called for the government to reduce the MFF in real terms. [39]

Barbara Keeley said that the Opposition would not oppose the Bill but would table some amendments. The Shadow Treasury Minister called for a review of the budget priorities along with waste and inefficiency in the EU. She also raised concerns about transparency of the EU budget and on the 'growing gap between the ceiling on spending commitments and the ceiling on payments'. Relatively high levels of expenditure on common agricultural policy was raised by Barbara Keeley and other Members. [40]

The SNP's approval of the Bill was voiced by George Kerevan,[41] whilst Stephen Gethins, SNP spokesperson on Europe, raised the issue of Scotland's relatively low payments from the common agricultural policy.[42]

Members including John Redwood and Jacob-Rees Mogg raised their general displeasure of UK revenues being spent by the EU.

The Bill received a second reading without a division.

Remaining stages in the Commons

Following second reading a programme motion was agreed which schedules the Bill to be considered by a Committee of the whole House over one day. The programme motion also schedules the report and third reading stages to take place on the same day, which will be 23 June 2015.[43]

[36] HC Deb 11 June 2015:cc1385-1390
[37] Further details are available in the Library Research Paper The European Communities (Finance) Bill. Bill 2 0f 2007-08.
[38] HC Deb 19 December 2005 cc1563-1565
[39] HC Deb 31 October 2012:c295-346
[40] HC Deb 11 June 2015:c1390-1396
[41] HC Deb 11 June 2015:c1396
[42] HC Deb 11 June 2015:c1386-1388
[43] HC Deb 11 June 2015:c1429

7. The new Own Resources Decision: article-by-article

As discussed in section 2.3 the formal ORD adopted by a Council Decision on 26 May 2014 made the following changes:

- Collection costs for traditional own resources will be lowered to 20%.
- Denmark (€130 million), the Netherlands (€695 million), and Sweden (€185 million), will benefit from gross reductions in their annual GNI contribution. Austria will benefit from reductions up to 2016 of €30 million in 2014, €20 million in 2015, and €10 million in 2016.
- Germany, the Netherlands and Sweden are to benefit from reduced call rates for the own resource based on value added tax (VAT) for the period 2014-2020 only. Over the period their rate of call shall be 0.15%.

Each article in the new ORD is examined in more detail below and any major alterations are indicated.

Article 1 of the ORD sets out the Treaty basis of the ORD.

Article 2 sets out the four areas of revenue which form the own resources: Customs duties, sugar levies, VAT based contributions and a GNI based contribution. Collection costs relating to customs duties reduce to 20% from 25% (Article 2(3)). The call up rate for the VAT resources will be 0.3% for the period, the same as during 2007 – 2013; this is a reduction from 0.75% in 2002 and 2003, and 0.5% from 2004. For the period 2014-20 only, Germany, the Netherlands and Sweden will have reduced call-up rates of 0.15%.

The method of calculating the GNI resources remains the same, however Denmark, the Netherlands and Sweden will benefit from additional reductions in their annual GNI-based payments of €130 million, €695 million and €185 million respectively. Austria shall benefit from a gross reduction in its annual GNI-based contribution of €30 million in 2014, €20 million in 2015 and €10 million in 2016. All the above are in 2011 prices.

This article also sets out the process for dealing with significant changes in GNI from amendments to the European Systems of Accounts 2010 (ESA 2010) by all Member States.

Article 3 sets out the limit for expenditure funded by own resources each year: 1.23% of Member States' GNI for payment appropriations and 1.29% for commitment appropriations. This indicates the total limit for EU expenditure as the EU is unable to borrow. These limits have changed from 1.24% and 1.31% respectively in the current ORD. Planned expenditure will continue to be well below these limits.

Article 4 concerns the UK correction or rebate. This article sets out the method used for calculating the UK rebate, as described in section 3 of this briefing.[44] There is little change to the abatement; several time-limited transitional provisions in the abatement text have been deleted, as they expired at the end of 2013.

Article 5 details how the cost of the UK rebate is paid by other Member States. This is paid by Member States based on GNI contributions and is in addition to the calculation of the four own resources. All Member States, including those that have acceded since 2004 will pay a share according to their GNI. The calculation is made before the reductions in GNI payments given to Austria, Denmark, the Netherlands and Sweden, but the provision made in the 2001 ORD for Germany, Austria, the Netherlands and Sweden to pay only one quarter of the calculated abatement contribution continues.

Articles 6 and 7 set out that the resources provided by the ORD shall be used 'without distinction' to finance all expenditure within the Union and that any annual surplus shall be carried over to the following year.

Article 8 sets out that Member States will collect own resources and provide them to the Commission in accordance with regulations adopted under the Treaty of the Functioning of the European Union.

Article 9 is new and states that the Council must ensure measures are in place to implement the own resource system. Measures for calculating, budgeting, controlling and supervising the revenue are required.

Articles 10 and 11 provide for the new ORD to enter into force. Any references to previous ORDs should also point to this one, while provisions are made for VAT resources and collection costs to be applied at the correct rate according to the ORD in force at the time (in other words revisions relating to previous years will continue to be based on the ORD used at the time). The new ORD, once approved by all Member States, shall enter into force on the first day of the month after the last notification of approval was received by the Council. However, once in force, the ORD will apply from 1 January 2014 onwards.

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[44] The European Commission produces working papers on the operation of articles 4 and 5 of the ORD: Commission Working Document on calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in favour of the United Kingdom ("the UK correction") in accordance with Articles 4 and 5 of Council Decision 2006/xxx/EC, Euratom on the system of the European Communities' own resources (2007 version) and Commission Working Document on calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in favour of the United Kingdom ("the UK correction") in accordance with Articles 4 and 5 of Council Decision 2014/xxx/EU, Euratom on the system of own resources of the European Union (2014 version)

8. Annual Budgetary Procedure

The MFF provides the long term basis for the EU Budget. An annual process involving the European Commission, the Council and European Parliament sets the annual budget.

The annual budgeting process maps out final expenditure based on the ceilings laid out in the MFF.

Commission's draft budget

The annual budget cycle begins with the Commission, Council and European Parliament estimating their draft budget. These estimates are consolidated by the Commission who propose a draft budget based upon MFF spending ceilings. The current MFF was set at 2011 prices and an adjustment is made at the beginning of each year to take account of changes in Gross National Income (GNI) forecasts, price changes and other 'technical' changes.[45]

The Commission must submit its draft budget to the Council and European Parliament by 1 September of the preceding year. In practice, the Commission endeavours to present the draft budget in April/May.

The Council's and European Parliament's reading

The Council adopts its position on the draft budget and passes it to the European Parliament before 1 October. The budget is then adopted if, within 42 days, the European Parliament either approves the Council's position or does not take a decision. If the European Parliament does make amendments and these are accepted by the Council within 10 days then the budget can also be adopted.

Conciliation Committee

If agreement cannot be reached between the Council and European Parliament a Conciliation Committee is set up, composed of the members of the Council or their representatives and an equal number of members representing the European Parliament. The Committee is tasked with reaching agreement on a joint text within a period of 21 days.[46] If this fails then the Commission has to produce a new draft budget.

Once a joint text is agreed by the Conciliation Committee in early November, the Council and the European Parliament have 14 days to approve or reject it. The European Parliament may adopt the budget even if the Council rejects the joint text. If the Council and the European Parliament both reject the joint draft or fail to decide, the budget is rejected and the Commission has to submit a new draft budget.

Annual budget timeline

- **April/May** Commission produces draft budget
- **Before 1 Oct** the Council adopts its position
- Parliament has **42 days** to adopt amendments on Council's position
- Council may accept amendments **within 10 days** and adopt draft.

If Council does not accept Parliament's amendments, then:

- Conciliation Committee is set up to reach joint text **within 21 days**.
- Council and Parliament have **14 days** to approve or reject the joint text
- If Parliament rejects the text the Commission submits a new draft

If a draft budget is not adopted at the beginning of the year the previous year's budget is rolled over

[45] The European Commission has produced technical adjustments for 2014 and 2015. Both are available from the European Commission's website.

[46] Further details of the Conciliation process are available in Codecision and Conciliation from the European Parliament.

Failure to adopt a budget

If, at the beginning of the year, the budget has not yet been definitively adopted, the system of 'provisional twelfths' would kick in, essentially rolling over 1/12 of the previous year's budget each month.

Amending budgets

The Commission may during the year propose that the adopted budget be amended; it does this by submitting draft amending budgets. Similarly the Commission may present a letter of amendment to the draft budget in light of information which was not available when the draft was established.

Both amending budgets and letters of amendment are subject to the same procedural rules as detailed above for the general budget.

Appendix 1: Member States' contributions

Table 5 below shows EU budget contributions and expenditure by Member State over the 2011-2013 period, the latest for which data are available. The table includes the total net contribution by Member State and the same figure on a per head basis for 2013.

On a per head basis the UK made the fifth largest net contribution to the EU budget in 2013. The UK's net contribution was €10.8 billion, or €168 per head in 2013.

These figures are based on data published by the European Commission and show the budgetary balance excluding the relatively small amounts of non-EU related funding. An example of non-EU related funding is EU overseas development aid.

The figures include administration expenditure which can have a significant effect on the net contributions of some Member States, such as Belgium and Luxembourg, where in 2013 the EU spent €7,209 million and €1,598 million respectively.

The eagle eyed will notice that the Commission's figures do not tally with those of the Treasury reported in section 4 of this briefing. The Commission includes receipts from the EU to the private sector, which are not included by the Treasury; for this and other less significant reasons the two sets of figures differ.[47] [48] The Treasury only produces data for the UK. The European Commission figures are the best available comparison between Member States.

[47] Further reasons include: the Treasury not including figures from amending budgets adopted late; the two agencies differing on other factor such as exchange rates; and the Commission trying to match payments to particular budgets while the Treasury look at the cash-flows in a particular year.

[48] HM Treasury. European Union Finances 2014, December 2014, Cm 8974, Annex B

Table 5. EU Budgetary Balances by Member State 2011 - 2013

€ million, includes administrative expenditure

	Expenditure			Contributions			Net Contributions			Net contribution per head (in €) ,
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2013
Sweden	1,757	1,566	1,661	3,334	3,754	4,211	1,577	2,188	2,550	267
Denmark	1,473	1,441	1,435	2,448	2,697	2,899	975	1,257	1,465	261
Netherlands	2,064	2,124	2,264	5,869	6,080	6,552	3,805	3,957	4,288	256
Germany	12,133	12,245	13,056	23,127	26,214	29,376	10,994	13,969	16,320	203
UK	6,570	6,934	6,308	13,825	16,177	17,068	7,255	9,244	10,760	168
Austria	1,876	1,856	1,862	2,689	2,942	3,191	813	1,086	1,329	157
France	13,162	12,890	14,239	19,617	21,296	23,292	6,455	8,406	9,052	138
Finland	1,293	1,324	1,497	1,955	2,002	2,159	662	678	662	122
Italy	9,586	10,957	12,554	16,078	16,544	17,168	6,492	5,587	4,614	77
Croatia	…	…	290	…	…	238	…	…	-52	-12
Ireland	1,639	2,013	1,874	1,339	1,439	1,731	-301	-574	-143	-31
Cyprus	184	155	227	185	185	185	1	31	-42	-49
Spain	13,599	14,257	13,752	11,046	10,747	11,369	-2,553	-3,511	-2,383	-51
Belgium	6,797	6,969	7,209	4,927	5,244	5,291	-1,870	-1,726	-1,919	-172
Slovenia	847	932	814	401	398	426	-446	-533	-388	-188
Romania	2,659	3,446	5,561	1,226	1,457	1,474	-1,434	-1,988	-4,086	-204
Bulgaria	1,107	1,732	1,977	395	417	478	-712	-1,316	-1,499	-206
Malta	135	141	174	66	69	86	-69	-73	-87	-207
Slovakia	1,785	2,287	2,026	694	743	799	-1,091	-1,544	-1,227	-227
Czech Republic	3,029	4,529	4,893	1,683	1,594	1,617	-1,347	-2,935	-3,276	-312
Poland	14,441	15,736	16,179	3,580	3,908	4,214	-10,860	-11,828	-11,965	-314
Latvia	911	1,179	1,063	182	229	269	-729	-950	-794	-392
Portugal	4,715	6,789	6,163	1,734	1,765	1,793	-2,981	-5,023	-4,370	-417
Greece	6,537	6,353	7,215	1,903	1,804	1,906	-4,634	-4,548	-5,308	-483
Hungary	5,331	4,177	5,910	937	928	1,011	-4,394	-3,249	-4,899	-494
Lithuania	1,653	1,833	1,881	302	343	405	-1,351	-1,490	-1,476	-497
Estonia	505	954	973	159	176	212	-346	-779	-761	-577
Luxembourg	1,549	1,530	1,598	293	276	322	-1,255	-1,254	-1,276	-2,377
Total	117,337	126,349	134,656	119,995	129,430	139,744				

Notes: Negative net contribution indicates Member State is a net recipient
Figures include administrative expenditure (significant effect on expenditure in Belgium and Luxembourg)

Sources: European Commission, *interactive graph on EU expenditure and revenue* , available at:
http://ec.europa.eu/budget/revexp/revenue_and_expenditure_files/data/revenue_and_expenditure_en.xls
Eurostat (population data) downloaded 1 May 2015

Appendix 2: Prime Minister's Statement, European Council, February 2013

The Prime Minister, David Cameron, made a statement in the House of Commons on the outcome of the Council meeting on 11 February 2013:

> **The Prime Minister (Mr David Cameron):**
>
> […] Last week's European Council agreed the overall limit on EU spending for the next seven years, starting in 2014. When these multi-year deals have been agreed in the past, spending has gone up, but last week we agreed that spending should come down. By working with like-minded allies, we delivered a real-terms cut in what Brussels can spend for the first time in history. As the House knows, the EU budget is negotiated annually, so what we were negotiating—initially at the Council last November and again last week—was not the individual annual budgets, but rather the overall framework for the next seven years. This includes the overall ceilings on what can be spent—effectively, the limit on the European Union's credit card for the next seven years.
>
> During the last negotiation, which covered the period 2007 to 2013, the last Government agreed to an 8% increase in the payments ceiling, to €943 billion. Put simply, this gave the EU a credit card with a higher limit, and today we are still living with the results of allowing the EU's big spenders to push for more and more spending each year.
>
> In fact, only last year, while member states were having to make tough decisions to tighten their belts at home, the big spenders succeeded in increasing the 2012 European budget by another 5% compared with the previous year. If no deal had been reached, the existing ceilings would have been rolled over and annual budgets could have continued to soar for the next seven years. Because annual budgets are negotiated by qualified majority voting, it can be difficult to constrain spending in these annual negotiations. By contrast, the seven-year limits are agreed by unanimity, so this was our chance to get the ceilings down in line with what could be afforded.
>
> The European Commission produced an initial proposal for increasing the payments ceiling still further to €988 billion. This was strongly supported by a number of member states. The first negotiation took place at the Council in November, and although the President did then reduce this during the Council itself, it was still some way short of the real-terms cut we were looking for. So together with like-minded allies from a number of countries, including Germany, Sweden, the Netherlands and Denmark, we rejected the deal on the table and told them to think again.
>
> At this Council, we made further progress. Together with allies, many of whom like Britain write the cheques, we achieved a proper look across all the areas where spending in the Commission proposal could be cut. While there are areas where we could and should go further, not least on reforming the common agricultural policy and reducing the bureaucratic costs of the European Commission, we agreed a real-terms cut in the payment limit to €908 billion. That is €80 billion lower than the

original proposal; €35 billion lower than the deal agreed by the last Government, which is still in operation today; and €60 billion lower than the emergency arrangements that would have come into place if there were no seven-year deal. My aim was not simply to cut the credit-card limit; I wanted to set the limit at a level that would deliver at worst a freeze and at best a cut in actual spending over the next seven years. That is what this deal delivers—a real-terms cut.

If we take the latest complete budget—the one for 2012—and freeze spending at that level for the next seven years, we would have spending limits of €932 billion. Our new payments limit means spending cannot rise above €908 billion, so we have slashed €24 billion off a real freeze on the last completed budget. Of course, the budget set in 2012, which Britain voted against, was unacceptably large, but even against the average of the last two completed years—2011 and 2012—this deal still delivers a real-terms cut.

This deal must now, of course, be voted on by the European Parliament, and the European Council has said it is prepared to accept some flexibilities about how spending is divided between different budget years and different areas of spending, but we are absolutely clear that this must be within the framework that the member states have now agreed. The EU's seven-year budget will now cost less than 1% of Europe's gross national income for the first time in its history.

Let me say a word about how this deal is likely to affect the UK's contribution; a word about how it is likely to affect what the UK receives from the EU for research, for our regions and for our farmers; and a word about what this means for growth and competitiveness across the European Union as a whole.

On the UK's contribution, the House will remember how the last Government gave away almost half of our rebate. This has had a long-term and continuing effect on the UK's net contributions. It is worth remembering why. It is because when the European Union spends money on structural funds and cohesion payments in eastern European countries, for example, the UK no longer gets a rebate on this money. As a result, almost whatever budget deal was done, our net contributions were always likely to go up. As a result of this deal, however, they will be going up by less. The only two sensible things we could do to protect the British taxpayer in these negotiations were to get the overall budget down and to protect what is left of our rebate.

[…]

While the actual amount that the UK contributes will depend on technical factors, such as the size of the annual budgets, economic performance and exchange rates, as a result of this deal we now expect the UK's contribution to the EU to fall as a share of our gross national income. As for the rebate that this Government inherited, it is now completely untouched. As ever, throughout the negotiations the rebate was attacked repeatedly, but I successfully rejected all the calls for change, and under this Government the British rebate is safe.

In terms of what the UK receives, I wanted to make sure that our universities were well placed to receive research work, that our less well-off regions were treated fairly compared with others, and that our farmers continued to receive support for the environment

schemes that they put in place. Let me deal with each of those points.

The section of the budget that includes spending on research, innovation and university funding is up by over a third. The money is handed out on the basis of quality, so Britain's universities are particularly well placed to benefit. We have ensured that structural funds will continue to flow to our less well-off regions, and Britain's share will remain broadly the same, at around €11 billion. While we have cut spending on the common agricultural policy overall, we have protected the flexibility that will allow us to direct funds to support both the environment and the livelihoods of our farming communities.

Overall, this is a better-framed budget in terms of growth, jobs and competitiveness. It is disappointing that administrative costs are still around 6% of the total, but overall spending on the CAP will fall by 13% compared with the last seven-year budget. Research and development, and other pro-growth investment, will now account for 13% rather than 9% of the total budget.

Reform of EU spending is a long-term project, but this deal delivers important progress. Working with allies, we took real steps towards reform in the European Union. This is a good deal for Britain, a good deal for Europe, and above all a good deal for all our taxpayers. That is what we have delivered, and I commend my statement to the House.[49]

[49] HC Deb 11 February 2013: c596-571

Appendix 3: Further information

General Budget Information

European documents and reports ion the revenue and expenditure of the EU Budget are available here:

http://ec.europa.eu/budget/mff/index_en.cfm

Documents relating to the annual Budget are available here:

http://ec.europa.eu/budget/index_en.cfm

HM Treasury, European Union Finances 2014: statement on the 2014 EU Budget and measures to counter fraud and financial mismanagement, December 2014, Cm8974

HM Government, Review of the Balance of Competences between the United Kingdom and the European Union: EU Budget, 2014

European Council Conclusions and New ORD

February 2013 European Council Conclusions, Multiannual Financial Framework, 8 February 2013, EUCO 37/13 CO EUR 5

Statement on February 2013 European Council, 11 February 2013

Current ORD: Own Resources Decision of 7 June 2007 (2007/436/EC) and Commission Working Document on the method for the calculation of the correction of budgetary imbalances.

Proposed ORD: Own Resources Decision of 26 May 2014 (2014/35/EU) and new Commission Working Document on the method for the calculation of the correction of budgetary imbalances.

European Scrutiny Committee reports on the MFF and ORD: Eighteenth Report of Session 2013-14, HC 83-xvii; and Thirty-seventh Report of Session 2013-14, HC 83-xxxiv

European Scrutiny Committee B debate, Multi-annual Financial Framework, July 2013

Annual Budget Scrutiny

European Scrutiny Committee - Twenty-Sixth Report, EU General Budget 2015, HC 219-xxv

European Scrutiny Committee Report on the Preliminary Draft Budget 2014 – Twelfth Report of Session 2013-14, HC 83-xii

European Committee Debate on the Draft Budget 2014, 21 October 2013

European Committee Debate on the Multi-Annual Financial Framework, 16 July 2013

Annual Reports from the European Court of Auditors:

http://www.eca.europa.eu/en/Pages/AnnualActivityReports.aspx

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http://ec.europa.eu/anti_fraud/about-us/reports/olaf-report/index_en.htm

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