

STANDARD FORM OF EXPLANATORY MEMORANDUM FOR EUROPEAN UNION LEGISLATION AND DOCUMENTS

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DRAFT AMENDING BUDGET NO. 2 TO THE GENERAL BUDGET 2018 – ENTERING THE SURPLUS OF THE FINANCIAL YEAR 2017

Submitted by HM Treasury on

22 May 2018

SUBJECT MATTER

1. On April 16th 2018 the European Commission transmitted its Draft Amending Budget (DAB) No. 2 to the General Budget 2018 (DAB2/2018), which budgets the surplus revenue resulting from the implementation of the 2017 European Union Budget.
2. In line with established practice, the document presents a figure for the surplus revenue arising from the implementation of the 2017 budget. The figure reported is €0.556 billion (£0.493 billion¹). This surplus is the result of the EU spending €0.217 billion (£0.192 billion) less than expected and raising €0.339 billion (£0.300 billion) more than expected.
3. Entering this surplus into the 2018 EU Budget will reduce the amount to be financed by Member State contributions to that budget. Final Member State contributions to the 2018 EU Budget will also be influenced by other factors, such as the amount of customs and other duties collected, VAT based contributions to the EU and GNI forecasts.

SCRUTINY HISTORY

4. EM 6497/18 on the first draft amending budget for 2018 was submitted to Parliament on 12 March 2018.

MINISTERIAL RESPONSIBILITY

5. The Chancellor of the Exchequer has responsibility for United Kingdom policy on European Union monetary and economic issues. The Foreign and Commonwealth Secretary is responsible for overall United Kingdom policy towards the European Union.

INTEREST OF THE DEVOLVED ADMINISTRATIONS

¹ This and all other sterling figures in this EM have been converted using the exchange rate on December 31st 2017 (€1 = £0.88723). This is the rate at which all UK VAT-based and GNI-based contributions to the 2018 EU Budget will be converted.

6. The EU budget is a reserved matter under the UK's devolution settlements and no devolved administration interests arise. The devolved administrations have therefore not been consulted in the preparation of this EM.

LEGAL AND PROCEDURAL ISSUES

i. Legal basis

7. Article 314 of the Treaty on the Functioning of the European Union, in conjunction with the Treaty establishing the European Atomic Energy Community, and in particular Article 106 (a) thereof, and Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the Financial Regulation applicable to the general budget of the Union (Article 41 of which makes provision for the Commission to present draft amending budgets).

8. The Justice and Home Affairs (JHA) opt-in is not a consideration in this document.

ii. European Parliament Procedure

9. The EU budget is adopted according to a special legislative procedure set out in TFEU Article 314.

iii. Voting procedure

10. The Council shall act by a qualified majority and the European Parliament shall act by a majority of its component members and three fifths of the votes cast.

iv. Impact on United Kingdom Law

11. None.

v. Application to Gibraltar

12. None.

vi. Fundamental rights analysis

13. No issues arise.

APPLICATION TO THE EUROPEAN ECONOMIC AREA

14. None.

SUBSIDIARITY

15. The EU budget is a matter of exclusive Community competence and the European Commission presents the DAB pursuant to treaty and regulation (as referred to in paragraph 5 above).

POLICY IMPLICATIONS

16. On 23 June 2016, the EU referendum was held and the people of the United Kingdom voted to leave the European Union. The Government respected the result and triggered Article 50 of the Treaty on European Union on 29th March 2017 to begin the process of exit. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will also continue to negotiate, implement and apply EU legislation.

17. No policy issues arise from the introduction of DAB 2/2018. This is a routine accounting exercise to record and carry forward unspent revenues in order to enable the Commission to return surpluses to Member States in the form of reduced contributions. The Commission cannot carry forward surplus revenues from the previous year without an adopted amending budget.

CONSULTATION

18. No consultation.

IMPACT ASSESSMENT

19. No impact assessment.

FINANCIAL IMPLICATIONS

20. The surplus revenue figure of €0.556 billion (£0.493 billion) reported in DAB 2/2018 would reduce the overall level of contributions to the 2018 EU Budget required from the Member States by reducing total GNI-based contributions by that amount. The UK's GNI share of funding the 2018 EU Budget is 15.5%, which would result in a reduction of €0.086 billion (£0.077 billion) in the UK's contribution to the 2018 EU Budget.

TIMETABLE

21. This DAB is scheduled to be discussed at COREPER on 6 June then by the Council on 11 June.



**RT HON ELIZABETH TRUSS MP
CHIEF SECRETARY TO THE TREASURY**