

2005 discharge: EC general budget, section III, Commission

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PURPOSE: to present the revenue and expenditure account and the balance sheet relating to the 2005 budget (Section III – Commission: political presentation).

CONTENT: this document, presented in parallel with the implementation of the 2005 budget expenditure (refer to SEC(2006)0916 for details), presents a political and detailed analysis of the use of payment appropriations by the Commission in 2005.

1. Changes made to the accounting system:

- **New accounting system:** the European Communities undertook to fall into line with the approach adopted by many States. This entailed a change from a system of accounts focusing on a cash-based description of budget expenditure and revenue operations to an accrual accounting system. The objective was to provide better information to management for their decision making and to improve the transparency and quality of the accounting information presented annually. The new system should ensure that both the internal users of the system and the external readers of the accounts have more reliable and relevant information;
- **The work done:** in January 2005 the new accounting system came into use. These are the first set of financial statements prepared under the new accrual accounting rules (the budget accounts are still based on movements of cash.) These new rules and methods are inspired by internationally accepted standards for the public sector — the IPSAS — and, for accounting transactions that are not yet covered by IPSAS, on the relevant International Accounting Standards ('IAS')/International Financial Reporting Standards ('IFRS'). The IT architecture was updated to ensure that each accounting event, and not just cash movement, would be fully registered when it occurs;
- **The main impact of the changes:** the first impact to be noted is that the balance sheet and off-balance sheet presented here in relation to the prior year (2004) will differ from those published in the 2004 annual accounts, since they are prepared under different rules. The Communities have thus taken the original 2004 figures, as prepared under the old rules and made adjustments to bring them into line with the new rules. The application of accrual accounting principles essentially means that income and expenditure is recorded in the accounts when it is earned/incurred and not just if cash is received/paid;
- **Amounts to be called up from Members States:** many expenses are recognised under accrual accounting rules in the year N although they may be actually paid in year N+1 using the budget of year N+1. Nevertheless, the Communities only call up resources from the Member States when they need money to pay an amount due, so as to give Member States maximum flexibility in managing their public finances. This inclusion in the accounts of the Communities' liabilities, coupled with the fact that the corresponding amounts needed to fund these are only recognised in future years, results in liabilities greatly exceeding assets at the year-end;
- **A new structure:** while the budgetary reporting was unaffected by the move to accrual accounting, the new financial statements include much more information than before. Most significantly there are now an economic outturn account, a cashflow table and a statement of changes in net assets to add to the restructured balance sheet and off-balance sheet.

2. Main points of the 2005 annual accounts:

- The budget surplus has continued to decrease from EUR 2,7 billion to EUR 2,4 billion;

- The economic outturn (loss) for the year was EUR 7,8 billion;
- Total assets increased from EUR 53,6 billion in 2004 to EUR 58,7 billion, with total liabilities increasing from EUR 105,2 billion to EUR 120,9 billion.

3. Main axes of the 2005 budget implementation: this analysis is inspired by the European Union's 2005 financial report. It concerns the main policy areas of the Commission's budget implementation throughout 2005 (for information concerning the amount of expenditure, see the detailed analysis adopted in parallel):

- **The 2005 budget (25 Member States):** the budget is geared towards the achievement of the EU's political priorities, the most important of which is to foster jobs and growth. The first full EU budget for 25 Member States amounted to EUR 116 193 million in commitment appropriations, a rise of 6.2 % over the previous year, and EUR 106 300 million in payment appropriations, a rise of 4.4 %. In payments, the budget therefore represented 1.004 % of the gross national income (GNI) of the enlarged European Union, leaving a margin of EUR 3.04 billion in commitments and EUR 7.9 billion in payments below the ceilings of the financial perspective, which fixes the spending limits for any given year (agreed with the Member States and the Parliament);
- **Revenue:** the revenue required from Member States to finance the payments represented only 0.93 % of EU GNI, as a small surplus of EUR 2.7 billion was deducted from the own resource payments to be made by Member States to the EU;
- **Surplus:** 2005 was a benchmark year, with a reduction in the level of unspent credits to less than EUR 1.1 billion compared with EUR 1.2 billion in 2004, and an overall surplus (including revenue) of EUR 2.4 billion, EUR 0.3 billion less than the previous year;
- **Active management:** this also means being able to respond quickly to disasters. This was particularly true in the case of the Commission's reaction to the tsunami in Asia on 26 December 2004. Within days, the first payment had been made and more followed in the course of 2005. All told, for the year 2005, the Commission pledged a total of EUR 281 million comprising EUR 123 million in emergency aid, and EUR 158 million in reconstruction aid;
- **Towards the world:** although working hard to remain a top-of-the-league economic power, the EU certainly does not forget its responsibility to the rest of the world and in particular to the developing countries. In 2005, the Commission was one of the world's top five providers of official development assistance (ODA). The Commission speeded up its disbursement of support which totalled EUR 6.2 billion during the year (an increase of 10 % compared with the previous year). A new development policy statement — the European consensus on development — was adopted by the Council and the European Parliament on the basis of a proposal from the Commission. For the first time in 50 years, the Declaration defines at EU level the common values, principles, objectives and means of eradicating poverty and achieving the millennium development goals (MDGs);
- **Towards the future:** the year 2005 saw significant movement towards a modernisation of the structure of future EU budgets. Intense negotiations took place on the next multiannual financial framework which will cover the years 2007–13. After heated discussions under both the Luxembourg and UK Presidencies, the December European Council reached an important compromise on the issue, opening the door to final negotiations with the European Parliament and the Commission in 2006.