



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.7.2006
SEC(2006) 996 final

**PRELIMINARY DRAFT AMENDING BUDGET N° 5
TO THE GENERAL BUDGET 2006**

GENERAL STATEMENT OF REVENUE

**STATEMENT OF REVENUE AND EXPENDITURE BY SECTION
Section III - Commission**

(presented by the Commission)

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Having regard to:

- the Treaty establishing the European Community, and in particular Article 272 thereof,
- the Treaty establishing the European Atomic Energy Community, and in particular Article 177 thereof,
- the Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities¹, and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority the Preliminary Draft Amending Budget No 5 to the 2006 budget for the reasons set out in the explanatory memorandum.

¹ OJ L 248, 16.09.2002, p.1.

CONTENTS

1.	Introduction	4
1.1.	Financial support to encourage the economic development of the Turkish Cypriot community:	4
1.2.	European Year of Equal Opportunities for All (2007).....	5
1.3.	Budgetary adjustments following modernisation of the accounting system.....	6
1.3.1.	Coverage of expenditure incurred in connection with treasury management.....	6
1.3.2.	Creation of a new budget item 21 01 04 10 – EDF contribution to common administrative support expenditure:	8
	SUMMARY TABLE BY HEADING OF THE FINANCIAL PERSPECTIVE	10

GENERAL STATEMENT OF REVENUE

STATEMENT OF REVENUE AND EXPENDITURE BY SECTION

The general statement of revenue and the statement of revenue and expenditure by section are forwarded separately via the SEI-BUD system. An English version of the general statement of revenue and statement of revenue and expenditure by section is attached for information as a budgetary annex.

1. INTRODUCTION

This Preliminary Draft Amending Budget 5/2006 contains the following elements in Section III – Commission:

- The mobilisation of new funds for an amount of EUR 120 million in commitment appropriations on Article 22 02 11 for the financial support to encourage the economic development of the Turkish Cypriot community, and the correlated modification of the budgetary remarks to allow for the financing of the administrative support expenditure. These new funds are requested from the margin available under the ceiling of Heading 7 (Pre-accession strategy) of the Financial Perspective.
- An increase in line 04 04 12 – European Year of Equal Opportunities for All (2007) – to take account of Decision 771/2006/EC of the European Parliament and the Council.
- Following the modernisation of the accounting system, there is also a need to put forward a proposal to create two new budget lines: 27 01 12 02 “Coverage of expenditure incurred in connection with treasury management” and 21 01 04 10 “EDF contribution to common administrative support expenditure”.

No additional payment appropriations are being requested in PDAB No 5/2006.

1.1. Financial support to encourage the economic development of the Turkish Cypriot community:

On 26 April 2004, the Council at its meeting in Luxembourg noted the results of the simultaneous referenda in Cyprus on 24 April 2004 on the ANNAN Plan and stated the following:

“The Turkish Cypriot community have expressed their clear desire for a future within the European Union. The Council is determined to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community. The Council invited the Commission to bring forward comprehensive proposals to this end, with particular emphasis on the economic integration of the island and on improving contact between the two communities and with the EU. The Council recommended that the 259 million euro already earmarked for the northern part of Cyprus in the event of a settlement now be used for this purpose.”

Further to these conclusions, the Commission put forward on 7 July 2004 a proposal for a Council Regulation to implement the EUR 259 million over the period 2004-2006 under Heading 7 (Pre-accession strategy) of the Financial Perspective. As a result, an amount of EUR 120 million was put in reserve in the 2005 budget pending adoption of the legal basis and an amount of EUR 139 million was allocated in the 2006 Budget (also in reserve but transferred to the operational line after adoption of the legal basis).

As the legal basis was delayed until its final adoption on 27 February 2006, the funds allocated in reserve in the 2005 budget, i.e. EUR 120 million, could not be carried forward and had to be cancelled.

There is a possibility to reconstitute the EUR 259 million package by requesting additional commitment appropriations under Heading 7, where a margin of EUR 1 085.4 million is available under the 2006 ceiling. After consulting the Member States on this approach, the Council Presidency received general support and requested the Commission to submit the appropriate proposal for an amending budget to the 2006 budget in order to reconstitute the full financial package in favour of the Turkish Cypriot community.

The full package will be entirely committed within the year 2006 with up to three years to enter into the individual legal commitments (contracting) in accordance with Article 5 of the Regulation². No further payment appropriations are requested in 2006, as implementation will take place over the following years.

It is also proposed to add to the budgetary remarks of Article 22 02 11 the remarks relating to the administrative support expenditure appearing under Item 22 01 04 07. Since no appropriations have been earmarked for the Turkish Cypriot community under the future financial framework 2007-2013, this technical assistance must be financed within the appropriations of the package to be fully committed under the 2006 budget. Furthermore, the European Agency for Reconstruction will be phased out and will not be entrusted with the implementation. As a result, the assistance has to be implemented by a task force as provided for in the legislative financial statement. The financing of the task force can be performed under the operational line 22 02 11, since Article 4(3) of Council Regulation (EC) No 389/2006 explicitly provides that the financial support instrument may be used for this type of assistance, which can therefore be considered as being part of the action itself.

As a result, a global 2006 budget commitment relating to the financing of the whole implementation period will be performed under the operational budget line. However, payment appropriations will be budgeted in the following years according to the pace of implementation. It is clear that this exceptional approach is duly justified notably in view of the delays that have occurred in the adoption of the basic act and the constraints linked to the new financial framework. For the sake of transparency, it is proposed to amend the budget remarks of Article 22 02 11 by adding the budget remarks of Item 22 01 04 07 (Financial support for encouraging the economic development of the Turkish Cypriot community – Expenditure on administrative management). In this case, Item 22 01 04 07 will not be used at all, even for the 2006 expenditure, in order to be coherent with the following years.

The entire amount of EUR 259 million will therefore be implemented solely under Article 22 02 11.

1.2. European Year of Equal Opportunities for All (2007)

Budgetary matters relating to the European Year of Equal Opportunities for All (2007) are dealt with in Article 12 of Decision 771/2006/EC of the European Parliament and the Council (published in OJ L 146 of 31 May 2006), which states that EUR 6 million will be earmarked for preparations for this initiative in 2006.

In the 2006 budget the budgetary authority allocated EUR 2 million in commitment appropriations and EUR 1 million in payment appropriations. For the sake of consistency between the amount in the budget line and the amount referred to in the Decision, it is

² Council Regulation (EC) No 389/2006 of 27 February 2006 (OJ L 65, 7.3.2006, p. 5).

proposed that this amending budget add EUR 4 million in commitment appropriations. The amount of payment appropriations required - EUR 1.410 million - will be the subject of a Commission request for transfer of appropriations in due course.

This appropriation is intended to cover certain expenditure relating to the European Year of Equal Opportunities for All (2007), for which preparations will be carried out in 2006, in accordance with the following table:

Commitment appropriations	Amount earmarked in EUR
<ul style="list-style-type: none"> ○ European information and support campaign ○ Ongoing evaluation of the European Year of Equal Opportunities for All (2007) ○ Conference organised by the German Presidency to launch the European Year of Equal Opportunities for All 	<p>5 200 000</p> <p>300 000</p> <p>500 000</p>
Total budget earmarked for 2006	6 000 000

1.3. Budgetary adjustments following modernisation of the accounting system

On the first provisional closure of the accounts following the Commission's modernisation of its accounting system, there is a need, first, to close a number of non-budget accounts that have had outstanding balances for a number of years and, second, to take into account in the budget the EDF contribution to the administrative expenditure of delegations. This is required by the accrual accounting system that is to be installed in the delegations in 2007.

1.3.1. Coverage of expenditure incurred in connection with treasury management

On account of these exceptional accounting adjustments, non-differentiated appropriations must be entered in the budget so that the corresponding payments can be made.

Five types of operation are concerned here:

– Bankrupt banks

This adjustment is to cover amounts deposited in accounts in banks outside the European Union which have gone bankrupt. In the case of these accounts, when the relevant national proceedings were concluded, it was found that there was no possibility of recovery. This means that the amounts in question are lost for good. It should be noted that an accounting provision corresponding to these amounts was entered in the balance sheet on 31 December 2005.

– Cash differences

The Commission proposes to make an adjustment for cash differences in imprest accounts which, after detailed investigation by the authorising departments concerned, it has proved impossible to recover or settle and for which the authorising officers have concluded in all cases that the imprest account administrator is not liable.

– Burden of the past

The aim here is to settle some long-standing operations - carried out mainly by delegations and representations under the imprest arrangements - where a balance has remained outstanding in the accounts and which have not been settled by the authorising officers responsible and must therefore be accounted for definitively in the budget.

– Repayments of principal and/or late payment interest set off

Pursuant to Article 73 of the Financial Regulation, the accounting officer recovers amounts receivable by offsetting them against payments to the same entity. Amounts set off include the principal of the Commission's claim and, if applicable, late payment interest.

An offsetting may be partially or totally annulled and the amount of principal and/or late payment interest reimbursed if the debtor can show that either the recovery order for the principal proves partially or totally unfounded or that the debtor was not responsible for the debt.

If the annulment is decided in the same financial year when the offsetting was realised, the necessary adjustment and reimbursement are made on the corresponding budget lines for the principal and the interest and do not pose any particular problem.

However, if the annulment is decided on an offsetting executed in a previous financial year, the accounts for that previous financial year are closed and no adjustments and reimbursements can thus be operated any more. Consequently, for these exceptional cases, the necessary appropriations need to be provided in the current financial year in order to allow the Commission to execute the necessary reimbursement of principal and/or late payment interest.

– Clearance of non-recoverable amounts of VAT

Under the Protocol on Privileges and Immunities (PPI), Member States grant an exemption from VAT and other indirect taxes on Community Institutions' purchases of goods and services for their official use. In accordance with the PPI implementing agreements, some Member States grant a direct exemption from VAT, but most of them apply the system of reimbursement. This means that the Institutions first pay the VAT and later claim it back on a yearly basis from the Member State concerned.

Since 1999, the amounts of VAT paid by Commission services are accounted for not as expenditure but in non-budgetary VAT accounts as amounts to be reimbursed by Member States. However, some of these amounts do not finally qualify for a VAT reimbursement by the Member State concerned. In these cases the non-recoverable VAT is to be charged by the Commission service concerned to the corresponding budget line relating to the purchase in question.

However, for the period 1999-2003, in the non-budgetary VAT accounts there are still amounts of non-recoverable VAT to be regularised.

Taking into account the changes in the Commission accounting system and budgetary nomenclature, it is not feasible to individually charge each of these amounts of non-recoverable VAT to the specific budget line corresponding to the purchase in question.

For the reasons explained above, the Commission proposes through this amending budget:

First, the creation of a new Item 27 01 12 02 – “Coverage of expenditure incurred in connection with treasury management”, with the following remarks:

“This appropriation is intended to cover budgetary adjustments:

- for imprest accounts, where all appropriate measures have been taken by the authorising officer to deal with the situation and where the adjustment expenditure cannot be booked to another specific budget line,
- in situations where a claim is cancelled in full or in part, after it has been booked to the accounts as revenue (in particular in the event of offsetting against a debt),
- in cases where VAT has not been recovered and where it is no longer possible to book the amount to the line that covered the principal expenditure,
- for any interest relating to the above cases, where it cannot be booked to another specific budget line.”

The Commission also proposes to transfer to this new budget item the 2nd paragraph of the remarks of budget item 27 01 12 01, reading as follows: “This item is also intended to accommodate, if necessary, an appropriation to cover any losses resulting from the liquidation or cessation of activities of a bank with which the Commission has accounts for the purposes of imprests.”

The amounts relating to the adjustment of these outstanding balances will be furnished by a transfer of appropriations which the Commission will present to the budgetary authority in due course.

1.3.2. Creation of a new budget item 21 01 04 10 – EDF contribution to common administrative support expenditure:

A part of the European Development Fund envelope under the Internal Agreement for the 9th EDF is used to defray the costs incurred by Community budget in supporting expenditure of the EDF in the EU delegations such as external staff, rent, electricity, utilities etc. As the budget for EDF is different from the Community budget, the Commission establishes a recovery order to EDF in the beginning of each financial year based on an estimate of the previous year’s expenditure. During the year a repartition of the expenditure, that has to be fairly apportioned over the different administrative budget items as well as over EDF, is done on a special non budgetary HB-account designated for this purpose. This means that the budgetary reporting of the Commission does not currently include the amount of expenses financed by EDF.

In order to permit successive and efficient treatment and complete budgetary implementation reporting, it is proposed to create a budget line on which commitment and payment appropriations are automatically entered after collection of the funds received from EDF. The proposed measure is technically required by the accrual accounting system that will be installed in the Delegations aiming at increasing efficiency and transparency. The proposal will considerably improve the accountability and transparency of the transactions. The proposed change has no impact on the amounts of the in- or outflow or on the level of the funding.

This line will allow the use of common reporting instruments also for EDF revenues and expenditure.

The financial contribution from the EDF is treated as assigned revenue and a "p.m." is proposed for payment and commitments appropriations.

SUMMARY TABLE BY HEADING OF THE FINANCIAL PERSPECTIVE

Financial perspective Heading/subheading	2006 Financial perspective		Budget 2006 including AB 1*-2, PDAB 3-4 /2006		PDAB 5/2006		Budget 2006 including AB 1*-2, PDAB 3-5/2006	
	CA	PA	CA	PA	CA	PA	CA	PA
1. AGRICULTURE								
- Agricultural expenditure	44 847 000 000		43 279 720 000	43 279 720 000			43 279 720 000	43 279 720 000
- Rural development and accompanying measures	7 771 000 000		7 771 000 000	7 711 300 000			7 771 000 000	7 711 300 000
Total	52 618 000 000		51 050 720 000	50 991 020 000			51 050 720 000	50 991 020 000
Margin			1 567 280 000				1 567 280 000	
2. STRUCTURAL OPERATIONS								
- Structural Funds	38 523 000 000		38 522 922 880	32 134 099 237			38 522 922 880	32 134 099 237
- Cohesion Fund	6 094 000 000		6 032 082 110	3 505 500 000			6 032 082 110	3 505 500 000
Total	44 617 000 000		44 555 004 990	35 639 599 237			44 555 004 990	35 639 599 237
Margin			61 995 010				61 995 010	
3. INTERNAL POLICIES	9 385 000 000		9 390 562 774	8 907 066 732	+4 000 000		9 394 562 774	8 907 066 732
Margin			9 235 815				5 235 815	
4. EXTERNAL ACTION	5 269 000 000		5 544 000 000	5 369 049 920			5 544 000 000	5 369 049 920
Margin			-275 000 000				-275 000 000	
5. ADMINISTRATION	6 708 000 000		6 656 924 362	6 656 924 362			6 656 924 362	6 656 924 362
Margin			51 075 638				51 075 638	
6. RESERVES	458 000 000		458 000 000	458 000 000			458 000 000	458 000 000
- Guarantee reserve	p.m.		229 000 000	229 000 000			229 000 000	229 000 000
- Emergency aid reserve	p.m.		229 000 000	229 000 000			229 000 000	229 000 000
Margin			p.m.				p.m.	
7. PRE-ACCESSION AID	3 566 000 000		2 572 159 038	2 984 409 038	+120 000 000		2 692 159 038	2 984 409 038
Margin			1 085 400 000				965 400 000	
8. COMPENSATION	1 074 000 000		1 073 500 332	1 073 500 332			1 073 500 332	1 073 500 332
Margin			499 668				499 668	
TOTAL	123 695 000 000	119 292 000 000	121 300 871 496	112 079 569 621	+124 000 000		121 424 871 496	112 079 569 621
Margin			2 500 486 131	7 318 788 006			2 376 486 131	7 318 788 006

* For AB 1, the EUSF amount is entered over and above headings 3 and 7 as provided for by the Interinstitutional Agreement of 7 November 2002 (OJ C 283, 20.11.2002).